

BASEL II – PILLAR 3 DISCLOSURES AT SEPTEMBER 30, 2022

AU Small Finance Bank Limited is subject to the BASEL II (NCAF) framework as stipulated by Reserve bank of India (RBI) under operating guidelines issued on October 6, 2016 for Small Finance Banks (SFB).

The Basel II framework consists of three-mutually reinforcing pillars: -

- (i) Pillar 1: Minimum capital requirements for credit risk.
- (ii) Pillar 2: Supervisory review of capital adequacy.
- (iii) Pillar 3: Market discipline.

Market discipline (Pillar 3) comprises set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the following sections.

I. SCOPE OF APPLICATION

AU Small Finance Bank Limited (hereinafter referred to as the 'Bank' or 'AUSFB') is a private sector bank domiciled in India. The Company commenced its operations as a Small Finance Bank from April 19, 2017 pursuant to the approval received from the Reserve Bank of India dated December 20, 2016. It provides personal and commercial banking services and a wide range of financial services in urban, semi urban and rural areas. There is no foreign operation of the Bank and the bank does not have any subsidiary, associate, or joint venture for consolidation purpose.

II. CAPITAL STRUCTURE

₹ In Lacs

CAPITAL FUNDS POSITION AS ON SEPTEMBER 30, 2022		
S. No.	Particulars	Amount
(A)	Tier I Capital	
A.1	Paid up equity share capital	66,566.67
A.2	Reserves*	8,72,729.54
(B)	Deductions	
B.1	Deferred Tax Assets	14,099.21
B.2	Securitization exposure including Credit Enhancement	5,488.81
(C)	Net Tier I Capital (A-B)#	9,19,708.19
(D)	Tier II Capital	
D.1	Subordinated Debt	70,000.00
D.2	General Provision	16,115.70
D.3	Investment Fluctuation Reserve	10,114.86
(E)	Deductions	
E.1	Securitization exposure including Credit Enhancement	5,488.81
(F)	Net Tier II Capital (D-E)\$	90,741.75
(G)	Total Capital Funds (C+F)	10,10,449.94

*Reserves includes statutory reserve, security premium, ESOP reserve, special reserve u/s 36 (i) (viii), capital reserve and balance in profit & loss a/c.

#During the quarter ended September 30, 2022, the Bank has issued 3,44,82,758 equity shares of a face value ₹ 10 each at a price of ₹ 580 per equity share including a premium of ₹ 570 per equity share aggregating to ₹ 2,00,000 lakh pursuant to Qualified Institutional Placement (QIP). The expenses incurred on the issue of these equity shares have been debited to Share Premium in accordance with the provisions of Section 52(2) of the Companies Act 2013.

\$During the quarter ended September 30, 2022, the Bank raised Tier II Capital of ₹ 50,000 lakh.

Subordinated Debt eligible for inclusion in Lower Tier – II capital

₹ In Lacs	
Particulars	Amount
Total amount outstanding at September 30, 2022	1,00,000.00
Of which, amount raised during the year	50,000.00
Amount eligible to be reckoned as capital funds at September 30, 2022	70,000.00
Total Eligible Amount	70,000.00

Total Eligible Capital Fund as on September 30, 2022

₹ In Lacs	
Particulars	Amount
Tier I Capital	9,19,708.19
Tier II Capital	90,741.75
Total Eligible Capital	10,10,449.94

III. CAPITAL ADEQUACY

a. Capital Requirement

₹ In Lacs		
Capital Requirements for Various Risks		
S. No.	Particulars	Amount
A	Credit Risk	6,48,864.74
A.1	For non-securitised portfolio	6,45,246.01
A.2	For securitised portfolio	3,618.73
B	Market Risk	-
C	Operational Risk	-
D	Total Capital Requirement (A+B+C)	6,48,864.74
E	Total Risk Weighted Assets (Credit)	43,25,764.93
F	Total capital funds of the bank	10,10,449.94

Total and Tier I Capital Ratio

Particulars	Capital Adequacy Ratio
Tier I Ratio	21.26 %
Tier II Ratio	2.10 %
Total Capital Adequacy Ratio*	23.36 %

IV. CREDIT RISK

Distribution of Exposures

₹ In Lacs		
S. No.	Exposure type	Amount
1	Fund Based	62,34,525.76
2	Non-Fund Based	4,56,415.15
Total		66,90,940.91

Geographic Distribution of Exposures

₹ In Lacs

Exposure Distribution by Geography		
Category	Fund based facilities	Non-Fund based facilities
Domestic	62,34,525.76	4,56,415.15
Overseas	-	-
Total	62,34,525.76	4,56,415.15

Industry Wise Distribution of Gross Credit Exposure

₹ In Lacs

S. No.	Industry Classification	Fund Based	Non-Fund Based
1	Trade	12,47,557.11	12,052.88
2	Agriculture and Allied Activities	10,09,096.25	13,973.21
3	Vehicle/Auto Loans	4,03,004.97	2.00
4	Credit Card Receivables	3,99,395.14	-
5	Transport Operator	3,84,079.48	3,457.82
6	Advances against Fixed Deposits	3,01,980.95	9,572.50
7	Housing Loans	3,07,191.70	-
8	Commercial Real Estate	2,12,454.32	180.65
9	NBFCs	1,89,632.45	2,725.00
10	Tourism, Hotel and Restaurants	1,35,516.32	0.48
11	Electronics & engineering	84,179.16	6,845.32
12	Gems and Jewellery	69,609.52	-
13	Banking	67,036.56	-
14	Infrastructure	41,698.12	5,470.10
15	Wood & Wood products	44,747.46	-
16	Textile	37,100.82	994.13
17	Metal, Iron and Steel	32,920.91	1,179.61
18	Chemical & Chemical products	25,687.34	-
19	Rubber and plastic products	25,284.10	23.00
20	Mining and Quarrying	16,685.32	2,425.00
21	Cement & Cement products	14,908.49	1,834.65
22	Vehicles, Vehicle Parts and Transport Equipment's	12,236.90	3.44
23	Computer and Related Activities	10,862.26	1,382.90
24	Food Processing	10,766.98	-
25	Paper & Paper products	10,698.56	0.20
26	Professional Services	9,349.05	1,000.00
27	Beverages and Tobacco	6,381.51	-
28	Post and Telecommunication Services	5,573.42	233.69
29	Leather & Leather products	3,641.33	-
30	Glass & Glassware	3,496.07	-
31	Education Loans	195.69	-
32	Consumer Durables	15.35	-
33	Retail Loans – Other	1,19,104.33	1,44,331.93
34	Services- Other	6,58,212.89	2,41,452.30
35	Industries – Other	3,34,224.98	7,274.34
Total		62,34,525.76	4,56,415.15

As on September 30, 2022, Bank's exposure to the segments stated below was more than 5% of the total Gross credit exposure:

S. No.	Industry Classification	Percentage of total credit exposure
1	Trade	18.83%
2	Agriculture and Allied Activities	15.29%
3	Vehicle/Auto Loans	6.02%
4	Credit Card Receivables	5.97%
5	Transport Operator	5.79%

Maturity Pattern of Assets

The maturity pattern of assets at September 30, 2022 is detailed in the table below:

₹ In Lacs

Maturity Bucket	Cash, balances with RBI	Balances with banks and money at call & short notice	Investments	Loans & Advances	Fixed Assets	Other Assets	Total
Day 1	59,750.65	18,165.10	4,57,829.22	1,651.67	-	19,384.34	5,56,780.99
2-7 Days	78,152.26	-	1,37,534.85	23,870.18	-	9,207.23	2,48,764.52
8-14 Days	5,982.36	-	57,778.15	58,633.84	-	25,469.94	1,47,864.29
15-30 Days	5,832.74	-	39,698.80	54,372.40	-	14,616.28	1,14,520.22
31 to 2 months	9,083.23	0.37	76,881.86	1,40,949.93	-	8,830.18	2,35,745.56
More than 2 months and up to 3 months	6,989.74	1.00	91,851.77	1,47,617.93	-	10,819.97	2,57,280.41
Over 3 Months and up to 6 months	24,044.09	1.29	1,98,664.80	3,58,153.04	-	12,413.21	5,93,276.41
Over 6 Months and up to 1 year	47,972.50	0.73	3,56,288.33	6,84,415.94	-	2,434.54	10,91,112.04
Over 1 Year and up to 3 years	1,27,371.60	33.36	5,68,028.44	21,23,495.42	-	18,480.18	28,37,409.00
Over 3 Years and up to 5 years	3,636.20	3,872.25	14,489.42	7,77,839.61	-	2,587.83	8,02,425.31
Over 5 years	3,192.84	771.80	22,975.16	8,03,309.51	68,143.31	4,222.19	9,02,614.81
Total	3,72,008.20	22,845.90	20,22,020.80	51,74,309.46	68,143.31	1,28,465.88	77,87,793.56

Amount of Non-Performing Advances (NPAs)

₹ In Lacs

NPA Classification		
S. No.	Category	Amount
A	Amount of NPAs (Gross)	99,670.26
A.1	Substandard	59,207.49
A.2	Doubtful1	34,257.95
A.3	Doubtful2	4,630.39
A.4	Doubtful3	1,042.26
A.5	Loss	532.17
B	Net NPAs	28,822.37
C	Advances	
C.1	Gross Advances	52,45,157.35
C.2	Net Advances	51,74,309.46
C	NPA Ratios	
C.1	Gross NPAs to gross advances (%)	1.90%
C.2	Net NPAs to net advances (%)	0.56%

Movement of NPAs

₹ In Lacs

Particulars	Gross NPA	Net NPA
Opening balance at April 1, 2022	92,437.82	27,184.55*
Additions during the period	67,180.12	32,911.57
Reductions during the period	(59,947.68)	(27,173.75)
Closing balance at September 30, 2022	99,670.26	32,922.37

*Includes floating provision of Rs. 4,100.00 lacs.

Movement of Provisions for NPAs

₹ In Lacs

Particulars	Amount
Opening balance as on April 1, 2022	65,253.27
Provision made during the period	34,268.55
Write-off/Loss on sale of repossessed assets during the period	(9,590.61)
Write-back of excess provisions during the period	(23,183.32)
Closing balance as on September 30, 2022	66,747.89

*Excludes floating provision of Rs. 4,100.00 lacs.

Movement of Provisions for Standard Assets

₹ In Lacs

Particulars	Amount
Opening balance as on April 1, 2022	27,726.50
Provision made during the period	10,043.86
Provision reversed during the period	(10,829.19)
Closing balance as on September 30, 2022[#]	26,941.17

Excluding contingency provisions of ₹ 17,001.55 Lacs as at Sep 30, 2022 respectively, which includes the additional provision for the accounts restructured under the RBI COVID Resolution Framework.

Company does not have any Non – performing Investments as on September 30, 2022.

Movement of Provisions for depreciation on investments

Particulars	₹ In Lacs
	Amount
Opening balance at April 1, 2022	157.49
Provision made during the period	6,209.82
Write-off / Write-back of excess provisions during the period	(3,365.33)
Closing balance at September 30, 2022	3,001.98

V. CREDIT RISK – DISCLOSURE FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

Credit Exposures by Risk Weights

At September 30, 2022 the credit exposures subject to the Standardized approach after adjusting for credit risk mitigation i.e. Fixed Deposits and Gold, by risk weights were as follows:

₹ In Lacs		
Details of Credit Risk Exposure Based on Risk-Weight		
S. No.	Risk Weight	Total*
1	Below 100% risk weight	49,40,746.61
2	100% risk weight	9,03,690.45
3	More than 100% risk weight	2,40,195.35
	Total	60,84,632.41

*Credit risk exposures include fund based and non-fund based exposures after adjusting for credit risk mitigation i.e. Fixed Deposits and Gold.

VI. CREDIT RISK MITIGATION – DISCLOSURE FOR STANDRADISED APPROACH

Exposure cover by Eligible Financial Collateral is as below:

Particulars	₹ In Lacs
	Amount
Total exposure covered by eligible financial collateral	6,06,308.50
Total	6,06,308.50

Portfolio covered by guarantees:

Particulars	₹ In Lacs
	Amount
Total portfolio covered by guarantees	74,827.44
Total	74,827.44

Details of Securitisation Exposures in the Banking Book

Particulars	₹ In Lacs
	Amount
Total exposures securitised by the bank*	28,142.31

*Represents total outstanding principal as on September 30, 2022 for direct assignment deals as originator.

For exposures securitised losses recognised by the bank during the current period broken by the exposure type

₹ In Lacs

Exposure Type	Losses
Business Loans	-
Wheels Loans	-
Total	-

Assets to be securitised within a year as on September 30, 2022

₹ In Lacs

Exposure Type	Amount
Amount of assets intended to be securitized within a year	2,50,000.00
Of which amount of assets originated within a year before Securitization	1,25,000.00

Total outstanding exposures securitised by the Bank and the related unrecognised gains/(losses)

₹ In Lacs

Exposure Type	Amount*	Unrecognized gains/(losses)
Business Loans	26,940.48	-
Wheels Loans	1,201.83	-
Total	28,142.31	-

*The amount represents the total principal outstanding as on September 30, 2022 for direct assignment sell-down deals.

Securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	On-balance Sheet*	Off-balance sheet	Total
Business Loans	3,171.67	-	3,171.67
Wheels Loans	108.13	-	108.13
Total	3,279.80	-	3,279.80

*The amount represents the total principal outstanding at September 30, 2022 for direct assignment deals.

Risk weight bands break-up of securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	50% risk weight	75% risk weight	100% risk weight	125% risk weight	Total
Business Loans	377.14	2,392.19	61.44	340.89	3,171.67
Wheels Loans	104.15	0.91	0.47	2.60	108.13
Total	481.29	2,393.10	61.91	343.49	3,279.80

Securitisation exposures deducted from capital -

₹ In Lacs

Exposure Type	Exposure deducted entirely from Tier-1 capital	Credit enhancing interest-only strips deducted from total capital	Other exposures deducted from total capital
Business Loans	-	-	-
Wheels Loans	-	-	-
Micro-Finance	-	-	-
Total	-	-	-

Details of Securitisation Exposures in the Trading Book

Aggregate amount of exposure securitised for which the Bank has retained some exposure subject to market risk

₹ In Lacs

Exposure Type	Amount*
Business Loans	727.80
Wheels Loans	1,12,656.06
Total	1,13,383.86

*The amount represents the total principal outstanding at September 30, 2022 for securitisation deals in the nature of PTC.

Securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	On-balance Sheet	Off-balance sheet*	Total
Business Loans	49.13	98.73	147.86
Wheels Loans	7,546.48	15,166.22	22,712.70
Total	7,595.61	15,264.95	22,860.56

*This represents BG issued to the Bank's as counter guarantee for second loss and liquidity facility in securitisation transactions. Credit enhancement for first loss in form of fixed deposit of ₹ 1,915.21 Lacs and bank Guarantee of ₹ 9,062.42 Lacs is not included.

Risk weight bands break-up of securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	20% risk weight	30% risk weight	50% risk weight	Total
Business Loans	-	49.13	-	49.13
Wheels Loans	7,546.48	-	-	7,546.48
Total	7,546.48	49.13	-	7,595.61

100% RWA is applied on Off-balance sheet securitisation exposure.

Securitisation exposures deducted from capital

₹ In Lacs

Exposure Type	Exposure deducted entirely from Tier-1 capital	Credit enhancing interest-only strips deducted from total capital	Other exposures deducted from total capital
Business Loans	-	-	-
Wheels Loans	-	-	-
Total	-	-	-

VIII. MARKET RISK IN TRADING BOOK

As per RBI communication marked DBR. NBD. No. 4502/16.13.218/2017-18 dated November 8, 2017, the Market Risk is not applicable for Small Finance Banks.

IX. OPERATIONAL RISK

As per RBI communication marked DBR. NBD. No. 4502/16.13.218/2017-18 dated November 8, 2017, the Operational Risk is not applicable for Small Finance Banks.

X. INTEREST RATE RISK IN BANKING BOOK

Details of Parallel Rate shock on Earnings and Market value of equity as on September 30, 2022 are given below:

₹ In Lacs		
Interest Rate Risk	+200bps	-200bps
Earnings at Risk (EAR)	9,748	(9,748)
Impact on Market Value of Equity	(100,412)	100,412

*Includes trading book.

XI. LEVERAGE RATIO

Leverage ratio is defined as the capital measure (Tier-1 capital of the risk-based capital framework) divided by the exposure measure, with this ratio expressed as a percentage. As per RBI guidelines, the Basel III leverage for the Bank at the consolidated level September 30, 2022 is as follows.

₹ In Lacs	
Leverage Ratio Position as on September 30, 2022	
Particulars	Amount
Tier-1 Capital ¹ (A)	9,19,708.19
Exposure measure ² (B)	82,33,344.12
Leverage ratio³ (A/B)	11.17 %

1. Tier 1 capital at June 30, 2022, March 31, 2022 & December 31, 2021 was ₹ 7,17,816.60 Lacs, ₹ 7,17,170.24 Lacs and ₹ 6,02,099.81 respectively.

2. Total exposures at June 30, 2022, March 31, 2022 & December 31, 2021 were ₹ 74,22,186.24 Lacs, ₹ 71,80,333.36 Lacs and ₹ 61,78,106.76 Lacs respectively.

3. Leverage ratio at June 30, 2022, March 31, 2022 & December 31, 2021 was 9.67%, 9.99% & 9.75% respectively.

Summary comparison of accounting assets and leverage ratio exposure measure

₹ In Lacs		
S. No.	Particulars	Amount
1	Total consolidated assets as per published financial statements	77,87,793.56
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	4,60,607.38
7	Other adjustments	(15,056.81)
8	Leverage ratio exposure	82,33,344.13

Leverage ratio common disclosure template

₹ In Lacs

S. No.	Leverage ratio framework	Amount
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	77,87,793.56
2	(Asset amounts deducted in determining Basel II Tier 1 capital)	(15,056.81)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	77,72,736.75
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-
Securities financing transaction exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	12,96,089.00
18	(Adjustments for conversion to credit equivalent amounts)	(8,35,481.98)
19	Off-balance sheet items (sum of lines 17 and 18)	4,60,607.38
Capital and total exposures		
20	Tier 1 capital	9,19,708.19
21	Total exposures (sum of lines 3, 11, 16 and 19)	82,33,344.12
Leverage ratio		
22	Basel III leverage ratio	11.17 %

Reconciliation of total published balance sheet size and on-balance sheet exposure

₹ In Lacs

S. No.	Particulars	Amount
1	Total consolidated assets as per published financial statements	77,87,793.56
2	Deductions from Tier 1 capital	(15,056.81)
3	On-balance sheet exposure under leverage ratio (excluding derivatives and SFTs)	77,72,736.75