



# AU SMALL FINANCE BANK

## BASEL II – PILLAR 3 DISCLOSURES AT 30<sup>th</sup> SEPTEMBER 2017

### 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 and incorporate under the provisions of the Companies Act, 2013. The Company has changed its name to AU Small Finance Bank Limited with effect from April 13, 2017 and 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. The Bank provides retail banking services and a wide range of financial services in urban and semi urban areas. The Bank is headquartered in Jaipur. There are no foreign operations of the Bank.

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

- (i) Pillar 1 : Minimum capital requirements for credit risk, market risk and operational 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.

### II. CAPITAL STRUCTURE

Breakup of capital funds (as per Basel II disclosures only)

₹ In Lacs

<b>Capital Funds Position as on 30<sup>th</sup> September, 2017</b>		
<b>S.NO.</b>	<b>Particulars</b>	<b>Amount</b>
<b>(A)</b>	<b>Tier I Capital</b>	
A.1	Paid up equity share capital	28,425.09
A.2	Statutory Reserve	29,188.86
A.3	Securities Premium	23,799.38
A.4	ESOP	615.24
A.5	Balance in Profit & Loss	1,16,730.59
<b>(B)</b>	<b>Deductions</b>	
B.1	Deferred Tax Assets	1,571.48
B.2	Prepaid Expenses	1,466.92
B.3	Credit Enhancement First Loss FD	6,928.95
B.4	Credit Enhancement Second Loss FD	106.16
B.5	Credit Enhancement LF	283.25
<b>(C)</b>	<b>Net Tier I Capital (A-B)</b>	<b>1,88,402.40</b>

<b>(D)</b>	<b>Tier II Capital</b>	
D.1	Subordinated Debt (Lower Tier II)	12,200.00
D.2	Standard Assets Provision	3,651.82
<b>(E)</b>	<b>Deductions</b>	
E.1	Credit Enhancement First Loss FD	6,928.95
E.2	Credit Enhancement Second Loss FD	106.16
E.3	Credit Enhancement Liquidity Facility	283.25
<b>(F)</b>	<b>Net Tier II Capital (D-E)</b>	<b>8,533.47</b>
<b>(G)</b>	<b>Total Capital Funds (C+F)</b>	<b>1,96,935.87</b>

### **III. CAPITAL ADEQUACY**

#### **Internal assessment of capital**

The Bank is in the process of developing an Internal Capital Adequacy Assessment Process (ICAAP) to cover risks over and beyond what is envisaged under Pillar 1 of the Basel Committee guidelines.

#### **Capital requirements for various risk areas (30<sup>th</sup> September 2017)**

As required by RBI guidelines on Basel II, the Bank's capital requirements have been computed using the Standardised Approach for credit risk, Standardised Measurement Method for market risk and Basic Indicator Approach for operational risk. Capital required for credit, market and operational risks given below is arrived at after multiplying the risk weighted assets by 15%.

**₹ In Lacs**

<b>Capital Requirements for Various Risks</b>		
<b>S.No</b>	<b>Particulars</b>	<b>Amount</b>
<b>A</b>	<b>Credit Risk</b>	<b>1,25,702.61</b>
A.1	For non-sec portfolio	1,23,356.96
A.2	For Securitised portfolio*	2,345.65
<b>B</b>	<b>Market Risk</b>	<b>2,967.21</b>
B.1	For Interest Rate Risk	1,472.14
B.2	For Equity Risk	1,495.07
B.3	For Forex Risk (including gold)	-
B.4	For Commodities Risk	-
B.5	For Options risk	-
<b>C</b>	<b>Operational Risk</b>	<b>14,736.32</b>
	<b>Total Capital Requirement ( A+B+C)</b>	<b>1,43,406.14</b>
	Total Risk Weighted Assets	9,56,040.90
	<b>Total capital funds of the bank</b>	<b>1,96,935.87</b>
	<b>Capital Adequacy Ratio of the Bank (%)</b>	<b>20.60%</b>
	Tier -1 Capital Adequacy Ratio of the Bank (%)	<b>19.71%</b>
	Tier -2 Capital Adequacy Ratio of the Bank (%)	<b>0.89%</b>

\*Includes capital required for PTC securitisation exposures.

#### **IV. Credit risk: General disclosures for all banks**

##### **Credit risk exposures**

Credit risk exposures (excluding specific risk on available-for-sale and held-for-trading portfolio) include all credit exposures as per RBI guidelines on exposure norms and investments in the held-to-maturity category.

₹ In Lacs

<b>Credit Risk Exposure</b>				
<b>S.No</b>	<b>Exposure type</b>	<b>Domestic</b>	<b>Overseas</b>	<b>Total</b>
1	Fund Based*	9,45,139.12	-	9,45,139.12
2	Non Fund Based	28,040.35	-	28,040.35
<b>Total</b>		<b>9,73,179.47</b>	<b>-</b>	<b>9,73,179.47</b>

\*Includes investment in government securities held under held-to-maturity category.

##### **a. Geographic distribution of exposures**

₹ In Lacs

<b>Exposure Distribution by Geography</b>		
<b>Category</b>	<b>Fund based facilities</b>	<b>Non fund based facilities</b>
Domestic	9,45,139.12*	28,040.35
Overseas	-	-
<b>Total Exposure</b>	<b>9,45,139.12</b>	<b>28,040.35</b>

\*Includes investment in government securities held under held-to-maturity category.

##### **b. Industry-wise distribution of exposures**

₹ In Lacs

<b>S. No.</b>	<b>Industry Classification</b>	<b>Fund Based (Outstanding)</b>	<b>Non-Fund Based (Outstanding)</b>
1	Agriculture and Allied Activities	85,753.41	-
2	Mining and Quarrying	1,648.28	-
3	Food Processing	2,647.88	-
4	Textile	1,591.27	-
5	Leather & Leather products	12.74	-
6	Wood & Wood products	1,985.48	-
7	Paper & Paper products	14.27	-
8	Chemical & Chemical products	71.30	-
9	Rubber and plastic products	985.16	-
10	Glass & Glassware	8.94	-
11	Cement & Cement products	324.70	-
12	Metal, Iron and Steel	4,923.42	-
13	Electronics & engineering	1,019.74	-
14	Vehicles, Vehicle Parts and Transport Equipment's	276.56	-
15	Gems and Jewellery	7,010.30	-
16	Construction	977.08	-

17	Industries - Other	9,529.67	-
18	Transport Operator	4,755.89	-
19	Computer Software	834.54	-
20	Tourism, Hotel and Restaurants	22,276.52	-
21	Professional Services	1,210.24	-
22	Wholesale trade	28,539.90	-
23	Retail trade	52,704.20	-
24	Commercial Real Estate	62,315.79	-
25	NBFCs	99,870.19	-
26	Service Industry	1,95,956.92	-
27	Consumer Durables	7.91	-
28	Vehicle/Auto Loans	2,45,610.73	-
29	Retail Loans - Other	8,054.06	-
30	Others	1,04,222.03	28,040.35
<b>Total</b>		<b>9,45,139.12</b>	<b>28,040.35</b>

As on 30<sup>th</sup> September 2017, Bank's exposure to the segments stated below was more than 5% of the total credit exposure:-

<b>Exposure distribution by Activity</b>		
<b>S. No.</b>	<b>Industry Classification</b>	<b>Percentage of total gross credit exposure</b>
1	Agriculture and Allied Activities	8.76%
23	Retail trade	5.38%
24	Commercial Real Estate	6.36%
25	NBFCs	10.20%
26	Service Industry	20.01%
28	Vehicle/Auto Loans	25.08%

### c. Maturity pattern of assets

The maturity pattern of assets at 30<sup>th</sup> September, 2017 is detailed in the table below:

₹ In Lacs

<b>Residual Maturity</b>							
<b>Maturity Bucket</b>	<b>Cash, balances with RBI</b>	<b>Balances with banks &amp; money at call &amp; short notice</b>	<b>Investments</b>	<b>Loans &amp; Advances</b>	<b>Fixed Assets</b>	<b>Other Assets</b>	<b>Total</b>
<b>Day – 1</b>	6,012.90	2,482.75	33,279.24	1,024.40	0.00	71.24	42,870.54
<b>2-7 Days</b>	170.41	38,000.20	980.80	9,472.46	0.00	2,026.38	50,650.26
<b>8-14 Days</b>	1,499.67	4,000.00	8,631.41	8,850.96	0.00	3,149.36	26,131.40
<b>15-30 Days</b>	1,847.73	12,528.70	11,275.84	8,221.78	0.00	3,476.65	37,350.70
<b>31 Days and upto 2 months</b>	1,110.81	5,500.00	7,030.48	23,223.90	0.00	2,802.05	39,667.24

<b>More than 2 months and upto 3 months</b>	360.84	4,607.09	2,709.29	16,694.41	0.00	2,522.42	26,894.04
<b>Over 3 Months and upto 6 months</b>	919.11	2,600.21	7,147.56	54,152.39	0.00	3,096.30	67,915.57
<b>Over 6 Months and upto 1 year</b>	3,743.06	306.01	25,002.63	94,893.80	0.00	249.76	1,24,195.26
<b>Over 1 Year and upto 3 years</b>	12,534.11	1,503.42	80,430.97	3,32,282.95	0.00	2,627.92	4,29,379.38
<b>Over 3 Years and upto 5 years</b>	2,981.40	13,516.98	18,552.96	1,30,909.38	0.00	1,049.60	1,67,010.32
<b>Over 5 years</b>	141.61	3,403.21	2,805.62	1,73,781.66	39,323.86	1,714.08	2,21,170.04
<b>Total</b>	<b>31,321.66</b>	<b>88,448.57</b>	<b>1,97,846.80</b>	<b>8,53,508.09</b>	<b>39,323.86</b>	<b>22,785.77</b>	<b>12,33,234.75</b>

**d. Amount of non-performing loans (NPLs) (30<sup>th</sup> September 2017)**

**₹ In Lacs**

<b>NPL Classification as on 30<sup>th</sup> September</b>		
<b>S.No.</b>	<b>Category</b>	<b>Amount</b>
A	<b>Amount of NPAs (Gross)</b>	<b>26,581.07</b>
A.1	Substandard	23,128.33
A.2	Doubtful1	1,912.78
A.3	Doubtful2	0.17
A.4	Doubtful3	926.76
A.5	Loss	613.03
B	<b>Net NPAs</b>	<b>17,865.90</b>
C	<b>Advances</b>	
C.1	<b>Gross Advances</b>	<b>8,62,223.28</b>
<b>C.2</b>	<b>Net Advances</b>	<b>8,53,508.11</b>
C	<b>NPA Ratios</b>	
C.1	Gross NPAs to gross advances (%)	3.08%
C.2	Net NPAs to net advances (%)	2.09%

**e. Movement of NPAs (Gross)**

₹ In Lacs

<b>Movement of NPLs</b>		
<b>Particulars</b>	<b>Gross NPA</b>	<b>Net NPA</b>
Opening balance at April 1, 2017	12,451.12	8,046.12
Addition during the period	21,264.13	15,284.92
Reduction/write-off during the period	7,134.18	5,465.15
<b>Closing balance at Sep 30, 2017</b>	<b>26,581.07</b>	<b>17,865.89</b>

**f. Movement of Provisions for NPAs**

₹ In Lacs

<b>Movement of Provision</b>		
<b>Particulars</b>	<b>Specific Provision</b>	<b>General Provision</b>
Opening balance at April 1, 2017	4,405.00	2,282.35
Provision made during the period	5,979.21	2,056.89
Write offs/Write back excess provision	1,669.03	687.42
<b>Closing balance at Sept 30, 2017</b>	<b>8,715.17</b>	<b>3,651.82</b>

**V. Credit risk - Disclosures for portfolios Subject to the Standardized Approach****A. Credit exposures by risk weights**

At 30<sup>th</sup> September, 2017, the credit exposures subject to the Standardized approach after adjusting for credit risk mitigation by risk weights were as follows:

₹ In Lacs

<b>Details of Credit Risk Exposure (Fund based and Non-fund based) based on Risk-Weight – Position as on 30<sup>th</sup> September, 2017</b>		
<b>S.No</b>	<b>Risk Weight</b>	<b>Amount*</b>
1	Below 100% risk weight	7,29,834.32
2	100% risk weight	1,95,511.08
3	More than 100% risk weight	11,078.54
<b>Total</b>		<b>9,36,423.95</b>

\*Credit risk exposures include all exposures, as per RBI guidelines on exposure norms, subject to credit risk and investments held-to-maturity category.

\*Includes investment in government securities held under held-to-maturity category.

\*Above figures are net of specific provision made for advances.

## **VI. Credit Risk Mitigation - Disclosure for standardized approach**

Portfolio cover by Eligible Financial Collateral are as below:

₹ In Lacs

<b>Particulars</b>	<b>Amount</b>	<b>Credit Risk Mitigant(CRM)</b>	<b>Net Exposure</b>
RB - Gold Loan	219.74	218.82	0.93
Loan against FD- Consumer credit	54.28	25.50	28.78
Loan against FD- Regulatory retail portfolio	622.43	528.93	93.50

## **VII. Securitisation Exposures: Disclosure for Standardised Approach**

### **a.) Details of securitisation exposures in the banking book**

#### **i. Total outstanding exposures securitised by the Bank and the related unrecognised gains/(losses) (30<sup>th</sup> September 2017)**

₹ In Lacs

<b>Exposure Type</b>	<b>Outstanding*</b>	<b>Unrecognized gains/(losses)</b>
Business Loans	9,264.26	-
Wheels Loans	6,321.26	-
<b>Total</b>	<b>15,585.52</b>	-

\*The amount represents the total outstanding principal at 30th September 2017 for direct assignment deals in the nature of sell-downs. Credit enhancement for (first loss and second loss) in form of fixed deposit of INR 14,070.22 Lacs and liquidity facility of INR 470.83 Lacs are not included in the above amounts.

#### **ii. Break-up of securitisation gains/losses (net) (30<sup>th</sup> September 2017)**

₹ In Lacs

<b>Exposure Type</b>	<b>gains/(losses)</b>
Business Loans	-
Wheels Loans	-
<b>Total</b>	-

#### **iii. Assets to be securitised within a year at (30<sup>th</sup> September, 2017)**

₹ In Lacs

<b>Exposure Type</b>	<b>Gains/(losses)</b>
Amount of assets intended to be securitized within a year	1,50,000.00
Of which amount of assets originated within a year before Securitization	1,50,000.00

**iv. Securitisation exposures retained or purchased (30<sup>th</sup> September, 2017)**

₹ In Lacs

Exposure Type	On-balance Sheet*	Off-balance sheet	Total
Business Loans	9,264.26	-	9,264.26
Wheels Loans	6,321.26	-	6,321.26
Micro-Finance	52.00	-	52.00
<b>Total</b>	<b>15,637.52</b>	<b>-</b>	<b>15,637.52</b>

\*The amount represents the total outstanding principal at 30<sup>th</sup> September 2017 for direct assignment deals.

**v. Risk weight bands break-up of securitisation exposures retained or purchased (30<sup>th</sup> September, 2017)**

₹ In Lacs

Exposure Type	50% risk weight	75% risk weight	100% risk weight	150% risk weight	Total
Business Loans	28.79	8,826.75	222.48	186.24	9,264.26
Wheels Loans	22.78	5,937.17	140.46	220.85	6,321.26
Micro-Finance	-	-	-	52.00	52.00
<b>Total</b>	<b>51.57</b>	<b>14,763.92</b>	<b>362.94</b>	<b>459.09</b>	<b>15,637.52</b>

**vi. Securitisation exposures deducted from capital (30<sup>th</sup> September 2017)**

₹ 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	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

**b.) Details of securitisation exposures in the Trading Book (Investment Book)**

**i. Aggregate amount of exposure securitised for which the Bank has retained some exposure subject to market risk (30<sup>th</sup> September, 2017)**

₹ In Lacs

Exposure Type	Outstanding*
Business Loans	2,152.94
Wheels Loans	15,151.34
<b>Total</b>	<b>17,304.28</b>

\*The amount represents the total outstanding principal at 30<sup>th</sup> September, 2017 for securitisation deals in the nature of PTC.



**vii. Securitisation exposures retained or purchased (30<sup>th</sup> September, 2017)**

₹ In Lacs

Exposure Type	On-balance Sheet	Off-balance sheet*	Total
Business Loans	2,152.94	1,949.03	4,101.97
Wheels Loans	15,151.34	13,716.08	28,867.42
<b>Total</b>	<b>17,304.28</b>	<b>15,665.11</b>	<b>32,969.39</b>

\*This represents BG issued to the Bank's as counter guarantee for second loss in securitisation transactions.

**viii. Risk weight bands break-up of securitisation exposures retained or purchased (30<sup>th</sup> September, 2017)**

₹ In Lacs

Risk Weight (In %)	Exposure Type		Total
	Business Loan	Wheels Loan	
More Than 20 % but up to 30%	0.00	240.18	240.18
More Than 30 % but up to 40%	704.20	7,565.06	8,269.26
More Than 40 % but up to 50%	1,185.23	5,725.18	6,910.41
More Than 50 % but up to 60%	263.51	1,620.91	1,884.43
<b>Total</b>	<b>2,152.94</b>	<b>15,151.34</b>	<b>17,304.28</b>

**ix. Securitisation exposures deducted from capital (30<sup>th</sup> September 2017)**

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	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>

## **VIII. Market Risk in Trading Book**

### **A) QUANTITATIVE DISCLOSURES\***

The total capital requirement for Market Risk as of 30<sup>th</sup> September 2017 is,

₹ In Lacs

<b>Sl. No.</b>	<b>Narration</b>	<b>Amount</b>
<b>1</b>	Interest Rate Risk	1,472.09
<b>2</b>	Equity Position Risk	1,495.07
<b>3</b>	Foreign Exchange Risk	-
<b>4</b>	Total Market Risk Capital Required	2,967.16

\* Capital charge computation based on Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework (NCAF), includes PTC securitization investment maintained at Bank level to comply with regulators prescribed MRR ratio for the issuance.

### **X. Interest rate risk in banking book.**

Details of Parallel Rate shock on Earnings and Market value of equity as on 30<sup>th</sup> September, 2017 are given below.

₹ In Lacs

<b>Interest Rate Risk in Banking Book</b>	<b>+200bps</b>	<b>-200bps</b>
Earnings at Risk (Ear)	547.49	(547.49)
Impact on Market Value of Equity	(19305.48)	19305.48