

BASEL II – PILLAR 3 DISCLOSURES AT SEPTEMBER 30, 2018

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.

As defined by RBI in its operating guidelines to Small Finance Banks (DBR.NBD. No.26/16.13.218/2016-17 dated October 6, 2016) SFBs are required to adopt the Standardised approach for credit risk.

The Guidelines state that the prudential framework for market risk and operational risk are being examined and the instructions in this regard will be issued separately. (In a separate communication dated November 8, 2017 marked DBR. NBD. No. 4502/16.13.218/2017-18, RBI has advised that no separate capital charge for market risk and operational risk for SFBs is prescribed for the time being). Accordingly, bank doesn't consider Market Risk and Operation risk for capital adequacy purpose under Basel II (NCAF) framework.

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 retail banking/wholesale banking services and a wide range of financial services in urban, semi urban and rural areas. There is no foreign operations 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, 2018		
S.NO.	Particulars	Amount
(A)	Tier I Capital	
A.1	Paid up equity share capital	29,211.35
A.2	Reserves*	229,809.56
A.3	Other Capital Instrument (Share Warrant)	17,500.00
(B)	Deductions	
B.1	Deferred Tax Assets	2,383.17
B.2	Securitisation Exposure Including Credit Enhancement	6,363.80
B.3	Dividend Paid	1,748.26
(C)	Net Tier I Capital (A-B)	266,025.68
(D)	Tier II Capital	
D.1	Subordinated Debt	7,600.00
D.2	General Provision	7,494.27
(E)	Deductions	
E.1	Securitisation Exposure Including Credit Enhancement	6,363.80
(F)	Net Tier II Capital (D-E)	8,730.47
(G)	Total Capital Funds (C+F)	274,756.15

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

Debt Instruments (Subordinated Debt) eligible for inclusion in Lower Tier – II capital

₹ In Lacs	
Particulars	Lower Tier -II
Total amount outstanding at September 30, 2018	23,000.00
Of which, amount raised during the year	-
Amount eligible to be reckoned as capital funds at September 30, 2018	7,600.00
Total Eligible Amount	7,600.00

Total Eligible Capital Fund as on September 30, 2018

₹ In Lacs	
Particulars	Amount
Tier- I Capital	266,025.68
Tier – II Capital	8,730.47
Total Eligible Capital	274,756.15

III. CAPITAL ADEQUACY

Capital Requirement

₹ In Lacs		
Capital Requirements for Various Risks		
S. No	Particulars	Amount
A	Credit Risk	231,890.64
A.1	For non-securitised portfolio	229,281.17
A.2	For securitised portfolio	2,609.47
B	Market Risk	-
C	Operational Risk	-
D	Total Capital Requirement (A+B+C)	231,890.64
E	Total Risk Weighted Assets (Credit)	1,545,937.59
F	Total capital funds of the bank	274,756.15

Particulars	Capital Adequacy Ratio (Only Credit Risk RWA)
Tier I Ratio	17.21%
Tier II Ratio	0.56%
Total Capital Adequacy Ratio	17.77%

IV. CREDIT RISK

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.

Distribution of exposures

₹ In Lacs		
S. No	Exposure type	Amount
1	Fund Based	1,825,668.09
2	Non- Fund Based	15,143.77
	Total	1,840,811.86

Geographic distribution of exposures

₹ In Lacs

Category	Exposure Distribution by Geography	
	Fund based facilities	Non-fund based facilities
Domestic	1,825,668.09	15,143.77
Overseas	-	-
Total	1,825,668.09	15,143.77

Industry wise distribution of exposure

₹ In Lacs

S. No.	Industry Classification	Fund Based	Non-Fund Based
1	Trade	432,740.25	527.96
2	NBFCs	259,300.60	8,225.34
3	Agriculture and Allied Activities	202,589.76	7.00
4	Transport Operator	143,851.61	172.38
5	Vehicle/Auto Loans	114,921.03	-
6	Tourism, Hotel and Restaurants	77,561.02	30.05
7	Commercial Real Estate	70,790.41	-
8	Advances against Fixed Deposits	51,734.85	-
9	Infrastructure	47,142.24	141.31
10	Gems and Jewellery	18,093.16	-
11	Electronics & engineering	15,651.35	6.50
12	Wood & Wood products	9,330.07	-
13	Textile	5,922.04	-
14	Metal, Iron and Steel	3,809.36	103.50
15	Vehicles, Vehicle Parts and Transport Equipment's	3,646.99	-
16	Mining and Quarrying	3,584.92	1,297.93
17	Rubber and plastic products	3,069.20	-
18	Cement & Cement products	2,993.11	-
19	Food Processing	2,803.58	13.00
20	Professional Services	2,503.80	-
21	Housing Loans	1,033.82	-
22	Paper & Paper products	602.68	-
23	Leather & Leather products	594.39	-
24	Computer Software	494.95	-
25	Consumer Durables	458.29	-
26	Glass & Glassware	448.76	-
27	Construction	379.08	-
28	Chemical & Chemical products	229.26	-
29	Petroleum, Coal Products and Nuclear Fuels	33.22	-
30	Education Loans	17.91	-
31	Beverages and Tobacco	7.49	-
32	Services – Others	307,691.55	4,445.73
33	Retail Loans – Other	29,247.84	171.18
34	Industries – Other	12,389.50	1.89
Total		1,825,668.09	15,143.77

As on September 30, 2018, Bank's exposure to the segments stated below was more than 5% of the total credit exposure:-

S. No.	Industry Classification	Percentage of total gross credit exposure
1	Trade	23.54%
2	Other Services	16.96%
3	NBFCs	14.53%
5	Agriculture and Allied Activities/	11.01%
5	Transport Operator	7.82%
6	Vehicle/Auto Loans	6.24%

Maturity pattern of assets

The maturity pattern of assets at September 30, 2018 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	20,976.26	87,603.83	60,134.91	1,668.60	-	143.30	170,526.90
2-7 Days	1,038.99	-	7,532.63	19,253.74	-	4,045.58	31,870.94
8-14 Days	2,049.08	-	18,399.21	21,714.47	-	6,126.75	48,289.51
15-30 Days	1,614.77	2,888.94	23,483.56	15,890.68	-	5,129.80	49,007.75
31 to 2 months	2,771.85	2,000.00	34,565.73	46,080.15	-	4,592.78	90,010.51
More than 2 months and up to 3 months	3,333.64	2,500.34	18,203.65	48,593.42	-	3,985.09	76,616.14
Over 3 Months and up to 6 months	7,598.40	-	56,579.79	105,536.98	-	6,167.29	175,882.46
Over 6 Months and up to 1 year	12,023.68	110.93	70,332.60	200,600.26	-	838.06	283,905.53
Over 1 Year and up to 3 years	16,025.60	6,529.29	92,263.61	763,482.07	-	5,723.42	884,023.99
Over 3 Years and up to 5 years	2,331.04	6,381.45	12,767.30	259,665.59	-	200.37	281,345.75
Over 5 years	168.12	893.78	5,578.26	329,233.81	43,589.94	7,063.51	386,527.42
Total	69,931.43	108,908.56	399,841.25	1,811,719.77	43,589.94	44,015.95	2,478,006.90

Amount of non-performing Advances (NPAs)

		₹ In Lacs
S. No.	NPA Classification Category	Amount
A	Amount of NPAs (Gross)	37,104.38
A.1	Substandard	22,283.02
A.2	Doubtful1	12,053.66
A.3	Doubtful2	1,762.65
A.4	Doubtful3	0.00
A.5	Loss	1,005.05
B	Net NPAs	23,156.02
C	Advances	
C.1	Gross Advances	1,825,668.09
C.2	Net Advances	1,811,719.74
C	NPA Ratios	
C.1	Gross NPAs to gross advances (%)	2.03
C.2	Net NPAs to net advances (%)	1.28

Movement of NPAs

			₹ In Lacs
Particulars	Gross NPA	Net NPA	
Opening balance at April 1, 2018	26,973.57	16,933.79	
Addition during the period	16,565.22	11,134.94	
Reduction during the period	(6,434.41)	(4,912.71)	
Closing balance at September 30, 2018	37,104.38	23,156.02	

Movement of Provisions

			₹ In Lacs
Particulars	Specific Provision	General Provision	
Opening balance at April 1, 2018	10,039.78	5,640.00	
Provision made during the period	5,430.28	2,872.98	
Write-off/ Write-back of excess provisions	(1,521.71)	(1,018.71)	
Closing balance at September 30, 2018	13,948.35	7,494.27	

Company does not have any Non – performing Investments as on September 30, 2018.

Movement of Provisions for depreciation on investments

		₹ In Lacs
Particulars	Amount	
Opening balance at April 1, 2018	47.16	
Provision made during the period	112.06	
Write-off/ Write-back of excess provisions during the period	(29.37)	
Closing balance at September 30, 2018	129.85	

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

Credit exposures by risk weights

At September 30, 2018 the credit exposures subject to the Standardised approach after adjusting for credit risk mitigation by risk weights were as follows:

₹ In Lacs

Details of Credit Risk Exposure (Fund based and Non-fund based) Based on Risk-Weight		
S. No	*Risk Weight	Total
1	Below 100% risk weight	1,795,179.99
2	100% risk weight	321,350.78
3	More than 100% risk weight	131,050.05
Total		2,247,580.82

*Credit risk exposures include all exposures (after risk mitigation), as per RBI guidelines on exposure norms, subject to credit risk and investments in government securities held-to-maturity category except cash in hand.

* Amount are net of specific provision made for advances.

VI. CREDIT RISK MITIGATION – DISCLOSURE FOR STANDARDISED APPROACH

Portfolio cover by Eligible Financial Collateral are as below:

₹ In Lacs

Particulars	Amount*	Credit Risk Mitigate (CRM)	Net Exposure
Gold Loan	4,656.67	4,616.18	40.49
Loan against FD	51,734.85	51,536.10	198.75
Bank Guarantee (100% FD backed)	1,346.00	1,346.00	0.00
Total	57,737.52	57,498.28	239.24

* Amount for gold loan is after hair cut appropriate to the exposure.

VII. SECURITISATION EXPOSURE: DISCLOSURE FOR STANDARDISED APPROACH

Details of securitisation exposures in the banking book

₹ In Lacs

Total exposures securitised by the bank*	74,904.90
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*Represents total outstanding securitisation pool exposure.

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, 2018

₹ In Lacs

Exposure Type	Amount
Amount of assets intended to be securitised within a year	-
Of which amount of assets originated within a year before Securitisation	-

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

₹ In Lacs

Exposure Type	Outstanding*	Unrecognized gains/(losses)
Business Loans	55,774.46	-
Wheels Loans	19,130.44	-
Total	74,904.90	-

*The amount represents the total outstanding principal at September 30, 2018 for direct assignment deals in the nature of sell-downs.

Securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	On-balance Sheet*	Off-balance sheet	Total
Business Loans	6,042.78	-	6,042.78
Wheels Loans	2,290.22	-	2,290.22
Micro-Finance	0.20	-	0.20
Total	8,333.20	-	8,333.20

*The amount represents the total outstanding principal at September 30, 2018 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	150% risk weight	Total
Business Loans	53.46	5,607.87	267.82	1.68	111.95	6,042.78
Wheels Loans	31.53	1,956.92	61.19	153.41	87.17	2,290.22
Micro-Finance	0.20	-	-	-	-	0.20
Total	85.19	7,564.79	329.01	155.09	199.12	8,333.20

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	Outstanding*
Business Loans	19,480.41
Wheels Loans	120,527.49
Total	140,007.90

*The amount represents the total outstanding principal at September 30, 2018 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	1,311.11	2,413.82	3,724.93
Wheels Loans	8,138.09	14,982.64	23,120.73
Total	9,449.20	17,396.46	26,845.66

*This represents BG issued to the Bank's as counter guarantee for second loss in securitisation transactions. Credit enhancement for first loss in form of fixed deposit of INR 12,727.60 Lacs and liquidity facility of INR 192.87 Lacs are not included in the above amounts.

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 THE BANKING BOOK (IRRBB)

Details of Parallel Rate shock on Earnings and Market value of equity as on September 30, 2018 are given below.

₹ In Lacs

Interest Rate Risk in Banking Book	+200bps	-200bps
Earnings at Risk (EAR)	(1,667.75)	1,667.75
Impact on Market Value of Equity	(40,488.68)	40,488.68

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, 2018 is as follows.

₹ In Lacs

Leverage Ratio Position as on September 30, 2018	
Particulars	Amount
Tier-1 Capital (A)	266,025.68
Exposure measure (B)	2,544,658.07
Leverage ratio (A/B)	10.45%