

BASEL II – PILLAR 3 DISCLOSURES AT SEPTEMBER 30, 2019

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/small & mid corporate 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, 2019		
S. No.	Particulars	Amount
(A)	Tier I Capital	
A.1	Paid up equity share capital	29,342.69
A.2	Reserves*	267,594.54
A.3	Other Capital Instrument (Share Warrant)	17,500.00
(B)	Deductions	
B.1	Deferred Tax Assets	1,774.74
B.2	Securitisation Exposure Including Credit Enhancement	7,319.32
B.3	Proposed Dividend (Including Tax)	2,643.39
(C)	Net Tier I Capital (A-B)	302,699.78
(D)	Tier II Capital	
D.1	Subordinated Debt	53,700.00
D.2	General Provision	11,611.98
D.3	Investment Fluctuation Reserve	2,212.00
(E)	Deductions	
E.1	Securitisation Exposure Including Credit Enhancement	7,319.32
(F)	Net Tier II Capital (D-E)	60,204.66
(G)	Total Capital Funds (C+F)	362,904.44

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

Subordinated Debt eligible for inclusion in Lower Tier – II capital

		₹ In Lacs
Particulars	Amount	
Total amount outstanding at September 30, 2019	69,500	
Of which, amount raised during the year	-	
Amount eligible to be reckoned as capital funds at September 30, 2019	53,700	
Total Eligible Amount	53,700	

Total Eligible Capital Fund as on September 30, 2019

		₹ In Lacs
Particulars	Amount	
Tier- I Capital	302,699.78	
Tier – II Capital	60,204.66	
Total Eligible Capital	362,904.44	

III. CAPITAL ADEQUACY

Capital Requirement

			₹ In Lacs
Capital Requirements for Various Risks			
S. No.	Particulars	Amount	
A	Credit Risk	304,651.76	
A.1	For non-securitised portfolio	300,874.98	
A.2	For securitised portfolio	3,776.78	
B	Market Risk	-	
C	Operational Risk	-	
D	Total Capital Requirement (A+B+C)	304,651.76	
E	Total Risk Weighted Assets (Credit)	2,031,011.76	
F	Total capital funds of the bank	362,904.44	

Total and Tier I Capital Ratio

Particulars	Capital Adequacy Ratio (Only Credit Risk RWA)
Tier I Ratio	14.90%
Tier II Ratio	2.97%
Total Capital Adequacy Ratio	17.87%

IV. CREDIT RISK

Distribution of exposures

		₹ In Lacs
S. No.	Exposure type	Amount
1	Fund Based	2,503,019.34
2	Non- Fund Based	38,179.78
	Total	2,541,199.12

Geographic distribution of exposures

₹ In Lacs

Exposure Distribution by Geography		
Category	Fund based facilities	Non-Fund based facilities
Domestic	2,503,019.34	38,179.78
Overseas	-	-
Total	2,503,019.34	38,179.78

Industry wise distribution of exposure

₹ In Lacs

S. No.	Industry Classification	Fund Based	Non-Fund Based
1	Trade	643,219.80	1,306.77
2	Agriculture and Allied Activities	343,608.54	31.11
3	Transport Operator	295,991.31	441.40
4	NBFCs	272,826.87	3,377.14
5	Vehicle/Auto Loans	102,047.88	-
6	Commercial Real Estate	94,887.16	330.15
7	Tourism, Hotel and Restaurants	70,901.70	33.35
8	Advances against Fixed Deposits	67,608.18	-
9	Infrastructure	33,540.88	6,428.02
10	Electronics & engineering	34,093.48	6.90
11	Gems and Jewellery	28,886.11	-
12	Housing Loans	28,666.65	-
13	Wood & Wood products	17,898.96	-
14	Textile	13,648.06	21.50
15	Rubber and plastic products	8,842.25	193.87
16	Mining and Quarrying	8,027.18	396.23
17	Metal, Iron and Steel	7,073.91	991.45
18	Cement & Cement products	7,101.34	72.91
19	Professional Services	6,364.40	13.42
20	Vehicles, Vehicle Parts and Transport Equipment's	4,528.54	40.00
21	Food Processing	4,128.66	62.84
22	Chemical & Chemical products	3,965.85	11.82
23	Paper & Paper products	3,295.10	-
24	Computer Software	2,818.91	99.21
25	Consumer Durables	1,307.56	-
26	Glass & Glassware	1,152.08	-
27	Beverages and Tobacco	1,073.63	-
28	Leather & Leather products	231.75	-
29	Education Loans	58.39	-
30	Services - Others	340,388.82	23,317.49
31	Retail Loans - Other	50,963.29	306.22
32	Industries - Other	3,872.10	697.98
Total		2,503,019.34	38,179.78

As on September 30, 2019, 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	25.36%
2	Agriculture and Allied Activities	13.52%
3	Transport Operator	11.67%
4	NBFCs	10.87%

Maturity pattern of assets

The maturity pattern of assets at September 30, 2019 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	44,454.10	12,572.28	150,315.17	967.92	-	5,288.47	213,597.94
2-7 Days	1,575.09	420.82	7,908.16	33,105.18	-	10,433.14	53,442.39
8-14 Days	2,652.75	98.41	18,820.20	19,333.73	-	7,359.42	48,264.51
15-30 Days	4,061.60	504.52	23,732.80	51,810.83	-	6,358.91	86,468.66
31 to 2 months	5,459.26	-	38,151.66	103,040.45	-	4,532.79	151,184.16
More than 2 months and up to 3 months	5,230.50	0.34	30,391.35	76,648.43	-	4,235.52	116,506.14
Over 3 Months and up to 6 months	12,110.58	334.21	107,545.34	196,120.54	-	7,036.86	323,147.53
Over 6 Months and up to 1 year	21,579.21	267.87	234,824.07	365,863.57	-	4,770.05	627,304.77
Over 1 Year and up to 3 years	25,070.92	10,760.67	210,546.51	992,715.47	-	3,599.73	1,242,693.30
Over 3 Years and up to 5 years	457.78	2,442.32	3,861.24	362,267.86	-	181.20	369,210.40
Over 5 years	1,704.12	854.51	17,270.75	279,046.16	44,167.92	7,743.50	350,786.96
Total	124,355.91	28,255.95	843,367.25	2,480,920.14	44,167.92	61,539.59	3,582,606.76

Amount of Non-Performing Advances (NPAs)

NPA Classification		₹ In Lacs
S. No.	Category	Amount
A	Amount of NPAs (Gross)	50,384.21
A.1	Substandard	32,352.12
A.2	Doubtful1	10,033.42
A.3	Doubtful2	7,030.25
A.4	Doubtful3	-
A.5	Loss	968.42
B	Net NPAs	28,285.00
C	Advances	
C.1	Gross Advances	2,503,019.34
C.2	Net Advances	2,480,920.14
C	NPA Ratios	
C.1	Gross NPAs to gross advances (%)	2.01%
C.2	Net NPAs to net advances (%)	1.14%

Movement of NPAs

Particulars	Gross NPA	Net NPA
Opening balance at April 1, 2019	47,013.89	29,450.34
Addition during the period	28,219.91	18,738.17
Reduction/write-off during the period	(24,849.59)	(19,903.51)
Closing balance at September 30, 2019	50,384.21	28,285.00

Movement of Provisions

Particulars	Specific Provision	General Provision
Opening balance at April 1, 2019	17,563.55	9,320.63
Provision made during the period	9,481.73	4,762.97
Write-off	(428.94)	(4.32)
Write-back of excess provisions	(4,517.13)	(2,467.30)
Closing balance at September 30, 2019	22,099.21	11,611.98

Company does not have any Non – Performing Investments as on September 30, 2019.

Movement of Provisions for depreciation on investments

Particulars	Amount
Opening balance at April 1, 2019	5.43
Provision made during the period	620.95
Write-off/ Write-back of excess provisions during the period	(6.24)
Closing balance at September 30, 2019	620.14

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

Credit exposures by risk weights

At September 30, 2019 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	1,982,119.25
2	100% risk weight	508,440.28
3	More than 100% risk weight	50,639.59
Total		2,541,199.12

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*	6,345.75	6,345.75	-
Loan against FD*	67,942.94	67,744.72	198.22
CGTMSE	1,828.21	1,213.18	615.03
Bank Guarantee (100% FD backed) #	5,092.28	5,092.28	-
Total	81,209.18	80,395.93	813.25

* Amount is after hair cut appropriate to the exposure.

Amount is after credit conversion factor (CCF)

VII. SECURITISATION EXPOSURE: DISCLOSURE FOR STANDARDISED APPROACH

Details of securitisation exposures in the banking book

₹ In Lacs

Total exposures securitised by the bank*	57,094.36
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*Represents total outstanding principal at September 30, 2019 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, 2019

₹ In Lacs

Exposure Type	Amount
Amount of assets intended to be securitised within a year	80,000
Of which amount of assets originated within a year before Securitisation	40,000

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

₹ In Lacs

Exposure Type	Outstanding	Unrecognized gains/(losses)
Business Loans	52,534.44	-
Wheels Loans	4,559.92	-
Total	57,094.36	-

Securitisation exposures retained or purchased

₹ In Lacs

Exposure Type	On-balance Sheet*	Off-balance sheet	Total
Business Loans	5,642.17	-	5,642.17
Wheels Loans	4,142.90	-	4,142.90
Total	9,785.07	-	9,785.07

*The amount represents the total outstanding principal at September 30, 2019 for all 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	150% risk weight	Total
Business Loans	63.64	5,358.91	136.88	82.74	5,642.17
Wheels Loans	5.79	4,008.87	74.93	53.31	4,142.90
Total	69.43	9,367.78	211.81	136.05	9,785.07

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	9,466.12
Wheels Loans	240,634.03
Total	250,100.15

*The amount represents the total outstanding principal at September 30, 2019 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	638.93	950.94	1,589.87
Wheels Loans	16,278.50	24,227.60	40,506.10
Micro-Finance	16,508.40	-	16,508.40
Total	33,425.83	25,178.54	58,604.37

*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 ₹ 8,787.24 Lacs and bank guarantee of ₹ 5,851.40 Lacs is not included in the above amount as already deducted from capital.

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, 2019 are given below.

₹ In Lacs

Interest Rate Risk in Banking Book	+200bps	-200bps
Earnings at Risk (EAR)	(3,701.05)	3,701.05
Impact on Market Value of Equity	(59,545.43)	59,545.43

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, leverage for the Bank at the consolidated level September 30, 2019 is as follows.

₹ In Lacs

Leverage Ratio Position as on September 30, 2019	
Particulars	Amount
Tier-1 Capital ¹ (A)	302,699.78
Exposure measure ² (B)	3,679,814.79
Leverage ratio³ (A/B)	8.23%

1. Tier 1 capital at December 31, 2018, March 31, 2019 and June 30, 2019 was ₹ 266,044.53 lacs, ₹ 305,339.77 lacs and ₹303,102.98, respectively.

2. Total exposures at December 31, 2018, March 31, 2019 and June 30, 2019 were ₹ 2,854,112.78 lacs, ₹ 3,347,610.75 lacs and ₹ 3,484,662.05, respectively.

3. Leverage ratio at December 31, 2018, March 31, 2019 and June 30, 2019 was 9.32%, 9.12% and 8.70%, 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	3,582,606.76
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)	103,376.39
7	Other adjustments	(6,168.36)
8	Leverage ratio exposure	3,679,814.79

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)	3,582,606.76
2	(Asset amounts deducted in determining Basel II Tier 1 capital)	(6,168.36)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	3,576,438.40
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	383,428.83
18	(Adjustments for conversion to credit equivalent amounts)	(280,052.44)
19	Off-balance sheet items (sum of lines 17 and 18)	103,376.39
Capital and total exposures		
20	Tier 1 capital	302,699.78

21	Total exposures (sum of lines 3, 11, 16 and 19)	3,679,814.79
Leverage ratio		
22	Leverage ratio	8.23%

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	3,582,606.76
2	Deductions from Tier 1 capital	(6,168.36)
3	On-balance sheet exposure under leverage ratio (excluding derivatives and SFTs)	3,576,438.40