



“AU Small Finance Bank Q3’FY26 Earnings Conference Call”

January 20, 2026



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Moderator: Ladies and gentlemen, good day and welcome to AU Small Finance Bank Q3 FY'26 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Prince Tiwari – Head of Investor Relations. Thank you and over to you, sir.

Prince Tiwari: Thank you, Sagar. And good evening, everyone and welcome to AU Small Finance Bank's earnings call for the 3rd Quarter of Financial Year 2025-2026. We thank you all for joining the call this evening.

On today's call from the management, we have our founder, MD and CEO – Mr. Sanjay Agarwal; our Executive Director and Deputy CEO – Mr. Uttam Tibrewal; our Interim CFO – Mr. Gaurav Jain; our Chief Credit Officer – Vivek Tripathi and the IR team.

We will start today's call with a 15- to 20-minute opening remarks by Gaurav Jain, highlighting the Bank's performance, positioning, and outlook. And we will follow the opening remarks with a 40 to 45-minute question and answers from the participating analysts and investors.

For the benefit of all participants and so that we can take everyone's questions, we would humbly request everyone to keep the number of questions restricted to two per participant and join back in the queue in case you have further questions. For any data-keeping questions, you may kindly reach out to the IR team any time post-conclusion of this call.

So, with this, I now request Gaurav Jain – our CFO, to share his opening remarks. Gaurav, over to you.

Gaurav Jain: Thanks, Prince. Good evening, everyone, and thank you for joining the call. It's a pleasure to welcome you all to our Earnings Call for the 3rd Quarter of FY'26. Q3 marks completion of 35 quarters of our banking journey.

As we near the completion of our first decade as a Bank, the foundation we have built gives us strong conviction about the road ahead. With our core growth engines firmly in place and the once-in-a-lifetime opportunity of transitioning to a universal banking platform, we enter the next phase with confidence. Backed by an execution-led culture, stable leadership team, tech-driven approach, and with robust governance, we are fully prepared to scale responsibly and sustainably. India enters 2026 on a stronger footing than a year ago, supported by a normal monsoon, accommodative regulatory environment, prudent fiscal discipline, and policies stimulus through GST cuts, labor reforms, and monetary easing. This favorable macro setup

combined with low inflation augurs well for credit demand despite global uncertainties. System-level credit growth has strengthened to 14.4% year-on-year, driven by robust auto sales, healthy MSME demand, and a pickup in commercial and corporate activity. The deposit environment, however, remains intensely competitive with tight liquidity conditions and systems deposits growing at 12.7% year-on-year.

Amidst this environment, AU continues to deliver strong and resilient performance. Deposits growth remains strong at 23% year-on-year, among the highest in the sector and 1.8x of the system growth. Loan portfolio grew by 19.3% year-on-year, 1.3x of the system growth and nearly 2.5x of the nominal GDP growth. Secured assets grew by 23% year-on-year and unsecured businesses have also started to turn around with a 1% positive growth this quarter led by MFI.

Margins expanded by 25 basis points quarter-on-quarter to 5.7% from 5.5% in Q2, led by a sharp decline of 22 basis points in cost of funds and benefit from CRR cuts.

Asset quality saw continued improvement, led by ongoing recovery in unsecured and seasonal strengthening in secured assets. Slippages declined by 13% quarter-on-quarter, GNPA ratio declined by 11 bps to 2.30%, and annualized credit costs for Q3 declined by 41 bps to reach 78 basis points of average assets, with 9-month credit costs at 1.1% of average assets. Profitability expanded on quarter-on-quarter basis, with PAT growing by 26% and ROA expanding to 1.6% for Q3.

On our strategic initiatives, we continue to make strong progress across products, distribution, marketing and technology.

On the product side, we launched two new innovative offerings:

- The first is an exclusive banking program for chartered accountants in partnership with the Institute of Chartered Accountants of India to offer customized solutions for CAs focusing on their business needs, personal banking and lifestyle.
- The second is M Circle, a tailored proposition for women customers offering curated financial solutions and lifestyle experiences.

On the marketing side, we onboarded Ranbir Kapoor and Rashmika Mandanna as our new brand ambassadors and unveiled our campaign “*Soch Badlo aur Bank Bhi*”. During the quarter, we expanded our distribution by 100 physical touchpoints, including 27 new deposit branches, to take our total touchpoints to 2,726.

We have further strengthened our governance framework by including three new independent directors, Mr. N. S. Venkatesh, Mr. Satyajit Dwivedi and Mr. Phani Shankar.



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During the quarter, the Bank received approval from the Ministry of Finance, Government of India for an increase in the foreign investment limit in the Bank from 49% to a maximum permissible limit of 74%.

On the technology front, we are building a Bank engineered for scale, intelligence and long-term sustainability. Over the past 8 years, we have consistently and strategically invested 8%-10% of our OPEX in our technology backbone. Our tech stack today delivers 99.9% uptime, automated disaster recovery, multi-cloud resilience while seamlessly processing 3.5 million plus UPI transactions and 10 million plus API calls daily. We have modernized AU 0101 and AU 0101 Business into auto-scalable, future-ready platforms while Customer 360 is evolving into a powerful AI-driven engine.

Now, we are accelerating AI implementation to embed it across the Bank, reshaping acquisition, underwriting, risk, operations and customer engagement as we transition into a multilingual, non-sequential AI-native architecture. Our enterprise-wide agentic AI roadmap is progressing well. We are reshaping our go-to-market strategy with digital STP journeys across assets and deposits.

Vehicle partners' onboarding for Wheels loans is live and additional integrations that deepen STP journeys and partner-led distribution are underway. Our AI-powered Gold Loan LOS will go live in Q1 FY'27 and native AI functionalities across Wheels, PL and credit card segments are being built to enable faster decisions with higher accuracy and scalable execution. A cloud-native real-time data lake forms the base layer of our AI-led decision-making architecture, enabling real-time insights generation directly by business teams, accelerated decision-making. AI-based fraud systems now auto-decision over 60% of alerts and transaction monitoring, and voice bots handle nearly 25% of inbound calls.

Bank is also adopting functional and HR training through AI-led platform, where employees learn continuously and dynamically, improving productivity and capability. We will update more on these initiatives in the coming quarters.

As part of long-term succession planning and roadmap for increasing leadership depth in the Bank, we also announced two critical changes to our executive leadership. Our Executive Director and Deputy CEO – Mr. Uttam Tibrewal, on completion of his current tenure as Whole-Time Director on April 18, 2026, will continue in his capacity as Deputy CEO and remain responsible for leading our key business verticals, including retail assets and liability. Alongside these responsibilities, he will devote increased time to on-ground engagement to drive growth, strengthen customer relationships, and expand the Bank's presence across newer geographies.

Mr. Vivek Tripathi – Chief Credit Officer of the Bank, will be appointed as Executive Director, subject to required regulatory approvals. Vivek has been with us since 2014, contributing across business, credit, and risk in various leadership roles. As Executive Director and Chief Credit Officer, he will continue to provide enterprise stewardship of AU's credit architecture, unifying

credit policy and underwriting, portfolio management, collections, legal recovery and vigilance, and fraud control under a single governance framework.

Now, let me give some color on each of our businesses:

First, on the deposit business:

Our deposit base crossed Rs. 1,38,000 crores, growing by 23% year-on-year and 4.5% quarter-on-quarter, reflecting the growing strength of our branch banking franchise. CASA deposits grew by 16% year-on-year and CASA ratio remained broadly stable at 29%. We have added 66 new fully-fledged liability branches this year and are on track to take new branch addition tally to 80 branches for the year, mostly in urban areas.

With robust acquisition models, distribution expansion, segment-led approach, and a keen focus on productivity and efficiency, we are now seeing a sustainable increase in our low-cost granular deposit franchise, which has in turn helped us to reduce our cost of funds. New CASA account acquisitions grew by 30% year-on-year for a 9-month period and crossed a milestone of 1 lakh monthly account acquisitions in December.

Cost of funds declined by 22 basis points quarter-on-quarter to 6.61% vs. 6.83% in Q2, led by repricing of term deposits and benefits from savings account rate cuts taken in October. Cumulatively, we have seen a 53-bps reduction in our cost of funds in FY'26 so far. With effects from 12th January, we have further optimized our savings deposit rates in certain buckets and will continue to monitor the competitive landscape for further transmission of rate cuts. On cross-sell, the Bank continues to drive holistic integration across our full product suite, covering cards, payments, insurance, wealth management, trade, and FOREX, through a specialized vertical focused on deepening customer engagement. We are seeing encouraging progress, including 90,000 new CASA accounts opened from our retail asset base in Q3, with balances of Rs. 160 crores and a Rs. 2,500 crores liability-to-asset cross-sell portfolio by end of the quarter.

Wealth and FOREX services are also gaining traction, with our wealth franchise now serving 2.5 lakh customers and managing Rs. 1,900 crores of AUM. Our AD1 business continues to scale well, with steady growth in volumes and transactions and cross-border trade in FOREX revenues growing nearly 50% year-on-year.

Now moving on to our asset franchise:

Overall loan portfolio stands at Rs. 1,30,000 crores and grew by 19% year-on-year. Our secured businesses grew by 23% year-on-year and 6% quarter-on-quarter. Unsecured businesses registered a degrowth of 17% year-on-year but have started to turn around and grew by 1% in the quarter led by MFI. Retail secured assets, which include wheels, mortgages, and gold loans, formed 68% of our portfolio and grew robustly at 21% year-on-year.

Wheels business saw a strong growth momentum aided by GST cuts and buoyancy in new car sales, leading to growth of 27% year-on-year to reach Rs. 43,700 crores.

Gold loan business grew strongly by 52% year-on-year from a low base to reach Rs. 3,000 crores. Our mortgages business comprising microbusiness loan and affordable housing grew by 13% year-on-year to Rs. 41,000 crores in a highly competitive market warranting disciplined underwriting. We are working to increase the growth rate in this segment through distribution expansion and improvement in productivity in the southern market. Overall, the retail secured segment will be the main beneficiary of our expanded distribution in the southern market.

Moving on to commercial banking, which forms 21% of our lending business:

It has strong segmental understanding across business banking, renewable energy, emerging enterprises, NBFCs, real estate, and transaction banking. This segment saw a broad-based growth with overall book growing by 25% year-on-year to reach Rs. 27,700 crores and non-fund-based book of approximately Rs. 10,000 crores. A significant part of the commercial banking business is self-funded as this book contributes 8% of overall deposit book and 7% of overall CASA book.

Now moving on to the unsecured business:

Our two unsecured businesses of Inclusive Finance and Digital Lending are nearing the end of the credit cycle. Our inclusive banking franchise comprising MFI and lending to small and marginal farmers has started to turn around with the portfolio growing 2% quarter-on-quarter to reach Rs. 6,600 crores.

Non-overdue collection efficiency in MFI improved to near-normal levels at 99.3% for the quarter and 99.5% for the month of December, the highest in six quarters. The SMA pool reduced to 1.9% from 2.9% in Q2. 83% of the MFI book is now covered under the CGFMU Guarantee Scheme, providing protection against any potential credit losses in the future. Our digital unsecured portfolio comprising credit cards and personal loans declined 27% year-on-year and 4% quarter-on-quarter. However, we remain optimistic as credit costs continue to normalize. New card issuance strengthened to 48k cards in Q3 versus 27k in Q2 and we expect the book to return to growth in the next financial year.

In terms of profitability:

We delivered profit after tax of Rs. 668 crores for the quarter with ROA of 1.6%. This included a one-time provision of Rs. 20 crores due to impact of the new labor code. Excluding this impact, PAT for the quarter was Rs. 682 crores up 29% year-on-year.

Net interest income increased by 9% sequentially on the back of strong growth in loan portfolio and expansion in margins. NIM expanded by 25 basis points quarter-on-quarter to 5.7% from



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5.5% in Q2, benefiting from 22 bps decline in cost of funds, reduction in CRR and lower surplus liquidity during the quarter.

Our other incomes saw a healthy growth of 10% sequentially driven by higher business volume and increased traction in distribution of third-party products. Operating expenses excluding impact of labor code increased by 14% quarter-on-quarter driven by higher disbursement and ongoing investment in power and touch points as we expand our distribution.

We continue to target disciplined control over operating expenses with OPEX by average assets falling to 4.1% year-to-date as compared to 4.4% in comparable period last year. Cost-income ratio was 57% year-to-date. Credit costs reduced from Rs. 481 crores in Q2 to Rs. 331 crores driven by ongoing normalization in unsecured businesses, seasonal strengthening in secured assets and enhanced CGFMU coverage in MFI.

To sum up:

Q3 marks another quarter of disciplined execution and progress towards our forever Bank vision. As we head into the closing months of FY'26, our priorities are clear and we continue to focus on growing our deposits franchise, optimizing cost of funds, pushing growth in secured assets and driving cost efficiency and fee momentum. I take this opportunity to thank our teams for their commitment and to our stakeholders for their trust.

With that, I will now hand over to Prince for Q&A.

Prince Tiwari: Thank you, Gaurav. Sagar, we can now open the call for question-and-answers.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Our first question comes from the line of Akshay Jain from Autonomous. Please go ahead.

Akshay Jain: Hello, sir. My first question is on margins. So, can you explain the different moving parts on your margins? You explained that your cost of funds improved by 22 basis points while yields were down 10 basis points. So, this gives us broadly 10 basis points margin improvement. So, what's driving the balance, 10 basis points? Is it the LD ratio increase? And your LD ratio is already 89% on. So, how should it move incrementally? And any medium-term guidance on margins? My second question is on funding mix. So, this time on a large part of your deposit growth has come from non-callable bulk deposits. So, how should we look at this? Are we facing some intense competition from peers and hence, are you relying on other sources? How should we look at it incrementally? And lastly, on credit costs. So, credit costs came in surprisingly well this quarter. MFI and credit card both saw an improvement. So, any further color on what has improved? Should we expect normalization from next quarter onwards and credit cost guidance for the next year? So, these are my three questions. Thank you.

Gaurav Jain:

So, Akshay, I will start off with the first question on margins, right? So, there are three broad parts. The first is the improvement in cost of funds, which we have mentioned in our presentation. The second is the benefit from CRR cut. And the third is your lower surplus liquidity during the quarter due to strong loan growth, right? Now, within this, your asset yields have come down, right? So, the balance is what is reflecting in the margin growth. And in terms of your margin outlook for the future, we don't want to give specific guidelines, but I will talk about the key moving parts, right? So, the first one is the continued ongoing repricing of our deposits book. So, we think there are still two more quarters to go for repricing of our term deposit book. Because the tenor we were maintaining prior to rate cuts was in the 12 to 18-month bucket where the peak FD rate was. So, we should continue to see repricing going well into Q1 of next year. Second is not all of the recent rate cut transmission has reflected in this. So, as we see improvement in liquidity and the competitive landscape around both TD and savings account pricing, we will take actions accordingly. And then the third moving part is your asset yield. So, you'll have the latest repo cut impacting the variable book, which is around, slightly less than 30%. That impact will come in Q4. Thereafter, your asset yield will largely reflect the mix. And, if we are able to improve the MFI and credit card mix, then that should help on the margin side. So, I think that's the one on the margin side. On the bulk side, on the funding mix side, look, one of the ratios that we track is our stable deposit ratio, which is, a sum of your CASA and your retail TD and your bulk non-callable. And if you look at this as a ratio of our total deposits, that has largely remained stable around 80%, right? So, I don't think there is any increased reliance on bulk callable deposits. Having said that, liquidity remains tight in the market. And we look at various funding sources and optimize across, multiple metrics, including deposit growth, including cost of funds, including liquidity, etc. And see what is the best way to optimize across these matrices. The third question, Vivek, do you want to take...

Vivek Tripathi:

Yes. So, hi Akshay, this is Vivek. On the credit cost, for secured retail assets, seasonally, we always have this improvement in H2. Q3 is a festive season. So, always there is an improvement in collection efficiencies and in the reversal of NPA. So, that's factored in there. And we continue to see that improvement to continue in Q4 as well. On unsecured piece, which is credit card and MFI. So, credit card, we have called out in Q2 as well that it had peaked and it started declining. So, it is now near normalization level. If you see it's standalone basis, my slippages as well as credit cost is near normalization level and which we would continue to expect to remain in that stable zone for coming quarters as well. For microfinance, there are two components to it. One, the collection efficiencies continue to improve. Exit collection efficiency for the month of December was 99.5% upward. And because of that, my SMA pool has reduced significantly from 2.9% to 1.9%. Plus, since we started taking a coverage of CGFMU, which is credit guarantee scheme, that coverage is improving month-on-month. On a quarter-end basis, it is now covering almost 83% of assets. So, naturally, that gives us the cover. So, we remain confident that we are on track of what we guided. For FY'26, our credit cost should be in the range of 1%. We continue to basically look forward to achieve those numbers.

Akshay Jain:

The credit cost for FY'26 should be 1%, is it?



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- Gaurav Jain:** Yes. So, the full year credit cost guidance that we had given out earlier was 100 basis points on average assets, on balance sheet assets.
- Akshay Jain:** Okay, on average assets. Just one point, I guess, based on the CD ratios that you are using up your liquidity. So, which has increased your CD ratio to around 89% odd. So, how should we see it moving incrementally?
- Sanjay Agarwal:** But, if you see the CD ratio excluding the refinance, then we are 80%, right? Which is the way the regulators and the entire system is looking into it, right? So, I don't think we are somehow, seeing this data very seriously in the sense that it won't be against any growth aspiration of us, so, quite comfortable in that sense.
- Akshay Jain:** Understood, sir. Thank you. And just any comments on credit cost for next year?
- Moderator:** Thank you. Our next question comes from the line of Nitin Aggarwal from Motilal Oswal. Please go ahead.
- Nitin Aggarwal:** Hi. Good evening, everyone. Congrats on a good quarter. A couple of questions. One is, on the mix of unsecured loans now, how should we look at that now that the portfolios are seeing some stability on both? Cards also have started to grow MFI as well. So, how should we look at the mix of unsecured loans from here while the overall loan growth continues to be healthy? Will unsecured lead that or how will it move from there?
- Sanjay Agarwal:** Hi. Thanks, Nitin. Again, we are working in all directions for MFI or credit card or, of course, the personal loan. But we are seeing green shoots in MFI business. So, this was the first month (quarter) that the book has not de-grown. So, rather, it gets stabilized and has grown marginally. And the data says that an entire ecosystem says that this is becoming normalized. So, you will see some sort of growth in MFI business for next year. But difficult to quantify in this call. We would be ready to do this kind of decision-making by April, that how much we really want to grow MFI. But the entire system has been stitched well in terms of guarantee, in terms of branches, the recovery, the energy on the ground is back. So, I hope MFI should do better than this year, in coming year. Credit card, I think we want to take one more year to really stabilize it to the core, because we don't want to make mistake again. So, credit card business will go for another one year for the readjustment and settling down. And personal loan, of course, we are banking big on the whole STP journeys, NTB journeys, existing customer, cross-sell and all those things. But the base is so low. So, it won't affect us in some sense of our growth. But of course, in the long run, I strongly believe our PL book will become substantial in terms of overall asset mix.
- Nitin Aggarwal:** Okay. Sure, Sanjayji. And the other question is around cost. While you mentioned that Bank has been undertaking all the expenses to ensure sustainable growth and building a robust Bank, but how should we look at the cost-income ratio now? Because we have seen a fairly strong pickup in cost growth this quarter. So, how should we look at the ratio over the coming years?



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- Sanjay Agarwal:** I think we want to be around the original guidance that it should be below 60%, Nitin. And if you see our nine-month data is around 57%. And we should not overly read our Quarter 3 data. We are building the retail franchise. So, in southern markets or new product range, require addition of people. But we are relying big on our tech ability to reduce the cost of operations. And I think AI-led, the entire environment in coming years, eventually will allow us to operate on a lower cost-to-income. But I would say that we should read out the original (commentary) where we say we say that it won't be crossing 60%. And ideally, we should be in the range of 56%-57%, next year too.
- Nitin Aggarwal:** Okay. And Sanjay, lastly on the RWA growth, which looks a little sharper this quarter. So, anything to read into this, what has driven this kind of RWA growth?
- Prince Tiwari:** Nitin, hi, Prince here. So, if you see, on the capital adequacy side, there were certain changes in regulations this time, where a regulator has now allowed interim profits to be added to the capital adequacy. But on the other side, there were certain capital reductions, which have now been risk-weighted. And because of that, while we have got the capital benefit, the risk weights have gone up on some of the securitization transactions that we used to do. So, it's purely, most of it actually is only a technical adjustment. Nothing to read into it.
- Gaurav Jain:** Nitin, it's on the DTAs and the credit enhancement on securitization.
- Nitin Aggarwal:** Okay, got it. Thank you so much and wish you all the best.
- Prince Tiwari:** Thanks, Nitin. Thank you.
- Moderator:** Thank you. Your next question comes from the line of Jayant Kharote from Axis Capital. Please go ahead.
- Jayant Kharote:** Thanks for the opportunity and congratulations on a great set of numbers. So, my first question is on the loan growth outlook for the next 1 to 2 years.
- Sanjay Agarwal:** Loan growth outlook for the next one or two years. Okay. And the second one?
- Jayant Kharote:** And within that, specifically microbusiness loans, that piece is still not catching up to the overall book. So, how do we read that?
- Sanjay Agarwal:** So, again, two things. You know, we want to be around 2.25 to 2.5 times to the nominal GDP. This year, we are expecting around maybe 8% or 8.5% nominal GDP, right? So, I think anything around 20%, 22% growth overall, we are targeting, right? And that should continue for next year too, because scale will be there, all those things. So, and if anything happens above that, it will be the outcome of, the whole ecosystem, right? And in that sense, as I already commented that MFI business is now turning around, we are seeing some green shoots, the entire system is being now coming in one direction that, growth will come back. So, I think it's so difficult to predict a



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next two-year story for MFI. And but overall, we have already said that it won't be above 10% of our overall asset and we want to be in that direction. We have bought that book because we need to complete our obligation around SMF. So, that the whole, the reason of MFI was not only to build an unsecured asset, it was also around to do your certain obligations, right? So, you have to read in this only that how much you will grow, but specific guidance is difficult to give as of now.

Jayant Kharote: MBL.

Sanjay Agarwal: Okay. So, I think MBL is a mortgage business. So, we are doing micro business loans, affordable housing space, we really want to focus more and more. But somehow, it's not easy to build at this scale, at the same pace, we will be growing maybe this year around 15%-16%, idea is to be really in the range of 17%-18% next year and it will be supported by our southern branches, southern markets, the present markets, and building up some new product lines. So, overall, in my opinion, next year, if you perform around 17-18%, in a longer run, it may be around 20%, but difficult for next year.

Jayant Kharote: And sir, on the Fincare branches disbursement run rates, you have been telling us it can ramp up meaningfully. Is there any progress on that front?

Sanjay Agarwal: So, we are building up there. So, the southern markets are overcrowded, the competition is next level. So, it's not easy to ramp up, in a quarter or two quarters, it will take some time. We being a Bank, we have an advantageous position, we know how those markets operate now, how those customer want. So, we have those ingredients, but it will take some time. And maybe in next 12-18-month period, we will use that space, in terms of growth aspirations.

Jayant Kharote: And sir, if I could squeeze one last question on OPEX, we did see a sharp move in this quarter. We are back to that 4.3% of assets kind of run rate. How do we see again from here? Do we try to, in the last two quarters, we were able to do much better?

Sanjay Agarwal: I already commented that if you want to build a retail franchise, there would be some quarters where you will have additional manpower or you want to push for the growth, right? I think one quarter, two quarters should not be read in sense of permanent cost to income going up. We already told you that our cost-to-income ratio should be less than 60% and this 9-month is also we are around 57%. So, ideally, we should be here only for next 12-18-month period. But we are putting a lot much effort to reduce the cost through tech adoption, AI is enabling us a lot and we want to give you more color on this by April or maybe by July in our next quarter calls, how we really want to use these tools to have an impact of on the cost.

Jayant Kharote: Great. Thank you, sir, and all the best.

Sanjay Agarwal: Thanks, Jayant.



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Moderator: Thank you. Your next question comes from the line of Kunal Shah from Citi Group. Please go ahead.

Kunal Shah: So, the first question is on MFI credit cost in particular. So, a sharp drop coming in. And obviously, the overall GNPA and SMA book is further down. So, was there any benefit of recoveries, and it should be managed at this level of 1.3% odd, or the steady state MFI credit cost should be relatively higher?

Vivek Tripathi: Kunal Vivek here. So, there are, as I said, that there are three components to it. Obviously, our collection efficiency has improved sharply. Our, the overall book coverage of, CGFMU has gone up to almost 83%, which incrementally, if you look at in the last two quarters, almost 100% of the disbursement is 100% covered. So, incrementally, it's going up, right? So, including SMA book coverage is going up. And so, the large reduction of credit cost happened on account of lower slippages and higher coverage of guarantee. Third, there was a marginal amount of the previous provisioning, which was there on this portfolio that has been utilized, because things are normalizing there.

Kunal Shah: Okay, got it. And secondly, with respect to ROA, so we are again at almost like 1.6% odd now. And there are levers available, maybe OPEX, so we could see it coming down. Plus, maybe some cost of deposits advantage can continue. So, how are we looking at the overall ROA trajectory? What are the further levers available in the near term? And on cost of deposits, maybe on the bulk side, how much has actually got repriced? And was that the major benefit in the cost of deposits, or it was to do with savings cut?

Prince Tiwari: So, Kunal, I think on the deposit, Gaurav already answered that. So, basically, it's a function of both. Definitely, savings account cut did play a large role, because we had taken some cuts on the 3rd of October. And TD continues to reprice. I think in the beginning also, when the interest rate cycle started reversing, we had said that it takes about 14 months to 15 months, or 12 months to 18 months for the entire deposit book to reprice. And I think that's what Gaurav articulated, that we probably expect 2 more quarters of term deposit repricing to continue.

Kunal Shah: So, I get that. The only thing was maybe since the bulk proportion is high, so was that the element of bulk repricing in the quarter? Or it was pure like even supported by retail?

Prince Tiwari: I think it will be in line with the composition of the book. I don't think there is anything specific to read there.

On the overall ROA, I think we have been pretty clear for quite some time that as a Bank, we do believe that we have the potential to deliver a 1.8% kind of ROA on a very sustainable basis. But obviously, we had also said that it takes about a decade for a Bank to come up, and we are already 35 quarters down. So, give us, I think, 4-5 more quarters for us to just get our initial investments done, just get the franchise up and running. And then from there on, operating leverage will play a role. As you rightly said, margins, there is some more room to go. So, I think



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for FY'27, we had earlier guided that our endeavor will be to try and reach 1.8. We continue to maintain that.

Kunal Shah: Okay. Thanks. That's helpful.

Moderator: Thank you. Your next question comes from the line of Gaurav Toshniwal from ICICI Securities. Please go ahead.

Renish: Hi. This is Renish here from ICICI. Just one thing, again, on the NIM side, so obviously, the post-merger immediately, we were at 6% and now we are at 5.7. So, in a normalized scenario, I think NIM should settle at 6%. But with Universal Bank conversion, naturally, we will be tapping more credit-tested, quality customers, especially in MSME business banking and the other automated products. So, net-net where do you see NIM settling over next couple of years? And also, the reason for asking this question is that to understand how are we placed on the asset yield side, right? I mean, we might continue to benefit from the falling deposit rates for next 2 to 3 quarters. But if asset yield drop is not arrested, let's say in some quarters, it will start hitting-. So, I just wanted to understand from a medium to long-term perspective on NIM trajectory.

Prince Tiwari: Yes, thanks, Renish. Maybe I will try and answer and then Gaurav can chip in. And see, on the interest rates, as well as on the margins, I think we have commented earlier as well, that it's basically an outcome. I think we look at business by business. And most of our businesses continue to hold on, because of the 70% being fixed rate book, We continue to hold on to the yields. Of course, you can't really compare post-merger Fincare margins because at that time, MFI was almost 8% of the overall mix and the unsecured was much higher. I think since then, the mix has changed. So, taking cognizance of that, I think we are now at about 13.8%. As Gaurav said, some bit of 25 bps December rate cut, repo rate cut, repricing is still to come into the next quarter. But apart from that, we don't really see yields going down very significantly, barring some mix change. I think we are holding on to yields on the vehicle side. We are holding on to yields on the gold loans. We are holding on to yields on some of the other businesses. MFI will start to grow. Commercial banking is okay. So, I think it's more a function of mix from here on, I mean, post Q4 than anything else.

In the longer run, yes, you are right that probably, if the Bank decides to move into, I don't think we have fundamentally anything changing on our business model for the next 3 to 5 years. I think we have been vocal enough on our calls that despite universal, we will continue to build same segments. I think we have the idea is to scale up in each of the segments. There's a lot of opportunity. From a half a country, we want to go into a pan India to expand in vehicle financing, expand around the entire mortgage business. The gold loans can grow multifold. The commercial banking can continue to grow. So, I don't really see any concerted effort on the Bank's part (to drop lending yields). But yes, if we are going up to a better credit quality customer and there is some amount of yield sacrifice like in the commercial banking, that will also be reflected in the credit costs in OPEX. So, you will see a commensurate benefit. I am not really sure if there will be a compromise on ROA per se, because of the margins, if anything at all.



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- Renish:** Got it. This is very helpful. The last thing. earlier we used to give segment wise ROA breakup. Now, obviously, we have stopped that. But at least in terms of, let's say, the product level profitability, is there any product which is still loss making? I don't know. Credit cards might be one. But any other product which is still having a drag on the overall productivity level and hence cost to income, maybe cost to asset is still elevated. I am sure it is still lower than the guidances, but compared to, let's say, other banks, it is still elevated. Hence, I am asking this.
- Prince Tiwari:** So, I think we haven't discontinued anything. We used to give a product level profitability or ROA tree every annually, right? There's no point because there are so many moving parts. We give it every with the annual results. I think you will again see that with the March financials coming up. So, I am sure you'll have a chance to go through the asset wise profitability.
- Renish:** Okay. But would you like to highlight any loss-making product?
- Prince Tiwari:** Renish. Obviously, digital banking still continues to be loss-making or haven't really broken even and that's what Sanjayji indicated that we will take about one more year to stabilize that business.
- Renish:** Thank you.
- Moderator:** Thank you. Our next question comes from the line of Pritesh Bumb from DAM Capital. Please go ahead.
- Pritesh Bumb:** Hi, good evening. Just two questions. One is data keeping. Are we 100% provisioned on MFI today? The provision coverage?
- Vivek Tripathi:** Yes, Pritesh, Vivek here. Since we as I said, that my guaranteed portion is increasing. So, we provide for only on an uncovered portion, right? So, let us say on Rs. 100 loan, if the guarantee cover is about 72.5%, let us say, about 27.5% is uncovered. So, you provide on that. It works that way, it doesn't, the provisioning policy, right, governed by the provisioning policy.
- Pritesh Bumb:** Sure, got that. So, basically, before the CGFMU portfolio that will be 100% and the CGFMU portfolio, whatever goes into NPA will be according to the formula which is applicable?
- Prince Tiwari:** Pritesh, so as Vivek said, it is primarily driven by the provisioning policy always, right? So, for MFI at 90 DPD, we provide 50% and then every month, we provide another 15% so that by 180 day, we are 100% provided. So, anything which is 100% on the open exposure, PCR will be a function of where exactly the book is or what is the vintage of the NPA book. And the second part, as Vivek said, is what percentage is already covered by CGFMU, I will not be making any provision on that. On the open exposure, we will provide as per the provisioning policy.
- Pritesh Bumb:** Got it. The second question is on this Slide #30. So, basically, you have given growing distribution footprint and given color on how things can move in FY '26. Given that there is

some penetration left in wheels and MBL, is it safe to say that growth will be driven by these 2 segments in next year, given that the ticket size is higher?

Prince Tiwari:

Yes. So, I think that is what we have been saying like, wheels even today has grown about 27% year-on-year. So, we do believe that 25% growth in wheels is something that we should be able to do. And I think in mortgages as well, as Sanjayji said, while we are the largest player in that segment at that ticket size, but we do hope that, we are taking a lot of effort with the Southern franchise coming in, the current growth rate of 13%-15%, we can scale it up to at least 17%-18% over the next 2-3 years. So, yes, they will be the drivers. But apart from that, there will be gold loan.

Pritesh Bumb:

Sir, what I was trying to make sense is that if growth is driven by wheels and MBL, the relatively yields will be lower in the segments compared to what we have done in some parts. Of course, you are growing gold and MFI next year, but the ticket sizes are smaller. So, just wanted to check your combination of how things can be in yield versus growth perspective?

Gaurav Jain:

I think the asset mix will largely remain the same, right? So, if you look at the composition of it today, about 67% is retail secured. And then you have wheels, which is about 34% of that, which is we disclosed is growing at 27%, right? So, wheels will continue to grow at that clip over the next 12-18 months. And gold, obviously, from a very low base, there are the opportunities to multiply that book multifold, and that is what we are driving for, right? And there the yields are around the 16% range. And then the rest of the book if MFI picks up, then that will sort of, the degrowth of MFI mix will stop. And whether or not it can contribute positively on the mix we will see, but the degrowth that is coming from adverse mix of MFI will become lower going forward. But overall, I think the way to think is your asset mix will continue to be the same and as Prince articulated in one of the earlier questions over the next 2-3 years, our business model remains the same, right? The same segment, same customers, similar geographies, etc.

Pritesh Bumb:

Sure. Thank you so much. Thanks for this.

Moderator:

Thank you. Our next question comes from the line of Ankit Bihani from Nomura. Please go ahead.

Ankit Bihani:

Yes, hi. Good evening and congratulations on a good quarter. So, my question is on MFI asset quality. So, we have seen sharp rise in gold prices. Is the recent improvement in repayment behavior broad based across the MFI book, or is it largely driven by borrowers with access to products, secure products such as gold loans? The reason I ask is our gold loan book has grown by around about Rs. 700 crores on a Q-o-Q basis while the book accounts for just 2.5% of our overall loan book, it has contributed 12% of the incremental growth in this quarter. So, is there any overlap between gold loan and MFI book customers?

Vivek Tripathi:

Ankit, the MFI recovery is a very broad based recovery. And it is not in the one lender's book. If you look at the MFIN data, it would reveal that it is across the industry. The overlap between

the gold loan and MFI book would be very minimal. And it is an independent asset class, right? So, the correlation of that, somebody borrowing from gold loan and repaying an unsecured loan, very low chances of doing that. And the credit environment, right, because of the MFIN guardrails have changed. So, the borrower at a village level have understood that until and unless there is a disciplined repayment, getting a further loan and getting the bigger loan would be challenging. And there is an improvement in the credit culture itself so far. And as you know, that industry is driven by a lot of events. So, we hope that no event take place in the future, which derails the credit cycle.

Prince Tiwari: Yes, it is across states. The recovery is across states, across districts. And as we have given month-on-month data as well in terms of collection efficiencies. So, I don't think there is anything one-off there.

Ankit Bihani: So, there is minimal overlap between both the segments, right?

Prince Tiwari: Yes. Because gold loan, see, our base was very minimal, right? AU historically never used to do the gold loan business, or we used to do very limited just as a cross-sell in the branch banking. It was primarily an asset class that we acquired from Fincare. And once the acquisition happened and we saw the opportunity and the process and the systems that they had, I think we just are trying to ensure that we start doing or start implementing those over a larger set of branches and build that business from a very low base, right? So, if you are seeing a sharp growth, sharp growth is from a just Rs. 2,000 crores book in a Rs. 1,30,000 crores loan book.

Ankit Bihani: Yes, but if you look at the incremental growth, just 2%-2.5% of your open book is contributing north of 12% of the incremental growth. So, I was just asking on that.

Prince Tiwari: Yes, maybe.

Gaurav Jain: So, that is clear, right? Because the book has grown by 50% year-on-year. So, it will contribute oversized in terms of incremental growth.

Prince Tiwari: That is what we are saying.

Sanjay Agarwal: But yes. And we are actually serious about our gold loan book. We want to grow that book.

Vivek Tripathi: Gold loan industry has grown by north of 100% on Y-on-Y basis, right? And banks are the most beneficial.

Ankit Bihani: Agreed. And the second question is on the CGFMU part. Could you shed more color on the kind of premium that we pay and recovery, is it slightly delayed? As far as I know, it takes a year or so for the money to get recovered. Can you shed some more light on the operational part of the CGFMU?



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- Vivek Tripathi:** Ankit, I think we can take it offline because that is a very operational procedure. But as far as the guarantee piece is concerned and the repayment is concerned, that is very well defined. If you are well, your processes are well defined and if you file properly, it comes automatically. So, we have a very different experience as far as our guaranteed portion, as far as the guarantee book is concerned not only from CGFMU, across in terms of claim, right.
- Ankit Bihani:** Thank you.
- Moderator:** Thank you. The next question comes from the line of Jignesh Shial from Ambit. Please go ahead.
- Jignesh Shial:** Hi, sir. Thank you for the opportunity. Just one thing I wanted to clarify on the margin side. So, previous 25 bps has been passed on and the impact will be visible in 4Q or that has already been sorted? I just got a little confused out there.
- Prince Tiwari:** The December rate cut?
- Jignesh Shial:** Yes.
- Prince Tiwari:** The December rate cut will get passed on over a period of 4 months, right? So, I think December was the first month and when we said Q4, the impact will be there because the 3 of the months are following next quarter.
- Jignesh Shial:** Understood. But that is only 30% of the rough cut your book gets impacted at. The rest is all fixed?
- Prince Tiwari:** About 30%.
- Jignesh Shial:** Understood. And second, just wanted to understand more on the growth part. So, just correct me if I am wrong. So, MFI is seeing a stability and we are seeing a growth coming back in next year. And on credit card front, we still want to wait for one more year before getting more aggressive into that particular segment. Is my understanding correct? So, the growth has to be coming up from the secured segments, rolling out of the secured segment?
- Prince Tiwari:** Yes.
- Jignesh Shial:** That strategy remains the same, correct?
- Sanjay Agarwal:** Yes. So, if you ask me in overall perspective, we believe we are stronger in our retail asset strategy where wheels, mortgages, gold loan will take the front seat. We want to push our system engine there as much as possible. Commercial banking is more or less settled. Depends on how the Indian economy behaves. But the way we have performed this year, we strongly believe that will continue. MFI has come back, but we don't want to give you any guidance because still only one quarter has passed away with seeing that whole green shoot. So, we want to take more time,



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but my overall belief is that this industry can grow 10%-15% next year. How much we will grow, we will decide on the course. And credit card, it will take some more time because we are seeing some, I would say, encouraging results of our action taken over the period. But we want to be really patient enough so that we don't make mistakes again. And PL, yes, again, a lot much has happened through analytics, CPL, credit engines and all those things. We want to focus more on ETB. The NTB journey has also been unveiled. So, I believe PL will see different numbers next year.

Jignesh Shial: Understood. So, just adding up to this one. So, PL is for us a separate product. It is not that credit card link PL, right?

Sanjay Agarwal: No. PL and BL. It comes under the same team, but it is a different product line.

Jignesh Shial: And we are confident to grow PL book incrementally next year.

Sanjay Agarwal: Yes. Look, there was not any issue around PL, BL. It is just a small book. So, we have re-engineered an entire team, processes, approach. And Quarter 4 also should see some better numbers around that book. So, PL, BL, we are focusing as a normal business in course.

Jignesh Shial: Perfect. That was my understanding. Thank you. Thank you so much and all the best. Thank you.

Sanjay Agarwal: Thank you, Jignesh.

Moderator: Thank you. Your next question comes from the line of Param Subramanian from Investec. Please go ahead.

Param Subramanian: Yes, hi. Thanks for taking my question and congrats on the quarter. First question is on the OPEX movement quarter-on-quarter. Could you give some broad color on the various segments that are driving this so that we can understand this a little better? Because I can see both employee OPEX and non-employee both are up significantly quarter-on-quarter?

Gaurav Jain: So, I will give you the drivers, right? So, there are two drivers. One is the 20% quarter-on-quarter increase in disbursement, business volumes, credit card issuances, etc., right? And that also comes at certain variable cost, right? So, one of the components is that business volumes related component. The second component is your headcount and touch points, wherein we have been very clear over the past few quarters that we are growing our distribution for especially leveraging the footprint that we got through Fincare. So, for example, we are doubling our wheels penetration. So, we have hired sales, credit, collections people there. We are opening 80 new branches this year. So, we have hired people for that. We have also increased the intensity of sales people in existing branches. So, we have hired people, right? So, that is the second component. The third, and maybe not so significant for the quarter, was some typical promotion expenses, which come with your Diwali and all of that in your debit card, credit cards. And



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finally, we started the marketing campaign “*Soch Badlo Aur Bank Bhi*”, right? So, that also contributed to some uptick in expenses. So, those were the main parts.

Param Subramanian: Thanks, Gaurav. Very clear. So, maybe apart from the promotional one, the others are more or less BAU, right? Because we are talking about more growth from here on.

Gaurav Jain: Yes. So, look, growth comes with as we say some of it is directly related and the headcount costs, you should look at that as a down payment on future growth, right? So, we will not need as many people going forward because we are building capacity for next year, this year.

Param Subramanian: Fair enough. And if I heard you correctly, 56%-57% cost to income, broadly for next year is where we--

Gaurav Jain: So, look we are not giving you specific guidance beyond calling out two things. We will be lower than 60% and we will be lower than 4.3% cost to OPEX, which we were last year, right? So, this year, we expect to do better. And every year, incrementally, the operational leverage from scale and all the tech initiatives and other overhead control measures that we are taking will continue to improve our both cost-to-income ratio and the cost by OPEX, right? So, I will leave it at that.

Param Subramanian: Fair enough. And just one last question, a little maybe for Sanjay, sir. Sir, a lot of your peers, NBFCs and midsize banks have raised a lot of capital recently. And everyone is pretty positive on growth picking up next year. Sir, from a competitive landscape, how are you looking at things? Do you see any pressure that can develop, say, because we are largely talking about increasing our margins and growth, etc., so is there any risk from that?

Sanjay Agarwal: you have a right question in my sense. But we are 30-year-old now franchise, right? And we have seen all the competitive landscape over the period. So, of course, if fresh capital is coming in banks or NBFCs they will also push for the growth. But I think it is not about their capabilities and their positioning. It is more about our capabilities in terms of building up the product, distribution, people, understanding the risk around it. So, I think what we are expecting that for next maybe 4-5 years, AU growth rate in terms of 2.25-2.5 to normal GDP should be there because of the product range we have. We have retail assets, we have commercial banking, we have digital assets, we have cross-sell ability. So, if you ask me, the overall packaging of a franchise is so strong that there would be competition, but we should lead in that competition space. And I believe that team has the capacity, potential, purpose, energy to do this. And we are doing honestly, it is not that there is no competition as such, as of now also, but still we are growing in the north of 20%. So, I think we have already built a very strong foundation, and we have a very, I would say, a very tight, very sharp kind of execution mindset. So, it is not only about growth, it is also how you grow. So, the quality of OPEX, the quality of asset, the quality of team if you have to judge, you have to judge AU in a holistic way.

Param Subramanian: Thank you, sir. Fantastic. All the best. Thank you so much.



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- Gaurav Jain:** Thanks, Param.
- Moderator:** Thank you. The next question comes from the line of Bhavik Shah from InCred Capital. Please go ahead.
- Bhavik Shah:** Hi, sir. Thanks for the opportunity and congrats on good quarter. Sir, two questions. One, so what will be the proportion of book below Rs. 1 lakh? I understand we have cut like 25bps of SA rate. And related to that, do we plan to further take SA rate cuts because our close competitor has gone down to 6% for more than Rs. 1 million?
- Sanjay Agarwal:** No. So, again, below Rs. 1 lakh is a very small amount, But it does not affect only a below Rs. 1 lakh depositor, it is a full stack, right? And you know that we have taken one position that we want to build our deposit franchise on the product and the whole service levels rather than marketing or higher rate. And it is just what now 6-9 period. I am very happy that the competition is following us because that is the right way to build our deposit franchise. And we have other means to really manage this transitional requirement. So, further rate cut, I can't comment as of now because it depends on entire liquidity position, how the repo rate works in times to come, in overall our requirement. But I am very happy the way we have really managed our entire matrices of deposit franchise where we have a very solid quality book. Then we have a CD ratio of around 80%. We have a cost of money around 6.84 and the 24% growth. So, if you ask me in the overall growth metrics, I would say I really want to say thank you to my team that in spite of such an intense competition and tight liquidity, they are able to perform with these numbers.
- Bhavik Shah:** And sir, I just want to check on your cards portfolios. We had Zenith, we had Zenith Plus. I understand you have massively cut rewards on Zenith. Do you plan to do so for Zenith Plus also given that we are not?
- Sanjay Agarwal:** My friend, I think the team is not there and it is too operational questions. But overall, we want to build this. Overall, we want to build a credit card book. It will take some time. Team is taking a lot many decisions so that we get the right matrix or right product in right way. So, give us some more time to really comment more in detail about our credit card business.
- Bhavik Shah:** Thank you, sir.
- Moderator:** Thank you. The next question comes from the line of Piran Engineer from CLSA. Please go ahead.
- Piran Engineer:** Yes, hi team. Congrats on the quarter. Sir, firstly, just getting back to the MFI thing, if collection efficiency is stable from here on, credit cost will be at this 30 bps or so level or below because incrementally everything is moving to CGFMU. Is my understanding correct?
- Vivek Tripathi:** See, I think, Bhavik, we can't benchmark in one quarter. There are, in fact, I explained that through the cycle, it would be, sorry, Piran, my apologies. So, it is a game of improvement in

collection efficiency, how much coverage you have from credit guarantee, and also from the recovery point of view from your existing return of book. So, if it continues to improve, my recovery has improved, let us say, in Q3 and continued to improve in Q4, it should remain in a zone. But pointing out to, and plus, as I said, that there is a marginal utilization of some previous provision, which was done on this specific book, because the environment now looks very different. And so in the more benign way, through the cycle, it should hold what we guided earlier.

Prince Tiwari: 83% book is covered under guarantee. I think, Piran, the way you should look at it, I think we have been saying that all along, that 83% book is now covered under guarantee, and we have paid a guarantee fee for that, right? And by the end of March, hopefully, we will have almost 90%-95% of the book covered under guarantee, right? So, with the improving asset quality, or even stable asset quality, I think one of the lines that we have said in that slide, Slide #18, is that if you look at the portfolio, which has been originated from this last calendar year, which is January 25 onwards, that form 75% of the book, and the collection efficiency there is 99.7%, right, in the zero DPD. So, if it is 99.7% kind of collection efficiency and 90% plus book covered under CGFMU, then it is logical to assume that the credit cost should be range bound, unless something dramatically goes wrong.

Piran Engineer: Correct. So, yes, current level is kind of net-net here to stay as long as?

Prince Tiwari: Yes, plus or minus here or there, right? So, broad range, you can say, right? A more exact number, it will be difficult for us to say. But as Vivek said, yes.

Piran Engineer: Got it. And this next question for Sanjayji, sir, you mentioned that the regulator looks at CD ratio X refinance. So, just wanted to understand, is the CD ratio now even a focal point anymore for RBI or are we seeing?

Sanjay Agarwal: Not really, but okay, fine. So, I think it is about how prudent we want to run our Bank, right? Let us not bring regulator in every discussion, right? CD ratio is an important one, right, to really run a very sustainable and prudent banking franchise. What I want to say that because I get a refinance and refinance is a very structured loan, which we get a definitive time period and which we create some assets. So, in those assets, we don't have a risk of deposit, right? So, the risk of deposit is 80% of the book, which is the CD ratio of 80%, right? So, I think the idea is to tell you that how solid we are in terms of our approach is not about the regulator pushing us or they are talking about us, it is about how we want to really build ourselves on a self-governance basis.

Piran Engineer: No, I get that. I am just asking, has the regulator also taken a more benign approach to the CD ratio?

Sanjay Agarwal: I don't want to comment on that. Again, I am saying you, I don't want to comment on that. I want to say that it is a self-governance than a regulator-led governance because we believe at a Bank that it is about us to really build a Bank rather than looking towards a regulator to say us good



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or bad about our ratios because we run a Bank, right? And we know about what ratios are good for us and we should be around those ratios.

Piran Engineer: Got it. And this borrowing book has also increased by Rs. 2,000 crores quarter-on-quarter. That is mostly refinance?

Sanjay Agarwal: Yes.

Piran Engineer: Got it. Yes. That is it from my end. Thank you and all the best.

Prince Tiwari: Thanks, Piran.

Moderator: Thank you. Ladies and gentlemen, we will take that as a last question for today. I now hand the conference over to Mr. Prince Tiwari for closing comments.

Prince Tiwari: Yes. Thank you. Thank you, Sagar. And thank you all the participants, investors, analysts for taking time out on this call. And in case you have residual questions, you can always reach out to the Investor Relations team. Thank you so much. Good night.

Moderator: Thank you, members of the management. On behalf of AU Small Finance Bank, that concludes the conference call. Thank you for joining us and you may now disconnect your lines.