



RESILIENT
SUSTAINABLE
JOYFUL

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Our Growing Performance

₹ 8,999.43 Cr

Deposits

₹ 7,028.39 Crore
Up 28.0%

₹ 1,747.64 Cr

CASA

₹ 960.28 Crore
Up 81.9%

₹ 8,415.00 Cr

Gross Advances

₹ 6,606.51 Crore
Up 27.4%

3.88%

Net NPA Ratio

0.64%

₹ 12,338.65 Cr

Total Assets

₹ 9,469.97 Crore
Up 30.3%

60.31%

Cost to Income Ratio

64.91%



To view this report online,
Please visit: www.esafbank.com



RESILIENT SUSTAINABLE JOYFUL

The fiscal year 2020-21 will be remembered as the year of COVID-19. For ESAF Small Finance Bank, it was a year of perseverance, grit, and service. Together, we faced a global pandemic, an economic crisis, and a deepening climate crisis as the word “unprecedented” became a part of our daily conversation. We resiliently withstood the adverse situation and demonstrated business agility. We learned, acted, and reflected to keep preparing for a more sustainable future. Also, to continue transforming our challenges into opportunities. We worked smarter, created business efficiencies, and set clear-cut strategies to ensure a responsible transition towards a stable and sustainable economy.

We maintained our commitment to sustainability. Through our sustainable pillars, we remained focussed on the key areas of responsible banking, good business practices, and creating a social impact. By promoting value-based banking, we used finance to deliver sustainable economic, social and environmental impact, and to make a positive contribution to society.

We spread the Joy of Banking, offering equal opportunities to all through universal access to finance, thereby promoting financial inclusion, livelihood and economic development. Through our conscious business practices, we aim to create a social impact on lives and communities. Through financial enablement, we not only nurture hopes but also drive inclusiveness and progress for all, forging ahead on our path to become India's leading social bank.

We recognise our role to bring unserved and under-served customers into mainstream banking and inculcate the savings habit in them. We are working towards providing financial services and facilitating livelihood development among the beneficiaries, bringing economic sustainability and fulfilling their dreams and aspirations. Today, we are a Small Finance Bank, serving our customers for all their financial requirements through our outreach in the remotest corners of India, promoting financial inclusion and financial literacy.

NURTURING HOPES, FULFILLING DREAMS

Being a purpose-driven bank

We are one of the leading Small Finance Banks in terms of yield on advances, growth rate of Asset Under Management (AUM) and share of retail deposits. We have been engaged in financial inclusion throughout ESAF's history, which spans close to three decades. Our business model focusses on the principles of responsible banking and providing customer-centric products and services through appropriate application of technology.

Financial inclusion ingrained in our legacy

We are the fifth Scheduled Bank from Kerala; and the first bank to have received a banking licence in the state since India's Independence in 1947. With a history of close to three decades in serving the unserved and underserved, we continue our key focus on financial inclusion. By providing safe, secure and convenient banking facilities, our goal is to nurture hopes and fulfil the dreams of our customers.

Deep understanding of our segments

Our roots can be traced back to 1992 when Shri K. Paul Thomas founded ESAF Society to solve social-oriented issues through advisory services. It was focussed on development of micro enterprises, natural resource and disaster management, community development and community health development. From a Society to a Non-Banking Financial Institution, to a Small Finance Bank, and later to a Scheduled Bank, Shri Thomas successfully steered the Group's diversification into retail banking.

Providing a full range of services

We are one of India's leading Small Finance Banks focussed on inclusive and responsible banking. We offer a wide range of banking services including digital banking and investment solutions, catering to 46.83 lakh customers through 550 banking outlets across 21 states and two union territories.

OUR VISION

To be India's leading social bank that offers equal opportunities for the whole society through universal access and financial deepening, thus promoting financial inclusion, livelihood, and economic development as a whole.

OUR MISSION

To provide responsive banking services to the underserved and unserved households in India, facilitated by customer-centric products, high-quality service and innovative technology.

OUR BRAND PROMISE

To deliver the Joy of Banking through personalised, accessible, safe and responsive services.

Product Verticals



Microbanking



Retail Assets



Retail Liability



Agri Lending



MSME

Customer Engagement Channels



Banking Outlets



Digital Channels



Business Correspondents

Our Social Business Strategy

We follow a triple bottom line approach, with an emphasis on People, Planet and Prosperity. We aim to become one of the leading banks in the microfinance sector, predominantly serving low and middle income segments of India, offering equal opportunities to all. By fulfilling the hopes of our customers, our aim is to achieve universal financial access and inclusion, thus supporting livelihood and economic development.

Fast-growing Retail Deposit Portfolio

We have been able to leverage the strength of the ESAF brand, with a legacy spanning almost three decades, to rapidly grow our deposit portfolio. As at March 31, 2021, our retail deposits accounted for 97.74% of our total deposits.

Our Diversified and Integrated Business Model

We remain focussed on the principles of responsible banking, providing customer-centric products and services to all segments of society through the extensive application of technology.

THE POWER OF POSITIVE BANKING

During the COVID-19 crisis, banks became critical in providing financial succour to the needy in these challenging times. As bankers, we had a special responsibility to ensure continuity of financial services and to support needy people, lives and economies.

Amidst a rapidly changing world, we provide our unflinching support as sustainable economic models gain prominence in mainstream business ecosystems. We are looking beyond the pandemic and are utilizing this crisis as an opportunity to reimagine our role.

Collection and disbursement activities for microloans were stopped during April 2020, and were limited in May 2020. Starting June 2020, our Business Correspondents were able to begin operations in most of our customer service centres, and hence, microloan disbursements and collections began to improve. The branches and ATMs were exempt from the COVID-19-induced lockdown. In view of national and state-wide lockdowns, we were

allowed to operate with limited staff. Once the lockdown was lifted, we adopted a 'business as usual' approach, while exercising precautions and preventive measures.

We adopted a 'Panch Sheel' approach, pursuant to which we advised all the employees to wear facemasks regularly, wash hands frequently with soap and water, use hand sanitisers, maintain an appropriate physical distance

and keep away from crowds. We advised our operational staff to fully adhere to the instructions of the local government authorities, health department officials, and the state-level official forum of bankers in re-opening of our branches, while adhering to COVID-related protocols.

We were active on a number of fronts, and our actions for our stakeholders (customers, employees and the society at large) are summarised below.

Stepping up in tough times

BUSINESS CONTINUITY

The unprecedented challenge posed to the world by COVID-19 brought into sharp focus the need for protecting lives and livelihood across the globe. The comprehensive Business Continuity Plan adopted and implemented by the Bank facilitated operations. As a responsible and proactive institution, the Bank has fully complied the regulations of the Government in fighting the pandemic.

The Bank adopted a proactive approach in managing the situation that arose on account of the outbreak of the pandemic. Crisis Management Committee Meetings were convened to take stock of the situation. Our Business Continuity Management team monitored the implementation and effectiveness of the Business Continuity Plan by contacting business units, employees and Business

Correspondents on a regular basis. Business continuity arrangements of the core banking solutions provider, Business Correspondents and vendors were continuously evaluated and tracked.

A quick response team was formed for coordinating the Business Continuity Plan activities, specifically dealing with the effects of the COVID-19 pandemic that helped us stay on top of the fluid situation. This included general workplace measures; identification of critical functions, roles and activities; employee absenteeism; work from home arrangements; rotation of duties; alternate plans for branch staffing; business continuity plans for critical functions such as IT and operations; travel restrictions; vendor management; infrastructure management; and internal and external communications. Staff members in critical functions were

separated into teams and deployed at different offices. We used external vendors to ensure we had an adequate supply of computers and accessories as well as maintenance support for varied locations. As a result of the above, none of our critical functions suffered any major disruption during this period.

Throughout all the lockdowns, our branches were functioning, except those in the containment zones. The later stage of the year saw an increase in customer turnout. Collections in most states were also at desired levels as we closed the year. Departments in the Head Office were also functioning optimally. Critical functions such as Information Technology, Operations, and Treasury were also managed well in order to ensure continuity of business.

Serving our stakeholders



CUSTOMERS

Our banking services continued unhindered, despite the pandemic-induced disruptions. We ensured our customers were not inconvenienced to meet banking requirements in these difficult times, while fully respecting all the directives given by the local administration, government, industry bodies and regulators, and maintaining utmost standards of safety for our staff members. We provided the necessary support and services to our customers at these times when they needed them the most.

With our guiding principles of transparency, prevention of over-indebtedness among the borrowers and fair treatment of customers, we continued our empathetic approach towards our customers during the times of crisis. We took sufficient safeguards to support our customers and help them tide over the crisis and to bring them back to normalcy. Pursuant to COVID-19 Regulatory Package, we granted full or partial moratorium on all payments that were due between March 1, 2020 and August 31, 2020 to all the eligible borrowers. We launched three new loan products to assist our customers including Income Generation Top-Up Loans and Pre-approved Loans. We also launched a special COVID Care Loan as the third series of our Uddhan Loan, which is a unique product designed to support our customers during difficult times.

Customer service teams were strengthened and equipped to operate remotely. This helped serve the retail and MFI customers effectively and efficiently and guarantee continuity of service. With this, we also helped our customers do digital and contact-free banking, and facilitated them to carry out banking transactions outside the branch. To serve the new customers, we launched a specially designed onboarding process. Our Relationship Managers helped our customers with preferential products. We also offered digital solutions and continually encouraged them to use these as a priority. We maintained constant engagement with our new customers and onboarded them using digital KYC and Robotic Process Automation.

Doorstep delivery of our services for collection of documents makes us stand apart in the marketplace. Further, our employees facilitate the customers in understanding our products and processes and offering efficient services. We improved our communication methods to engage effectively with our customers. Through the Bharat Bill Payment System, we enabled a multi-modal payment mechanism for customers, permitting the customers to pay inter-operably. We also served the NRI segment during these challenging times.



EMPLOYEES

Considering the tough times during the pandemic, we protected our workforce by putting in place precautionary health and hygiene measures, physical distancing at all branches. We also ensured sanitisers and masks were available at all the branches. We also circulated a list of dos and don'ts. We also staffed our branches in a structured manner, so as to keep a pool of staff available for meeting exigencies. We also formed emergency support teams at cluster levels for deploying staff to different centres. Disaster recovery systems were checked regularly and confirmed at short notices and critical times.

Periodic Advisories on the conduct of business and precautions to be taken by employees were released. Employees who deserved special consideration were allowed to work from home on all occasions. Infrastructure support and webmail access using a secured VPN with two-factor authentication were provided to employees to enable them to work from home.

We proactively engaged with our workforce through a series of learning and development programmes. Special training programmes and webinars were conducted for our women employees, with a key focus on developing them as future leaders. We also undertook several employee engagement initiatives during these

challenging times. Under the banner - SARG, a series of programmes were designed to enhance employee engagement, and reinforce the vision of 'ESAF Family'.



SOCIETY

Our deep community connects and understanding of the Indian financial landscape give us a strategic advantage in our vision to further financial inclusion. During the pandemic, in addition to supporting the stranded migrant workers in meeting their daily basic needs, we provided them with safety kits, masks, sanitisers and ration kits. Further, through financial and digital literacy, we undertook the responsibility of providing online education and teaching digital usage to the Primary and Secondary school students, as part of the 'Balajyothi' Scheme. True to our social commitment, we also remained at the forefront of activities for COVID relief. We also launched the PM SVANidhi scheme for street vendors, aiming at providing working capital collateral loans to help them resume livelihoods during the lockdown. Street vendors were given collateral-free loans of up to ₹ 10,000 for a year.

Support for COVID-19 Relief

As part of our CSR initiatives, we supported mobile 'Bandhu Clinics' to cater to the medical needs of migrant workers, especially from Eastern India, and set up dedicated helpline numbers;

Launched COVID Care Loan, a pre-approved loan with four months moratorium for restarting establishments; and

Launched a Micro Business Loan (MBL) for small traders (the Bank has been expanding these through the traders' association).

CHAIRMAN'S MESSAGE TO SHAREHOLDERS

DEAR SHAREHOLDERS,

FY 2021 was an extraordinary year by any measure. It was a year characterised by enhanced level of the global pandemic, continuation of global recession, extraordinary and unprecedented policy measures by Government and regulators. It was also a year in which each of us faced difficult personal challenges, and many of us lost loved ones. Besides, a large number of our customers were hard hit by joblessness and poverty. Watching those events unfold throughout the year, we were keenly focussed on protecting the lives and livelihood of our customers.



As I begin this annual letter to our shareholders, I am proud of what our Bank and thousands of our employees achieved, collectively and individually. As you know, we have championed the essential role of banking in a community – its potential for bringing people together, for enabling enterprises and individuals to reach for their dreams. Against the backdrop of elevated stress in the financial sector, I am proud of how we withstood the pressure of the year-long pandemic and stepped up the flow of credit to the needy.

ESAF's journey

The journey that began as a response to God's calling in a small house 29 years ago, today spans 21 states and two Union Territories of India, serving over 46.83 lakh customers. At the very outset, we thank everyone who has made this possible for ESAF. Today, besides microfinance, the Bank offers a host of modern banking services like ATMs, Debit Cards, Safe Deposit Lockers, Internet Banking, Mobile Banking, Digital Banking, RTGS, NEFT and CTS. We take pride in providing doorstep delivery to our customers.

Resilient. Sustainable. Joyful.

The year under review was another turbulent and volatile one for the economy and industry. Despite a challenging environment, we anchored ourselves to our purpose and values, and remained deeply focussed on anticipating changes in customer trends, and on our purpose of serving the unserved and the under-served and providing them access to finance. At ESAF Bank, we demonstrated our resilience and ability to consistently respond to customer needs. What also added to our resilience was our unique portfolio of products and services, our deep industry expertise, distinctive capabilities and footprint, sustainable supply chains and operational excellence. Our Bank mitigated the impact of the adverse developments during the year through a strategy of "Collaborate. Leverage. Surge." This helped us take suitable steps to restore the confidence of our customers and employees and return to normalcy. Further, the Bank focussed on balance sheet protection and tightening of risk filters to manage and preserve our core competencies, including credit quality, surplus liquidity and superior levels of capital. ESAF has

been founded on strong governance standards, aimed at building a high quality and professional institution. Further, despite the adverse circumstances, we did not shy away from lending. We not only managed to survive, but also took good care of all our stakeholders – our customers, employees, shareholders, and our banking partners. We catered to the worst-affected segment during COVID times – the under-privileged and the unserved. We assured our employees that there will be no lay-offs arising due to COVID-19. Emphasis was also placed on ensuring the mental health of our people amid work-from-home arrangements. While the immediate priority during these difficult times has been to save lives, our unprecedented actions recognise that the protection of jobs and livelihoods is no less important. Despite the crisis and the tough situation that ensued, we maintained our stance of protecting, preserving and nurturing our workforce. Thus, at a time when most other companies and organisations were downsizing, we recorded the highest recruitment in a year. We recruited more than we ever did in the past four years of our operations.

Further, at a time when the Indian economy was facing sluggish times, we awarded an average pay-hike of 10% to all our 3,800-strong employee workforce. We also announced 952 promotions during a stressful year. In spite of provisioning at a level more than the RBI stipulation, we still managed to report a net profit of ₹ 105.39 crore underpinning the fact that our key focus was on value creation.

Entrenching our priorities

As we move ahead, we remain focussed on entrenching our priorities that will help us stay ahead and achieve our objective of maximising our long-term intrinsic value. We are creating strategic assets that will help us build our future value. We are also constantly building our operational excellence as a core competency, besides working on our ability to execute our strategies and deliver consistent performance. We continue to enhance our digital capabilities to adapt during the pandemic times. To achieve this, we are systematically collecting relevant data and creating connected experiences to provide personalised relationships through all channels. However, we do understand that the human element matters a lot in our business. Hence, our doorstep delivery and customer reach indicate that empathy and understanding is embedded into all the transactions with our customers, as we continue to nurture their hopes.

Focussed on Sustainability

Amidst a crisis, everyone has a role to play. As responsible members of the community, there are no two ways about it. At ESAF Bank, we have been making a long-lasting impact through our last-mile banking connectivity. We have been combining this positive impact with our economic performance. Through our Triple P approach – People, Planet and Prosperity – we are measuring and tracking set targets; and also creating awareness on climate change risks and importance of sustainable banking. We remain

OUR BANK MITIGATED THE IMPACT OF THE ADVERSE DEVELOPMENTS DURING THE YEAR THROUGH A STRATEGY OF “COLLABORATE. LEVERAGE. SURGE.” THIS HELPED US TAKE SUITABLE STEPS TO RESTORE CONFIDENCE OF OUR CUSTOMERS AND EMPLOYEES AND RETURN TO NORMALCY.

focussed on the guiding principles of transparency, prevention of over-indebtedness among borrowers and fair treatment of customers.

Acknowledgement

Our customers and shareholders reposed their unstinted faith in us. But if it was not for the tireless efforts of our committed and motivated staff members under the dedicated leadership of Shri K. Paul Thomas, our MD and CEO, and our senior management team, these accomplishments would not have been possible. The Bank has been receiving excellent support and valuable guidance from the Board, the Reserve Bank of India, the Securities and Exchange Board of India, Government of India, Government of Kerala and all other State Governments where the Bank operates and other Government and regulatory authorities, and would like to express my gratitude to all of them.

Conclusion

As I sign off, I would like to recount with considerable pride and delight that the Bank has achieved many milestones in its journey starting from 2017. But this is not the time to rest on our laurels as we are poised for a new chapter in our objective to achieve sustainable growth with social commitment. Your continued support will help the Bank scale greater heights in future. I would like to express gratitude to all our stakeholders, for supporting the Bank and for being a part of the team to mentor

and nurture this young and vibrant banking institution. Let us continue this journey together and spread the “Joy of Banking”. We are also thankful to the Bank’s foundational values that continue to guide us and are embedded deeply into our culture. The single-most important asset of any institution is its workforce – and more so in the case of a service institution like a Bank. Your Bank gladly acknowledges this fact and appreciates the diligence, devotion, loyalty and the courage shown by our employees in this combined fight against COVID-19. As an institution, we made a CSR commitment of ₹7.16 crore towards relief and support measures to fight the pandemic in India, and remain committed to deploy additional support and for long-term rehabilitation in the aftermath of the pandemic. I take this opportunity to thank our loyal customer base, our promoters, investors, and all other shareholders who provided their unflinching support to the Bank during its enriching journey once again. I assure you that as we grow, we will continue to live our purpose and will also live by the original values that we have founded the Bank upon. I would like to thank all the stakeholders and look forward to your continued patronage, guidance and support.

With Regards,

**Ravimohan Periyakavil
Ramakrishnan**

Chairman

MESSAGE FROM THE MANAGING DIRECTOR & CEO



DEAR SHAREHOLDERS,

We trust you and your families are safe and doing well. I am writing to you at a time when the world, as we knew it, has changed. The global pandemic and its disruptive changes have led to a paradigm shift in the way we live, work, connect, engage and collaborate with everyone, including our customers.

Battling COVID challenges

At ESAF Bank, we moved swiftly to tackle and respond to this situation and took several initiatives to secure the interests of our internal and external stakeholders. We employed a strategy to address and engage all our stakeholders. We worked to ensure our commitment and support to our customers and borrowers, and helped them as much as we could to ensure the sustainability of the entire ecosystem.

The crisis affected our collection efficiency due to the non-availability of cash flow and logistical issues faced vis-à-vis physical collection. However, digital collections remained active as customers continued to pay their loans digitally. By the fourth quarter of FY2021, collections improved significantly, even as the outbreak of the second wave of COVID-19 impacted India yet again.

The Bank's experience in dealing with calamities, including the 2018 Kerala floods, helped us create effective business contingency plans and fortify our preparations to face the economic onslaught brought about by the

pandemic. As a pertinent example, despite the ongoing second wave, we expect credit offtake to increase in the SME segment. This is driven by the vaccination drive across India picking up pace and with the micro and MSME sector requiring funds for working capital and to restart establishments. Microfinance loans constitute over 84.78% of the Bank's gross advances, with an average ticket size of the loan at ₹ 33,000.

Financial performance

During FY2021, the Bank reported a 45% drop in its Net Profit income at ₹ 105.4 crore, from ₹ 190.4 crore in the previous fiscal year, as it made higher pandemic provisions. Despite challenges posed by the pandemic, the Bank improved its Operating Profit and total business. It recorded a 28% rise in Operating Profit during FY2021 at ₹ 415.84 crore, as against ₹ 324.70 crore in FY2020, despite challenges faced during the year. Overall business and loan book reached ₹ 17,425 crore during FY2021, up from ₹ 13,846 crore in FY2020.

The Bank had a provision coverage ratio of 52.77% in FY2021, against

79.93% in FY2020. Reduction in PAT was mostly to higher provisions made during the year. As a prudent measure, the Bank holds provision in excess of RBI requirement in the standard category to the extent of ₹ 91 crore, as on March 31, 2021. The CRAR is above the regulatory minimum prescribed.

Due to an impact on lower collection efficiency due to pandemic, our gross NPAs to gross advances ratio stood at 6.70%. On the other hand, our net NPAs to net advances ratio was at 3.88% as at March 31, 2021, giving ample evidence of our asset quality. Despite the NPAs, the Bank's asset quality and capital adequacy continued to be on a firm footing. We are operating at a stable level of liquidity, with a healthy Cost-to-Income ratio.

Operational highlights

On the operational side, as at March 31, 2021, our deposits grew 28% to ₹ 8,999 crore, from ₹ 7,028 crore in the earlier year. Gross advances increased 27.37% to ₹ 8,415 crore. We added close to 6.08 lakh active customer accounts. [With 550 branches and 320 ATMs and a complement of 3,803 employees, the Bank has been serving

TODAY, WE ARE PROUD TO BE ONE OF INDIA'S LEADING SMALL FINANCE BANKS IN TERMS OF CLIENT BASE SIZE, YIELD ON ADVANCES, NET INTEREST MARGIN, INCREASING ASSETS UNDER MANAGEMENT (AUM)

46.80 lakh customers in 21 states and two Union Territories]. We have been steadily building our asset portfolio and setting up our retail asset book through Auto, Housing, Gold, Agri and MSME loans. Adhering to its commitment to provide livelihood to the poorest of the poor, the Bank has been constantly enhancing the level of its priority sector advances, constituting 80.64% of our Adjusted Net Bank Credit.

Expanding footprint

With collection efficiency slowly moving back to normalcy, we hope to continue our expansion mode. We plan to further increase our network of branches during FY2022, after having added 96 branches in FY2021. We believe this expansion is a manifestation of our vision to be India's leading social bank that offers equal opportunity for the whole society through universal access. The Bank managed to expand its footprint even during the pandemic, with support from our robust growth and customer confidence.

Responsible banking

Liquidity, lines of credit and support from banks serve to create liquidity, and protect jobs and markets. As a socially responsible bank, to get the economic engine reviving quickly, we need to ensure that when demand returns, small businesses can quickly activate themselves. We aim to do this by giving them the wherewithal to weather the years ahead and keep supply chains intact. With these values embedded deeply into our culture, we operated our business responsibly, considering social and environmental factors along with economic gains.

Today, we are proud to be one of India's leading small finance banks in terms of client base size, yield

on advances, net interest margin, increasing Assets Under Management (AUM) CAGR, total deposit CAGR, loan portfolio concentration in rural and semi-urban areas and ratio of microloan advances to gross advances (Source: CRISIL Research Report). Our share of retail deposits in the total liability book has been growing, which facilitates our endeavour to impact the lives of millions from the bottom of the socio-economic pyramid.

Maintaining asset quality

Owing to a differentiated business model and strong execution capabilities, our asset quality and profitability are in a sound position. Focussing on the principles of responsible banking, our business model aims to provide customer-centric products and services through the extensive application of technology. Our retail and Microbanking services enable our customers to build sustainable livelihoods. We also continue to serve the NRI segment through customised and differentiated products.

On top of this, the Bank has been actively working towards increasing its fee-based income by strengthening its third-party product distribution business through life insurance and general insurance products. In addition to facilitating growth opportunities at the bottom of the socio-economic pyramid and focussing on the emerging segments, we are gaining significant traction from our investments in technology, infrastructure and processes.

Moving ahead

As far as the economy is concerned, growth will depend on how long the pandemic lasts and other related external factors. At the Bank, our

current emphasis is to further expand our customer base.

We remain committed to continuously upgrading our products and solutions, in line with the growing requirements of our customers. We have diversified into housing, auto and agri loans, and aim to scale up these verticals, going ahead. As an early adopter of technology, it has been the primary focus of the Bank to provide safe, secure and convenient banking facilities to its customers. The Bank has introduced a host of services and facilities for enhancing customer satisfaction. We are diversifying our loan portfolio by adding new asset based products as well as growing the liability base, especially the current and savings accounts segment.

Message to shareholders

We remain confident of our vision for the Bank, and we believe we are well poised to take the Bank to the next level. We constantly strengthen not just our governance and leadership, but also fortify our vision and bring in better synergies, with our committed and competent teams. As we move forth, we continue to push forward with our long-term strategic plans.

In conclusion

I would like to take this opportunity to thank the regulatory authorities for their support. We also thank the Board for its guidance; our experienced management team and their execution capabilities, and our 3,803 employees who continue to work with dedication. We are also grateful to all our BC Partners who extended micro-banking services to the field, serving our last-mile borrowers.

Thank you

Kadambelil Paul Thomas

*Managing Director &
Chief Executive Officer*

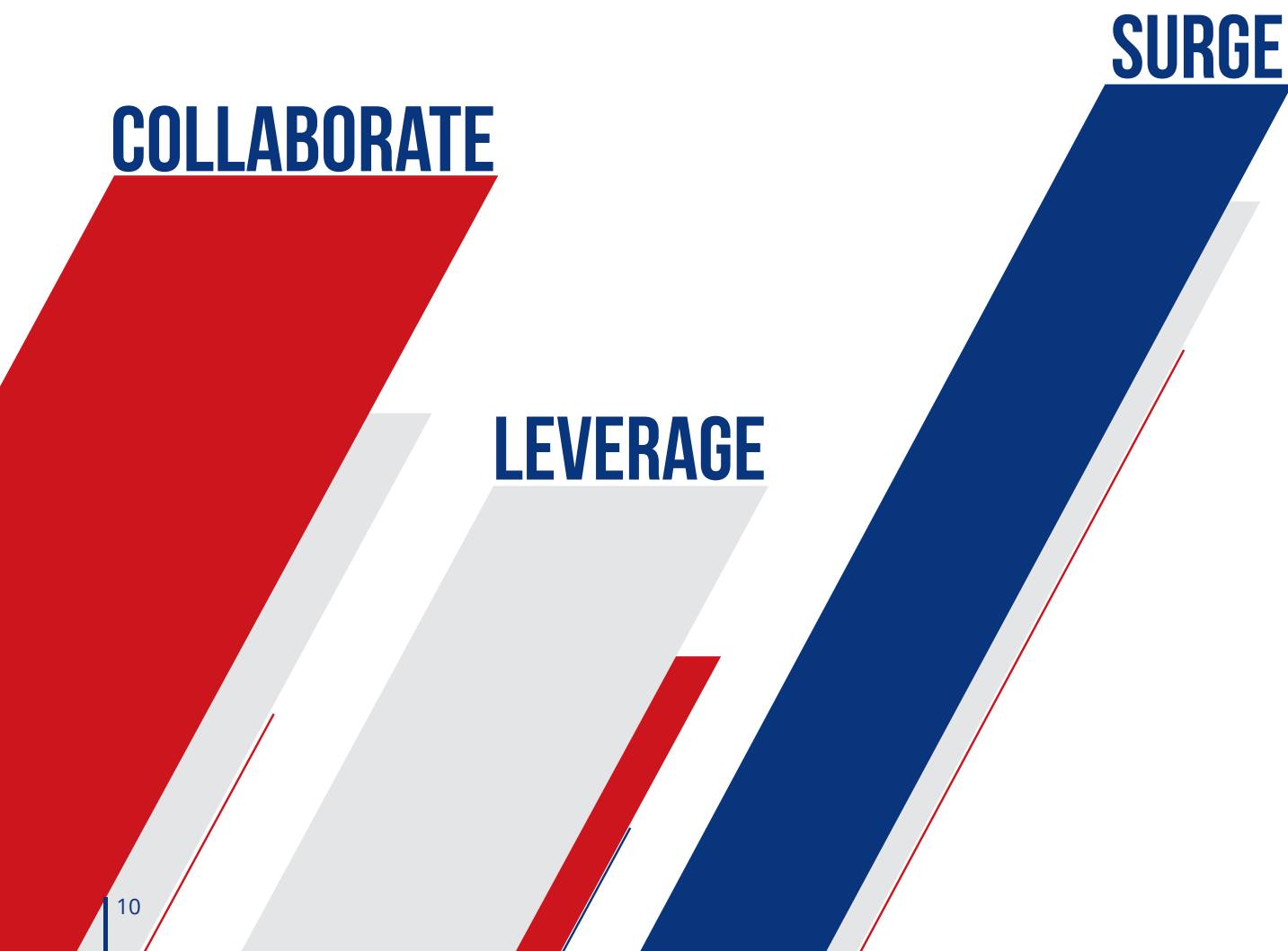
OUR FOCUSSED ENDEAVOUR

Collaborate. Leverage. Surge.

We have a responsibility to create long-term value for our stakeholders. Collaborate, Leverage, and Surge is the concept on which we diligently integrate our societal impact into our business model. At the same time, we took steps to further accelerate and drive sustainable progress in the areas in which we operate.

With a single-minded aim of optimally utilising our resources – internal and external – we collaborate, leverage and surge. With this approach, we are propelling the Bank to improve its performance, across all parameters, and align with core objectives. With this focus, we serve over 46 lakh customers, help them recover from the impact of the pandemic, meet their financial objectives, fulfil their dreams and aspirations, and assist them in building their lives and businesses on a solid foundation.

An ambitious plan based on our key pillars



COLLABORATE

LEVERAGE

SURGE

COLLABORATE

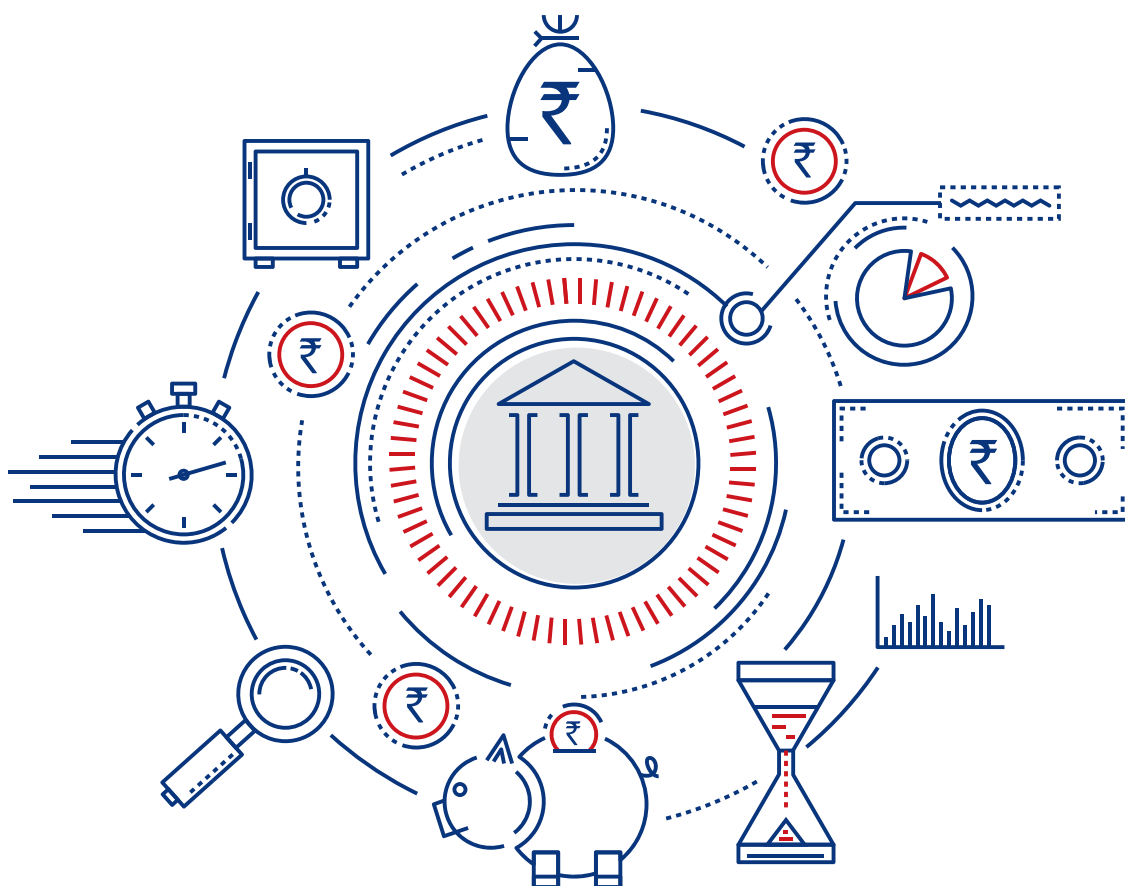
We believe in collaboration – engage, listen and act. Our aim is to collaborate internally and externally for better infrastructure, technology, products and processes, resources, promote multiple products, and reach out to more and more customers. As we collaborate internally, we enhance our team spirit and enable seamless work between different departments. As we collaborate externally, we cultivate partnerships across the financial industry to deliver our services, enhance our reach and acquire new capabilities. We are also networking externally for 3P implementation, and engaging in continual collaborations with businesses, government, and technology providers.

LEVERAGE

Our key focus is optimum utilisation of our resources. We continually leverage the power of technology, human capital, and a widespread community reach to deliver across channels: branches, Business Correspondents, and digital channels. We remain agile and nimble-footed to ensure efficiency and resiliency measures, to leverage our strengths and that of our partners, to remove the bottlenecks. We mix these with our domain expertise and industry experience, strong customer relationships, a wide portfolio of our products and services, and process efficiencies to further accelerate and drive sustainable progress in the areas we operate in.

SURGE

As we collaborate and leverage across the ecosystem, an outcome is how we surge ahead and translate these into concrete goals. Our aim is to improve market share and expanding our presence, in numbers as well as geographies. While we collaborate, leverage, and fortify the combined strengths of our delivery channels (branches, Business Correspondents, and digital), our key target continues to be to constantly improve customer reach and gain significant traction from the growing opportunity landscape.



DRIVING PROGRESS. PAVING NEW PATHWAYS.

We progress through agility – by embracing change and being responsive. Today, ESAF Small Finance Bank is a solid bank with a solid platform. With our potential to become a much better bank for all our stakeholders, we are changing constantly and strengthening our capabilities on all fronts.

We are strengthening our Bank in a fast-changing world. We are constantly guided by our purpose and promise to become a better bank for our stakeholders – our customers, employees, society and the shareholders – and scaling higher. This enables us to cope with risks and seize opportunities as they arise.

How we create value



**Maintaining
enduring
relationships with
customers**



**Expanding
geographic
footprint**



**Enlarging
product
portfolio**



**Diversifying
portfolio mix**



**Enhancing fee-
based income**

MAINTAINING ENDURING RELATIONSHIPS WITH CUSTOMERS

Our greatest strength today is the trust posed by our customers. With strong local roots and close ties to the rest of India, we serve more than 46 lakh customers, many of whom have been with us for over 2 decades. A majority of our rural customers are first to bank, ESAF Bank being their first bank account. Through our differentiated products and services, we help customers build their lives, fulfil aspirations, and meet their financial objectives on a solid financial foundation. Our retail branch banking team ensures doorstep banking for senior citizens. On the Asset side, we provide doorstep delivery to our Microbanking customers too. Our Business Correspondents visit the customers' doorstep to collect repayments. In addition, they undertake various credit plus services such as entrepreneurship training programmes, financial literacy & livelihood development programmes, and community engagement programmes.

EXTENDING GEOGRAPHIC FOOTPRINT

Kerala is our home state and we have a presence in all 14 districts in Kerala. By FY2021, our network of branches stood at 550 banking outlets, with 191 rural branches and 215 semi-urban branches, reaching out to the unbanked segments of the society. We have developed an understanding of rural and semi-urban households in the regions we operate.

We intend to increase our distribution within the states we operate in and expand our reach to new states by selectively opening additional branches, ATMs and entering into relationships with new business correspondent entities.

We are looking at states like Uttar Pradesh and North Eastern parts of India, which have good potential for expansion. During FY2021, we added 96 new branches, taking our network to 550 branches across 19 states and two union territories. This expansion underlines our mission to provide widespread, responsive banking services to the public.

EXPANDING PRODUCT PORTFOLIO

We aim to provide best-in-class banking services to our customers. Our products and services are designed to meet various needs of our customers, such as home loans, clean energy product loans, loans for agri activities, and others. Our primary focus is to provide safe, secure and convenient banking facilities to our customers. We are constantly upgrading our products and solutions. We have been diversifying our loan portfolio by adding new asset-based products and growing our liability base, especially CASA. We have added seven new variants of savings bank accounts.

DIVERSIFYING PORTFOLIO MIX

We aim to provide a comprehensive suite of banking products to meet the needs of our diverse customer base. We are working towards diversifying our mix of products offered to our customers and bringing down the share of our microloan products. We are building our asset franchise through a portfolio that comprises auto, housing and gold loans. We are adding new loan products including affordable micro housing loans, vehicle loans, agriculture and allied loans, home loans, secured loans, micro and SME loans, in line with our target customer segments. Gold loans have an 7.76% share of the Bank's total advances. Moving

ahead, we plan to focus on gold loans, MSME, and agri loans in our loan portfolio.

ENHANCING FEE-BASED INCOME

We intend to increase our fee-based income by expanding our third-party product and service offerings. Between FY2019 and FY2020, we began distributing the National Pension System, Atal Pension Yojana, third-party life and general insurance products, and Point of Sale (POS) terminals. We plan to distribute mutual funds, provide financial advisory services and other fee-based offerings. Further, we are constantly exploring cross-selling and up-selling opportunities to our MFI and general banking customers. Cross-selling also helps us in growing our liability base. We aim to further deepen our customer relationships and becoming their trusted bank of choice.

OUR PERFORMANCE SCORECARD

Financial Highlights

TOTAL ASSETS (₹ Crore)

FY2021	12,338.65
FY2020	9,469.97
FY2019	7,058.41
FY2018	4,725.54
FY2017	2,937.77

RETURN ON ASSETS (%)

FY2021	0.95
FY2020	2.24
FY2019	1.52
FY2018	0.72
FY2017	0.30

NET ADVANCES (₹ Crore)

FY2021	8,167.59
FY2020	6,547.82
FY2019	4,548.25
FY2018	3,155.09
FY2017	1,485.48

NET NPA (%)

FY2021	3.88
FY2020	0.64
FY2019	0.77
FY2018	2.69
FY2017	0.25

CAPITAL ADEQUACY (%)

FY2021	24.23
FY2020	24.03
FY2019	27.59
FY2018	16.92
FY2017	16.27

NET WORTH (₹ Crore)

FY2021	1,301.19
FY2020	1,061.22
FY2019	881.08
FY2018	325.02
FY2017	294.80

RETURN ON EQUITY (%)

FY2021	8.66
FY2020	19.31
FY2019	13.86
FY2018	9.33
FY2017	0.06

PROFIT AFTER TAX (₹ Crore)

FY2021	105.39
FY2020	190.39
FY2019	90.28
FY2018	26.99
FY2017	0.76

Key Highlights

OPERATIONAL PERFORMANCE

20.14%
Yield on Advances

23.59%
AUM Growth Rate

24.23%
CRAR

97.74%
Share of Retail
Deposits

CUSTOMER PROFILE

38.86 LAKH
MFI Customers

7.53 LAKH
Retail Customers

23.40 LAKH
Women Borrowers

OUR NETWORK

550
Bank Branches

320
ATMs

403
Customer Service Centres

OUR JOURNEY

2015



ESAF Microfinance receives in-principle approval for setting up of Small Finance Bank from the RBI

2016



ESAF Microfinance receives licence to commence banking operations from the RBI

2017



ESAF Small Finance Bank commences banking operations, becoming the first bank from Kerala since Independence

2018



Government of India picks ESAF Small Finance Bank for Atal Pension Yojana

2018



ESAF Small Finance Bank receives the RBI approval for NRI operations

2018



ESAF Small Finance Bank opens 100 new Retail Banking Outlets in a year

2018



ESAF Small Finance Bank among the finalists to receive the prestigious European Microfinance Award

2018



ESAF Small Finance Bank becomes a member of the Global Alliance for Banking on Values (GABV)

2018



ESAF Small Finance Bank wins PFRDA Award

2018



ESAF Small Finance Bank receives Scheduled Bank status

2019



ESAF Small Finance Bank opens 222 new Retail Banking Outlets in a year

2019



ESAF Small Finance Bank receives SKOCH Award of Banking Gold for access and affordable banking services for financially underserved areas.

2019



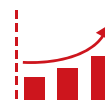
ESAF Small Finance Bank bags the first runner-up of the ASSOCHAM Award 2019

2019



ESAF Small Finance Bank bags the Economic Times Best BFSI Brand 2019 Award

2020



ESAF Small Finance Bank Business Crosses ₹ 10,000 Crore

2020



ESAF Small Finance Bank wins Energy & Environment Foundation Global Sustainability Award-2020

2020



ESAF Small Finance Bank crosses 500 Retail Banking Outlets

2021



ESAF Small Finance Bank receives Great Place to Work certification

CORPORATE INFORMATION



CHIEF FINANCIAL OFFICER
Gireesh C. P.

COMPANY SECRETARY
Ranjith Raj P.

STATUTORY AUDITORS
Deloitte Haskins & Sells

**REGISTERED &
CORPORATE OFFICE**

Building No. VII/83/8, ESAF Bhavan,
Thrissur-Palakkad National Highway
Mannuthy, Thrissur, Kerala, 680651
CIN: U65990KL2016PLC045669
RBI Registration Number: MUM 124

SECRETARIAL AUDITORS
Vasudevan M.

SAFE HARBOUR

Certain statements in this Report relating to our business operations and prospects may be forward-looking statements. These are dependent on assumptions, data or methods that may be incorrect or imprecise and hence may be incapable of being realised. Such statements are not guaranteed of future operating, financial and other results, but constitute our current expectations based on reasonable assumptions. The Bank's actual results could materially differ from those projected in any forward-looking statements due to various future events, risks and uncertainties, some of which are beyond our control. We do not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Unless stated otherwise, all numbers are as on March 31, 2021.

Average balances reported in the annual report are calculated based on the monthly average balances whereas average balances in the DRHP filed by the Bank are calculated on the basis of the average of the opening balance at the start of the relevant period and the closing balance as at quarter end for all quarters in the relevant period. Therefore, yield and cost disclosed in the annual report may vary from those disclosed in the DRHP.

LEADING RESPONSIBLY

Our Board



P.R. Ravi Mohan

Chairman & Independent Director



Kadambelil Paul Thomas

Managing Director & CEO



Asha Morley

Independent Director



Alex P. George

Independent Director



Dr. V. A. Joseph

Independent Director



Thomas Jacob Kalappila

Independent Director



Santhosh George

Independent Director



Saneesh Singh

Nominee Director



C.P. Mohan

Nominee Director

Our Leadership Team



M.G. Ajayan
Executive Vice President



George K. John
Executive Vice President



George Thomas
Executive Vice President



Haridas K V
Strategic Advisor



Bosco Joseph
Administration,
Infrastructure &
Procurement



Gireesh C.P.
Chief Financial
Officer



**Hanza Mohamed
Moideen**
Operations



Hari Velloor
Branch Banking



Mohanachandran K.R.
Chief Risk Officer



Murali N.A.
Treasury



Dr. A.V. Jose
Human Resources



**Ali Mohammad
Saquib**
Chief Technology Officer



Dinesh Kallarackal
Legal



Dominic Joseph
Chief of Internal
Vigilance



E.A. Jacob
Chief Compliance
Officer



Girish B. Nair
Strategy & Planning



K. Sunny
Collections & Recovery



Mathews Markose
Retail Assets



P.K. Antoo
Internal Audit



Padmakumar K.
Microbanking



Paul Joy Palocaren
Mortgage Loans



Sathianathan K. M.
Agri. Business



Sibbu K.A.
Microbanking
Operations



Soney Jose
MSME Finance



Swaminathan K.
Digital, Alternative
Channels & TPP



Vijay Gopal M.
Information Technology



George Paul
Internal Audit -
Treasury



P.P. Pathrose
Credit Sanctions



Reji Koshy Daniel
Sustainable Banking



Prabhakar G.S.
Management
Information System



Sreekanth C.K.
Marketing



Abiesh Jose
Customer Service
Quality



Vinod G. Thampi
Credit Monitoring



Ranjith Raj P.
Company Secretary

OFFERING VARIED PLATFORMS

We offer our customers various digital platforms, including Internet Banking portal, Mobile Banking platform, SMS alerts, bill payments, and RuPay branded ATM cum Debit Cards. All banking and payment transactions, such as remittances and utility payments, can be completed through these platforms. Customers can also register savings accounts on unified payment interface based mobile applications. We are working to enhance our technology platforms such as Internet Banking, Mobile Banking, ATMs, cash deposits machines, customer service applications and payment interfaces to increase greater adoption of service delivery mechanisms.

REDUCING TURNAROUND TIME

Account opening and loan underwriting processes have been digitalised by using tablets, which reduce turnaround time and offer better service to our customers. Individual CASA accounts can be opened through tablets, helping us provide doorstep services to our customers. By leveraging our technology solutions, we provide customers with pre-generated kits immediately upon account opening, enabling them to use the ATM-cum-Debit Card without having to wait for ATM-cum-Debit Card to be activated across channels.

DIGITALISED CENTRAL PROCESSING

We have a digitalised central credit-processing unit for our microfinance loans. We leverage technology for

underwriting and credit sanctioning for our loan products based on inputs from credit bureaus and/or customer data analytics. Our technology solutions enable us to ensure cashless disbursement of loans. Our collection mechanisms have also been digitalised through the use of mobile applications, helping us improve customer service and deliver services more cost-effectively.

LEVERAGING ARTIFICIAL INTELLIGENCE/MACHINE LEARNING (AI/ML)

As we enhance our digital capabilities to adapt during the crisis, we are grabbing the opportunity to systematically collect relevant data and create connected experiences. We perform reliable data analytics, resulting in more efficient risk management processes, targeted customer profiling and offer customised products to suit diverse requirements. We are evaluating the possibilities of leveraging AI and ML to help save precious man-hours. The availability of multiple data sources helps cross-functional departments create a strong storyline.

We have opted for Oracle's Autonomous Data Warehouse and Analytics Cloud Service.

While some of our solutions are already cloud-hosted, cloud will form a key part of our future strategic IT decisions. Cloud has immense potential to increase operational efficiencies and aid business growth. We are making large-scale use of analytics backed by data visualisation and AI/ML to

draw inferences and make quick decisions. With this, we can create a segmented view of the database to glean insights from users within and outside the Bank.

From an insight to decision cycle time perspective, our team has been helping our stakeholders access core business analytics on T+1 basis. Further, we are in the process of integrating more industry data in order to derive a more realistic impact of market level customer behaviour, and accordingly, look to fine-tune business targets and underlying products and services.

NURTURING TOMORROW'S LEADERS

We strive to ensure that ESAF Small Finance Bank remains an attractive workplace for our employees. We aim to provide them challenging and meaningful work atmosphere and foster a culture that empowers everyone to learn and grow. We strive to create a collaborative culture – one that empowers our customers to succeed.

The manifestation of our vision, mission, and values is through our human resources. Our employees help us in the professionalisation and rationalisation of our products

and services and in addressing market challenges. Our engaged and dedicated workforce have the capabilities and talent fit to accelerate our transition towards

becoming an even better bank. Our employees go the extra mile in promising “Joy of Banking” to our customers and empathising with them.

3,803

Number of employees

31.73 YEARS

Mean employee age

30.02%

Percentage of women employees

MAINTAINING A STRONG HR CULTURE

Employees are always the pillars behind the success of our organisation. Our sustainable workplace and collaborative culture make our employees feel engaged and free to speak up. We also set clear expectations for our leaders to act as role models who promote our core values, drive customer-centricity and inspire others to succeed. We continue to upgrade the knowledge and skills of our employees. We work on inculcating the ESAF culture and values in all our employees. ‘Sahayog’ is our unique training programme involving all Business Correspondents and Bank staff.

EQUAL OPPORTUNITY ORGANISATION

We are an equal opportunity organisation practising participatory decision-making at all levels. Through this, we keep our employees motivated and inspired to face future challenges. Our unique Employee Volunteerism Programme provides an opportunity to inspire in CSR activities. This not only connects them with society's needs, but also helps them actualise their urge for social action and become socially-contributing citizens.

The Bank has earned the ‘Great Place to Work’ certification by the Great Place to Work Institute from

March 2021 to February 2022. The certification marks the calibration of our human capital par excellence. This recognition acknowledges the Bank's commitment and credibility amongst its employees. It is the result of an evaluation conducted by the third-party global authority on recognising high-trust and performance culture at workplaces.

At ESAF Small Finance Bank, the leadership's connect with the staff members has been our hallmark. The weekly addresses on Monday morning by the MD & CEO has been a source of motivation, strength, and a live example of transparent governance practices.

PREPARING FOR THE NEW NORMAL

We are also upskilling our employees for the “New Normal Emotional Skills”, aiming at internal and relational well-being. The eligible employees were allowed to work from home on full pay, with close monitoring of work done by providing VPNs wherever necessary. Various initiatives such as virtual connect sessions including online counselling for enhancing mental health, online consultation of doctors were arranged for our employees. Besides this, physical, psychological and emotional sessions were also taken. Yoga sessions were conducted online, which included a mindfulness meditation tool with modules guided by a yoga instructor.

A Wellness Desk was arranged with trained psychologists. Further, employees were also given concessional interest rates for vehicle and housing loans, and an overdraft limit of 10 times the gross salary was provided to help them meet their financial commitments. In addition, despite a tough market environment, employee benefits like bonus, ex-gratia, performance pay, annual increment and wage revision were implemented for all eligible employees.

LEARNING & DEVELOPMENT

We nurture a culture of continuous learning and continuous feedback to build our employees’ competencies and refresh their skills. The Bank accords utmost importance to the enhancement of skills and capabilities of its staff members and has been constantly identifying skill

gaps in the personnel and providing support for qualitative improvement. We have a consistently increasing intellectual capital and possess all the expertise on banking products and services.

Our employees are constantly upgrading their skills. This is in consonance with our objective of ensuring they meet our customers’ rising expectations and discharge their services professionally. We provide higher exposure to all our customers in the functional, behavioural and technical aspects of providing banking services. Apart from in-house training, deputation of staff members to reputed external training institutes is carried out to give them higher exposure in functional, behavioural and technical aspects.

EMPLOYEE ENGAGEMENT

Considering the pandemic, we launched about 25 programmes as part of ‘SARG’ to increase employee engagement and well-being and to bring out our employees’ talents. We started a Facebook page on SARG and a YouTube channel to view, enjoy, subscribe and share information regarding various activities promoting employee engagement.

FORTIFYING OUR HUMAN CAPITAL

We are increasing our human capital and growing our talent pool, our key driving force. This is a pre-requisite to our growth and competitiveness, and to add value to our business in a changing market environment. During the year, we added 1,000 employees, taking our total workforce to 3,803 employees.

TALENT MANAGEMENT

A scientific exercise on manpower assessment was carried out to assess department-wise requirements. A new Artificial Intelligence (AI)-based 100% automated software was introduced and used for recruitment during the year. Being in the fourth year, a new strategy for recruitment, retention, training and development was formulated and implemented.

PERFORMANCE MANAGEMENT

The Bank has put a Performance Management System in place to assess the performance of employees objectively and reward them appropriately. A system similar to the Bell Curve was implemented during the year and the employees were categorised based on scoring and assessments, which was clearly aligned to the organization’s three pillars of People, Planet and Prosperity.

DEVELOPING CAPABILITIES AND POTENTIAL

Conducted 394 Internal Trainings with 70,907 Man Hours

25% of Employees given promotion (during FY2021)

350 Employees attended External Trainings

Certified as Great Place to Work

Launched eShiksha, a new upgraded Learning Management System, with 20 new courses added



GREAT PLACE TO WORK

One of our significant achievements this year has been the certification for Great Place to Work for building a high-trust, high-performance culture. We are an employer of choice and provide our employees a conducive environment for personal and career growth.

Every year, more than 10,000 organisations from over 60 countries partner with Great Place to Work Institute for assessment, benchmarking, and planning actions to strengthen their workplace culture. The Great Place to Work® Institute's methodology is recognised as a rigorous exercise and is considered as the gold standard for defining great workplaces across business, academia, and government organisations.



AT THE FOREFRONT OF SUSTAINABLE BANKING

A Social Bank. A Conscious Bank.

Our fundamental philosophy is to maintain a focus that extends beyond pure financial results and look at the broader societal impact we create. We continue to work as a Responsible and Sustainable Bank, in alignment with the triple bottom line approach.

Environmental, Social, Governance

Being aware of the need for a thriving regenerative and sustainable economy, the Bank has been on a journey with a sharp triple bottom line focus - People, Planet & Prosperity in and through all its

operations. We believe that the social, environmental, and economic outcomes of our business create synergies that have an amplified impact on our stakeholders.

We have adopted various policies to implement our triple bottom line approach, including an Environmental, Social and Governance ("ESG") policy.

Pursuant to the ESG policy, we are committed to:

(i) monitoring and minimising any adverse impact of our operations on the environment,

(ii) offering products and services to improve the lives of marginalised individuals in India,

(iii) establishing a governance framework to ensure accountability, transparency and compliance with internal and external ESG standards, and

(iv) promoting all stakeholders' ability to implement our ESG standards effectively

Through the ESG policy, the Bank will express its commitment on the following:



Environmental

for a carbon neutral world with best practices of environment stewardship



Social

Fighting the partiality of prosperity, for a equitable society



Governance

being and multiplying servant leadership in governance structures that would synergise People, Planet and Prosperity



Branches are evaluated and appreciated for their commitment to environment protection through their compliance to the green protocols and the environment impact through the branch's sale of products and services that enhances the environment stewardship. Branches thereby qualify to be at GREEN Branch - Gold / Green Branch - Silver levels.

AT THE FOREFRONT OF SUSTAINABLE BANKING

A Social Bank. A Conscious Bank.

Sustainable Banking

OUR SUSTAINABILITY OVERVIEW

We follow sustainable banking principles, supporting the transition of the society to a more sustainable economic model – adopting ethical, ecological, and social requirements to create long-term value. Through this approach, we are increasing our contribution to a social and solidarity-based economy. We are delivering the joy of banking to all by maintaining our focus on empowering the poor and marginalised. We are a scheduled commercial bank redefining the banking experience to our stakeholders. Our primary focus is on expanding the banking horizon to new unbanked areas.

OUR SUSTAINABLE BANKING APPROACH



Sustainable Livelihood Development

To provide financial services and facilitate livelihood development among our beneficiaries, bringing economic sustainability.



Environmental Stewardship Promotion

To develop a green portfolio and identity for the Bank, thereby lowering the overall environmental risk.



Corporate Social Responsibility

To create value by meaningfully utilising profits generated through socially responsible initiatives, addressing social, environmental and economic needs of the poor and other marginalised groups.

COMMITTED TO TRIPLE BOTTOM LINE

ESAF Small Finance Bank follows a social business strategy with a Triple Bottom Line approach, emphasising People, Planet and Prosperity. As we help our customers grow, we also follow a single-minded approach to achieve social, environmental and economic objectives. Solutions to critical social problems are

integrated into the Bank's strategies. We realise that growth opportunities are vast because of the inequitable distribution of financial services in India. A key priority and shared ambition at the Bank have been to drive our financial inclusion agenda for low-income individuals and MSME customers and by fully supporting their aspirations.

BEING A PART OF GABV

We are a member of Global Alliance for Banking on Values (GABV). This assists us in strengthening our commitment towards financial, social and environmental inclusion through the learnings from a global player. Today, we are a leading value-based banking institution that supports the local economy by bringing positive socio-economic

changes in the lives of economically backward communities. It is also helping us build new business models that are community-owned and sustainable, where ESAF's investment yields long-term benefits for the communities served. With the help of GABV, we communicate to our stakeholders the social impact of GABV's existing business activities and the rationale for scaling up.

IMPROVING OUR SOCIAL FOOTPRINT

We are committed to ensuring that everyone in the ecosystem benefits. We remain of the strong belief that we can prosper only if others around us prosper. We understand, implement and integrate this belief across our operations and remain conscious of the impact of our actions on our ecosystem. By caring for all – our employees, customers, dealers, partners and the environment – we create a ripple effect on the country by contributing towards the creation of more jobs, enhancing incomes, and facilitating wealth creation for our customers.

PROVIDING RESPONSIVE BANKING

The Bank's mission is to provide responsive and nearly full-fledged banking services to the customers through differentiated but customer-centric products, high-quality services and innovative technology, thereby facilitating wealth/asset creation and bringing a smile on the faces of those at the bottom of the socio-economic pyramid. Our single-minded approach is to achieve

social, environmental and economic objectives. We provide responsive and nearly full-fledged banking services to our customers through:



Differentiated, but customer-centric products



High quality services



Innovative technology

A SUSTAINABLE DEVELOPMENT AGENDA

Launched interventions like livelihood generation, financial inclusion, rural infrastructure, rural healthcare, rural education etc. Other initiatives like the construction of toilets and facilitating activation of water connections in rural areas supported the Swachh Bharat movement.

TOWARDS SOCIAL INCLUSION

The Bank is bringing to fruition some revolutionary changes in the socio-economic environment in the most backward regions. The changes have been initiated mainly through interventions that included livelihood generation, financial inclusion, rural infrastructure, rural healthcare, and rural education. We have taken initiatives like the construction of toilets and facilitating activation of water connections in rural areas supported by the Swachh Bharat movement promoted by the Government. We are bringing MFI customers into mainstream activities through skill development and training. For example, through our initiatives in Dumka district, we are building presence by training people and providing skills.

SERVING THE UNDER-SERVED

Almost 96% of customers belong to the microfinance segment, with an average ticket size of ₹ 33,000. At ESAF Small Finance Bank, we cater to the financial requirements of low-income families through our wide array of loan products which have been specifically developed to serve their needs, considering their affordability. Income Generation Loan, Agri Loan, General Loan for emergency purpose, Clean Energy Loan (Green Portfolio), Education loan and Water and Sanitation loans are some of the loans we provide to support different sections at the bottom of the socio-economic pyramid.

UNDERTAKING RESPONSIBLE ACTIONS. CONTRIBUTING TO A MORE INCLUSIVE INDIA

At ESAF Bank, we recognise and embrace our commitment towards communities across India. We strive towards creating an equitable society. Our products and services are geared for social transformation, especially at the society's lower strata, and building an active social capital.

We aim to build a sustainable society through a variety of projects. These include building infrastructure for rural schools, skills training, entrepreneurship training, Balajyothi Clubs for holistic development of children, projects for migrant labourers, agricultural initiatives and training for sustainable agriculture in different segments.

We believe that social responsibilities should arise out of needs, beyond

regulatory obligations. The Bank has allocated 5% of its profits towards CSR activities with that philosophy in mind. Our development mandates are implemented on the ground through our BC Partners and CSR implementation partners.

Our total CSR outlay for FY2021 amounted to ₹ 7.15 crore. During the year, our employees also contributed towards the Chief Minister's and Prime Minister's

COVID-19 Relief Fund, supporting the government to build back better.

We undertook initiatives in the areas of preventive healthcare, education, sanitation, livelihoods and environment. Through these, we demonstrated the manner in which our community stakeholders contributed towards achieving our goals. We also encouraged non-profit humanitarian work to bring about a positive change in society.

Our CSR Projects

ESAF BALAJYOTHI

Location: Kerala, Tamil Nadu, Assam, Jharkhand and Maharashtra

UN Sustainable Development Goals (SDGs) impacted:



Key Objectives:

- ▶ To transform every neighbourhood with happy, healthy and academically bright children, socially responsible youth and informed parents
- ▶ To develop academic and non-academic skills of children
- ▶ To equip and prepare children to be active members in the development and progress of the society
- ▶ To provide opportunities for developing creative skills and talents of the children

Key Achievements:

- ▶ 1,789 children from economically poor backgrounds reached through 72 Balajyothi clubs
- ▶ 675 children given academic support through study centres
- ▶ 1,260 children trained in financial literacy and to cultivate the habit of saving regularly
- ▶ 400 children provided training in communicative English
- ▶ Established playgrounds in two Panchayats
- ▶ Conducted COVID-19 protection sessions for 300 children of tea plantation workers in Assam

ESAF SWANTHANA

Location: Kerala

SDGs impacted:



Key Objectives:

- ▶ To increase access to preventive health information related to mental health
- ▶ To provide preventive and rehabilitative psychosocial services to women, children and families through systematic counselling
- ▶ To train and equip lay individuals with skills to identify mental health problems, provide basic counselling interventions and make suitable referrals

Key Achievements:

- ▶ 230 individuals reached through remote counselling
- ▶ 50 Manomitra (Women Mental Health Care Workers) trained
- ▶ 1,500 families reached through community mental health outreach services
- ▶ Conducted awareness sessions for 185 members on mental health and COVID-19
- ▶ Tele-counselling provided to 242 people through Swanthana Help Line

ESAF GARSHOM

Location: Kerala

SDGs impacted:



Key Objectives:

- ▶ To build awareness among migrant labourers on health and hygiene
- ▶ To provide quality and affordable healthcare services to migrant workers

Key Achievements:

- ▶ Provided access to medical facilities for 11,818 migrant labourers and their families
- ▶ Conducted awareness sessions on health, hygiene and COVID-19
- ▶ Provided sanitisers and masks to 128 migrant labourers
- ▶ Trained 130 migrant labourers on financial literacy
- ▶ Distributed 414 food kits, with support from Thrissur's labour department

UNDERTAKING RESPONSIBLE ACTIONS. CONTRIBUTING TO A MORE INCLUSIVE INDIA

SKILL DEVELOPMENT TRAINING FOR MICRO ENTREPRENEURS

Location: Kerala, Tamil Nadu, Karnataka, Jharkhand, Assam, Chhattisgarh, Madhya Pradesh and Maharashtra

SDGs impacted:



Key Objectives:

- ▶ To enhance the skills of women micro entrepreneurs
- ▶ To pilot women-managed micro-system in three states
- ▶ To improve the livelihoods of women micro entrepreneurs

Key Achievements:

- ▶ Benefited 6,500 micro women entrepreneurs through improved skill training
- ▶ Trained 500 beneficiaries on water hyacinth processing for eco-friendly manufacturing
- ▶ Set up Weaving Centre in Assam

DISASTER PREPAREDNESS AND SUPPORT PROGRAMME (INCLUDING COVID RELIEF)

Location: Kerala, Tamil Nadu, Karnataka, Jharkhand, Assam, Chhattisgarh, Madhya Pradesh, Maharashtra, Bihar and Odisha

SDGs impacted:



Key Objectives:

- ▶ To provide immediate relief support to disaster-affected communities
- ▶ To demonstrate pandemic preventive measures in schools and primary health centres.
- ▶ To support medical institutions with personal protection equipment and disaster preventive measures

Key Achievements:

- ▶ Reached 19,060 people affected by COVID, frontline workers, farmers and children through the CSR Disaster Preparedness and Support Programme
- ▶ Provided grocery kits, PPE kits, school bags, mosquito nets, thigh wader suits, first aid boxes, mobile phones and tabs
- ▶ Supplied 10 motorised beds, three ventilators, one portable x-ray and 15 oxygen concentrators for eight hospitals for emergency medical services
- ▶ Established a Frontline COVID Care Centre at ESAF Hospital, Kozhijamapara
- ▶ Supported ESAF Hospital and Research Centre for setting up a COVID Care Ward
- ▶ Supported panchayats of Chalakkudy constituency by providing 8 fogging machines
- ▶ Gothra Suraksha Vaccination Campaign held for tribal communities in Wayanad and Kozhikode, covering 34,000 tribal populace
- ▶ Vaccination camps conducted in partnership with Government Health Department in Kerala reaching 9,278 people
- ▶ Purchase of one motorboat for relief activities for communities in Majuli
- ▶ Awareness programs organised for 1,500 people in Majuli on disaster resilience and management and on COVID protection

RURAL COMMUNITY SCHOOLS PROJECT

Location: Jharkhand

SDGs impacted:



Key Objectives:

- ▶ To impart digital and self-learning among tribal children lacking access to educated teachers
- ▶ To create better learning environment for children through student-friendly infrastructure with basic facilities such as electricity and furniture, and also ensuring the safety of the community school
- ▶ To build capacity of community volunteers in digital-based teaching and students in different sports
- ▶ To enhance digital literacy, financial literacy and COVID
- ▶ To provide health and education awareness to 3,000 children and families

Key Achievements:

- ▶ Provided regular quality education support to 1,500 village children
- ▶ Enhanced infrastructure facilities of 5 community schools
- ▶ High school infrastructure facility developed in remote location in Jharkhand

ESAF URJABANDHU

Location: Kerala, Tamil Nadu, Karnataka, Jharkhand, Chhattisgarh, Madhya Pradesh and Maharashtra

SDGs impacted:



Key Objectives:

- ▶ To train Urja Bandhus (energy entrepreneurs) in three states to cater to energy-related services
- ▶ To develop Urja Mithras to create awareness on clean energy among children, students and communities

Key Achievements:

- ▶ 58 participants successfully completed training and certified as ESAF Urja Bandhus
- ▶ 13 Urja Bandhus started working in clean energy sector and completed MSME registration
- ▶ 63kV installation completed in different solar projects

UNDERTAKING RESPONSIBLE ACTIONS. CONTRIBUTING TO A MORE INCLUSIVE INDIA

ESAF AROGYAMITHRA

Location: Assam and Jharkhand

SDGs impacted:



Key Objectives: Assam

- ▶ To improve the primary & preventive healthcare needs related to hygiene, nutrition, communicable / non-communicable diseases, mental health, and maternal health
- ▶ To improve the promotion of basic health monitoring, early detection of diseases, health care of the elderly
- ▶ Improving the financial status of entrepreneurs

Key Objectives: Jharkhand

- ▶ To provide health awareness, health advice, basic health and nutritional supplement promotion to rural and marginalised communities through Arogyamithras

Key Achievements:

- ▶ Trained eight Arogyamithras and distributed starter kits in Assam
- ▶ Conducted awareness sessions for 3,000 people on different topics in 10 villages of Assam
- ▶ Benefited 500 people through health check-up activities
- ▶ Conducted awareness programmes on COVID-19 protection for 900 people in Dumka

ESAF PASHUMITHRA

Location: Tamil Nadu, Karnataka, Madhya Pradesh and Maharashtra

SDGs impacted:



Key Objectives:

- ▶ To enhance breed capability of non-descriptive cows by artificial insemination with HF and Jersey and other local semens
- ▶ To train and establish a cadre of 'Pashumithra' locally to provide basic veterinary services
- ▶ To improve local level veterinary services through trained Pashumithras
- ▶ To provide employment opportunities to the unemployed youth

Key Achievements:

- ▶ Professionally trained 30 unemployed youth as Pashumithras to provide basic veterinary services
- ▶ Established 10 Artificial Insemination Centres in Farmers' Collectives to cater to cattle population
- ▶ Pashumithras report income increase of up to 20-40% by providing dairy support and allied services such as financial linkages, insurance support and cattle feed

ESAF KRUSHAKMITHRA

Location: Tamil Nadu and Karnataka

SDGs impacted:



Key Objectives:

To train and establish a cadre of 'Krushakmithras' to provide agriculture-related services locally.

Key Achievements:

- ▶ 39 Krushakmithras identified and trained for agri-related technology discrimination and for promotion and popularisation of value-added products of Farmer Collectives
- ▶ 50% Krushakmithras qualify for loan to set up Agri Input Shop
- ▶ 50% Krushakmithras report income of ₹ 10,000 per month through sale of saplings, bio products
- ▶ 25 Krushakmithras provided with professional trainings on extension activity and other subject matters

MARKET LINKAGES AND CAPACITY BUILDING FOR FARMER COLLECTIVES

Location: Tamil Nadu, Karnataka, Maharashtra and Madhya Pradesh

SDGs impacted:



Key Objectives:

- ▶ To build capacity of Farmer Collectives (FC) stakeholders on leadership development at grassroots level and train them on governance and management to make them more sustainable

- ▶ To train FC stakeholders on productivity enhancement of lead crops through effective agronomical practices and introduction of bio-inoculants to improve soil fertility
- ▶ To build capacity of CEOs, BODs and lead farmers of FC on post-harvest – processing technologies of lead crops such as vegetables, fruits, results in reduction of wastage of vegetables, fruits and increasing their shelf life and better price realisation
- ▶ To provide compliance services to proposed FCs and help them in timely filing of ROC compliances and complying with audit filing

Key Achievements:

- ▶ Conducted 15 webinars for each 20 Farmers per FC, per month for 12 months; 1,200 farmers attended the Webinars
- ▶ Provided compliance training to Farmer Collectives on Compliances and ROC filing procedures
- ▶ Organised capacity building training for lead farmers and office bearers of 5 FPOs/FCs

UNDERTAKING RESPONSIBLE ACTIONS. CONTRIBUTING TO A MORE INCLUSIVE INDIA

DAIRY-BASED LIVELIHOOD DEVELOPMENT PROGRAMMES

Location: Tamil Nadu and Karnataka

SDGs impacted:



Key Objectives:

- ▶ To train FC stakeholders on dairy farming, preparation of different fodder and cattle feed ratio preparation methods, behaviour management of dairy cattle management, in turn increasing milk yield and cattle management practices
- ▶ To provide capacity building training for member of FCs on dairy farm services to give accesses to finance, insurance and cattle management service

Key Achievements:

- ▶ 60 families of six FC trained Dairy-based Cattle Management Feed requirement of dairy cattle -ratios, preparation of Silage, Hay making, fodder management and Entrepreneurs behavioural Management of Dairy farmers and financial management of milk business
- ▶ 120 farmers supplied with demo fodder
- ▶ Established demo units to introduce improved fodder varieties to increase milk yield through which income increases
- ▶ Established two Animal feed supplement shop

SUPPORT FOR SETTING UP COLLECTION CENTRES AND MARKETING INFRASTRUCTURE

Location: Tamil Nadu, Karnataka, Maharashtra and Madhya Pradesh

SDGs impacted:



- ▶ To train FC stakeholders and provide needed infrastructure to enhance value chains of farm produces by value addition by better grading, sorting and packing practice
- ▶ To enhance Farm Equipment Services of FCs by establishing Custom Hiring Centres to provide accesses of modern equipment by small and marginal member farmers
- ▶ To provide online platform facility to FCs to exploit e-Commerce to market FC commodities to doorsteps of consumers and to develop branding, package designing solutions to FCs to market processed agri-commodities to local and outside markets

Key Achievements:

- ▶ Set up Seven milk collection centres in three FCs in Tamil Nadu
- ▶ Set up Solar crop dryer for drying the fruits, flower and vegetables
- ▶ Established one shade net nursery at VH FC
- ▶ Established cold boxes to market Horticulture crops and keep them safe
- ▶ Established three procurement centres
- ▶ Distributed ration kits for 250 farmer families during lockdown

Key Objectives:

- ▶ To provide infrastructure facilities to FCs to improve value of harvested produce

SUPPORTING POULTRY-BASED LIVELIHOOD PROGRAMMES

Location: Tamil Nadu, Karnataka, Maharashtra and Madhya Pradesh

SDGs impacted:



Key Objectives:

- ▶ To provide capacity building programmes to improve entrepreneurial abilities on improved poultry practice, rearing cages, feed preparation and feed mixing practices
- ▶ To provide capacity building training for member of FCs on poultry services to give access to dairy farmers to finance, insurance and cattle management services

Key Achievements:

- ▶ 86 families of Farmers Collectives supported with Poultry Cages for 500-750 birds
- ▶ 86 members trained on poultry feed making for backyard poultry, vaccination, nutrient supplement feed to poultry birds
- ▶ Distributed chicks to poultry entrepreneurs
- ▶ Installed one Poultry feed mixing unit at Navajothya Farmer Collective
- ▶ Provided material support for packaging and branding eco-friendly eggs
- ▶ Branded and packaged feed produced under FC

ESAF SUVIDI (SUSTAINABLE VILLAGE DEVELOPMENT INITIATIVE)

Location: Kalahandi, Odisha

SDGs impacted:



Key Objectives:

- ▶ To mobilise and improve employability skills of migrant labourers
- ▶ To give entrepreneurship development training programmes
- ▶ To introduce financial literacy and inculcate financial disciplines

Key Achievements:

- ▶ Three Migrant Resource Centres opened
- ▶ Activated Exclusive Helpline Number for Migrants
- ▶ Facilitated Transportation and Job placements for 100 migrant labourers
- ▶ Provided Accidental Coverage insurance for 97 workers

HELPING CUSTOMERS BUILD BETTER LIVES

We are customer-oriented at our roots. Through our service offerings, we are meaningfully serving our MFI and small finance customers in a holistic manner and helping them build a better life.

Painting stories of success

K. G. Radhakrishnan
 Cherthala, Alappuzha

Shri K.G. Radhakrishnan started Paintex Paints and Coatings in the year 2020. The Company is into manufacturing and trading of paints and allied products in the brand name Paintex. Initially, they used to test market one or two paints manufactured by them and waited to understand market feedback. They never compromised on quality and products were sold at a competitive price. Gradually their hard work paid off and the product got accepted across different markets.

To grow to the next level in terms of volume, they were woefully short of working capital. The promoter approached existing banks and local banks for funding. But their attempts hardly bore any fruits. Later on by learning about ESAF Small Finance Bank, they came to us for meeting their requirement. We found the promoters as ambitious and were having a great vision. We granted them a working capital of three lakh and their business then picked up within a short time.

In the first year of operations, they have achieved a total turnover of ₹ 50.00 Lakh. Meanwhile, they have taken another paint manufacturing unit under lease and expanded

MSME Loan Customer

the production capacity. Also, they have converted their proprietorship to a partnership to pump in more capital. Now they have requested an enhancement of their working capital to ₹ 10 lakh and the same is under consideration. Also, they are in discussion to buy out another paint manufacturing unit to promote inorganic growth. ESAF is proud to handhold them from a start-up to a reputed entity.

A joyful story of service

SreeKumar Korambath
 Calicut, Kerala

Shri Sreekumar Koramabath has been associating with ESAF bank for almost three years. "If my, memory is right, I could never get an opportunity to visit the ESAF branch at Kozhikode," he said. He was full of praise about the branch officials from Branch Head, Cluster Head, NR, and ASM giving them full marks for the professional service with a personal touch. "I loved

your servant leadership value and doorstep delivery of services" he added.

Due to very attractive interest rates and high-quality service, he was maintaining hefty amounts as term deposits with the bank. "For me, the attitude of the people always matters for a long-term association", he underscored. He is now waiting for ESAF to get a license to open deposits under FCNR/ Forward Booking Deposits." I am glad that even after I withdrew a portion of my

NRI Customer

deposits to invest in FCNR, the staff at ESAF are treating me like a king," he concluded.



Story of a fightback

Marappan Ramar

Salem, Tamil Nadu

Like any other poor family who relied on daily wages, the family of Marappan Ramar also relied on the same by working at the nearby stone quarry for his daily bread. But then came the pandemic, which derailed his life and the entire family was staring at extreme poverty. But he didn't want to give up and started planning to launch a micro venture of his own. He bought a

milch cow, but the income was not enough to meet both ends. He soon joined Vallalar Farmer Producer Company through which he came to know about the possibilities of a Dairy Development Loan from ESAF Small Finance Bank. With our support, he managed to buy two more milch cows. Now he is happy that his efforts are helping him to keep his kitchen alive. He thanked his decision to join the FPO and the service he got from ESAF. He has learnt progressive farming techniques and now owns a small

Dairy Loan Customer

piece of land where he uses the cow dung as manure for crop production.



Story of a sweet comeback

Apurva Paddhariya Betul

Madhya Pradesh

When their child was born with severe medical complications, Apurva and her husband found it unfortunate and were uncertain about the future. They had to spend all their fortunes to meet the exorbitant expenses of his treatment. The medical bills left them in the lurch. Though being a graduate, Apurva couldn't find a job anywhere. Soon she came across ESAF staff and had decided to join as a Sangam member; The bank approved her proposal and gave her the first loan of ₹ 15,000. "I was

tempted in the beginning to use the money for buying household items, groceries, and other essentials, but I restrained," said a smiling Apurva.

She used the money to initiate her first business venture - Mahaveer Sweet Shop and Tiffin Service. Apurva was very much strategic in her approach. "I wanted to build a sustainable business model, so I took both an FSSAI license and a shop license. I have a separate business account in the bank, and also I file IT returns on time," she says proudly. Her strategic planning has worked miracles. Most importantly, her son and other immediate family members are now healthy and happy.

Microfinance Customer

By the time she took her fifth loan from ESAF, Apurva was an immensely successful businesswoman. Her most recent loan of ₹ 50,000 has helped Mahaveer Sweet Shop and Tiffin Service expand their offerings and geography. Now the shop is so popular that it is a household name in their area. After expenses, Apurva now earns ₹ 30,000 a month. "Whatever I have now, it's all because of my hard work and the support I have received from ESAF. I'm able to look after my family in the best way possible. Life has changed for the better. Thank you very much, ESAF," she concluded.

Giving back to seniors

Ramesh Agarwal

New Delhi

Being a retired banker Ramesh Kumar Agarwal from Delhi was quite wary about new banks. He had served a nationalized bank for more than 36 years in various capacities. ESAF always respects senior citizens and wants to give them back all the good things they have given to society over the years.

After knowing about ESAF and its vision he took time to learn about the bank. He had visited the ESAF branch multiple times and was happy with our joyful service. "I am happy about both the service and the interest rate I am getting," a smiling Ramesh said.

He deposited a good amount with ESAF bank as FD, and now he is one of our well-wishers. He attends our monthly meetings and shares his experience of 'Joy of Banking' with all.

A Senior Citizen Customer



Management Discussion & Analysis



GLOBAL ECONOMY OVERVIEW

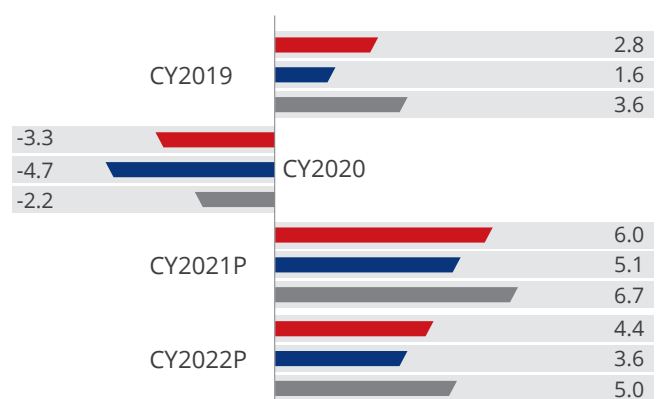
The global economy was already facing ensnared in trade protectionist policies, disputes among major trading partners, volatile commodity and energy prices, and economic uncertainties arising from Brexit. Hopes of broad-based recovery were dashed by the unprecedented COVID-19 pandemic in early 2020, which has infected more than 184 million people in 219 countries as of July 5, 2021, leading to considerable human suffering and economic disruption. The policy actions taken by the central banks and the fiscal stimulus by the government across the globe supported the economic recovery and helped prevent worse outcomes. The global economic growth is estimated to have contracted by 3.3% in 2020.

Multiple vaccine approvals and the launch of vaccination in some countries since December 2020 have raised hopes of an eventual end to the pandemic. The fiscal support announced for 2021 in some countries, including the United States and Japan and roll out of next generation of EU funds are expected to provide further support to the growth in advanced economies. The International Monetary Fund (IMF) in its World Economic Outlook April 2021, projects the global economy to grow by 6.0% in 2021 and 4.4% in 2022, reflecting expanded fiscal support and faster economic recovery led by vaccination programmes.

The strength of the recovery could remain uneven across countries based on the severity of the restriction to economic activity due to pandemic. Several large emerging market economies are expected to rebound relatively faster than advanced economies. Organisation

for Economic Co-operation and Development (OECD) in its interim economic assessment stated that economic activities in China, India and Turkey have moved above pre-pandemic levels led by strong fiscal and liquidity measures backed up by a recovery in manufacturing and construction. Although recent vaccine approvals have raised hopes of a turnaround in the pandemic later this year, resurgence of COVID-19 cases and new variants of the virus pose concerns for the outlook. The global community would be required to continue its work in coordination to ensure timely and equitable access to vaccines across the world.

World Economic Growth (%)



■ World ■ Advanced Economies
■ Emerging Market & Developing Economies

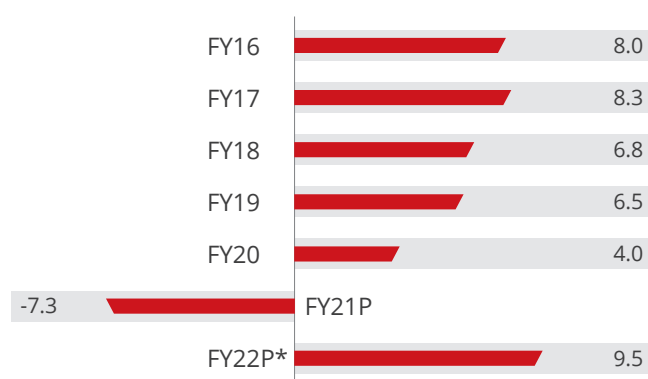
Source: IMF World Economic Outlook, April 2021

INDIAN ECONOMY OVERVIEW

Indian economy slowed severely especially in mid-2020 due to the COVID-19 pandemic and the resultant lockdowns. The economy saw the worst contraction ever of 23.9% YoY in the first quarter of Financial Year 2020-21 (FY21). The huge economic costs that it extracted forced the economy to open up and get back on its feet in the second quarter of FY21. Central banks infused liquidity in their systems, and governments came out with fiscal stimulus to beat the effects of a slowdown. What also helped was a sharp cutback in operating costs for corporates due to job and salary cuts, employees exercising work from home options, low input costs due to benign interest rates, crude and commodity prices. The second and third quarters of FY21 showed consistent recovery in global trade activity, especially merchandise volumes. Consequently, the economic activity showed significant improvement in the last quarter of FY21. Indian economy is expected to have contracted by 7.3% in FY21 according to the provisional estimates released by the National Statistical Office (NSO).

India's economy is showing decisive signs of a 'K-shaped' recovery with the return of consumer confidence, strengthening demand, improvement in business conditions across the manufacturing sector, robust financial markets, significant recovery in high frequency economic indicators and the mega vaccination drive. However, the pace of business activity resumption has taken hold due to the new mutations and second wave of COVID-19 seen since April 2021. The Reserve Bank of India (RBI) in its Monetary Policy Committee (MPC) estimated Indian economy to grow by 9.5% in FY22 on the back of the outbreak of the second wave and its subsequent implications on the overall economy.

India Economic Growth (%)



Source: NSO; FY21 Provisional Estimates dated May 31, 2021,

*RBI Monetary Policy June 2021

The lockdowns imposed were less restrictive for economic activity as compared with last year. Manufacturing, construction, agriculture and other essential activities have been permitted to continue in most states. Manufacturing sector purchasing managers' Index remained above the 50 level (Source: IHS Markit), indicating some resilience. Nonetheless, the risks to

growth are firmly tilted downwards. A third wave would pose a significant downside risk to the growth forecast, as would a slower-than-anticipated pace of vaccination. CRISIL Research forecasts India's GDP to grow by 8.0% in FY22 in this pessimistic scenario.

Inflation and monetary policy

CPI inflation rose to 5.52% in March 2021 (new base 2012=100), compared with 5.03% in February 2021 due to higher fuel and food prices. WPI inflation rose to 7.39% in March 2021 from 4.17% in February 2021 – the highest since March 2013. Notwithstanding a favourable base, renewed COVID-led supply-side bottlenecks, coupled with cost-push pressures emanating from higher commodity prices and logistics costs, are likely to keep inflation trajectory elevated in the near future. Overall, the RBI expects the headline retail inflation to average at ~5% in FY22.

The RBI consumer confidence survey in March 2021 mentioned that the consumer confidence index fell to 53.1 in March 2021 from 55.5 in January 2021 on the back of growing COVID-19 cases in India. The lowering in consumer confidence index was driven by moderate expectation on growth, and employment. In the first bi-monthly monetary policy review of FY22, the RBI kept policy rates unchanged, repo rate 4% and reverse repo rate at 3.35%. The Monetary Policy Committee (MPC) also decided to continue with the accommodative stance as long as necessary to support growth on a sustainable basis and mitigate the impact of COVID-19, while ensuring inflation remains within the target band of 4% +/- 2%.

Support measures

In response to the disruption of COVID-19, reliefs and economic stimulus measures are announced on a continuous basis to re-package some of the old measures and push some new reforms. The Government announced additional measures to stimulate consumption as well as investment demand in the economy. With an aim to encourage states to spend on infrastructure and asset creation, the Central Government would issue a special interest-free 50-year loan to states amounting to ₹12,000 crore. The Centre also earmarked an additional budget of ₹25,000 crore for capital expenditure on roads, defence, water supply, urban development and domestically produced capital equipment. AtmaNirbhar schemes and increased capital outlays will likely accelerate public investment and crowd-in private investment. In light of production-linked incentive (PLI) scheme, reduction in corporate tax rate, labour law reforms together with healthy demographics and a more favourable corporate tax regime, India is expected to witness strong GDP growth when the global economy eventually recovers, supported by prudent fiscal and monetary policy.

The RBI also announced a slew of measures to strengthen liquidity support including a) Extension of TLTRO (Targeted Long-term Repo Operations) On Tap Scheme by six

months, b) Additional liquidity support of ₹50,000 crore to All-India Financial Institutions (AIFIs) for fresh lending during FY22, c) Extension of permission granted to banks to on-lend to registered NBFCs by six months, d) Increase in farm loan limit under priority sector lending (PSL) from ₹50 lakh to ₹75 lakh against warehouse receipts, and e) Enhanced Ways and Means Advance (WMA) limit for states and UTs. Overall, the total liquidity support announced by the RBI since February 6, 2020 up to March 31, 2021 amounted to ₹13.6 lakh crore.

INDIAN BANKING INDUSTRY OVERVIEW

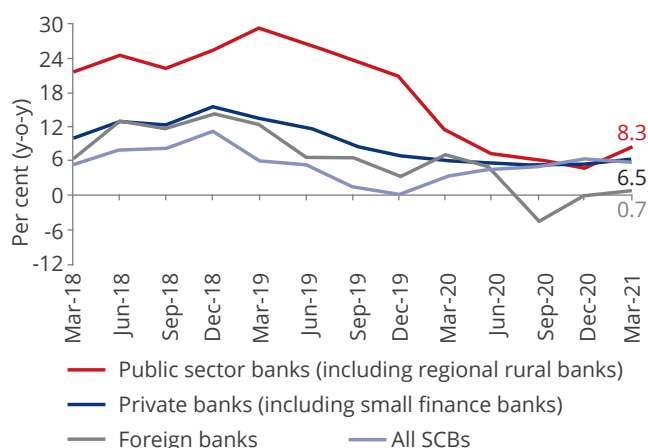
The banking industry plays a vital role in mobilising savings and stimulating the economic development of a nation. The Indian banking system consists of 12 public sector banks, 22 private sector banks, 11 Small Finance Banks (SFBs), 44 foreign banks, 56 regional rural banks, 1,485 urban cooperative banks and 96,000 rural cooperative

banks in addition to cooperative credit institutions. (Source: IBEF) Credit off-take has been surging ahead over the past decade, aided by strong economic growth, rising disposable incomes, increasing consumerism and easier access to credit.

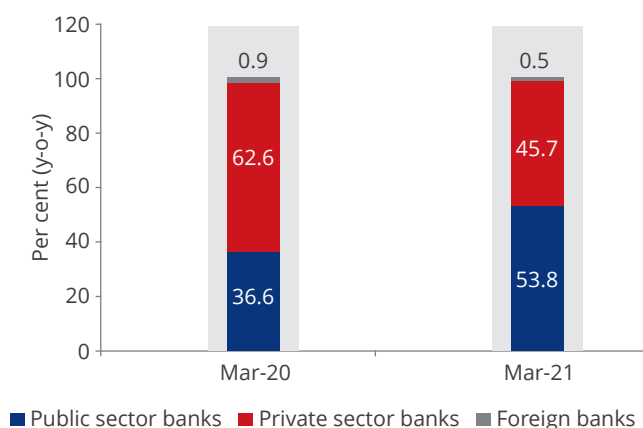
Despite over a 100-basis point decline in interest rates, bank deposits surged by 11.4% to ₹151.13 lakh crore in FY21, as against 7.9% growth in the previous year. However, due to sluggish corporate investments, bank credit grew 5.56% to ₹109.51 lakh crore in FY21 as against 6.1% growth registered in FY20. Credit growth accelerated across all bank groups, especially public sector banks (PSBs). Of the incremental credit extended by Scheduled Commercial Banks (SCBs) on a y-o-y basis (March 12, 2021 over March 13, 2020), 53.8% was provided by PSBs, 45.7% by private sector banks and 0.5% by foreign banks.

India Economic Growth (%)

a. Growth



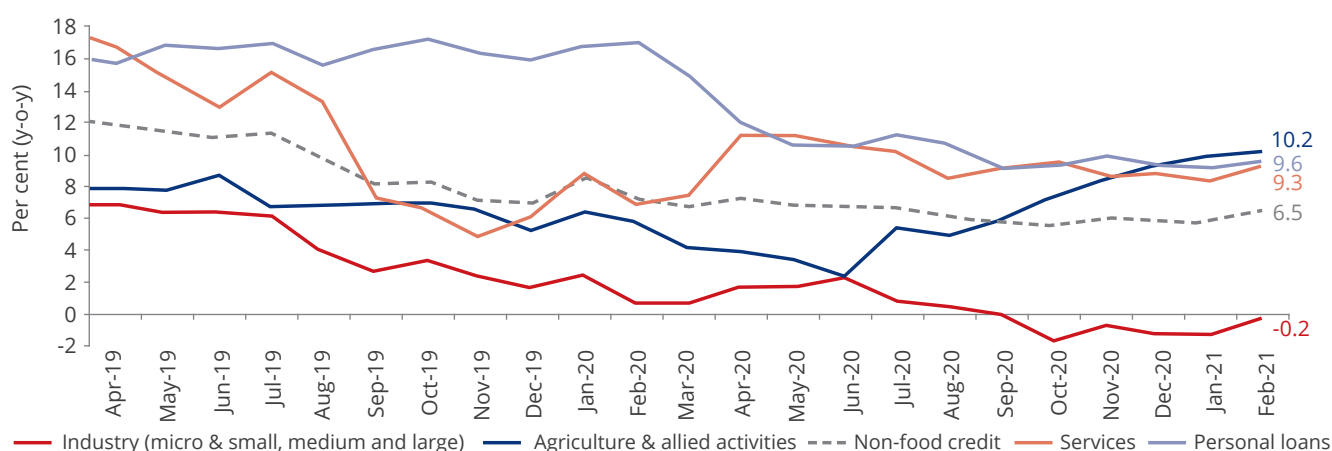
b. Share



Source: RBI Bulletin April 2021

Among major sectors, credit to agriculture grew by 10.2% (y-o-y) in February 2021 – the highest since April 2017. Credit growth to the services sector also remained strong. Credit to the industrial sector, however, contracted marginally by 0.2%, mainly due to a decline in credit to large industries.

Sectoral Deployment of Credit – Growth (Y-o-Y)



Source: RBI Bulletin April 2021

As per the RBI, credit growth to industry (micro & small, medium and large) sector decelerated marginally to 0.4% in March 2021 from 0.7% in March 2020. However, credit to medium industries registered a robust growth of 28.8% in March 2021 as compared to a contraction of 0.7% a year ago. Non-food bank credit growth stood at 4.9% in March 2021 as compared to 6.7% in March 2020. Continuing its uptrend, credit growth to agriculture and allied activities accelerated to 12.3% in March 2021 from 4.2% in March 2020. Credit growth to the services sector decelerated to 1.4% in March 2021 from 7.4% in March 2020, mainly due to deceleration in credit growth to NBFCs and contraction in credit to professional services. Slowdown in growth of personal loans continued, as it decelerated to 10.2% in March 2021 from 15.0% a year ago.

The overall credit growth continued to moderate due to risk aversion and continued parking of excess liquidity with the RBI. According to CARE ratings, Bank credit growth is likely to increase in FY22, given the growth in the economy and the base effect (due to lockdown in March 2020) coming into play. The downside risks include lockdowns in key states due to the resurgence of COVID cases, which may impact the industrial, as well as the service segments.

Recent Trends and Developments

Innovation in Technology

Digital influence in the Indian banking sector has been growing faster due to the rising digital footprint. The increased use of digital payments brought about by COVID-19 could fuel a rise in digital lending. As of October 2020, the total number of ATMs in India increased to 209,881. By 2022, digital assistants, social media and third-party channels are projected to act as primary channels for banking. In December 2020, in response to the RBI's cautionary message, the Digital Lenders' Association issued a revised code of conduct for digital lending.

Mobile Banking

The growth of mobile banking could impact the banking sector significantly as it can provide banking facilities to a previously under-banked market. With increasing smartphone penetration and faster data speeds, consumers are now encouraging digitisation as they find it more convenient. The central bank has recently removed the transaction limit of ₹50,000 and allowed banks to set their own limits. According to data made available by the National Payments Corporation of India, in December 2020, Unified Payments Interface (UPI) recorded 223 crore transactions worth ₹4.16 lakh crore. On November 6, 2020, WhatsApp started UPI payments service in India on receiving the National Payments Corporation of India (NPCI) approval to 'Go Live' on UPI in a graded manner.

Increasing usage of RTGS, NEFT and IMPS

Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) are being implemented by Indian banks for fund transactions. The number of transactions through Immediate Payment Service (IMPS) increased to

35.6 crore in volume and amounted to ₹2.92 lakh crore in value in December 2020 an all-time high, up 38.68% in volume terms Y-o-Y and 38.58% in value terms.

Improved risk management practices

Indian banks are increasingly focussed on adopting an integrated approach to risk management. Banks have already embraced the international banking supervision accord of Basel II. According to the RBI, majority of the banks already meet capital requirements of Basel III, which had a deadline of March 31, 2019. The RBI mandated the Know Your Customer (KYC) Standards, wherein, all banks are required to put in place a comprehensive policy framework in order to avoid money-laundering activities.

The RBI has also brought in a stricter set of rules for auditors of banks, and other financial entities in the backdrop of business failures like IL&FS. The Central Bank made "Joint Audits" mandatory for entities with asset size of ₹15,000 crore and above, capped the overall number of audits that a firm can perform in a year (4 for Commercial Banks, and 8 each for Non-Bank Finance Corporations and Urban Cooperative Banks), and reduced the tenure of the auditors to three years from currently four years, among other changes. The new regulation is effective from FY22.

Consolidation

The banking landscape has changed dramatically over the last one year. The consolidation in the PSB (public sector bank) space, scale-up by private sector banks, new retail businesses such as consumer durables, affordable housing and micro loans, and leadership changes are some of the key developments seen in the last one year. With the entry of foreign banks, competition in the Indian banking sector has intensified. Banks are increasingly looking at consolidation to derive greater benefits such as enhanced synergy, cost take-outs from economies of scale.

Focus on Jan Dhan Yojana

In order to increase the accessibility of financial services such as bank accounts, insurance, pension, credit facilities, etc. mostly to the low-income groups, the Government of India made Pradhan Mantri Jan Dhan Yojana (PMJDY) scheme an open-ended scheme and also added more incentives. As of December 30, 2020, the number of bank accounts opened under PMJDY reached 41.58 crore and deposits in Jan Dhan bank accounts stood at more than ₹1.35 lakh crore.

Latest RBI Policy Actions: In February 2021, the RBI (i) allowed lending by banks to NBFCs under the TLTRO on-tap scheme for incremental lending to specified stressed sectors; (ii) announced a gradual restoration of the cash reserve ratio (CRR) in two phases in a non-disruptive manner to 3.5% of net demand and time liabilities (NDTL) effective March 27, 2021 and 4.0% effective May 22, 2021; (iii) extended the facility for availing funds under the marginal standing facility (MSF) by dipping into the statutory liquidity ratio (SLR) up to 3.0% of NDTL until

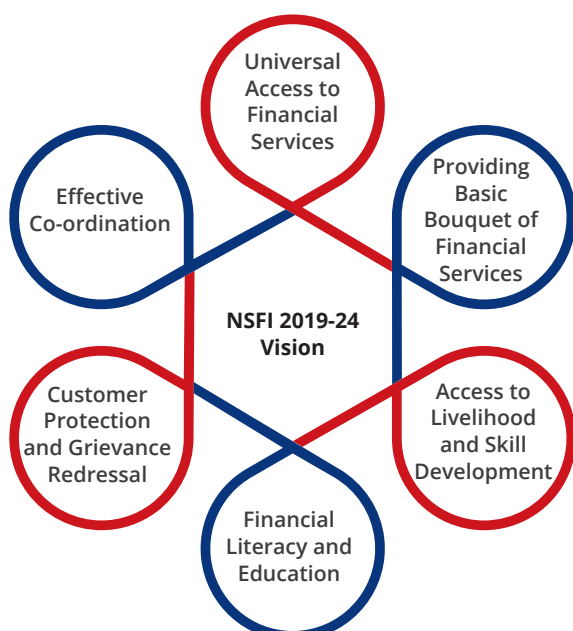
September 30, 2021; and (iv) provided CRR exemption for credit flows to new MSME borrowers on exposures up to ₹25 lakh per borrower for credit extended up to October 1, 2021.

Key highlights in Union Budget 2021

- ▶ Asset reconstruction company (ARC) to be set up to take care of Non-Performing Assets (NPAs) currently in the book of banks
- ▶ Divest government stake in two Public Sector Banks (PSBs), apart from previously announced IDBI Bank. Public Sector Banks (PSBs) recapitalisation plan at ₹20,000 crore
- ▶ Streamline Provisions of the Deposit Insurance and Credit Guarantee Corporation (DICGC) Act so that deposit holders can access their money faster
- ▶ Agriculture credit availability target set at ₹16.5 lakh crore (vs. ₹15 lakh crore in the previous year higher by 10% vs increase of 25% last year)
- ▶ Lifting of existing embargo on grant of government businesses to private banks. This would mean that private sector banks get to handle government-related banking transactions such as taxes and other revenue payment facilities, pension payments, and small savings schemes

Focus on financial inclusion

Financial Inclusion has been a thrust area for the Government, the RBI and other regulators, with significant progress made over the years. Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs (these could be transactions, payments, savings, credit, and insurance) and are delivered in a responsible and sustainable way. To meet the objective, the RBI has also implemented National Strategy for Financial Inclusion (NSFI) 2019-24 Vision.



To improve the financial inclusion down to the hinterland:

- ▶ Government has implemented various reforms and national schemes like Pradhan Mantri Jan Dhan Yojana (PMJDY), Direct Benefit Transfer (DBT), PM Street Vendor's AtmaNirbhar Nidhi (PM SVANidhi) and issue of RuPay cards, among others
- ▶ To measure the extent of financial inclusion in the country, Ministry of Finance, Government of India, launched the Financial Inclusion Index. This index will measure access, usage and quality to financial services
- ▶ The Centre for Financial Literacy (CFL) project has been conceptualised by the RBI in 2017 as an innovative and participatory approach to financial literacy at the Block level involving select banks and non-governmental Organisation (NGOs)
- ▶ Department of Financial Services (DFS), Ministry of Finance and National Informatics Centre (NIC), launched Jan Dhan Darshak as a part of financial inclusion initiative. It is a mobile app to help people locate financial services in India
- ▶ With a view to furthering financial inclusion and to expand the ability of payments banks to cater to the growing needs of their customers, the current limit on maximum end of day balance of ₹1 lakh per individual customer is being increased to ₹2 lakh

Small Finance Bank: Driving Financial Inclusion in India

Small Finance Banks (SFBs) are a new entrant into the Indian banking system with a differentiated focus on financial inclusion. They have witnessed a rapid growth in their branch network and asset base while maintaining a healthy asset quality and generating high return on assets. These banks have been reasonably successful in reaching out to under-served sectors, such as the Micro, Small and Medium Enterprises (MSMEs), and have an impressive coverage of borrowers with small credit needs.

Urban-rural divide to promote growth for SFBs

A large population of India is still unbanked. For the ones that do have a bank account, a significant percentage of people are unable to use them due to various factors – limited financial literacy, distance from their homes/ villages to the nearest bank branches, traditional mindset, etc. To improve financial inclusion, especially in rural areas, the government is focussing on improving the overall and rural infrastructure for penetration of financial services as well as empowering the development of parallel supporting institutions.

As per census 2011, rural account for 68.8% of the total population and around 47.0% of the GDP of the country in FY19. The rural share in total credit is only around 9.0% in FY20. Also, there is less competition for banking services

in rural areas as compared to urban areas which opens up a huge market opportunity for Small Finance Banks (SFBs) to extend financial inclusion in rural areas and act as a channel between the larger financial institutions and other service providers to the underserved customers.

As India is moving towards becoming a less-cash economy, rural consumers that constitute a major portion of that economy are becoming more confident about adopting new digital technologies and payment methods. The SFBs are technologically-driven in order to reduce the cost of operations and also ensure faster reach to the untapped market. While there exists a significant opportunity, SFBs will need to innovate further in terms of introducing customised and flexible offerings to target the untapped market.

SMALL FINANCE BANKS INDUSTRY OVERVIEW

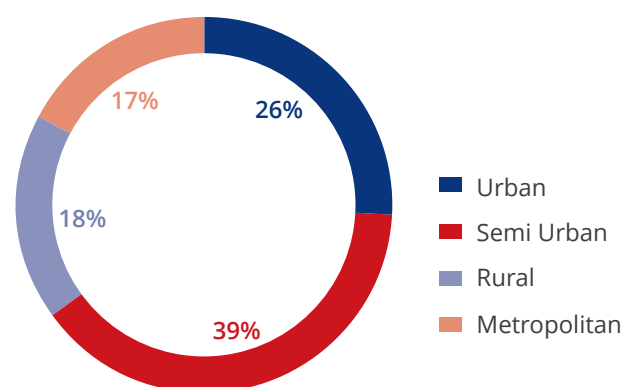
Evolution of SFBs in India

The RBI has awarded Small Finance Banks (SFBs) licences to 11 players in keeping with the Government's focus towards financial inclusion and inclusive banking. Of the 11 SFBs, eight were Micro Finance Institutions (MFIs), one was an NBFC, one was a local area bank and one was a co-operative bank. This initiative of the RBI is aimed at offering basic banking services such as accepting deposits and lending to the unserved and the under-served sections, including small businesses, small and marginal farmers, micro and small industries, and other unorganised sectors or lending through informal channels. SFBs are authorised to perform all the banking functions – payments, accepting deposits and lending. This makes them functionally identical to Scheduled Commercial Banks (SCBs). MFIs turned into SFBs are now diversifying their advances mix and focussing on other retail and corporate lending businesses.

Given the SFBs' financial inclusion focus, SFBs have higher minimum targets for priority sector lending – at 75.0% of its Adjusted Net Bank Credit compared to the 40.0% for the SCBs. Further, at least 25.0% of new banking branches need to be opened in unbanked rural centres (URC). Also, to benefit small borrowers, SFBs have a restriction on their loan portfolio that requires 50.0% of the portfolio to comprise loans and advances of up to ₹25 lakh. Additionally, there are some differences in prudential requirements as well for SFBs. Being a differentiated or niche bank, the minimum net worth for an SFB has been fixed at a lower level than other SCBs. SFBs need to have a minimum net worth of ₹200 crore (increased from ₹100 crore) as compared to ₹500 crore for other SCBs. The minimum capital adequacy ratio for SFBs is set at 15.0%, higher than the 9.0% required for SCBs.

SFBs have penetrated well throughout India in a short period. As of March 2020, there were 4,307 SFB bank branches throughout the country. Among these, 39% of total branches are located in semi urban areas followed by 26% in urban centres.

SFBs' Branch Distribution across Population Groups



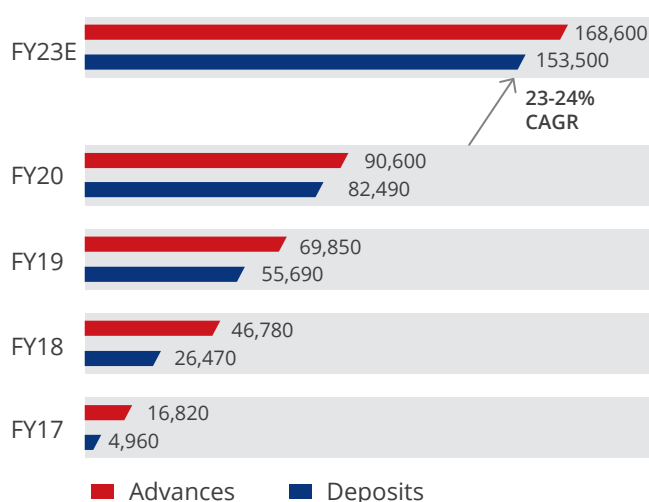
Source: RBI Bulletin January 2021

SFBs' growth trajectory

SFBs have made a remarkable impact and gained significant growth in both loans and deposits. The advances and deposits in the SFB industry has increased with the CAGR of 75.3% and 155.3% respectively during the period FY16-FY20. The share of SFBs' in total banking industry has increased from 0.3% in FY19 to 0.5% in FY20 in case of credit, and deposits share has increased from 0.6% in FY19 to 0.9% in FY20.

With rural economy holding up during the pandemic, both deposits and advances are expected to show robust growth going forward. SFBs' total advances and deposit base are expected to grow with the CAGR of 23.0-24.0% during the period FY20-FY23 to reach approximately ₹1.7 lakh crore and ₹1.5 lakh crore respectively by FY23. Factors that will support the growth of the SFBs include robust rural growth, new product offerings and associated cross-selling opportunities in both liability and asset side, geographical diversification and opening of new branches, knowledge of local stakeholders, access to low-cost funds, improved risk management systems and expansion of organised credit channels.

Growth in Advances and Deposits of SFBs (₹ Crore)



Source: RBI, IRR Advisory

SFBs targeting the sectors relatively under-served by commercial banks

SFBs are catering to the economic sectors that are relatively under-served by other SCBs. The sectors include agriculture, (small scale) trade and professional services. These three sectors accounted for about 65% of the total credit of SFBs in March 2020. Moreover, even within the industrial and services sector credit, these banks have succeeded reasonably in reaching out to Micro, Small and Medium Enterprises (MSME-sized borrowers). In fact, MSMEs had a prominent presence in their overall loan portfolio as well as their portfolio of industrial and services sector credit. At an aggregate level, about 83% of their loan portfolio had a credit limit of up to ₹25 lakh in March 2020.

MSME Share in Total Credit

Year	SFBs (%)	SCB (%)
March 2018	42 (81)	17
March 2019	40 (83)	18
March 2020	41 (82)	17

Note: MSME shares in industry plus services sector credit are shown in brackets.

Source: RBI Bulletin January 2021

SFBs are expected to continue facing severe asset quality issues in FY21, as near-term collections could experience disruptions on account of COVID-19. The RBI in March 2020 announced the moratorium on term loans / working capital (including agricultural term loans, retail and crop loans) for instalments falling due between March 1, 2020 and May 31, 2020. This was subsequently extended in May 2020 by another three months to August 31, 2020. Going forward, their asset quality will vary depending on their efficiency in credit underwriting, monitoring and collection.

Opportunities for SFBs

Huge market opportunity especially in the rural segment

SFBs target the low-income segment and offer them differentiated products. Unlike the NBFCs which expand horizontally with a special focus product, SFBs expand vertically and horizontally which enables them to have a good mix of medium and low value customers. Also, with major focus on rural and microfinance borrowers, which have a low credit penetration and less migration from one player to another, SFBs can build loyal customer relationships. Along with this, there is less competition for banking services in rural as compared to urban areas, this presents SFBs with significant growth opportunities in rural areas.

Presence of high informal credit channels: Higher presence of informal credit channels in remote locations, where small finance banks have reach, provides an advantage to tap the unbanked population.

Geographic Diversification: Small finance banks have seen strong growth in branch expansion in order to meet regulatory requirements. With a rising focus on diversifying their portfolio and expanding their reach, SFBs are expected to log higher growth as they tap newer geographies with broad service offerings.

Widening Product Portfolio: While lending or banking is the central product for most of the SFBs, they are now shifting focus from microfinance to other products. However, with a focus on product diversification, SFBs have been able to diversify into retail asset classes such as vehicle loans, business loans, LAP and housing finance.

Leverage Low Cost Structures: Licensing to raise deposits will bring down their cost of funds substantially. This will also help them to lend at more reasonable rates to their customers. In addition, SFBs have significantly lower operational expenses than that of banks because of their low cost infrastructure and high productivity / low salary structure of their staff.

Loan recovery and control on ageing NPAs: A strong focus and understanding of small finance banks on collections and monitoring risk of default at customer level will help them to keep asset quality under check.

NBFC Crisis – to benefit SFBs: The liquidity crisis affecting NBFCs in India had a minor ripple effect on micro-lenders. The lenders who relied on NBFCs for funding reduced disbursement sought alternate sources for funding. This is expected to drive market share gains for SFBs owing to better access to retail and wholesale deposits.

Challenges

- ▶ The COVID-19 crisis has reiterated the underlying risks of the business models of most SFBs to offer personalised service to customers. These include home visits for deposits, withdrawals, credit underwriting, loan collections and maintaining close customer touchpoint on a monthly basis
- ▶ Limited operations to specific geographic areas as SFBs are required to open 25% of branches in unbanked geographies, which further poses operational challenges
- ▶ Building the liability product portfolio will be a challenge given the low ticket size liability customer base and ability to gain customer trust
- ▶ Restricted lending to big corporate and groups
- ▶ Controlling NPAs as unfavourable monsoon and slowdown in industrial sector would have an adverse impact on farm loans and MSMEs loans
- ▶ Improving the digital connectivity with the large scale rural customer base

Digital initiatives by SFBs

Digitalisation and usage of technology have had the biggest impact on customer acquisition and on-boarding, followed by credit assessment to some extent. In order to expand their reach quickly, SFBs are moving beyond physical branches and using alternative electronic delivery channels. The use of mobile/tab-based paperless on-boarding has significantly reduced the turnaround time to a maximum of one hour from one-two days traditionally.

In response to COVID-19, SFBs are making continued efforts on contactless and digital banking services. The key digital offerings include an instant Savings Accounts, vehicle and consumer finance loan. Cashless disbursements have also increased in the industry. Leading SFBs are offering consumer durable loans in partnership with leading digital platforms, which offer cashless Equal Monthly Instalment (EMI) options to customers. SFBs have developed digital payments system for the customers through UPI QR codes, enabling small shopkeepers to accept cashless payments from their customers through the QR Codes.

ESAF SMALL FINANCE BANK - AN OVERVIEW

About the Bank

ESAF Small Finance Bank (hereinafter referred as "ESAF", "the Bank") is one of the leading small finance banks in terms of client base size, yield on advances, Assets Under Management (AUM) growth rate, total deposit CAGR, Net Interest Margin, loan portfolio concentration in rural and semi-urban areas and ratio of micro loan advances to gross advances. Headquartered in Kerala, the Bank has a history of more than 25 years in catering to financially unserved and under-served segments and is committed to promoting financial inclusion in the country. The Bank's business model focusses on the principles of responsible banking, providing customer-centric products and services through the extensive application of technology. As at March 31, 2021, the Bank had operations in 19 states and 2 union territories, 550 branches, and served over 43 lakh customers.

ESAF's aim is to become India's leading social bank that offers equal opportunities through universal financial access and inclusion and livelihood and economic development. To achieve this goal, the Bank follows a social business strategy with a triple bottom line approach, emphasising on people, planet, and prosperity. The Bank has adopted various policies to implement its triple bottom line approach, including an Environmental, Social and Governance ("ESG") policy. Pursuant to the ESG policy, it is committed to (i) the protection of the environment and ensuring sustainable development, (ii) promoting financial inclusion and gender equality through specialised financial services; and (iii) establishing a governance framework to ensure accountability, transparency and compliance with internal and external ESG standards.

The Bank is promoted by Mr. K. Paul Thomas, who first started ESAF as a Non-Government Organisation, 'ESAF Society' in 1992, which focussed on the development of microenterprises, community development, and community health development. ESAF Group started operating in Microfinance space from 1995 and set up ESAF Microfinance & Investments Pvt. Limited (EMFIL) in 2007. EMFIL received in-principle approval from the RBI to establish a Small Finance Bank (SFB) in the private sector under Section 22 of the Banking Regulations Act, 1949 on September 16, 2015. The Bank received the final licence from the RBI on November 18, 2016 and commenced commercial operations as an SFB on March 10, 2017. On December 27, 2018, the Bank received "Scheduled Commercial Bank" status from the RBI. Its registered office is located at Thrissur, Kerala.

Products and Services

Micro loans

Micro loans are provided to individuals without being secured by collateral. In order to be given a loan, an individual must be part of a sub-group, which normally comprises five to 10 people. Three to five sub-groups combine to form a "sangam". Target customers for our micro loans are women in unserved and underserved households in India. As at May 31, 2021, the Bank had over 2.28 million micro loan customers, all of whom were women. As at March 31, 2021, our gross micro loans were ₹71,343.55 million which represented 84.78% of the Bank's gross advances.

The Bank continues to grow the micro loans by cross-selling and up-selling to the micro loan customer base and marketing our micro loans to family members of our micro loan customers, thereby deepening its relationships with them and becoming their trusted bank of choice. The Bank's business correspondents source and service customers for micro loans. The Bank also plans to appoint new business correspondents and have our banking agents start to source customers.

Liability Products or Deposits

Liability products of the Bank comprise of current accounts, savings accounts, fixed deposits and recurring deposits. The Bank also serves segments like HNIs, corporate entities, sole proprietorship, children, farmers, Trusts, Associations, Societies and Clubs, non-resident Indians (NRIs), micro loan customers and senior citizens, and offers personalised banking services including doorstep banking and other differentiated products.

Retail Assets

ESAF has been expanding its portfolio of retail loan products. The target customers are salaried individuals, the self-employed, businesses and customers who have graduated from micro loans. The Bank sources customers

for retail loans through sales executives, dealers and direct sales agents on a walk-in basis in our Branches and through our business correspondents. The retail loan portfolio includes housing loans, Loan Against Property, gold loans, auto loans, personal loans, clean energy loans, lease rental discounting and education loans.

Micro, Small and Medium Enterprise (MSME) & Corporate Loans

The MSME and corporate loan portfolio of the Bank has been growing. The target customers for the MSME and Corporate loans are MSMEs, NBFCs, MFIs and existing micro loan customers who want to grow their business. Apart from the working capital loans and term loans targeted at small and micro enterprises, the Bank is also expanding its supply chain finance by partnering with fintech/tech platforms to source more customers and other web-based platforms that facilitate financing/discounting of trade receivables of MSMEs.

The Bank sources its customers for MSME and corporate loans through Branches, digital channels (except for corporate loans), direct sourcing and third-party intermediaries, including business correspondents. ESAF is a member of certain TReDS platforms and bills are discounted by participating in the bidding process on these platforms.

Agricultural loans

The Bank targets individual farmers and joint borrowers engaged in agriculture and allied activities, such as dairy farming, fishery, animal husbandry, poultry farming, beekeeping, sericulture, agri infrastructure, agri processing units, and agri ancillary activities for its agri lending portfolio. The products are focussed to meet the financing needs of farmers in agriculture and allied activities and include term loan, dairy development loan, farmer producer organization (FPO) finance, KCC and agri gold loan.

ESAF primarily source customers for agricultural loans through agri relationship officers, who are employees of our Bank. The Bank also source customers for agricultural loans through its Branches, FPOs and business correspondents.

Third party products and other offerings

ESAF also provides various other products and services. It distributes third-party life and general insurance policies, government pension products (Atal Pension Yojna and the National Pension System), mutual funds and undertakes sale of point of sales (POS) through the referral method. The Bank provides foreign exchange services, which include currency exchange and outward and inward remittances, Bharat Bill Payment System services, money transfer services and safe deposit locker services. In addition, it provides depository services to the retail and institutional segment.

Multiple distribution channels

The Bank has three major channels for its delivery of products and services: Branch Banking, Digital and Business Correspondent channel. The Bank leverages a mix of traditional and innovative channel to service the customers. It intends to continue to increase the number of branches. As on March 31, 2021, the Bank had 550 Branches, of which 190 were rural branches, 215 were semi-urban branches, 82 were urban branches and 63 were metro branches. The Bank uses business correspondents, customer service centres (which are operated by our business correspondents) and banking agents for sourcing and servicing of customers for micro loans, mortgage loans, vehicle loans, supply chain and MSME finance, select deposit products and select third-party products. As at March 31, 2021, the Bank had 12 business correspondent entities, 421 customer service centres and 158 banking agents, called customer service points for the distribution of its products and services. The Bank's business correspondents were responsible for sourcing and/or servicing customers for 84.59% and 1.66% of its gross advances and deposits, respectively.

It has a strong focus on leveraging technology to deliver products and services. ATMs, ATM cum debit cards, mobile banking platforms, phone/SMS banking, internet banking portals, unified payment interface facilities, call centre and kiosk banking are also used as distribution channels.

Operational highlights

As at March 31, 2021, the total customer base of the Bank stood at 46.8 Lakhs.

The total advances made by the Bank increased to ₹8415.00 Crore in FY2020-21 from ₹6606.51 Crore in the previous year.

Micro Loan

Our micro loans are provided to individuals without being secured by collateral. In order to be given a loan, an individual must be part of a sub-group, which normally comprises five to 10 people. Three to five sub-groups combine to form a "sangam". The sangam facilitates the repayment process by holding meetings at regular intervals with sangam members. As at March 31, 2021 and 2020, our gross micro loans were ₹7134.36 Crore and ₹6,138.96 Crore, respectively, which represented 84.78% and 92.92% of our gross advances, respectively.

The Bank appointed 12 Business Correspondents (BC) in order to reach the underserved. Our target customers for our micro loans are women in unserved and underserved households in India. As at May 31, 2021, we had over 2.28 million micro loan customers, all of whom were women. Our business correspondents source and service customers for our micro loans.

Other Portfolio

Our portfolio excluding Micro loan consists of retail loans, MSME and corporate loans and agricultural loans. Our target customers for our retail loans are salaried

individuals, the self-employed, businesses and customers who have graduated from micro loans. We source customers for our retail loans through our sales executives, dealers and direct sales agents on a walk-in basis in our Branches and through our business correspondents.

Our target customers for our MSME and corporate loans are MSMEs, NBFCs, MFIs and our existing micro loan customers who want to grow their business.

We source customers for our MSME and corporate loans through Branches, digital channels (except for corporate loans), direct sourcing and third-party intermediaries, including business correspondents. We are a member of certain TReDS platforms and bills are discounted by participating in the bidding process on these platforms.

Our target customers for our agricultural loans are individual farmers and joint borrowers engaged in agriculture and allied activities, such as dairy farming, fishery, animal husbandry, poultry farming, beekeeping, sericulture, agri infrastructure, agri processing units, and agri ancillary activities.

The total asset portfolio, excluding micro-banking business, of the Bank stood at ₹12,66.93 Crore as at March 31, 2021, as compared to ₹462.60 Crores as at March 31, 2020. The Bank constantly strives to design products that suit the needs of its target customers and are in line with its core business philosophy.

Retail Liabilities

Our liability products comprise current accounts, savings accounts, fixed deposits and recurring deposits. We also serve NRI customers and offer NRE and NRO current accounts, saving accounts, fixed deposits and recurring deposits. Our total deposits were ₹8999.43 Crore, and ₹7028.38 Crore as at March 31, 2021 and 2020, respectively. As per the CRISIL Research Report, we had the highest share of retail deposits as a percentage of our total deposits as at March 31, 2020 among our compared peers. Our total retail deposits as at March 31, 2021 and 2020 were ₹8796.38 Crore and ₹6,682.30 Crore,

respectively, which represented 97.74%, and 95.08% of our total deposits, respectively.

Our CASA increased to ₹1747.65 Crore as at March 31, 2021 from ₹960.29 Crore as at March 31, 2020. We increased our CASA to total deposits ratio to 19.42% as at March 31, 2021 from 13.66% as at March 31, 2020

We began offering NRIs savings bank and term deposits in June 2018 and current accounts in May 2021. Our deposits from NRIs represented 22.71% and 21.15% of our total deposits as at March 31, 2021 and 2020, respectively.

Treasury Operations

The Bank's Treasury Operations involve Balance Sheet Management, Liquidity Management, Management of Statutory Reserves, and Investment Operations in SLR/ Non-SLR Securities. The Bank maintains a portfolio of Government Securities as per the regulatory prescriptions governing Statutory Liquidity Ratio (SLR).

The Bank's gross investment portfolio as at March 31, 2021, stood at ₹1932.76 Crores as compared to ₹1735.46 Crores on March 31, 2020. The investment deposit ratio stood at 28.10%, as compared to 24.69% in the previous year.

The Bank was granted Forex Authorised Dealer Category II licence by the Reserve Bank of India on April 17, 2017, for undertaking forex business. The Bank's forex activities include currency exchange, money transfer services, inward and outward remittances. The NRI rupee deposit accounts have also significantly contributed to the overall deposit growth.

Our income from treasury operations comprises interest and dividend income from investments, profit from sale of investments and income from our foreign exchange operations. Our treasury segment contributed 10.83% and 11.74% of our total income during Fiscals 2021 and 2020, respectively.

Financial highlights

Fiscal 2021 Compared to Fiscal 2020

The following table sets forth a summary of our Profit and Loss Account for Years ended 2021 and 2020:

Particulars	Year ended 31 March 2021		Year ended 31 March 2020	
	Amount (₹ in crore)	% of Total Income	Amount (₹ in crore)	% of Total Income
Income:				
Interest Earned	1641.17	92.86%	1,413.25	91.39%
Other Income	126.10	7.14%	133.19	8.61%
Total Income	1767.27	100.00%	1,546.44	100.00%
Expenditure:				
Interest Expended	719.58	40.72%	621.06	40.16%
Operating Expenses	631.86	35.75%	600.68	38.84%
Provisions and Contingencies	310.44	17.57%	134.31	8.69%
Total Expenditure	1,661.88	94.04%	1,356.05	87.69%
Net Profit for the year	105.39	5.96%	190.39	12.31%

Total Income

Our total income increased by ₹220.83 crore, or 14.28%, to ₹1767.27 Crore for Year ended 31 March 2021 from ₹1546.44 Crore for year ended 31 March 2020 as a result of a ₹227.92 Crore, or 16.13%, increase in interest earned, which was partially offset by a ₹7.09 Crore, or 5.32%, decrease in other income.

Interest Earned

The table set forth below shows details in relation to our interest earned for Fiscals 2021 and 2020.

Particulars	(₹ in Crore, except percentages)		
	Year ended 31 March 2021	Year ended 31 March 2020	Percentage increase / (decrease)
Interest/discount on advances/bills	1,473.51	1,238.29	18.99%
Income on investments	128.32	132.20	(2.94%)
Interest on balances with Reserve Bank of India and other inter-bank funds	39.34	42.76	(8.00%)
Total	1,641.17	1,413.25	16.13%

Our interest earned increased by ₹227.92 Crore, or 16.13%, to ₹1,641.17 crore for year ended 31 March 2021 from ₹1,413.25 Crore for Year ended 31 March 2020. The primary reasons for this increase are discussed below.

- Interest/discount on advances/bills increased by ₹235.23 Crore, or 18.99%, to ₹1,473.51 Crore for year ended 31 March 2021 from ₹1,413.25 Crore for year ended 31 March 2020.
 - o The increase in interest/discount on advances/bills was primarily due to a ₹1,846.77 Crore, or 33.76%, increase in Average Interest-Earning Advances to ₹7,317.01 Crore for year ended 31 March 2021 from ₹5,470.24 Crore for year ended 31 March 2020, which increase was primarily due to a ₹1,350.47 Crore, or 25.96%, increase in Average Interest-Earning Micro Loans to ₹6,552.36 Crore for year ended 31 March 2021 from ₹5,201.89 Crore for year ended 31 March 2020 and a ₹4,96.30 Crore, or 184.94%, increase in Average Interest-Earning Other Loans to ₹764.65 Crore for year ended 31 March 2021 from ₹268.35 Crore for Year ended 31 March 2020. Our interest/discount on advances/bills for Fiscal 2021 was ₹8.00 Crore less than it would have been but for the Supreme Court's ruling on March 23, 2021 in Small Scale Industrial Manufacturers Association v. Union of India and others, in which the Supreme Court directed that there shall not be any charge of interest on interest/compound interest/penal interest for the period during the moratorium and any amount already recovered under the same head, namely, interest on interest/penal interest/compound interest shall be refunded to the concerned borrowers and to be given credit/adjusted in the next instalment of the loan account.
 - o The increase in Average Interest-Earning Advances was partially offset by a decrease in the Yield on Average Interest-Earning Advances to 20.14% for the year ended 31 March 2021

from 22.64% for the year ended 31 March 2020. The Yield on Average Interest-Earning Advances decreased primarily due to the increase in gross NPAs to ₹564.00 Crore as at March 31, 2021 from ₹100.86 Crore as at March 31, 2020 (we do not book interest/discount on advances/bills that are NPAs) and due to a decrease in the percentage of Average Interest-Earning Micro Loans (which have a higher yield than our other loans) in our Average Interest-Earning Advances to 89.55% for Fiscal 2021 from 95.09% for Fiscal 2020. The other reason for the decrease in the Yield on Average Interest-Earning Advances was a declining interest rate environment, with the RBI's repo rate decreasing to 4.00% as at March 31, 2021 from 4.40% as at March 31, 2020. The Yield on Average Interest-Earning Micro Loans decreased to 21.16% for year ended 31 March 2021 from 23.12% for the year ended 31 March 2020 and the Yield on Average Interest-Earning Other Loans decreased to 11.42% for the year ended 31 March 2021 from 13.31% for the year ended 31 March 2020.

- Income from investments decreased by ₹3.88 Crore, or 2.94%, to ₹128.32 Crore for Year ended 31 March 2021 from ₹132.20 Crore for year ended 31 March 2020. This decrease was primarily due to a decrease in the Yield on Average Interest-Earning Investments to 6.64% for year ended 31 March 2021 from 7.54% for year ended 31 March 2020, which was partially offset by a ₹179.32 Crore, or 10.23%, increase in Average Interest-Earning Investments to ₹1932.60 Crore for year ended 31 March 2021 from ₹1753.28 Crore for Year ended 31 March 2020.
- Interest on balances with RBI and other inter-bank funds decreased by 8.00% to ₹39.34 Crore for Year ended 31 March 2021 from ₹42.76 Crore for year ended 31 March 2020. This decrease was primarily due to a decrease in the Yield on Average Interest-Earning Balances with RBI and other Inter-Bank

Funds to 3.86% for year ended 31 March 2021 from 7.23% for year ended 31 March 2020, which was partially offset by a ₹427.04 Crore, or 72.23%, increase in Average Interest-Earning Balances with RBI and other Inter-Bank Funds to ₹1018.25 Crore for Year ended 31 March 2021 from ₹591.21 Crore for Year ended 31 March 2020.

Other Income

The table set forth below shows details in relation to our other income for Fiscals 2021 and 2020.

Particulars	(₹ in Crore, except percentages)		
	Year ended 31 March 2021	Year ended 31 March 2020	Percentage increase / (decrease)
Commission, exchange and brokerage	64.50	97.98	(34.17%)
Profit on sale of investments (Net)	23.04	6.40	259.89%
Profit/(loss) on sale of land, buildings and other assets (Net)	(2.34)	0.04	(6,100.00%)
Profit on foreign exchange transactions (Net)	0.55	0.24	130.25%
Income earned by way of dividends etc. from companies	0.11	0.00	2,650.00%
Miscellaneous income	40.24	28.53	41.05%
Total	126.10	133.19	(5.32%)

Our other income decreased by ₹7.09 Crore, or 5.32%, to ₹126.10 Crore for Year ended 31 March 2021 from ₹133.19 Crore for Year ended 31 March 2020. The primary reason for this decrease was a ₹33.48 Crore, or 34.17%, decrease in income from commission, exchange and brokerage to ₹64.50 Crore for Year ended 31 March 2021 from ₹97.98 Crore for Year ended 31 March 2020, which decrease was primarily due to a decrease in processing fees by ₹36.70 million, or 45.67%, to ₹43.65 Crore for Year ended 31 March 2021 from ₹80.35 Crore for Year ended 31 March 2020, which was mainly on account of not charging any processing fees on Covid Care loan products granted to customers during Fiscal 2021, which was partially offset by an increase in services charges collected from deposit customers and income from ATM / UPI transactions by ₹3.69 Crore, or 41.73%, to ₹12.55 Crore for Year ended 31 March 2021 from ₹8.86 Crore for Year ended 31 March 2020.

The decrease in commission, exchange and brokerage income was partially offset by (a) a ₹16.64 Crore, or 259.89% increase in profit on sale of investments (net) to ₹23.04 Crore for Year ended 31 March 2021 from ₹6.40 Crore for Year ended 31 March 2020, which was primarily due to a fall in yields on government securities, which resulted in price appreciation of securities held resulting in higher profits and (b) a ₹11.71 Crore, or 41.05%, increase in miscellaneous income to ₹40.24 million for Year ended 31 March 2021 from ₹28.53 Crore for year ended 31 March 2020, which increase was primarily due to an increase on fees received on the sale of priority sector lending certificates by ₹19.10 Crore, or 636.67%, to ₹22.10 Crore for Year ended 31 March 2021 from ₹3.00 Crore for Year ended 31 March 2020.

Total Expenditure

Our total expenditure increased by ₹305.83 Crore, or 22.55%, to ₹1661.88 Crore for Year ended 31 March 2021 from ₹1,356.05 Crore for Year ended 31 March 2020. The primary reasons for this increase are discussed below:

Interest Expended

Our interest expended increased by ₹98.52 Crore, or 15.86%, to ₹719.58 Crore for Year ended 31 March 2021 from ₹621.06 Crore for Year ended 31 March 2020. The primary reasons for this increase are discussed below.

- Interest on deposits increased by ₹119.45 Crore, or 24.62%, to ₹604.57 Crore for Year ended 31 March 2021 from ₹485.12 Crore for year ended 31 March 2020, which was due to a 38.77% increase in Average Interest-Bearing Deposits to ₹8,091.14 Crore for Year ended 31 March 2021 from ₹5,830.40 Crore for Year ended 31 March 2020, which was partially offset by a decrease in the Cost of Average Interest-Bearing Deposits to 7.47% for Year ended 31 March 2021 from 8.32% for Year ended 31 March 2020.
- Interest on Reserve Bank of India / inter-bank borrowings and others decreased by ₹20.93 Crore, or 15.39%, to ₹115.01 Crore for Year ended 31 March 2021 from ₹135.94 Crore for Year ended 31 March 2020. This was primarily due to a decrease in the Cost of Average Borrowings to 8.03% for Year ended 31 March 2021 from 9.64% for year ended 31 March 2020, which was partially offset by a ₹22.75 Crore, or 1.61%, increase in Average Borrowings to ₹1432.75 Crore for Year ended 31 March 2021 from ₹1410.00 Crore for year ended 31 March 2020.

Operating Expenses

The table set forth below shows details in relation to our operating expenses for the years ended 31 March 2021 and 31 March 2020.

Particulars	(₹ in Crore, except percentages)		
	Year ended 31 March 2021	Year ended 31 March 2020	Percentage increase / (decrease)
Payments to and provisions for employees	187.79	144.07	30.35%
Rent, taxes and lighting	42.04	33.91	23.96%
Printing and stationery	5.29	5.34	(0.84)%
Advertisement and publicity	2.71	3.48	(22.13)%
Depreciation on Bank's Property	28.57	23.17	23.33%
Directors' fees, allowances and expenses	1.40	1.47	(4.76)%
Auditors' fees and expenses	0.63	0.77	(17.86)%
Law charges	0.26	0.20	29.21%
Postage, Telegrams, Telephones etc.	9.17	7.37	24.38%
Repairs and maintenance	1.58	1.31	20.27%
Insurance	10.84	6.08	78.30%
Other expenditure	341.58	373.51	(8.55)%
Of which:			
Business correspondent expense	232.81	277.78	(16.19)%
Total	631.86	600.68	5.19%

Our operating expenses increased by ₹31.18 Crore, or 5.19%, to ₹631.86 Crore for Year ended 31 March 2021 from ₹600.68 Crore for Year ended 31 March 2020. The primary reasons for this increase are discussed below.

- Payments to and provisions for employees increased by ₹43.72 Crore, or 30.35% to ₹187.79 Crore for year ended 31 March 2021 from ₹144.07 crore for year ended 31 March 2020, which was primarily due to a 13.96% increase in our number of employees to 3,803 as at March 31, 2021 from 3,337 as at March 31, 2020.
- Rent, taxes and lighting increased by ₹8.13 Crore, or 23.96% to ₹42.04 Crore for Year ended 31 March 2021 from ₹33.91 Crore for Year ended 31 March 2020, which was primarily due to a 21.15% increase in our number of Branches and Ultra-Small Branches (combined) from 454 as at March 31, 2020 to 550 Branches as at March 31, 2021.
- Insurance increased by ₹4.76 Crore, or 78.30% to ₹10.84 Crore for Year ended 31 March 2021 from ₹6.08 Crore for Year ended 31 March 2020, which was primarily due to increase on insurance on deposits paid to Deposit Insurance Credit Guarantee Corporation, which increased by ₹4.83 Crore, or 95.43%, to ₹9.90 Crore for Year ended 31 March 2021 from ₹5.06 Crore for Year ended 31 March 2020 due to the increase in deposits.

The above increases were partially offset by, among other things, a ₹31.93 Crore, or 8.55% decrease in other expenditure to ₹341.58 Crore for Year ended 31 March 2021 from ₹373.51 Crore for Year ended 31 March 2020,

which was primarily due to a ₹44.97 Crore, or 16.19% decrease in business correspondent expense to ₹232.81 Crore for Year ended 31 March 2021 from ₹277.78 Crore for Year ended 31 March 2020. The decrease in business correspondent expense was primarily due to the non-collection of loan repayments due to the moratorium.

Provisions and Contingencies

Our provisions and contingencies increased by ₹176.13 Crore, or 131.14%, to ₹310.44 Crore for year ended 31 March 2021 from ₹134.31 Crore for Year ended 31 March 2020. The primary reasons for this increase are discussed below.

- Provision towards NPA/write offs increased by ₹139.59 Crore, or 284.00%, to ₹188.74 Crore for year ended 31 March 2021 from ₹49.15 Crore for Year ended 31 March 2020. The primary reason for the increase in the provision towards NPA/write offs was a ₹132.56 Crore, or 214.17%, increase in additions during the year to ₹194.45 Crore for year ended 31 March 2021 from ₹61.89 Crore for year ended 31 March 2020, which was due to gross NPAs increasing to ₹564.00 Crore as at March 31, 2021 from ₹100.86 Crore as at March 31, 2020, which increase was primarily due to the COVID-19 pandemic.
- Provision towards standard assets increased by ₹82.48 Crore to ₹92.55 Crore for Year ended 31 March 2021 compared to ₹10.08 Crore for year ended 31 March 2020. The primary reasons for this increase were (a) we made a provision of ₹35.99 Crore for year ended 31 March 2021 against the potential impact of COVID-19 compared to a provision of

₹4.4.1 Crore for year ended 31 March 2020 against the potential impact of COVID-19 and (b) a 33.76% increase in our Average Interest-Earning Advances to ₹7317.01 Crore for year ended 31 March 2021 from ₹5470.24 Crore for Year ended 31 March 2020.

The above increases were partially offset by our provision made towards current tax expenses decreasing by ₹11.10 Crore, or 15.56%, to ₹60.25 Crore for Year ended 31 March 2021 from ₹71.35 Crore for Year ended 31 March 2020. The primary reasons for this decrease was a 44.83% decrease in our Net Profit Before Tax (net profit for the year plus provisions made towards income tax) to ₹141.37 Crore for Year ended 31 March 2021 from ₹256.26 Crore for year ended 31 March 2020. In addition,

we had a deferred tax credit of ₹24.27 Crore for Year ended 31 March 2021 compared to a deferred tax credit of ₹5.48 Crore for Year ended 31 March 2020. Our deferred tax credits in Fiscals 2021 and 2020 were primarily due to provisions towards standard advances. As a result of the foregoing, our total provision made towards income tax decreased by ₹29.89 Crore, or 45.38%, to ₹35.98 Crore for Year ended 31 March 2021 from ₹65.87 Crore for Year ended 31 March 2020. Our total provisions made towards income tax as a percentage of Net Profit Before Tax were 25.45% and 25.70% for year ended 31 March 2021 and 2020, respectively, compared to the applicable corporate income tax of 25.17% (including applicable surcharges and cess) for year ended 31 March 2021 and 2020.

Net Profit for the Year

As a result of the above, our net profit for the year decreased by ₹84.99 Crore, or 44.64%, to ₹1,05.39 Crore for Year ended 31 March 2021 from ₹190.39 Crore for Year ended 31 March 2020.

Key Business Figures

(₹ in Crore, except percentages)

Particulars	31.03.21	31.03.20	Growth	Growth %
Total Business	17,425.33	13,846.13	3,579.20	25.85%
Total Deposits	8,999.43	7,028.38	1,971.05	28.04%
Gross Advances	8,415.00	6,606.51	1,808.49	27.37%
CD Ratio (%)	93.51%	94.00%		
Savings Deposits	1,594.46	902.44	692.02	76.68%
Demand Deposits	153.18	57.84	95.34	164.83%
Total CASA	1,747.64	960.28	787.36	81.99%
CASA % to Deposits	19.42%	13.66%		
Term Deposits	7,251.78	6,068.10	1,183.68	19.51%
Bulk Deposits	203.00	346.00	(143.00)	(41.33)%

The table below sets forth our gross advances by product groups.

(₹ in Crore, except percentages)

Classification of Advances	Year ended 31 March 2021		Year ended 31 March 2020	
	Advances (₹ in Crore)	% of Total	Advances (₹ in Crore)	% of Total
Micro loans	7,134.35	84.78%	6,138.96	92.92%
Retail loans	960.72	11.42%	360.89	5.46%
MSME and corporate loans	310.90	3.69%	106.54	1.61%
Agricultural loans	9.03	0.11%	0.12	0.01%
Total	8,415.00	100.00%	6,606.51	100.00%

Non-Performing Asset Position

(₹ in Crore, except percentages)

Particulars	31 March 2021	31 March 2020
Advances	8,415	6,607
Standard Assets	7,851	6,506
NPA	564	101
NPA Provision	247	59
Net NPA	317	42
GNPA (%)	6.70%	1.53%
Net NPA (%)	3.88%	0.64%
Provision Coverage	52.77%	79.93%

Capital Adequacy Position

(₹ in Crore, except percentages)

Particulars	2021	2020
Tier I Capital [A]	1,388.91	1,122.50
Of which:		
Perpetual Debt Instruments	48.00	48.00
Tier II Capital [B]	173.74	162.72
Of which:		
Subordinated Debt	89.00	127.00
Total Capital [C= A+B]	1,562.65	1,285.22
Total risk weighted assets	6,448.90	5,348.19
Tier I Capital (%)	21.54	20.99
Tier II Capital (%)	2.69	3.04
Total Capital Adequacy Ratio (%)	24.23	24.03

Key Strengths

1. Deep understanding of the microloan segment enables geographical diversification

ESAF has gained a deep understanding of the market over the years that enable us to meet the financing requirements of potential customers. The Bank's engagement with its target customer segments and understanding of related socio-economic dynamics allows it to establish effective credit and operational procedures, identify potential market demand, and leverage its existing operating network to introduce new products, increase the customer base, and grow its product portfolio. The Bank's deep understanding of the micro loan segment has enabled it to successfully expand its business outside of Kerala. Micro loans to customers outside of Kerala has grown from ₹549.05 crore, representing 37.81% of total micro loans, as at March 31, 2017, to ₹3,371.83 crore as at March 31, 2021, representing 47.20% of total micro loans. Top five states outside Kerala for micro loans were Tamil Nadu, Madhya Pradesh, Maharashtra, Chhattisgarh and Karnataka.

2. Strong rural and semi-urban banking franchise

Although majority of Indian households are located in rural areas, the banking infrastructure investment in these regions is relatively low and thus there is a gap in the demand and supply of financial services in the backward regions of the country. Despite a significant contribution of nearly 47.0% to India's GDP, rural areas have only 9.0% share of total credit outstanding. The loans share of SFBs in rural region is further low at 7.0%. Moreover, rural areas in India have lower financial inclusion compared to urban areas. This presents SFBs significant growth opportunities in rural and unserved areas.

ESAF's strong rural and semi-urban franchise will enable it to take advantage of this growth opportunity. The Bank has established strong hinterland presence by providing micro loans and Haritha loans

(agricultural loans) to customer in rural and semi-urban areas. It has developed an understanding of the rural and semi-urban households in the regions in which it operates. As at March 31, 2021, advances to micro loan customers in rural and semi-urban areas (combined), accounted for 74% of total gross advances.

ESAF's number of customers in rural and semi-urban areas increased from 0.08 million and 1.06 million as at March 31, 2017, respectively, to [xx] million and [xx] million as at March 31, 2021, respectively. The Bank had 454 branches as at March 31, 2021, with 37 metro branches, 72 urban branches, 274 semi-urban, and 71 rural branches. Rural and semi-urban branches accounted for 75.9% of the Bank's presence as at March 31, 2021. The Bank also serviced customers through 136 business correspondent outlets as at March 31, 2021.

In 2019, the Bank received the "Banking Gold" SKOCH award for providing access and affordable banking services for financially underserved areas and the "Best performance award for SHG-Bank linkage" from NABARD.

3. Fast growing retail liability portfolio with low concentration risk

The Bank has been able to leverage its strong brand equity associated with its name "ESAF", which translates to fair and transparent, to rapidly grow its deposit portfolio since commencement of operations. The Bank offers a variety of demand deposits and savings bank account options including deposits and other services through which their customers can realise their savings goals. Since becoming a Small Finance Bank, the Bank has laid strong emphasis on increasing the retail deposits base, as they have lower rates of interest compared to wholesale deposits.

ESAF has the highest share of retail deposits at 95% as a percentage of total deposits as compared to other SFBs and microfinance institutions which obtained

a bank licence (Banks-MFIs) (Source: CRISIL Research Report). The Banks intend to further strengthen its liability franchise with a focus on growing its retail deposit and CASA deposit base to provide it with a stable and low-cost source of funding. As at March 31, 2021, the retail deposits accounted for 97.74% of the Bank's total deposits. As at March 31, 2021, deposits from the Bank's 20 largest depositors accounted for just 9.11% of total deposits which was 79.09% as at March 31, 2017, which indicates lowering concentration risk.

4. Strong customer connects driven by customer-centric products and processes and other non-financial services for micro loan customers

ESAF aims to provide the best-in-class banking services to its customers, as it believes customers are the most important stakeholders in its business. The Bank's products and services are designed to meet the various lifecycle needs of customers, such as home loans, clean energy product loans, loans for agricultural activities, loans against property, personal loans, school education loans, gold loans and vehicle loans.

The Bank gives women priority when it comes to micro loans. ESAF had 23.40 lakh women micro loan customers out of 38.86 lakh MFI customers as at March 31, 2021. Owing to its customer-centric approach, micro loans can be repaid on a weekly, fortnightly or monthly basis based on customers' preferences. Furthermore, money can be deposited on a weekly, fortnightly, or monthly basis for micro recurring deposits. The business correspondents collect cash repayments on the Bank's behalf and through regularly meeting with its micro loan customers and thus business correspondents are better able to understand the customers' requirements. The Bank believes its business correspondents' constant engagement with micro loan customers leads to a lower risk of delinquencies. In addition to the provision of financial services, the business correspondents undertake various non-financial services, which include, among other things, conducting financial literacy programmes, livelihood programmes, entrepreneurship training programmes and community engagement programmes.

The Bank believes that its business is driven by the acquisition of new customers and retention of existing ones. As at March 31, 2021, 80.23% of its current borrowers had previously borrowed from the Bank.

The Bank's guiding principles include transparency, preventing its customers from becoming over-indebted, treating customers fairly and being

empathetic to customers in times of crisis, which it has demonstrated by supporting its customers during the Kerala floods. During the 2018 and 2019 Kerala floods, the Bank provided emergency funding in the form of "Uddhan Loans" to customers for rebuilding their livelihoods and meeting expenses, moratoriums on repayment of their loans for a period of up to four months depending on the needs of such customers affected by the floods and extending total repayment periods for up to 36 months on certain categories of loans. On the impact of COVID-19, the Bank launched three new loan products: (1) Income Generation Loan Top Up loan, which is targeted at customers who have an existing Income Generation loan / Income Generation Loan Top-up loan maturing within the next three months and who have a good repayment track record; (2) Pre-approved Loan, which is a variant of the Income Generation Loan Top Up loan, and (3) Uddhan Loan Series 3 – Covid Care Loan, which is tailor-made to support the financial needs of customers adversely affected by the COVID-19 pandemic.

5. Technology-driven model with an advanced digital technology platform

ESAF has leveraged technology to identify potential opportunities, deliver products and services to the target customers, and improve customer satisfaction and business efficiency. ESAF offer to the customers a number of digital products, services and platforms, including mobile banking, internet banking SMS alerts, bill payments and RuPay branded ATM cum debit cards. All banking and payment transactions, such as remittances can be completed through these platforms. The Banks' customers are also able to register for deposit accounts on a unified payment interface-based mobile application. The collections mechanism has also been largely digitalised through the use of mobile applications. Apart from the standard digital payment services, including NEFT, RTGS, IMPS, BBPS, e-NACH/NACH, the Bank also provide a UPI QR code-based EMI payment service.

The Bank has also digitalised customer on-boarding, account opening and loan underwriting process by using tablets, which enables it to reduce turnaround time and offers better service to customers. The Bank has a digitalised central credit-processing unit for its micro loans. The back-end operations, including the core banking system, human resources, customer relationship management systems, anti-money laundering check system, lead management system, collection and disbursement systems, as well as treasury operations, are automated using robotic process automation technology and other automation processes, which has helped improve the internal turnaround time. Further, the Bank has

implemented technology solutions that enable it to ensure cashless disbursement of loans. Its collections mechanism has also been digitalised through the use of mobile applications and a payment gateway through which the Bank's borrowers can repay their loans.

The Bank continuously works towards innovating and improving the technical know-how and improve customers' experience through the use of technology. In order to handle customer requests and deliver services in a more cost-effective manner, the Bank has implemented a customer relationship management solution.

6. Experienced Board and Management Team

The highly reputed and professional Board and management team have significant experience in the banking and financial services sector. The senior management comprises functional heads (core team members) and business heads for each product verticals, most of whom have been associated with the Bank since inception. The Key Management Personnel have expertise in scaling up financial services organisations and collectively they have all the relevant experience in credit evaluation, risk management, treasury, and technology.

Key Strategies

1. Expand geographical presence and penetrate deeper into existing geographies

One of the key strategic priorities of ESAF is financial inclusion and expanding distribution in rural and semi-urban areas. ESAF operated through 550 Branches, 311 ATMs and 12 business correspondent entities across 16 states and one union territory as at March 31, 2021. The Bank aims to increase its distribution within the existing states and expand its footprints to new states by selectively opening additional Branches, ATMs, and entering into relationships with new business correspondent entities. In FY 2021, it expanded its operations to Meghalaya, Uttar Pradesh, Haryana, Chandigarh, Uttarakhand and Tripura by opening Branches and/or appointing business correspondents for these states/union territory. The Bank targets to open branches in new states and union territories, predominately in North India and North East India while continually expanding its presence in South India, primarily outside of Kerala. The Bank intends to open Branches in urban and semi-urban areas after taking into account data from the RBI for certain parameters, such as aggregate deposits, deposit growth, number of urban households, households with banking access, share of PSU deposits and total NRI remittances.

2. Increase deposits, particularly NRI and CASA deposits

The Bank will continue to focus on increasing its CASA and the NRI deposits in order to reduce cost of funds. Total deposits stood at ₹8,999.43 crore as at March 31, 2021. CASA deposits stood at ₹1,747.65 crore, which represented 19.42% of total deposits. Deposits from NRIs represented 22.44% of the total deposits as at March 31, 2021. ESAF posted the second highest deposit growth of 44% over FY19-FY21 amongst the compared peers.

The Bank will continue to target new and existing customers to source CASA deposits by cross-selling CASA products to customers who do not have a CASA account and offering existing CASA account holders additional types of CASA accounts, focussing on providing excellent customer service and offering competitive pricing. This would include underserved customers within the retail segment and micro loan customers through customised low-ticket size liability products. The Bank will also target high net worth individuals (HNIs) to scale up CASA base by appointing dedicated relationship managers. In addition, ESAF plans to relocate many of its former and current Ultra-Small Branches over time to more suitable locations for its deposit taking business. Currently, these Ultra-Small Branches cater primarily to the micro loan customers.

The Bank intends to target NRIs in order to further scale up the CASA base. The Bank will continue to focus on regions where NRI remittances are high by launching targeted campaigns around festivals, conducting marketing activities at airports, malls, etc., and entering into tie-ups with third parties, such as remittance arrangers.

ESAF also aims to establish relationships with farmer producers' organisations/companies, co-operative societies, government departments, non-government organisations, and educational institutions in order to offer its products and services, including CASA, to their members/employees. The Bank will also offer savings accounts targeted at different types of workers.

3. Continue to grow micro loan business while increasing other categories of advances both in absolute terms and as a percentage of total advances

ESAF has a well-diversified customer base and the Bank aims to become a one-stop shop for all the financial requirements of the customers by diversifying its product offerings. It will continue to develop and offer a comprehensive suite of asset, liability, insurance and financial planning products tailored to customers' needs. The Bank also has plans to develop digital products in response to the

increase in customers' adoption of digital means and corresponding needs of digital banking, customer service, payments, advances and other banking services.

The Bank aims to continue to grow its micro loans by cross-selling and up-selling to its micro loan customer base and marketing micro loans to family members of the micro loan customers, thereby deepening its relationships with them and becoming their trusted bank of choice. ESAF is also considering to appoint new business correspondents and have banking agents start to source customers. Retail advances will remain a major focus for the Bank, both in terms of amount and as a percentage of gross advances by targeting households with NRI family members, salaried employees, students and senior citizens, thereby expanding its retail loan customer base. ESAF will continue to focus on individual customers to build retail loan portfolio, as well as capitalise on relationships with the existing micro loan customers whose borrowing ability has increased and who require increased loan amounts. The bank will continue offering personalised loan products to the salaried account holders. ESAF will also increase the MSME and corporate loan business and agricultural loan portfolio by having dedicated relationship officers in the branch and exploring newer business models like fintech lending, supply chain financing, leveraging farmer producer organisations.

4. Increase fee-based income by cross-selling, expanding third-party products and service offerings and expanding fee-based offering

An important strategic initiative of ESAF is to focus on non-interest income sources. The Bank intends to achieve fee-based income by expanding third-party product and service offerings. The Bank is involved in distributing the National Pension System, Atal Pension Yojna, third-party life and non-life insurance products, money transfer and foreign exchange services. The Bank has also started catering to small traders by providing them with POS terminals along with current account facilities and introduced a platinum debit card in FY20. ESAF has plans to distribute mutual funds, offer third-party depositary services, provide financial advisory services and offer bank guarantees and letters of credit to MSMEs.

5. Continue to leverage technology and customer data analytics

ESAF is thrusting on technology and data analytics to boost overall operational efficiency and product innovation. For instance, the Bank intends to develop digital dashboards and other tools to efficiently track loans and monitor customer history and potential opportunities. Also, it intends to leverage its front-end technology platforms to further improve customer acquisition and transaction management.

The Bank targets to further enhance its technology platforms, such as internet banking, mobile banking, ATMs, cash deposits machines, customer service applications and payment interfaces, which will increase the greater adoption of the service delivery mechanisms. This will also enable the Bank to increase the accuracy of its data, made auditing and monitoring of data easier, thus resulting in more reliable data analytics and resulting in more efficient risk management processes. This will also help in targeted customer profiling and offer customised products to suit customers' diverse requirements. In addition, for further expanding its digital reach, the Bank plans to roll out additional features on its website and mobile application, such as support for unified payment interface transactions.

Management Outlook

ESAF is progressing well towards its goal of becoming one of India's leading banks in the microfinance sector. The transformation journey from a Microfinance institution to a Small Finance Bank has brought with it a plethora of opportunities and challenges relating to funding sources, credit delivery and administration, putting in place the required infrastructure, policies and processes, recruitment and training manpower etc. Within the short time since commencing its operations, ESAF has been successful in diversifying its funding sources and credit delivery as well as putting in place the required systems, policies and procedures.

ESAF's longstanding presence in underpenetrated regions offers strong growth potential. The Bank plans to diversify geographically in next 2-3 years by opening more branches outside Kerala which will help them to reduce its geographical concentration. Though the current environment remains challenging amid the COVID-19 pandemic, profitability is expected to improve moderately going forward on account of reduction in operating expenses as the Bank is gradually scaling up its banking operations with the aid of digitisation. ESAF will continue to maintain sound asset quality while managing growth and profitability. This will be supported by a comprehensive suite of products and services – a significant cross-sell lever; deep understanding of unserved and underserved customer segments, ability to raise capital, geographical expansion, product diversification and an execution-focussed leadership team.

Information Technology

ESAF's core banking system is supported by software provided by IT solutions service provider 'FIS Payment Solutions & Services India Pvt. Ltd.' (FIS). FIS provides the Bank with a fully integrated banking and payments platform through a totally outsourced delivery model, which encompasses a core banking solution, risk management, domestic treasury management analytics and the entire suite of payments services, which includes switching, debit card management services and ATM management for brown label ATMs.

The service agreement between the Bank and FIS is dated June 10, 2016 and expires on December 31, 2021. The Bank has the option to renew the agreement for a further period of three years on the same terms and conditions. The Bank decided to outsource its IT requirements to FIS in order to minimise its upfront capital expenditure costs and avoid redundancy risk.

The Bank has rolled out FIS' core banking solution across all its branches and a customised version of this core banking solution has been installed in all Banking Outlets. All of the accounts of the customers are on the core banking solution of the Bank. The primary data centre is in Mumbai and the disaster recovery centre is in Hyderabad, both of which are managed and operated by FIS.

Human Resources

The Bank believes that human resources are the most important assets responsible for the growth of the organisation. Its HR policies provide a work atmosphere that leads to employee satisfaction, determined motivation and a high retention rate. ESAF Bank have been certified a "Great Place to Work" for March 2021 to February 2022 and HR is committed to ensuring the same in the coming years. The Bank consistently reviews its business and people policies to improve ways of working. The Bank recognises the importance of continuous learning and has adopted a comprehensive learning and development policy. It has established robust talent management practices, development interventions, productivity improvement initiatives and reward mechanisms, thereby enabling achievement of organisational goals and key milestones through retaining people. As at March 31, 2021, the total number of employees at the Bank stood at 3,337. During the year, the Bank has taken following initiatives:

- ▶ Internal trainings of 70,907 man hours were conducted during the year and each employee of the Bank has attended at least two trainings. Also, 350 employees attended external trainings conducted by various organisations and coaching institutes
- ▶ The Bank launched a series of programmes under the label of "SARG" to increase employee engagement, employee well-being and to bring out the inherent talent lying within the employees and family members
- ▶ eShiksha, a new upgraded Learning Management System - Online platform was launched in August 2020 and over 20 new courses have been added
- ▶ All the employee benefits like Bonus, ex-gratia, performance pay, annual increment and wage revision were implemented for all eligible employees even though the atmosphere was not conducive due to COVID-19
- ▶ New Compensation Policy and a new Promotion Policy has been introduced by grouping employees into three main streams (Business, Control and Support)

- ▶ The Bank has in pipeline a plan to launch a unique training programme 'Sahayog', once normalcy returns post the pandemic

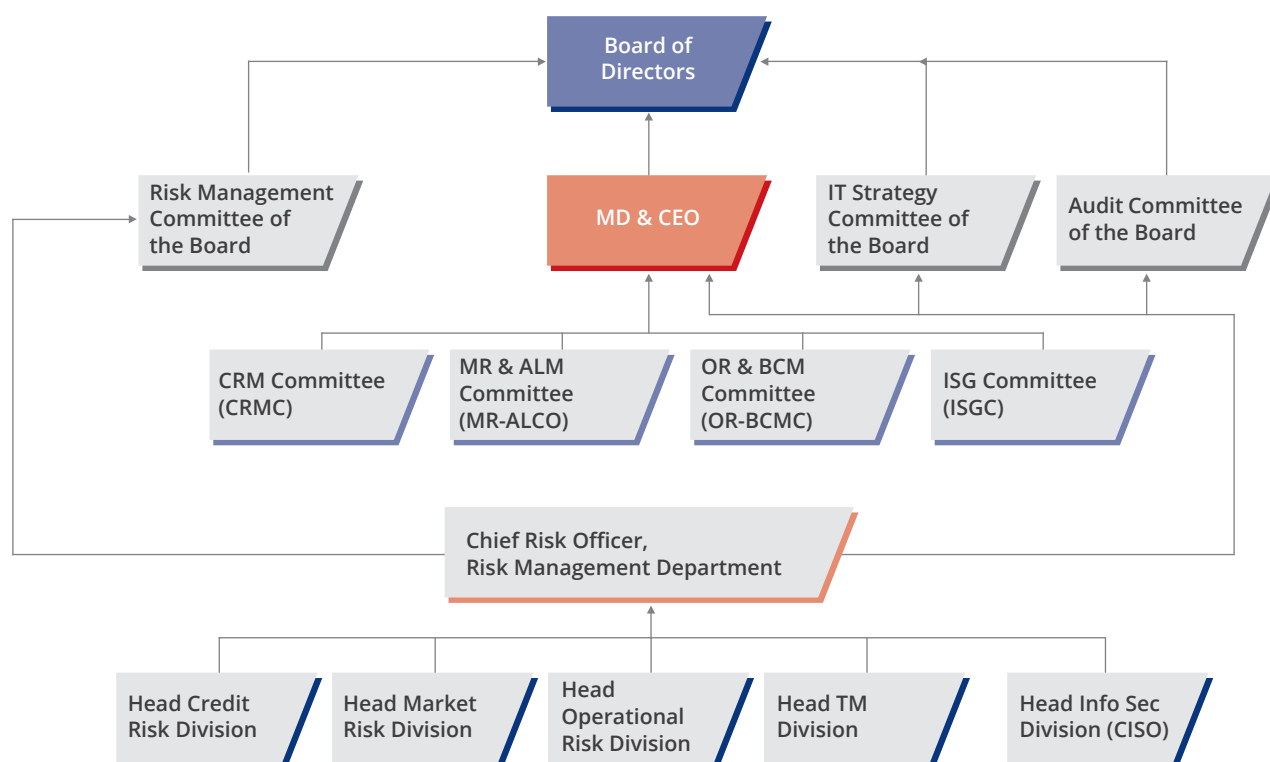
Risk Management

ESAF has a risk management structure that proactively identifies the risks faced by the Bank and helps in mitigating them. The Risk Management Architecture of the Bank comprises the following:

- ▶ Active Board and senior management oversight
- ▶ Appropriate policies, procedures, and limits for Bank's risk appetite, risk tolerance etc
- ▶ Comprehensive and timely identification, measurement, mitigation, controlling, monitoring, and reporting of risks
- ▶ Appropriate management information systems at the business and firm-wide level
- ▶ Risk strategy is approved by the Board on an annual basis and is defined based on the Bank's risk appetite, in order to align risk, capital and performance targets
- ▶ Adequate internal controls
- ▶ Segregation of duties across the 'three lines of defence' model, whereby front-office roles, risk management & oversight, compliance and Internal audit roles are played by functions independent of one another
- ▶ All major risk classes such as Credit Risk, Market Risk, Operational Risk and Liquidity Risk etc. are managed through focussed and specific risk management policies, processes and systems
- ▶ Stress testing tools and escalation processes are established at all risk functions to monitor the Bank's performance against approved risk appetite.

The Board of Directors is responsible for overall governance and oversight of core risk management activities of the Bank. To ensure that the Bank has a sound system of risk management and internal controls in place, the Board has established the Risk Management Committee of the Board (RMCB). The RMCB oversees and periodically reviews the processes and practices of risk management in the Bank through various Executive Level committees dealing with different functional responsibilities of risks. Credit Risk Management Committee (CRMC), Operational Risk & Business Continuity Management Committee (OR-BCMC) and Market Risk & Asset Liability Management Committee (MR-ALCO) support RMCB to facilitate effective execution of its responsibilities. The Information Security Governance Committee (ISGC) supports the Information Technology Strategy Committee of the Board.

Risk Management Structure



The Risk Management Department (RMD) assists the various committees in effectively managing the risks through its five divisions viz. Credit Risk, Market Risk, Operational Risk, Transaction Monitoring (TM), and Information Security. The RMD is also responsible for the formulation of risk policies and the Internal Capital Adequacy Assessment Process (ICAAP), identifying risks, assessing its materiality, measuring the magnitude of each type of risk, formulating risk-capital linkages, suggesting appropriate controls and mitigations, conducting stress tests, identifying impact on key risk parameters, coordinating the implementation of risk management framework approved by the Board and periodical risk reporting.

The RMD is headed by the Chief Risk Officer (CRO) who reports to the Managing Director & CEO on administrative matters and to the Risk Management Committee of the Board on functional matters. The CRO is responsible for formulating and implementing enterprise wide integrated risk management systems for identification and management of risks in the Bank. The Chief Information Security Officer (CISO), who heads the information security division, also reports to the Chief Risk Officer.

Various functional departments are responsible for devising and implementing suitable policies and processes for effective management of risks embedded in their respective functions, in consultation with the risk management department. Business units are responsible for compliance of various policies and

procedures stipulated by the corporate office for effective implementation of risk management systems. The internal audit function cross verifies the risk management activities and results thereof through various systems of audits and inspections, pointing out deficiencies and shortfalls, if any, for rectification and compliance.

Credit Risk

Credit risk is defined as the possibility of losses due to default by the borrowers and/or reduction in the value of the portfolio due to deterioration of credit quality of borrowers or counterparties.

The credit risk division of the risk management department implements policies and processes for credit risk identification, assessment, measurement, monitoring and control in a timely and effective manner. Credit Risk Management Committee ensures implementation of credit risk management framework policy and procedures, and provides recommendations to the Risk Management Committee and the Board considering any changes in the regulatory instructions, business, or economic conditions. It also monitors quality of the loan portfolio at periodic intervals, identifies problem areas, captures early warning signals in the loan portfolio and instructs business units with directions to rectify the deficiencies, suggests remedial measures and monitors the actions taken. In addition, the Bank has the Loan Policy and NPA Management Collection & Recovery Policy, approved by the Board of Directors.

Market Risk Management

The Basel Committee on banking supervision defines market risk as the risk of losses in on- and off-balance sheet positions that arise from movement in market prices.

The key components of market risk are discussed below:

Interest Rate Risk

Interest rate risk refers to fluctuations in the Bank's Net Interest Income and the value of its assets and liabilities arising from external and internal factors. Internal factors include the composition of assets and liabilities, borrowings, loans and investments, quality, maturity, and interest rates. External factors cover general economic and monetary conditions, viz. hardening or softening of interest rates by market forces or by RBI intervention. The risks could be higher interest cost on the liabilities or reduced interest yields on the assets, which could impact the net worth of the Bank in the long run.

Liquidity Risk

Liquidity Risk means a Bank's inability to meet its current or future obligations on the due date, which could adversely affect its financial condition, results of operations and cash flows. Liquidity refers to the ability of the Bank to fund a decrease in liabilities or increase in assets and meet both cash and collateral obligations at a reasonable cost without adversely affecting financial status. It is dependent on specific factors, such as maturity profile and composition of sources and uses of funding, the quality and size of the liquid asset buffer, and broader market factors, such as wholesale market conditions alongside depositor and investor behaviour. This type of risk may result in failure to meet regulatory liquidity requirements and support normal banking activities.

Market Risk

Market risk management is overseen and managed by the market risk division of the risk management department. The division develops and oversees the implementation of procedures and controls covering all areas of Market Risk, Liquidity Risk and Interest Rate Risk.

The division is independent of business and trading units and provides an independent risk assessment, which is critical to controlling and managing market risk. The mid office's treasury function prepares and analyses daily reports on various activities of treasury department and is responsible for independent market risk monitoring, measurement and analysis while reporting to the Chief Risk Officer. The market risk management and asset liability management functions are handled by the Asset Liability Management Committee (ALCO) together with the executive level committee, which is headed by the Managing Director and Chief Executive Officer.

The major functions of the Market Risk & Asset Liability Management Committee (MR-ALCO) with respect to managing risks include:

- ▶ Design and implementation of effective market risk management and asset liability management framework;
- ▶ Review new directives and regulatory limits for market risk, interest rate risk and liquidity risk, monitoring and making revisions to tolerance limits prescribed in the market risk management policy;
- ▶ Ensure that the business strategy is in line with the stated risk management objectives;
- ▶ Determine the structure, responsibilities and controls for managing market risk and the liquidity positions;
- ▶ Periodically monitor and control the risks and returns, funding and deployment, setting Bank's lending and deposit rates, and directing the investment activities of the Bank;
- ▶ Develop the market risk strategy by clearly articulating the acceptable levels of exposure to specific risk types (i.e., interest rate, liquidity etc.); and
- ▶ Conduct liquidity stress tests under different scenarios at periodical intervals to assess the impact on liquidity to withstand stressed conditions.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

While operational risk management (ORM) is the responsibility of various functions and business units handling operational activities, it is overseen at an executive level by the Operational Risk Management Committee. Operational Risk and Business Continuity Management Committee (OR-BCMC) at the executive level oversees bank-wide implementation of the Board approved policies and processes. A comprehensive, Board-approved, bank-wide Business Continuity Plan has been put in place to ensure continuity of critical operations of the Bank covering all identified disasters.

In addition to the OR-BCMC, the Operational Risk Division also coordinates the functions of the Crisis Management and Quick Response Team, which is responsible for swift actions to address the business continuity issues in the event of the occurrence of a crisis. Business continuity management and coordination of relevant activities are also the functions of the ORM team. Activities include building up understanding of the risk profile, implementing

tools related to business continuity management, and working towards the goals of improved controls and lower risk.

The ORM model of the Bank facilitates conducting of Risk and Control Self-Assessments (RCSA) scenario assessments, controls testing, investigation of incidents, issues tracking and development of action plans. Each of these activities can be linked to the other activities in the system, thereby providing an integrated and centralised framework for collecting, managing, and storing information.

The Bank has an internal framework for reporting and capturing Operational Risk incidents. The incidents reported are investigated to assess weaknesses in controls and identify areas for improvement. The Bank uses a Risk Management software for Credit, Market and Operational Risk management. Since the RBI has not prescribed capital charge for Operational Risk for SFBs, the Bank has not computed capital charge for Operational Risk.

Transaction Monitoring

The Bank has controls and compliance mechanisms in place for ensuring that its customers do not include persons prone to money-laundering and other financial crimes. The Transaction Monitoring team focusses on the following:

- ▶ risk categorisation of customers at the time of account opening, and transaction monitoring measures that align with the risk categorisation of the customers;
- ▶ maintenance of a compliance culture across the organisation ensures that all our employees understand money-laundering risks and the consequences of breaches in AML norms;
- ▶ effective implementation of KYC and Anti Money Laundering (AML) policy helps ensure that the Bank are not used for money-laundering or terrorist financing activities;
- ▶ development and maintenance of a comprehensive AML and CFT programme in line with the regulatory requirements;
- ▶ reporting on cash transactions above the limits specified, transaction involving receipts by non-profit organisations and transactions involving the use of forged or counterfeit currency notes to Financial Intelligence Unit India; and
- ▶ monitoring of transactions with the intention of identifying and preventing frauds and malpractices, using fraud monitoring systems.

Information Security Risk and Cyber Security Risk

IT and Cyber Security Risk can be defined as any risk of financial loss, disruption, or damage to the reputation of an organisation from a failure of its Information Technology systems. Information and cyber security risk may arise from the failure to respond to security and privacy requirements, human error, internal fraud through software manipulation, external fraud by intruders, obsolescence in applications and machines, reliability issues (including software malfunctions) or mismanagement.

The Bank has in place information security and cyber security policies, periodically reviewed by the Board of Directors. The Information Security Governance Committee (ISGC), headed by the Managing Director & CEO, functions as the apex body for handling Information Security risk. The Information Security Division, headed by the Chief Information Security Officer (CISO) is responsible for creating, implementing and maintaining compliance with the appropriate Information Security Risk Management framework. The Information Technology Department is primarily responsible for identification, measurement, control, and monitoring of technology to avoid risks that threaten the safety and soundness of the systems and technology of the Bank.

The Bank has implemented a 24X7 Security Operations Centre (SOC) to perform the task of detection and analysis of all potential incidents and notify the application owners which has been affected, for the containment, eradication and recovery from the incident. All cyber security incidents are recorded and reported to Information Security Division. The Information Systems of the Bank are subjected to Vulnerability Assessment and Penetration Testing (VAPT) on a periodical basis, as a preventive measure against cyber-attacks that could threaten the confidentiality, integrity and availability of data and the systems.

ESAF's information security policy and cyber security policy are approved and periodically reviewed by the Board. The CISO is responsible for articulating and enforcing the policies use to protect the Bank's information assets for coordinating with relevant external agencies on the information security related issues. The cyber security management functions are guided directly by the Board approved Cyber Security Policy and also by other related policies, including the Operational Risk Management Policy, Business Continuity Management Policy, Fraud Risk Management Policy and Information Security Policy.

Material Risk Assessment

The Risk Management Department assesses on a quarterly basis and presents to the Board all the major risks faced by us and identifies the risks that are

material through the ICAAP review document. The Bank's policies and procedures provide specific guidance for the implementation of broad business strategies and establish, where appropriate, internal limits for various types of risks to which we may be exposed. Material risks are those risks that impact earnings, capital and people. A combination of the following qualitative and quantitative parameters is assessed to study the impact of a specific risk on us to check for materiality:

Earnings

Earnings include Net Interest Income and non-interest income. The assessment is forward-looking and aligned to financial plans.

Capital

The material risk assessment exercise assesses the impact of adverse events on the capital requirements. This is mainly done through the stress testing exercise.

People

This criterion assesses the impact of different risk events on the staff, including staff morale, attrition rate, performance management, training and development and balancing business requirements with personal goals of employees.

Stress Testing

Stress testing is done by the Risk Management Department on various parameters on a quarterly basis. Stress testing provides a means for estimating risk exposure of the Bank under stressed conditions enabling development of the choice of appropriate strategies for mitigating such risks (e.g., restructuring positions and developing appropriate contingency plans). It improves an understanding of Bank's risk profile and facilitates monitoring of changes in that profile over time. It allows the Board and senior management to determine whether the risk exposures correspond to risk appetite and evaluate capacity to withstand stressed situations in terms of profitability and capital adequacy. The stress tests used by the Bank include sensitivity analysis and scenario analysis. Sensitivity tests are used to assess the impact of change in one variable on ESAF's financial position and scenario tests include simultaneous moves in a number of variables based on historical or hypothetical events and assessment of their impact on the Bank's financial position.

ESAF tests a variety of scenarios of increasing NPAs, since credit quality generally tends to deteriorate during an economic downturn as borrowers begin to experience cash flow problems, which in turn affect servicing of debt, leading to possible deterioration in asset quality. Liquidity risk stress tests are done on the parameters of 'baseline' (with respect to institution specific crisis), 'medium' (with

respect to general market crisis) and 'severe' (with respect to combined scenarios).

The Bank also conducts stress tests on interest rate risk using the economic value of equity approach. The economic value of equity approach analyses the long-term impact of changing interest rates on the market value of the Bank's equity or net worth under various scenarios. The economic value of the Bank's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

COVID-19 Risk and Mitigation Strategy

The unprecedented COVID-19 pandemic has affected the world economy, including India, leading to a significant increase in volatility in financial markets and a decline in economic activities. The risk department has taken various measures including issuance of guidelines to the Bank's operating functions to protect the Bank's assets, analysis of the Bank's credit portfolio by considering our internal estimate for loan losses and risks inherent in the credit portfolio when deciding on the appropriate level of provisions, close monitoring of transactions, implementation of guidelines and protocols to protect the IT infrastructure of the Bank, and close monitoring of the Bank's system security.

The bank Initiated Business Continuity measures from 6th March 2020 by convening meeting of the Crisis Management & Quick Response Team. On 20/03/2020, the bank circulated its Business Continuity Plan (BCP) document to all branches and offices, which described the measures to be taken for managing the COVID-19 situation. The aim was to create a sound framework and implement strong processes and controls to help the bank and employees in managing the significant disruptions to business operations. The Crisis Management and Quick Response Team (CM-QRT) organised discussions on a regular basis through conference calls to assess the impact and to give directions as found necessary.

The BCP of the Bank has ensured continuity in operations and development of business even amidst adverse circumstances. As a supplement to the first BCP document, a BCP-2 Document was prepared on October 8, 2020 and circulated to the top management, business functionaries, all branches, offices and employees. This was done to review the earlier document and update it considering the probable impact and continuous risks for the Bank's business and manpower.

The BCP review of FY21 indicates that the Bank has been able to address the immediate challenges of COVID-19, related to protecting the staff/manpower and providing much-needed services to customers. The Bank was

able to contain operational disruptions, cyber security threats and people risks within acceptable levels. The Bank continues to monitor and review Business Continuity situation under the COVID-19 scenario on an ongoing basis.

As a prudent measure, the Bank has made aggregate provisions of ₹40.4 crore and ₹4.48 crore as on March 31, 2021 and March 31, 2020, respectively. The provisions were made in view of the continuing impact of COVID-19 and other relevant market factors and based on all the available information and provisions that may arise on any borrower account which has not been declared as NPA as at August 31, 2020 pursuant to the Supreme Court's interim order dated September 3, 2020 in Gajendra Sharma v. Union of India & Anr, which was vacated on March 23, 2021 in Small Scale Industrial Manufacturers Association v. Union of India and others. Per the RBI's notification dated April 7, 2021, for the period commencing September 1, 2020, asset classification for all such accounts was considered as per the applicable RBI asset classification norms. The extent to which the COVID-19 pandemic will impact the Bank's provision on assets and future results will depend on future developments related to the COVID-19 pandemic and other matters.

Internal Control System

ESAF has put in place adequate system of internal controls commensurate with its size and the nature of its operations. The Bank follows stringent procedures, systems, policies and processes to ensure accuracy in recording financial information, asset safeguarding from unauthorised use, prevention and detection of fraud and errors, completeness of accounting records, timely preparation of reliable financial information and compliance with statutes and laws. The Bank has developed an internal financial control framework in line with the requirements prescribed by the Companies Act, 2013. The risk management department is responsible for implementing the internal financial controls. Regular internal audits and checks ensure that responsibilities are executed effectively. Reports of the internal auditors are regularly reviewed by the management and corrective actions are initiated to strengthen the controls and enhance the effectiveness of the existing systems. Summaries of the reports and actions taken are presented to the audit committee of the Board.

The Bank has identified and documented risk control matrices incorporating all the major processes along with the key risks associated with them. Risk management department maintains repository of all process walk-through documents and the risk control matrices. Based on the risk assessment, processes are categorised into

different risk categories for the purpose of determining testing frequency. Testing includes both the testing of design gaps as well as test of operating effectiveness. After certifications from heads of departments, the chief financial officer certifies the internal financial control compliance which is disclosed in the Bank's annual report.

Compliance

The Bank promotes awareness of compliance obligations and ethical values across the organisation to build a culture focussed on compliance. The policies, systems and processes are being regularly improved and updated to ensure full compliance with the directions and guidelines issued to Small Finance Banks by the RBI from time to time. At ESAF, compliance starts at the top and is a shared responsibility of the entire team. The Board of Directors and Audit Committee are responsible for overseeing the management of compliance risk and implementation of the compliance risk management framework across the organisation. The Bank has well-documented policies and procedures in place and operate within the framework defined by the regulator and the policies approved by the Board. Audit, risk and compliance departments conduct regular reviews to ensure that the Bank's operations are within the defined framework. The Bank believes integrity, ethics and compliance are an integral part of the Bank. ESAF reiterates this idea to its staff through policies and trainings. The Bank also keeps a track of the evolving laws and regulations, which helps proactively steer the organisation in accordance with the requirements.

Corporate Social Responsibility (CSR)

ESAF aims to actively contribute to the social and economic development for evolving a sustainable society. The Bank has a CSR Policy in place, which articulates positive contribution towards economic, environmental and social well-being of communities through its CSR activities. ESAF intends to create its image as a reliable, credible, responsible business partner by making a positive difference in society and giving back to the community. The Bank's CSR focus areas are education, healthcare, sanitation and livelihood development. During the year under review, the Bank has undertaken various CSR activities. A few of them are mentioned below:

- ▶ Eradicating hunger, poverty, and malnutrition, promoting health care including preventive health care and sanitation and making available safe drinking water;
- ▶ Promoting education, including special education and employment enhancing vocation skills especially among children, women, elderly and the differently abled and livelihood enhancement projects;

- ▶ Disaster management including relief, rehabilitation and reconstruction activities;
- ▶ COVID-19 vaccination support to community;
- ▶ Distribution of relief kits/other immediate relief measures;
- ▶ Provided adequate relief support to the vulnerable population for ensuring basic supplies and improve livelihood;
- ▶ Community outreach activities - Positive mental health awareness, sessions on parenting and stress management;
- ▶ Rural development;
- ▶ Animal welfare; and
- ▶ Agroforestry, conservation of natural resources and maintaining quality of soil, air and water.

Cautionary Statement

Statements in this Management Discussion & Analysis (MD&A) Report describing the Bank's objectives, projections, estimates and expectations may be 'forward-looking statements' within the meaning of applicable laws and regulations. We have tried, wherever possible, to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised. The achievements of results are subject to risks, uncertainties, and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.



ESAF Small Finance Bank Limited

CIN: U65990KL2016PLC045669

Registered Office and Corporate Office Address: Building No. VII/83/8, ESAF Bhavan,
Thrissur - Palakkad National Highway, Mannuthy, Thrissur, Kerala, Pin - 680 651

Notice for the 05th Annual General Meeting of the Bank

Notice is hereby given that the Fifth Annual General Meeting of Shareholders of ESAF Small Finance Bank Limited (the Bank) will be held on Wednesday, September 29, 2021 at 12:30 PM through Video Conferencing (VC)/ Other Audio Visual Means (OAVM), to transact the following businesses. The Venue of the Meeting shall be deemed to be the Registered and Corporate Office of the Bank, Building No. VII/83/8, ESAF Bhavan, Thrissur - Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN - 680 651.

ORDINARY BUSINESS

Item No.1 - To consider and adopt the Audited Balance Sheet as on 31st March, 2021, the Profit and Loss Account and Cash Flow Statement for the year ended on that date together with the schedules and annexures thereto, the reports of the Auditor's and Directors' thereon.

Item No.2 - To re-appoint Shri. Chandanathil Pappachan Mohan (DIN: 02661757), Non-Executive Nominee Director, who retires by rotation this year, and being eligible, offered himself for re-appointment.

Item No.3 - Appointment of M/s. Deloitte Haskins and Sells, Chartered Accountants (FRN 117365W) as Statutory Auditors of the Bank for two consecutive Financial Years (Financial Year 2022 and Financial Year 2023) from the conclusion of the 05th Annual General Meeting till the conclusion of the 07th Annual General Meeting of the Bank and fixing their remuneration.

"RESOLVED THAT pursuant to the applicable provisions of the Banking Regulation Act, 1949 and applicable provisions of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 (including any statutory modifications or enactments made there under), based on the recommendation of the Audit Committee of the Board and the Board of Directors, consent of the shareholders of the Bank, be and is hereby accorded to appoint M/s. Deloitte Haskins and Sells, Chartered Accountants with Firm Registration number 117365W, as the Statutory Auditors of the Bank for two consecutive financial years (Financial Year 2022 and Financial Year 2023), to hold office from the conclusion of the 05th Annual General Meeting till the conclusion of 07th Annual General Meeting of the Bank, subject to the approval of Reserve Bank of India."

"RESOLVED FURTHER THAT the Board of Directors of the Bank be and is hereby authorized to fix the remuneration and out of pocket expenses incurred to the Statutory Auditors in consultation with them based on the recommendations of the Audit Committee of the Board."

SPECIAL BUSINESS

Item No. 4 - Payment of Variable Pay to Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank

To consider and, if thought fit, to assent or dissent with or without modification(s), to the following resolution(s) to be passed as an Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of the Banking Regulation Act, 1949, applicable provisions of the Companies Act, 2013, (including statutory modification(s) or re-enactment thereof for the time being in force), the payment of Variable Pay to Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank of ₹ 22,08,360/- (Rupees Twenty-Two Lakhs Eight Thousand Three Hundred and Sixty Only) for the Financial Year 2018-19 and ₹ 44,25,960/- (Rupees Forty-Four Lakhs Twenty-Five Thousand Nine Hundred and Sixty only) for the Financial Year 2019-20, as approved by the Reserve Bank of India vide letter No. DoR. GOV. No. 32855/ 29.44.005/ 2020-21 dated April 06, 2021, based on the recommendation of the Nomination Remuneration and Compensation Committee of the Board and the Board of Directors of the Bank, be and is hereby approved."

Item No. 5 - Revision of Remuneration of Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank in line with the Guidelines issued by the Reserve Bank of India vide Circular No: RBI/ 2019-20/ 89 DOR.Appt.BC.No.23/ 29.67.001/ 2019-20 dated November 04, 2019 on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff

To consider and, if thought fit, to assent or dissent with or without modification(s), to the following resolution(s) to be passed as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section 196, 197 and 198 read with Schedule V and other applicable provisions, if any, of the Companies Act, 2013 and the rules framed thereunder (including any statutory modifications or re-enactment thereof, for the time being in force), Section 35B and other applicable provisions of the Banking Regulation Act, 1949, Articles of Association of the Bank and subject to the approval of the Reserve Bank of India, the approval of the shareholders, be and is hereby accorded for remuneration of Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank, with effect from April 01, 2020 for an aggregate sum not exceeding ₹ 425.71 Lakhs per annum and other benefits as specified in the explanatory statement to the resolution.”

“RESOLVED FURTHER THAT the Board of Directors of the Bank is hereby authorized to make necessary modifications to the remuneration of Shri. Kadambelil Paul Thomas in alignment with the approval received from the Reserve Bank of India subject to the maximum ceiling as provided above.”

Item No. 6 – Re-appointment of Shri. Kadambelil Paul Thomas (DIN: 00199925) as the Managing Director and CEO of the Bank

To consider and, if thought fit, to assent or dissent with or without modification(s), to the following resolution(s) to be passed as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section 196, 197, 203 and any other applicable provisions, if any, read along with Schedule V of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, Section 10A, 35B and other applicable provisions of the Banking Regulation Act, 1949 (including any statutory amendment(s) thereto, modification(s) or re-enactment(s) thereof, for the time being in force) and the rules, guidelines and circulars issued by the Reserve Bank of India, from time to time and based on the recommendation of the Nomination Remuneration and Compensation Committee of the Board and the Board of Directors, the consent of the Shareholders of the Bank, be and is hereby accorded to the Reserve Bank of India for the re-appointment and terms of remuneration of Shri. Kadambelil Paul Thomas (DIN: 00199925) as Managing Director and CEO of the Bank for a period of three consecutive years with effect from 01st October, 2021, not liable to retire by rotation, upon the terms and conditions for an aggregate remuneration not exceeding ₹ 478.41 Lakhs per annum and other benefits as specified in the explanatory statement to the resolution.”

“RESOLVED FURTHER THAT the Board of Directors of the Bank is hereby authorized to make necessary modifications to the remuneration of Shri. Kadambelil Paul Thomas in alignment with the approval received from the Reserve Bank of India subject to the maximum ceiling as provided above.”

Item No. 7 – Alteration in Articles of Association of the Bank

To consider and, if thought fit, to assent or dissent with or without modification(s), to the following resolution(s) to be passed as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Section 14 of the Companies Act, 2013 and the rules made thereunder, each as amended, and other applicable provisions, if any, (including any amendment thereto or re-enactment thereof), approval of the shareholders is hereby accorded to amend the existing Article 102 by substituting with the following:

“Article 102: -

Subject to Section 174 of the Companies Act, 2013 and the guidelines issued by the Reserve Bank of India, the quorum for a meeting of the Board of Directors shall be 1/3rd of its total strength (excluding Directors, if any, whose place may be vacant at that time and any fraction contained in that one third being rounded-off as one), or 3 Directors, whichever is higher, provided that where at any time the number of interested Directors exceeds or is equal to 2/3rd of the total strength of the number of the remaining Directors, that is to say, the number of Directors who are not interested and present at the meeting being not less than 3, shall be the quorum during such time. At least half of the directors attending the meetings of the board shall be independent directors. Subject to the act, participation of the Directors by video conferencing or by other audio-visual means shall also be counted for the purposes of quorum.”

By the order of the Board
For ESAF Small Finance Bank Limited

Place: Thrissur
Date: September 07, 2021

Sd/-
Ranjith Raj P
Company Secretary
Membership No. A 30388

NOTES

- A Member entitled to attend the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Bank. The Proxy Form, to be effective shall be deposited at the Registered Office of the Bank 48 hours prior to the time fixed for the meeting. Proxy Form is enclosed herewith. (Members may note that proxy facility shall be entitled to only those members attending the meeting physically).
- A person can act as proxy on behalf of members not exceeding fifty (50) and holding in the aggregate not more than ten percent of the total share capital of the Bank. A member holding more than 10 percentage of the total share capital of the Bank carrying voting rights may appoint a single person as proxy and such person shall not act as proxy for any other person or shareholder.
- Every member entitled to vote at the meeting of the Bank or any resolution to be moved thereat, shall be entitled, during the period beginning 24 hours before the time fixed for the commencement of the meeting and ending with the conclusion of the meeting, to inspect the proxies lodged, at any time during the business hours of the Bank, provided not less than 3 days' notice, in writing of the intention, so as to inspect, is given to the Bank.
- Explanatory statement pursuant to Section 102 of the Companies Act, 2013, is attached herewith.
- All documents referred to in the Notice and the Explanatory Statement, and requiring Members' approval, and such statutory records and registers, as are required to be kept open for inspection under the Companies Act, 2013, shall be available for inspection by the Members at the Registered and Corporate Office of the Bank during business hours and shall be accessible to the person attending the meeting. In accordance with the MCA Circulars, the said documents have been made accessible for inspection through electronic mode and shall remain open and be accessible to any member till conclusion of the meeting. Any member intending to inspect the documents through electronic mode shall make a request by sending an e-mail to ranjith.raj@esafbank.com.
- Institutional/ Corporate shareholders (i.e. other than individuals/ HUF, NRI, etc.) shall send a scanned copy (pdf/ jpg format) of its Board or Governing Body's resolution/ authorization etc., authorizing their representative to attend and vote in the AGM on its behalf. The said resolution/ authorization shall be sent to the Company Secretary by email from their registered e-mail address to ranjith.raj@esafbank.com with a copy marked to secretarial@esafbank.com.
- The venue for the meeting shall be deemed to be the Registered and Corporate Office of the Bank at Building No. VII/83/8, ESAF Bhavan, Thrissur-Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651.
- Route Map of the venue of meeting as per Secretarial Standards-2 is annexed. The prominent landmark for the venue is College of Veterinary and Animal Sciences, Mannuthy.
- Members/ proxies should fill the attendance slip for attending the meeting and bring the attendance slips to the meeting.
- Members are requested to write their DP ID and Client ID No.(s) in their attendance slip for attending the meeting to facilitate identification of membership at the meeting.
- The members are requested to register their e-mail or new e-mail ID which has already been registered with the Depository Participant.
- Members may note that attendance of members through VC shall be counted for the purpose of reckoning quorum under Section 103 of the Companies Act, 2013.
- Members will be able to attend the Annual General Meeting through VC provided by clicking on the link given below and entering the login credentials:
 - Video Conferencing Solution: CISCO Webex Meeting
 - Meeting Access Code: 2512 530 0479
 - Meeting Access Link: <https://esafbank.webex.com/esafbank/j.php?MTID=m72ae197e695f98cf9eda216c96d26923>
- The facility of joining the AGM through VC will be opened 15 minutes before and will be open up to 15 minutes after the scheduled start time of the AGM, i.e., from 12:15 PM to 12:45 PM
- For ease of conduct, members who would like to ask questions/ express their views on the items of the businesses to be transacted at the meeting can send in their questions/ comments in advance by sending an email to ranjith.raj@esafbank.com before 05:00 PM IST on 28th September, 2021 mentioning their name, demat account no./ Folio no., e-mail Id, mobile number etc. The queries may be raised precisely and in brief to enable the Bank to answer the same suitably depending on the availability of time at the meeting. Please note that only questions of the members holding the shares as on cut-off date will be considered.

- During the meeting, where a poll on any item is required, the members participating through VC shall cast their vote on the resolutions only by sending e-mails from their e-mail id registered with the Bank to ranjith.raj@esafbank.com.
- Further, members will be required to use camera, if any, and hence require to use internet with a good speed to avoid any disturbance during the meeting.
- Members who need technical assistance before or during the Annual General Meeting can contact the Bank at secretarial@esafbank.com or helpline – 0487-7123548.

EXPLANATORY STATEMENT IN TERMS OF SECTION 102 OF THE COMPANIES ACT, 2013

Item No. 4 – Payment of Variable Pay to Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank

Shri. Kadambelil Paul Thomas (DIN: 00199925) was appointed as Managing Director and CEO of the Bank for a period of three (3) years with effect from 01st October, 2018, pursuant to the provisions of Section 10B and other applicable provisions of the Banking Regulation Act, 1949 (including any statutory modifications or re-enactments thereof, applicable provisions of the Companies Act, 2013, the Articles of Association of the Bank and based on the approval of Reserve Bank of India vide letter number DBR. Appt. No. 2655/ 29.44.005/ 2018-19 dated 01st October, 2018.

The Board of Directors recommended to the members of the Bank, the payment of variable pay to Shri. Kadambelil Paul Thomas of ₹ 22,08,360/- (Rupees Twenty-Two Lakhs Eight Thousand Three Hundred and Sixty Only) for the Financial Year 2018-19 and ₹ 44,25,960/- (Rupees Forty Four Lakhs Twenty-Five Thousand Nine Hundred and Sixty Only) for the Financial Year 2019-20 respectively, which has been approved by the Reserve Bank of India vide letter No. DoR. GOV. No. 32855/ 29.44.005/ 2020-21 dated April 06, 2021, based on the recommendation of the Nomination Remuneration and Compensation Committee of the Board and the Board of Directors of the Bank for the Financial Year 2018-19 and Financial Year 2019-20.

The Board analyzed the performance of the Bank under the leadership of Shri. Kadambelil Paul Thomas in terms of parameters including financial, people, process etc. and on the basis of the same, the payment of performance pay was recommended to the members. His leadership, experience and expertise in the field of banking leads a leap in performance of the Bank. The Bank has made good progress during last four years under his leadership and the Bank could record good achievements in many parameters reviewed by the Board. Further, the Bank has made a good growth in business despite of various challenges faced by the Bank including Floods, COVID-19 pandemic etc.

None of the Directors and Key Managerial Personnel of the Bank or their relatives, except Shri. Kadambelil Paul Thomas, to whom the resolution relates, is concerned or interested in the resolution mentioned in Item No. 04 of the Notice.

Accordingly, your Directors recommend the passing of Resolution No. 04 as an Ordinary Resolution for approval by the members.

Item No. 5 – Revision of Remuneration of Shri. Kadambelil Paul Thomas (DIN: 00199925) in line with the Guidelines issued by the Reserve Bank of India vide Circular No: RBI/2019-20/89 DOR.Appt. BC.No.23/29.67.001/2019-20 dated November 04, 2019 on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff

The Reserve Bank of India vide Circular no. RBI/2019-20/ 89 DOR.Appt.BC.No.23/ 29.67.001/ 2019-20 dated November 04, 2019 on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff advised Banks to ensure effective governance of compensation, alignment of compensation with prudent risk taking and effective supervisory oversight and stakeholder engagement in compensation in alignment with the Principles for Sound Compensation Practices issued by the Financial Stability Board.

The main highlights of guidelines issued by the RBI relating to aligning of compensation of Whole Time Directors / Chief Executive Officers / Material Risk Takers (MRTs) with prudent risk taking are:

- Banks should ensure that for the Whole Time Directors (WTDs)/ Chief Executive Officers (CEOs)/ Material Risk Takers (MRTs):
 - (a) compensation is adjusted for all types of risks,
 - (b) compensation outcomes are symmetric with risk outcomes,
 - (c) compensation pay-outs are sensitive to the time horizon of the risks, and
 - (d) the mix of cash, equity and other forms of compensation are consistent with risk alignment.
- The guidelines shall be applicable for remuneration from April, 2020 onwards.
- Banks are required to ensure that the fixed portion of compensation is reasonable, taking into account all relevant factors including adherence to statutory requirements and industry practice.
- It should be ensured that there is a proper balance between fixed pay and variable pay. At least 50%, should be variable and the total variable pay shall be limited to a maximum of 300% of the fixed pay.

- The variable pay can be in the form of share-linked instruments, or a mix of cash and share linked instruments.
- There should be proper balance between the cash and share-linked components in the variable pay. Only in cases where the compensation by way of share-linked instruments is not permitted by law/regulations, the entire variable pay can be in cash.
- In case variable pay is up to 200% of the fixed pay, a minimum of 50% of the variable pay; and in case variable pay is above 200%, a minimum of 67% of the variable pay should be via non-cash instruments.
- In the event that an executive is barred by statute or regulation from grant of share-linked instruments, his/her variable pay will be capped at 150% of the fixed pay, but shall not be less than 50% of the fixed pay.
- A minimum of 60% of the total variable pay must invariably be under deferral arrangements.
- The deferral period should be a minimum of three years. This would be applicable to both the cash and non-cash components of the variable pay.
- The deferred compensation should be subject to malus/ clawback arrangements in the event of subdued or negative financial performance of the bank and/or the relevant line of business in any year.
- Guaranteed bonus is not consistent with sound risk management or the 'pay for performance' principles and should not be part of the compensation plan.

- Banks shall not permit employees to insure or hedge their compensation structure to offset the risk alignment effects embedded in their compensation arrangement.

Taking into consideration the conditions as prescribed under the guidelines, the Bank has formulated a compensation policy for the Bank and has identified Managing Director and CEO of the Bank as the material risk taker in the Bank. In connection with aligning the compensation structure of material risk takers, the Bank has appointed a reputed consultancy firm namely, M/s Competence Exponential Private Limited, to benchmark the current level of remuneration with industry standards. Further, on the basis of the findings and observations of the M/s. Competence Exponential Private Limited, the new salary structure was proposed and the same has been recommended by the Board to the shareholders of the Bank for approval, subject to the approval of the Reserve Bank of India. The said revision is proposed to be effective from 01st April, 2020 as per the guidelines issued by the Reserve Bank of India. Further, the Board may be authorized to make necessary modifications in the remuneration of Shri. Kadambelil Paul Thomas, in alignment with the approval received from the Reserve Bank of India, subject to the maximum ceiling, as prescribed above.

The revisions proposed in the remuneration along with the justification for the same are as shown below:

Particulars	Existing (INR in lacs/annum)	Proposed (INR in lacs/annum)	Reasons for change
(1)	(2)	(3)	(4)
PART-A: Fixed Pay (including perquisites): w.e.f. 1st April 2020			
1. Salary	132	165	Moderate increment of 15% on the basic pay may be given considering the fact that there was no revision to the remuneration since appointed on October 01, 2018. Further, the Component of rent free accommodation is added as the same is not currently availed.
2. Dearness allowance	Nil	Nil	No change
3. Retiral/ Superannuation benefits:	13.2 (10% of Salary)	16.5 (10% of Salary)	No change
(a) Provident Fund	Nil	7.93	Gratuity is now made applicable. As per the rates of gratuity applicable for other employees of the bank.
(b) Gratuity			
4. Leave Fare Concession/ Allowance	To be reimbursed on actual (Limited to INR 10 lacs)	To be reimbursed on actual (Limited to INR 10 lacs)	No Change
5. Other fixed allowances, if any (please specify)	Nil	To be reimbursed on actuals (Limited to INR 10 lacs)	included to ensure upskilling on a constant basis
a) Professional Development Allowance	Nil	0.28	Provided as food allowance
b) Food Coupon			

Particulars	Existing (INR in lacs/annum)	Proposed (INR in lacs/annum)	Reasons for change
(1)	(2)	(3)	(4)
6. Perquisites:			
(i) Free Furnished House and its maintenance/ HRA	Yes (Max of INR 12 lacs pa)	Nil	Changed and included in Fixed salary as the same is not currently availed
(ii) Conveyance Allowance/Free use of bank's car for			
a) Official purposes	Yes	Yes	No change
b) Private purposes	Yes (upto 1000 Km/ month above which, have to compensated at ₹5 per KM)	Yes (upto 1000 Km/ month above which, have to compensated at ₹5 per KM)	No Change
(iii) Driver(s)' salary	Nil	Nil	No Change
(iv) Club Membership(s)	Nil	Nil	No Change
(v) Reimbursement of medical expenses	For Self and dependants upto a max of INR 10 lacs 2	For Self and dependants upto a max of INR 10 lacs 2	No change (Value of perquisite is taken as nil as it is actual reimbursement of expenses).
(vi) Medical Insurance Premium			No change
(vii) Reimbursement of Entertainment Expenditure (On declaration basis)	10 (based on declaration)	10 (based on declaration)	No change (Value of perquisite is Taken as nil as it is actual reimbursement of expenses).
(viii) Travelling and Halting Allowance	YES Lodging: Domestic: Actuals Abroad: Maximum USD 500 per day Diem Allowance (INR 5000 per day for domestic and USD 200 per day for international)	YES Lodging: Domestic: Actuals Abroad: Maximum USD 500 per day Diem Allowance (INR 5000 per day for domestic and USD 200 per day for international)	No Change Value of perquisite is taken as nil as actual reimbursement of expenses
Others	Free mobile connections and Internet facilities	Free mobile connections and Internet facilities	No Change Value of perquisite is taken as nil
	Loan for Acquiring or Constructing House for personal use: Upto a maximum of 5 times of Annual Salary and 1-month salary as festival advance - - in compliance to the RBI Circular DBR.Dir. BC. No.38/13.03.00/ 2015-16	Loan for Acquiring or Constructing House for personal use: Upto a maximum of 5 times of Annual Salary and 1-month salary as festival advance - - in compliance to the RBI Circular DBR.Dir. BC. No.38/13.03.00/ 2015-16	No Change Value of perquisite is taken as nil
Other Benefits			
1. Casual Leave	12 days	12 days	No Change
2. Ordinary Leave (Privilege leave)	30 working days of which 50% can be encashed	30 working days of which 50% can be encashed	No Change
3. Sick Leave	12 days	12 days	No Change
4. Mode of Travel	Highest class in any mode for both domestic and international travels	Highest class in any mode for both domestic and international travels	No Change
Total Fixed Pay (including Perquisites)	179.2	211.71	

Particulars	Existing (in lacs/annum)	Proposed (in lacs/annum)	Reasons for change
(1)	(2)	(3)	(4)
PART-B: Variable Pay for Performance Period : 1st April 2020			
1. Cash Component			
• Upfront Payment (with %)	Application for Variable pay is submitted to RBI for approval separately - upto 35% of Fixed Pay subject to appraisal and approval of board based on various performance parameters including financial, customer, process and people for the first three years.	53.5 (50%)	RBI Guidelines dated November 04, 2020
• Deferred Payment (with %)	46.2	53.5 (50%)	
Total Cash Component	Nil	107	RBI Guidelines dated November 04, 2020
Vesting Period (in years)	Nil	3	RBI Guidelines dated November 04, 2020
Deferral arrangement	Nil		
(i) First Year		33.3%	RBI Guidelines dated November 04, 2020
(ii) Second Year		33.3%	The deferred cash component will be vested equally over a period of three years after completion one year for the period to which it pertains.
(iii) Third Year		33.3%	
2. Non Cash Components (Share linked instruments)			RBI Guidelines dated November 04, 2020
(i) ESOP/ESOS	Nil	Nil	-
(a) Number of share/ share-linked instruments			
(b) Monetary value			
(c) Deferral (with %)			
(d) Vesting schedule details			
(ii) Sweat Equity Shares (Number of sweat equity shares TBD basis fair valuation of equity shares)			RBI Guidelines dated November 04, 2020
(a) Number of share/ share-linked instruments	NIL	-	
(b) Monetary value	NIL	107	The deferred non-cash component will be vested equally over a period of three years every year after completion one year for the period to which it pertains.
(c) Deferral (with %)	NIL	70%	
(d) Vesting schedule details	NIL	Deferral for 3 years as below	
		33.3%	
		33.3%	
		33.3%	
(iii) Any other non-cash component (please specify)	NIL	NIL	-

Particulars	Existing (in lacs/annum)	Proposed (in lacs/annum)	Reasons for change
(1)	(2)	(3)	(4)
Total Monetary value of Non Cash components	Nil	107	RBI Guidelines dated November 04, 2020
Total monetary value of Variable Pay (Cash and non-cash components)	Nil	214	RBI Guidelines (Ref: Note RBI 2019 – 20/89)
% of Cash Component in Total Variable Pay	Nil	50%	RBI Guidelines (Ref: Note RBI 2019 – 20/89)
% of Non-cash component in Total Variable Pay	Nil	50%	RBI Guidelines (Ref: Note RBI 2019 – 20/89)
% of Variable Pay to Fixed Pay and % of Variable Pay in Total Compensation (for the same FY/Performance Period)	Nil	100% 50%	RBI Guidelines (Ref: Note RBI 2019 – 20/89)
Total Compensation (Fixed Pay + Variable Pay)	225.4	425.71	RBI Guidelines (Ref: Note RBI 2019 – 20/89)

None of the Directors and Key Managerial Personnel of the Bank or their relatives, except Shri. Kadambelil Paul Thomas, to whom the resolution relates, is concerned or interested in the resolution mentioned in Item No. 05 of the Notice.

The Board recommends Resolution No. 05 as a Special Resolution for approval by the Members.

Item No. 6 – Re-appointment of Shri. Kadambelil Paul Thomas (DIN: 00199925) as Managing Director and CEO of the Bank

Shri. Kadambelil Paul Thomas (DIN: 00199925) was appointed as Managing Director and CEO of the Bank for a period of three (3) years with effect from 01st October, 2018, pursuant to the provisions of Section 10B and other applicable provisions of the Banking Regulation Act, 1949 (including any statutory modifications or re-enactments thereof, applicable provisions of the Companies Act, 2013, the Articles of Association of the Bank and based on the approval of Reserve Bank of India vide letter number DBR. Appt. No. 2655/ 29.44.005/ 2018-19 dated 01st October, 2018. His tenure of appointment as the Managing Director and CEO of the Bank shall expire on 30th September, 2021.

The Nomination Remuneration and Compensation Committee of the Board and the Board of Directors in the meeting held on 20th March, 2021, based on the due diligence conducted and evaluation of performance, recommended the re-appointment of Shri. Kadambelil Paul Thomas as Managing and CEO, to the Shareholders for a further tenure of three (3) continuous years with effect from October 01, 2021 including the remuneration proposed to be paid and other benefits as provided herein.

The Board recommended the re-appointment of Shri. Kadambelil Paul Thomas as Managing and CEO of the Bank, considering the following:

- Shri. Kadambelil Paul Thomas, was the Managing director and CEO of the Bank from March 10, 2017 to June 02, 2018 and 01st October, 2018 till date. His leadership, experience and expertise in the field of banking leads a leap in performance of the Bank.
- Shri. Kadambelil Paul Thomas has got specialized knowledge in the areas of Banking, Finance, Rural Economy, Agriculture and Co-operation as specified in the Banking Regulation Act, 1949.
- The continuance of services of Shri. Kadambelil Paul Thomas is absolutely necessary for the continuous growth of the Bank. Further, as the Bank is in the process of getting listed, the leadership of Shri. Kadambelil Paul Thomas will be highly beneficial to obtain good valuation for the Bank in the capital market.
- The Bank has made good progress during last four years under his leadership and the Bank could record good achievements in many parameters reviewed by the Nomination Remuneration and Compensation Committee of the Board and the Board of Directors.
- During his tenure, the Bank has made a good growth in business despite of various challenges faced by the Bank including Floods, COVID-19 pandemic etc.
- The Board or any Committee of the Board has not made any adverse comments on Shri. Kadambelil Paul Thomas.
- The sustainability measures taken by the Bank under his leadership makes the bank distinct from peers.
- The re-appointment is in compliance to the fit and proper norms of the Reserve Bank of India, compliance to the provisions of the Companies Act,

2013, guidelines of Securities and Exchange Board of India and the Internal Policies of the Bank etc.

The total remuneration proposed to be paid to Shri. Kadambelil Paul Thomas is ₹ 478.41 Lakhs which includes fixed pay and variable pay, which is proposed in compliance to the guidelines issued by the Reserve Bank of India vide no. RBI/ 2019-20/ 89 DOR.Appt.BC.No. 23/29.67.001/ 2019-20 dated November 04, 2019 on the Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff.

Further, in terms of the provisions of the Companies Act, 2013, Shri. Kadambelil Paul Thomas submitted requisite consent(s)/ disclosures and also received an intimation from Shri. Kadambelil Paul Thomas to the effect that he is not disqualified and further confirmed that he is also not debarred by any statutory authority to be appointed as a Director in any Company.

The Board confirmed that, Kadambelil Paul Thomas complied with the fit and proper norms of RBI, provisions of Companies Act, 2013, applicable Securities and Exchange Board of India Regulations and Internal Policies of the Bank, for being appointed as the Managing Director and CEO of the Bank.

The Bank has received the approval of Reserve Bank of India vide Letter No. DoR. GOV. No. S373/29.44.005/ 2021-22 dated July 20, 2021 for re-appointing Shri. Kadambelil Paul Thomas as Managing Director and CEO for further period of three years, w.e.f from October 01, 2021.

In compliance with the provisions of Section 196, 197, 203 and other applicable provisions of the Act, read with Schedule V to the Act as amended, and based on the recommendation of the Board of Directors and Nomination Remuneration and Compensation Committee of the Board, approval of the Members is sought for the re-appointment and terms of remuneration of Shri. Kadambelil Paul Thomas as Managing Director and Chief Executive Officer of the Bank as set out above.

None of the Directors and Key Managerial Personnel of the Bank or their relatives, except Shri. Kadambelil Paul Thomas, to whom the resolution relates, is concerned or interested in the resolution mentioned in Item No. 06 of the Notice.

The Board recommends the resolution set forth in Item No. 06 as a Special Resolution for approval of the Members.

Disclosures as per Secretarial Standards – 2

Name of the proposed Director	Kadambelil Paul Thomas	
Age	58 Years	
Qualification	Master in Business Administration (MBA) from Annamalai University	
Expertise in specific functional areas	Rural economy, Banking, Finance, Agriculture and Co-operation.	
Experience	01 st October, 2018 – Present	Managing Director and CEO, ESAF Small Finance Bank Limited
	10 th March, 2017 – 02 nd June, 2018	Managing Director and CEO, ESAF Small Finance Bank Limited
	01 st April, 2008 – 09 th March, 2017	Chairman and Managing Director, M/s. ESAF Financial Holdings Private Limited (Previously known as M/s. ESAF Microfinance and Investments Private Limited)
	21 st September, 2012 – 16 th May, 2016	Non Executive Director, ESAF Enterprise Development Finance Limited (which was renamed as Tattva Fincorp Limited in 2016).
Terms and Conditions of appointment	Re-appointment as the Managing Director and CEO of the Bank for a period of three consecutive years with effect from 01 st October, 2021.	
Details of remuneration sought to be paid	₹ 478.41 Lakhs	
Remuneration last drawn	₹1,32,00,000/- (Rupees One Crore Thirty Two Lakhs only) (excluding the perquisites)	
Date of First appointment on the Board	05 th May, 2016	
Shareholding in the Bank	6.939%	
Relationship with other Directors, Manager and other Key Managerial Personnel	NIL	
Number of meetings of the Board attended during the year.	12	
Directorships held in other companies	NIL	

Memberships/ Chairmanship of Committees of other Companies

Sl. No.	Name of the Company	Board Committees in which he is a member	Board Committees in which he is a Chairperson
		NIL	

Details of Remuneration proposed

Particulars	Proposed (INR in lacs/annum)
PART-A: Fixed Pay (including perquisites): w.e.f. 1st October 2021	
1. Salary	190
2. Dearness allowance	Nil
3. Retiral/Superannuation benefits:	
(a) Provident Fund	19.0 (10% of Salary)
(b) Gratuity	9.13
4. Leave Fare Concession/ Allowance	To be reimbursed on actual (Limited to INR 10 lacs)
5. Other fixed allowances, if any (please specify)	
a) Professional Development Allowance	To be reimbursed on actuals (Limited to INR 10 lacs)
b) Food Coupon	0.28
6. Perquisites:	
(i) Free Furnished House and its maintenance/HRA	NIL
(ii) Conveyance Allowance/Free use of bank's car for	
a) Official purposes	Yes
b) Private purposes	Yes (upto 1000 Km/month above which, have to compensated at ₹5 per KM)
(iii) Driver(s)' salary	Nil
(iv) Club Membership(s)	Nil
(v) Reimbursement of medical expenses	For Self and dependants upto a maximum of INR 10 lakhs.
(vi) Medical Insurance Premium	2
(vii) Reimbursement of Entertainment Expenditure (On declaration basis)	10 (based on declaration)
(viii) Travelling and Halting Allowance	YES <u>Lodging:</u> Domestic: Actuals Abroad: Maximum USD 500 per day <u>Diem Allowance</u> (INR 5000 per day for domestic and USD 200 per day for international)
Others	Free mobile connections and Internet facilities
	Loan for Acquiring or Constructing House for personal use: Upto a maximum of 5 times of Annual Salary and 1-month salary as festival advance – in compliance to the RBI Circular DBR.Dir.BC. No.38/ 13.03.00/ 2015-16.
Other Benefits	
1 Casual Leave	12 days
2 Ordinary Leave (Privilege leave)	30 working days of which 50% can be encashed
3 Sick Leave	12 days
4 Mode of Travel	Highest class in any mode for both domestic and international travels
Total Fixed Pay (including Perquisites)	238.41

Particulars	Proposed (INR in lacs/annum)
PART-B: Variable Pay for Performance Period : w.e.f. 1st October 2021	
1. Cash Component	
• Upfront Payment (with %)	60.0 (50%)
• Deferred Payment (with %)	60.0 (50%)
Total Cash Component	120
Vesting Period (in years)	3
Deferral arrangement	
i) First Year	33.3%
ii) Second Year	33.3%
iii) Third Year	33.3%
2. Non Cash Components (Share linked instruments)	
(i) ESOP/ESOS	Nil
(a) Number of share/ share-linked instruments	
(b) Monetary value	
(c) Deferral (with %)	
(d) Vesting schedule details	
(ii) Sweat Equity Shares	
(a) Number of share/ share-linked instruments	-
(b) Monetary value	120
(c) Deferral (with %)	70%
(d) Vesting schedule details	Deferral for 3 years as below: 33.3% 33.3% 33.3%
(iii) Any other non-cash component (please specify)	NIL
Total Monetary value of Non Cash components	120
Total monetary value of Variable Pay (Cash and non-cash components)	240
% of Cash Component in Total Variable Pay	50%
% of Non-cash component in Total Variable Pay	50%
% of Variable Pay to Fixed Pay and % of Variable Pay in Total Compensation (for the same FY/Performance Period)	100% 50%
Total Compensation (Fixed Pay + Variable Pay)	478.41

Item No. 7 – Alteration in Articles of Association of the Bank

As per Article 102 of the Articles of Association of the Bank, subject to Section 174 of the Act, the quorum for a meeting of the Board of Directors shall be 1/3rd of its total strength (excluding Directors, if any, whose place may be vacant at that time and any fraction contained in that one third being rounded-off as one), or 2 Directors, whichever is higher, provided that where at any time the number of interested Directors exceeds or is equal to 2/3rd of the total strength of the number of the remaining Directors, that is to say, the number of Directors who are not interested and present at the meeting being not less than

2, shall be the quorum during such time. Subject to the Act, participation of the Directors by video conferencing or by other audio-visual means shall also be counted for the purposes of quorum.

The Reserve Bank of India vide Notification No. RBI/2021-22/24 DOR.GOV.REC.8/ 29.67.001/ 2021-22 dated April 26, 2021, has issued revised instructions on **Corporate Governance in Banks - Appointment of Directors and Constitution of Committees of the Board** which shall be applicable to all the Private Sector Banks, including Small Finance Banks (SFBs) and wholly owned subsidiaries of Foreign Banks.

As per the notification issued by the Reserve Bank of India, the quorum of the Board meetings shall be one-third of the total strength of the Board or three Directors, whichever is higher and at least half of the directors attending the meetings of the Board shall be Independent Directors.. In order to align with the notification issued by the Reserve Bank of India, the Board of Directors recommend the amendment to the Articles of Association of the Bank by deleting the existing Article 102 and substituting with new Article 102.

A copy of the Articles of Association of the Bank together with the proposed alterations would be available for

inspection by the members at the Registered Office of the Bank.

The Board of Directors recommend passing of the Resolution at Item No. 07 of the Notice as Special Resolution for approval by the members in terms of Section 14 of the Companies Act, 2013.

None of the Directors and Key Managerial Personnel of the Bank and/or their relatives is concerned or interested, financial or otherwise, in the resolution set out at Item No. 07.

Directors' Report

To,
The Members of
ESAF Small Finance Bank Limited

Your Directors are pleased to present the Fifth Annual Report of ESAF Small Finance Bank Limited together with the Audited Financial Statements for the Financial Year ended March 31, 2021.

1. Financial Highlights & State of the Bank's Affairs

(₹ In Crore)

Particulars	For the Year ended 31 st March, 2021	For the Year ended 31 st March, 2020
Deposits	8,999	7,028
Advances	8,168	6,548
Total Income	1,767	1,546
Total Expenditures excluding Tax	1,626	1,290
Profit Before Tax	141	256
Provision for Tax	36	66
Net Profit	105	190
Profit brought forward	227	88
Total Profit available for appropriation	332	278
Appropriation		
Transfer to Statutory Reserve	26	48
Transfer to Investment Reserve	-	4
Balance carried to Balance Sheet	306	227
Earnings per Share – Basic and Diluted (₹)	2.46	4.45

2. Business Continuity Management

The Bank has established Business Continuity Management (BCM) plans and procedures to maintain critical operations, in the event of any kind of disruptions. BCM plans are intended to ensure that customers' requirements are met to the maximum possible extent, in case of occurrence of disruptive events. It is also intended to safeguard the security and integrity of transaction/ account data and customer information. Business Continuity Plan has been drawn up, taking into consideration all known types of disruptive events, while concurrently accounting for the probability of unknown events. It incorporates the entire spectrum of activities that would help to ensure maintenance of effective frameworks for creating resilience and for framing responses that safeguards and maintains critical operations, the interests of its key stakeholders, reputation, brand and value creating activities, in case of occurrence of disruptive events. The BCM framework is designed to be dynamic, to cope with the fluid and evolving nature of disruptive events. It has also been ensured that the plans and procedures comply with the guidelines and stipulations that

Reserve Bank of India has laid out. The Business Continuity Plan is structured to ensure that the main focus of efforts is on clear communication of the issues to the Bank's customers in general, and specifically to the affected segments and to ensure that alternate arrangements are made to continue the required levels of service till the regular operations are restored.

A Crisis Management and Quick Response Team (CMQRT) at Corporate Office level is in place to monitor and manage business disruptions. The CMQRT takes responsibility and acts swiftly in case of any breakdown/ failure of critical systems, occurrence of natural disasters/ accidents or any other events affecting business continuity. Crisis Management and Quick Response Teams are also formed at Cluster and Branch levels. At the Cluster/ Branch level, the Bank's Business Continuity Plans are intended to ensure that the basic and most critical customer service functions are maintained at the minimum acceptable levels in the event of disruptive occurrences. The Business Continuity Plans also

guide mapping of branches to proximate alternate locations that would provide the basic services to customers of a branch affected by disruptive incidents.

The Bank has a Board approved Business Continuity Management Policy, which governs the business continuity plans and procedures.

The Bank initiated Business Continuity measures on account of the COVID-19 pandemic on 06th March 2020. During the Financial Year 2020-21, various Business Continuity Management measures were adopted by the Bank, a few of which are summarized below:

1. Business Continuity Plan Documents BCP-D1 and BCP-D2, specifically dealing with the COVID-19 situation was prepared by Risk Management Department and circulated to all branches and offices for implementation on 20th March 2020 and 08th October 2020, respectively. The intention was to create a sound framework as well as to continue to implement strong processes and controls to help the Bank and its employees to handle and manage the significant disruptions to business operations on account of the COVID-19 pandemic. Various communications and advisories were issued on a regular basis to the business units, control and support functions, business correspondents and members of staff.
2. The Bank remained in continuous contact with customers and staff through helpdesk and customer calls to address disruptions to customer service and related functions, while taking care of the members of staff and their health.
3. The apex level Crisis Management and Quick Response Team (CM-QRT) met periodically since March 2020 on an on-going basis to take stock of the situation and to give appropriate directions to business units and employees on the COVID-19 crisis management.
4. Staff in critical functions was advised to Work from Home and Work from Alternate Locations using secure remote access and Virtual Private Network (VPN) for accessing systems. The IT system of the Bank continued to function smoothly even during the worst of the pandemic situation.
5. The Disaster Recovery systems were tested periodically and monitored continuously. Network connectivity and hardware availability across the Bank was ensured.

6. Smooth functioning of ATMs was ensured by centralized monitoring and uninterrupted cash replenishment.

7. The Bank promoted and propagated Five Virtues ('Panch Sheel') amongst its staff to contain the spread of COVID-19 and to remain safe and secure to the extent possible.

The Bank has been able to address the challenges of COVID-19, by providing basic services to customers even during the most difficult times of COVID-19 crisis and contained the operational disruptions, cyber security threats and people risks. In tune with the rest of the Industry, the Bank's asset business and gross income had been impacted due to the COVID-19 scenario,

Adherence to the COVID-19 protocol and documented BCP procedures helped the Bank in successfully managing business continuity during the COVID-19 crisis. The Bank continues to monitor and manage business continuity in a well-articulated manner by collective efforts of its workforce and top management, under the guidance of the apex level Operational Risk and Business Continuity Management Committee and the Crisis Management and Quick Response Teams.

3. Transfer to Reserves

- **Statutory Reserve**

The Bank has transferred ₹ 26 Crores to statutory reserves pursuant to the requirements of Section 17 of the Banking Regulation Act, 1949 and RBI guidelines dated September 23, 2000.

4. Dividend

During the year, your Directors decided to retain the profits earned to serve the working capital requirements of the Bank. Hence, no dividend is proposed to be declared.

5. Change in the Nature of Business

During the year under review, there has been no change in the nature of business of the Bank.

6. Capital

During the year, Authorized Capital of the Bank was ₹600,00,00,000 (Rupees Six Hundred Crores) divided into 60,00,00,000 (Sixty Crores) Equity Shares of ₹10 (Rupees Ten) each. There were no changes in the Authorized Capital of the Bank during the Financial Year 2020-21.

As on 31st March, 2021, the issued, subscribed and paid-up share capital of the Bank stands at ₹ 449,47,37,980 (Rupees Four Hundred and Forty-Nine Crores Forty-Seven Lakhs Thirty-Seven Thousand Nine Hundred and Eighty only) divided

into 44,94,73,798 (Forty-Four Crores Ninety-Four Lakhs Seventy-Three Thousand Seven Hundred and Ninety-Eight) Equity Shares of ₹ 10 (Rupees Ten) each.

Pursuant to the approval of the Board of Directors and Shareholders on 20th March, 2021 and 24th March, 2021 respectively, your Bank has allotted 2,16,78,308 (Two Crores Sixteen Lakh Seventy Eight Thousand Three Hundred and Eight only) number of Equity shares of face value of ₹ 10 (Rupees Ten) each on 31st March, 2021 on private placement basis at an issue price of ₹ 75/- (Rupees Seventy Five only) per share to 74 investors. Pursuant to the said allotment, the

issued, subscribed and paid up share capital of the Bank increased from ₹427,79,54,900 (Rupees Four Hundred and Twenty-Seven Crores Seventy-Nine Lakhs Fifty-Four Thousand Nine Hundred Only) to ₹ 449,47,37,980 (Rupees Four Hundred and Forty-Nine Crores Forty-Seven Lakhs Thirty-Seven Thousand Nine Hundred Eighty only) as on March 31, 2021.

The total number of shareholders of the Bank as on 31st March, 2021 were 86. The shareholding pattern of the Bank as on 31st March, 2021, segregated on the basis of category of investors is provided below:

Sl. No.	Category of Investors	No of Shares Held	Percentage of Shareholding
1	Promoters	31,19,45,181	69.403%
2	Public Shareholding		
A	(Institutional Investors)		
i.	Financial Institutions	1,87,17,244	4.164%
ii.	Insurance Companies	4,50,55,502	10.024%
iii.	Multi State Co-Operative Society and Trust	2,34,13,659	5.209%
B	(Non-Institutional Investors)		
i.	Indian Body Corporates	88,84,452	1.976%
ii.	Individuals including NRIs	4,14,57,760	9.224%
TOTAL		44,94,73,798	100%

Your Bank is subject to the Basel II Capital Adequacy guidelines stipulated by RBI. The Capital Adequacy Ratio of the Bank is calculated as per the standardized approach for credit risk. The Capital Adequacy ratio of the bank as on March 31, 2021 is 24.26%, as against the minimum requirement of 15.00% stipulated by the Reserve Bank of India.

7. Employee Stock Option Scheme

The Shareholders of the Bank, in the meeting held on 03rd January, 2020, had approved the ESOP Small Finance Bank Employee Stock Option Plan 2019, by way of a special resolution which also authorized the Nomination Remuneration and Compensation Committee to grant up to 2,25,15,552 (Two Crore Twenty-Five Lakhs Fifteen Thousand Five Hundred and Fifty-Two) Employee Stock Options to the Employees, in one or more tranches, from time to time. The objective of the said scheme is to recognize the contribution of the employees in the formation of the bank and to create the feeling of inclusiveness and enable the employees to get a share in the value that they help to create for the organization over a period of time. The Bank strongly believes that an equity component in the compensation goes a long way in aligning the objectives of an individual with those of the Bank. The objectives of ESOP 2019 are, among others, to attract and retain employees with Employee Stock Options as a compensation tool. Through ESOP 2019, the Bank intends to offer an opportunity of sharing the value created with those employees who

have contributed or are expected to contribute to the growth and development of the Bank.

Through the scheme, the Bank intends to grant equity-based compensation to the employees in two categories namely:

- 1) Loyalty Grant to reward eligible Employees for their contributions in the past, tenure in the and continued employment in the Bank, which is a one-time grant and;
- 2) Performance Grant on the basis of employee's annual appraisals for their future performance and continuity of services.

During the Financial Year 2020-21, the Nomination Remuneration and Compensation Committee of the Board has not granted any options to the employees.

8. Status of Listing of Equity Shares

In accordance with the terms and conditions of the grant of Small Finance Bank (SFB) license, the Bank is required to list its shares within three years from the date of reaching a net-worth of ₹ 500 Crores.

To carry forward the objective of listing, the Board of Directors and Shareholders of the Bank had decided to undertake an Initial Public Offering by offering Equity Shares aggregating up to ₹ 9,762.40 million comprising a fresh issue aggregating up to ₹ 8,000.00 million and an Offer for Sale aggregating up to ₹ 1,762.40 million. The Draft Red Herring Prospectus

(DRHP) was filed with the Securities and Exchange Board of India on 06th January, 2020 and SEBI has issued its observation letter on 20th March, 2020.

Since the process of IPO had to be kept on hold due to the uncertainties faced due to the COVID 19 pandemic, the Board felt that, the IPO cannot be consummated before the cut off prescribed by SEBI, i.e. March 31, 2021. Therefore, the Board of Directors in its meeting held on 06th March, 2021 decided to withdraw the Draft Red Herring Prospectus (DRHP) filed by the Bank and to infuse capital through private placement of equity shares to enable further expansion of business.

10. Credit Rating

Credit ratings assigned to various debt instruments of the Bank during the Financial Year ended March 31, 2021 are as follows:

Instrument Name	ISIN	Name of the Credit Rating Agency	Amount	Rating	Date of Issue	Date of Re-affirmation
Non-Convertible Debentures	INE879Q08028	Brickwork Ratings	25 Crores	BWR A Stable	14.12.2015	16.03.2021
Non-Convertible Debentures	INE879Q08036	Brickwork Ratings	25 Crores	BWR A Stable	14.12.2015	16.03.2021
Non-Convertible Debentures	INE818W08016	CARE Ratings	20 Crores	CARE A; Stable (Single A ; Outlook:Stable)	30.12.2017	02.03.2021
Non-Convertible Debentures	INE818W08024	CARE Ratings	20 Crores	CARE A; Stable (Single A ; Outlook:Stable)	28.03.2018	02.03.2021
Non-Convertible Debentures	INE818W08032	CARE Ratings	40 Crores	CARE A; Stable (Single A ; Outlook:Stable)	01.06.2018	02.03.2021

11. Nomination Policy of the Bank

In compliance with Section 178 of the Companies Act, 2013, the Bank has formulated and adopted a Nomination Policy for appointment of Directors' and fixing of their remuneration. The key objectives of the Nomination Policy shall inter- alia include the following:

- To guide the Board in relation to appointment/ re-appointment/ removal of Directors and lay down selection criteria for appointment of Directors
- To ensure compliance with applicable laws, rules and regulations including compliance to the 'Fit and Proper Criteria' of Directors at the time of their appointment and on a continuous basis.
- To devise a policy on the size and composition of the Board taking into account the available and needed diversity and balance in terms of experience, knowledge, skills and judgement of the Directors.

Your Bank while the appointment/ re-appointment/ removal of Directors of the Bank, has always ensured that, the provisions of the Companies Act, 2013, Banking Regulation Act/ RBI Guidelines and directives

The Bank in June, 2021 decided to resume the IPO activities towards the compliance to the licensing conditions for the Bank and refiled the DRHP on July 25, 2021 and the final observation of the SEBI is awaited.

9. Debt Capital

In the previous years, your Bank had issued Non-Convertible Debentures for meeting the capital requirements. The total outstanding as on March 31, 2021 was ₹ 2230 Crores of which five series of. The Non-Convertible Debentures issued by the Bank as shown in the point no.11, on a private placement basis are listed on the BSE Limited (BSE).

and guidelines of SEBI to the extent applicable are adhered to. In all respects, your Bank has also kept high standards and met the diversity, structure and size compositions of the Board and its Committees as prescribed in various statutes.

12. Selection and Appointment of Directors

The selection and appointment of Directors of the Bank is done in accordance with the relevant provisions of the Companies Act, 2013, relevant Rules made thereunder, the Banking Regulation Act, 1949, the guidelines issued by RBI and the relevant provisions of the Securities and Exchange Board of India regulations relating to Corporate Governance, as amended from time to time.

The Nomination Remuneration and Compensation Committee of the Board is responsible to the Board for leading the succession planning process in respect of appointments/ re-appointments in respect of Directors, employees in the grade of Senior Management and Key Managerial Personnel of the Bank.

The Bank also has formulated a Nomination Policy to guide in relation to appointment /reappointment/ removal of Directors and the said policy provide

detailed process to be adopted for conducting due diligence while appointing/ reappointing directors. The Nomination Remuneration and Compensation Committee of the Board, shall conduct a due diligence process to determine the suitability of every person who is being considered for being appointed or re-appointed as a Director of the Bank based on his educational qualification, experience & track record, and every such person shall meet the 'fit and proper' criteria, as Reserve Bank of India may stipulate from time to time and accordingly, any appointment or re-appointment of a Director shall be subject to prior approval by Nomination Remuneration and Compensation Committee of the Bank.

The RBI vide its Circular No: RBI/2019-20/204 DoR.Appt.No.58/29.67.001/2019-20 dated 31st March, 2020, on the appointment of the Managing Director and CEO/CEO/Part Time Chairman in the Banks – Declaration and undertaking and allied matters, prescribed new format for declarations or undertakings to be submitted by the Directors of a Bank. The Bank has accordingly obtained the prescribed declarations/ undertakings from the Directors in the revised format.

The Bank adheres to the process and methodology prescribed by the RBI in respect of the Fit and Proper Criteria as applicable to Private Sector Banks, signing of deed of covenants which binds the Directors to discharge their responsibilities to the best of their abilities individually and collectively in order to be eligible for being appointed/ re-appointed as a Director of the Bank. The prescribed declarations/ undertakings given by the Directors are placed before the Board of Directors for its review and noting. The said declarations/ undertakings are obtained from all the Directors on an annual basis and also at the time of their appointment/ re-appointment, in compliance with the said laws. An assessment on whether the Directors fulfill the prescribed criteria is carried out by the Nomination Remuneration and Compensation Committee of the Board on an annual basis and also at the time of their appointment or re-appointment.

The Nomination Remuneration and Compensation Committee also reviews the structure, size, composition of the Board, the regional and industry experience, track record, expertise and other relevant information and documents of all the Directors before making appropriate recommendations to the Board with regard to their appointment/ re-appointment, terms and conditions relating to such appointment or re-appointment, including remuneration designed to enhance the Board's effectiveness and in compliance with the applicable norms. Wherever necessary, the Nomination Remuneration and Compensation Committee is authorized to engage the services of an External Consultant(s)/ expert in the field of succession

planning, to identify and assess the suitability of candidates for the post of a Director of the Bank.

The Nomination Remuneration and Compensation Committee takes into account, profile, skill sets, experience, expertise, functional capabilities etc. and identifies potential candidates from diverse backgrounds including but, not limited to Accountancy, Agriculture and Rural Economy, Banking, Cooperation, Finance, Law, Small Scale industry, Information Technology, core industries, infrastructure sector, payment and settlement systems, human resource, risk management and business management, thus providing the Board with members who have diverse knowledge, practical experience and skills to serve the business interests of the Bank.

13. Board of Directors

- **Retirement of Director by Rotation**

Shri. Chandanathil Pappachan Mohan (DIN: 02661757), Non-Executive Nominee Director of the Bank, who retires by rotation as Director, at the conclusion of this Annual General Meeting is proposed to be re-appointed and has offered himself for re-appointment.

- **Retirement of Shri. Assan Khan Akbar as Non-Executive Nominee Director of the Bank**

Shri. Assan Khan Akbar (DIN:00679740), who was the Non-Executive Nominee Director of the Bank, retired from the directorship on completion of his term of appointment of four years on 04th May, 2020. The Board of Directors of the Bank placed on record their appreciation for the valuable contributions by Shri. Assan Khan Akbar during his tenure as the Director of the Bank.

- **Appointment of Shri. Chandanathil Pappachan Mohan as Non-Executive Nominee Director of the Bank**

Based on the recommendations of the Nomination Remuneration and Compensation Committee of the Board, the Board of Directors in the meeting held on 29th May, 2020 approved the appointment of Shri. Chandanathil Pappachan Mohan (DIN: 02661757) as a Non-Executive Nominee Director on the Board of the Bank for a period of three consecutive years with effect from 29th May, 2020.

- **Appointment of Shri. Thomas Jacob Kalappila as Non-Executive Independent Director of the Bank**

The Board of Directors of the Bank in its meeting held on 04th March, 2020, on the basis of the recommendation of Nomination

Remuneration and Compensation Committee of the Board, appointed Shri. Thomas Jacob Kalappila (DIN: 00812892) as Additional Director (Independent Director) in terms of Section 149 of the Companies Act, 2013, commencing from 10th March, 2020.

The Shareholders of the Bank in the Annual General Meeting held on 10th August, 2020 approved the appointment of Shri. Thomas Jacob Kalappila as the Non-Executive Independent Director of the Bank for a period of three consecutive years with effect from 10th March, 2020 up to 09th March, 2023.

- **Re-appointment of Shri. Vadakkekara Antony Joseph as Non-Executive Independent Director of the Bank**

Based on the recommendations of the Nomination Remuneration and Compensation Committee of the Board and the Board of Directors and the results of the Performance Evaluation, the Shareholders of the Bank, in the Annual General Meeting held on 10th August, 2020 approved the re-appointment of Shri. Vadakkekara Antony Joseph (DIN: 00181554) as the Non-Executive Independent Director of the Bank for a period of three consecutive years with effect from 17th August, 2020 up to 16th August, 2023.

- **Appointment of Shri. Santhosh George as Non-Executive Independent Director of the Bank**

Based on the recommendations of the Nomination Remuneration and Compensation Committee of the Board and the Board of Directors, the Shareholders in the Extra Ordinary General Meeting held on 08th December, 2020 approved the appointment of Shri. Santhosh George (DIN: 07831505) as the Non-Executive Independent Director of the Bank for a period of three consecutive years with effect from 08th December, 2020.

- **Re-Appointment of Shri. Kadambelil Paul Thomas as the Managing Director and CEO of the Bank**

Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank was appointed for a period of three years with effect from October 01, 2018 on the basis of the approval from the Reserve Bank of India vide their letter no: DBR.Appt.No.2655/29.44.005/2018-19 dated 01st October, 2018 and his tenure shall be ending on September 30, 2021. In view of the same, the Nomination Remuneration and Compensation Committee of the Board, and the Board of Directors of the Bank in their meeting held on 20th March, 2021 has recommended that his continued association as MD&CEO is

absolutely essential for its growth and decided to re-appoint Shri. Kadambelil Paul Thomas as the Managing Director and CEO of the Bank for a period of three consecutive years with effect from October 01, 2021, subject to the approval of the Shareholders and the Reserve Bank of India. Approval of the shareholders is sought for the reappointment. The details of re-appointment of the Managing Director and CEO along with the relevant details is specified in the Notice of the 05th Annual General Meeting as Item No. 06.

- **Resignation of Shri. Santhosh George as Non-Executive Independent Director of the Bank**

Shri. Santhosh George (DIN: 07831505), who was the Non-Executive Independent Director of the Bank, resigned from the directorship of the Bank due to pre-occupation with effect from 26th May, 2021. The Board of Directors of the Bank placed on record their appreciation for the valuable contributions by Shri. Santhosh George during his tenure as the Director of the Bank.

14. Evaluation of Performance of the Board of Directors

The Board has formulated a Performance Evaluation Policy including the questionnaire for performance evaluation of the Individual Directors, Committees of the Board, Chairman, Managing Director and CEO and the Board as a whole. The questionnaire designed for the performance evaluation covers various aspects of performance including structure of the board, meetings of the board, functions of the board, role and responsibilities of the board, governance and compliance, evaluation of risks, grievance redressal for investors, conflict of interest, stakeholder value and responsibility, relationship among directors, director competency, board procedures, processes, functioning and effectiveness was circulated to all the directors of the Bank for the annual performance evaluation. The appraisal of performance is done based on the evaluation conducted with a set of pre-determined evaluation factors:

- The performance of the Board as a whole shall be evaluated by all the Directors.
- The performance of the Board Committee(s) shall be carried out by the members of each of the Committees;
- The performance of Managing Director & CEO/ Executive Director shall be done by all the directors except the Managing Director & CEO.
- The performance of Chairman of the Bank is done by all the Directors except the person being evaluated.
- The performance of Independent Directors is done by all the Directors except the person being evaluated.

- The performance of the Non-Executive Director is done by all the Directors except the person being evaluated.

The performance evaluation of the Board of Directors, Committees of the Board and individual Directors were conducted during the Financial Year. The Board and the Nomination Remuneration and Compensation Committee of the Board reviewed the performance of the Individual Directors and noted that results of performance evaluation indicated high degree of satisfaction among directors.

15. Declaration from Independent Directors

The Board has received declarations from the Independent Directors as required under Section 149(7) of the Companies Act, 2013 and the Board is satisfied that the Independent Directors meet the criteria of independence as mentioned in Section 149(6) of the Companies Act, 2013.

18. Key Managerial Personnel

The following officials of the Bank are the "Key Managerial Personnel" pursuant to the provisions of Section 203 of the Companies Act, 2013:

Sl. No.	Name of the Key Managerial Person	Designation
1.	Shri. Kadambelil Paul Thomas	Managing Director and CEO
2.	Shri. Gireesh C.P	Chief Financial Officer
3.	Shri. Ranjith Raj P	Company Secretary

In addition to the above the Bank has designated the following senior officials of the Bank as Key Managerial Personnel in terms of Section 2 (51) of the Companies Act, 2013:

Sl. No.	Name of the Key Managerial Person	Designation
1.	Shri. M.G. Ajayan	Executive Vice President – Operations
2.	Shri. George K John	Executive Vice President – Business
3.	Shri. George Thomas	Executive Vice President – Corporate Services
4.	Shri. K.R. Mohanachandran	Chief Risk Officer
5.	Shri. Dominic Joseph	Chief Vigilance Officer
6.	Shri. Antoo.P.K	Head – Internal Audit
7.	Shri. Dinesh Kallarackal *	Chief Compliance Officer

* Shri. Dinesh Kallarackal was appointed as the Chief Compliance Officer of the Bank with effect from June 01, 2021 for a period of three years and designated him as a Key Managerial Personnel of the Bank pursuant to Section 2(51) and other applicable provisions of the Companies Act, 2013.

During the year, Shri. Sivasankaran N, Chief Compliance Officer (CCO) of the Bank, resigned with effect from the close of business hours on 30th September, 2020. The Board places on record its appreciation for the invaluable contribution rendered by him during his tenure as CCO.

19. Internal Financial Controls

The Board of Directors confirms that your Bank has laid down set of standards, processes and structures which enable to implement Internal Financial controls across the organization with reference to Financial Statements and that such controls are adequate and are operating effectively. The Internal Financial Control framework of the Bank ensures that:

16. Corporate Governance

The Bank is committed to achieving and adhering to the highest standards of Corporate Governance and it consistently benchmarks itself with the best practices, in this regard. A report on Corporate Governance for the Financial Year 2020-21 has been annexed to the Annual Report.

17. Meetings of the Board

The Board of Directors have met 12 times during the Financial Year 2020-21 on 23th April, 2020, 29th May, 2020, 30th June, 2020, 29th July, 2020, 27th August, 2020, 10th November, 2020, 27th November, 2020, 08th December, 2020, 04th February, 2021, 06th March, 2021, 20th March, 2021 and 31st March, 2021.

The gap between any two Board Meetings has not exceeded 120 days and the requisite quorum was present for all the Board Meetings during the year. None of the Directors of the Board has sought leave of absence during the Financial Year 2020-21 in any of the meetings of the Board.

- Internal Financial Controls are established for critical and material processes handled by the Bank.
- Draw up recommendations based on good practices to develop or strengthen the internal control systems.
- Ensure that, the IFC's are adequate and operating effectively, by periodic review and testing.
- Periodic reporting of the status to the Audit Committee of the Board
- The existence and adequacy of IFC's is demonstrated to various internal and external stakeholders.

During the year under review, no material or serious observation has been detected for inefficiency or inadequacy of such controls.

20. Whistle Blower Policy/ Vigil Mechanism

The Bank has adopted a Whistle Blower and Protected Disclosure Policy and Vigil Mechanism in compliance with the relevant provisions of Companies Act, 2013 and rules thereunder. This Policy provides an opportunity to address concerns of employees, vendors and directors relating to fraud, malpractice or any other activity or event which is against the interest of the Bank or society as a whole. The details of Whistle Blower complaints received and subsequent action taken and the functioning of the Whistle Blower mechanism are reviewed periodically by the Audit Committee of the Board. During the Financial Year 2020-21, seven complaints were received under the Whistle Blower Mechanism.

The policies are available on the official website of the Bank. (www.esafbank.com)

21. Directors' Responsibility Statement

Pursuant to Section 134(3) of the Companies Act, 2013, the Board of Directors hereby declare and confirm to the best of their knowledge and belief that:

- i) in the preparation of the annual accounts for the year ended March 31, 2021, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) such accounting policies as specified in Schedule III to the Financial Statements have been selected and applied consistently and judgements and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as at March 31, 2021 and of the profit of the Bank for the year ended on that date;

- iii) proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Bank and for preventing and detecting frauds and other irregularities;
- iv) annual accounts have been prepared on a going concern basis;
- v) internal financial controls to be followed by the Bank were in place and that the same were adequate and were operating effectively, and
- vi) proper system to ensure compliance with the provisions of all applicable laws was in place and the same were adequate and operating effectively.

22. Corporate Social Responsibility Activities

Your Bank's CSR Committee drives the CSR programme of the Bank. Your Bank has a Board approved CSR Policy, charting out its CSR approach. This policy articulates the Bank's aim to positively contribute towards economic, environmental and social well-being of communities through its CSR interventions. Further, the Bank has a robust and transparent governance structure to oversee the implementation of the CSR Policy in compliance with the requirements of Section 135 of Companies Act, 2013. Through its CSR projects and programmes, ESAF SFB is pursuing inclusive and sustainable development of the community in and through its domain of operations. In terms of the provisions of the Companies Act, 2013, the Bank has appointed M/s. Evangelical Social Action Forum and M/s. Prachodhan Development Services as the implementation agencies for CSR activities. Your Bank also does closely monitor the implementation of the CSR projects and confirm whether the funds so disbursed have been utilised for the purposes and in the manner as approved by the Board.

As ESAF envisions itself as leading social bank that offers equal opportunities for the whole society, it has always aligned its activities address the critical issues of the marginalized and poor. Being a socially committed organization, the Board of Directors of the Bank has decided the corporate social responsibility spending of the Bank shall be 5% of average net profits of the Bank for the three immediately preceding financial years computed in accordance with section 135 of the Companies Act, 2013 as against the statutory prescribed 2%. Therefore, the Board of Directors have allocated ₹ 7.15 Crores. The report on CSR activities is enclosed herewith as Annexure-III.

ESAF SFB has been a frontline warrior in combating COVID-19 pandemic. As the COVID 19 second wave hit with intensity and severity, the Sustainable

Banking Department of the Bank has evolved a three dimensional approach. The major initiatives were:

- **First Line Care:** The Bank's CSR has been deployed in developing First Line Care in several local areas. Noticeably, the Bank has joined the CII initiative of developing a 500 bedded Care Centre at the Adlux Convention Centre in Angamali in accessible distance to Cochin and Thrissur.
- **Long Term Medical Infrastructure:** The Bank has extended its support towards the testing infrastructure, ventilators, oxygen concentrators and wards. A rural hospital in Thachampara, Palakkad, Jubilee Medical College Thrissur, a Public Health Centre in Thrissur, and a few hospitals in Central and Eastern India were being supported for long term infrastructure.
- **Immunity & Vaccine Literacy and Vaccination Drives:** In partnership with the District Health Departments, the Bank has organized immunity & vaccine literacy and vaccination campaigns. The series was inaugurated during the World Immunization Week (24-27 April 2021) with a FREE COVID 19 Vaccination Camp at Jawahar Balabhavan, Thrissur on 26th April vaccinating over 1300 people, mostly the senior citizens.

23. Human Resources Initiatives

The past financial year saw the HR department of your bank implement various initiatives to transform the HR Processes and various employee touchpoints. Your bank has always been a frontrunner in facilitating the employees of the Bank to enrich their knowledge and skills. In this respect, the Bank has started an LMS platform 'e-Shiksha' for e-learning.

A new Artificial Intelligence (AI) based 100 percent automated software was introduced and used for recruitment during the year. The new strategy so developed for recruitment, retention, training and development will indeed take the Bank way ahead help ease the cumbersome recruitment process. Above all, during the financial year, the Bank was also certified as 'GREAT PLACE TO WORK for the period March 2021-February 2022'.

Your Bank has been keen to put in place safety guidelines, physical distancing norms and guidelines for rotation of the staff. It was ensured that, the functioning of the Bank is in adherence to State/ Local Government instructions. The Periodic Advisories on the conduct of business and the precautions to be taken by the employees were also issued. Thus, overall, the Bank has shown great vigor and enthusiasm in boosting the employee morale and help them survive mentally and emotionally fit during the pandemic.

24. Disclosure under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

The Bank has in place, a Policy in line with the requirements of the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013. Internal Complaints Committee has been set up for redressal of complaints. During the year 2020-21, no complaints were received under the Policy. Presently, 30% of the total work force of the Bank are women.

25. Compliance Department

Your Bank has institutionalized a strong compliance culture and mechanism across the organization, in pursuit of its strategic goals of transparency and trust, among all its stakeholders. The Bank has a dedicated independent Compliance Department headed by a Chief Compliance Officer which operates as per a well-documented compliance policy for ensuring regulatory compliance, across all businesses and operations. The key functions of the Compliance Department shall include ensuring core compliance areas such as statutory, regulatory, and other related mechanism for dissemination of regulatory prescriptions and guidelines amongst respective functions and monitoring compliance with regulatory guidelines, compliances, correspondence with RBI, vetting the guidelines/ circulars issued, for compliance with regulatory guidelines and vetting of Bank's Policies, co-ordinating and monitoring submission of RBI returns, co-ordinating collection of inputs from various departments for RBI Inspection and for rectification of RBI inspection irregularities etc. The Bank has well defined and structured mechanism to assess the compliance risk and monitor its mitigation measures thereby ensuring the effectiveness of the compliance function in managing the compliance risk.

26. Risk Management

The Bank has put in place a structured Risk Management architecture. In order to manage the Bank's financial and non-financial risks in a manner consistent with its risk appetite, a Risk Management structure has been constituted, within which the Bank conducts its operations and business. While the Board of Directors is responsible for overall governance and oversight of core risk management activities, execution responsibility is entrusted to the Risk Management Committee of the Board (RMCB) which periodically reviews the risks faced by the Bank and the practices/ processes followed to manage them. The RMCB is supported by the executive level Risk Management Committees.

27. Information Security and Cyber Security Risk Management

The Bank has a dedicated Information Security Division which functions under the Risk Management

Department. The Information Security Division is headed by the Chief Information Security Officer, who reports to the Chief Risk Officer. The Information Security Governance of the Bank is spear-headed by the Board of Directors, Information Technology Strategy Committee of the Board and the Executive Level Information Security Governance Committee. The Information Security Policy and Cyber Security Policy approved by the Board of Directors provide the basis for information technology risk management and security administration.

The Bank adopts best practices to ensure the safety and security of customer transactions, data privacy and information security in all three modes of Data at rest, Data in use and Data in transit. Risk identification and assessment for new initiatives/ products/ process/ services and applications/ infrastructure etc., are carried out to ensure that the controls are adequately prescribed and built in. The Bank liaisons with various authorities like CSITE (Cyber Security Information Technology Examination) Cell, RBI, CERT-In (Computer Emergency Response Team-India), IDRB, etc. to keep abreast of the security incidents, measures and for regulatory compliance on an ongoing basis.

The Bank has in place a Security Operations Center for monitoring and reviewing the day-to-day activities on a 24x7x365 basis to handle the impending threats and to thwart Cyber-attacks as also a Tier-4 Data Centre managed by the System Integrator equipped with the necessary tools and techniques to counter various types of Cyber threats and attacks. Business continuity Plans and Disaster Recovery mechanism have been put in place to manage crisis situations or disasters of any nature. Awareness creation programs and trainings for employees are arranged and customer support in Information Security related matters is organized on a regular basis by the Bank, as important measures of IT security risk management.

28. IT Initiatives

M/s. FIS Payments Solutions and Services Private Limited (FIS) provides the Bank with a fully integrated Bank in a Box banking and payments platform through a totally outsourced delivery model, which encompasses a Core Banking Solution, Risk Management, Domestic Treasury management, Analytics and the entire suite of payments services, which includes switching, debit card management and ATM management services. In addition to these, a set of satellite solutions like HRMS, Audit management services complete the full IT needs of the Bank. The service agreement between the Bank and FIS is for 5 years and is due by end of year 2021. The Bank has opted to continue with FIS in order to minimize its upfront capital expenditure costs and avoid redundancy risk.

The Bank has rolled out FIS core banking solution across all its branches and Banking Outlets. All of the accounts of the customers are on the core banking solution of the Bank. The primary data center is in Mumbai and disaster recovery center is in Hyderabad, both of which are operated by FIS. The IT Strategy of the Bank has always been in alignment with the Business strategy which envisages presence into specific geographies, launching customized products targeted at specific customer segments and leveraging digital technology & e-channels to extend the outreach to customers.

Over the past few years IT have been bringing significant changes and new initiatives which have been the pivotal factors in achieving the over and above business success of the Bank. With the prevailing pandemic scenario, the vital piece of technology implementation was enablement of a fully secure and user friendly at the same time cost effective, VPN solution for enabling Work from home arrangement for all employees in need. Various customized Loan products like CCL (Covid Care Loan), Pre-approved Loans (Less contact Loans) matching the current Lock down business scenarios has been rolled out. Micro Loans have been provided digital payment feature with integrations like PayU Money. MFI Applications have undergone tech revamp and optimizations which aided the business to achieve massive single day business targets like ₹ 25 Crores collection and nearly 30,000 disbursements. A few other significant features realized are UPI version 2.0, card eLock facility via channels, Aadhaar Vault, Public Financial Management System(PFMS) integration, RTGS 24x7 services, Structured Financial Messaging System (SFMS) version upgrades, Single life insurance for borrowers, Combined collection option to accept collections for Micro Loans etc.

With the stabilization achieved in the Core Banking operations, IT's next focus will be towards bringing in latest digital technologies and integrations which will be both customer-centric and trend setters.

29. Customer Service Quality Department

Your Bank has always aligned its operations to cater to the needs of the customers of the Bank and has tried improving the quality of the service rendered on a continual basis. The following are the major actions initiated by the Bank in the customer service front during the year:

- **Implementation of Outbound call center:** Bank can now reach out to a good population by connecting over phone and provide information in a personalized way through outbound call centers operating from Bangalore and Thrissur. Different campaigns are run through these call centers to help the Bank in generating business leads, verification and confirmation

from customers, Birthday wishes to Senior citizens, different surveys with direct feedbacks, Intimation and service calls etc. to targeted set of customers. This has helped a lot to improve connectivity with the customers especially during the pandemic.

- **Implementation of Lead Management System:** Bank has implemented the Lead Management system (LMS) this year which has helped in the capturing and tracking of the business leads for different products. The application facilitates bulk upload of leads, auto assigning to the particular branch or team, updating of the lead at various stages, report generation at segment levels, central monitoring of leads etc. This has helped in the improving the productivity of staff and also the customer experience.
- **ISO 9001: 2015 certification:** Customer Service Quality Department of the Bank has been working on further enhancing the quality of its functioning and raising the standards to International Quality levels. For that, the department has revamped many of its processes to meet the ISO 9001 standards. As a result, Bank has received ISO 9901: 2015 certification for the following scope of operations:
 - ♦ The Customer Service Quality Initiatives of the Bank.
 - ♦ The Regulatory and Statutory reporting of the Customer Service Quality Department of the Bank.
 - ♦ The Customer Grievance Redressal Mechanism of the Bank.
 - ♦ The Customer Service Call Center Monitoring of the Bank.
- **Customer Service Excellence Awards:** In order to create a competitive spirit among the Branches to give better customer experience, the Customer Service Quality department of the bank has successfully driven the Customer Service Excellence Award for the branches. This has motivated branches to take proactive steps to excel in customer service, deepen the relationship with customers, encourage digital transaction, complete the tasks on time and reduce complaints.
- **Nil awards imposed by Banking Ombudsman:** In the FY 2020-2021 the Bank has only received 31 complaints from Banking Ombudsman which is one of the lowest in country considering the bank has more than 500 branches and around 4 million customers. Also all the complaints were resolved amicably within the stipulated timelines and the Bank has nil awards from Banking Ombudsman since inception.
- **Uninterrupted functioning of 24x7 Customer Contact Center:** Ensured continuity of contact center services to our customers throughout the year amidst the constraints due to Lock down and even some of the agents tested positive. We made this possible by quickly enabling work from capability for our contact centre and training the agents for that. Our Bank has gained the confidence of the customers since most banks including the big ones have completely or partially halted their Contact centres during this period.
- **Various telephonic surveys to improve business and customer experience:** Customer Service Quality Department had conducted various surveys which included Annual Customer Satisfaction Survey, Digital Products Satisfaction Survey, Micro Loans customer satisfaction survey etc. which has helped the Bank to identify the gap and take necessary action to improve the customer experience.
- **Online Training and Learning series to Branches:** Customer Service Quality Department has continuously made efforts to keep the branch staff always updated and guided in the area of customer service and the relevant procedures. Few series of emailers like "Excel and elevate", "Swagat", "CRM-best practices", were being sent to all Branches periodically.
- **Process enhancements and Reduction in TAT for customer requests:** Using the CRM (Customer Relationship Management) application the Customer Service Quality department has generated numerous reports for analyzing processes of various customer requests. This helped the Bank to understand the areas and the scope for improvement to reduce the Turnaround time of customer Requests. The process changes resulted in simplifying and automating many of the requests to increase productivity of staff and improve the customer experience.
- **New way of Customer Interaction during Pandemic:** After the outbreak of the COVID-19 pandemic the branches were not having a uniform method of customer handling and were struggling on how to interact with the customers as direct contacts, smiling through mask were not possible and customers feeling a kind of not taken care well. With the intention to standardize and train the branches across the nation, the Customer Service quality department introduced a new way of customer interaction "SWAGAT" which has helped in educating the frontline staff on how to interact with the customer giving them good experience at the same time adhering to all COVID protocols.

30. Overall Remuneration

Details of remuneration as required under Section 197(12) of the Companies Act, 2013 read with Rule 5 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are given below:

i) Ratio of Remuneration of Each Director with Median Employees Remuneration.	The ratio of remuneration of each Director to median employee remuneration is as below: <table> <tr> <td>MD & CEO</td><td>41.9 times</td></tr> <tr> <td>Other Directors</td><td>Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees.</td></tr> </table>	MD & CEO	41.9 times	Other Directors	Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees.
MD & CEO	41.9 times				
Other Directors	Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees.				
iii) the percentage increase in remuneration of each Director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the Financial Year;	- Managing Director and CEO – 10.51% - Chief Financial Officer – 4.29% - Company Secretary – 7.53%				
iv) the percentage increase in the median remuneration of employees in the financial year;	16.33%				
v) the number of permanent employees on the rolls of the Bank as on 31 st March, 2021	3,803				
vi) average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial Remuneration	Average increase of 16.33% was made to the salaries of employees other than the managerial personnel and 10.51% increase was made in the managerial remuneration in the last financial year.				
vii) affirmation that the remuneration is as per the remuneration policy of the Company	The remuneration is as per the Remuneration Policy of the Bank.				

Statement showing

i) the name of every employee, who if employed throughout the financial year, was in receipt of remuneration for that year which, in the aggregate, was not less than One crore and Two lakh rupees;	Shri. Kadambelil Paul Thomas, Managing Director and CEO of the Bank was paid an aggregate remuneration of ₹ 1,40,13,898/- (One Crore Forty Lakhs Thirteen Thousand Eight Hundred Ninety Eight only) (excluding perquisites) during the year.
ii) if employed for a part of the financial year, was in receipt of remuneration for any part of that year, at a rate which, in the aggregate, was not less than eight lakh and fifty thousand rupees per month;	NIL
iii) if employed throughout the financial year or part thereof, was in receipt of remuneration in that year which, in the aggregate, or as the case may be, at a rate which, in the aggregate, is in excess of that drawn by the Managing Director or Whole Time Director or Manager and holds by himself or along with his spouse and dependent children, not less than two percent of the equity shares of the Bank.	NIL

31. Statutory Auditors

The Shareholders of the Bank in the forth Annual General Meeting held on 10th August, 2020 had appointed M/s. Deloitte Haskins and Sells, Chartered Accountants with Firm Registration number 117365W, based on the approval of Reserve Bank of India vide letter No. Ref DOS.ARG.No.AS-10/08.61.005/2019-20 dated 08th May 2020 as the Statutory Auditors of the Bank for the Financial Year 2020-2021, to hold office till the conclusion of 05th Annual General Meeting of the Bank. The Board of Directors in the meeting held on 29th May, 2020 appointed the Statutory Auditors of the Bank for an overall remuneration of ₹62.5 Lakhs (excluding the GST). Any additional payments to the Statutory Auditors shall be made subject to the approval of the Audit Committee of the Board as and when found necessary.

On the basis of recommendation of the Audit Committee of the Board and subject to the approval of the Reserve Bank of India, the Board of Directors of the Bank in the meeting held on 29th June, 2021 recommended to appoint, M/s. Deloitte Haskins & Sells, Chartered Accountants (Firm Reg. No: 117365W), as the Statutory Auditors of the Bank for a continuous period of two financial years' 2022 and 2023, to hold office from the conclusion of the 05th Annual General Meeting till the conclusion of the 07th Annual General Meeting of the Bank, subject to the satisfaction of eligibility norms each year. The resolution of appointment of the Statutory Auditors has been placed before the members for approval in the Notice of the 05th Annual General Meeting as Item No.03.

32. Secretarial Auditor

Pursuant to the provisions of Section 204 of the Companies Act, 2013, and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Board of Directors of the Bank in the meeting held on 31st March, 2021 has appointed Shri. M Vasudevan, FCS, Practicing Company Secretary (COP: 2437), Thrissur, holding Membership No: F 4177 to conduct Secretarial Audit of the Bank for the Financial Year 2020-21 and to hold the office till the conclusion of fifth Annual General meeting of the Bank. The Secretarial Audit Report does not contain any qualification, reservation or adverse remark and the report for the Financial Year 2020-21 is enclosed herewith as Annexure – IV. The Bank has complied with the Secretarial Standards specified by the Institute of Company Secretaries of India and notified by the Ministry of Corporate Affairs under Section 118(10) of the Companies Act, 2013.

33. Pillar III Disclosures

The Pillar III Disclosures of the Bank as on 31st March, 2021, is enclosed herewith as Annexure-V.

34. Particulars of contract or arrangements with Related Parties

All Related Party Transactions are entered into with the prior approval of the Audit Committee of the Board and an omnibus approval of the Audit Committee is obtained for the Related Party Transactions which are repetitive in nature. All the transactions with related parties are reviewed by the Audit Committee and the Board on a quarterly basis. The details of transactions to be reported under 134(3)(h) read with Rule 8(2) of the Companies (Accounts) Rules, 2014, in Form AOC-2 are enclosed herewith as Annexure-I.

35. MGT - 9

The extract of Annual Return in MGT-9 as required under Section 92(3) of the Act and prescribed in Rule 12 of the Companies (Management and Administration) Rules, 2014 is enclosed herewith as Annexure-II of this report. The same has been disclosed in the website of the Bank.

36. Details in respect of frauds, if any, reported by Auditors

There were no frauds reported by the Statutory Auditors for the Financial Year 2020-21.

37. Statutory Disclosures

None of the Directors of the Bank are disqualified as per provisions of Section 164(2) of the Companies Act, 2013. The Directors have made necessary disclosures, as required under various provisions of the Companies Act, 2013, Securities and Exchange Board of India Regulations and guidelines of Reserve Bank of India.

38. Information as per Section 134 (3) (q) of the Companies Act, 2013 read with Rule 8 of the Companies (Accounts) Rules, 2014

- i) The Bank has no activity relating to conservation of energy or technology absorption.
- ii) During the FY 2020-21, the Bank had foreign currency expenditure of ₹67,21,369/- and there were no foreign currency earnings during the period.

39. Material changes after the Balance Sheet Date as on March 31, 2021

There have been no material changes and commitments between the end of the Financial Year 2020-21 and the date of this report, affecting the financial position of the Bank.

40. Explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made in the Statutory Auditor's Report

There are no qualifications, reservations, adverse remarks or disclaimers in the Auditor's Report.

41. Information About Financial Performance/ Financial Position of the Subsidiaries, Associates and Joint Venture Companies

The Bank does not have any subsidiaries, associates or joint venture companies.

42. Deposits

Being a Banking Company, the disclosures required as per Rule 8(5)(v) and (vi) of the Companies Accounts Rules, 2014, read with Section 73 and 74 of the Companies Act, 2013, are not applicable for your Bank.

43. Loans / Guarantees / Investments

Being a Banking Company, the provisions of Section 186 of the Companies Act, 2013 is not applicable.

44. Cost Records

The Bank is not required to maintain cost records as specified by the Central Government under subsection (1) of Section 148 of the Companies Act, 2013.

45. Significant and material orders

In accordance with Rule 8(5)(vii) of the Companies (Accounts) Rules, 2014, there have been no significant

and material orders passed by the regulators or courts or tribunals impacting the going concern status and the future operations of the Bank.

46. Strictures and Penalties

Your Bank was not imposed any penalty or strictures by the SEBI /or any other statutory authorities on matters relating to capital market.

Acknowledgement

The Directors are grateful to the Reserve Bank of India, other government and regulatory authorities, other banks and financial institutions for their support and guidance. The Directors gratefully acknowledge the excellent relationship with the Board of M/s. ESAF Financial Holdings Private Limited, Corporate Promoter of the Bank and their continued guidance and support for executing various activities of the Bank. The Directors also place on record their sincere thanks to the valued clients and customers for their patronage. The Board also expresses its deep sense of appreciation to all employees of the Bank for their commitment and contribution to the growth of the Bank.

For and on behalf of the Board of Directors

Sd/-

Ravimohan Periyakavil Ramakrishnan

Part Time Chairman and Non-Executive Independent Director

Date: September 07, 2021

Place: Thrissur

Sd/-

Kadambelil Paul Thomas

Managing Director & CEO

Annexure – I

Form No. AOC-2

(Pursuant to Clause (h) of Sub-Section (3) of Section 134 of the Companies Act, 2013 and Rule 8(2) of the Companies (Accounts) Rules, 2014)

Form for disclosure of particulars of contracts/ arrangements entered into by the Bank with related parties referred to in sub-section (1) of Section 188 of the Companies Act, 2013 including certain arm's length transactions under third proviso thereto.

1. Details of contracts or arrangements or transactions on Arm's Length Basis:

a) Contracts with M/s. ESAF Swasraya Multi State Agro Co-operative Society Limited (ESMACO)

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship:	ESAF Swasraya Multi State Agro Co-operative Society Limited (Entity which is a Shareholder and in which relatives of directors are members and were directors)
2.	Nature of contracts/ arrangements/ transactions	The party is acting as Business Correspondent of the Bank.
3.	Duration of the contracts / arrangements/ transactions	10 years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	The party will be paid commission/ fee/ charges based on the agreement executed with them by the Bank.
5.	Date(s) of approval by the Board	10.03.2017
6.	Amount paid as advances, if any.	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	10.03.2017

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship:	ESAF Swasraya Multi State Agro Co-operative Society Limited (Entity which is a Shareholder and in which relatives of directors are members and were directors)
2.	Nature of contracts/ arrangements/ transactions	Corporate Facility Management Services
3.	Duration of the contracts/ arrangements/ transactions	3 years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	Provision of the Facility Management Services to the Bank
5.	Date(s) of approval by the Board	29.05.2020
6.	Amount paid as advances, if any.	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

* M/s. ESAF Swasraya Multi State Agro Co-operative Society Limited ceased to be a related party of the Bank with effect from 13th March, 2021.

b) Contracts with M/s. Evangelical Social Action Forum

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship	Evangelical Social Action Forum (Entity in which Directors and relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	Rent Agreement

Sl. No.	Particulars	Details
3.	Duration of the contracts/ arrangements/ transactions	10 Years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any	A building owned by Evangelical Social Action Forum located at Marayur, admeasuring 800 Sq. Ft/ ₹ 20 per Sq. Ft has been taken on lease by the Bank.
5.	Date(s) of approval by the Board	06.02.2018
6.	Amount paid as advances, if any	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship.	Evangelical Social Action Forum (Entity in which Directors and relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	The party is the CSR implementing agency of the Bank.
3.	Duration of the contracts/ arrangements/ transactions	5 years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	The agreement is entered into for implementation of various CSR Projects of the Bank as per the budget approved by the Board.
5.	Date(s) of approval by the Board	28.09.2018
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship.	Evangelical Social Action Forum (Entity in which Directors and relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	Trademark License Agreement
3.	Duration of the contracts/ arrangements/ transactions	15 years.
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	Trademark License Fee as per the agreement shall be paid to the party.
5.	Date(s) of approval by the Board	04.01.2020
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

c) Contracts with M/s. Lahanti Homes and Infrastructure Private Limited

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship:	Lahanti Homes and Infrastructure Private Limited (Company in which relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	Lease Agreement
3.	Duration of the contracts/ arrangements/ transactions	15 Years

Sl. No.	Particulars	Details
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	The Bank has taken on lease a property held by Lahanti Homes and Infrastructure Private Limited, for functioning as the Corporate Office of the Bank based on the valuation report obtained from an Independent Valuer.
5.	Date(s) of approval by the Board	30.03.2017
6.	Amount paid as advances, if any.	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

d) Contracts with M/s. Lahanti Lastmile Services Private Limited (LLMS)

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship.	Lahanti Lastmile Services Private Limited (LLMS) (Company in which relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	The party is acting as Business Correspondent of the Bank.
3.	Duration of the contracts/ arrangements/ transactions	5 years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	The party will be paid commission/ fee/ charges based on the agreement executed with them by the Bank.
5.	Date(s) of approval by the Board	07.02.2019
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

* M/s. Lahanti Lastmile Services Private Limited ceased to be a related party of the Bank with effect from 15th March, 2021.

e) Contracts with M/s. Prachodhan Development Services (PDS)

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship.	Prachodhan Development Services (PDS) (Company in which Director and Key Managerial Personnel are members and relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	The party is the CSR Implementing agency of the Bank.
3.	Duration of the contracts/ arrangements/ transactions	5 years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	The agreement is entered into for implementation of various CSR Projects of the Bank as per the budget approved by the Board.
5.	Date(s) of approval by the Board	27.09.2019
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

f) Contracts with M/s. Margdarshak Financial Services Limited

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship.	Margdarshak Financial Services Limited (Company in which Directors of the Bank were Directors)
2.	Nature of contracts/ arrangements/ transactions	The party is acting as Business Correspondent of the Bank.
3.	Duration of the contracts/ arrangements/ transactions	5 years.
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	The party will be paid commission/ fee/ charges based on the agreement executed with them by the Bank.
5.	Date(s) of approval by the Board	06.08.2019
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

* M/s. Margdarshak Financial Services Limited ceased to be a related party of the Bank with effect from 08th September, 2020.

g) Contracts with M/s. ESAF Swasraya Multi State Agro Cooperative Society Limited (ESMACO) and M/s. Lahanti Last Mile Services Private Limited (LLMS)

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship:	M/s. ESAF Swasraya Multistate Agro Co-Operative Society Limited (ESMACO) and M/s. Lahanti Last Mile Services Private Limited (LLMS) (Entities which are shareholders of the Bank and in which relatives of Director are members/ Directors)
2.	Nature of contracts/ arrangements/ transactions:	Acting as the Business Correspondents of the Bank.
3.	Duration of the contracts / arrangements/ transactions:	31 st March, 2021
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	One-time payment of Incentive scheme to augment overdue collection.
5.	Date of Approval by the Board	04.02.2021
6.	Amount paid as advances, if any	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

* Both M/s. ESAF Swasraya Multi State Agro Co-operative Society Limited and M/s. Lahanti Lastmile Services Private Limited ceased to be related parties of the Bank with effect from 13th March, 2021 and 15th March, 2021 respectively.

2. Details of contracts or arrangements or transactions not in Arm's Length Basis:

NIL

Annexure – II**Form No. MGT-9
EXTRACT OF ANNUAL RETURN****as on the Financial Year ended on 31st March, 2021**[Pursuant to Section 92(3) of the Companies Act, 2013 and Rule 12(1) of the Companies
(Management and Administration) Rules, 2014]**I. REGISTRATION AND OTHER DETAILS:**

i.	CIN	U65990KL2016PLC045669
ii.	Registration Date	05 th May, 2016
iii.	Name of the Company	ESAF SMALL FINANCE BANK LIMITED
iv.	Category / Sub-Category of the Company	Public Limited Company
v.	Address of the Registered office and Contact details	Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN-680 651. Ph. No: 0487 7123456/ 457
vi.	Whether listed company	Debt securities are listed with BSE Limited.
vii.	Name, Address and Contact details of Registrar and Transfer Agent, if any	M/s. Link Intime India Private Limited C 101, 247 Park, L.B.S Marg, Vikhroli (West), Mumbai – 400 083 Tel : 022 – 4918 6270
viii.	Debenture Trustee	M/s. Catalyst Trusteeship Limited Office No.83-87, 08 th Floor, B-Wing, Mittal Tower, Nariman Point, Mumbai – 400 021 Tel No: +91 (022) 4922 0555, +91 9967404838

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

All the business activities contributing 10 % or more of the total turnover of the company shall be stated.

Sl. No.	Name and Description of main products / services	NIC Code of the Product/ Service	% to total turnover of the company
1.	Monetary intermediation of Commercial Banks, Savings Banks, Postal Savings Bank and Discount Houses	64191	100%

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES

The Bank does not have any Holding, Subsidiary or Associate companies.

IV. SHARE HOLDING PATTERN

(Equity Share Capital Breakup as percentage of Total Equity)

i) Category-wise Share Holding

Category of shareholders		No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				
		Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	% Change during the year
A. Promoters										
(1) Indian										
a.	Individual/ HUF	3,11,86,790	-	3,11,86,790	7.290%	3,11,86,790	-	3,11,86,790	6.939%	(0.351%)
b.	Central Govt	-	-	-	-	-	-	-	-	-
c.	State Govt (s)	-	-	-	-	-	-	-	-	-
d.	Body Corp.	28,07,58,391	-	28,07,58,391	65.629%	28,07,58,391	-	28,07,58,391	62.464%	(3.165%)
e.	Banks / FI	-	-	-	-	-	-	-	-	-
f.	Any Other	-	-	-	-	-	-	-	-	-
Sub-total (A) (1):-		31,19,45,181	-	31,19,45,181	72.919%	31,19,45,181	-	31,19,45,181	69.403%	(3.516%)
(2) Foreign										
a)	NRIs - Individuals	-	-	-	-	-	-	-	-	-
b)	Other – Individuals	-	-	-	-	-	-	-	-	-
c)	Body Corporates.	-	-	-	-	-	-	-	-	-
d)	Banks / FI	-	-	-	-	-	-	-	-	-
e)	Any Other	-	-	-	-	-	-	-	-	-
Sub-total (A) (2):-		-	-	-	-	-	-	-	-	-
Total shareholding of Promoter (A) = (A)(1) + (A)(2)		31,19,45,181	-	31,19,45,181	72.919%	31,19,45,181	-	31,19,45,181	69.403%	(3.516%)
B. Public Shareholding										
1. Institutions										
a)	Mutual Funds	-	-	-	-	-	-	-	-	-
b)	Banks / FI	1,87,17,244	-	1,87,17,244	4.375%	1,87,17,244	-	1,87,17,244	4.164%	(0.211%)
c)	Central Govt	-	-	-	-	-	-	-	-	-
d)	State Govt(s)	-	-	-	-	-	-	-	-	-
e)	Venture Capital Funds	-	-	-	-	-	-	-	-	-
f)	Insurance Companies	4,50,55,502	-	4,50,55,502	10.532%	4,50,55,502	-	4,50,55,502	10.024%	(0.508%)
g)	FIIs	-	-	-	-	-	-	-	-	-
h)	Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
i) Others										
1.	M/s. ESAF Swasraya Multi State Agro Co – Operative Society Limited	2,13,46,993	-	2,13,46,993	4.989%	2,24,13,659	-	2,24,13,659	4.987%	(0.002%)
2.	M/s. ESAF Staff Welfare Trust	-	-	-	-	10,00,000	-	10,00,000	0.222%	0.222%
Sub-total (B)(1):-		8,51,19,739	-	8,51,19,739	19.896%	8,71,86,405	-	8,71,86,405	19.397%	(0.499%)
2. Non-Institutions										
a)	Body Corp.									
i)	Indian	88,84,452	-	88,84,452	2.076%	88,84,452	-	88,84,452	1.976%	(0.100%)
ii)	Overseas	-	-	-	-	-	-	-	-	-
b)	Individuals									
i)	Individual shareholders holding nominal share capital upto ₹ 1 lakh	-	-	-	-	-	-	-	-	-

Category of shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
ii) Individual shareholders holding nominal share capital in excess of ₹ 1. lakh	2,18,46,118	-	2,18,46,118	5.106%	4,14,57,760	-	4,14,57,760	9.224%	4.118%
c) Others (specify)	-	-	-	-	-	-	-	-	-
Sub-total (B)(2):-	3,07,30,570		3,07,30,570	7.182%	5,03,42,212		5,03,42,212	11.200%	4.018%
Total Public Shareholding (B)=(B)(1)+(B)(2)	11,58,50,309	-	11,58,50,309	27.078%	13,75,28,617	-	13,75,28,617	30.597%	3.519%
C. Shares held by Custodian for GDRs & ADRs	-	-	-	-	-	-	-	-	-
Grand Total (A+B+C)	42,77,95,490	-	42,77,95,490	100.00%	44,94,73,798	-	44,94,73,798	100.00%	-

ii) Shareholding of Promoters

Shareholder's Name	Shareholding at the beginning of the year			Shareholding at the end of the year			% change in shareholding during the year
	No. of Shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total Shares of the Company	% of Shares Pledged / encumbered to total shares	
ESAF Financial Holdings Private Limited	28,07,58,391	65.629%	-	28,07,58,391	62.464%	-	(3.165)
Kadambelil Paul Thomas	3,11,86,785	7.290%	-	3,11,86,785	6.939%	-	(0.351)
Mrs. Mereena Paul	1	-	-	1	-	-	-
Mr. Alok Thomas Paul	1	-	-	1	-	-	-
Mrs. Emy Acha Paul	1	-	-	1	-	-	-
Mr. George K John	1	-	-	1	-	-	-
Mrs. Beena George	1	-	-	1	-	-	-

iii) Change in Promoters' Shareholding

Sl. No	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
	No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
1. Mr. Kadambelil Paul Thomas				
At the Beginning of the year	3,11,86,785	7.290%	3,11,86,785	6.939%
Date wise Increase /Decrease in Shareholding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus / sweat equity, etc.)	-	-	-	-
At the End of the year	3,11,86,785	7.290%	3,11,86,785	6.939%

Sl.No		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
2.	M/s. ESAF Financial Holdings Private Limited				
	At the Beginning of the year	28,07,58,391	65.629%	28,07,58,391	62.464%
	Date wise /Decrease in Shareholding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus / sweat equity etc.)	-	-	-	-
	At the End of the year	28,07,58,391	65.629%	28,07,58,391	62.464%

iv) Shareholding Pattern of Top Ten Shareholders (Other than Directors, Promoters and Holders of GDRs and ADRs)

Sl. No.	Name of the Shareholder	Shareholding at the beginning of the year		Shareholding during the end of the Year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
1.	M/s. ESAF Swasraya Multi State Agro Co-Operative Society Limited (ESMACO)	2,13,46,993	4.990%	2,24,13,659	4.987%
2.	Shri. Yusuffali Musaliyam Veettil Abdul Kader	2,13,46,993	4.990%	2,24,13,659	4.987%
3.	M/s. PNB Metlife India Insurance Company Limited	2,13,46,993	4.990%	2,13,46,993	4.749%
4.	M/s. Muthoot Finance Limited	1,87,17,244	4.375%	1,87,17,244	4.164%
5.	M/s. Bajaj Allianz Life Insurance Company Limited	1,74,69,428	4.084%	1,74,69,428	3.887%
6.	Shri. George Ittan Maramkandathil	-	-	1,33,33,333	2.966%
7.	M/s. PI Ventures LLP	87,34,714	2.042%	87,34,714	1.943%
8.	M/s. ICICI Lombard General Insurance Company Limited	62,39,081	1.458%	62,39,081	1.388%
9.	Shri. George Mammoottil Thomas	-	-	10,00,000	0.222%
10.	Shri. George Thomas (in the capacity as Chairman of M/s. ESAF Staff Welfare Trust)	-	-	10,00,000	0.222%

v) Shareholding of Directors and Key Managerial Personnel

Sl. No.	Name of the Shareholder	Shareholding at the beginning of the year		Shareholding during the end of the year	
		No. of Shares	% of total shares of the Company	No. of Shares	% of total shares of the Company
1.	Shri. Kadambelil Paul Thomas	3,11,86,785	7.290%	3,11,86,785	6.939%

V. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL**A. Remuneration to Managing Director, Whole-time Directors and/or Manager:**

Sl. No.	Particulars of Remuneration	Name of MD/WT/ Manager Shri. Kadambelil Paul Thomas (Managing Director and Chief Executive Officer)		Total Amount (₹)
1.	Gross salary			
	(a) Salary as per provisions contained in Section 17(1) of the Income-Tax Act, 1961	1,40,13,898		1,40,13,898
	(b) Value of Perquisites under Section 17(2) of the Income-Tax Act, 1961	6,09,600		6,09,600
	(c) Profits in lieu of Salary under Section 17(3) of the Income-Tax Act, 1961	NIL		NIL
2.	Stock Option	NIL		NIL
3.	Sweat Equity	NIL		NIL
	Commission			
4.	• As Percentage of Profit	NIL		NIL
	• Others (specify)	NIL		NIL
5.	Others	NIL		NIL
	Total (A)	1,46,23,498		1,46,23,498
	Ceiling as per the Act	As per RBI Approval		As per RBI Approval

B. Remuneration to Other Directors:

Sl. No.	Name of the Director	Particulars of Remuneration			
		Fee for attending Board and Committee meetings	Commission	Others	Total
Independent Directors					
1.	Shri. Ravimohan Periyakavil Ramakrishnan	21,20,000	NIL	NIL	21,20,000
2.	Dr. Vadakkekara Antony Joseph	20,00,000	NIL	NIL	20,00,000
3.	Shri. Thomas Jacob Kalappila	14,40,000	NIL	NIL	14,40,000
4.	Smt. Asha Morley	14,40,000	NIL	NIL	14,40,000
5.	Shri. Alex Parackal George	12,00,000	NIL	NIL	12,00,000
6.	Shri. Santhosh George	2,80,000	NIL	NIL	2,80,000
Other Non-Executive Directors					
1.	Shri. Chandanathil Pappachan Mohan	14,60,000	NIL	NIL	14,60,000
2.	Shri. Saneesh Singh	11,60,000	NIL	NIL	11,60,000
3.	Shri. Assan Khan Akbar	2,10,000	NIL	NIL	2,10,000
Total					1,13,10,000

Note: The disclosure regarding Remuneration of Directors are made for their tenure in office.

C. Remuneration to Key Managerial Personnel other than MD/ Manager/ Whole Time Director:

Sl. No.	Name of the KMP	Designation	Gross Salary		Commission				Others	Total
			Salary as per Provisions contained in 17(1) of Income Tax Act, 1961	Value of Perquisites under Section 17(2) of Income Tax Act, 1961	Profits in Lieu of Salary under Section 17(3) of Income Tax Act, 1961	Stock Option	Sweat Equity	As percentage of Profit		
1.	Shri. Gireesh C P	Chief Financial Officer	50,34,928.00	-	-	-	-	-	-	50,34,928.00
2.	Shri. Ranjith Raj P	Company Secretary	14,57,174.00	-	-	-	-	-	-	14,57,174.00
3.	Shri. M G Ajayan	Executive Vice President - Operations	37,87,798.00	-	-	-	-	-	-	37,87,798.00
4.	Shri. George Thomas	Executive Vice President – Corporate Services	49,06,897.00	32,400.00	-	-	-	-	-	49,39,297.00
5.	Shri. George K John	Executive Vice President - Business	37,92,043.00	39,600.00	-	-	-	-	-	38,31,643.00
6.	Shri. KRMohanachandran	Chief Risk Officer	29,23,760.00	-	-	-	-	-	-	29,23,760.00
7.	Shri. Dominic Joseph	Chief Vigilance Officer	14,84,975.00	-	-	-	-	-	-	14,84,975.00
8.	Shri. Antoo P K	Head – Internal Audit	13,36,350.00	-	-	-	-	-	-	13,36,350.00
9.	Shri. Sivasankaran N	Chief Compliance Officer	13,42,142.00	-	-	-	-	-	-	13,42,142.00

Note: The disclosure regarding Remuneration of Key Managerial Personnel (other than MD / Manager/ WTD) are made for their tenure in office.

VI. PENALTIES/ PUNISHMENT/ COMPOUNDING OF OFFENCES

Type	Section of the Companies Act	Brief Description	Details of Penalty / Punishment/ Compounding fees imposed	Authority [RD / NCLT/ COURT]	Appeal made, if any
A. Company					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
B. Directors					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
C. Other Officers in Default					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL

For and on behalf of the Board of Directors

Sd/-

Ravimohan Periyakavil Ramakrishnan

Part Time Chairman and Non-Executive Independent Director

Sd/-

Kadambelil Paul Thomas

Managing Director & CEO

Date: September 7, 2021

Place: Thrissur

ANNEXURE – III

ANNUAL REPORT ON CSR ACTIVITIES FOR THE FINANCIAL YEAR 2020-2021

1. Brief outline on CSR Policy of the Company

ESAF Small Finance Bank is committed towards the transformation of lives and communities by:

- Addressing social, environmental and economic needs of the poor and the marginalized sections of the society.
- An approach that integrate the solutions to the critical problems of the society into the strategies of the Bank to benefit the communities at large with a Triple Bottom Line impact.
- Employee participation and networking with likeminded agencies in the projects for larger synergy and impact as an institution.
- Aligning the Corporate Social Responsibility strategies with the ESAF vision for a just and fair society, fighting the partiality of prosperity.

2. Composition of CSR Committee

Sl. No.	Name of Director	Designation/ Nature of Directorship	Number of Meetings of CSR Committee held during the year	Number of Meetings of CSR Committee attended during the year
1.	Shri. Saneesh Singh	Chairman (Non-Executive Nominee Director)	3	3
2.	Shri. Kadambelil Paul Thomas	Member (Managing Director and CEO)	3	3
3.	Dr. V.A. Joseph	Member (Non-Executive Independent Director)	3	3
4.	Smt. Asha Morley	Member (Non-Executive Independent Director)	2	2

3. Web-link where Composition of CSR committee, CSR Policy and CSR projects approved by the board are disclosed on the website of the company.

<https://www.esafbank.com/corporate-social-responsibility-policy/>

4. The details of Impact Assessment of CSR projects carried out in pursuance of sub-rule (3) of Rule 8 of the Companies (Corporate Social Responsibility Policy) Rules, 2014, if applicable.

Not Applicable, since none of the projects undertaken by the Bank in the past which has completed one year, has a project outlay of ₹ 1 Crore or more.

However, the Bank has undertaken an Impact Assessment through an Independent Agency for all the projects in the Financial Year 2018-19 and 2019-20 voluntarily. Further, the Bank intends to undertake the same for the Financial Year 2020-21 also.

5. Details of the amount available for set off in pursuance of sub-rule (3) of Rule 7 of the Companies (Corporate Social Responsibility Policy) Rules, 2014 and amount required for set off for the Financial Year, if any

Sl. No.	Financial Year	Amount Available for set off from Preceding Financial Year	Amount required to be set off for the Financial Year, if any
1.	2018-19	69,00,000	NIL
2.	2019-20	1,73,52,048	NIL
TOTAL		2,42,52,048	-

6. Average Net Profit of the Company as per Section 135(5)

₹ 143,03,66,988.00

7. (a) Two percent of Average Net Profit of the Company as per Section 135(5)

₹ 2,86,07,340.00

(b) Surplus arising out of the CSR Projects or Programmes or activities of the previous Financial Years

NIL

(c) Amount required to be set off for the Financial Year, if any

NIL

(d) Total CSR obligation for the Financial Year

₹ 2,86,07,340.00

The Bank has decided to allocate 5% of the average net profits every financial year, as against the statutory obligation of 2%. In accordance with the same, the Bank has allocated ₹ 7.15 Crores towards CSR expenditures for the Financial Year 2020-21.

8. (a) CSR amount spent or unspent for the Financial Year

Total Amount Spent for the Financial Year	Amount Unspent				
	Total Amount transferred to Unspent CSR Account as per Section 135(6).		Amount transferred to any fund specified under Schedule VII as per second proviso to section 135(5).		
	Amount	Date of Transfer	Name of the Fund	Amount	Date of Transfer
₹ 3,10,88,452.00	-	-	-	-	-
			TOTAL	-	

(b) Details of CSR amount spent against ongoing projects for the Financial Year

(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)	(10)	(11)	
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project		Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (including Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation -Through implementing agency.		
				State	District							
										Name	CSR Registration No.	
1.	ESAF BALAJYOTHI WITH YUVAJYOTHI AND SADGAMAYA	Point #2 & Point #7 SDG 3, SDG 4 & SDG 17	Yes	Kerala and Tamil Nadu	Thrissur, Palakkad, Wayanad, Malappuram, Ernakulam, Kottayam, Kollam, Idukki, Trivandrum, Alappuzha, Nilgiris, Villupuram, Tirunelveli, Chennai, Theni, Kanyakumari, Cuddalore.	1.5 Years (Completion by June, 2021.)	53,00,000	27,68,610	-	No	Evangelical Social Action Forum (ESAF)	CSR00002189
2.	SANTHWANA PROJECT	Point #1 & Point #2 SDG 3	Yes	Kerala	All Districts	1.5 Years (Completion by June, 2021.)	12,00,000	4,11,392	-	No	Evangelical Social Action Forum (ESAF)	CSR00002189
3.	GARSHOM PROJECT	Point #1 & Goal No. 3 SDG 3, & SDG 10	No	Kerala	Ernakulam	1.5 Years (Completion by June, 2021.)	12,00,000	10,78,946	-	No	Evangelical Social Action Forum (ESAF)	CSR00002189
4.	SKILL DEVELOPMENT TRAINING FOR MICRO ENTREPRENEURS	Point #2 & Point #10 SDG 1, SDG 4, SDG 5, SDG 8, SDG 9 & SDG 10	Yes	Kerala, Tamil Nadu & Karnataka	Kannur, Palakkad, Thrissur, Trivandrum, Kozhikode, Ernakulam, Malappuram, Kottayam, Kasargode, Kollam, Dindigul, Cuddalore, Villupuram, Theni	1.5 Years (Completion by June, 2021.)	54,00,000	32,94,532	-	No	Evangelical Social Action Forum (ESAF)	CSR00002189

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project	Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (including Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation -Through implementing agency.		
				State	District				Name	CSR Registration No.	
5.	DISASTER PREPAREDNESS AND SUPPORT PROGRAM (INCLUDING COVID RELIEF)	As included by Ministry of Corporate Affairs SDG 1, SDG 2, SDG 3 & SDG 8	Yes	All Indian States	-	1.5 Years (Completion by June, 2021.)	53,37,188	-	No	Evangelical Social Action Forum (ESAF)	CSR00002189
6.	ESAF URJABANDHU (CLEAN ENERGY ENTREPRENEURS) TRAINING AND MENTORING	Point # 2 SDG 7, SDG 8 & SDG 13	Yes	Kerala, Tamil Nadu & Karnataka	Kasargode Kannur, Malappuram, Kozhikode, Palakkad, Thrissur, Ernakulam, Alappuzha, Kottayam, Pathanamthitta, Trivandrum	1.5 Years (Completion by June, 2021.)	17,19,312	-	No	Evangelical Social Action Forum (ESAF)	CSR00002189
7.	ESAF PASHUMITRAS (ANIMAL HUSBANDRY ENTREPRENEURS) TRAINING AND MENTORING	Point # 2 & Point # 4 SDG 1, SDG 2, SDG 8 & SDG 12	Yes	Tamil Nadu & Karnataka	Niligiri, Thalawadi, Salem, Dharmapuri, Krishnagiri, Theni, Vattahalli	1.5 Years (Completion by June, 2021.)	10,44,075	-	No	Evangelical Social Action Forum (ESAF)	CSR00002189

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project	Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (including amount spent in Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation - Through implementing agency.	Mode of implementation - Direct (Yes/No).
				State	District					
						Name				
						Registration No.				
8.	ESAF KRUSHAKMITRAS (AGRI ENTREPRENEURSHIP) TRAINING AND MENTORING	Point # 2 & Point # 4 SDG 1, SDG 2, SDG 8 & SDG 12	No	Tamil Nadu & Karnataka Nilgiri, Thalawadi, Salem, Dharmapuri, Krishnagiri, Vattahalli	1.5 Years (Completion by June, 2021.)	16,00,000	9,01,601	-	No	Evangelical Social Action Forum (ESAF)
9.	MARKET LINKAGES AND CAPACITY BUILDING FOR FARMER COLLECTIVES (FPCs, COOPERATIVES, PRODUCER FEDERATIONS)	Point # 2 & Point # 4 SDG 1, SDG 2, SDG 8 & SDG 12	No	Tamil Nadu & Karnataka Krishnagiri & Dharmapuri	1.5 Years (Completion by June, 2021.)	20,00,000	10,14,056	-	No	Evangelical Social Action Forum (ESAF)
10.	DAIRY BASED LIVELIHOOD DEVELOPMENT PROGRAMS	Point # 2 & Point # 4 SDG 1, SDG 2, SDG 8 & SDG 12	No	Tamil Nadu & Karnataka Krishnagiri, Dharmapuri & Salem	1.5 Years (Completion by June, 2021.)	6,00,000	3,72,306	-	No	Evangelical Social Action Forum (ESAF)
11.	SUPPORT FOR SETTING UP COLLECTION CENTERS AND MARKETING INFRASTRUCTURE	Point # 2 & Point # 4 SDG 1, SDG 2, SDG 8 & SDG 12	No	Tamil Nadu & Karnataka Theni, Vattahalli, Krishnagiri & Dharmapuri	1.5 Years (Completion by June, 2021.)	20,00,000	15,53,342	-	No	Evangelical Social Action Forum (ESAF)

(1) Sl. No.	(2) Name of the Project	(3) Item from the list of activities in Schedule VII to the Act	(4) Local area (Yes/No)	(5) Location of the project	(6) Project Duration	(7) Amount allocated for the project (in ₹)	(8) Amount spent in the current Financial Year (in ₹) (including Administrative Overheads)	(9) Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	(10) Mode of implementation - Direct (Yes/No).	(11) Mode of implementation - Through implementing agency.	Name	CSR Registration No.
12.	POULTRY BASED DEVELOPMENT PROGRAMS	Point # 2 & Point # 4 SDG 1, SDG 2, SDG 8 & SDG 12	No	Tamil Nadu & Karnataka	Krishnagiri & Dharmapuri	1.5 Years (Completion by June, 2021.)	4,35,685	-	No	Evangelical Social Action Forum (ESAF)		CSR00002189
13.	BALAJYOTHI	Point # 2 SDG 4 & SDG 17	No	Assam, Jharkhand and Maharashtra	Udaiguri, Dispur, Biswanath Chariali, Majuli, Lakimpur, Nagpur, Mumbai, Dumka	1.5 Years (Completion by June, 2021.)	14,97,495	-	No	Prachodhan Development Services (PDS)		CSR00001633
14.	RURAL COMMUNITY SCHOOLS PROJECT	Point # 2 & Point # 10 SDG 4 & SDG 17	No	Jharkhand	Dumka	1.5 Years (Completion by June, 2021.)	12,27,144	-	No	Prachodhan Development Services (PDS)		CSR00001633
15.	GARSHOM - PROJECTS FOR MIGRANT LABOURERS	Point # 1 SDG 3 & SDG 10	Yes	Kerala	Thrissur	1.5 Years (Completion by June, 2021.)	4,24,099	-	No	Prachodhan Development Services (PDS)		CSR00001633
16.	SKILL DEVELOPMENT TRAINING FOR MICRO ENTREPRENEURS	Point # 2 & Point # 10 SDG 1, SDG 5 & SDG 8	No	Maharashtra, Madhya Pradesh & Chhattisgarh	Betul, Raipur, Nagpur, Bandara, Rajnandgaon, Harda, Gondia, Hosangabad, Chindwara	1.5 Years (Completion by June, 2021.)	10,68,528	-	No	Prachodhan Development Services (PDS)		CSR00001633

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project	Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (including amount spent in Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation - Through implementing agency.	Mode of implementation - Direct (Yes/No).
				State	District					
						Name				
						Registration No.				
17.	DISASTER PREPAREDNESS AND SUPPORT PROGRAM (INCLUDING COVID RELIEF)	As included by Ministry of Corporate Affairs SDG 1, SDG 2, SDG 3	No	Maharashtra, Odisha & Assam	Majuli (Completion by June, 2021.)	16,00,000	10,17,280	-	No	Prachodhan Development Services (PDS) CSR00001633
18.	URIAMITHRA (CLEAN ENERGY ENTREPRENEURS) TRAINING AND MENTORING	Point #10 & Point #2 SDG 7, SDG 8, SDG 13	No	Maharashtra, Madhya Pradesh & Jharkhand	Dumka (Completion by June, 2021.)	10,00,000	2,54,080	-	No	Prachodhan Development Services (PDS) CSR00001633
19.	AROGYAMITRA (HEALTH ENTREPRENEURS) TRAINING AND MENTORING	Point # 1 SDG 3 & SDG 8	No	Assam & Jharkhand	Dumka, Majuli, Lakhimpur (Completion by June, 2021.)	17,00,000	4,03,232	-	No	Prachodhan Development Services (PDS) CSR00001633
20.	PASHUMITRA (ANIMAL HUSBANDRY ENTREPRENEURS) TRAINING AND MENTORING	Point # 2 Point # 10 SDG 1, SDG 8 & SDG 12	No	Madhya Pradesh & Maharashtra	Yavatmal, Sehore (Completion by June, 2021.)	12,00,000	3,91,216	-	No	Prachodhan Development Services (PDS) CSR00001633
21.	KRUSHAKMITRA (AGRI ENTREPRENEURS) TRAINING AND MENTORING	Point # 2 & Point # 10 SDG 1, SDG 8 & SDG 12	No	Madhya Pradesh & Maharashtra	Yavatmal, Sehore (Completion by June, 2021.)	12,00,000	85,185	-	No	Prachodhan Development Services (PDS) CSR00001633

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)		
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project	Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (including Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation -Through implementing agency.			
				State	District							
									Name	CSR Registration No.		
22.	MARKET LINKAGES AND CAPACITY BUILDING FOR FARMER COLLECTIVES (FPCS, COOPERATIVES, PRODUCER FEDERATIONS)	Point # 2 & Point # 10 SDG 1, SDG 8 & SDG 12	No	Madhya Pradesh & Maharashtra	Yavatmal, Sehore	1.5 Years (Completion by June, 2021.)	16,00,000	3,25,919	-	No	Prachodhan Development Services (PDS)	CSR00001633
23.	TRAINING FOR DAIRY FARMERS	Point # 2 & Point # 10 SDG 1, SDG 8 & SDG 12	No	Madhya Pradesh & Maharashtra	Yavatmal, Sehore	1.5 Years (Completion by June, 2021.)	6,00,000	1,41,643	-	No	Prachodhan Development Services (PDS)	CSR00001633
24.	SUPPORT FOR SETTING UP COLLECTION CENTERS AND MARKETING INFRASTRUCTURE	Point # 2 & Point # 10 SDG 1, SDG 8 & SDG 12	No	Madhya Pradesh & Maharashtra	Yavatmal, Sehore	1.5 Years (Completion by June, 2021.)	10,00,000	1,79,550	-	No	Prachodhan Development Services (PDS)	CSR00001633
25.	POULTRY BASED DEVELOPMENT AND TRAINING PROGRAMS	Point # 2 & Point # 10 SDG 1, SDG 8 & SDG 12	No	Madhya Pradesh & Maharashtra	Yavatmal, Sehore	1.5 Years (Completion by June, 2021.)	6,00,000	69,400	-	No	Prachodhan Development Services (PDS)	CSR00001633
26.	SUVIDI (SUSTAINABLE VILLAGE DEVELOPMENT INITIATIVE)	Point # 4 Point # 10 SDG 1, SDG 8 & SDG 10	No	Odisha	Kalahandi	1.5 Years (Completion by June, 2021.)	12,00,000	5,75,115	-	No	Prachodhan Development Services (PDS)	CSR00001633

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project	Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (including amount spent in Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation - Through implementing agency.	Mode of implementation - Direct (Yes/No).
27.	SCHOOL INFRASTRUCTURE SUPPORT PROJECT	Point # 2 SDG 3 & SDG 4	No	Kerala	Palakkad	1.5 Years (Completion by June, 2021.)	34,97,521	-	No	Prachodhan Development Services (PDS)
	TOTAL					7,15,50,000	3,10,88,452			

(c) Details of CSR amount spent against other than ongoing projects for the Financial Year:

NIL

(d) Amount spent in Administrative Overheads

₹ 18,35,925

(e) Amount spent on Impact Assessment, if applicable

Company has not incurred any expenditure for Impact Assessment from the amount allocated for CSR expenditure.

(f) Total amount spent for the Financial Year

₹ 3,10,88,452

(g) Excess amount for set off, if any

Sl. No.	Particulars	Amount (in ₹)
(i)	Two percent of Average Net Profit of the Company as per Section 135(5)	2,86,07,340
(ii)	Total amount spent for the Financial Year	3,10,88,452
(iii)	Excess amount spent for the Financial Year [(ii) - (i)]	24,81,112
(iv)	Surplus arising out of the CSR projects or programmes or activities of the previous Financial Years, if any	NIL
(v)	Amount available for set off in succeeding Financial Years [(iii)-(iv)]	24,81,112

9. (a) Details of Unspent CSR amount for the preceding three Financial Years

NIL. The Bank has utilised the CSR obligation of 2% as mandated under Section 135(5) of the Companies Act, 2013.

(b) Details of CSR amount spent in the Financial Year for ongoing projects of the preceding Financial Year(s):

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sl. No.	Project ID	Name of the Project	Financial Year in which the project was commenced	Project duration	Total amount allocated for the project (in ₹)	Amount spent on the project in the reporting Financial Year (in ₹)	Cumulative amount spent at the end of reporting Financial Year (in ₹)	Status of the project – Completed /Ongoing
1.	EBJ	ESAF Balajiothi	2019-2020	1.5 Years	51,00,000	27,11,664	51,00,000	Completed
2.	EYJ	ESAF Yuvaljiothi (CYRC)	2019-2020	1.5 Years	11,00,000	7,00,790	11,00,000	Completed
3.	ESAF SUVIDI	ESAF SUVIDI – ESAF Sustainable Village Development Initiative	2019-2020	1.5 Years	7,00,000	2,14,380	7,00,000	Completed
4.	CINDER	ESAF CINDER – (ESAF Center for Integrated Development Research) – Waste2 Wealth Entrepreneurship	2019-2020	1.5 Years	11,00,000	5,68,010	11,00,000	Completed
5.	Krushak	ESAF Krushak Mithra for Farmers and Farmer Collectives	2019-2020	1.5 Years	26,00,000	17,87,393	26,00,000	Completed
6.	FR-Kerala	Flood Rehabilitation Kerala	2019-2020	1.5 Years	33,00,000	17,12,649	33,00,000	Completed
7.	LCS-Dumka	Lahanti Community School – Dumka	2019-2020	1.5 Years	21,00,000	11,60,729	21,00,000	Completed
8.	STRARY	Skill Training for Rural Artisans, Rural Youths at LIMS	2019-2020	1.5 Years	16,00,000	18,431	16,00,000	Completed
9.	ELC	ESAF Liveable City Projects	2019-2020	1.5 Years	16,00,000	10,31,130	16,00,000	Completed
10.	GARSHOM	ESAF Garshom – Projects for Migrant Labourers	2019-2020	1.5 Years	10,00,000	2,69,000	10,00,000	Completed
11.	ESAF CRP	ESAF COVID-19 Response Program	2019-2020	1.5 Years	25,00,000	25,00,000	25,00,000	Completed
12.	PDS SUVIDI	SUVIDI (Sustainable Village Development Initiative)	2019-2020	1.5 Years	1,50,000	1,24,324	1,50,000	Completed
13.	Arogyamitra	ESAF Arogyamitra – Health Entrepreneurship Development	2019-2020	1.5 Years	3,50,000	2,29,651	3,50,000	Completed
14.	LPS	Lahanti Public School	2019-2020	1.5 Years	20,00,000	5,95,144	20,00,000	Completed
15.	FR-EI	Flood Rehabilitation – Eastern India	2019-2020	1.5 Years	12,00,000	2,60,000	12,00,000	Completed
16.	PDS CRP	PDS COVID-19 Response Program	2019-2020	1.5 Years	25,00,000	25,00,000	25,00,000	Completed
TOTAL					2,89,00,000	1,63,83,295	2,89,00,000	

10. In case of creation or acquisition of capital asset, furnish the details relating to the asset so created or acquired through CSR spent in the Financial Year (Asset wise details)

NIL

- (a) Date of creation or acquisition of the capital asset(s) – **Not Applicable**
- (b) Amount of CSR spent for creation or acquisition of capital asset – **Not Applicable**
- (c) Details of the entity or public authority or beneficiary under whose name such capital asset is registered, their address etc. – **Not Applicable**
- (d) Provide details of the capital asset(s) created or acquired (including complete address and location of the capital asset) – **Not Applicable**

11. Specify the reason(s), if the Company has failed to spend two per cent of the Average Net Profit as per Section 135(5)

NOT APPLICABLE, as the CSR spending of the Bank for the Financial Year 2020-21 was above the mandated statutory limit of 2% of the Average Net Profit as per Section 135(5).

Sd/-

Kadambelil Paul Thomas

Managing Director & Chief Executive Officer

Sd/-

Saneesh Singh

Chairman, CSR Committee of the Board

Annexure – IV**SECRETARIAL AUDIT REPORT**For the financial year ended 31st March, 2021

[Pursuant to section 204(1) of the Companies Act, 2013 and rule No.9 of the Companies (Appointment and Remuneration Personnel) Rules, 2014]

To,

The Members,
ESAF Small Finance Bank Limited

I have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by ESAF Small Finance Bank Limited (hereinafter called the “company”). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon subject to the limitations under the Covid 19 situation.

I have conducted online verification and examination of records, as facilitated by the company, due to the Covid 19 pandemic and the subsequent lockdown situation for the purpose of issuing this report. Based on my verification of the company's books, papers, minute books, forms and returns filed and other records maintained by the company and also the information provided by the company, its officers, agents and authorized representatives during the conduct of secretarial audit, I hereby report that in my opinion, the company has, during the audit period covering the financial year ended on 31st March, 2021 complied with the statutory provisions listed hereunder and also that the company has proper Board processes and compliance mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the company for the financial year ended on 31st March, 2021 according to the provisions of:

- i. The Companies Act, 2013 (the Act) and the rules made there under;
- ii. The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there under;
- iii. The Depositories Act, 1996 and the Regulations and Bye-laws framed there under;
- iv. Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- v. The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
 - a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; (Not applicable to the Company during the audit period)
 - b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;
 - c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018; (Not applicable to the Company during the audit period)
 - d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999; (Not applicable to the Company during the audit period)
 - e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
 - f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client; (Not applicable to the Company during the audit period)
 - g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; (Not applicable to the Company during the audit period)
 - h) The Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018; (Not applicable to the Company during the audit period)
 - i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;

vi. The other laws applicable specifically to the company are as follows:

- a) The Reserve Bank of India Act, 1934;
- b) The Banking Regulation Act, 1949;
- c) The Banking Companies Regulation (Companies Rules), 1949
- d) The Banking Companies (Period of preservation of Records) Rules, 1985.
- e) Prevention of Money Laundering Act, 2002
- f) Credit Information Companies (Regulation) Act, 2005
- g) The Deposit Insurance and Credit Guarantee Corporation Act, 1961
- h) The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002

I have also examined compliance with the applicable clauses of the following:

- i. Secretarial Standards issued by The Institute of company Secretaries of India.
- ii. The Listing Agreement entered into by the company with Bombay Stock Exchange Limited;

During the period under review the company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above.

I further report that

The Board of Directors of the company is duly constituted with proper balance of Executive Directors, Non-Executive Directors and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

Majority decision is carried through and the views expressed by the Board members were also captured and recorded as part of the minutes.

I further report that there are adequate systems and processes in the company commensurate with the size and operations of the company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

I further report that during the audit period the company has made the following specific events / actions having a major bearing on the company's affairs in pursuance of the rules, regulations, guidelines, standards, etc. referred to above:

- i. Members have accorded consent to offer, invite to subscribe, issue and allot 2,18,14,973 equity shares of the company at a price of ₹75/- each aggregating to ₹1,63,61,22,975/- for cash on private placement basis pursuant to Section 42 of the Companies Act, 2013 at an Extra-ordinary General Meeting held on March 24, 2021.
- ii. Board of Directors of the company in its meeting held on March 31, 2021 approved allotment of 2,16,78,308 equity shares at a price of ₹75/- each aggregating to ₹1,62,58,73,100/- for cash on private placement basis.
- iii. Board of Directors of the company in its meeting held on March 06, 2021 withdrew the Draft Red Herring Prospectus dated January 06, 2020 filed with the Securities and Exchange Board of India in relation to the proposed Initial Public Offering of equity shares.

Place: Thrissur
Date: 26.05.2021

UDIN: F004177C000371665

Sd/-

Name of Company Secretary in practice:

M Vasudevan

FCS No.: 4177

C P No.: 2437

ANNEXURE TO SECRETARIAL AUDIT REPORT ISSUED BY COMPANY SECRETARY IN PRACTICE (NON-QUALIFIED)

To,

The Members,
ESAF Small Finance Bank Limited

Our report of even date is to be read along with this letter.

1. Maintenance of secretarial record is the responsibility of the management of the company. My responsibility is to express an opinion on these secretarial records based on my audit.
2. I have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the Secretarial records. The verification was done on test basis to ensure that correct facts are reflected in secretarial records. I believe that the processes and practices, I followed provide a reasonable basis for my opinion.
3. I have not verified the correctness and appropriateness of financial records and Books of Accounts of the company.
4. Where ever required, I have obtained the Management representation about the compliance of laws, rules and regulations and happening of events etc.
5. The compliance of the provisions of Corporate and other applicable laws, rules, regulations, standards is the responsibility of management. My examination was limited to the verification of procedures on test basis.
6. The Secretarial Audit report is neither an assurance as to the future viability of the company nor of the efficacy or effectiveness with which the management has conducted the affairs of the company.

Place: Thrissur
Date: 26.05.2021

UDIN: F004177C000371665

Sd/-

Name of Company Secretary in practice:
M Vasudevan

FCS No.: 4177
C P No.: 2437

Annexure – V

Pillar 3 Disclosures as of 31st March 2021

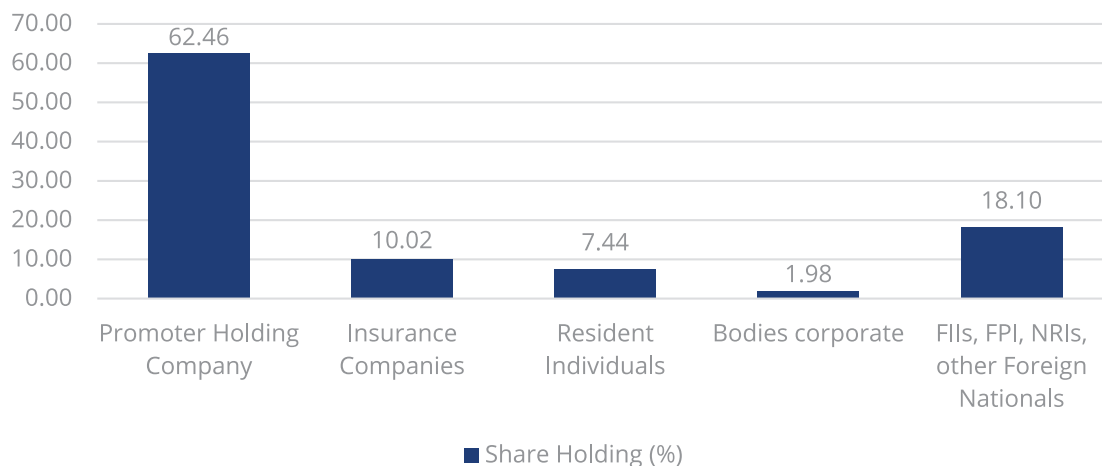
ESAF Small Finance Bank Limited ("the Bank") is a public limited company incorporated in India on 05th May, 2016 under the provisions of Companies Act, 2013. The Bank received in principle approval from Reserve Bank of India ("RBI") to establish a Small Finance Bank in the private sector under section 22 of the Banking Regulation Act, 1949 on September 16, 2015; received the license from the Reserve Bank of India on November 18, 2016 and commenced its banking operations from March 10, 2017. As per RBI Approval, the name of the Bank is included in the Second Schedule to the Reserve Bank of India Act, 1934 with effect from 12 November 2018.

The Bank is headquartered at Thrissur, Kerala, and provides services in urban, semi-urban and rural areas of the country, through its inclusive banking initiatives. The Bank provides micro, retail and corporate banking, para banking activities such as debit card, third party financial product distribution, in addition to Treasury and permitted Foreign Exchange Business. The Bank does not have any foreign operations.

The shareholding pattern of the Bank is as shown below:

Description	Share Holding (%)
Promoter Holding Company	62.46
Insurance Companies	10.02
Resident Individuals	7.44
Bodies corporate	1.98
FII's, FPI, NRIs, other Foreign Nationals	18.10
TOTAL	100.00

ESAF SFB Share Holding (%)



Pillar 3 Disclosures on the capital adequacy and risk management framework are detailed in the following sections:

1. Capital Adequacy

1.1 Capital norms

The Bank is subject to the capital adequacy framework as per the Operating Guidelines for Small Finance Banks, issued by RBI. Accordingly, the Bank is required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15%, with a minimum Tier I capital of 7.5%. As of now, Capital Conservation Buffer and Counter Cyclical Capital Buffer are not applicable for Small Finance Banks.

As per RBI guidelines DBR.NBD. No.4502/16.13.218/2017-2018 dated 08th November 2017, SFBs are not required to create separate capital charge for market risk and operational risk. As such, the Bank has taken into account capital charge for credit risk only, for arriving at capital adequacy. For credit risk, RBI has prescribed that SFBs shall follow Basel II Standardized Approach and permitted the use of external rating based risk weights for rated exposure and regulatory retail approach for small loans.

The Bank has a process for assessing the capital requirements and a strategy to maintain its capital levels. The Bank has also set up sound governance and control practices to identify, assess and manage risks, which are periodically reviewed by the Risk Management Committee of the Board (RMCB).

1.2 Capital Structure –Table 1

Breakup of capital funds is as follows:

Particulars (31 st March 2021)	₹ in Crores
Tier I capital –(I)	
Paid Up Capital	449.47
Reserves	898.46
Perpetual Debt Instrument	48.00
Total	1,395.93
Deductions – (II)	
Intangible Assets	
Any Other Deductions	7.03
Total Deductions	7.03
Total Tier I Capital Total (I-II) A	1,388.90
Tier II Capital – (III)	
General provisions on Standard Assets	80.62
Investment Fluctuation Reserve	4.13
Sub Ordinated term Debt	89.00
Total	173.75
Deductions – (IV)	
Total Deductions for Tier II	0.00
Total Tier II Capital (III-IV) B	173.75
Total Capital (A+B)	1,562.65

1.3 Capital Adequacy

a) Qualitative disclosures

A summary discussion of the Bank's approach to assess the adequacy of its capital to support its current and future activities:

Capital requirements for current business levels and estimated future business levels are assessed on a periodic basis.

As per RBI guidelines for SFBs, minimum capital required to be maintained by the Bank is 15% of the Risk Weighted Assets. The Bank's CRAR at 24.23 % is above the regulatory minimum level.

The CRAR has been assessed using Basel II standardized approach for credit risk only, since SFBs are not required to create separate capital charge for market risk and operational risk.

b) Internal Capital Adequacy Assessment Process (ICAAP) & Risk Appetite Framework (RAF)

The Bank has put in place a Board approved policy for Internal Capital Adequacy Assessment Process (ICAAP). The Risk Management Department (RMD) assesses all the risks faced by the Bank and identifies the risks that are material to the Bank. A comprehensive annual assessment of Capital Adequacy is made through the annual ICAAP report and this assessment is reviewed on a quarterly basis through the quarterly ICAAP reviews. The annual assessments are put up to the Board of Directors of the Bank and the quarterly assessments are put up to the Risk Management Committee (RMCB). In addition, the annual ICAAP report is also submitted to the RBI as a regulatory requirement.

ICAAP aims at identification, measurement, aggregation and monitoring of risks; holding capital commensurate with these risks; and developing systems to continuously monitor capital adequacy. It is the central component of the Bank's strategy for managing risks. The first step in material risk assessment is to identify all risks faced by the Bank and assess them for materiality.

The Bank's Internal Capital Adequacy Assessment Process has taken into account all material Risks including Pillar 1 and Pillar 2 risks for Capital Adequacy assessment. The Pillar 1 & Pillar 2 risks assessed in the Bank's ICAAP include the following:

1.4 Pillar 1 & Pillar 2 Risks Assessed - Table 2

Risk Type	S.No	Risk Name
Pillar 1 Risks	1	Credit Risk
	2	Market Risk
	3	Operational Risk
Pillar 2 Risks	1	Credit Concentration Risk
	2	Liquidity Risk
	3	Interest Rate Risk
	4	Strategic Risk
	5	Reputation Risk
	6	Compliance Risk
	7	IT and Cyber Security Risk
	8	People Risk
	9	Group Risk
	10	Outsourcing & Vendor Risk
	11	Fraud Risk
	12	Governance Risk
	13	Settlement Risk
	14	Legal Risk
	15	Process Risk
	16	Sustainability Risk
	17	Money Laundering & Terrorism Financing Risk

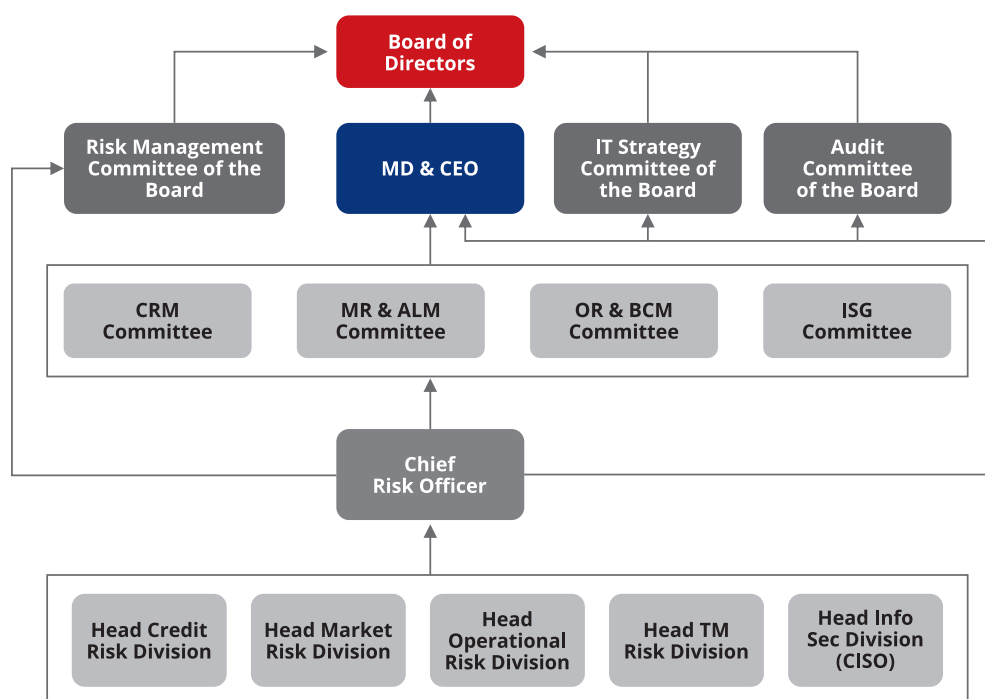
The Bank has also put in place a Risk Appetite Framework (RAF) under the ICAAP. Risk Appetite Framework is the overall approach, including policies, processes, controls and systems through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk tolerance limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. Risk appetite is the aggregate level/ range and types of risk the Bank is willing to assume within its capacity to achieve its strategic objectives and business plans. The Risk Appetite and tolerance levels are not static. The limits and the appetites depend upon the prevailing market conditions and business strategies adopted by the Bank from time to time. The ICAAP document monitors the risk appetite set by the Board. Breaches, if any, in the risk appetite limits are reported in the ICAAP and act as warning signals for the functionaries to take note of and initiate corrective actions.

Under the ICAAP, the Bank also analyses the impact of the major Pillar 1 and Pillar 2 risks on the Capital under normal and stressed scenarios by way of Stress Testing. Stress testing provides the Bank with a means for estimating the Bank's Risk exposures under stressed conditions, enabling development of appropriate strategies for mitigation and evaluation of the Bank's capacity to withstand stressed situations in terms of Profitability, Liquidity and Capital Adequacy. It also improves understanding of the Bank's Risk profile and therefore enables the Board of Directors and Senior Management to determine whether the Bank's Risk exposures correspond to its Risk appetite. Under stress testing, the Bank follows the twin strategies of sensitivity analysis and scenario analysis

The ICAAP enables the Bank to review the capital impact of assessed Pillar 2 risks and to examine any new risk dimensions coming out of existing and new business / products. It acts as a sanity check for the feasibility of business plans based on projected risk profile and capital. Important elements of ICAAP including growth and profitability targets, scenario analysis, and stress testing are used in setting business plans and management policies. It is also used as a platform to sensitize Board, Senior Management, and key stakeholders about the RBI guidelines, risk concepts, risk appetite, risk profile, risk management framework and capital linkage enabling the strengthening of risk framework as well as institutionalization of a strong risk management culture within the Bank.

1.5 Risk Governance Framework

1.5.1 Risk Management Structure



The Bank has set up a risk governance framework based on the following:

- The Board of Directors is responsible for overall governance and oversight of core risk management activities of the Bank.
- The Bank's risk appetite, risk tolerance and related strategies and policies are approved by the Board.
- To ensure that the Bank has a sound system of risk management and internal controls in place, the Board has established the Risk Management Committee of the Board (RMCB). The RMCB assists the Board in relation to the oversight and review of the Bank's risk management principles and policies, strategies, appetite, processes and controls.
- The Risk Management Committee of the Board (RMCB), the Information Technology Strategy Committee of the Board (ITSCB) and the Audit Committee of the Board (ACB) assist the Board in the oversight and periodical review of the Bank's risk management principles and policies, strategies, appetite, processes and controls.
- The RMCB is supported by the Risk Management Department and various Executive Level committees dealing with different functional areas of risk, facilitating effective execution of their responsibilities.
- Segregation of duties across the 'three lines of defence' model, whereby front-office roles, risk management & oversight, compliance and Internal audit roles are played by functions independent of one another.
- Risk strategy is approved by the Board on an annual basis and is defined based on the Bank's risk appetite, in order to align risk, capital and performance targets.
- All major risk classes are managed through focused and specific risk management processes; these risks include Credit Risk, Market Risk, Operational Risk and Liquidity Risk etc. Policies, processes and systems are put in place to enable the risk management capability.
- Risk Management function is having appropriate representation on Executive Level Committees of the Bank to ensure that risk view is taken into consideration in business decisions. Stress testing tools and escalation processes are established to monitor the performance against approved risk appetite.

2. Risk Management Committees

The Risk Management Committee of the Board (RMCB) oversees and periodically reviews the processes and practices of risk management in the Bank. Credit Risk Management Committee (CRMC), Operational Risk & Business Continuity Management Committee (OR- BCMC) and Market Risk & Asset Liability Management Committee (MR-ALCO) support RMCB to facilitate effective execution of its responsibilities. The Information Security Governance Committee (ISGC) supports the Information Technology Strategy Committee of the Board. The Risk Management Department (RMD) through its Credit Risk, Market Risk, Operational Risk, Information Security, and Transaction Monitoring Divisions assists the various committees in effectively managing the risks. The RMD is headed by the Chief Risk Officer (CRO) who reports to the Managing Director & CEO on administrative matters and to the Risk Management Committee of the Board on functional matters. The CRO is responsible for formulating and implementing enterprise wide integrated risk management systems for identification and management of risks in the Bank.

2.1 Executive Level Committees –Table 3

Risk	Committee
Credit Risk, Credit Concentration Risk	CRMC
Market Risk, Liquidity Risk, Interest Rate Risk	MR-ALCO
Operational Risk, Strategic Risk ,Reputation Risk, Compliance Risk, People Risk, Group Risk, Outsourcing and Vendor Risk, Fraud Risk , Governance Risk, Settlement Risk, Legal Risk, Process Risk, Sustainability Risk, Money Laundering & Terrorism Financing Risk.	OR-BCMC
IT & Information Security/Cyber Security Risk	ISGC

Quantitative Disclosures: Table 4

S. No.	Particulars As on 31-03-2021	₹ in Crores
A	Capital Requirements for Credit Risk	967.34
A.1	Portfolio Subject to Standardized approach	967.34
A.2	For Off Balance Sheet Credit Portfolio	0
A3	For Off Balance Sheet Corporate Guarantee	0
B	Capital Requirements for Market Risk	Nil
B.1	For Interest Rate Risk	Nil
B.2	For Equity Risk	Nil
B.3	For Forex Risk (including gold)	Nil
B.4	For Commodities Risk	Nil
B.5	For Options risk	Nil
C	Capital Requirements for Operational Risk	Nil
	Total Capital Requirement (A+B+C)	967.34
	Total Risk Weighted Assets (RWA for all types of assets)	6,448.90
	Total Capital Funds	1,562.65
	CRAR (%)	24.23%
	Tier -1 Capital Adequacy Ratio (%)	21.54%
	Tier -2 Capital Adequacy Ratio (%)	2.69%

3. Credit Risk

Credit risk is the possibility of loss a bank might incur due to the following:

- Default due to the inability or unwillingness (wilful default) of a borrower or counterparty to meet commitments in relation to lending, trading, settlement or other financial transactions or,
- Reduction in portfolio value arising from actual or perceived deterioration in credit quality of borrowers or counterparties.

The Bank is exposed to credit risk through lending to various segments. As on 31-03-2021, 84.78 % of the Bank's credit exposure is to the micro credit segment.

3.1 Credit risk governance

The objective of credit risk management is to maximize the Bank's risk-adjusted rate of return while maintaining credit risk exposure within acceptable limits. The Bank has put in place a Board approved Credit Risk Management Policy which is reviewed periodically to bring in refinements triggered by evolving concepts and actual experience. The Credit Risk Management Policy sets out the guidelines, principles and approach to manage credit risk for the Bank and a framework to identify, assess, measure, monitor and control and mitigate the credit risks in a timely and effective manner.

In addition, the Bank has the Loan Policy and the Loan Collection, Recovery & Stressed Assets Management Policy, approved by the Board of Directors. The Loan Policy covers the rules and regulations for processing and sanction of credit, Bank's approach to monitoring of credit, etc. and the Loan Collection, Recovery & Stressed Assets Management Policy covers the rules regarding NPA Management, provisioning, collection & recovery, and mechanisms like compromise settlements, restructuring, legal action, write-off etc.

3.2 Structure and Organization of Credit Risk Management Framework

The credit risk governance framework establishes the responsibility and approach through which the Board of Directors and the management of the Bank manage credit risk. Risk Management Committee of the Board (RMCB) oversees bank-wide risk management. The senior executive level Credit Risk Management Committee (CRMC) monitors implementation of credit risk management framework across the Bank and provides recommendations to the RMCB and the Board. CRMC ensures implementation of credit risk management policies and procedures, as approved by the RMCB and the Board, across the Bank and recommends changes thereto, considering any changes in the regulatory instructions, business or economic conditions. It also monitors quality of loan portfolio at periodic intervals, identifies problem areas and instructs business units with directions to rectify the deficiencies.

The Credit Risk Division of Risk Management Department, which is supported by all the business units, is entrusted with the responsibility for implementing processes for credit risk identification, assessment, measurement, monitoring and control. Credit risk appetite tolerance limits are drawn up with inputs from the business units and the credit risk parameters and credit exposure / concentration limits set by the Bank's Board of Directors. The Division constructs credit risk identification systems, oversees quality of the Bank's loan portfolio, stressed loans and undertakes portfolio level asset quality reviews with support from the business and credit monitoring functions. The Division looks into early warning signals in the loan portfolio as a whole, analyses the trend of weak exposures, suggests portfolio wise remedial measures and monitors the actions taken.

CRMC of the Bank meets at least once in a quarter to take stock of Bank's credit risk profile, based on the reports placed by Credit Risk Division. An effective governance framework to ensure the independence of the credit risk unit from the business units is implemented. Through an effective, Board-approved credit risk governance framework, the Bank seeks to ensure adequate risk overseeing, monitoring, and control of credit risks.

3.3 Credit Process

The Loan Policy of the Bank details the credit norms to be adhered to for each of the customer segments. The guiding principles behind the credit sanction process are as under:

- 'Know Your Customer' is a leading principle for all activities.
- The acceptability of credit exposure is primarily based on the sustainability and adequacy of borrower's normal business operations and not based solely on the availability of security.

An empowerment matrix is prescribed to ensure that a competent authority takes informed decisions on credit proposals and on any deviations to the norms. There are separate credit origination and appraisal processes for all types of loans and advances.

3.4 Credit Scoring/ Rating Models

The foundation of credit risk management rests on the internal credit risk rating system. Credit scoring models are used for evaluating applications for credit. The Bank has developed rating tools specific to most products and market segments to objectively assess underlying risk associated with such exposures. The score cards/ rating system is validated on an annual basis by back testing with the standards of outstanding loans.

3.5 Risk Weights

The Bank adheres to RBI guidelines defined under the RBI Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) as updated from time to time, for application of risk weights for credit risk measurement and capital computation purposes.

Credit Risk mitigants have the effect of reducing the net exposure for application of risk weights. Credit Risk Mitigation techniques classified as eligible for reduction in the net exposure include:

- i. Eligible financial collateral
- ii. Guarantees
- iii. On-balance sheet netting

3.6 Concentration Risk

The Bank manages concentration risk by means of prudential limits prescribed by RBI, as well as internal limits. Credit concentration in the Bank's portfolios is monitored for the following:

- (i) Single party /Group exposure: The Bank has set exposure limits individual borrower-wise and borrower group-wise which are continuously tracked and monitored.
- (ii) Geography-wise exposure: The Bank continuously monitors the geographical concentration of the business and factors the inputs into strategic business planning. The Bank is conscious of its credit concentration in southern states and takes steps to reduce the same by lending in other geographies.
- (iii) Industry exposure: The Bank's exposure to any single industry is currently not significant. Going forward, the Bank intends to track the exposure to specific industries and also to sensitive sectors, which would contribute to formulating the growth strategy of the Bank.

3.7 Credit Exposures & Risk Summary - 31-03-2021

a) Exposure – Facility Type –Table 5 (₹ in Crs)

S. No.	Exposure Type	₹ in Crores
1	Gross Loans & Advances (Excluded Loan against Term Deposits - ₹80.56 Cr;)	8,334.44
2	Add: Undrawn exposure	34.70
3	Total Credit Exposure –Fund Based (1+2)	8,369.14
4	Add: Non Fund Based Exposure (Excluded Bank Guarantees against 100% Liquid securities coverage – ₹1.50 Cr)	0
5	Total Credit Exposure (Total of 3+4 above)	8,369.14

b) Geographic distribution of credit exposure -Table 6 (₹ in Crs) (31-03-2021)

S. No.	Exposure Type	₹ in Crores
1	Domestic Fund Based (Excluded LAD - ₹80.56 Cr)	8,369.14
2	Domestic Non Fund based (Excluded BG – ₹1.50 Cr)	0.00
3	Foreign	0.00
4	Foreign Non Fund Based	0.00
	Total	8,369.14

c) Total Credit Exposures by Risk Weights (31-03-2021) Table -7 (₹ in Crores)

S. No.	Risk Weight	Exposure	Risk Weighted Assets
1	Below 100% risk weight	7,409.17	5,419.62
2	100% Risk weight	224.45	213.45
3	More Than 100 %	735.52	133.37
	Total	8,369.14	5,766.44

d) State-wise distribution of Gross Loans & Advances (31-03-2021)-Table 8 (₹ in Crores)

State	Gross Loan Portfolio	% Share
Kerala	4,643.99	55.19%
Tamil Nadu	1,684.08	20.01%
Madhya Pradesh	441.18	5.24%

State	Gross Loan Portfolio	% Share
Maharashtra	440.52	5.24%
Karnataka	307.39	3.65%
Chhattisgarh	297.18	3.53%
Jharkhand	174.79	2.08%
Bihar	102.87	1.22%
Delhi	63.33	0.75%
Pondicherry (UT)	47.45	0.57%
Assam	42.66	0.51%
West Bengal	41.50	0.49%
UP	38.02	0.45%
Gujarat	26.99	0.32%
Rajasthan	19.97	0.24%
Orissa	16.28	0.19%
Telangana	10.96	0.13%
Andhra Pradesh	5.59	0.07%
Chandigarh (UT)	5.00	0.06%
Punjab	2.83	0.03%
Uttarakhand	2.19	0.03%
Tripura	0.23	0.003%
Total	8,415.00	100%

e) Sector wise distribution of Gross Loans & Advances (31-03-2021) Table -9 (₹ in Crores)

S. No.	Industry Classification	Gross Loan Portfolio	% Share
1	Agriculture and Allied Activities	3,748.52	44.54%
2	Industries Sector	947.44	11.26%
4	Trade & Services	1,465.79	17.42%
5	Personal Loans and other Retail	2,253.25	26.78%
	Total	8,415.00	100.00%

f) Credit Risk Mitigation Table -10 (31-03-2021) (₹ in Crores)

S. No.	Particulars	Exposure	Credit Risk Mitigant	Net Exposure
1	Gold Loan	653.72	626.17	27.55
2	Loan against FD	80.56	80.56	Nil

a) Maturity pattern of Assets Table -11 (₹ in Crores) -As on 31-03-2021

Maturity Bucket	Cash, Balances with RBI	Balances with Banks, Money at Call & Short Notice, Term Deposits and other placements	Investments	*Loans & advances	Fixed assets	Other assets	Total
Day - 1	115.53	200.72	10.00	27.17	0.00	1,190.48	1,543.90
2-7 Days	0.00	0.00	0.00	163.01	0.00	2.91	165.92
8-14 Days	0.00	0.00	0.00	190.18	0.00	3.39	193.57
15-30 Days	9.30	0.00	24.93	434.70	0.00	6.78	475.71
31 Days and up to 2 months	17.42	0.00	0.00	552.79	0.00	3.39	573.60
Over 2 Months and up to 3 months	14.24	0.00	8.17	552.79	0.00	3.39	578.59

Maturity Bucket	Cash, Balances with RBI	Balances with Banks, Money at Call & Short Notice, Term Deposits and other placements	Investments	*Loans & advances	Fixed assets	Other assets	Total
Over 3 Months and up to 6 months	41.53	0.00	0.00	1,457.97	0.00	6.78	1,506.28
Over 6 Months and up to 1 year	79.90	0.00	0.00	2,020.37	0.00	40.68	2,140.95
Over 1 Year and up to 3 years	110.29	0.21	0.00	2,255.25	0.00	0.00	2,365.75
Over 3 Years and up to 5 years	5.84	0.00	202.12	98.39	0.00	0.00	306.35
Over 5 years and up to 7 years	6.36	0.13	251.22	98.38	138.51	381.77	876.37
Over 7 years and up to 10 years	1.18	0.00	735.55	0.00	0.00	0.00	736.73
Over 10 year and up to 15 years	0.00	0.00	678.12	0.00	0.00	0.00	678.12
Over 15 years	26.48	0.00	21.97	0.00	0.00	0.00	48.45
Total	428.07	201.06	1,932.08	7,851.00	138.51	1,639.57	12,190.29

* NPA Excluded

3.8 Classification of Non-Performing Assets

3.8.1 Non-performing Assets

An asset including a leased asset becomes non-performing when it ceases to generate income for the Bank. A Non-Performing Asset (NPA) is a loan or an advance where:

- Interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan
- The account remains 'out of order' as indicated in paragraph (i) below in respect of an Overdraft/Cash Credit.
- The bill remains overdue for a period of more than 90 days, in case of bills purchased and discounted.
- The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops
- The instalment of principal or interest thereon remains overdue for one crop season for long duration crops

(i) 'Out of Order' status:

An account is treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days, as on the date of balance sheet or the credits are not enough to cover the interest debited during the same period, these accounts are treated as 'out of order'.

(ii) Overdue:

An amount due to the Bank under any credit facility is overdue, if it is not paid on the due date fixed by the Bank.

(iii) Special Mention Accounts:

The Bank identifies incipient stress in accounts by creating a sub asset category named Special Mention Accounts (SMA). It is considered as a corrective action plan to arrest slippages of standard assets to NPA status. Accordingly, the Bank is identifying three sub categories, under SMA as below:

- SMA -0: Principal or interest payment or any other amount wholly or partly overdue between 1-30 days.
- SMA -1: Principal or interest overdue between 31 – 60 days.
- SMA -2: Principal or interest overdue between 61-90 days.

3.8.2 Provisioning

Provisions for NPAs are made at /or above the minimum required level in accordance with the provisioning norms adopted by the Bank and as per RBI directives on matters relating to prudential norms.

(i) Amount of NPA as on 31st March 2021 Table-12 (₹ in Crores)

S. No.	Category	₹ in Crores
A	Amount of NPA (Gross)	564.00
A.1	Substandard	473.31
A.2	Doubtful (All 100% provision)	90.69
A.3	Loss	0.00
	NPA Provision	247.42
B	Net NPAs	316.58
C	Advances	
C1	Gross Advances	8,415.00
C3	Net Advances	8,167.58
D	NPA Ratios	
D.1	Gross NPAs to gross advances (%)	6.70%
D.2	Net NPAs to net advances (%)	3.88%

(ii) Movement of NPA during the FY 2020-21 Table -13 (₹ in crores)

Particulars	Gross NPA	Net NPA
Opening balance at April 1, 2020	100.86	42.17
Add: Addition during the period	473.46	316.74
Less: Reduction/Upgradation/ Write-off/ during the period (Net)	10.32	42.33
Closing balance at 31st March 2021	564.00	316.58

(iii) Movement of NPA Provision during the FY 2020-21 - Table 14 (₹ in Crores)

Particulars	₹ in crores
Opening balance at April 1, 2020	58.69
Add: Provision made during the period	194.46
Less : Write off/ write back excess provision	5.73
Closing balance at 31st March 2021	247.42

4. Securitization Exposure

4.1 Qualitative Disclosures

The Bank undertakes Securitization / Loan Assignment transactions with the objective of maximizing return on capital employed, managing liquidity and maximizing yield on assets. The revised securitisation guidelines issued by RBI on May 07, 2012 define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. The Bank undertakes sale transactions through securitization and loan assignment routes in the following roles.

Originator / Seller: The Bank originates assets in its books and subsequently down sells them through the securitization or assignment route.

Servicing and collection agent for sold assets: The Bank undertakes the activity of collections and other servicing activities including preparation of monthly pay out reports.

Credit Enhancement Provider: The Bank may provide credit enhancement on securitisation (sale) transactions undertaken by the Bank for meeting shortfall arising out of delinquencies and prepayment losses in the underlying pool sold.

4.2 Risks involved

4.2.1 Regulatory & Legal Risks

The risks that arise as an originator of securitisation transactions, are mainly on account of non-compliance with the extant regulatory guidelines. In case the assets transferred do not meet the true sale criteria defined by RBI, the assets would be deemed to be on the balance sheet of the originator itself and the originator will be required to hold capital against the full value of securitised assets. Further, if the regulatory guidelines in respect of giving representations and warranties concerning the assets sold are not complied with or in case of non-compliance of regulatory guidelines on credit enhancement facility provided, the originator would require to maintain capital against the full value of securitised assets.

The Legal Risks arise when there is conflict between the provisions of the transaction document and those of the underlying financial facility agreement.

4.3 Accounting transfer and servicing of assets

The Bank transfers loans through securitisation transactions. The transferred loans are derecognized and gains / losses are accounted for, fully complying with the regulatory guidelines in this regard.

In accordance with RBI guidelines for securitization of standard assets, the profit / premium arising from sell down / securitization is amortised over the life of the transaction based on the method prescribed in the guidelines. Losses, if any, arising in the sell down / securitisation transaction, is recognised (upfront in the statement of profit and loss).

4.4 Quantitative details

4.4.1 Quantitative details of securitization transactions originated. Table -15 (₹ in Crores)

Particulars	FY 2019-2020	FY 2020-2021
Total number of loan assets securitised (Numbers)	0	0
Book value of loan assets securitized	0	0
Sale consideration received for the securitized assets	0	0
Interest spread on Securitization during the period	8.63	0
Form of services provided	Credit enhancement & post securitisation asset servicing	
Outstanding value as on	31-03-2020	31-03-2021
Cash Collateral	0	0
Over Collateral	0	0
Exposure to own securitization	0	0

4.4.2 Quantitative details of Assignment Transactions originated. Table 16 (₹ in Crores)

Particulars	FY 2019-2020	FY 2020-2021
Total number of loan assets assigned (Numbers)	Not Applicable	Not Applicable
Book value of loan assets assigned	Not Applicable	Not Applicable
Sale consideration received for the assigned assets	Not Applicable	Not Applicable
Interest spread on Assignment during the period	0	0
Form of services provided	Post transaction asset servicing	

5. Leverage Ratio

The Bank Computes Leverage Ratio as per Basel III framework. Leverage Ratio is a non-risk based measure of exposure over capital. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements.

$$\text{Leverage Ratio} = \frac{\text{Capital Measure (Tier I Capital)}}{\text{Exposure Measure}}$$

Leverage Ratio as on 31-03-2021 – Table 17

Particulars		(₹ in Crores)
On Balance Sheet Exposure		
1	On-balance sheet items (excluding derivatives and Securities Financing Transactions (SFT), but including collateral)	12,338.65
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	0
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (1 + 2)	12,338.65
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for Potential Future Exposure (PFE) associated with all derivatives transactions	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted Central Counter Party (CCP) leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivative exposures (sum of lines 4 to 10)	0
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty Credit Risk (CCR) exposure for SFT assets	0
15	Agent transaction exposures	0
16	Total securities financing transaction exposures (sum of lines 12 to 15)	0
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	1.50
18	(Adjustments for conversion to credit equivalent amounts)	0
19	Off-balance sheet items (sum of lines 17 and 18)	1.50
Capital and total exposures		
20	Tier 1 capital	1,388.91
21	Total exposures (sum of lines 3, 11, 16 and 19)	12,340.15
22	Basel III Leverage Ratio	11.26%
Summary comparison of accounting assets vs. leverage ratio exposure measure		
1	Total consolidated assets as per published financial statements	12,338.65
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
4	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	1.50
5	Other adjustments	0
6	Leverage ratio exposure	12,340.15

6. Market Risk

The Basel Committee on Banking Supervision defines Market Risk as the risk of losses in ON or OFF balance sheet positions that arise from movement in market prices.

The major components of market risk include:

1. Interest rate risk: The potential loss due to movements in interest rates. This risk arises because a bank's assets usually have a significantly longer maturity than its liabilities.
2. Equity risk: The potential loss due to an adverse change in the stock price.
3. Foreign exchange risk: The potential loss due to change in value of the bank's assets or liabilities resulting from exchange rate fluctuations.
4. Commodity risk: The potential loss due to an adverse change in commodity prices.

6.1 Structure and organization of market risk management function

The Risk Management Committee of the Board (RMCB) oversees the bank-wide market risk management. Market Risk & Asset Liability Management Committee (MR-ALCO) is primarily responsible for establishing Market Risk Management and Asset Liability Management in the Bank.

The MR-ALCO, headed by the Managing Director & CEO, is responsible for implementing risk management guidelines issued by the regulator and monitoring adherence to the internal guidelines, procedures, practices, policies and risk management prudential limits. The major functions of MR-ALCO, with respect to managing risks in the banking and investment books of the Bank include:

- Designing and implementing effective market risk management and ALM framework.
- Reviewing new directives and regulatory limits for market risk, interest rate risk and liquidity risk, monitoring and revisions to tolerance limits prescribed in the market risk management policy.
- Ensuring that business strategy of the Bank is in line with Bank's stated risk management objectives.
- Determining the structure, responsibilities and controls for managing Market Risk and for overseeing the liquidity positions.
- Ensuring independence of working of the Mid Office and Market Risk functions.

The Market Risk Division of the Risk Management Department is responsible for the design and implementation of the Bank's Market Risk Management/Asset Liability Management system. The Division is independent from business and trading units, and provides an independent risk assessment, which is critical to the MR-ALCO's key function of controlling and managing market risks in accordance with the mandate established by the Board and Risk Management Committee. Mid Office of the Bank's Treasury function is attached to the Market Risk Division of Risk Management Department. Mid Office prepares and analyses daily reports on various activities of the Bank's Treasury. The Mid Office, which is responsible for the critical functions of independent market risk monitoring, measurement and analysis, reports to the Bank's Chief Risk Officer.

7. Liquidity Risk

Liquidity Risk means a Bank's inability to meet its current or future obligations on the due date. Liquidity refers to the Bank's ability to fund decreases in liabilities and / or increase in assets and meet both cash and collateral obligations at reasonable cost without adversely affecting its financial status. Liquidity risk arises if the Bank is unable to meet such obligations. The Bank's Market Risk & Asset Liability Management Committee (MR-ALCO) is responsible for overseeing the management and governance of liquidity risk.

Liquidity risk management in the Bank is governed by the Board approved Asset Liability Management and Market Risk Management Policy, Assets and Liability Pricing Policy and Liquidity Risk Management Policy which cover the Liquidity Risk, Interest Rate Risk (Banking and Trading book) and Market Risk framework in accordance with RBI guidelines and as permitted under the rules applicable to Small Finance Banks.

The liquidity profile of the Bank is analysed by tracking all cash inflows and outflows in the maturity ladder based on the actual maturity and expected occurrence predicted through behavioural analysis of cash flows. The renewal pattern and premature withdrawals of term deposits and drawdown of un-availed credit limits are also captured through behavioural studies.

The Bank's ability to meet its obligations and fund itself in a crisis scenario is critical and accordingly, liquidity stress tests are conducted under different scenarios at periodical intervals to assess the impact on liquidity to withstand stressed conditions.

8. Interest Rate Risk in the Banking Book.

8.1 Qualitative Disclosures

Interest rate risk refers to impact on Bank's Net Interest Income, and the value of its assets and liabilities arising from fluctuations in interest rate due to internal and external factors. Internal factors include the composition of Bank's assets and liabilities, quality, maturity, existing rates, and re-pricing period of deposits, borrowings, loans and investments. External factors cover general economic conditions. Rising or falling interest rates impact the Bank depending on whether the balance sheet is asset sensitive or liability sensitive.

The Market Risk & Asset Liability Management Committee (MR-ALCO) is responsible for evolving appropriate systems and procedures for on-going identification and analysis of Balance Sheet Risks and laying down parameters for efficient management of these risks as prescribed by the Asset Liability Management Policy of the Bank. MR-ALCO, therefore, periodically monitors and controls the risks and returns, funding and deployment, setting Bank's lending and deposit rates, and directing the investment activities of the Bank. MR-ALCO also develops the market risk strategy by clearly articulating the acceptable levels of exposure to specific risk types (i.e. Interest rate, liquidity etc.).

RBI has stipulated monitoring of interest rate risk through a statement of Interest Rate Sensitivity (Re-pricing Gaps) to be prepared on a monthly basis. Accordingly, MR-ALCO reviews interest rate sensitivity statement on a monthly basis and monitors the Earnings at Risk (EaR) which measures the change in Net Interest Income of the Bank due to parallel change in interest rate on both assets and liabilities.

RBI has also stipulated to estimate the impact of change in interest rates on economic value of Bank's assets and liabilities through interest rate sensitivity under Duration Gap Analysis (IRS – DGA). Bank also carries out Duration Gap Analysis on a monthly basis as stipulated by RBI. The impact of interest rate changes on the market value of equity is monitored through Duration Gap Analysis by recognizing the changes in value of assets and liabilities by a given change in the market interest rate. The change in value of equity (including reserves) with 2% and 1% parallel shift in interest rates for both assets and liabilities is estimated.

8.2 Quantitative Disclosures

a) Earnings at Risk (EaR) Table 18 (₹ in Crores)

Particulars	Impact on NII
(31-03-2021)	58.69
Impact of 100 bps parallel shift in interest rate on both assets & liabilities on Net Interest Income (NII)	5.80

b) Market Value of Equity (MVE) Table 19 (₹ in Crores)

Particulars	Impact on MVE
(31-03-2021)	58.69
Impact of 200 bps parallel shift in interest rate on both assets & liabilities on Market Value of Equity	133.99
Impact of 100 bps parallel shift in interest rate on both assets & liabilities on Market Value of Equity	66.99

As the Reserve Bank of India has not prescribed capital charge for market risk for SFBs, the Bank has not computed capital charge for Market Risk.

9. Operational Risk and Business Continuity Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

Operational risk is primarily managed by prescribing adequate controls and mitigation measures which are being reviewed and updated on a regular basis to suit the changes in business practices, structure and risk profile.

9.1 Structure and Organization of Operational risk & Business Continuity Management

Risk Management Committee of the Board oversees the bank-wide Operational Risk Management. Bank has put in place a detailed framework for Operational Risk Management under a Board approved Operational Risk Management Policy.

While Operational Risk Management is the responsibility of all functions and business units handling operational activities, the Operational Risk and Business Continuity Management Committee (OR-BCMC) at the executive level oversees bank-wide implementation of the Board approved policies and processes. The principal objective of the OR-BCMC is mitigation of operational risk in the institution by creation and maintenance of an explicit operational risk management process.

The OR-BCMC reviews the risk profile to take into cognizance future changes and threats, and concurs on areas of highest priority and related mitigation strategy with different functions and business units. The committee ensures that adequate resources are being assigned to mitigate risks as needed, and communicates to business units and functions, the importance of operational risk management in business activities.

Business Continuity Management in the Bank is also overseen by the Operational Risk & Business Continuity Management (OR-BCM) Committee, which is responsible for implementation of the Business Continuity Management process and procedures across the Bank. A comprehensive, Board approved, bank-wide Business Continuity Plan has been put in place to ensure continuity of critical operations of the Bank covering all identified disasters. A Crisis Management and Quick Response Team (CM-QRT) at Head Office level functions under the OR- BCM Committee. The CM-QRT takes responsibility and acts swiftly in case of breakdown or failure of critical systems, occurrence of natural disasters/ accidents or any other events (for example Covid19 pandemic) affecting business continuity.

Operational Risk management, Business Continuity Management and coordination of relevant activities under CM-QRT are the responsibilities of the Operational Risk Division of Risk Management Department. The Division is responsible for coordinating all the operational risk management and business continuity planning activities of the Bank, to facilitate achievement of the stated goals and objectives. Activities include building up an understanding of the risk profile, implementing tools related to operational risk management, and working towards the goals of improved controls and lower risk.

The ORM model of the Bank facilitates conducting of Risk and Control Self-Assessments, (RCSA) scenario assessments, controls testing, investigation of incidents, issues tracking and development of action plans. Each of these activities can be linked to the other activities in the system, thereby providing an integrated and centralized framework for collecting, managing, and storing information.

The Bank has an internal framework for reporting and capturing Operational Risk incidents. The incidents reported are investigated to assess weaknesses in controls and identify areas for improvement. The Bank uses a Risk Management software for Credit, Market and Operational Risk management. Since RBI has not prescribed capital charge for Operational Risk for SFBs, the Bank has not computed capital charge for Operational Risk.

9.2 Business Continuity Under the Covid19 Pandemic Scenario

COVID19, the global pandemic has affected the world economy including India, leading to significant increase in volatility in financial markets and decline in economic activities. The Bank has been proactive in dealing with the biggest operational threat, i.e. the Covid19 scenario. The Bank Initiated Business Continuity measures from 6th March 2020 and convened regular meetings of the Crisis Management and Quick Response Team (CM-QRT). The Bank has remained in continuous contact with customers and staff through helpdesk and customer calls to address disruptions to customer service and related functions, while taking care of the members of staff and their health. The Disaster Recovery systems are being tested periodically and monitored continuously. Network connectivity and hardware availability across the Bank are ensured. Uninterrupted functioning of ATMs is ensured by centralised monitoring and regular cash replenishment.

The key components of the Bank's Business Continuity Planning for managing Pandemic Risk are -

- i. Arrangements to reduce the likelihood of the Banks' operations being significantly affected by the pandemic event; such as re-skilling the employees to equip themselves to adopt appropriate actions as warranted by the situations, regularly communicating and coordinating with critical service providers and suppliers, and testing of all the technology and systems to ensure uninterrupted functioning.

- ii. Comprehensive framework of facilities, systems and procedures that provide the Bank the capability to continue its critical operations in the event of prolonged disruptions.
- iii. Structured mechanism to understand the impact of customer reactions and the potential demand for, and increased reliance on, online banking, telephone banking, ATMs, and support-call services and to encourage customers to use digital banking facilities in a larger manner.
- iv. Mechanism to ensure that the Bank's pandemic planning practices and capabilities are effective, which will enable critical operations to continue.
- v. Programme to ensure on-going review of business continuity planning by having in place appropriate policies, standards, and procedures.

The Bank has been able to address the challenges of Covid19, by providing services to customers even during the most difficult times of Covid19 crisis and contained the operational disruptions, cyber security threats and associated risks. Adherence to the Covid19 protocol and documented BCP procedures has helped the Bank in successfully managing business continuity during the Covid19 crisis. The Bank continues to monitor and manage business continuity in a structured manner by collective efforts of its workforce and top management, under the guidance of the apex level Operational Risk and Business Continuity Management Committee and the Crisis Management and Quick Response Team.

10. Transaction Monitoring as a Risk Management activity

The Bank has a transaction monitoring structure and system in place that is matching to its size, activities, complexities and risks. The IT driven systems monitor all accounts and transactions on a daily basis. Anti-Money Laundering (AML) initiatives have evolved to be one of the major focus areas for financial institutions, with the widespread prevalence of financial crimes and malpractices. The Bank has developed an Anti-Money Laundering / Combating Financing of Terrorism programme (AML/ CFT) by establishing appropriate procedures, software applications and allocation of responsibilities to various officials. The regulatory controls and compliance requirements in place and the objective of ensuring that the Bank's customer base excludes persons attempting money laundering and other financial crimes, have placed prime importance on the AML programme of the Bank. In view of the increasing importance of this function, the Bank has attached its Transaction Monitoring Division to Risk Management Department.

The Transaction Monitoring Division of the Risk Management Department functions with focus on the following aspects:

- Risk categorisation of customers at the time of account opening, and transaction monitoring along the lines of the risk categorisation of the customers.
- Inculcating a strong culture of compliance across the organization ensuring that all employees understand money laundering risks and the consequences of breaches of the AML norms.
- Effective implementation of the KYC/AML Policy of the Bank ensuring that the Bank is not used for money laundering or terrorist financing activities
- Development and maintenance of a comprehensive AML/ Combating Financing of Terrorism (CFT) programme in line with the regulatory instructions covering systems and controls, training of staff and management oversight for its effective implementation.
- Reporting on cash transactions above the limits specified, transaction involving receipts by non-profit organizations and transactions involving the use of forged or counterfeit currency notes, to the Director, Financial Intelligence Unit- India (FIU-Ind).
- Monitoring of transactions in digital and core banking channels for identifying and preventing frauds and other malpractices.

11. Information & Cyber Security Risk Management

IT and Cyber Security Risk can be defined as any risk of financial loss, disruption, or damage to the reputation of an organization from a failure of its Information Technology systems. Information Technology systems have become critical to every aspect of banking operations. Information Security and cyber security risks are emerging as major operational risks for banks. Information and cyber security risk may arise from the failure to respond to security and privacy requirements, human error, internal fraud through software manipulation, external fraud by intruders, obsolescence in applications and machines, reliability issues (including software malfunctions) or mismanagement.

The Bank has established robust information and cyber security frameworks for securing the IT infrastructure and systems. The information security and cyber security policies of the Bank are approved and periodically reviewed by the Board of Directors. The IT Strategic Committee of the Board oversees its implementation. The Information Security Governance Committee (ISGC), headed by the Managing Director & CEO and comprising of members of the Senior Management from different business functions, is responsible at the Executive Level for the implementation of measures for ensuring information security and cyber security. ISGC provides clear direction and support for Information Security Risk Management initiatives in the Bank.

The ISGC monitors, reviews, directs and manages the Bank's Information Security Risk Management System within the Bank. This Committee functions as the apex body for handling Information Security risk related initiatives in the Bank, and reports to the Board of Directors through the IT Strategy Committee of the Board and keeps the Board apprised of relevant risks that needs attention.

The Information Security Division of Risk Management Department is headed by the Chief Information Security Officer (CISO), who reports to the Chief Risk Officer (CRO). The CISO is responsible for articulating and enforcing the policies that the Bank uses to protect its information assets apart from coordinating the information security related issues / implementation within the organization as well as relevant external agencies. The Information Security Division is responsible for creating, implementing and maintaining compliance with the appropriate Information Security Risk Management framework. The Division is responsible to measure the performance of information security controls across the overall enterprise and report risks including incidents and critical audit findings to the ISGC. The Division is responsible to schedule regular review meetings of the ISGC to report progress on key metrics, risk management program and other information security initiatives. The Information Technology Department is primarily responsible for identification, measurement, control, and monitoring of technology to avoid risks that threaten the safety and soundness of the systems and technology of the Bank.

The Bank has implemented a 24 X 7 Security Operations Centre (SOC) to perform the task of detection and analysis of all potential incidents and notify the application owners which has been affected, for the containment, eradication and recovery from the incident. All cyber security incidents are recorded and reported to Information Security Division. The Information Systems of the Bank are subjected to Vulnerability Assessment and Penetration Testing (VAPT) on a periodical basis, as a preventive measure against cyber-attacks that could threaten the confidentiality, integrity and availability of data and the systems.

12. Internal Financial Controls (IFC)

IFC is defined as "the policies and procedures adopted by the company to ensure orderly and efficient conduct of its business, including adherence to company's policies, safeguarding of its assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records, and timely preparation of reliable financial information." The Bank has developed an Internal Financial Control (IFC) framework in line with requirements of the Companies Act, 2013. The Audit Committee of the Board oversees implementation of Internal Financial Controls in the Bank as per the Companies Act, 2013. The Companies Act, 2013 also specifies the duties of the Audit Committee which includes evaluation of IFC and submitting reports to the Board of Directors, who in turn confirms that Internal Financial Controls (IFCs) have been laid down and that such IFCs are adequate and operating effectively.

Heads of Departments are responsible for ensuring that IFC documentation is current and up to date. Operational Risk Division of the Risk Management Department identifies any design level control gaps due to changes in the products, processes and systems.

The Bank has identified and documented Risk Control Matrices (RCM) incorporating all the major processes along with the key risks associated with them, and controls at entity and process levels, mitigating those risks. To ensure that the Financial Controls are adequate and operating effectively, periodical review and testing is done. The reporting of the status is made to the Audit Committee of the Board (ACB), which has the overall responsibility of ensuring the adequacy of IFC framework and operating effectiveness.

The Bank maintains repository of all Process Walk-through Documents and the Risk Control Matrices (RCMs). Based on the Risk Assessment, processes are categorized into different Risk categories for the purpose of determining testing frequency. The prioritization and scheduling of testing is done on the basis of Risk Assessment. Testing includes both Test of Design Gaps as well as Test of Operating Effectiveness. The Internal Audit Team performs the testing of the controls documented in the RCMs based on the overall Testing framework aligned with IFC requirements. The Bank follows testing cycle from April to March.

Internal Audit Department consolidates the testing results of controls and the gaps highlighted. These gaps are discussed with the various departments and a remediation plan is prepared by the respective function/department wherever required. After the tests of controls are completed by Internal Audit, the Chief Financial Officer certifies to the Audit Committee of the Board on the Bank's IFC compliance, as per the provision of the Companies Act, 2013.

13. Risk Management aims at protecting interests of stake holders

The ESAF SFB articulates its business strategy and conducts operations within a structured risk management framework, with focus on active management of all financial and non-financial risks faced by the Bank. The Bank endeavours to establish itself as a professionally serious organisation in management of risks, with an ultimate goal of protecting the interests of all its stakeholders, including the shareholders, customers, investors, employees and all others who directly and indirectly deal with the Bank in various areas and geographies of its operations.

A committee of senior executives vets all new products and processes and changes thereto before they are implemented in the Bank for managing the financial and non-financial risks in a manner consistent with its risk appetite.

The focus and efforts of the Bank in identifying, measuring, monitoring, managing and mitigating risks, and on exercising control on the business and socio-economic environment in which it operates, to the required extent, are intended to ensure that all of its valuable stakeholders are protected from any undesirable events, outcomes, sufferings and losses, in the best manner possible.

14. Conclusion

The Bank has been successful in diversifying its funding sources and credit delivery as well as putting in place the required systems, policies and procedures, ever since commencement of operations. Recruitment and training of employees are carried out on a continuous basis. Policies, systems and processes are regularly reviewed and updated to ensure compliance with the directions and guidelines issued to Small Finance Banks by Reserve Bank of India, as modified from time to time.

Report on Corporate Governance

The report on the Bank's Corporate Governance for the Financial Year 2020-2021, is as under:

COMPOSITION OF THE BOARD OF DIRECTORS

The Composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949, applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and as per the provisions of Companies Act, 2013. As on 31st March, 2021, the Board of Directors of the Bank, comprising a combination of Executive and Non-Executive Directors, consisted of Nine (9) members, of whom Eight (8) are Non-Executive Directors. The responsibility of the Board inter alia includes the formulation of overall strategy for the Bank, taking new initiatives, formulating policies, performance review, monitoring of plans, pursuing of policies and procedures.

A brief profile of the Directors as on 31st March, 2021 is furnished as hereunder:

BOARD OF DIRECTORS

Board Profile

Shri. Ravimohan Periyakavil Ramakrishnan (Part-Time Chairman and Non-Executive Independent Director)

Shri. Ravimohan Periyakavil Ramakrishnan is the Part-Time Chairman and Non-Executive Independent Director of our Bank. He holds a Bachelor's Degree in Science and Master's degree in Science from Kerala University, and a Master's degree in Business Administration from Birmingham University. He is a Certified Associate of the Indian Institute of Bankers. He was previously employed as a Chief General Manager in the Department of Banking Supervision of the Reserve Bank of India. He was previously a Resident Advisor, Financial Sector Supervision, International Monetary Fund, AFRITAC South, Mauritius.

Shri. Kadambelil Paul Thomas (Managing Director and Chief Executive Officer)

Shri. Kadambelil Paul Thomas is the Managing Director and Chief Executive Officer of our Bank. He holds a Master's degree in Business Administration from the Annamalai University. He was previously the Chairman and Managing Director of ESAF Financial Holdings Private Limited. He has also served as the founder secretary cum honorary executive director of Evangelical Social Action Forum for over 25 years. He was also previously a director

on the boards of Sanma Garments Private Limited, Rhema Dairy Products India Private Limited, Rhema Milk Producer Company Limited, Lahanti Homes and Infrastructure Private Limited, ESAF Health Care Services Private Limited, ESAF Swasraya Producers Company Limited, CEDAR Retail Private Limited, ESAF Enterprise Development Finance Limited and CEDAR Livelihood Services Private Limited (Formerly Cedar Agri Solutions Private Limited). Presently, he is the president of Kerala Association of Microfinance Institutions Entrepreneurs. He was previously the Chairman of Sa-Dhan, and the Chairman of Confederation of Indian Industry – Kerala.

Dr. Joseph Vadakkekara Antony (Non-Executive Independent Director)

Shri. Joseph Vadakkekara Antony is a Non-Executive Independent Director on the Board of our Bank. He holds a Bachelor's degree in Law, a Master's degree in Personnel Management and a Doctorate of Philosophy (Business Economics) from Pune University. He is a Certified Associate of the Indian Institute of Bankers. He was the Managing Director and Chief Executive Officer on the board of South Indian Bank Limited and was also on the boards of directors of Muthoot Homefin (India) Limited, SP Life Care Private Limited and ET Marlabs Private Limited. He was previously employed with Syndicate Bank. He is currently on the board of directors of Agappe Diagnostics Limited. He received the Sunday Standard Best Banker award in 2013 and IDRBT Technology Excellence Award in 2012.

Smt. Asha Morley (Non-Executive Independent Director)

Smt. Asha Morley is a Non-Executive Independent Director on the Board of our Bank. She holds a Bachelor's degree in Commerce from the Bombay University. She is a Fellow member of the Institute of Chartered Accountants of India and holds a Diploma in Information and Systems Audit from the Institute of Chartered Accountants of India. She was previously a director on the boards of Morley Investments Private Limited and Morley Consultants Private Limited.

Shri. Alex Parackal George (Non-Executive Independent Director)

Shri. Alex Parackal George is a Non-Executive Independent Director on the Board of our Bank. He holds a Bachelor's degree of Technology in Chemical Engineering from the Indian Institute of Technology, Madras and a Post Graduate Diploma in Management from the Indian Institute of

Management, Calcutta. He is also the proprietor of Alco Fasteners, a small scale industrial unit registered with the Directorate of Industries and Commerce.

Shri. Thomas Jacob Kalappila
(Non-Executive Independent Director)

Shri. Thomas Jacob Kalappila is a Non-Executive Independent Director on the Board of our Bank. He holds a Bachelor's degree in Science from Kerala University and is an associate member of the Institute of Chartered Accountants of India. He is a partner of Thomas Jacob & Co., a partnership firm and has 35 years of experience in statutory audit, internal and forensic audit of banks. He has previously served as an independent director on the board of directors of South Indian Bank Limited and Malabar Cements Limited.

Shri. Santhosh George*
(Non-Executive Independent Director)

Shri. Santhosh George has vast experience in the field of Information Technology and has led successfully global and distributed Engineering team with full product ownership in whole life cycle for Enterprise applications from conceptualization, strategy, product management to development and delivery with companies like Oracle Corporation, Misys, Cognizant products group, Sequaretek and SAP based products – AI/ ML based, On premise, SaaS and Cloud native models. He has transformed and led global world class implementation and consulting services teams winning awards and significant topline as well as bottom-line growth. At Misys, Santhosh was responsible for all Banking products developments of Retail, transaction and Digital Banking suites across the global development centres.

He is currently working as the President and Chief Product Officer with Sequaretek in Bangalore, responsible for Enterprise Products development and AI/ ML based research lab.

He holds a B.Tech degree in Computer Engineering from National Institute of Technology, Calicut and a Post-Graduation in Business Management (PGCBM) from XLRI, Jamshedpur.

**Shri. Santhosh George was appointed as the Non-Executive Independent Director of the Bank with effect from 08th December, 2020 for a period of three years.*

He resigned from the Directorship of the Bank due to pre-occupation with effective from 26th May, 2021.

Shri. Saneesh Singh
(Non-Executive Nominee Director)

Shri. Saneesh Singh is the Non-Executive Nominee Director of our Bank. He holds a Master's degree in Arts

from Lucknow University and an Advanced Post Graduate Diploma in Computers and Information Management from the Uptron Academy of Computer Learning. He has also completed the HBS ACCION program on 'Strategic Leadership' in Inclusive Finance from Harvard Business School. He is the Managing Director of Dia Vikas Capital Private Limited and was previously employed with the Small Industries Development Bank of India. He was awarded a British Chevening Scholarship by the Foreign and Commonwealth Office to study banking at the London School of Economics and Political Science.

Shri. Chandanathil Pappachan Mohan*
(Non-Executive Nominee Director)

Shri. Chandanathil Pappachan Mohan is a Non-Executive Nominee Director on the Board of our Bank. He holds a Bachelor's degree of Science in Agriculture and Animal Husbandry from G.B. Pant University for Agriculture and Technology, a Post Graduate Diploma in Rural Management from the Institute of Rural Management and is a Certified Associate of the Indian Institute of Bankers. He was previously the Chief General Manager of NABARD and Managing Director of NABFINS. He has served on the board of directors of CEDAR Retail Private Limited, Kamal Fincap Private Limited, and Prachodhan Development Services. He is an Independent Director on the board of Satya Microcapital Limited, New Delhi.

**Shri. C.P. Mohan was appointed as the Non-Executive Nominee Director in the Bank with effect from 29th May, 2020.*

Shri. Assan Khan Akbar *
(Non-Executive Nominee Director)

Shri. Assan Khan Akbar was a Non-Executive Nominee Director on the Board of the Bank. He holds a Bachelor's degree of Science in Agriculture and a Master's degree of Science in Agriculture from Kerala University. He was previously employed with Union Bank of India and Federal Bank. He was the Strategic Advisor and Chief Risk Officer of ESAF Financials Holdings Private Limited.

** Shri. Assan Khan Akbar retired from the directorship of the Bank with effect from 04th May, 2020 on completion of his tenure of appointment of four years.*

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors met 12 times during the Financial Year 2020-21 on 23rd April, 2020, 29th May, 2020, 30th June, 2020, 29th July, 2020, 27th August, 2020, 10th November, 2020, 27th November, 2020, 08th December, 2020, 04th February, 2021, 06th March, 2021, 20th March, 2021 and 31st March, 2021. The Board of Directors thus ensured the stipulations laid in the Companies Act, 2013 with respect to the conduct of Board meetings during the Financial Year.

Sl. No.	Name of the Director	No. of Board Meetings entitled to attend	No. of Board Meetings attended	Attendance of last AGM
1.	Shri. Ravimohan Periyakavil Ramakrishnan	12	12	Yes
2.	Shri. Kadambelil Paul Thomas	12	12	Yes
3.	Dr. V.A. Joseph	12	12	Yes
4.	Smt. Asha Morley	12	12	Yes
5.	Shri. Alex Parackal George	12	12	Yes
6.	Shri. Thomas Jacob Kalappila	12	12	Yes
7.	Shri. Assan Khan Akbar *	1	1	NA
8.	Shri. Saneesh Singh	12	12	Yes
9.	Shri. C.P. Mohan **	10	10	Yes
10.	Shri. Santhosh George***	4	4	NA

*Shri. Assan Khan Akbar retired from the directorship of the Bank with effect from 04th May, 2020 on completion of his tenure of appointment of four years.

**Shri. C.P. Mohan was appointed as the Non-Executive Nominee Director in the Bank with effect from 29th May, 2020.

***Shri. Santhosh George was appointed as the Non-Executive Independent Director of the Bank with effect from 08th December, 2020 for a period of three years. He resigned from the Directorship of the Bank due to pre-occupation with effective from 26th May, 2021.

COMMITTEES OF THE BOARD

The Board of Directors, based on the statutory requirements has constituted several committees to deal with specific matters and has delegated powers for different functional areas. These committees monitor the activities falling within their terms of reference. The Board of Directors have formed Ten (10) Committees as on 31st March, 2021. The details of the Committees are enlisted in the table below:

Sl. No.	Name of the Committee
1.	Audit Committee of the Board (ACB)
2.	Risk Management Committee of the Board (RMCB)
3.	Nomination Remuneration and Compensation Committee of the Board (NRCCB)
4.	Management Committee of the Board (MCB)
5.	IT Strategy Committee of the Board (ITSCB)
6.	Customer Service Committee of the Board (CSCB)
7.	Corporate Social Responsibility Committee of the Board (CSRCCB)
8.	High Value Fraud Monitoring Committee of the Board (HVFMCB)

Sl. No.	Name of the Committee
9.	Stakeholders' Relationship Committee of the Board (SRCB)
10.	IPO Steering Committee of the Board (IPOSCB)

Audit Committee of the Board (ACB)

The Audit Committee was constituted by a meeting of the Board of Directors held on December 13, 2016. The Committee was reconstituted on 04th May, 2020 and 29th May, 2020 during the year. As on 31st March, 2021, the Committee had Five (5) members:

Sl. No.	Name of the Member	Designation
1.	Smt. Asha Morley	Chairperson
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member
3.	Shri. Thomas Jacob Kalappila	Member
4.	Shri. C P Mohan	Member
5.	Dr. V A Joseph	Member

The scope and function of the Audit Committee is in accordance with Section 177 of the Companies Act, 2013, Securities and Exchange Board of India Regulations, 2015 and the guidelines issued by Reserve Bank of India from time to time.

During the Financial Year 2020-21, eight (8) meetings of the Committee were held on the following dates:

Sl. No.	Date of Meeting
1.	17 th April, 2020
2.	29 th May, 2020
3.	29 th July, 2020
4.	29 th September, 2020
5.	22 nd October, 2020
6.	10 th November, 2020
7.	04 th February, 2021
8.	31 st March, 2021

The details regarding the constitution of the Audit Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Total No. of Meetings held	No. of meetings attended
1.	Smt. Asha Morley	Chairperson	8	8
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member	8	8
3.	Shri. Thomas Jacob Kalappila	Member	8	8
4.	Shri. Assan Khan Akbar*	Member	1	1

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
5.	Shri. C P Mohan**	Member	6	6
6.	Dr. V A Joseph***	Member	6	6

* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

** Shri. C P Mohan was appointed as the member of the Committee on 29th May, 2020.

*** Dr. V.A. Joseph was appointed as the member of the Committee on 29th May, 2020.

Risk Management Committee of the Board (RMCB)

The Risk Management Committee was constituted by a meeting of the Board of Directors held on December 13, 2016. The Committee was reconstituted on 29th May, 2020 during the year. As on 31st March, 2021, the Committee had Four (4) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Alex Parackal George	Chairman
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member
3.	Shri. Thomas Jacob Kalappila	Member
4.	Shri. Kadambelil Paul Thomas	Member

During the Financial Year 2020-21, five (5) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	29 th May, 2020
2.	29 th June, 2020
3.	26 th August, 2020
4.	07 th December, 2020
5.	30 th March, 2021

The details regarding the constitution of the Risk Management Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Shri. Alex Parackal George	Chairman	5	5
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member	5	5
3.	Shri. Thomas Jacob Kalappila	Member	5	5

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
4.	Shri. Assan Khan Akbar*	Member	NIL	NIL
5.	Shri. Kadambelil Paul Thomas**	Member	4	4

* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

** Shri. Kadambelil Paul Thomas was appointed as the member of the Committee on 29th May, 2020.

Nomination Remuneration and Compensation Committee of the Board (NRCCB)

The Nomination Remuneration and Compensation Committee of the Board was constituted by a meeting of the Board of Directors held on December 13, 2016. The Committee was reconstituted on 29th May, 2020 during the year. As on 31st March, 2021, the Committee had Five (5) members:

Sl. No.	Name of the Member	Designation
1.	Dr. V.A. Joseph	Chairman
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member
3.	Smt. Asha Morley	Member
4.	Shri. Saneesh Singh	Member
5.	Shri. C P Mohan	Member

The scope and function of the Nomination Remuneration and Compensation Committee is in accordance with Section 178 of the Companies Act, 2013, Securities and Exchange Board of India Regulations, 2015 and the guidelines issued by Reserve Bank of India from time to time.

During the Financial Year 2020-21, seven (7) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	19 th May, 2020
2.	28 th May, 2020
3.	28 th July, 2020
4.	22 nd October, 2020
5.	09 th November, 2020
6.	03 rd February, 2021
7.	20 th March, 2021

The details regarding the constitution of the Nomination Remuneration and Compensation Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Dr. V.A. Joseph	Chairman	7	7
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member	7	7
3.	Smt. Asha Morley	Member	7	7
4.	Shri. Saneesh Singh	Member	7	7
5.	Shri. C P Mohan*	Member	5	5

* Shri. C P Mohan was appointed as the member of the Committee on 29th May, 2020.

Management Committee of the Board (MCB)

The Management Committee of the Board was constituted by a meeting of the Board of Directors held on August 17, 2017. The Committee was reconstituted on 04th May, 2020 and 29th May, 2020 during the year. As on 31st March, 2021, the Committee had Four (4) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Ravimohan Periyakavil Ramakrishnan	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Dr. V.A. Joseph	Member
4.	Shri. C P Mohan	Member

During the Financial Year 2020-21, Thirteen (13) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	04 th May, 2020
2.	11 th May, 2020
3.	28 th May, 2020
4.	30 th June, 2020
5.	28 th July, 2020
6.	27 th August, 2020
7.	29 th September, 2020
8.	09 th November, 2020
9.	30 th November, 2020
10.	18 th December, 2020
11.	03 rd February, 2021
12.	18 th February, 2021
13.	20 th March, 2021

The details regarding the constitution of the Management Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Shri. Ravimohan Periyakavil Ramakrishnan	Chairman	13	13
2.	Shri. Kadambelil Paul Thomas	Member	13	13
3.	Dr. V.A. Joseph	Member	13	13
4.	Shri. Assan Khan Akbar*	Member	1	1
5.	Shri. C P Mohan**	Member	10	10

* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

** Shri. C P Mohan was appointed as the member of the Committee on 29th May, 2020.

IT Strategy Committee of the Board (ITSCB)

Pursuant to the guidelines of the Reserve Bank of India, the IT Strategy Committee of the Board was constituted by a meeting of the Board of Directors held on May 26, 2017. The Committee was reconstituted on 04th May, 2020, 29th May, 2020 and 04th February, 2021 during the Financial Year 2020-21. As on 31st March, 2021, there were Four (4) members in the Committee:

Sl. No.	Name of the Member	Designation
1.	Shri. Thomas Jacob Kalappila	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Shri. Alex Parackal George	Member
4.	Shri. Santhosh George	Member

An organization having a robust IT Policy will definitely enjoy more confidentiality, security and independence while implementing its managerial decisions. The formulation of the IT Strategy Committee will ensure the following benefits to the organization:

- To formulate robust and effective software and hardware policies for the Bank.
- To recommend the IT related policies to the Board of Directors.
- To monitor the effectiveness of the existing IT Policies adopted by the Bank.

The IT Strategy Committee of the Board was convened Five (5) times during the Financial Year 2020-21 on the following dates:

Sl. No.	Date of Meeting
1.	23 rd April, 2020
2.	29 th June, 2020
3.	26 th August, 2020
4.	07 th December, 2020
5.	20 th March, 2021

The details regarding the constitution of the IT Strategy Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Shri. Thomas Jacob Kalappila*	Chairman	4	4
2.	Shri. Kadambelil Paul Thomas	Member	5	5
3.	Shri. Alex Parackal George	Member	5	5
4.	Shri. Assan Khan Akbar**	Member	1	1
5.	Shri. Santhosh George***	Member	1	1

* Shri. Thomas Jacob Kalappila was appointed as the Chairman of the Committee on 29th May, 2020.

** Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

*** Shri. Santhosh George was appointed as the member of the Committee on 04th February, 2021. He ceased to be a member of the Committee on 26th May, 2021.

Customer Service Committee of the Board (CSCB)

Pursuant to the directives issued by the Reserve Bank of India, the Customer Service Committee of the Board was constituted by a meeting of the Board of Directors held on August 17, 2017 to bring about improvements in the quality of customer services provided by the Bank. The Committee was reconstituted on 29th May, 2020 and 04th February, 2021 during the year. As on 31st March, 2021, the Customer Service Committee comprises of the following members who have adequate skills and rich experience dealing with the customers belonging to different strata in the society:

Sl. No.	Name of the Member	Designation
1.	Shri. C P Mohan	Chairman
2.	Shri. Saneesh Singh	Member
3.	Shri. Alex Parackal George	Member
4.	Shri. Santhosh George	Member

The Customer Service Committee of the Board was convened Four (4) times during the Financial Year 2020-21 on the following dates:

Sl. No.	Date of Meeting
1.	28 th May, 2020
2.	28 th July, 2020
3.	09 th November, 2020
4.	03 rd February, 2021

The details regarding the constitution of the Customer Service Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Shri. C P Mohan*	Chairman	3	3
2.	Shri. Saneesh Singh**	Member	3	3
3.	Shri. Alex Parackal George	Member	4	4
4.	Shri. Kadambelil Paul Thomas***	Member	1	1
5.	Shri. Thomas Jacob Kalappila****	Member	1	1
6.	Shri. Santhosh George*****	Member	NIL	NIL

* Shri. C P Mohan was appointed as the Chairman of the Committee on 29th May, 2020.

** Shri. Saneesh Singh was appointed as the member of the Committee on 29th May, 2020.

*** Shri. Kadambelil Paul Thomas ceased to be a member of the Committee on 29th May, 2020.

**** Shri. Thomas Jacob Kalappila ceased to be the Chairman and member of the Committee on 29th May, 2020.

***** Shri. Santhosh George was appointed as the member of the Committee on 04th February, 2021 and no meetings of the Committee were held during the Financial Year after his appointment. He ceased to be a member of the Committee on 26th May, 2021.

Corporate Social Responsibility Committee of the Board (CSRCB)

The Bank has constituted a Corporate Social Responsibility Committee of the Board pursuant to Section 135 of the Companies Act, 2013, in the meeting of the Board of Directors held on August 17, 2017. The Committee has been constituted to:

- Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the Bank, as laid down in Schedule VII to the Companies Act, 2013.
- Recommend the amount to be expended for the CSR activities of the Bank.
- Monitor Bank's Corporate Social Responsibility Policy and implementation of CSR Projects undertaken from time to time.

The Committee was reconstituted on 29th May, 2020 during the year. As on 31st March, 2021, the Committee had Four (4) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Saneesh Singh	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Dr. V.A. Joseph	Member
4.	Smt. Asha Morley	Member

During the Financial Year 2020-21, three (3) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	28 th May, 2020
2.	27 th August, 2020
3.	03 rd February, 2021

The details regarding the constitution of the Corporate Social Responsibility Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Shri. Saneesh Singh	Chairman	3	3
2.	Shri. Kadambelil Paul Thomas	Member	3	3
3.	Dr. V.A. Joseph	Member	3	3
4.	Smt. Asha Morley*	Member	2	2

* Smt. Asha Morley was appointed as the member of the Committee on 29th May, 2020.

High Value Fraud Monitoring Committee of the Board (HVFMCB)

A High Value Fraud Monitoring Committee of the Board was constituted in the meeting of the Board of Directors held on October 03, 2018 to monitor and review high value frauds, so that it can:

- Identify the systemic lacunae, if any, that facilitated perpetration of fraud and counter it by putting in place measures to plug the same;
- Identify the reasons for delay in detection, if any, and report the same to the top management of the Bank and Reserve Bank of India;
- Monitor progress of CBI / Police Investigation and also monitor recovery position;
- Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time;
- Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls.
- Put in place other measures as may be considered relevant to strengthen preventive measures against frauds.

The Committee was reconstituted on 04th May, 2020 and 29th May, 2020 during the Financial Year 2020-21. As on 31st March, 2021, the Committee had Five (5) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Kadambelil Paul Thomas	Chairman
2.	Dr. V.A. Joseph	Member
3.	Smt. Asha Morley	Member
4.	Shri. Thomas Jacob Kalappila	Member
5.	Shri. Ravimohan Periyakavil Ramakrishnan	Member

During the Financial Year 2020-21, three (3) meeting of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	20 th April, 2020
2.	28 th July, 2020
3.	31 st March, 2021

The details regarding the constitution of the High Value Fraud Monitoring Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Shri. Kadambelil Paul Thomas	Chairman	3	3
2.	Dr. V.A. Joseph	Member	3	3
3.	Smt. Asha Morley	Member	3	3
4.	Shri. Assan Khan Akbar*	Member	1	1
5.	Shri. Saneesh Singh**	Member	1	1
6.	Shri. Ravimohan Periyakavil Ramakrishnan***	Member	2	2
7.	Shri. Thomas Jacob Kalappila****	Member	2	2

* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

** Shri. Saneesh Singh ceased to be a member of the Committee on 29th May, 2020.

*** Shri. Ravimohan Periyakavil Ramakrishnan was appointed as the member of the Committee on 29th May, 2020.

**** Shri. Thomas Jacob Kalappila was appointed as the member of the Committee on 29th May, 2020.

IPO Steering Committee of the Board (IPOSCB)

The IPO Steering Committee of the Board was constituted by a meeting of the Board of Directors held on August 06, 2019. There were no changes in the constitution of the Committee during the Financial Year 2020-21. As on 31st March, 2021, the Committee had Three (3) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Ravimohan Periyakavil Ramakrishnan	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Dr. V.A. Joseph	Member

During the Financial Year 2020-21, Two (2) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	29 th September, 2020
2.	31 st December, 2020

The details regarding the constitution of the IPO Steering Committee along with the attendance recorded in the meetings held during the Financial Year 2020-21 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Shri. Ravimohan Periyakavil Ramakrishnan	Chairman	2	2
2.	Shri. Kadambelil Paul Thomas	Member	2	2
3.	Dr. V.A. Joseph	Member	2	2

Stakeholders' Relationship Committee of the Board (SRCB)

The Stakeholders' Relationship Committee of the Board was constituted by a meeting of the Board of Directors held on December 11, 2019. The Committee was reconstituted on 29th May, 2020 during the Financial Year 2020-21. As on 31st March, 2021, the Committee had Four (4) members:

Sl. No.	Name of the Member	Designation
1.	Dr. V.A. Joseph	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Shri. Alex Parackal George	Member
4.	Shri. Saneesh Singh*	Member

*Shri. Saneesh Singh was appointed as the member of the Committee on 29th May, 2020.

The scope and function of the Stakeholders' Relationship Committee is in accordance with Section 178 of the Companies Act, 2013 and the Securities and Exchange Board of India Regulations.

The Committee was constituted envisaging the listing of Equity shares of the Bank in stock exchanges and the progress of the listing is in process. Since regulatory requirement of holding the meetings of the Committee is not applicable as of now, no meetings of the Committee were convened during the Financial Year 2020-21.

The Company Secretary of the Bank acts as the Secretary of all Sub Committees of the Board of Directors.

Sitting Fee to Directors

All Directors except Managing Director & CEO are paid Sitting Fee as given below:

1.	Meetings of the Board of Directors	Directors	₹ 50,000 per meeting
2.	Meetings of the Sub-Committees of the Board	Committee Members	₹ 40,000 per meeting

Fair Practices Code

The Bank has adopted the Fair Practices Code pursuant to the guidelines issued by Reserve Bank of India in this regard, which is displayed on the official website of the Bank and at all branches of the Bank.

Disclosures

- The particulars of transactions between the Bank and its Related Parties (as defined under Section 2(76) of the Companies Act, 2013 and in Accounting Standard 18) are set out in the Financial Statements. The Bank has a record of unqualified financial statements since inception.
- During the last three years, there were no penalties or strictures imposed on the Bank by the Stock Exchange(s) and/ or Securities and Exchange Board of India (SEBI) and/ or any other statutory authorities on matters relating to capital market.
- None of the Directors are related to any other Director.
- The relevant disclosures in relation to the number of complaints under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 have been mentioned in the Directors' Report of the Bank.

Name and Address of Stock Exchange at which the Bank's Non-Convertible Debentures are listed

Name of Stock Exchange: BSE Limited

Address of Stock Exchange: Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001

Security Type: Non-Convertible Debenture

Name and Address of Registrar and Transfer Agent

M/s. Link In Time India Private Limited, C 101, 247 Park, L.B.S.Marg, Vikhroli (West),

Mumbai – 400 083, Maharashtra

Tel: 912249186270

Address for Correspondence

Name of Contact person: Mr. Ranjith Raj P

Designation: Company Secretary

Address: Registered and Corporate Office of the Bank, Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651

Shareholder Information

- a. Date of Incorporation : **May 05, 2016**
- b. Corporate Identification Number : **U65990KL2016PLC045669**
- c. RBI Registration Number : **MUM 124**
- d. Registered and Corporate Office Address : **Building No. VII/83/8, ESAF Bhavan,
Thrissur – Palakkad National Highway, Mannuthy,
Thrissur, Kerala, PIN – 680 651**

05th Annual General Meeting of the Bank

- Date and Time : **September 29, 2021 12:30 PM**
- Venue : **Registered and Corporate Office of the Bank at Building No.
VII/83/8, ESAF Bhavan, Thrissur – Palakkad National
Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651**
- Financial Year : **01st April to 31st March**



Financial Statements

Independent Auditor's Report

To
The Members of
ESAF SMALL FINANCE BANK LIMITED

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of ESAF SMALL FINANCE BANK LIMITED (the "Bank"), which comprise the Balance Sheet as at 31 March 2021, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949, Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Accounting Standards prescribed under section 133 of the Act read with the Companies (Accounting Standards) Rules, 2006, as amended ("Accounting Standards") as applicable to banks and other accounting principles generally accepted in India, of the state of affairs of the Bank as at 31 March 2021, its profit and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit of the financial statements in accordance with the Standards on Auditing specified under section 143(10) of the Act (SAs). Our responsibilities under those Standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules made thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Emphasis of Matter

We draw attention to Note 18 A. 7(i) to the Financial Statement which fully describes that the Bank has recognized additional contingency provision on loans to reflect the continuing uncertainties arising from the COVID 19 pandemic. Such estimates are based on current facts and circumstances and may not necessarily reflect the future uncertainties and events arising from the full impact of the COVID 19 pandemic.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matters	How our audit addressed the key audit matter
Identification of Non-performing advances and provisioning of advances:	
(Refer Schedule 9 read with Note 4.3 of Schedule 17 and Note A.7(i) of Schedule 18 to the financial statements)	Our audit approach included testing the design, operating effectiveness of internal controls and substantive audit procedures in respect of income recognition, asset classification and provisioning pertaining to advances. In particular:
Advances constitute a significant portion of the Bank's assets and the quality of these advances is measured in terms of ratio of Non-Performing Advances ("NPA") to the gross advances of the Bank. As at 31 March 2021, the Net Advances of the Bank was ₹ 8,167.59 Crore (Previous year: ₹ 6,547.82 Crore) and Gross NPA of the Bank were ₹ 564.00 Crore (Previous Year: ₹ 100.86 Crore). Gross NPA ratio of the Bank was 6.70% (Previous year: 1.53%) and Net NPA ratio of the Bank was 3.88% (Previous year: 0.64%)	- We have evaluated and understood the Bank's internal control system in adhering to the Relevant RBI guidelines regarding income recognition, asset classification and provisioning pertaining to advances; - We have analyzed and understood key IT systems/applications used and tested the design and implementation as well as operational effectiveness of relevant controls, including system generated reports and manual process and controls in relation to income recognition, asset classification, viz., standard, sub-standard, doubtful and loss with reference to relevant RBI guidelines and judgement of Honourable Supreme Court of India and provisioning pertaining to advances; - We test checked advances to examine the validity of the recorded amounts, loan documentation, examined the statement of accounts, indicators of impairment, impairment provision for non-performing assets, and compliance with income recognition, asset classification and provisioning pertaining to advances; - Evaluated the past trends of disruptions, management judgement, governance process and review controls over provisions for standard and non-performing assets including analysis of collection trends, relevant minutes of the Audit Committee meetings and Board meetings; and performed inquiries regarding the provisions made with senior management to assess the adequacy of the overall provision, including additional provisions made.
Identification of and provisioning for non-performing assets (loans) in accordance with relevant prudential norms issued by the Reserve Bank of India (RBI) in respect of income recognition, asset classification and provisioning pertaining to advances (IRACP) and guidelines relating to COVID-19 Regulatory Package (herein after referred as "Relevant RBI guidelines") is a Key Audit Matter (KAM) due to level of regulatory and other stakeholders focus.	
During the year based on the RBI moratorium circulars/guidelines, the Honourable Supreme Court's interim order on non-declaration of NPA and subsequent vacation of the same, the Bank had to revise its NPA workings in the month of March 2021 in accordance with the RBI circular dated 7 April 2021.	
The Bank holds accelerated provision of ₹ 40.40 Crore (Previous year: ₹ 4.41 Crore) on standard assets as at 31 March 2021 against the potential impact of COVID-19 (other than provisions held for restructuring under COVID 19 norms).	
These provisions held by the Bank are based on the information available at this point in time and are in excess of the RBI prescribed norms.	
The aforesaid involves significant management estimates/judgements and hence identified as Key Audit Matter (KAM).	
Information Technology ("IT") Systems and Controls	
As a Bank that operates on core banking solution ("CBS") We involved our IT specialists to obtain an understanding across its branches and "Quantum" System for its of the Bank's IT related control environment. Furthermore, centralised Treasury Operations, the reliability and security we conducted an assessment and identified key IT of IT systems plays a key role in the business operations. applications, databases and operating systems that are The Bank continued to be highly dependent on third party relevant to our audit and have identified Profile (Core service providers for its core IT infrastructure. Since large Banking System), BR Net (Micro Lending Application system) volume of transactions are processed daily, the IT controls and Quantum (Treasury System) primarily as relevant for are required to ensure that applications process data as financial reporting. For the key IT systems pertaining to expected and that changes are made in an appropriate CBS and treasury operations used to prepare accounting and financial information, our areas of audit focus included access security (including controls over privileged access), program change controls, database management and network operations. In particular:	
The IT infrastructure is critical for smooth functioning of the Bank's business operations as well as for timely and accurate financial accounting and reporting.	

Key audit matters	How our audit addressed the key audit matter
Due to the pervasive nature and complexity of the IT environment we have ascertained Key Information technology ("IT") systems used in financial reporting process as a key audit matter.	We obtained an understanding of the Bank's IT control environment and key changes during the audit period that may be relevant to the audit; - We tested the design, implementation and operating effectiveness of the Bank's General IT controls over the key IT systems that are critical to financial reporting. This included evaluation of Bank's controls to evaluate segregation of duties and access rights being provisioned / modified based on duly approved requests, access for exit cases being revoked in a timely manner and access of all users being recertified access of all users being rectified during the period of audit; - We also tested key automated and manual business cycle controls and logic for the system generated reports relevant to the audit; including testing of the compensating controls or formed alternate procedures to assess whether there were any unaddressed IT Risk that would materiality impact the financial statement.
Transactions with Related Parties	
During the current year the Bank had transactions with its related parties primarily on account of Business Correspondent (BC) transaction which inter alia includes collection/recovery of Bank's loans	Our audit procedures included the following:
The identification of related parties and transactions with them in capacity of BC is a key audit matter due to quantum of these transactions and uniqueness of these related party transactions including compliance with relevant RBI guidelines on BC transactions.	- Obtained an understanding of the Bank's policies and procedures in respect of related party transactions as well as appointment of BC to outsource performance of banking activities - Evaluated the appropriateness of management's process for identifying and recording related party transactions. - Performed reassessment of the related party relationship in respect to those entities which were reported as related parties in previous financial year and there has been change in the Shareholding pattern/Board of Directors/ Key Management Personnel (KMPs) in the current financial year which has been disclosed in the financial statements. Obtained and read the contracts and agreements with related parties (including the BC agreement) to understand the nature of the transactions. - Obtained and assessed the report on arm's length pricing of related party transactions by an external consultant appointed by the Bank and its own internal assessment. - Agreed the value of transactions disclosed to underlying documentation and reviewed relevant agreements, on a sample basis, as part of our evaluation of the disclosures made in the financial statements. - Agreed the amount of transactions disclosed, to statutory information including approvals by Board of Directors, books and records and other documents obtained during the course of our audit.

Information Other than the Financial Statements and Auditor's Report Thereon

- The Bank's Board of Directors is responsible for the preparation of the other information. The other information comprises the Chairman's Statement, the Directors Report including annexures to the Directors report and Corporate Governance Report included in the Annual Report, but does not include the financial statement and our auditors report thereon and the Pillar III Disclosures under New Capital Adequacy Framework. The other information is expected to be made available to us after the date of this auditor's report.
- Our opinion on the financial statements does not cover the other information and Pillar III Disclosures and accordingly will not express any form of assurance conclusion thereon.
- In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated.
- When we read the Other Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance as required under SA 720 'The Auditor's responsibilities Relating to Other Information'.

Management's Responsibility for the Financial Statements

The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, Accounting Standards as applicable to banks and other accounting principles generally accepted in India and the circulars, guidelines and the directions issued by the Reserve Bank of India, from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors are also responsible for overseeing the financial reporting process of Bank.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Bank has adequate internal financial controls system in place and the operating effectiveness of such controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Materiality is the magnitude of misstatements in the financial statements that, individually or in aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning the scope of our audit work and in evaluating the results of our work; and (ii) to evaluate the effect of any identified misstatements in the financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Matter

The audit of the financial statements of the Bank as at and for the year ended 31 March 2020 was carried out by the previous auditors of the Bank. Our opinion on the financial statements and our report on Other Legal and Regulatory Requirements below is not modified in respect of this matter.

Report on Other Legal and Regulatory Requirements

1. As required by Section 143(3) of the Act and Section 30 of the Banking Regulation Act, 1949, based on our Audit, we report that:
 - a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and found them to be satisfactory.
 - b) In our opinion, the transactions of the Bank which have come to our notice have been within the powers of the bank.
 - c) As explained in the paragraph 2 below, the financial accounting system of the Bank are centralised and, therefore, accounting returns are not required to be submitted by branches. We performed procedures necessary for the purpose of our walkthrough of processes and test of controls at branches by inspection of documents obtained from branches.
 - d) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books.
 - e) The Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
 - f) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act as applicable to the Banks.

- g) On the basis of the written representations received from the directors as on 31 March 2021 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2021 from being appointed as a director in terms of Section 164(2) of the Act.
- h) With respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A". Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Bank's internal financial controls over financial reporting.
- i) With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended,

In our opinion and to the best of our information and according to the explanations given to us, the entity being a banking company, Section 197 of the Act related to the managerial remuneration is not applicable by virtue of Section 35B(2A) of the Banking Regulation Act, 1949.

- j) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, as amended in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Bank has disclosed the impact of pending litigations on its financial position in its financial statements;
 - ii. The Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts;
 - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank.
2. We report that during the course of our audit we have visited (physically as well as virtually) and performed select relevant procedures at 25 Branches. Since the Bank considers its key operations to be automated, with the key applications largely integrated to the Core Banking System, it does not require its branches to submit any financial returns. Accordingly, our audit is carried out centrally at Head Office based on the records and data required for the purpose of Audit being made available to us.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants
(Firm's Registration No.117365W)

G. K. Subramanian
Partner

Membership No.109839
(UDIN:21109839AAAAGK7458)

MUMBAI, 26 May 2021

ANNEXURE "A" TO THE INDEPENDENT AUDITOR'S REPORT

(Referred to in paragraph 1(h) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

Report on the Internal Financial Controls Over Financial Reporting under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls over financial reporting of ESAF Small Finance Bank Limited (the "Bank") as of 31 March 2021 in conjunction with our audit of the financial statements of the Bank for the year ended on that date.

Management's Responsibility for Internal Financial Controls

The Bank's management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") issued by the Institute of Chartered Accountants of India (the "ICAI"). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act, the Banking Regulation Act, 1949 and the guidelines issued by the Reserve Bank of India.

Auditor's Responsibility

Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting of the Bank based on our audit. We conducted our audit in accordance with the Guidance Note issued by the ICAI and the Standards on Auditing prescribed under Section 143(10) of the Act, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls Over Financial Reporting

A Bank's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls Over Financial Reporting

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, to the best of our information and according to the explanations given to us the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2021, based on the criteria for internal financial control over financial reporting established by the Bank considering the essential components of internal control stated in the Guidance Note issued by the ICAI.

For **DELOITTE HASKINS & SELLS**

Chartered Accountants
(Firm's Registration No.117365W)

G. K. Subramanian

Partner
Membership No.109839
(UDIN:21109839AAAAGK7458)

MUMBAI, 26 May 2021

Balance Sheet

as at 31 March 2021

		₹ in Thousands	
	Schedule No.	As at 31 March 2021	As at 31 March 2020
CAPITAL AND LIABILITIES			
Capital	1	44,94,738	42,77,955
Reserves and Surplus	2	90,25,896	65,62,853
Deposits	3	8,99,94,260	7,02,83,823
Borrowings	4	1,69,40,000	1,20,33,170
Other Liabilities and Provisions	5	29,31,622	15,41,920
Total		12,33,86,516	9,46,99,721
ASSETS			
Cash and Balances with Reserve Bank of India	6	42,80,725	30,47,723
Balances with Banks and Money at Call and Short Notice	7	1,39,10,540	59,80,193
Investments	8	1,93,20,690	1,73,36,253
Advances	9	8,16,75,855	6,54,78,216
Fixed Assets	10	13,85,119	12,01,069
Other Assets	11	28,13,587	16,56,267
Total		12,33,86,516	9,46,99,721
Contingent Liabilities	12	15,042	15,042
Bills for collection		-	-
Significant Accounting Policies and notes to accounts forming part of financial statements	17 & 18		

Schedules referred to above form an integral part of the Financial statements

The Balance Sheet has been prepared in conformity with Form 'A' of the Third Schedule to the Banking Regulation Act, 1949.

In terms of our report attached
 For **Deloitte Haskins & Sells**
 Chartered Accountants
 Firm's Registration Number: 117365W

Sd/-
G K Subramaniam
 Partner
 Membership No. : 109839

Place : Mumbai
 Date : 26 May 2021

For and on behalf of the Board of Directors

Sd/-
P R Ravi Mohan
 Chairman
 DIN:08534931

Sd/-
Asha Morley
 Director
 DIN: 02012799

Sd/-
Gireesh C P
 Chief Financial Officer
 Place : Mannuthy
 Date : 26 May 2021

Sd/-
Kadambelil Paul Thomas
 Managing Director & CEO
 DIN: 00199925

Sd/-
Ranjith Raj P
 Company Secretary

Profit and Loss Account

for the year ended 31 March 2021

₹ in Thousands

Particulars	Schedule No.	Year ended 31 March 2021	Year ended 31 March 2020
I. INCOME			
Interest Earned	13	1,64,11,729	1,41,32,453
Other Income	14	12,61,038	13,31,896
Total		1,76,72,767	1,54,64,349
II. EXPENDITURE			
Interest expended	15	71,95,821	62,10,572
Operating Expenses	16	63,18,552	60,06,765
Provisions and Contingencies		31,04,441	13,43,114
Total		1,66,18,814	1,35,60,451
III. PROFIT			
Net Profit for the year (I - II)		10,53,953	19,03,898
Add: Balance in Profit and Loss account brought forward from Previous Year		22,71,967	8,79,974
		33,25,920	27,83,872
IV. APPROPRIATIONS			
Transfer to Statutory Reserve		2,63,488	4,75,975
Transfer to Capital Reserve		-	-
Transfer to/(from) Investment Fluctuation Reserve		-	35,930
Balance carried over to Balance Sheet		30,62,432	22,71,967
Total		33,25,920	27,83,872
Earnings per share (Face value of ₹10/- each)			
(Refer Note B.1 of schedule 18)			
Basic (₹)		2.46	4.45
Diluted (₹)		2.46	4.45
Significant Accounting Policies and notes to accounts forming part of financial statements	17 & 18		

Schedules referred to above form an integral part of the Financial statements

The Profit and Loss Account has been prepared in conformity with Form 'B' of the Third Schedule to the Banking Regulation Act, 1949.

In terms of our report attached
For **Deloitte Haskins & Sells**
Chartered Accountants
Firm's Registration Number: 117365W

Sd/-
G K Subramaniam
Partner
Membership No. : 109839

Place : Mumbai
Date : 26 May 2021

For and on behalf of the Board of Directors

Sd/-
P R Ravi Mohan
Chairman
DIN:08534931

Sd/-
Asha Morley
Director
DIN: 02012799

Sd/-
Gireesh C P
Chief Financial Officer
Place : Mannuthy
Date : 26 May 2021

Sd/-
Kadambelil Paul Thomas
Managing Director & CEO
DIN: 00199925

Sd/-
Ranjith Raj P
Company Secretary

Cash Flow Statement

for the year ended 31 March 2021

Particulars	₹ in Thousands	
	Year ended 31 March 2021	Year ended 31 March 2020
Cash Flow from Operating Activities		
Net Profit before tax	14,13,731	25,62,565
Adjustments for:		
Depreciation on Bank's Property	2,85,735	2,31,668
Amortisation of Premium on HTM Investments	68,460	35,250
Profit on sale of investments (net)	(2,30,404)	(64,019)
(Profit)/Loss on sale of Fixed Assets	23,336	(394)
Provision for Non Performing Advances	18,87,273	4,91,506
Provision for Standard Advances	9,25,522	1,00,761
Provision for Depreciation on Investments	(11,441)	18,322
Provision/(Reversal) for Other Contingencies	(57,072)	73,857
	42,85,140	34,49,516
(Increase)/ Decrease in Investments (other than HTM Investments)	40,75,380	37,96,592
(Increase)/ Decrease in Advances	(1,80,84,912)	(2,04,87,176)
(Increase)/ Decrease in Fixed Deposit with Bank (Original Maturity greater than 3 months)	22,64,255	(16,62,837)
(Increase)/ Decrease in Other Assets	(4,24,034)	(4,98,776)
Increase/ (Decrease) in Deposits	1,97,10,437	2,71,13,740
Increase/ (Decrease) in Other liabilities and provisions	5,21,252	(86,242)
Direct taxes paid	(10,93,065)	(7,36,035)
Net Cash Flow from/(used in) Operating Activities (A)	1,12,74,455	1,08,88,782
Cash Flow from/(Used in) Investing Activities		
Purchase of Fixed Assets	(4,95,011)	(5,33,932)
Proceeds from Sale of Fixed Assets	1,890	995
(Increase)/ Decrease in Held to Maturity Investments	(58,86,433)	(58,14,898)
Net Cash Used in Investing Activities (B)	(63,79,554)	(63,47,835)
Cash Flow from/(Used in) Financing Activities		
Proceeds from Issue of Share Capital (including Share Premium)	16,25,873	-
Increase/(Decrease) in Borrowings	49,06,830	(49,90,425)
Cash Flow from/(Used in) Financing Activities (C)	65,32,703	(49,90,425)
Net Increase in Cash and Cash Equivalents (A+B+C)	1,14,27,604	(4,49,478)
Cash and Cash Equivalents at the beginning of year	67,60,351	72,09,829
Cash and Cash Equivalents at the end of year (refer note below)	1,81,87,955	67,60,351
Note:		
Cash in Hand (Schedule 6 I)	11,55,330	7,61,280
Balance with RBI in Current Account (Schedule 6 II (i))	31,25,395	22,86,443
Balance with Banks in India in Current Account (Schedule 7 I (i) a)	20,07,230	3,62,628
Balance with banks in India in Fixed Deposit (Maturing within 3 Months)	-	2,50,000
Lending Under Reverse Repo Notice (Schedule 7 I (ii) c)	1,19,00,000	31,00,000
Cash and cash equivalents at the end of the year	1,81,87,955	67,60,351

The above Cash Flow Statement has been prepared under the indirect method as set out in Accounting Standard (AS) 3 - Cash Flow Statements specified under Section 133 of the Companies Act, 2013 read with the Companies (Account) Rules, 2014 .

In terms of our report attached
For **Deloitte Haskins & Sells**
Chartered Accountants
Firm's Registration Number: 117365W

Sd/-
G K Subramaniam
Partner
Membership No. : 109839

Place : Mumbai
Date : 26 May 2021

For and on behalf of the Board of Directors

Sd/-
P R Ravi Mohan
Chairman
DIN:08534931

Sd/-
Asha Morley
Director
DIN: 02012799

Sd/-
Gireesh C P
Chief Financial officer
Place : Mannuthy
Date : 26 May 2021

Sd/-
Kadambelil Paul Thomas
Managing Director & CEO
DIN: 00199925

Sd/-
Ranjith Raj P
Company Secretary

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

1 CAPITAL

Particulars	₹ in Thousands	
	As at 31 March 2021	As at 31 March 2020
Authorised Capital		
60,00,00,000 Equity Shares of ₹10/- each (Previous Year: 60,00,00,000 Equity Shares of ₹10/- each)	60,00,000	60,00,000
Issued, Subscribed and Paid up Capital #		
44,94,73,798 Equity Shares of ₹10/- each (Previous Year: 42,77,95,490 Equity Shares of ₹10/- each)	44,94,738	42,77,955
Total	44,94,738	42,77,955

2 RESERVES AND SURPLUS

Particulars	₹ in Thousands	
	As at 31 March 2021	As at 31 March 2020
I. Statutory Reserve		
Opening balance	7,71,079	2,95,104
Additions during the year	2,63,488	4,75,975
	10,34,567	7,71,079
II. Capital Reserves		
(a) Revaluation Reserve		
Opening balance	-	-
Additions during the year	-	-
(b) Others		
Opening balance	-	-
Additions during the year	-	-
III. Share premium #		
Opening balance	34,78,538	34,78,538
Additions during the year	14,09,090	-
Deductions during the year	-	-
	48,87,628	34,78,538
IV. Revenue and Other Reserves		
a) Revenue Reserve		
Opening balance	-	-
Additions during the year	-	-
Deductions during the year	-	-
b) Investment Fluctuation Reserve		
Opening balance	41,269	5,339
Additions during the year	-	35,930
	41,269	41,269
V. Balance in Profit and Loss Account	30,62,432	22,71,967
Total (I to V)	90,25,896	65,62,853

During the year ended 31 March 2021, the Bank has raised Tier I capital amounting to ₹16,25,873 Thousands by way of private placement of 21,678 Thousand Equity Shares having the face value of ₹10/- each at an issue price of ₹75/- per Equity Share (Previous Year: Nil)

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

3 DEPOSITS

		₹ in Thousands	
Particulars	As at 31 March 2021	As at 31 March 2020	
A. I. Demand Deposits			
i. From Banks	66,728	26,199	
ii. From Others	14,65,109	5,52,227	
	15,31,837	5,78,426	
II. Savings Bank Deposits	1,59,44,612	90,24,415	
III. Term Deposits			
i. From Banks	72,96,065	59,90,471	
ii. From Others	6,52,21,746	5,46,90,511	
	7,25,17,811	6,06,80,982	
Total (I to III)	8,99,94,260	7,02,83,823	
B. I. Deposits of branches in India	8,99,94,260	7,02,83,823	
II. Deposits of branches outside India	-	-	
Total (I and II)	8,99,94,260	7,02,83,823	

4 BORROWINGS

		₹ in Thousands	
Particulars	As at 31 March 2021	As at 31 March 2020	
I. Borrowings in India			
i. Reserve Bank of India	14,60,000	16,30,000	
ii. Other Banks	-	-	
iii. Other institutions and agencies	1,31,00,000	80,23,170	
iv. Subordinated Debt	19,00,000	19,00,000	
v. Perpetual Debt Instrument	4,80,000	4,80,000	
	1,69,40,000	1,20,33,170	
II. Borrowings outside India	-	-	
Total (I and II)	1,69,40,000	1,20,33,170	
Secured Borrowings included in I and II above	14,60,000	16,33,170	

5 OTHER LIABILITIES AND PROVISIONS

		₹ in Thousands	
Particulars	As at 31 March 2021	As at 31 March 2020	
I. Bills Payable	26,255	5,838	
II. Inter - office adjustments (Net)	-	-	
III. Interest accrued	2,19,111	1,88,742	
IV. Provision for Standard Assets (Refer Note A.7(h) of Schedule 18)	12,41,424	3,15,902	
V. Others (including Provisions)	14,44,832	10,31,438	
Total (I to V)	29,31,622	15,41,920	

6 CASH AND BALANCES WITH RESERVE BANK OF INDIA

		₹ in Thousands	
Particulars	As at 31 March 2021	As at 31 March 2020	
I. Cash in hand	11,55,330	7,61,280	
II. Balance with Reserve Bank of India			
i. in Current Accounts	31,25,395	22,86,443	
ii. in Other Accounts	-	-	
Total (I and II)	42,80,725	30,47,723	

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

7 BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

Particulars	₹ in Thousands	
	As at 31 March 2021	As at 31 March 2020
I. In India		
i. Balances with Banks		
a. in Current Accounts	20,07,230	3,62,628
b. in Other Deposit Accounts	3,310	25,17,565
Total	20,10,540	28,80,193
ii. Money at Call and Short Notice		
a. With Banks	-	-
b. With Other Institutions	-	-
c. Lending under Reverse Repo (RBI)	1,19,00,000	31,00,000
Total	1,19,00,000	31,00,000
Total (I)	1,39,10,540	59,80,193
II. Outside India		
i. in Current Accounts	-	-
ii. in Other Deposit Accounts	-	-
iii. Money at call and short notice	-	-
Total (II)	-	-
Total (I and II)	1,39,10,540	59,80,193

8 INVESTMENTS (NET OF PROVISION)

Particulars	₹ in Thousands	
	As at 31 March 2021	As at 31 March 2020
I. Investments in India in :		
i. Government Securities	1,88,89,751	1,50,69,474
ii. Other approved Securities	-	-
iii. Shares	81,674	35,601
iv. Debentures and Bonds	-	-
v. Subsidiaries/ Joint Ventures	-	-
vi. Others [Certificate of Deposits (CDs), Mutual Funds etc.]	3,49,265	22,31,178
Total (I)	1,93,20,690	1,73,36,253
II. Investments outside India	-	-
Total (II)	-	-
Total (I and II)	1,93,20,690	1,73,36,253
Gross Investments	1,93,27,572	1,73,54,575
Less: Depreciation/ Provision for Investments	6,882	18,322
Net Investments	1,93,20,690	1,73,36,253

9 ADVANCES (NET OF PROVISION)

Particulars	₹ in Thousands	
	As at 31 March 2021	As at 31 March 2020
A. i. Bills purchased and discounted	-	-
ii. Cash credits, overdrafts and loans repayable on demand	7,62,871	3,08,082
iii. Term loans	8,09,12,984	6,51,70,134
Total	8,16,75,855	6,54,78,216

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

₹ in Thousands		
Particulars	As at 31 March 2021	As at 31 March 2020
B. i. Secured by tangible assets	1,18,39,850	42,05,546
ii. Covered by Bank/Government guarantees	-	-
iii. Unsecured	6,98,36,005	6,12,72,670
Total	8,16,75,855	6,54,78,216
C. I. Advances in India		
i. Priority Sectors	5,08,89,740	5,65,19,538
ii. Public Sector	-	-
iii. Banks	-	-
iv. Others	3,07,86,115	89,58,678
Total (I)	8,16,75,855	6,54,78,216
II. Advances outside India		
i. Due from Banks	-	-
ii. Due from Others	-	-
a) Bills purchased and discounted	-	-
b) Syndicated Loans	-	-
c) Others	-	-
Total (II)	-	-
Total (C I and C II)	8,16,75,855	6,54,78,216

10 FIXED ASSETS

₹ in Thousands		
Particulars	As at 31 March 2021	As at 31 March 2020
I OWNED ASSETS		
a Premises		
Gross Block		
At the beginning of the year	-	-
Additions during the year	-	-
Deductions during the year	-	-
Closing Balance	-	-
Depreciation		
As at the beginning of the year	-	-
Charge for the Year	-	-
Deductions during the year	-	-
Depreciation to date	-	-
Net Block	-	-
b. Other fixed assets		
(including furniture and fixtures)		
Gross Block		
At the beginning of the year	16,57,952	11,24,200
Additions during the year	4,77,904	5,34,954
Deductions during the year	48,927	1,202
Closing Balance	20,86,929	16,57,952
Depreciation		
As at the beginning of the year	4,98,827	2,67,462
Charge for the year	2,85,735	2,31,966
Deductions during the year	23,701	601
Depreciation to date	7,60,861	4,98,827
Net Block	13,26,068	11,59,125

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

Particulars	₹ in Thousands	
	As at 31 March 2021	As at 31 March 2020
II ASSETS GIVEN ON LEASE		
Gross Block		
At the beginning of the year	-	-
Additions during the year	-	-
Deductions during the year	-	-
Closing Balance	-	-
Depreciation		
As at the beginning of the year	-	-
Charge for the year	-	-
Deductions during the year	-	-
Depreciation to date	-	-
Net Block	-	-
III. Capital Work in progress (Including Capital Advances)	59,051	41,944
Total (I to III)	13,85,119	12,01,069

11 OTHER ASSETS

Particulars	₹ in Thousands	
	As at 31 March 2021	As at 31 March 2020
I. Inter - office adjustments (net)	-	-
II. Interest accrued	6,78,072	6,37,274
III. Tax paid in advance/Tax Deducted at source (Net of provision)	5,91,693	1,01,105
IV. Stationery and Stamps	1,015	383
V. Non-banking assets acquired in satisfaction of claims	-	-
VI. Deferred tax asset (net)	3,56,302	1,13,604
VII. Others	11,86,505	8,03,901
Total (I to VII)	28,13,587	16,56,267

12 CONTINGENT LIABILITIES

Particulars	₹ in Thousands	
	As at 31 March 2021	As at 31 March 2020
I. Claims against the Bank not acknowledged as debts	-	-
II. Liability on account of outstanding forward exchange contracts	-	-
III. Guarantees given on behalf of constituents - in India	13,042	13,042
IV. Acceptances, endorsements and other obligations	-	-
V. Other items for which the Bank is contingently liable	2,000	2,000
Total (I to V)	15,042	15,042

13 INTEREST EARNED

Particulars	₹ in Thousands	
	For the Year Ended 31 March 2021	For the Year Ended 31 March 2020
I. Interest/discount on advances/bills	1,47,35,056	1,23,82,838
II. Income on investments	12,83,260	13,21,988
III. Interest on balances with Reserve Bank of India and other inter-bank funds	3,93,413	4,27,627
IV. Others	-	-
Total (I to IV)	1,64,11,729	1,41,32,453

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

14 OTHER INCOME

₹ in Thousands

Particulars	For the Year Ended 31 March 2021	For the Year Ended 31 March 2020
I. Commission, exchange and brokerage	6,45,009	9,79,790
II. Profit on sale of investments (Net)	2,30,404	64,019
III. Profit on revaluation of investments (Net)	-	-
IV. Profit/(Loss) on sale of land, buildings and other assets (Net)	(23,336)	394
V. Profit on foreign exchange transactions (Net)	5,475	2,382
VI. Income earned by way of dividends etc. from companies	1,096	36
VII. Miscellaneous income	4,02,390	2,85,275
Total (I to VII)	12,61,038	13,31,896

15 INTEREST EXPENDED

₹ in Thousands

Particulars	For the Year Ended 31 March 2021	For the Year Ended 31 March 2020
I. Interest on deposits	60,45,684	48,51,171
II. Interest on Reserve Bank of India/Inter bank borrowings	79,196	23,357
III. Others	10,70,941	13,36,044
Total (I to III)	71,95,821	62,10,572

16 OPERATING EXPENSES

₹ in Thousands

Particulars	For the Year Ended 31 March 2021	For the Year Ended 31 March 2020
I. Payments to and provisions for employees	18,77,836	14,40,647
II. Rent, taxes and lighting	4,20,387	3,39,124
III. Printing and stationery	52,914	53,363
IV. Advertisement and publicity	27,097	34,803
V. Depreciation on Bank's property	2,85,735	2,31,668
VI. Directors' fees, allowances and expenses	14,044	14,744
VII. Auditors' fees and expenses	6,304	7,670
VIII. Law charges	2,610	2,021
IX. Postage, Telegrams, Telephones etc	91,677	73,711
X. Repairs and maintenance	15,775	13,123
XI. Insurance	1,08,349	60,773
XII. Other expenditure *	34,15,824	37,35,118
Total (I to XII)	63,18,552	60,06,765

* includes expenditure towards:

₹ in Thousands

Particulars	For the Year Ended 31 March 2021	For the Year Ended 31 March 2020
Corporate Social Responsibility	71,550	28,900
Business Correspondent expenses	23,28,084	27,77,820

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

17 SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 MARCH 2021

1 Background

ESAF Small Finance Bank Limited ("the Bank") is a public limited company incorporated on 5 May 2016 in India after receiving in principle approval from Reserve Bank of India ("RBI") to establish a small finance bank in the private sector under section 22 of the Banking Regulation Act, 1949 on 16 September 2015. The Bank received the license from the Reserve Bank of India on 18 November 2016 and commenced its banking operations from 10 March 2017. As per RBI Approval, the name of the Bank is included in the Second Schedule to the Reserve Bank of India Act, 1934 w.e.f 12 November 2018. The Bank provides Micro, retail and corporate banking, para banking activities such as debit card, third party financial product distribution, in addition to Treasury and permitted Foreign Exchange Business.

In order to get the shares listed in stock exchange, the bank filed DRHP before SEBI on 6 January 2020 and obtained the final observations on 20 March 2020. However, the outbreak of Covid 19 pandemic and the prolonged lockdown immediately after that resulted in uncertainty in business conditions and disrupted the normal operations of Financial Year 2021 thereby listing process could not be completed. As mandated by the Board, the bank is taking all possible steps for completing the listing process by re-filing the DRHP at an earlier date.

2 Basis of Preparation

The financial statements have been prepared in accordance with the requirements prescribed under the Banking Regulation Act, 1949. The accounting and reporting policies of the Bank used in the preparation of these financial statements conform in all material aspects with Generally Accepted Accounting Principles in India ("Indian GAAP"), the circulars and guidelines issued by RBI from time to time and Accounting Standards prescribed under Section 133 of the Companies Act, 2013, read with the Companies (Accounts) Rules, 2014 to the extent applicable and other relevant provisions of the Companies Act, 2013 ("Act") and current practices prevailing within the Banking industry in India. The Bank follows historical cost convention and accrual basis of accounting in the preparation of the financial statements, except otherwise stated. The accounting policies adopted in the presentation of financial statements are consistent with those followed in the previous year.

3 Use of Estimation

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting year. The Bank's Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from this estimate. Any revision to accounting estimates are recognized prospectively in current and future periods.

4 Significant Accounting Policies

4.1 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

- i. Interest Income is recognized in the Profit and Loss Account on accrual basis, except in the case of non-performing assets. Interest on non-performing assets is recognized on realization basis as per the prudential norms issued by the RBI.
- ii. Profit or Loss on sale of investments is recognised in the Profit and Loss Account. However, the profit on sale of investments in the 'Held to Maturity' category is appropriated (net of applicable taxes and amount required to be transferred to statutory reserve) to 'Capital Reserve'.
- iii. Income on non-coupon bearing discounted instruments is recognized over the tenure of the instrument on a straight line basis. In case of coupon bearing discounted instruments, discount income is recognized over the tenor of the instrument on yield basis.
- iv. Dividend on Investments in shares and units of Mutual Funds are accounted when the Bank's right to receive the dividend is established.
- v. Processing Fee/ upfront fee, handling charges and similar charges collected at the time of sanctioning or renewal of loan/ facility is recognised at the inception/ renewal of loan.
- vi. Other fees and Commission income (including commission income on third party products) are recognised when due, except in cases where the Bank is uncertain of ultimate collection.
- vii. Interest income on deposits with banks and other financial institutions are recognised on a time

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Forming Part of the Financial Statements for the year ended 31 March 2021

proportion accrual basis taking into account the amounts outstanding and the rates applicable.

- viii Guarantee commission is recognised on a straight line basis over the period of contract.
- ix Locker rent is recognised on realisation basis.
- x. In accordance with the RBI guidelines on Securitisation Transactions, gains arising from assignment / securitisation are amortised over the life of the underlying loan Portfolio. In case of any loss, the same is recognised in the Profit and Loss Account immediately. Income from interest strip (excess interest spread) is recognized in the Profit and Loss Account net of any losses when redeemed in cash in line with the relevant Reserve Bank of India guidelines.
- xi. Fees received on sale of priority sector lending certificates is considered as Miscellaneous Income, while fees paid for purchase is expended as other expenditure in accordance with the guidelines issued by RBI on the date of purchase/ sale on upfront basis.

4.2 Investments

i. Classification:

Investments are classified into three categories, viz Held to Maturity ("HTM"), Available for Sale ("AFS") and Held for Trading ("HFT") at the time of purchase as per the guidelines issued by RBI.

However for disclosure in the Balance Sheet, Investments in India are classified under six groups - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Others.

Purchase and sale transactions in securities are recorded under 'Settlement Date' accounting.

ii. Basis of classification

Investments that the Bank intends to hold till maturity are classified as HTM category.

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.

Investments which are not classified in either of the above two categories are classified under AFS category.

iii. Acquisition Cost :

The Cost of investments is determined on the weighted average basis. Broken period interest in debt

instruments and government securities is treated as a revenue item. The transaction cost including brokerage commission etc. paid at the time of acquisition of investments is charged to the Profit and Loss account.

iv. Disposal of investments:

Investments classified as HFT or AFS - Profit or loss on sale or redemption is recognised in the Profit and Loss Account. Investments classified as HTM - Profit on sale or redemption of investments is recognised in the Profit and Loss Account and is appropriated to Capital Reserve after adjustments for tax and transfer to Statutory Reserve. Loss on sale or redemption is recognised in the Profit and Loss Account.

v. Valuation:

HTM securities are carried at their acquisition cost. Any premium on acquisition of government securities are amortised over the remaining maturity of the security on a straight line basis. Any diminution, other than temporary, in the value of such securities is provided for.

AFS and HFT securities are valued periodically as per RBI guidelines.

The market/ fair value for the purpose of periodical valuation of quoted investments included in the AFS and HFT categories is measured with respect to the market price of the scrip as available from the trades/ quotes on the stock exchanges, SGL account transactions, price list of RBI or prices periodically declared by Financial Benchmark India Pvt. Ltd. [FBIL], based on relevant RBI circular.

The valuation of non-SLR securities, other than those quoted on the stock exchanges, wherever linked to the YTM rates, shall be with a mark-up (reflecting associated credit risk) over the YTM rates for government securities put out by FIMMDA/FBIL. Securities are valued scrip wise and depreciation/ appreciation aggregated for each category. Net appreciation in each basket if any, being unrealised, is ignored, while net depreciation is provided for.

Treasury bills and Certificate of Deposits being discounted instruments, are valued at carrying cost.

Non Performing investments are identified and valued based on RBI guidelines.

Transfer of Securities between categories of Investments is accounted as per RBI guidelines.

vi. Repo Reverse Repo transactions

In accordance with the RBI guidelines repo and reverse repo transactions in government securities

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are reflected as borrowings and lending transactions respectively. Borrowing cost on repo transaction is accounted for as interest expense and revenue on reverse repo is accounted for as interest income.

vii. Investment Fluctuation Reserve ("IFR")

With a view to building up of adequate reserves to protect against increase in yields in accordance with RBI guideline bank started to create an IFR with effect from the Financial Year 2018-19.

Amount appropriated from Net Profit to IFR is not less than lower of the following:

- (i) net profit on sale of investments during the year or
- (ii) net profit for the year less mandatory appropriations, until the amount of IFR is at least 2 percent of the HFT and AFS portfolio, on a continuing basis.

The amount held in the IFR shall be utilized by way of draw down, in accordance with the provisions of the Reserve Bank of India guidelines

Viii. Short Sales

The short sale transactions in Central Government dated securities undertaken by the bank shall be accounted in the following manner in accordance with RBI guidelines.

- The short position is categorised under HFT category and netted off from investments in the Balance Sheet.
- The short position is marked to market at periodical intervals and loss, if any, is charged to the Profit and Loss Account while gain, if any, is ignored.
- Profit / Loss on settlement of the short position is recognised in the Profit and Loss Account

ix. Transfer of Securities between Categories:

The transfer/shifting of securities between categories of investments is accounted in accordance with the RBI guidelines.

4.3 Advances

- i. Advances are classified into performing assets ("Standard") and non-performing assets ("NPA") as per the RBI guidelines and are stated net of unrealised interest in suspense for non performing advances and specific provisions made towards NPAs [also Refer Note A. 7 (i)

of Schedule 18]. Interest on Non-performing advances is not recognised in Profit and Loss Account and is transferred to an unrealised interest account till the actual realisation. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Provisions for NPAs are made at /or above the minimum required level in accordance with the provisioning policy adopted by the Bank and as per the guidelines and circulars of the RBI on matters relating to prudential norms.

- ii. Provision for standard advances is made as per the extant RBI guidelines. Additional Provision on standard assets is made as per the policy decided by the Board .
- iii. The Bank transfers advances through interbank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances and where the Bank is participating; the aggregate amount of participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the Bank is participating, the aggregate amount of participation is shown as due from banks under advances.
- iv. Non Performing Advances are written off as per the Bank's policy. Amounts recovered against debts written off/ technically written off are recognised in the Profit and Loss account and included under "Other Income".
- v. The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances/ securities, which would generally include, among others, alteration of repayment period/ repayable amount/ the amount of instalments/ rate of interest (due to reasons other than competitive reasons). Restructured accounts are classified as such by the Bank only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of a restructured account is made and classification thereof is as per the extant RBI guidelines, as ammended from time to time.

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4.4 Fixed Assets (Property Plant & Equipment and Intangible Assets) and Depreciation / Amortization

Fixed Assets have been stated at cost less accumulated depreciation and amortisation and adjusted for impairment, if any.

Cost includes cost of purchase inclusive of freight, duties, incidental expenses and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is ready to put to use.

Gains or losses arising from the retirement or disposal of Fixed Assets are determined as the difference between the net disposal proceeds and the carrying amount of assets and recognised as income or expense in the Profit and Loss Account.

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The management believes that the useful life of assets assessed by the Bank, pursuant to the Companies Act, 2013, taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use, fairly reflects its estimate of useful lives of the fixed assets. The estimated useful lives of key fixed assets, based on technical evaluation done by the management are given below:

Class of Asset (Tangible and Intangible)	Estimated Useful Life as assessed by the Bank	Estimated Useful Life specified under Schedule II of the Companies Act, 2013.
Office Equipments	4-5 Years	5
Computers	2- 3 Years	3
Furniture & Fixtures	9-10 Years	10
Motor Vehicles	2-4 Years	8
Servers	5	6

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset comprises its purchase price including after deducting trade discounts and rebates, any directly attributable cost of bringing the item to its working condition for its intended use following initial recognition, Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets comprising of software is amortised on straight line basis over a period of 4 years, unless it has a shorter useful life.

For assets purchased/ sold during the year, depreciation is being provided on pro rata basis by the Bank.

Capital work-in-progress includes costs incurred towards creation of fixed assets that are not ready for their intended use and also includes advances paid to acquire fixed assets.

4.5 Impairment of Assets

The carrying amounts of assets are reviewed at each Balance Sheet date to determine if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount which is the greater of the asset's net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

4.6 Retirement and employee benefits

i. Short Term Employee Benefit

The undiscounted amount of short-term employee benefits which are expected to be paid in exchange for the services rendered by employees are recognised during the year when the employee renders the service.

ii. Long term Employee Benefit

a. Defined contribution Plan:

Provident Fund: In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a pre-determined rate. Contribution to provident fund are recognized as expense as and when the services are rendered. The Bank has no liability for future provident fund benefits other than its fixed contribution.

b. Defined Benefit Plan:

Gratuity: The Bank provides for Gratuity, covering employees in accordance with the Payment of Gratuity Act, 1972. The Bank's liability

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is actuarially determined (using Projected Unit Credit Method) as at the Balance Sheet date. The actuarial gain or loss arising during the year is recognised in the Profit and Loss Account.

Compensated Absences: The Bank accrues the liability for compensated absences based on the actuarial valuation as at the Balance Sheet date conducted by an independent actuary which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation. The net present value of the Bank's obligation is determined using the Projected Unit Credit Method as at the Balance Sheet date. Actuarial gains / losses are recognised in the Profit and Loss Account in the year in which they arise.

4.7 Share issue expenses

Share issue expenses are adjusted from Share Premium Account as permitted by Section 52 of the Companies Act, 2013.

4.8 Income Taxes

Tax expense comprises current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one year and are capable of reversal in one or more subsequent year(s).

Deferred tax assets on account of timing differences are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In case of carry forward losses and unabsorbed depreciation, under tax laws, the deferred tax assets are recognised only to the extent there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

At each reporting date, the Bank re-assesses unrecognized deferred tax assets. It recognizes unrecognized deferred tax asset to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-

off current tax assets against current tax liabilities and the deferred tax assets and deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each reporting date. The Bank writes-down the carrying amount of deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realized. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted at the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Profit and Loss Account in the year of the change.

4.9 Cash and Cash equivalent

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice with an original maturity of three months or less (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

4.10 Segment Information

In accordance with guidelines issued by RBI vide DBOD.No.BP.BC.81/21.01.018/2006-07 dated 18th April, 2007 and Accounting Standard 17 (AS-17) on "Segment Reporting", the Bank's business has been segregated into Treasury, Wholesale Banking, Retail Banking Segments and Other Banking Operations:

- a) **Treasury:** The treasury segment revenue primarily consists of interest earnings on investments portfolio of the bank, gains or losses on investment operations and earnings from foreign exchange business. The principal expenses of the segment consist of interest expense allocated on funds borrowed/ Deposits received and other expenses. Treasury also includes allocation of deposits received from customers.
- b) **Whole sale Banking:** Whole sale Banking segment provides loans to corporate segment identified on the basis of RBI guidelines. Revenues of this segment consist of interest earned on Loans made to corporate customers and the charges/fees earned from other

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banking services. The principal expenses of the segment consist of interest expense allocated on funds borrowed/deposits received and other expenses.

- c) **Retail banking:** The Retail Banking segment provides loans to non-corporate customers identified on the basis of RBI guidelines and also included deposits from customers. Revenues of this segment consist of interest earned on Loans made to non-corporate customers and the charges/fees earned from other banking services. The principal expenses of the segment consist of interest expense allocated on funds borrowed/ deposits received and other expenses.
- d) **Other Banking Operations:** This segment includes income from para banking activities such as debit cards, third party product distribution and associated costs.

Segment revenues consist of earnings from external customers and other allocated revenues. Segment expenses consist of allocated interest expenses, operating expenses and provisions. Segment results are net of segment revenues and segment expenses.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding net worth.

Unallocated: All items which are reckoned at an enterprise level are classified under this segment. This includes capital, reserves and other un allocable assets and liabilities such as fixed assets, deferred tax, tax paid in advance and income tax provision etc.

Geographical Segment

Since the business operations of the Bank are primarily concentrated in India, the Bank is considered to operate only in the domestic segment.

4.11 Earnings per Share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the year is adjusted for events of bonus issue, bonus element in a rights issue to existing shareholders and share split.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted during the year.

4.12 Provisions and contingent assets/liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognized because it is not probable that outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably. The Bank does not recognize a contingent liability but discloses its existence in the Financial Statements.

The Bank creates a provision when there is a present obligation as a result of a past event that probably requires outflow of resources and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation as at the reporting date. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are neither recognized nor disclosed in the Financial Statements.

4.13 Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating lease. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight line basis over the lease term.

4.14 Transaction involving Foreign Exchange

All transactions in foreign currency are recognised at the exchange rate prevailing on the date of the transfer.

Foreign currency monetary items are reported using the exchange rate prevailing at the Balance Sheet date.

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Non-monetary items which are measured in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of transaction. Non-monetary items which are measured at Fair Value or other similar value denominated in a foreign currency are translated using the exchange rate at the date when such value is determined.

Exchange differences arising on settlement of monetary items or on reporting of such monetary items at rates different from those at which they were initially recorded during the year, or reported in previous Financial Statements, are recognised as income or expense in the year in which they arise.

The Securitisation transactions are without recourse to the Bank. The transferred loans and such securitised receivables are de-recognised as and when these are sold (true sale criteria being fully met) and the consideration has been received by the Bank. Gains/losses are recognised only if the Bank surrenders the rights to the benefits specified in the loan contracts.

Profit / premium arising at the time of securitisation / assignment of loan portfolio is amortised over the life of the underlying loan portfolio / securities and any loss arising therefrom is accounted for immediately. Income from interest strip (excess interest spread) is recognised in the Profit and Loss Account net of any losses when redeemed in cash. Interest retained under assignment of loan receivables is recognised on realisation basis over the life of the underlying loan portfolio.

4.15 Securitisation Transaction and direct assignments

The Bank transfers its loan receivables through Direct Assignment route as well as transfer to Special Purpose Vehicle (SPV).

18 NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 MARCH 2021

A. DISCLOSURES AS LAID DOWN BY RBI CIRCULARS:

Amounts in notes on accounts forming part of the financial statements for the year ended 31 March 2021 are denominated as ₹ in Crore to conform to extant RBI guidelines.

1. Capital Adequacy Ratio:

The Bank is subject to the Basel II Capital Adequacy guidelines - New Capital Adequacy Framework (NCAF) stipulated by RBI. The Capital Adequacy Ratio (CRAR) of the Bank is calculated as per the Standardized approach for Credit Risk.

As per RBI circular "DBR.NBD.No. 4502/16.13.218/2017-18" dated 8 November 2017, no separate capital charge is prescribed for market and operational risk. The total Capital Adequacy ratio of the Bank as at 31 March 2021 is 24.23% (Previous Year: 24.03%) against the regulatory requirement of 15.00% prescribed by RBI.

No Capital Conservation Buffer and Counter - Cyclical Capital Buffer is applicable on Small Finance Bank (SFB) as per operating guidelines issued on SFB by RBI.

Particulars	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Common Equity Tier I Capital	1,340.91	1,074.50
Tier I Capital - A	1,388.91	1,122.50
Tier II Capital - B	173.74	162.72
Total Capital (A)+(B)	1,562.65	1,285.22
Total Risk Weighted Assets	6,448.90	5,348.19
Capital Ratios:		
(i) Common Equity Tier I Capital (%)	20.79%	20.09%
(ii) Tier I Capital (%)	21.54%	20.99%
(iii) Tier II Capital (%)	2.69%	3.04%
(iv) Total CRAR %	24.23%	24.03%
(v) Percentage of the shareholding of the Government of India in Public Sector Banks	NA	NA

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(₹ in Crore)

Particulars	As at 31 March 2021	As at 31 March 2020
(vi) Amount raised by issue of Equity Shares (Including Share Premium)	162.59	-
(vii) Amount of Additional Tier I capital raised of which		
Perpetual Non Cumulative Preference Shares (PNCPS)	-	-
Perpetual debt instruments (PDI)	-	-
(viii) Amount of Tier II Capital raised of which		
Debt capital instruments	-	-
Preference share capital instruments	-	-

2. Investments

2.1 Category-wise details of Investments (Net of provision for depreciation):

(₹ in Crore)

Sl. No	Particulars	As at 31 March 2021				As at 31 March 2020			
		HTM	AFS	HFT	Total	HTM	AFS	HFT	Total
(i)	Government securities	1,864.54	24.43	-	1,888.97	1,282.74	224.21	-	1,506.95
(ii)	Other approved securities	-	-	-	-	-	-	-	-
(iii)	Shares	-	8.17	-	8.17	-	3.56	-	3.56
(iv)	Debentures and bonds	-	-	-	-	-	-	-	-
(v)	Others	-	34.93	-	34.93	-	223.12	-	223.12
	Total	1,864.54	67.53	-	1,932.07	1,282.74	450.89	-	1,733.63

Securities kept as margin

The details of securities that are kept as margin are as under:

(₹ in Crore)

Sl. No	Particulars	Face Value as at 31 March	
		2021	2020
1	Securities kept as margin with Clearing Corporation of India towards Collateral and funds management - Securities segment	7.10	7.10

2.2 The details of investments of Bank :

(₹ in Crore)

Sl. No	Particulars	As at 31 March 2021	As at 31 March 2020
1.	Value of Investments		
i.	Gross value of Investments		
a.	In India	1,932.76	1,735.46
b.	Outside India	-	-
ii.	Provision for Depreciation		
a.	In India	0.69	1.83
b.	Outside India	-	-
iii.	Net value of Investments		
a.	In India	1,932.07	1,733.63
b.	Outside India	-	-
2.	Movement of provisions held towards depreciation on investments		
i.	Opening Balance	1.83	-
ii.	Add : Provisions made during the year	1.73	1.83
iii.	Less : Write off/ Write back of excess provisions made during the year	2.87	-
iv.	Closing Balance	0.69	1.83

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3. Details of Repo /Reverse Repos including Liquidity Adjustment Facility (LAF) Transactions in (face value terms)

(₹ in Crore)

Particulars	As at 31 March 2021			
	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year *	Outstanding as on 31 March 2021
Securities sold under repos				
i. Government securities	146.00	163.00	153.80	146.00
ii. Corporate debt securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	270.00	1,315.00	828.95	1,190.00
ii. Corporate debt securities	-	-	-	-

* daily average is considered for entire year including the days when outstanding were Nil

(₹ in Crore)

Particulars	As at 31 March 2020			
	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year *	Outstanding as on 31 March 2020
Securities sold under repos				
i. Government securities	-	168.00	8.98	163.00
ii. Corporate debt securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	-	342.00	67.44	310.00
ii. Corporate debt securities	-	-	-	-

* daily average is considered for entire year including the days when outstanding were Nil

4. Disclosure in respect of Non-SLR Investment Portfolio:

(i) Issuer Composition of Non SLR Investments as at 31 March 2021

(₹ in Crore)

Sl. No	Issuer	Amount	Extent of Private placement	Extent of 'Below grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
[1]	[2]	[3]	[4] ¹	[5] ¹	[6] ^{1,2}	[7] ^{1,2}
1	PSUs	-	-	-	-	-
2	FIs	-	-	-	-	-
3	Banks	28.85	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	14.80	-	-	-	-
7	Provision held towards depreciation	(0.55)	-	-	-	-
	Total	43.10	-	-	-	-

¹ Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive

² Excludes Investments in Equity shares, Equity Oriented Mutual Funds and Certificate of Deposits in line with extant RBI guidelines

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Issuer Composition of Non SLR Investments as at 31 March 2020

(₹ in Crore)

Sl. No	Issuer	Amount	Extent of Private placement	Extent of 'Below Investment grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
[1]	[2]	[3]	[4] ¹	[5] ¹	[6] ^{1 2}	[7] ^{1 2}
1	PSUs	-	-	-	-	-
2	FIs	84.10	-	-	-	-
3	Banks	143.42	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	0.99	-	-	-	-
7	Provision held towards depreciation	(1.83)	-	-	-	-
Total		226.68	-	-	-	-

¹ Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive

² Excludes Investments in Equity shares, Equity Oriented Mutual Funds and Certificate of Deposits in line with extant RBI guidelines

(ii) Non-performing Non-SLR investments:

The Bank does not have any non performing non-SLR Investments during the year and as at 31 March 2021 and 31 March 2020.

5. Sale/ transfer of securities to/from HTM category

During the years ended 31 March 2021 and 31 March 2020 there was no sale/transfer of securities to/from HTM category in excess of 5% of book value of investments held in HTM category at the beginning of the year.

In accordance with the RBI guidelines, sales from, and transfers to / from, HTM category exclude the following from the 5% cap:

- one-time transfer of securities permitted to be undertaken by banks at the beginning of the accounting year with approval of the Board of Directors;
- sales to the RBI under pre-announced open market operation auctions;
- repurchase of Government securities by Government of India from banks;
- additional shifting of securities explicitly permitted by the RBI from time to time; and
- direct sales from HTM for bringing down SLR holdings in the HTM category.
- sale of securities or transfer to AFS / HFT consequent to the reduction of ceiling on SLR securities under HTM

6. Derivatives:

The Bank did not have any transactions in derivative instruments. Hence the disclosure is not applicable.

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7. Asset Quality

a. Non Performing Assets:

(₹ in Crore)		
Particulars	As at 31 March 2021	As at 31 March 2020
(i) Net NPAs to Net Advances (%)	3.88%	0.64%
(ii) Movement of Gross NPAs		
(a) Opening balance	100.86	74.01
(b) Additions during the year	473.46	80.11
(c) Reductions during the year		
i) Recoveries (excluding recoveries made from upgraded accounts)	2.38	4.90
ii) Upgradations	7.94	19.09
iii) Technical / Prudential Write-offs	-	29.27
iv) Write-offs other than those under (iii) above	-	-
(d) Closing balance	564.00	100.86
(iii) Movement of Net NPAs		
(a) Opening balance	42.17	35.20
(b) Additions during the year	316.74	42.22
(c) Reductions during the year	42.33	35.25
(d) Closing balance	316.58	42.17
(iv) Movement of provision for NPAs (excluding provisions on standard assets)		
(a) Opening balance	58.69	38.81
(b) Additions during the year	194.46	61.90
(c) Reductions during the year *	5.73	42.02
(d) Closing balance	247.42	58.69

* includes provision withdrawn for technical write off ₹ Nil (Previous Year: ₹29.27 Crore)

b. Divergence in asset Classification and provisioning

The Bank has been subjected to assessment by the RBI during the period upto 31 March 2019 and no divergence is reported by Reserve Bank of India in its assessment report dated 7 September 2020. The Bank has not been subjected to assessment by the RBI for the years ended 31 March 2020 and 31 March 2021. On account of the same the disclosure on divergence in Asset classification and provisioning as per RBI Circular: DBR.BP.BC.No. 63/21.04.018/2016-17 dated 18 April 2017 is not applicable.

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c. Particulars of Accounts Restructured

SI No.	Type of Restructuring	Under SME Debt Restructuring Mechanism				Others				Total			
		Standard	Sub- Doubtful	Loss	Total Standard	Standard	Sub- Doubtful	Loss	Total Standard	Standard	Sub- Doubtful	Loss	Total
1	Restructured Accounts as on 1st April of the FY	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-
	Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-
2	Fresh Restructuring during the Year *	117	-	-	117	634	-	-	634	751	-	-	751
	Amount Outstanding	2.14	-	-	2.14	17.12	-	-	17.12	19.26	-	-	19.26
	Provision thereon	0.26	-	-	0.26	1.85	-	-	1.85	2.11	-	-	2.11
3	Upgradations to restructured standard category during the FY	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-
	Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-
4	Restructured standard advances which cease to attract higher provisioning and / or additional risk weight at the end of the FY and hence need not be shown as restructured standard advances at the beginning of the next FY	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-
	Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-
5	Down gradations of restructured accounts during the FY	(28)	28	-	(46)	46	-	-	(74)	74	-	-	-
	Amount Outstanding	(0.47)	0.47	-	(0.63)	0.63	-	-	(1.10)	1.10	-	-	-
	Provision thereon	(0.17)	0.17	-	(0.20)	0.20	-	-	(0.37)	0.37	-	-	-
6	Write-offs of restructured accounts during the FY	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-
	Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-
7	Restructured Accounts as on March 31 of the FY	89	28	-	117	588	46	-	634	677	74	-	751
	Amount Outstanding	1.67	0.47	-	2.14	16.49	0.63	-	17.12	18.16	1.10	-	19.26
	Provision thereon	0.09	0.17	-	0.26	1.65	0.20	-	1.85	1.74	0.37	-	2.11

* The amount reported here represents balance outstanding as on 31 March 2021.

The Bank does not have any restructured account as on and for the year ended 31 March 2020

The Bank does not have any restructured account under CDR Mechanism as on and for the years ended 31 March 2021 and 31 March 2020

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d)

I. Details of resolution plan implemented under the Resolution Framework for COVID-19-related Stress as per RBI circular dated August 6, 2020 are given below.

(₹ in Crore)

Type of Borrower	(A) Number of accounts where resolution plan has been implemented under this window	(B) Exposure to accounts mentioned at (A) before implementation of the plan	(C) Of (B), aggregate amount of debt that was converted into other securities	(D) Additional funding sanctioned, if any, including between invocation of the plan and implementation	(E) Increase in provisions on account of the implementation of the resolution
Personal Loans	63	0.17	-	-	0.03
Corporate Persons	-	-	-	-	-
Of Which MSMEs	-	-	-	-	-
Others	571	16.95	-	-	1.82
Total	634	17.12	-	-	1.85

II. Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances

The Bank has restructured accounts in accordance with RBI Circular on 'Micro, Small and Medium Enterprises (MSME) sector — Restructuring of Advances' - DBR.No.BP.BC.100/21.04.048/2017-18 dated 7 February 2018, DBR.No.BP.BC.108/21.04.048/2017-18 dated 6 June 2018, DBR.No.BP.BC.18/21.04.048/2018-19 1 January 2019, DOR.No.BP.BC.34/21.04.048/2019-20 dated 11 February 2020 and DOR.No. BP.BC/4/21.04.048/2020-21 dated 6 August 2020.

(₹ in Crore)

Particulars	As at 31 March 2021	As at 31 March 2020
Number of Accounts Restructured	117	-
Amount	2.14	-

e. Details of Financial Assets sold to Securitization/Reconstruction Company for Asset Reconstruction

During the years ended 31 March 2021 and 31 March 2020, there was no sale of non-performing financial assets to Securitisation Company/ Reconstruction Company for asset reconstruction.

f. Details of book value of investments in Security Receipt

The Bank has not invested in Security receipts during the years ended 31 March 2021 and 31 March 2020

g. Details of Non Performing Assets Purchased/Sold

The Bank did not sell/purchase any non-performing asset during the years ended 31 March 2021 and 31 March 2020

h. Provisions on Standard Assets

(₹ in Crore)

Particulars	As at 31 March 2021	As at 31 March 2020
Provisions towards Standard Assets *	124.14	31.59

* includes ₹ 40.40 Crore (Previous Year ₹ 4.41 Crore) provision against the potential impact of COVID -19 (Refer Note A. 7i of Schedule 18)

i. COVID Regulatory Package Asset classification and provisioning

COVID-19 virus, a global pandemic has affected the world economy including India. The extent to which the COVID-19 pandemic including the current second wave witnessed in the country, will continue to impact the Bank's operations and asset quality will depend on the future developments, which are uncertain.

The RBI on 27 March 2020, 17 April 2020 and 23 May 2020, announced 'COVID-19 Regulatory Package' on asset classification and provisioning. In terms of these RBI guidelines, the lending institutions have been permitted to grant an effective moratorium of six months on payment of all instalments/interest as applicable, falling due between 1 March 2020 and 31 August 2020 ('moratorium period'). As such, in respect of all accounts classified as standard as on 29 February 2020, even if overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under RBI's Income Recognition and Asset Classification norms.

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Considering the prevailing uncertainty over the business due to COVID 19 pandemic (including Second Wave), the Bank holds provisions of ₹ 40.40 Crore as at 31 March 2021 (Previous Year: ₹ 4.41 Crore) against the potential impact of COVID-19 as additional contingency provision on standard assets (other than provisions held for restructuring under COVID 19 norms) based on the information available at this point in time. The provisions held by the Bank are in excess of the RBI prescribed norms.

The Honourable Supreme Court (SC) in PIL by Gajendra Sharma Vs Union of India & Anr vide its Interim order dated 3 September 2020 has directed Banks that the accounts which were not declared NPA till 31 August 2020 shall not be declared NPA till further orders, pending disposal of the case by Supreme Court. Pursuant to the order, the Bank had not classified any borrowal account which has not been declared as NPA as at 31 August 2020 as per the RBI Prudential norms on Income Recognition, Asset classification, provisioning and other related matters as Non-Performing Asset (NPA) after 31 August 2020. The interim order granted to not declare accounts as NPA stood vacated on 23 March 2021 vide the Judgement of the Hon'ble SC in the matter of Small Scale Industrial Manufacturers Association Vs. Union of India and Others and other connected matter. In accordance with the instructions in paragraph 5 of the RBI circular dated 7 April 2021 issued in this connection, the Bank has continued with the asset classification of borrower accounts as per the extant RBI instructions/ IRAC norms.

Disclosure as per RBI Circular on DOR.No.BP.BC.63/21.04.048/2019-20 dated 17 April 2020

Particulars	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Respective amounts in SMA/overdue categories, where the moratorium/deferment was extended	371.96	88.16
Respective amount where asset classification benefits is extended	3,014.98	6,570.88
Provision made in terms of Para 5 of the Circular	8.82	4.41
Provisions adjusted during the respective accounting periods against slippages and the residual provisions	-	-
Residual provisions as of 31 March 2021, in terms of Paragraph 6 of the Circular	8.82	4.41

j. Interest on Interest

In accordance with the Instructions in the RBI circular dated 7 April 2021, the Bank shall refund / adjust 'interest on interest' to all borrowers including those who had availed of working capital facilities during the moratorium period, irrespective of whether moratorium had been fully or partially availed, or not availed. Pursuant to these instructions, the methodology for calculation of the amount of such 'interest on Interest' has been finalised by the Indian Banks Association (IBA) in consultation with other Industry participants/ bodies as on 19 April 2021. As on 31 March 2021, the Bank holds provision of ₹ 8 Crore, which was created by debiting Interest Income, to meet its aforesaid obligation towards refund of interest on interest to eligible borrowers as prescribed by the RBI. The bank is currently in the process of suitably implementing the methodology of giving credit to the respective eligible borrower accounts.

8. Business ratios / information:

Particulars	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Interest income as a percentage of working funds *	14.76%	16.61%
Non interest income as a percentage of Working Funds*	1.13%	1.57%
Operating profit # as a percentage of Working Funds*	3.74%	3.82%
Return on assets (Based on Working Fund*)	0.95%	2.24%
Business ^ (deposit plus advance) per employee (₹ in Crore)\$	4.32	3.89
Profit per employee \$ (₹ in Crore)	0.03	0.06

* For the purpose of computing the ratio, Working Fund represents the average of total assets as reported in Form X to RBI under Section 27 of the Banking Regulation Act, 1949

For the purpose of this ratio, Operating profit is net profit for the year before provisions and contingencies

\$ For the purpose of computing the ratio, number of employees (excluding part-time employees) as on Balance Sheet Date is considered.

^ Business is sum of net advances and deposits as reported to the RBI under section 27 of the Banking Regulation Act, 1949. Interbank deposits are excluded for the purposes of computation of this ratio.

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9. Asset Liability Management

Maturity Pattern of certain items of assets and liabilities as at 31 March 2021:

Particulars	(₹ in Crore)											Total
	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & up to 2 months	More than 2 months and up to 3 months	Over 3 Months and up to 6 months	Over 6 Months and up to 1 year	Over 1 Year and up to 3 years	Over 3 Year and up to 5 years	Over 5 years	
Advances	27.17	163.01	190.18	434.70	552.79	552.79	1,457.97	2,020.37	2,255.26	414.97	98.38	8,167.59
Investments	10.00	-	-	24.93	-	8.17	-	-	-	202.12	1,686.85	1,932.07
Deposits	88.50	225.39	146.31	340.14	647.55	470.85	1,322.13	2,151.64	3,466.76	92.43	47.73	8,999.43
Borrowings	-	-	400.00	-	-	58.50	222.50	219.75	620.25	125.00	48.00	1,694.00
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-	-

Maturity Pattern of certain items of assets and liabilities as at 31 March 2020:

Particulars	(₹ in Crore)											Total
	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & up to 2 months	More than 2 months and up to 3 months	Over 3 Months and up to 6 months	Over 6 Months and up to 1 year	Over 1 Year and up to 3 years	Over 3 Year and up to 5 years	Over 5 years	
Advances	-	-	-	-	-	-	713.68	2,485.17	2,853.27	421.30	74.40	6,547.82
Investments	-	24.99	50.03	-	34.71	3.56	53.04	110.38	20.51	126.81	1,309.60	1,733.63
Deposits	10.37	97.29	117.86	161.84	289.60	310.58	1,035.78	1,978.73	2,996.09	9.08	21.15	7,028.38
Borrowings	0.03	-	-	-	0.03	58.53	137.59	213.15	598.75	107.25	88.00	1,203.32
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-	-

Also the liquid assets in the form of Reverse Repo for ₹ 1,190 crore as on 31 March 2021 with residual maturity upto one day (Previous Year: ₹ 310 Crore) were not included in the above disclosure

Classification of assets and liabilities under the maturity buckets is based on the same estimates and assumptions as used by the Bank for compiling the returns submitted to RBI, which has been relied upon by the auditors.

10. Lending to Sensitive Sectors

a. Exposure to Real Estate Sector:

Particulars	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Direct exposure		
i Residential Mortgages – Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; <i>of which individual Housing loans eligible for inclusion in priority sector advances</i>	124.45 97.05	78.87 56.66
ii Commercial Real Estate – Lending secured by mortgages on commercial real estate's (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure also includes non-fund based (NFB) limits	-	-

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		(₹ in Crore)	
Particulars	As at 31 March 2021	As at 31 March 2020	
iii Investments in Mortgage Backed Securities (MBS) and other securitized exposures			
- Residential	-	-	
- Commercial Real Estate	-	-	
Indirect Exposure			
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	-	-	
Total Exposure to Real Estate Sector	124.45	78.87	

b. Exposure to Capital Market

		(₹ in Crore)	
Particulars	As at 31 March 2021	As at 31 March 2020	
i Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	18.72	5.39	
ii Advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	-	-	
iii Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	-	-	
iv Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances;	-	-	
v Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	-	-	
vi Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	-	-	
vii Bridge loans to companies against expected equity flows / issues;	-	-	
viii Underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	-	-	
ix Financing to stockbrokers for margin trading;	-	-	
x All exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect)	-	-	
xi Others (Financial Guarantees)	-	-	
Total Exposure to Capital Market	18.72	5.39	

c. Risk category wise country exposure

The Bank does not have any country exposure other than "home country" exposures and accordingly, no provision is maintained with regard to country risk exposure.

d. Details of Single Borrower Limit (SBL)/ Group Borrower Limit

During the year ended 31 March 2021 and 31 March 2020, the Bank has not exceeded the prudential credit exposure limit as prescribed by the Reserve Bank of India in respect of Single Borrower and Group Borrower.

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e. Unsecured Advances

During the year ended 31 March 2021 and 31 March 2020, the Bank has not extended any advances where the collateral is an intangible asset such as a charge over rights, licenses, authorisations, etc.

11. Disclosure of penalties imposed by RBI

During the year ended 31 March 2021 and 31 March 2020, no penalty has been imposed by Reserve Bank of India on the Bank under the provision of Section 47 A read with section 46(4) of the Banking Regulation Act, 1949.

12. Provisions and Contingencies

Breakup of "Provisions and Contingencies" (including write-offs; net of write-backs) shown under the head Expenditure in Profit and Loss Account:

Particulars	(₹ in Crore)	
	Year ended 31 March 2021	Year ended 31 March 2020
Provision towards NPA / Write offs	188.74	49.15
Provision towards Standard Assets #	92.55	10.08
Provision towards Depreciation on Investments	(1.14)	1.83
Provision made towards income tax		
- Current Tax expense *	60.25	71.35
- Deferred Tax	(24.27)	(5.48)
Other Provision and Contingencies	(5.69)	7.39
Total Provisions and Contingencies	310.44	134.31

includes ₹ 40.40 Crore (Previous Year ₹ 4.41 Crore) provision against the potential impact of COVID -19 (Refer Note A. 7i of Schedule 18)

* Net off reversal of Provision for earlier years - ₹ 2 Crore (Previous Year : Nil)

Amount in bracket represents write backs

13. Floating Provisions

The bank does not have any floating provisions for the year ended 31 March 2021 and 31 March 2020.

14. Drawdown from Reserves

The Bank has not drawn down any amount from its opening reserves during the year ended 31 March 2021 and 31 March 2020.

15. Disclosure of Complaints

a. Customer Complaints

Sl. no.	Particulars	Year ended 31 March 2021	Year ended 31 March 2020
(a)	No. of complaints pending at the beginning of the Year	33	5
(b)	No. of complaints received during the Year	7,393	6,089
(c)	No. of complaints redressed during the Year	7,208	6,061
(d)	No. of complaints pending at the end of the Year	218	33

b. Awards passed by the Banking Ombudsman:

Sl. no.	Particulars	Year ended 31 March 2021	Year ended 31 March 2020
(a)	No. of unimplemented Awards at the beginning of the year	-	-
(b)	No. of Awards passed by the Banking Ombudsman during the year	-	-
(c)	No. of Awards implemented during the year	-	-
(d)	No. of unimplemented Awards at the end of the year	-	-

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c. Top five grounds of complaints received by the bank from customers

Year ended 31 March 2021

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
(1)	(2)	(3)	(4)	(5)	(6)
ATM Cards/ Debit Cards	23	5050	-2.13%	150	2
Internet banking/ Mobile Banking/ Electronic banking	10	2266	177%	68	0
Account opening/difficulty in operation of accounts	0	57	-8%	0	0
Loans and advances	0	16	-54.28%	0	0
Others	0	4	-75%	0	0
Total	33	7393	21.41%	218	2

Year ended 31 March 2020

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
(1)	(2)	(3)	(4)	(5)	(6)
ATM Cards/ Debit Cards	2.00	5160	4.64%	23.00	1.00
Internet banking/ Mobile Banking/ Electronic banking	3.00	816	871.42%	10.00	-
Account opening/difficulty in operation of accounts	-	62	19.23%	-	-
Loans and advances	-	35	600.00%	-	-
Levy of charges without prior notice/ excessive charges/foreclosure charges	-	3	200.00%	-	-
Others	-	13	550.00%	-	-
Total	5	6089	19.98%	33	1

The Bank has compiled the data for the purpose of this disclosure (from its internal MIS system and has been furnished by the management) which has been relied upon by the auditors.

d. Details of Shareholder Complaints

Sl. no.	Particulars	Year ended 31 March 2021	Year ended 31 March 2020
(a)	No. of complaints pending at the beginning of the Year	-	-
(b)	No. of complaints received during the Year	-	-
(c)	No. of complaints redressed during the Year	-	-
(d)	No. of complaints pending at the end of the Year	-	-

16. Disclosures of Letter of Comfort (LOC) issued by Bank

The Bank has not issued any LOC during the years ended 31 March 2021 and 31 March 2020.

17. Provisioning Coverage Ratio

The Provision Coverage Ratio (PCR) of the Bank is 52.77% as at 31 March 2021 (Previous Year: 79.93%).

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Forming Part of the Financial Statements for the year ended 31 March 2021

18. Bancassurance Business

(₹ in Crore)		
Particulars	Year ended 31 March 2021	Year ended 31 March 2020
Fees/remuneration received from Bancassurance business:		
- For selling life insurance policies	7.57	8.52
- For selling non-life insurance policies	1.18	0.32
- For selling pension products	0.09	0.08
Total	8.84	8.92

19. Concentration of deposits, advances, exposures and NPAs

a. Concentration of deposits:

(₹ in Crore)		
Particulars	Year ended 31 March 2021	Year ended 31 March 2020
Total deposits of twenty largest depositors	819.78	783.45
Percentage of deposits of twenty largest depositors to total deposits of the Bank	9.11%	11.15%

b. Concentration of advances:

(₹ in Crore)		
Particulars	Year ended 31 March 2021	Year ended 31 March 2020
Total advances to twenty largest borrowers	299.98	129.33
Percentage of advances to twenty largest borrowers to total advances of the bank	3.58%	1.97%

Note: Advance is computed as per the definition of Credit Exposure in RBI Master Circular on Exposure Norms DBOD. No. Dir. BC.12/13.03.00/2015-16 dated 1 July, 2015.

c. Concentration of exposures:

(₹ in Crore)		
Particulars	Year ended 31 March 2021	Year ended 31 March 2020
Total exposure to twenty largest borrowers/customers	299.98	154.75
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	3.58%	2.35%

Note: Exposure is computed as per the definition of Credit and Investment Exposure in RBI Master Circular on Exposure Norms DBOD. No. Dir. BC.12/13.03.00/ 2015-16 dated 1 July 2015.

The Bank has compiled the data for the purpose of disclosure in Note No. 19.a to 19.c from its internal MIS system and has been furnished by the management, which has been relied upon by the auditors.

d. Concentration of NPAs:

(₹ in Crore)		
Particulars	Year ended 31 March 2021	Year ended 31 March 2020
Total Exposure to top Four NPA Accounts	4.42	0.61
Total Exposure to top four NPA accounts to Gross NPA	0.78%	0.60%

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20. Sector-wise Advances

(₹ in Crore)

Sl. No	Sector	As at 31 March 2021		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
A	Priority Sector			
1	Agricultural and Allied Activities	3,748.53	254.65	6.79%
	Advances to Industries Sector eligible as			
2	Priority sector lending	447.44	105.16	23.50%
3	Services	465.80	121.96	26.18%
4	Personal Loans and others	665.97	63.71	9.57%
	Sub-Total (A)	5,327.74	545.48	10.24%
B	Non Priority Sector			
1	Agricultural and Allied Activities	-	-	-
2	Industry	500.00	-	-
3	Services	1,000.00	-	-
4	Personal loans and others	1,587.26	18.52	1.17%
	Sub-Total (B)	3,087.26	18.52	0.60%
	Total (A+B)	8,415.00	564.00	6.70%

(₹ in Crore)

Sl. No	Sector	As at 31 March 2020		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
A	Priority Sector			
1	Agricultural and Allied Activities	3,352.82	50.96	1.52%
	Advances to Industries Sector eligible as			
2	Priority sector lending	621.05	16.59	2.67%
3	Services	1,160.75	19.12	1.65%
4	Personal Loans and others	572.75	9.49	1.66%
	Sub-Total (A)	5,707.37	96.16	1.68%
B	Non Priority Sector			
1	Agricultural and Allied Activities	-	-	-
2	Industry	500.00	-	-
3	Services	-	-	-
4	Personal loans and others	399.14	4.70	1.18%
	Sub-Total (B)	899.14	4.70	0.52%
	Total (A+B)	6,606.51	100.86	1.53%

The Bank has compiled the data for the purpose of this disclosure (from its internal MIS system and has been furnished by the management) which has been relied upon by the auditors.

21. Movement of Technical / Prudential Written off Accounts:

(₹ in Crore)

Particulars	Year ended 31 March 2021	Year ended 31 March 2020
Opening balance of Technical/Prudential written-off accounts	109.20	89.37
Add: Technical/Prudential write-offs during the year	-	29.27
Sub-total (A)	109.20	118.64
Less: Reduction due to recovery made from previously technical/prudential written-off accounts during the year	2.87	9.44
Less: Reduction due to sale of NPAs to ARCs from previously technical/prudential written-off accounts during the year	-	-
Less: Sacrifice made from previously technical/prudential written-off accounts during the year	-	-
Sub-total (B)	2.87	9.44
Closing balance (A-B)	106.33	109.20

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22. Overseas Assets, NPAs and Revenue:

The Bank does not have any overseas Assets during the years ended 31 March 2021 and 31 March 2020

23. Off Balance Sheet SPVs sponsored

There are no Off-Balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms) during the year ended 31 March 2021 and 31 March 2020.

24. Disclosures on Remuneration

A. Qualitative Disclosures:

a) Information relating to the composition and mandate of the Remuneration Committee:

The Nomination, Remuneration and Compensation committee ("NRC") comprises of 5 directors, majority being independent directors of the Bank. Key mandate of the NRC is to oversee the overall design and operation of the compensation policy of the Bank, formalising criteria for appointment of Directors based on qualification, experience, track record and integrity.

b) Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy:

Objective of Banks' Compensation Policy is:

- To establish guidelines for the fair and equitable administration of salary and benefits in accordance with the policies of the Bank;
- To ensure effective governance of compensation and alignment of compensation practices with prudent risk taking;
- To have mechanisms in place for effective supervisory oversight and Board engagement in compensation. The remuneration process is aligned to the Bank's Compensation Policy objectives.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks:

In order to manage current and future risk and allow a fair amount of time to measure and review both quality and quantity of the delivered outcomes, the Bank has a policy to set apart a portion of the total compensation of senior and middle management as variable.

In addition, remuneration process provides for 'malus' and 'clawback' option to take care of any disciplinary issue or future drop in performance of individual/ business/ Bank.

d) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration:

All bonus (performance linked pay) pay-outs are capped at 70% of the fixed pay for top management and at 60% for the rest of the levels. The Head of Control functions will be evaluated independent of business results by the Chairman of the respective Board Committee and their compensation and rewards will be approved by the Board and NRC. The Bank will not have any guaranteed bonus as part of any contract with employees or any severance pay other than what is stipulated by Law; however, any bonus at the time of joining/ sign on bonus will be limited only to the first year and would need to be approved by the Board and NRC.

e) A discussion of the bank's policy on deferral and vesting of variable remuneration and a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting:

Nil

f) Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the bank utilizes and the rationale for using these different forms:

Variable remuneration in the form of Cash is paid at intervals ranging from Monthly, Quarterly and Annual.

The form of variable remuneration depends on the job level of individual, risk involved, the time horizon for review of quality and longevity of the assignments performed.

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Forming Part of the Financial Statements for the year ended 31 March 2021

B. Quantitative Disclosures

a) Number of meetings held by the Remuneration Committee and remuneration paid to its members.

During the year ended 31 March 2021 7 meetings of NRC was held (Previous Year - 8). Each Member of the Nomination and Remuneration committee is paid a sitting fee of ₹ 30,000 per meeting up to 30 November 2019. W.e.f 1 December 2019 sitting fee is increased to ₹ 40,000 per meeting.

b) Number of employees having received a variable remuneration awards.

Year ended 31 March 2021 - Four [Quantitative Disclosure is restricted to MD & CEO and 3 Executive Vice President (EVPs)]

Year ended 31 March 2020 - Four [Quantitative Disclosure is restricted to MD & CEO and 5 EVPs [1 EVP joined during the year and 1 EVP retired during the year]

c) Number and total amount of sign-on awards made

Not Applicable

d) Details of guaranteed bonus, if any, paid as joining / sign on bonus.

Not Applicable

e) Details of severance pay, in addition to accrued benefits, if any.

Nil (Previous Year: ₹ Nil)

f) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms

Nil *(Previous Year: ₹ Nil)

g) Total amount of deferred remuneration paid out in the financial year.

Nil * (Previous Year: ₹ Nil)

h) Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred. *

Total Fixed Salary Paid - ₹2.52 Crore (Previous Year : ₹ 2.32 Crore)

Variable Pay and Bonus Paid - ₹0.14 Crore (Previous Year : ₹ 0.24 Crore)

i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex- post explicit and / or implicit adjustments.

Nil (Previous Year: ₹ Nil)

j) Total amount of reductions during the financial year due to ex- post explicit adjustments.

Nil (Previous Year: ₹ Nil)

** In accordance with guidelines issued by Reserve Bank of India on compensation of Whole-time Directors/ Chief Executive Officers/ Material Risk Takers and control function staff dated 4 November 2020, Nomination and Remuneration committee of the Board and Board in its respective meetings held on 9 November 2020 and 10 November 2020 recommended the revised salary structure of MD & CEO and approval is sought from Reserve Bank of India. The approval is yet to be obtained.*

25. Disclosures relating to Securitization

The Bank has not undertaken any Securitised transaction during the Years ended 31 March 2021 and 31 March 2020 and no outstanding as on 31 March 2021. Hence the disclosure is not applicable to the Bank.

26. Credit Default Swaps

The Bank has not entered into any Credit Default Swap transactions during the Years ended 31 March 2021 and 31 March 2020.

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27. Intra Group Exposures

The Bank does not have any intra group exposures for the years ended 31 March 2021 and 31 March 2020. Exposure is computed as per RBI Master Circular on Exposure Norms DBOD. No. Dir.BC.12/13.03.00/ 2015-16 dated 1 July 2015.

28. Transfer to Depositor Education and Awareness Fund (DEAF)

Particulars	(₹ in Crore)	
	Year ended 31 March 2021	Year ended 31 March 2020
Opening balance of amounts transferred to DEAF	-	-
Add: Amounts transferred to DEAF during the year	-	-
Less: Amounts reimbursed by DEAF towards claim	-	-
Closing balance of amounts transferred to DEAF	-	-

29. Unhedged foreign currency exposure

The Bank does not have any unhedged foreign currency exposure as at 31 March 2021 and 31 March 2020

30. Priority sector lending certificates

The amount of PSLCs (Category wise) sold/ purchased

Sl No.	Type of PSLCs	(₹ in Crore)			
		Year ended 31 March 2021		Year ended 31 March 2020	
		Purchase	Sale	Purchase	Sale
1	PSLC- Agriculture	-	-	-	-
2	PSLC- SF/MF	-	-	-	-
3	PSLC- Micro enterprise	-	1,000.00	-	500.00
4	PSLC- General	-	1,000.00	-	-

31. Provisioning Pertaining to Fraud Accounts

The Bank has reported 10 cases (Previous Year : 23 Cases) of fraud for the year ended 31 March 2021 amounting to ₹ 0.05 Crore (Previous Year: ₹ 1.02 Crore). Amount involved in fraud net of recovery has been fully provided for in the books of account. Bank does not have any unamortised loss in this regard as at 31 March 2021 and 31 March 2020.

32. Inter-bank participation with risk sharing

The aggregate amount of participation issued by the Bank and reduced from advances as per regulatory guidelines as at 31 March 2021 is ₹ Nil (Previous Year: ₹ 200 Crore).

33. Disclosures relating to Flexible structuring, Strategic Debt Restructuring and Sustainable structuring of Stressed Assets (S4A)

The Bank does not have any Flexible structuring, Strategic Debt Restructuring and Sustainable structuring of Stressed Assets (S4A) during the Year ended 31 March 2021 and 31 March 2020. Hence the disclosures relating to the same is not applicable to the Bank.

34. Unamortised Pension and Gratuity Liabilities

There are no unamortised pension and gratuity liabilities as at 31 March 2021 and 31 March 2020.

35. Details of factoring exposure:

The factoring exposure of the Bank as at 31 March 2021 is Nil (Previous year: Nil).

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Forming Part of the Financial Statements for the year ended 31 March 2021

36. A. Liquidity Coverage Ratio

(₹ in Crore)

High Quality Liquid Assets	Q1 2020-21		Q2 2020-21		Q3 2020-21		Q4 2020-21	
	Total Unweighted Value (average)	Total weighted Value (average)	Total Unweighted Value (average)	Total weighted Value (average)	Total Unweighted Value (average)	Total weighted Value (average)	Total Unweighted Value (average)	Total weighted Value (average)
1 Total High Quality Liquid Assets (HQLA)	1,964.58	1,964.58	2,452.09	2,452.09	3,105.79	3,105.79	2,773.19	2,773.19
Cash Outflows								
2 Retail deposits and deposits from small business customers, of which:								
i Stable deposits	5,516.98	275.85	6,013.59	300.68	6,409.51	320.48	6,457.44	322.87
ii Less stable deposits	480.03	48.00	556.46	55.65	547.21	54.72	674.99	67.50
3 Unsecured wholesale funding, of which								
i Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
ii Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
iii Unsecured debt	1,006.60	899.26	1,202.15	1,075.55	1,282.04	1,141.64	1,385.17	1,253.78
4 Secured wholesale funding	0.03	0.03	4.20	4.20	0.03	0.03	0.01	0.01
5 Additional requirements, of which								
i Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
ii Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
iii liabilities from maturing ABCP, SIV's, SPV's etc. assignments	1.51	1.51	1.52	1.52	1.53	1.53	1.61	1.61
6 Currently undrawn committed credit and liquidity facilities	27.77	9.26	28.16	9.28	29.22	9.34	31.40	9.45
7 Other contractual funding obligations	127.02	127.02	149.19	149.19	174.57	174.57	241.38	241.38
8 Other contingent funding obligations	1.30	0.04	1.29	0.04	1.29	0.04	1.30	0.04
9 Total Cash Outflows	7,161.24	1,360.97	7,956.56	1,596.11	8,445.40	1,702.35	8,793.30	1,896.64
Cash Inflows								
10 Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
11 Inflows from fully performing exposures	-	-	265.24	132.62	498.54	249.27	528.86	264.43
12 Other cash inflows	49.53	49.53	404.55	404.55	8.34	8.34	8.33	8.33
13 Total Cash Inflows	49.53	49.53	669.79	537.17	506.88	257.61	537.19	272.76
14 Total HQLA (a)	1,964.58	1,964.58	2,452.09	2,452.09	3,105.79	3,105.79	2,773.19	2,773.19
15 Total Net Cash Outflows		1,311.44		1,058.94		1,444.74		1,623.88
16 25% of Total cash flow		340.24		399.03		425.59		474.16
17 Total Net Cash inflows [Higher of 14 or 15] (b)		1,311.44		1,058.94		1,444.74		1,623.88
18 Liquidity Coverage Ratio (%) (a/b)		149.80%		231.55%		214.97%		170.78%

Average of all Quarters is simple average of monthly observations for the Quarter

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(₹ in Crore)

High Quality Liquid Assets	Q1 2019-20		Q2 2019-20		Q3 2019-20		Q4 2019-20	
	Total Unweighted Value (average)	Total weighted Value (average)	Total Unweighted Value (average)	Total weighted Value (average)	Total Unweighted Value (average)	Total weighted Value (average)	Total Unweighted Value (average)	Total weighted Value (average)
1 Total High Quality Liquid Assets (HQLA)	907.93	907.93	1,102.04	1,102.04	1,321.33	1,321.33	1,444.19	1,444.19
Cash Outflows								
2 Retail deposits and deposits from small business customers, of which:								
i Stable deposits	3,528.20	176.41	4,252.09	212.60	4,693.64	234.68	5,143.97	257.20
ii Less stable deposits	100.55	10.05	140.64	14.06	234.61	23.46	265.05	26.51
3 Unsecured wholesale funding, of which								
i Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
ii Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
iii Unsecured debt	483.03	309.44	642.87	449.87	853.30	627.92	1,029.16	764.27
4 Secured wholesale funding	44.29	44.29	11.66	11.66	19.76	19.76	2.85	2.85
5 Additional requirements, of which								
i Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
ii Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
iii liabilities from maturing ABCP, SIV's, SPV's etc. assignments	22.24	22.24	6.59	6.59	1.61	1.61	1.67	1.67
6 Other contractual funding obligations	132.71	132.71	174.54	174.54	146.82	146.82	103.89	93.54
7 Other contingent funding obligations	-	-	3.38	0.10	1.64	0.05	1.30	0.04
8 Total Cash Outflows	4,311.02	695.14	5,231.77	869.42	5,951.38	1,054.30	6,547.89	1,146.08
Cash Inflows								
9 Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
10 Inflows from fully performing exposures	594.08	297.04	639.67	319.84	689.86	344.93	476.34	238.17
11 Other cash inflows	310.02	310.02	333.94	333.94	101.94	101.94	87.38	87.38
12 Total Cash Inflows	904.10	607.06	973.61	653.78	791.80	446.87	563.72	325.55
13 Total HQLA (a)	907.93	907.93	1,102.04	1,102.04	1,321.33	1,321.33	1,444.19	1,444.19
14 Total Net Cash Outflows		88.08		215.64		607.43		820.53
15 25% of Total cash flow (b)		173.79		217.36		263.58		286.52
16 Total Net Cash inflows [Higher of 14 or 15] (b)		173.79		217.36		607.43		820.53
17 Liquidity Coverage Ratio (%) (a/b)		522.44%		507.01%		217.53%		176.01%

Average of all Quarters is simple average of monthly observations for the Quarter

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Forming Part of the Financial Statements for the year ended 31 March 2021

B. Qualitative disclosure around LCR

The Reserve Bank of India has prescribed monitoring of sufficiency of Bank's liquid assets using Basel III – Liquidity Coverage Ratio (LCR). The LCR is aimed at measuring and promoting short-term resilience of Banks to potential liquidity disruptions by ensuring maintenance of sufficient high quality liquid assets (HQLAs) to survive an acute stress scenario lasting for 30 days. High Ratio signifies Bank has enough liquid assets which it can use to fulfil its liquidity obligations in acute stress scenario.

The LCR requirement has been introduced in a phased manner with banks required to maintain minimum LCR of 60% till 31 December 2017 and the 70% from January 2018 onwards. The requirement will be increasing by 10% annually to 100% by 31 January 2021. LCR requirement is currently at 90% effective January 2019. However on account of COVID Outbreak and in terms of RBI Circular DOR.BP.BC.No.65/21.04.098/2019-20 dated 17 April 2020, banks are permitted to maintain 80% from the date of circular to 30 September 2020, 90% from 1 October 2020 to 31 March 2021 and 100% from 1 April 2021.

The ratio comprises of high quality liquid assets (HQLAs) as numerator and net cash outflows in 30 days as denominator. HQLA has been divided into two parts i.e. Level 1 HQLA which comprises of primarily cash, excess CRR, SLR securities in excess of minimum SLR requirement and a portion of mandatory SLR as permitted by RBI (under MSF) and Level 2 HQLA which comprises of investments in highly rated non-financial corporate bonds and listed equity investments considered at prescribed haircuts. Cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities by the outflow run-off rates and cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in.

The Bank has implemented the LCR and has maintained LCR well above the regulatory threshold. As on 31 March 2021, the average LCR stood at 170.78% (Previous year :176.01%)

Asset Liability Committee (ALCO) of the Bank is the primary governing body for Liquidity Risk Management, Risk Management Department (RMD), Finance and Treasury. Treasury is the central repository of funds within the Bank and is vested with the responsibility of managing liquidity risk within the risk appetite of the Bank. Bank has incorporated Basel Liquidity Standards - LCR for liquidity risk.

In computing the above information, certain estimates and assumptions have been made by the Bank's Management which have been relied upon by the auditors.

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B. OTHER DISCLOSURES:

1. Earnings per Equity Share:

Particulars	(₹ in Crore)	
	Year ended 31 March 2021	Year ended 31 March 2020
Net Profit attributable to equity Share holders (₹ in Crore)	105.40	190.39
Weighted average number of equity shares used in computation of basic and diluted earnings per share	42,78,54,883	42,77,95,490
Nominal value per share	10.00	10.00
Basic and diluted earnings per share	2.46	4.45

2. Segment Reporting:

Part A- Business Segments

The business of the Bank has been segregated into four Segments as per RBI guidelines : Treasury, Wholesale Banking, Retail Banking and Other Banking Operations:

Segment Revenue	As at 31 March 2021				
	Treasury	Wholesale Banking	Retail Banking	Other Banking Operations	Total
Segment Revenue	191.39	16.76	1,537.21	21.92	1,767.28
Segment Results	1.39	5.97	115.04	18.98	141.38
Income Tax Expenses					35.98
Net Profit					105.40
Segment Assets	3,664.06	258.84	8,182.44	-	12,105.34
Unallocated Assets					233.31
Total Assets					12,338.65
Segment Liabilities	2,488.91	1.03	8,352.15	-	10,842.11
Unallocated Liabilities					144.48
Share Capital and Reserves and Surplus					1,352.06
Total Liabilities					12,338.65

Segment Revenue	As at 31 March 2020				
	Treasury	Wholesale Banking	Retail Banking	Other Banking Operations	Total
Segment Revenue	181.61	8.34	1,338.88	17.60	1,546.43
Segment Results	13.76	2.76	224.58	15.16	256.26
Income Tax Expenses					65.87
Net Profit					190.39
Segment Assets	2,598.30	106.48	6,623.61	-	9,328.39
Unallocated Assets					141.58
Total Assets					9,469.97
Segment Liabilities	1,490.18	0.43	6,792.67	-	8,283.28
Unallocated Liabilities					102.61
Share Capital and Reserves and Surplus					1,084.08
Total Liabilities					9,469.97

Segmental information is provided as per the MIS/reports available for internal reporting purposes, which includes certain estimates and assumptions.

The methodology adopted in compiling and reporting the above information has been relied upon by the auditors.

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Forming Part of the Financial Statements for the year ended 31 March 2021

Part B - Geographical Segments

The business of the Bank is in India only. Accordingly, geographical segment is not applicable.

3. Lease Disclosures:

The Bank has taken on rent on premises for periods ranging from 11 months to 120 months. The lease payments recognised in the profit and loss account is ₹35.06 Crore (Previous Year - ₹ 28.32 crore).

The future minimum lease payments under non cancellable operating leases is given below

Particulars	(₹ in Crore)	
	Year ended 31 March 2021	Year ended 31 March 2020
not later than one year	36.61	29.36
later than one year but not later than five years	173.13	124.15
later than five years	77.25	97.71

The terms of renewal and escalation clauses are those normally prevalent in similar agreements. There are no undue restrictions or onerous clauses in the agreements.

4. Deferred Taxes:

Particulars	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Deferred Tax Asset		
Provision for Employee Benefits	2.16	1.53
Provision for Standard assets	28.59	5.30
Fixed Assets : on differences between book balances and tax balance of fixed asset	2.30	1.02
Other Provisions	2.58	3.51
Deferred Tax Asset	35.63	11.36

5. Credit card reward points:

The Bank does not have credit card products. Hence reward points are not applicable.

6. Fixed Assets as per Schedule 10 include intangible assets relating to purchased software and system development expenditure which are as follows:

Particulars	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Gross Block		
At cost on 31st March of the preceding year	15.12	12.63
Additions during the year	5.70	2.49
Deductions during the year	-	-
Total	20.82	15.12
Depreciation / Amortization		
As at 31st March of the preceding year	9.05	5.90
Charge for the year	3.56	3.15
Deductions during the year	-	-
Depreciation to date	12.61	9.05
Net Block	8.21	6.07

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7. Related Party Disclosures:

(₹ in Crore)

Related Party #	Nature of Relationship
ESAF Financial Holdings Private Limited ("erstwhile ESAF Microfinance and Investments Private Ltd.") ("EFHL")	Significant Investor *
Cedar Retail Private Limited ("erstwhile ESAF Retail Private Ltd.") ("CEDAR Retail")	Entities in which Key Managerial Person (KMP) is a member (shareholder)
Lahanti Homes and Infrastructure (P) Ltd. [Erstwhile ESAF Homes and Infrastructure Private Ltd] ("Lahanti Homes")	Entities in which KMP is a member (shareholder)
ESAF Swasraya Producers Company Ltd. ("ESAF Producer Company")	Entities in which KMP is a member (shareholder)
K. Paul Thomas	Key Managerial Person (MD&CEO)
Mereena Paul	Relative of KMP
Emy Acha Paul	Relative of KMP
Alok Paul Thomas	Relative of KMP
Abhishek Joe Paul	Relative of KMP
Ashish Krish Paul	Relative of KMP
Beena George	Relative of KMP
ESAF Swasraya Multi State Agro Co operative Society Ltd. ("ESCO") ^	Enterprises over which KMP has significant influence through relative (Upto 13 March 2021)
Lahanti Last Mile Service Limited ("LLMS") ^	Entities over which KMP has significant influence through relative (Upto 15 March 2021)
Evangelical Social Action Forum ("ESAF Society")	Enterprises over which KMP has significant influence
Prachodhan Development services ("Prachodhan")	Enterprises over which KMP has significant influence through relative

Related parties are identified as per Accounting Standard 18 - Related Party Disclosures specified under Section 133 of the Companies Act, 2013 read with the Companies (Accounts) Rules, 2014.

*EFHL holds 62.46% (Previous Year: 65.63%) of the equity share capital of the Bank. However, since the voting rights of any investor in Banks are restricted to 26% pursuant to the provisions of RBI guidelines, EFHL has been considered as Significant Investor.

^ During the current year effective from 13 March 2021 Ms Mereena Paul and Mr Alok Thomas Paul (Relatives of MD CEO) have resigned as Directors of ESAF Swasraya Multi State Agro Cooperative Society Ltd (ESCO) Further effective from 24 January 2021 Ms Emy Acha Paul and Mr Sunny Thomas (Relatives of MD CEO) have relinquished the Directorships as well shareholding in Lahanti Lastmile Services Private Limited (LLMS) and Mr Samu John (Relative of MD CEO) has resigned as director of LLMS on 15 March 2021 Resulting from the above both ESCO and LLMS ceases to be related parties effective from 13 March 2021 and 15 March 2021 respectively. However, the normal business transactions with the said related parties is disclosed for the full financial year. Since the relationship does not exist as on the Balance sheet, Closing balances of the said related parties are not disclosed.

Transactions during the year with the Related Party

(₹ in Crore)

Nature of Transaction	Related Party	Year ended 31 March 2021	Year ended 31 March 2020
Liabilities			
Term Deposit placed	ESCO	9.00	45.20
	ESAF Society	-	0.50
	LLMS	2.20	2.60
	K. Paul Thomas	0.40	0.25
	Emy Acha Paul	-	0.07
	Beena George	0.01	0.03
	Cedar Retail	8.00	8.55
Term Deposit Matured	EFHL	-	-

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		(₹ in Crore)	
Nature of Transaction	Related Party	Year ended 31 March 2021	Year ended 31 March 2020
	Cedar Retail	11.75	7.10
	ESCO	-	41.60
	Beena George	0.02	*
	LLMS	0.50	0.10
Transactions in Demand Deposit [Net]	ESCO	0.10	(0.65)
	Cedar Retail	(1.01)	(3.20)
	ESAF Society	(0.09)	0.12
	EFHL	(1.26)	1.29
	LLMS	2.26	(2.04)
	Lahanti Homes	0.19	-
	Prachodan	0.04	-
Transactions in Savings Deposit (Net)	K. Paul Thomas	(0.37)	*
	Mereena Paul	(0.17)	0.17
	ESCO	(13.03)	(60.37)
	Emy Acha Paul	0.01	*
	Alok Paul Thomas	*	*
	ESAF Society	0.85	0.54
	Prachodhan	0.98	-
	Abhishek Joe Paul	*	-
	Ashish Krish Paul	*	-
	Beena George	0.02	0.01
	ESAF Producer Company	0.02	-
Interest accrued and due on Deposits	ESCO	2.75	4.60
	Cedar Retail	0.05	0.25
	EFHL	5.21	5.23
	ESAF Society	0.32	0.31
	LLMS	0.24	0.07
	K. Paul Thomas	0.07	0.04
	Mareena Paul	0.01	0.01
	Emy Acha Paul	0.01	*
	Alok Paul Thomas	*	*
	Abhishek Joe Paul	*	-
	Ashish Krish Paul	*	-
	Beena George	*	*
	Prachodan	0.06	-
Interest Accrued & Payable on PDI	ESCO	6.24	6.24
Interest Accrued & Payable on Sub Debt	ESCO	9.54	9.58
Issue of Equity Shares	Mareena Paul	0.03	-
	Emy Acha Paul	0.01	-
	Alok Paul Thomas	0.01	-
	Beena George	0.04	-
Share premium	Mareena Paul	0.22	-
	Emy Acha Paul	0.09	-
	Alok Paul Thomas	0.09	-
	Beena George	0.26	-
Collections as per Agency agreement	Cedar Retail	-	0.01
Payment of Collections as per Agency agreement	Cedar Retail	-	-

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Forming Part of the Financial Statements for the year ended 31 March 2021

		(₹ in Crore)	
Nature of Transaction	Related Party	Year ended 31 March 2021	Year ended 31 March 2020
Contingent Liability			
Bank Guarantee Given		-	0.50
Assets			
Advances	EFHL	1.10	4.44
	Cedar Retail	-	1.68
	Beena George	0.14	0.75
Advances repaid	Cedar Retail	1.03	0.68
	Beena George	0.62	0.05
Rent Deposit Repaid	Paul Thomas	0.07	-
Expenses			
Rent paid	Lahanti Homes	2.10	2.10
	ESAF Society	0.02	0.02
	K Paul Thomas	-	0.15
Interest paid on deposits	ESCO	2.75	4.60
	Cedar Retail	0.05	0.25
	EFHL	5.21	5.23
	ESAF Society	0.32	0.31
	LLMS	0.24	0.07
	K. Paul Thomas	0.07	0.04
	Mareena Paul	0.01	0.01
	Emy Acha Paul	0.01	*
	Alok Paul Thomas	*	*
	Abhishek Joe Paul	*	-
	Ashish Krish Paul	*	-
	Beena George	*	*
	Prachodan	0.06	-
Interest paid on PDI	ESCO	6.24	6.24
Interest paid on Subordinated Debt	ESCO	9.54	9.58
Office stationery	Cedar Retail	-	0.02
Gifts & Conference kit	ESAF Producer Company	-	*
BC Servicer Fee	ESCO	195.03	241.54
	LLMS	18.47	20.48
Corporate Facility Management service charges	ESCO	12.46	9.77
Remuneration and Sitting Fees	K. Paul Thomas	1.41	1.32
Reimbursement of expenses	K. Paul Thomas	0.12	-
Contribution towards Corporate Responsibility expense	ESAF Society	3.26	2.27
	Prachodan	3.90	0.62
Royalty Expense	ESAF Society	2.68	-
Income			
Interest received on Advances	Cedar Retail	*	0.01
	Beena George	0.06	0.02
	EFHL	1.44	0.73

Figures in brackets indicate net outflow

* Amounts are below the rounding off limits adopted by the Bank

The remuneration to KMP does not include the provisions made for gratuity and leave benefits, as they are determined on an actuarial basis for the Bank as a whole.

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

Balance outstanding as at :

Items/Related Party	Significant Investor		KMP and Enterprises over which KMP/Relative of KMP have control / significant influence	
	As at 31 March 2021	As at 31 March 2020	As at 31 March 2021	As at 31 March 2020
Liabilities				
Term Deposits	35.26	35.26	2.05	11.53
Demand Deposit (including Savings Deposits)	0.45	0.42	5.91	58.68
Equity Shares (including Securities Premium)	283.90	283.90	31.94	117.23
Borrowings	-	-	-	133.00
Other Liabilities	-	-	2.76	28.95
Contingent Liability				
Bank Guarantee	-	-	-	1.09
Assets				
Advances	9.04	7.94	-	1.73
Others	0.23	-	-	1.59

Maximum Balance outstanding during the year

Items/Related Party	Significant Investor		KMP and Enterprises over which KMP/Relative of KMP have control / significant influence	
	Year ended 31 March 2021	Year ended 31 March 2020	Year ended 31 March 2021	Year ended 31 March 2020
Liabilities				
Term Deposits	35.26	35.70	2.06	60.13
Demand Deposit (including Savings Deposits)	4.45	4.13	8.32	129.83
Equity Shares (including Securities Premium)	283.90	283.90	31.94	117.23
Borrowings	-	-	-	133.00
Assets				
Advances	9.04	7.94	2.42	2.42

8. Employee Share Based Payments

The Bank has not made any share based payments for the years ended 31 March 2021 and 31 March 2020.

9. Advances securitized by the Bank:

Particulars	(₹ in Crore)	
	Year ended 31 March 2021	Year ended 31 March 2020
Book value of advances securitized	-	656.01
Number of accounts	-	3,95,389.00
Sale consideration received for the accounts securitized	-	656.01
Interest spread on securitisation during the year	-	8.63
Credit enhancement, liquidity support provided	-	57.69
Provision on securitized assets	-	-
Number of accounts as on date	-	-
Outstanding as on date	-	-
Nature of post securitization support	-	-

The Bank has compiled the data for the purpose of this disclosure (from its internal MIS system and has been furnished by the management) which has been relied upon by the auditors.

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

10. Employee Benefits

- i. The Bank has recognized the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds:

Particulars	(₹ in Crore)	
	Year ended 31 March 2021	Year ended 31 March 2020
Provident Fund	7.08	5.95

ii. Gratuity

The gratuity plan provides a lump sum payment to vested employees at retirement or on termination of employment based on respective employee's salary and years of employment with the Bank subject to maximum of ₹0.20 Crore.

Reconciliation of opening and closing balance of present value of defined benefit obligation for gratuity benefits is given below.

Reconciliation of Defined Benefit Obligation (DBO)

Particulars	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Present value of DBO at start of Year	5.69	3.54
Current Service Cost	3.23	2.03
Interest Cost	0.37	0.26
Benefits Paid	(0.19)	(0.07)
Past Service Cost	-	-
Actuarial (Gain)/Loss	(0.68)	(0.07)
Present value of DBO at end of Year	8.42	5.69

Reconciliation of Fair Value of Plan Assets

Particulars	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Fair value of Plan assets at start of Year	4.19	1.30
Contributions by employer	1.50	2.86
Benefits Paid	(0.19)	(0.07)
Expected return on plan assets	0.32	0.20
Actuarial Gain/(Loss)	0.01	(0.10)
Fair value of Plan assets at end of year	5.83	4.19
Actual Return on plan assets	0.32	0.10
Expected Employer Contributions for the coming year	2.50	1.50

Expense recognized in the Profit and Loss account

Particulars	(₹ in Crore)	
	Year ended 31 March 2021	Year ended 31 March 2020
Current Service Cost	3.23	2.03
Interest Cost	0.37	0.26
Past Service Cost	-	-
Expected return on plan assets	(0.32)	(0.20)
Actuarial (Gain)/Loss	(0.69)	0.03
Employer Expense/(Income)	2.59	2.12

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

Net Liability/(Asset) recognized in the Balance Sheet

(₹ in Crore)

Particulars	As at 31 March 2021	As at 31 March 2020
Present value of DBO	8.42	5.69
Fair value of plan assets	5.83	4.19
Net liability/(Asset)	2.59	1.50
Less: Unrecognized Past Service Cost	-	-
Liability/(Asset) recognized in the Balance sheet	2.59	1.50

Category of Plan Assets

Particulars	As at 31 March 2021	As at 31 March 2020
Insurer managed fund	99.90%	99.50%
Bank Balance	0.10%	0.50%

Actuarial assumptions used

Particulars	As at 31 March 2021	As at 31 March 2020
Salary Growth Rate	7.5% p.a	7.5% p.a
Discount Rate	5.50% p.a	6.4% p.a
Withdrawal/Attrition Rate	20% p.a	10% p.a
Expected return on plan assets	6.40% p.a.	7.2% p.a
Mortality Rate	IALM 2012-14 (Ult)	IALM 2012-14 (Ult)
Expected average remaining working lives of employees	4 Years	7 years

Experience adjustments

(₹ in Crore)

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019	As at 31 March 2018	As at 31 March 2017
Defined benefit obligation	8.42	5.69	3.54	2.06	1.24
Fair value of Plan assets	5.83	4.19	1.30	1.25	-
Surplus / (Deficit)	2.59	1.50	(2.24)	(0.81)	(1.24)
Experience adjustment on plan liabilities : (gain)/loss	0.68	(0.42)	(0.21)	(0.20)	-
Experience adjustment on plan assets : gain/(loss)	(0.03)	(0.11)	*	-	-

* Amounts are below the rounding off limits adopted by the bank

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

iii. Leave Encashment

The employees of the Bank are entitled to compensated absence. The employees can carry forward a portion of the unutilized accrued compensated absence and utilize it in future periods or receive cash compensation at retirement or termination of employment for the unutilized accrued compensated absence for a maximum of 30 days. The Bank records an obligation for compensated absences in the period in which the employee renders the services that increase this entitlement. The Bank measures the expected cost of compensated absence as the additional amount that the Bank expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date based on actuarial valuations.

The Actuarial liability of compensated absences of the employees is given below:

Assumptions	(₹ in Crore)	
	As at 31 March 2021	As at 31 March 2020
Privilege leave	30 days	30 days
Sick leave	30 days	30 days
Discount rate (Privilege/ Sick leave)	5.50%	6.40%
Salary escalation rate (Privilege/ Sick leave)	7.50%	7.50%
Attrition Rate (Privilege/ Sick leave)	20%	10%
Actuarial liability - Privilege leave	3.79	2.49
Charged in Profit and Loss account - Privilege Leave	1.30	0.98
Actuarial liability - Sick Leave	2.32	2.19
Charged in Profit and Loss account - Sick leave	0.13	1.23

The discount rate is based on the prevailing market yields of Government of India securities as at the Balance Sheet date for the estimated term of the obligations.

The estimate of future salary increases, takes into account the inflation, seniority, promotion, increments and other relevant factors. The above information is as certified by the actuary and relied upon by the auditors.

11. Corporate Social Responsibility (CSR)

Other expenditure under Operating expenses include ₹7.16 Crore (Previous Year ₹ 2.89 Crore) for the year ended 31 March 2021 towards corporate Social Responsibility (CSR) in accordance with the Companies Act, 2013

Gross Amount required to be spent ₹ 2.86 Crore (Previous Year- ₹ 1.15 Crore)

Details of amount Spent during the year towards CSR are as under

For the year ended 31 March 2021

Particulars	(₹ in Crore)		
	Paid	Yet to be paid	Total *
i) Construction/ Acquisition of any assets	-	-	-
ii) For purpose other than (i) above	4.39	2.77	7.16

* The Bank has paid ₹ 4.39 Crore to the implementing agencies who have actually spent ₹ 3.10 Crore as on 31 March 2021.

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Forming Part of the Financial Statements for the year ended 31 March 2021

For the year ended 31 March 2020

Particulars	(₹ in Crore)		
	Paid	Yet to be paid	Total *
i) Construction/ Acquisition of any assets	-	-	-
ii) For purpose other than (i) above	2.89	-	2.89

* The Bank has paid ₹ 2.89 Crore to the implementing agencies who have actually spent ₹ 1.19 Crore as on 31 March 2020 and balance amount spent during Financial Year 2020-21.

Refer Note B.7 of Schedule 18 for the related parties involved in activities relating to Corporate Social Responsibility

12. Subordinated Debt

- The Bank has an outstanding subordinated debt of ₹ 190 Crore (Previous Year : ₹190 Crore). Out of the above, ₹65 Crore has been taken over by the Bank as per the Business Transfer Agreement (BTA) entered into with ESAF Financial Holdings Private Limited ("erstwhile ESAF Microfinance and Investments Private Ltd."), This has been considered as part of Tier 2 Capital for capital adequacy computation after subjecting to discounting in accordance with RBI guidelines.
- Interest Expended-Others includes interest of ₹ 24.52 Crore (Previous year : ₹ 24.63 Crore) on Subordinated Debt

13. Details of payments of audit fees (Exclusive of Goods and Service Tax)

Particulars	(₹ in Crore)	
	Year ended 31 March 2021	Year ended 31 March 2020
Statutory Audit fees	0.35	0.45
Other Attestation work	0.05	0.10
Other Certification	0.21	0.18*
Certification fees relating to IPO	0.40	0.67
Out of pocket expenses	0.02	0.04
Total	1.03	1.44

* on estimated basis.

14. Description of Contingent Liabilities:

The Bank has contingent liability of ₹ 0.20 Crore (Previous year: ₹0.20 Crore) for securitization transactions and guarantee given to Pension Fund Regulatory Development Authority (PFRDA) and ₹ 1.30 Crore (Previous Year: ₹ 1.30 Crore) with respect to guarantees given on behalf of constituents in India.

- The Bank has a process whereby periodically all long term contracts are assessed for material foreseeable losses. As on 31 March 2021 and 31 March 2020, the Bank has reviewed and recorded adequate provision as required under any law /accounting standards for material foreseeable losses on such long term contracts in the books of account and disclosed the same under the relevant notes in the financial statements
- The Bank has received few intimations from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006. Based on the information received and available with the Bank, there are no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments during the years ended 31 March 2021 and 31 March 2020. Further, there are no outstanding against those suppliers as on 31 March 2021 and 31 March 2020. The above is based on information available with the Bank and relied upon by the Auditors.

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

17. IPO Expenses

As on 31 March 2021, the Bank has incurred expenses in connection with ongoing Initial Public Offer (IPO), which include payments made to Merchant Bankers, Legal Counsel, Statutory Auditors and other incidental expenses amounting to ₹7.03 Crore (Previous Year : ₹ 5.45 Crore). In accordance with the accounting policy approved by the Board, the provisions of the Companies Act, 2013 and Banking Regulation Act, 1949 the Share Issue Expenses are eligible to be drawn from share premium account. As the process of IPO is still in progress the said expenses are included under "others" in other assets (Schedule 11 [vii]) of the balance sheet.

18. Previous Year's figures

- a. The figures for the year ended 31 March 2020 were audited by the previous Statutory Auditors.
- b. Previous year figures have been regrouped/reclassified wherever necessary to correspond with the current year's classification/disclosure.

For and on behalf of the Board of Directors

Sd/-
P R Ravi Mohan
Chairman
DIN:08534931

Sd/-
Kadambelil Paul Thomas
Managing Director & CEO
DIN: 00199925

Sd/-
Asha Morley
Director
DIN: 02012799

Sd/-
Gireesh C P
Chief Financial Officer
Place : Mannuthy
Date : 26 May 2021

Sd/-
Ranjith Raj P
Company Secretary

Route Map to the venue



Land Mark: College of Veterinary & Animal Sciences, Mannuthy



ESAF Small Finance Bank Limited

CIN: U65990KL2016PLC045669

Registered Office and Corporate Office Address: Building No. VII/83/8, ESAF Bhavan, Mannuthy,
Thrissur - Palakkad National Highway, Thrissur, Kerala, Pin - 680 651

ATTENDANCE SLIP

CIN	U65990KL2016PLC045669
Name of the Company	ESAF Small Finance Bank Limited
Registered Office Address	Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651

Client ID/ Regd. Folio No.	No. of Shares Held	Name & Address of the Registered Shareholders

I, being the registered Shareholder/ Proxy for the registered Shareholder of the Bank hereby record my presence at the Annual Ordinary General Meeting of the Bank held on Wednesday, September 29, 2021 at the Registered and Corporate Office of the Bank at Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651 at 12.30 PM and at any adjournment(s) thereof.

Signature of Shareholder/ Proxy

Form MGT – 11

PROXY FORM

(Pursuant to Section 105(6) of the Companies Act, 2013 and Rule 19(3) of the Companies (Management and Administration Rules, 2014)

CIN	U65990KL2016PLC045669
Name of the Company	ESAF Small Finance Bank Limited
Registered Office Address	Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651
Name of the Member(s)	
Registered Address	
E-mail Id	
Folio No.	
Phone No.	

I/ We, being the member(s) of . shares of the above named Company, hereby appoint:

1. Name :
Address :
E-mail Id :
Signature : , or failing him
2. Name :
Address :
E-mail Id :
Signature : , or failing him
3. Name :
Address :
E-mail Id :
Signature :

as my/ our proxy to attend and vote (on a poll) for me/ us and on my/ our behalf at the Annual General Meeting of the Bank, to be held on Wednesday, September 29, 2021 at the Registered and Corporate Office at the Bank at Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651 at 12.30 PM and at any adjournment thereof in respect of such resolutions as are indicated below:

- 1.
- 2.
- 3.
- 4.
- 5.

Signed this day of , 2021

Signature of Shareholder :

Signature of Proxy holder(s) :

Affix
Revenue
Stamp

Note: This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Bank, not less than 48 hours before the commencement of the Meeting.

Notes

[illegible]

Notes

[illegible]



www.esafbank.com

