

# Creating Value

the sustainable way



# Our Stories Inside

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## Quantitative Performance

**₹ 7,028.38 cr**  
Deposits

**₹ 960.28 cr**  
CASA

**₹ 9,469.97 cr**  
Total Assets

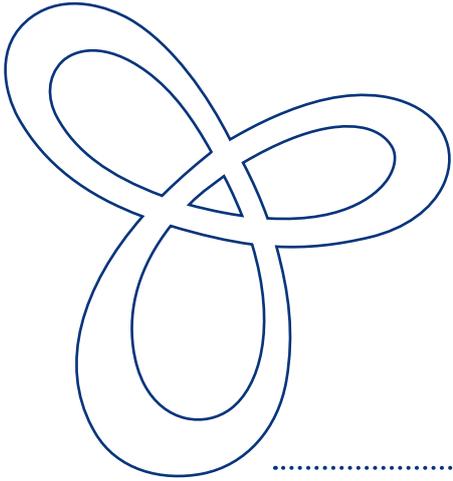
**₹ 6,606.51 cr**  
Gross Advances

**0.64%**  
Net NPA Ratio

**64.91%**  
Cost to Income Ratio



To view this report online,  
Please visit: [www.esafbank.com](http://www.esafbank.com)



# Creating Value

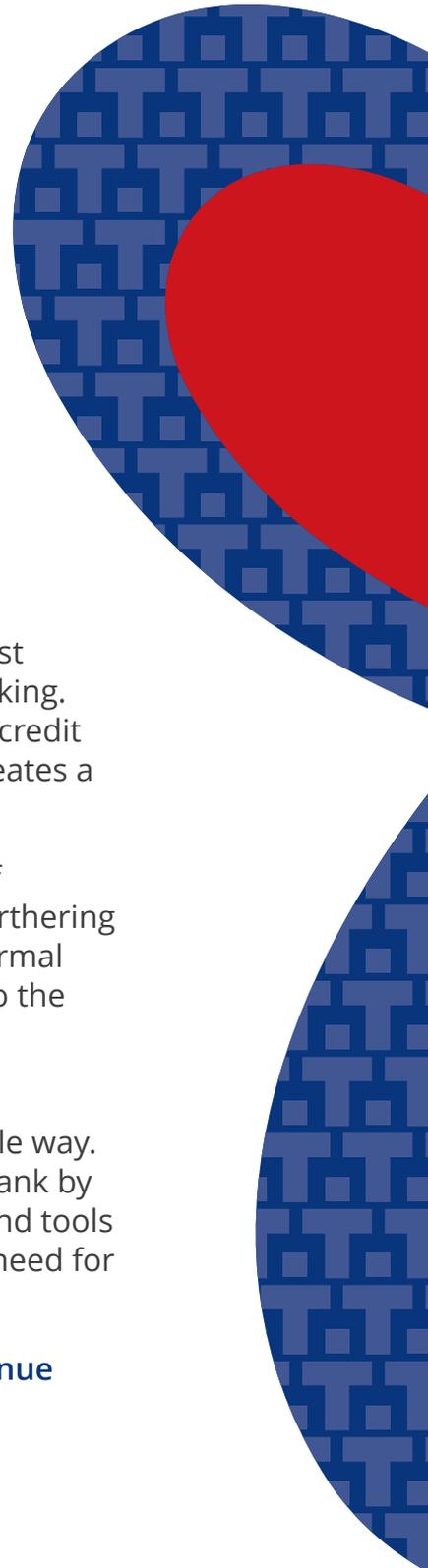
## the sustainable way

ESAF Small Finance Bank is committed to serving the unserved and underserved segments of the society, including those in the remotest corners of India, and give them their rightful access to last-mile banking. By providing financial access to customers, many of whom have no credit history, we emerge as a Bank that enables economic growth and creates a positive social impact.

We are, therefore, the key enablers in broadening and deepening of financial services till the bottom of the pyramid. With this, we are furthering the financial inclusion agenda and bringing more people into the formal banking channel, infusing sustainability in their lives, and thereby, to the business as a whole.

By synergising a Triple Bottom Line approach (People, Planet and Prosperity), we create value for all our stakeholders – in a sustainable way. Every single day, we work towards becoming India's leading social bank by providing financial inclusion, responsible and supportive banking, and tools for economic development to those whose upliftment is an urgent need for the whole country.

**With a focus on the underserved sections of the society, we continue  
Fighting the Partiality of Prosperity.**

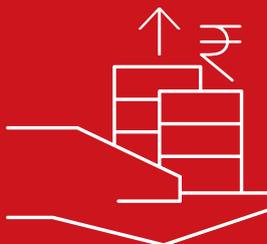


# Solid Foundation, Strong Vintage.



## Rich Legacy of more than a Quarter of a Century

Along with our promoters, we have a history of more than 25 years of primarily serving the unserved and underserved, with a focus on financial inclusion. Today, we are one of the leading Small Finance Banks in India, in terms of yield on advances, AUM growth rate and share of retail deposits. We are the 5<sup>th</sup> Scheduled Commercial Bank headquartered in Kerala and the first private bank to have received a banking licence in the State since independence.



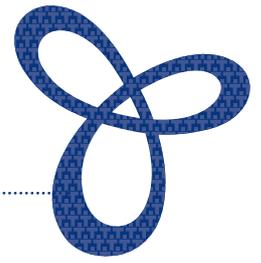
## Driving Financial Inclusion

Our goal is to become one of India's leading banks in the microfinance sector that offers equal opportunities through universal financial access and inclusion and livelihood and economic development. We remain focussed on providing Savings and Credit solutions and a plethora of banking services to our customers, making a meaningful contribution in the lives and communities through our infrastructure, products, services, and execution of doorstep delivery of services.



## Delivering a Comprehensive Product Suite

Our Banking Outlets provide a full range of banking services including Savings and Current Accounts, Fixed Deposits, Recurring Deposits, Micro-Finance Loans, Retail Loans, and also Insurance Products. As at March 31, 2020, we operate in 17 states and 1 union territory across India, with operations in 454 Banking Outlets.



## 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, safer and responsive services.

### Product Verticals



Micro-banking



Retail Assets



Retail Liability



Agri-Lending



MSME

### Multiple Channels of Customer Engagement



Banking Outlets

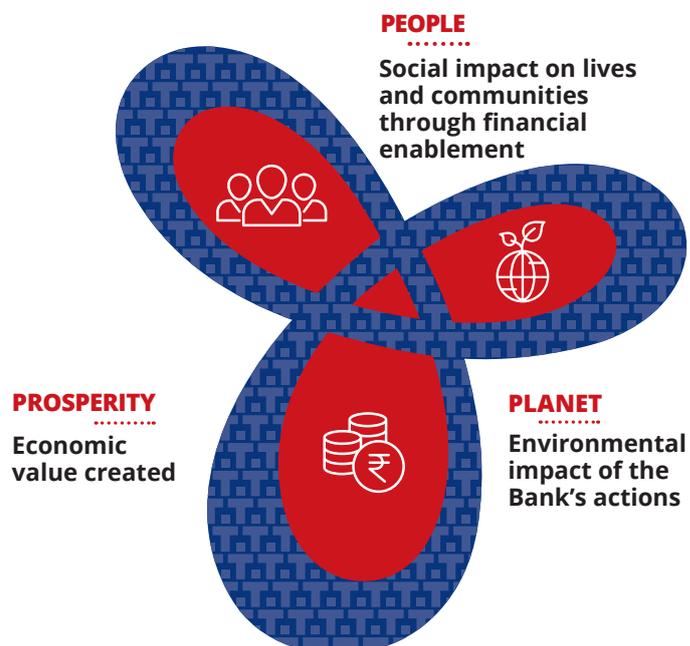


Digital Channels



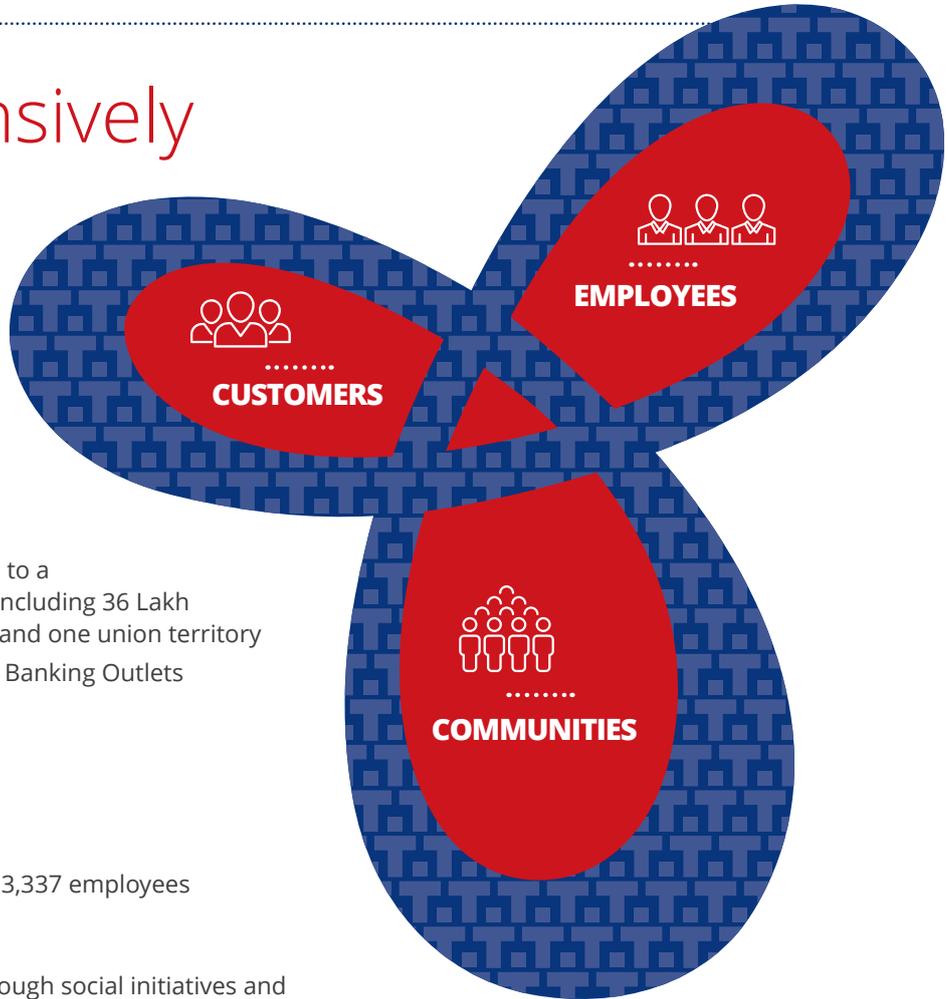
Business Correspondents

### Driven by Our Triple Bottom Line Strategy



# Driving Inclusiveness and Progress for All

Comprehensively serving and creating value for:



## Customers

- Delivering customised solutions to a base of 40.74 Lakh Customers, including 36 Lakh women customers, in 17 states and one union territory
- Serving Customers through 454 Banking Outlets & 311 ATMs
- 24x7 customer care centre
- SMS/ missed call banking

## Employees

- Nurturing a passionate team of 3,337 employees

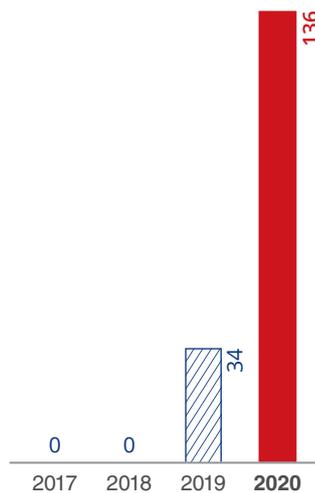
## Communities

- Over 40 Lakh lives impacted through social initiatives and financial inclusion drives

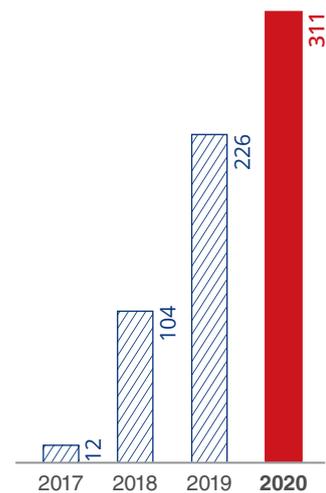
### Growing Number of Customers



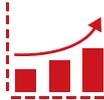
### Providing Services at Business Correspondent Outlets



### Growth in ATM Numbers



# The ESAF SFB Journey

<p>2015</p>  <p>ESAF Microfinance receives in-principle approval for setting up of Small Finance Bank from the RBI</p>	<p>2016</p>  <p>ESAF Small Finance Bank receives licence to commence banking operations from RBI</p>	<p>2017</p>  <p>ESAF launches ESAF Small Finance Bank, the first bank from Kerala since Independence</p>	<p>2018</p>  <p>Government of India picks ESAF for Atal Pension Yojana</p>
<p>2018</p>  <p>ESAF Small Finance Bank receives RBI approval for NRI operations</p>	<p>2018</p>  <p>ESAF Small Finance Bank opens 100 new Retail Banking Outlets</p>	<p>2018</p>  <p>Prof. Muhammad Yunus, Nobel Laureate, visits ESAF Small Finance Bank</p>	<p>2018</p>  <p>ESAF among the finalists to receive the prestigious European Microfinance Award</p>
<p>2018</p>  <p>ESAF Small Finance Bank becomes the member of GABV</p>	<p>2018</p>  <p>ESAF Small Finance Bank wins PFRDA Award</p>	<p>2018</p>  <p>ESAF Small Finance Bank receives Scheduled Bank status</p>	<p>2019</p>  <p>ESAF Small Finance Bank launches the 'Humanoid Robot' named 'EIDA'</p>
<p>2019</p>  <p>ESAF Small Finance Bank opens 222 new Retail Banking Outlets</p>	<p>2019</p>  <p>ESAF Small Finance Bank hosts GABV Asia Pacific Meet</p>	<p>2020</p>  <p>ESAF Small Finance Bank submits the DRHP</p>	<p>2020</p>  <p>Business Crosses ₹ 10,000 Crore</p>

# Living our Values, Steering our Passion.

## Message from the Chairman

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Our strategy is to grow sustainably and responsibly, with a focus on inclusiveness and progress for all.

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### Dear Shareholders,

It is my privilege to present before you the Annual Report of your Bank for the year ended 31<sup>st</sup> March, 2020. Ever since the beginning of its journey in 1992 as an NGO, ESAF has worked consistently for over two decades for the unserved and underserved, helping in transforming the lives of over 40 Lakh people. Having become a Small Finance Bank in 2017, we have now completed three years of our banking operations.

A solid foundation, a customer-centric business model, a deep understanding of the segment we serve, and a dedicated team have been our key differentiators. Today, we are a Small Finance Bank serving our customers holistically for all their financial requirements, reaching them even in the remotest corners of India, and promoting financial inclusion and financial literacy.



**40.74 Lakh**  
Customers



**454**  
Banking Outlets



**₹ 6,606.51 cr**  
Gross Advances



**₹ 7,028.38 cr**  
Deposits

## Your Bank Today

Our strategy is to grow sustainably and responsibly, with a focus on inclusiveness and progress for all. We remain proud of our achievements during the past three years. We have expanded our offerings to varied products and solutions across Microbanking, Assets and Liability products, and Third-party products. We use finance as an instrument of transformation, rooted in our vision: to be the leading social bank in the country. Through our last-mile banking connectivity, we have made a significant impact in the society we serve.

Since our transformation into a Small Finance Bank, we have nearly 40.74 Lakh customers and grown our distribution to 454 Banking Outlets, a large proportion of which are in the rural and semi-urban regions. About 86.39% of our total lending is to the priority sector. Our guiding principles include transparency, preventing our customers from becoming over-indebted, treating our customers fairly and being empathetic to our customers in times of crisis, which we have demonstrated by supporting our customers time and again.

## The Opportunity Landscape

The growth opportunities for us are vast because of the inequitable distribution of financial services in India. People in large swathes of the country are either unserved or underserved by the formal banking sector; their inclusion is essential for national growth. Concomitant with the Government's objective to strengthen the rural economy, we are augmenting our core lending operations with an enhanced focus on Agriculture and MSME sectors. While leveraging the rising opportunities, our key priority and shared ambition are to drive the financial inclusion agenda for low-income individuals and MSME customers, supporting their aspirations.

## Committed to Triple Bottom Line

We follow a social business strategy with a Triple Bottom Line approach, emphasising on 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.

Our sustainable development agenda includes intervention and initiatives in the key areas of education, environment, water, sanitation, and livelihoods. Our 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 pyramid.

## Moving Ahead

We remain committed to continuously upgrade our products and solutions, in line with the growing requirements of our customers. We are diversifying our loan portfolio by adding new asset-based products, such as Business Banking, Auto, Housing and Agriculture Loans, and are working towards scaling up these verticals. We are also growing the liability base, especially the Current and Savings Accounts segment. We are advancing steadily towards our goal of becoming one of India's leading banks in the microfinance sector that offers equal opportunities through universal financial access & inclusion, livelihood and economic development. As we move ahead with vigour, we are supported by a technology-driven model with an advanced digital technology platform.

The unprecedented challenge posed to the world by COVID-19 has brought

to sharp focus the need for protecting the lives and livelihood of the people across the globe and India is no exception to this. As a responsible and proactive institution, your Bank has fully supported the initiatives of the Government/s in fighting this pandemic. We have extended relief for loan repayments, introduced fresh loans to existing microfinance borrowers and permitted use of funds earmarked under Corporate Social Responsibility for activities relating to fighting of COVID-19.

## Conclusion

Our customers and shareholders have 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, Reserve Bank of India, other regulators, Government of India and various State Governments. I would like to thank all the stakeholders and look forward to their continued patronage, guidance and support.

Before I sign off, I would like to recognise the efforts of the founding chairman of your Bank, Shri Prabha Raveendranathan. He has been truly instrumental in laying the foundation of governance at the Bank. As a stalwart in rural financing and as an astute banker, he has guided the Bank exceptionally during the initial years.

Let us continue this journey together and spread the "Joy of Banking".

Yours Sincerely,

**P.R. Ravi Mohan**  
Chairman

# Growing the Bank, Maintaining its Core.

Message from the Managing Director & CEO

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Our differentiated business model and strong execution capabilities, our asset quality and profitability are today in a strong stance and in a winning position.

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Dear Shareholders,

It gives me pleasure to connect with you through the Bank's Annual Report for the year 2019-20. During the year, your Bank made significant progress with the advancement in our capabilities, product suite, distribution, and our customer base. We are proud of our 28-year legacy, furthering our objective of financial inclusion and continuing to maintain our uniqueness.

Our mission is to provide responsive banking services to the underserved and unserved households in India, facilitated by customer-centric products, high-quality service and innovative technology. In the following pages of this Report, we have made an effort to depict how we are aligning our strategies and goals and are working towards accomplishing our mission.



## Our Retail and Microbanking services enable our customers to build sustainable livelihoods.

### Maintaining our Core Fibre

During the year, the core values upon which the Bank has been built, continued to guide us. With these values embedded deeply into our culture, we operate our business responsibly, taking into account social and environmental factors. Today, we are proud to be one of India's leading small finance banks in terms of yields on advances, increasing assets under management (AUM), and our growing share of retail deposits in the total liability book.

Today, our business model focusses on the principles of responsible banking and provides customer-centric products & services through the extensive application of technology. Our retail and Microbanking services enable our customers to build sustainable livelihoods.

### Our Financial Performance

During the year under review, the Bank has put up an exemplary performance, as we have added close to 7.98 Lakh active customer accounts, resulting in a total of 40.7 Lakh customers. We have delivered an outstanding performance, and have consistently been maintaining good asset quality and strong capital adequacy. As on 31st March, 2020, our balance sheet size stood at ₹ 9,469.97 Crore, including total deposits of ₹ 7,028.38 Crore, which recorded an annual growth of 34.17%. Net Profit was up by 100.10% to ₹ 190.39 Crore, Net Interest Income was ₹ 792.19 Crore, Deposits grew by 62.81%, while Advances grew by 44.02% to ₹ 6,606.51 Crore. We brought down our Gross NPA to 1.53% from 1.61% in 2019. CASA is growing fairly well, forming 13% of our deposits. As our CASA increases, our focus will

be to acquire more customers and leverage the opportunity for cross-selling products.

### Our Operational Performance

Our asset quality is comparatively on a better footing vis-à-vis other Universal Banks. Net NPA stands at 0.64% and Gross NPA at 1.53%. We are operating at a stable level of liquidity, with a healthy Cost-to-Income ratio. We have been steadily building our asset portfolio and setting up our retail asset book through Auto, Housing, Gold and MSME loans. We continue to serve the Non-Resident Indians through our customised and differentiated products. Besides, we remain poised to increase our fee-based income by strengthening our third-party product distribution business through Life and General Insurance products.

### Expanding Presence

Today, we have operations in 17 States and one Union Territory through 454 Banking Outlets. We now serve 40.7 Lakh customers. We are aiming to increase our share of business outside Kerala and would like to expand our operations pan-India. We are particularly concentrating on States with good potential, such as Uttar Pradesh and the North East, besides expanding into the existing geographies.

### Key Focus Areas

Moving ahead, besides capitalising on the vast industry opportunity and focussing on the right segment, we are getting significant traction from our investments in technology, infrastructure, and processes. Due to our differentiated business model and strong execution capabilities, our asset quality and profitability

are today in a strong stance and in a winning position.

We are utilising the banking platform to further transform the lives of our customers. The impact of the same is reflected in the form of continuous value creation by the Bank in a sustainable way. We would like to take this opportunity to thank the regulatory authorities for their support; the Board for their guidance; our experienced and capable management team, and their execution capabilities; and last but not the least our 3,337 employees who continue to work with dedication.

Lastly, we are proud to share that our banking services continued unhindered, despite the ongoing Coronavirus pandemic-induced lockdown. We ensured that our customers were not inconvenienced for banking requirements in these difficult times, besides fully respecting all the directives given by the local administration, government, industry bodies and regulators.

Overall, despite the short-term impact, we are confident, the Indian economy in general, and the small finance banking segment in particular, will see a gradual recovery.

We are grateful to all our 12 BC Partners who extended Microbanking services of the bank to the field, serving 28.63 Lakhs borrowers from the bottom of the pyramid, of which 5.04 lakhs were fresh borrowers. A total of 6830.44 Crores were disbursed to Microbanking customers, which accounted for 92% of the bank's lending by volume.

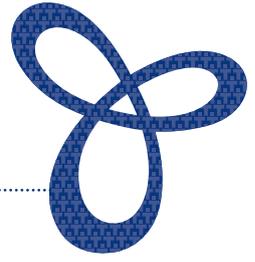
We extend our gratitude to all our vendor partners, consultants, advisors, and well-wishers for their valuable support.

We take this opportunity to thank our dedicated and hardworking staff, our loyal customer base, and all those who provided their unflinching support to the Bank during its enriching journey. We assure you that as we grow, we will continue to live our purpose and will also live by the original values that the Bank has been founded upon.

Wishing good luck to all.

**Kadambelil Paul Thomas**  
Managing Director & CEO

# Our Board and Leadership Team



**Shri P.R. Ravi Mohan**  
Chairman & Independent Director



**Shri Kadambelil Paul Thomas**  
Managing Director & CEO



**Shri Assan Khan Akbar**  
Nominee Director



**Shri Saneesh Singh**  
Nominee Director



**Smt Asha Morley**  
Independent Director



**Shri Alex P. George**  
Independent Director



**Dr. V. A. Joseph**  
Independent Director



**Shri Thomas Jacob Kalappila**  
Independent Director

## Executive Vice Presidents



**Shri M.G. Ajayan**



**Shri George K. John**



**Shri George Thomas**

## Senior Management Team



**Murali N.A.**  
Treasury



**Mohanachandran K.R.**  
Chief Risk Officer



**Hanza M.M.**  
Operations



**Hari Velloor**  
Branch Banking



**N. Sivasankaran**  
Chief Compliance Officer



**Bosco Joseph**  
Administration,  
Infrastructure &  
Procurement, Legal



**Gireesh C.P.**  
Chief Financial Officer



**Padmakumar K.**  
Microbanking,  
Strategy & Planning



**Swaminathan K.**  
Digital Banking, Alternate  
Channels & TPP



**Raju Antony**  
Information  
Technology



**Dominic Joseph**  
Chief Vigilance Officer



**Mathews Markose**  
Retail Assets



**Jose A.V.**  
Human Resources



**P.K. Antoo**  
Internal Audit



**Soney Jose**  
MSME Finance



**K. Sunny**  
Collections &  
Recovery



**R. Mariappan**  
Agricultural Finance



**Paul Joy Palocaran**  
Mortgage Loans



**Sibu K.A.**  
Microbanking  
Operations



**Reji Daniel**  
Sustainable  
Banking



**P.P. Pathrose**  
Credit Sanctions



**G.S. Prabhakar**  
MIS



**Sreekanth C.K.**  
Marketing



**Vinod Thampi**  
Credit Monitoring



**Abiesh Jose**  
Customer Service Quality



**Ranjith Raj P.**  
Company Secretary

# Corporate Information



## CHIEF FINANCIAL OFFICER

Gireesh C.P.

## COMPANY SECRETARY

Ranjith Raj P.

## STATUTORY AUDITORS

S R Batliboi & Associates LLP

## 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

Krishnaprasad RS & Co

## 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 31st March 2020. The word 'Microbanking' represents 'microfinance' as defined in the Draft Red Herring Prospectus filed by the Bank with SEBI.

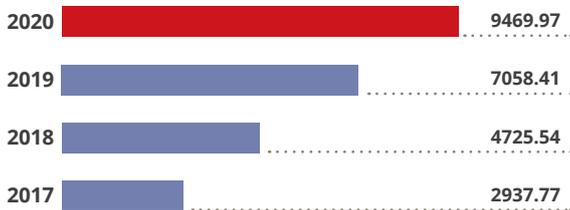
Average balances reported in the annual report are calculated based on the monthly average balances whereas average balances in the DRHP filed by the Bank are calculated on the basis of the average of the opening balance at the start of the relevant period and the closing balance as at quarter end for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



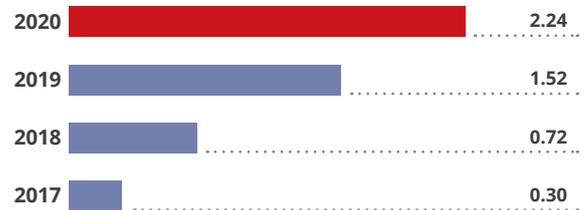
# Our Consistent Performance Trajectory

## Financial Performance

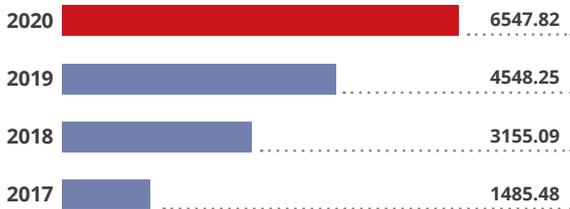
### Total Assets (₹ Crore)



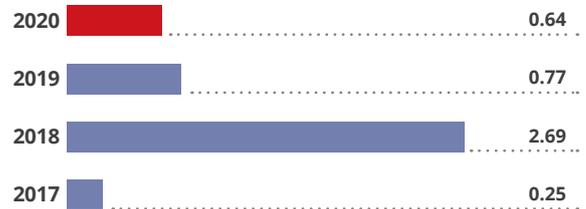
### Return on Assets (%)



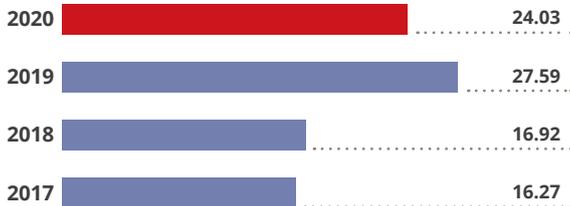
### Advances (Net) (₹ Crore)



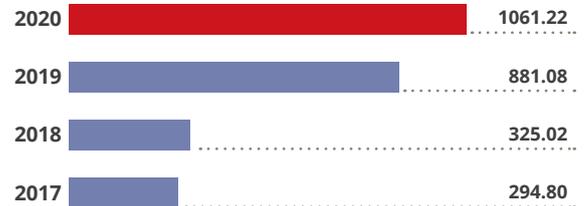
### Net NPA (%)



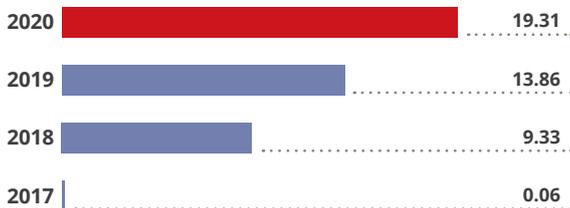
### Capital Adequacy (%)



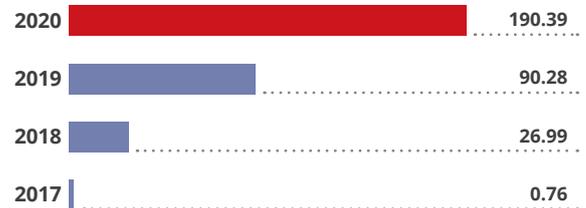
### Net Worth (₹ Crore)



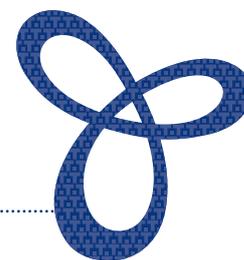
### Return on Equity (%)



### Profit After Tax (₹ Crore)



# Operational Performance



## Liabilities Portfolio

	2019-20 (₹ In Crore)	Percentage Growth over 2019
Deposits	7028.38	62.81%
Retail Deposits	6682.38	64.39%
CASA Deposits	960.28	64.14%
CASA Ratio to Total Deposits	13.66	11bps

## Assets Portfolio

	2019-20 (₹ In Crore)	Percentage Growth over 2019
Micro Finance Loans	6138.95	38.96%
Retail Loans	361.27	161.24%
Corporate Loans	106.29	242.87%
Total Gross Advance	6606.51	44.03%

**22.70 %**  
Yield on Advances

**37.11 %**  
AUM Growth Rate

**24.03 %**  
CRAR

**95.08 %**  
Share of Retail Deposits  
(by volume)

## Banking Outlets

Category	No. of Branches
METRO .....	37
URBAN .....	72
SEMI URBAN .....	274
RURAL .....	71
<b>Grand Total .....</b>	<b>454</b>

**₹ 4.45**  
Earnings Per  
Share

# Our Ways of Banking



**Caring for**  
Customers

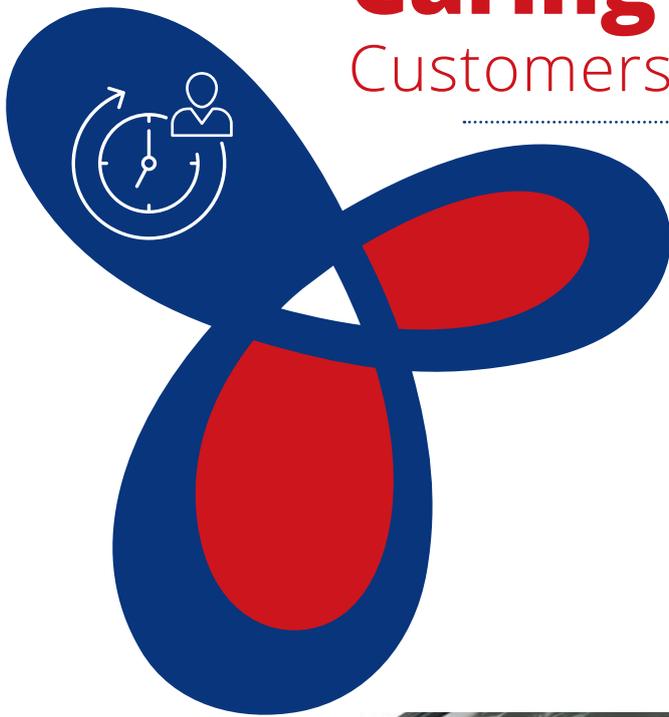


**Joyful**  
Banking



**Sustainable**  
Banking

# Caring for Customers



We seek to be an all-in-one Bank for our customers, providing a wide range of financial products and services. We are serving them for all their savings, payments, transactions, borrowings, investments, and insurance requirements, resulting in more customer trust.



As a Small Finance Bank, we support our customers by taking care of their lifetime banking requirements through financial products and services. We act as a “one-stop solutions provider” through our hand-holding approach. We not only supply them with microfinance and customised solutions, but we also bring them under the formal banking system.

Our ethos is to partner with them in their development and provide them with economic sustainability. We leverage our key strengths in microfinance to reach out to the unserved and underserved, and enable them to move higher in life economically, well supported through our banking products and services.



## Holistic Financial Coverage

To meet the varying funding needs of our customers, we offer holistic financial coverage through our lending activities, including Auto, Gold, Agricultural, and Housing Loans. Through the Micro-Recurring Deposit Scheme, we enable them to save on a regular basis. We also catalyse their entrepreneurial spirit by serving them through MSME loans, helping them start their own business ventures.



## Enduring Relationships

Our greatest strength is the trust of our customers and strong community connects. We service our Microbanking customers through doorstep service delivery, which is a key differentiator. Our Business Correspondents visit the homes of Microbanking customers to collect repayments based on customers' preferences. In addition to providing financial services, Business Correspondents undertake various non-financial services such as financial literacy and livelihood programmes, entrepreneurship training programmes and community engagement programmes.



## Joyful Banking

Our constant aim is to provide our customers with a simple, relevant, and joyful banking experience. We strive to make banking simpler, faster and smarter for each of our customers.

Our vision is to deliver an unparalleled and joyful banking experience to our customers. This has been a part of our transformational journey to make the bank more customer-centric and deliver value. Joy is what the customer feels when he or she deals with us, or is served by the Bank.



### Joy of serving our customers better

We bring joy in the form of doorstep services delivery. Our Business Correspondents visit customers at their doorstep to carry out basic banking services such as Account Opening, Cash Deposit, EMI payments, and others. Joy also comes by providing our customers with effectively and reasonably-priced products.





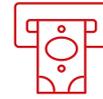
### Joy of Providing Financial Well-being

Through the Vayojyoti Project, we adopted a unique approach to caring for, honouring, and educating senior citizens and improving their financial well-being. We provided them with age-friendly banking activities delivered through doorstep banking, customised products, special seating, and no-queue arrangements. We also provide services like free health check-ups, medical counselling, medication and treatment by specialists, besides arranging financial capability programmes, offering financial education, and financial literacy sessions.



### Joy of Facilitating Development in Children

We launched Balajyothi to facilitate the development of children, to reshape our economy into a regenerative one, and to build a financially responsible generation. The initiative enables children to be conscious of their spending and saving habits. It also encourages them to act with the consciousness of saving the planet by way of small activities. The programme includes financial literacy sessions, teaching children to start saving from a young age.



### Joy of Delivering Innovative Products

We offer access to innovative products, such as loans for Income Generation, Education, Clean Energy, Water and Sanitation, and Home Improvement. Another such example is the Hrudaya Deposit Scheme, which mobilises socially responsible citizens to associate with the Bank through Fixed Deposits and participate in social transformation. We also constantly align the Bank's front and back-office staff and processes with delivering not only performance improvements but also joyful outcomes through digital and mobile banking platforms.

#### Creating a Positive Social Impact Vayojyoti



**2,341**

Senior Citizens benefited

**235**

New Recurring Deposits added

**891**

New Senior Citizen accounts opened, amounting to ₹ 2.22 cr

**₹ 86.03 cr**

From 3,787 New Term Deposits

#### Creating a Positive Social Impact Balajyothi



**9,749**

Children benefited

**260**

Schools impacted

**24,636**

Children attended financial literacy sessions

#### Creating a Positive Social Impact Garshom



International Migrants Day was observed at 78 branches on 18<sup>th</sup> December, 2019. We recognise the contribution they have made to their home states and the states of their labour.

**3,500+**

Migrant labourers participated in the event.

**1,754**

New Garshom accounts were opened, as at 31 March, 2020

# Sustainable Banking



We do what it takes to be a sustainable and responsible bank – now and in the future. Through our sustainable pillars, we remain focussed on the key areas of responsible banking, responsible business practices, and creating a positive social impact.



At ESAF Small Finance Bank, sustainable banking is a banking framework that institutionalises its impact in three bottom lines – People, Planet and Prosperity – through its products, processes and policies. With this approach, we built a foundation for a suitable and regenerative economy. We have a Sustainable Banking Policy in place, which is in line with our core values and business principles, business growth and impact appetite. The Policy applies to the Bank and all its branches and representative offices. It defines processes for the Bank to ensure that all transactions are managed in accordance with its triple bottom line principles.

In 2018, ESAF Small Finance Bank becomes the first Indian bank to become a member of Global Alliance for Banking on Values, a global organisation that promotes value based banking. This membership is further testament to ESAF Bank's commitment to use finance to deliver sustainable economic, social and environmental development.



### Doing business in a sustainable way

Through the above sustainable banking agenda, we demonstrate how we create sustained value for our stakeholders, make a positive contribution to society, and build up a new banking revolution to build a sustainable economy of the future. Always committed to corporate sustainability practices, we

use Sustainable Development Goals of the United Nations as a framework for guiding our areas of focus, and align some of our targets with it. Through our Sustainable Banking Policy, we provide essential linkages and mandate the measurement of SDG impact made through our products and processes.



### Responsible Banking

We bring the formerly underserved and unserved customers into mainstream banking and deliver state-of-the-art banking services with a supportive attitude. We strive to inculcate savings habit in our customers through simple products. The weekly collection framework suits the income generation model of daily wage workers, while our doorstep service

model enables them to continue working and earning their daily wages, even as their banking transactions are also effectively handled. We also run structured education programmes for the financially excluded to teach the basics of financial management, such as opening a savings account or fixed deposit, using remittance facility, using digital banking, among others.

### At ESAF Small Finance Bank, we are committed to:

- Building awareness and participation to environmental protection, climate change risk mitigation and compliances among staff, customers and other stakeholders, to encourage them to adopt environment-friendly lifestyle
- Facilitating the development and access to clean energy and natural resources for SFB customer community, especially the economically deprived and the marginalised by providing appropriate financial products, services and training, thus responding to climate change risks.
- Promoting the stewardship of natural resources, eco-friendly livelihoods, green enterprises, local economic ecosystems etc., in line with the Sustainable Development practices for an inclusive society.



**179**

Environment awareness sessions

**11,366**

People engaged during Environment Week

**6,209**

Loans provided for Solar Lights

**8,055**

Saplings distributed

## Our Sustainable Banking Approach



### Sustainable Livelihood Development

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



### Environmental Stewardship Promotion

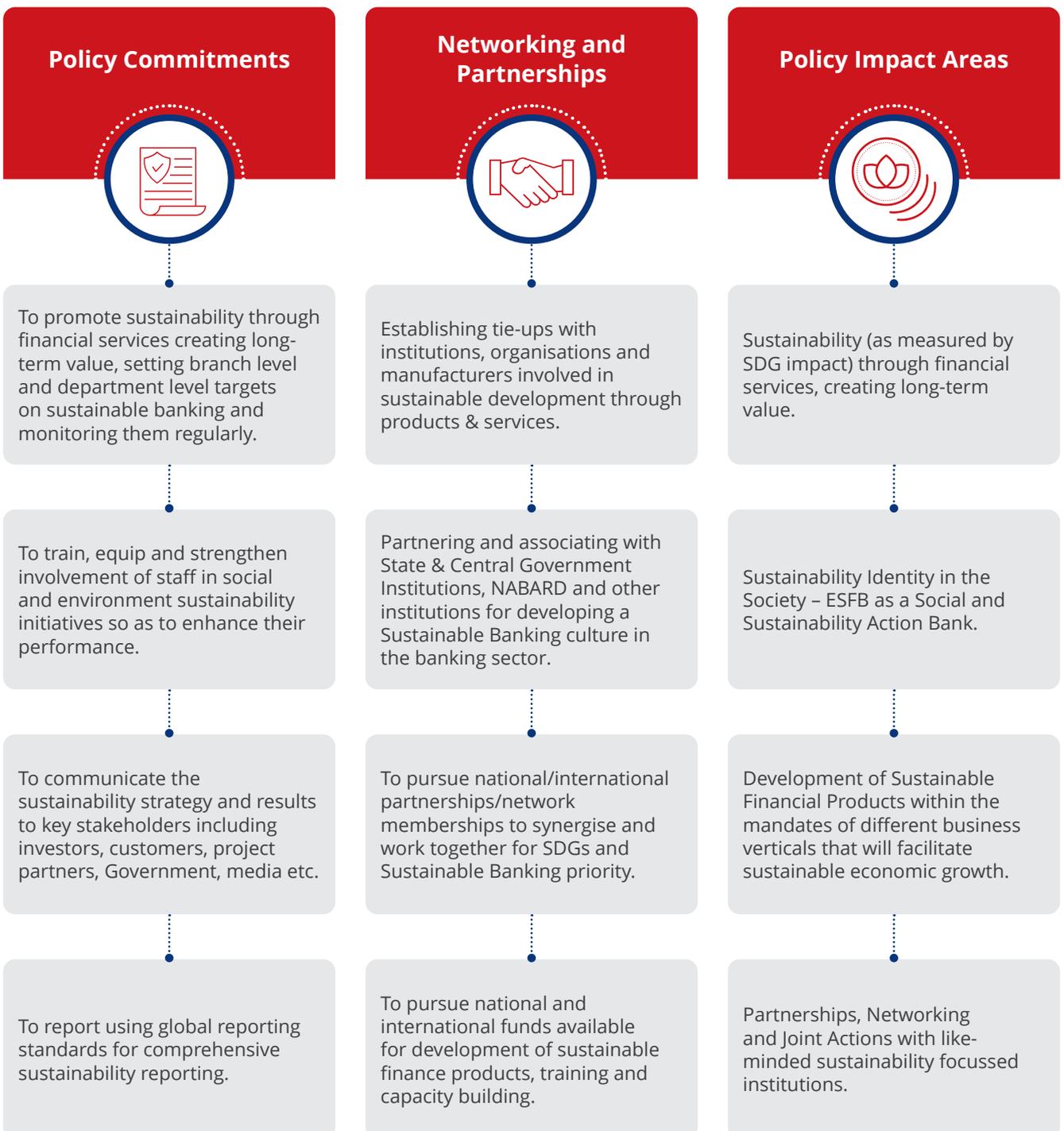
To develop a green portfolio and identity for the Bank, thereby lowering the overall environmental risk.



### Corporate Social Responsibility

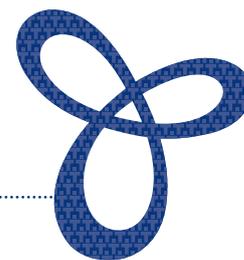
To create value by meaningfully utilising profits generated through socially responsible initiatives, addressing social, environmental and economic needs of the poor and the society's marginalised sections.

# Elements of the Sustainable Banking Policy



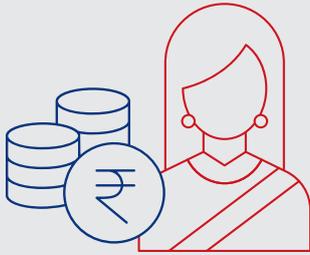
# Sustainable Outcomes of our Consistent Efforts

Sustainable Development Goals	Enabling Access to Meet SDG	ESAF Bank's Actions	Sustainable Outcomes
 <p><b>1 NO POVERTY</b></p>	<p><b>Access to finance</b></p> <ul style="list-style-type: none"> <li>• Small finance, savings, insurance, pension, micro-recurring deposit to inculcate savings habit among the underprivileged</li> </ul>	<p><b>Opportunities to borrow, save and invest</b></p> <ul style="list-style-type: none"> <li>• Zero minimum balance accounts</li> <li>• Micro Recurring Deposits</li> <li>• Livelihood Loans</li> <li>• Hrudaya Deposit for responsible participation from community</li> <li>• Health insurance</li> </ul>	<p>Financial self-reliance, better financial decision, asset building, improved standard of living</p>
 <p><b>3 GOOD HEALTH AND WELL-BEING</b></p>	<p><b>Access to health awareness and healthcare</b></p> <ul style="list-style-type: none"> <li>• ArogyaMitra, Health awareness camps, Group health insurance camps</li> </ul>	<p><b>Improve physical and mental health and overall well-being of customers to reduce risks associated with morbidity and mortality</b></p> <ul style="list-style-type: none"> <li>• Vayojyoti Accounts</li> <li>• Specialised schemes for Senior Citizens</li> <li>• Health Insurance</li> </ul>	<ul style="list-style-type: none"> <li>• Better knowhow on non-communicable diseases and women's health – anaemia, breast cancer, cervical cancer</li> <li>• Subsidised hospital care to economically weaker sections</li> </ul>
 <p><b>4 QUALITY EDUCATION</b></p>	<p><b>Access to education</b></p> <ul style="list-style-type: none"> <li>• Educational Loans, scholarships, Edu Finance</li> <li>• CSR engagement for developing community schools</li> </ul>	<p><b>Ensure inclusive and equitable quality education and promote lifelong learning opportunities for children of customers</b></p> <ul style="list-style-type: none"> <li>• Vidyajyothi Loans</li> <li>• Balajyothi</li> <li>• Edu Finance (for improving school infrastructure)</li> </ul>	<ul style="list-style-type: none"> <li>• 1,500 tribal children covered in Jharkhand through community schools and a high school</li> <li>• 25 Community Transformation Hubs provide value education and academic support to nearly 950 economically weak children</li> </ul>
 <p><b>5 GENDER EQUALITY</b></p>	<p><b>Access to capacity-building and awareness for women</b></p> <ul style="list-style-type: none"> <li>• Financial literacy, access to credit, health awareness, women empowerment</li> </ul>	<p><b>Ensure women's full and effective participation and equal opportunities for leadership and decision-making in political, economic and public life. Promoting women entrepreneurs</b></p>	<ul style="list-style-type: none"> <li>• 1 Lakh women covered through CEEP-Client Education and Empowerment Programme</li> <li>• Helps illiterate women to take timely decisions and make the right choice</li> </ul>



Sustainable Development Goals	Enabling Access to Meet SDG	ESAF Bank's Actions	Sustainable Outcomes
<p><b>6</b> CLEAN WATER AND SANITATION</p>  <p><b>CLEAN WATER AND SANITATION</b></p>	<p><b>Access to water and sanitation facilities</b></p> <ul style="list-style-type: none"> <li>Water Loan, Sanitation Loan, Direct Community Intervention</li> </ul>	<p><b>Improve access to water and sanitation facilities for low-income customers</b></p>	<ul style="list-style-type: none"> <li>25,050 families benefited by Sanitation Loan</li> <li>16,035 families benefited by Water Loans, Water Taps</li> <li>Improved health resulting from better hygiene-related practices</li> </ul>
<p><b>7</b> AFFORDABLE AND CLEAN ENERGY</p>  <p><b>AFFORDABLE AND CLEAN ENERGY</b></p>	<p><b>Access to clean energy</b></p> <ul style="list-style-type: none"> <li>Solar lamps, energy-efficient cooking stove, environmental awareness</li> </ul>	<p><b>Facilitate access to affordable and reliable clean energy products and services to combat climate change and its impact:</b></p> <ul style="list-style-type: none"> <li>Clean Energy Loans</li> <li>Haritha Loans</li> <li>Clean Water Clusters</li> </ul>	<ul style="list-style-type: none"> <li>1,20,000 clean energy product users</li> <li>Carbon offset of 2 Lakh tonnes accumulated</li> </ul>
<p><b>8</b> DECENT WORK AND ECONOMIC GROWTH</p>  <p><b>DECENT WORK AND ECONOMIC GROWTH</b></p>	<p><b>Access to livelihood opportunity</b></p> <ul style="list-style-type: none"> <li>Local economic ecosystems, promoting products like local raw materials and local skills</li> </ul>	<p><b>Employment generation through promotion of micro-enterprises</b></p> <ul style="list-style-type: none"> <li>Income Generation Loans</li> <li>MED Loans</li> <li>MSME Services</li> <li>Uddhan Loans</li> </ul>	<p>Improved work participation rate among women, increased self-employment opportunities for women, increased contribution to household income.</p>
<p><b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE</p>  <p><b>INDUSTRY, INNOVATION AND INFRASTRUCTURE</b></p>	<p><b>Access to quality housing</b></p> <ul style="list-style-type: none"> <li>House improvement Loan, House construction Loan, Community water projects, Livelihood support-CFC centre in Jharkhand</li> </ul>	<p><b>Improve infrastructure facilities for low-income customers in terms of safe housing</b></p> <ul style="list-style-type: none"> <li>Home Improvement Loans</li> <li>Housing Loans</li> <li>Uddhan Loans</li> <li>MSME Cluster Initiation</li> </ul>	<p>Improved well-being and safety due to considerable shift in kaccha houses to pucca houses</p>

# Transforming Lives and Communities



Small loans provided by us to the marginalised women in India helps them with economic and entrepreneurial opportunities and in vaulting themselves out of poverty. Access to credit enables them in setting up income-generating projects, increase their earnings and improve their quality of life.



**Laxmibai Dolekar**



**Madhya Pradesh**

**₹7,000**  
ESAF Loan

Having envisioned a quality life for herself and her family, Laxmibai Dolekar, a visually-impaired woman from a village near Betul in Madhya Pradesh, started with a ₹ 7,000 loan from ESAF in 2009. She utilised the funds to make baskets and flower vases using bamboos and soon expanded her portfolio by also making value-added products from the same material. She has so far undergone multiple loan cycles with ESAF, and with every loan cycle, she improved her stock. From ₹ 600-700 per week, her earnings have gone up to ₹ 3,000-4,000 per week. Being a self-reliant woman today, she wants to utilise her latest loan of ₹ 45,000 to further expand her business and recruit more women to make them also self-reliant.



**Kanchan Rajak**



**Jharkhand**

**₹15,000**  
ESAF Loan

The unstable income of her husband Prakash, a carpenter, was not enough for Kanchan to meet the daily needs of her family. Kanchan then decided to set up a laundry shop and was looking for financial support. The first loan of ₹ 15,000 from ESAF helped her buy some assets and start her laundry and ironing business. As she managed to increase her income, she also secured admission for her two children in a reputed school. Today, she and her husband who also started a furniture business, are able to earn around ₹ 16,000-20,000 a month. A new loan application of ₹ 45,000 has been approved to further expand her business.



### Sanamma Ramakrishna



Karnataka

₹ 25,000

ESAF Loan

Sanamma was a daily wage worker who always wanted to pursue her entrepreneurial dreams. With the guidance of ESAF Bank's staff members, she learnt about forming a Self Help Group to avail credit facilities. Later, with their support, she joined hands with 11 members to start a business. She managed to raise a loan of ₹ 25,000 and made a clean plan of utilisation of these funds and launched a packaging unit of Cycle Agarbathi Limited. As her business was about to complete first year of operations, she provided employment opportunities to 13 women. Today, her unit packs 1,000 packets of Agarbathi and earns revenues of ₹ 12,000 per month. Today, she is proud to be an ESAF member and has learn from ESAF the art of sharing success by delivering joy. She is grateful for the opportunity to work as an entrepreneur.



### Lissy Franklin



Tamil Nadu

₹ 20,000

ESAF Loan

46-year-old Lissy Franklin lived with family in the Tsunami Rehabilitation Colony at Samathuvapuram in Kanyakumari district, Tamil Nadu, where people mostly rely on fishing for a living. She started her own grocery shop, where her average monthly profit was ₹ 3,000, barely enough to meet the daily household expenses and the education expenditure for her children. Five years ago, she approached ESAF and managed to use her ₹ 20,000 loan to add inventories. She also gained support from her husband in finding customers and getting bulk orders and the efforts helped them earn a net profit of ₹ 20,000 per month. With the additional income, her quality of life improved and made her capable of giving good education to her children. Today, while her elder son is pursuing a B.Tech degree, her younger son aspires to go for Hotel Management at the Leela Group. Lissy hopes to grow further in life with continued support from ESAF.



### Mangala Sathvane



Maharashtra

₹ 1,00,000

ESAF Loan

Mangala Sathvane is a busy agri-entrepreneur who not only sells saplings produced in her poly house, bio-fertilisers and farm tools from her agri shop, but also shares the right know-how on Azolla, Hydroponic, Vermi-composting, Organic Farming, and Disease Pest Identification to over 70 farmers associated with her enterprise. Life was tough for her until she underwent 45 days training provided by Syngenta Foundation at the Indo Swiss Centre of Excellence, Pune.

ESAF's Haritha Loan of ₹ 1 Lakh helped her set up her own agri shop and a poly house for seedling production, which is high in demand in the farming community. Today, she earns between ₹ 15,000 and ₹ 20,000 a month. In fact, she is keen to learn more skills, so that her association can lead to better yields for farmers, thereby bringing about a revolution in farming.



## Archana Devarao



Madhya Pradesh

**₹50,000**

ESAF Loan

Since her childhood Archana has always been interested in arts and crafts and her house always wore a decorative look which showcased her skills in handicraft. She came to Gondia after marriage with a hope to have a better prospect as her childhood was full of struggles. Soon she realised the importance of acquiring new skills and utilising talent to support her husband financially. Her husband used to sell handbags on cycle and his income was quite meagre as he could not cover long distances. Some days, not a single piece would get sold. Archana noticed that the bags were all similar looking with no variety in either colour or design. She thought of using her creative talents to design handbags and ladies-purses of all sorts that could easily attract women. Her husband supported this idea as he knew tailors who could stitch bags and the places from where they source raw materials. Archana by then had joined ESAF JLG and was waiting for her 2nd Income Generation Loan of a higher amount. She invested the money to buy a second hand stitching machine and soon learnt the art of bag stitching. For a year, she occupied one corner of her home as her workspace and could easily make 2-3 bags, which her husband could sell for ₹ 300 per bag at 50% profit per piece. The demand for her bags increased very soon, she could pay off her second loan from ESAF and thus applied for third loan to buy a new stitching machine. There was no looking back since the last 7 years that she is with ESAF. Today, she has a rented space where six people whom she hired work along with her in her bag making unit. She also successfully runs a beauty parlour. Archana is proud to be known as a successful woman entrepreneur in her locality and is a role model for several women who aspires to plunge into entrepreneurship. She has two daughters and Archana can now meet their needs successfully.



## Jaya Landge



Maharashtra

**₹40,000**

ESAF Loan

### Baking life sweeter than before

The sweet aroma of baking fills the streets of Om Nagar, Koradi in Nagpur, as Jaya Landge and her team get into their business of making cakes, cookies and buns. It all started with a single oven which Jaya and her husband bought with a loan from ESAF. Earlier, Jaya's husband, who was driving an auto became jobless as the owner of the auto had sold the vehicle one fine morning. He soon took up a job in a bread manufacturing unit as a delivery man and in the meanwhile understood the nuances of bread baking. Thus the couple thought of starting their own baking unit. Gradually, with loans from ESAF, they have expanded their business to add cookies, buns and cakes too along with bread. They are now able to make a profit of ₹ 40,000 to 50,000 a month after meeting all the expenses, which include salary of ₹ 5000 paid to the staff.



Sunitha Anilkumar



**₹50,000**  
ESAF Loan

### ESAF Kissan Mithra Loan

Sunitha Anilkumar along with her husband, two children and parents-in-law live in Wadakancherry, Thrissur and has been a customer of ESAF for the past 6 years. Her husband works in a Gas Agency and Sunitha used to make papadams to support her family financially. Somehow the returns in papadam business was not worth the time and efforts invested. It was then that she got to know about the ESAF Kissan Mithra Loan, which is primarily aimed at supporting housewives to start farming as a source of income. Sunitha's husband and his parents supported her idea of taking 20 cents of land, adjoining their house, on lease to grow vegetables. EKML loan of ₹ 50,000 helped her to till the land, take water connection, buy seeds, saplings and fertilisers and along with it starting a mini poultry farm. Almost after one year of starting this venture, Sunitha made a profit of ₹ 7,000 every month as families from her neighbourhood prefer to buy vegetables and eggs from her. She has inspired many women in her group to start such small initiatives which keeps them engaged constructively while making money too.



Sabita Barai



**₹70,000**  
ESAF Loan

A group of 40 women are weaving khadi cloth in a small village near Pakhanjore in Chhattisgarh, thanks to the efforts of Khadi and Village Industries Corporation who identified Smt. Sabita Barai who was a tailor and gave training to other village women in stitching. The neatness of her work impressed the District Skill Development Officer who explored the possibility of training Sabita in Khadi cloth weaving at Khadi and Village Industries Corporation. As soon she underwent the training Sabita took a loan from ESAF SFB to start her unit. At present, she employs 20 women from her village and another 20 are under training. They are being given a stipend from KVIC. Krishna Handlooms has 30 machines with 20 full time women who are working and 20 who receive training in batches. Women are paid according to the work they have done, which largely depends on the quality of the weave and length of the cloth. This unit has made a slow revolution towards self-sufficiency and started looking beyond the dependence on agriculture as the primary source of income for most families. As Sabita is on a mission to train as many women as possible and make them self-reliant, women workers of her unit make it a point to run the unit without any complaint. They cannot afford to make any mistake for they cannot afford to lose the order received from KVIC. All women working in the unit are largely from backward communities and not literate too. They had little or no opportunities to contribute to their economies outside of their homes.

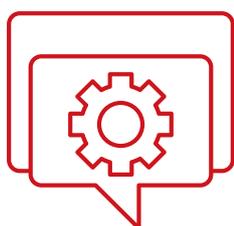
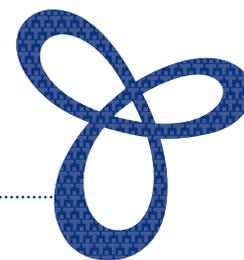
This can be considered as a good example of economic self-reliance which can be achieved through coordinated efforts. When women come together and take the onus of making their unit run successfully, they are less vulnerable to exploitation and unfair practices or work in unsafe conditions.

# Leveraging Technology and Customer Data Analytics

Digital transformation at the Bank is accelerating by leveraging the latest technological advancements. This will deliver an even better customer experience. Our strategy is to provide a seamless, resilient, and responsive technology environment that enables us to achieve greater scale and customer delight.

For us, embracing technology is an ongoing process, not only to drive growth, productivity and profitability but also to optimise the customer experience. We have been undertaking various technology-enabled services to equip ourselves with new digital skills and agile methods, which in turn impact how well we deliver banking to our customers.



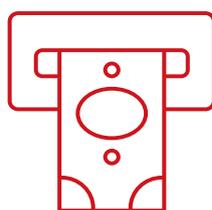


### Automating Operations

Our digital solutions cater to the customers at the bottom of the pyramid with low literacy levels and lack of access to mainstream financial services. The Bank has significantly reduced manual intervention in its operations and improved both productivity and processing time.

The Internet-connected hand-held tablets provided to the Bank's Field Officers have been instrumental in driving efficiency in operations. We are progressively leveraging best-in-class digital platforms for customer on-boarding, loan processing, credit appraisal, in-field verification, and customer identity/address proof verification, using e-KYC data collected from biometric Aadhaar records. This is also used for account opening and repayment collections, among others.

Robotics in the customer division is a meaningful intervention, leading to a culture of basic routine tasks being automated. It enables doorstep delivery of banking services, which in turn, reduces the turnaround time and makes the process seamless and cost-efficient.

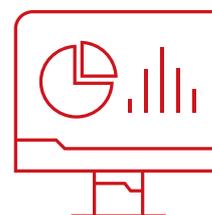


### Strengthening Digital Interface

Delivering on its digital-first vision, the Bank launched newer versions of Internet Banking and Mobile Banking to provide smoother and easier navigation experience to customers. It also enhanced its Net Banking features with upgraded payment experience. The Bank's mobile app (CASA on Tab) is integrated with UIDAI and NSDL to on-board retail customers with a quicker turnaround time. Corporate Internet Banking (CIB) and Unified Payment Interface (UPI) are among the most advanced applications launched for serving corporate and retail customers, respectively.

The Bank has also launched platinum variants of RuPay International Debit Card, providing multiple benefits to its loyal and esteemed customers. We plan to launch prepaid cards in the coming years. In addition, a farmer-centric 'Krishak Bandhu Card' has been launched to enable farmers to access funds through their savings accounts.

We have also entered into partnerships for setting up both brown label and white label ATMs to enable its customers to access their accounts in a hassle-free manner. Customers of other banks can also access these ATMs through the National Financial Switch facility.



### Building Data Analytics Infrastructure

We are readying a robust data analytics architecture at the Bank. We foresee data analytics as an important element in our growth story. The intent is to leverage analytics to improve our customer behaviour and products / service offerings. We are also preparing for Machine Learning (ML) and Internet of Things (IoT), which will enable us to be future-ready and will drive complete automation.

The power of data is unleashed through business intelligence and advanced analytics. It paves the way for digital transformation. The Bank is in the phase of setting up the basic building blocks. Online Data Store (ODS) will be a warehouse of all the data that is being captured by the Bank. It has the potential to generate the necessary Management Information System (MIS). A governance infrastructure to utilise the data from ODS for advanced analytics is being leveraged by a prudent team of techno-business professionals. Artificial Intelligence (AI) based Customer Value Management solutions, custom analytics using R programming and Python, among others, will play a lead role in improving the performance of banking products and catapulting the overall business.

# Not Just Lending, A new way of life.

Retail Assets department has been guided by the overall mission of ESAF Group and has designed products to meet the growing aspirations of the unserved and underserved. Retail Assets has 13 products under its umbrella, catering to diverse needs of our customers.



Dream Home Loan



Micro Housing Loan



Loan Against Property



Lease Rent Discounting



School Loans and Global Career Development Loans



Two-Wheeler Loans



Three-Wheeler Loans



Car Loans (Used and New)



Light Commercial Vehicle Loans



Personal Loans



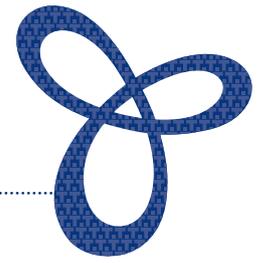
Clean Energy Loans

## Micro Housing Loans

Micro Housing loan has been specially designed to meet the growing aspirations of the category of people who have a regular income but not evidenced in documents. We do an assessment of their income through a personal discussion that the Credit officer has with the customer and based on the assessed income, loan is extended.

Mr. Ramakrishnan, construction contractor living in Pattikkad, Thrissur along with his wife and two kids availed a Micro Housing Loan from our Bank in April 2019 and completed the construction in August. His old house was completely demolished during the floods in 2018 and this loan from ESAF helped him reconstruct his dream house.





## ESAF Farmer Producer Organisation (FPO) Finance

ESAF Farmer Producer Organisation (FPO) Finance is a separate unique product in banking to support the business activities of FPO for creation of Building & Machinery, Purchase of equipment, specially-designed vehicles for transportation etc. besides working capital requirements including administrative and other recurring costs connected with the project.

Adhiyaman Vegetables and Millets Producer Company Ltd. in Dharmapuri District of Tamil Nadu is a wholly women's owned FPO that has been sanctioned a limit of ₹5.00 Lakh as unsecured advance. Since Dharmapuri district is a milk bowl, the fund has been utilised for purchase and selling



of livestock feed. The unique model of operation of this FPO is that they don't own any shops or retail outlets for selling but, they distribute the feed to farming community by keeping small stocks in each member's house and



also purchase millets from farmers at this point thus making the network and engagement of each member in the organisation huge and volume of sales increased.

## Clean Energy Loans

As an organisation, we have a huge commitment towards the planet and we leave no stone unturned to make a contribution towards planet. Clean Energy loan has been designed to cater to the growing demand for power and to negate the rising cost on the same. In this loan, we try to match the EMI with the electricity bill, so that at the end of the loan tenure, the customer ends up owning the asset and gets free electricity.

Mr. Nixon from Kolazhi, Thrissur availed a loan of ₹ 2.5 Lakh for installing this 5 KV Solar plant in his residence. Total project cost was ₹ 3.20 Lakh. Approximate electricity usage for his residence and a baking unit running in his residence was 540 Units as per the KSEB bills collected along with the loan application and the power generated through the plant is more than 600 Units. Total cost of the plant can be covered in 4.5 years and the energy generated can be used without any cost. Plant has been installed by Solar Power Corporation which is one of our empanelled client.



## MSME Loans

Timely availability of credit is critical for the growth of MSMEs. Mr. Sudheesh, proprietor of M/s MK Electricals in Pattikkad, near Thrissur will fully agree with this. Mr. Sudheesh started MK Electricals as a retail distribution firm dealing in electrical goods in 2017. When he wanted to expand his business, Sudheesh contacted ESAF SFB for a cash credit facility from the MSME department. The loan was approved without much hassle. Today, Sudheesh is happy that he could grow his business multifold with the cash credit facility availed from the MSME division of ESAF SFB.



# Our Human Capital

At ESAF Small Finance Bank, we strongly believe that people are our greatest asset and at the centre of driving our organisational success. We remain committed to empowering our employees every single day, by providing them the opportunities for continuous learning and building their capabilities across levels.

We believe that a happy and motivated workforce that experiences the joy of working with the Bank can truly deliver the Joy of Banking to customers. To achieve this, we constantly inspire our employees to hone their skills, enhance key capabilities, and fulfil their utmost potential.



MD and CEO Interacting with new joinees during Induction.



## Attracting Talent

We collaborate with esteemed academic institutes to hire graduates and professionals and attract quality talent. There is a separate Internship Programme aimed at recruitment of management and executive trainees across different Banking Outlets of the Bank. We select potential candidates from diverse backgrounds and cultures to suit the requirements of the varied geographies where the Bank is present. Through effective employee induction and training programmes, we retain and groom them for leadership roles. By way of a plethora of employee benefit schemes, we ensure retention of competent individuals.



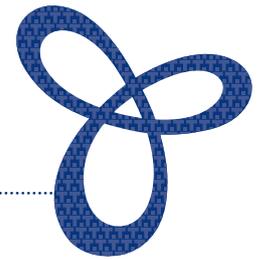
## Employee Training

We believe in moulding our human capital through a series of training and employee engagement programmes that facilitate a positive attitude, right skills and creative thinking. Our Learning & Development (L&D) division plays a vital role in creating a dynamic workplace by augmenting the functional and behavioural skills of our employees. Monitoring the transformation of knowledge into workplace skills and designing programmes to enhance productivity are also part of our L&D objectives.



## Mentoring Policy

We have established an enterprise-wide mentoring programme for the Bank's Banking Outlets. A specified number of Banking Outlets are dedicated to mentors, who are senior officials at the Head Office (HO). These officials regularly visit the Banking Outlets allotted to them and interact with the employees on a wide range of subjects, including business performance, strategy, branch requirements, growth potential, among others. They also ensure speedy and effective redressal of employees' grievances. This helps the branch staff to feel empowered and motivated.



### Learning & Development

A comprehensive Learning & Development Policy has been formulated to ensure the upskilling of our staff members. Each employee on-boarded undergoes a minimum of two weeks of training, which includes on-the-job training. In addition, theme/topic-based training programmes are also conducted across Banking Outlets for employee convenience. A culture of self-learning has been facilitated with the establishment of ESAF SFB Online Academy, the Bank's online learning portal.

We constantly encourage our senior employees to attend the L&D programmes organised by reputable apex training institutions in India. Significant weightage in internal promotions is also given to employees who receive cash incentives for clearing the certified courses of the Indian Institute of Banking and Finance (IIBF). We also have tie-ups with prestigious coaching institutes across multiple locations for offering certified courses of IIBF at concessional rates.



### Employee Recognition

Employee recognition programme is an integral part of ESAF Small Finance Bank, as it offers an opportunity to reward them appropriately. We conduct internal promotion programmes every year through a well-defined process, which is published in advance for full transparency. Regular internal promotions give our employees a chance to climb the corporate ladder and achieve greater heights. Special training sessions on leadership and team building are imparted to the employees who are promoted to the next level, to build a future-ready workforce.



### Performance Management System

An enterprise-wide Human Resource Management Software (HRMS) has been deployed for effective functioning of the HR department. We also have a robust Performance Management System (PMS) in place for rewarding our employees based on their performance. Under this, role-wise Key Responsibility Areas (KRAs) are defined and distributed to employees to assess their yearly performance. The PMS is connected to pre-defined KRAs for effective functioning of the system, which is compiled in conformity with our corporate pillars: People, Planet, and Prosperity. With the PMS model, perfect alignment is made with the Bank's envisaged Vision and Mission.



### Internal Complaints Committee

We firmly believe in maintaining a safe and non-discriminatory organisation, and have zero-tolerance towards sexual harassment at the workplace. We aim to foster a woman-centric and inclusive environment in the Bank. Under the Prevention of Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013, an Internal Complaints Committee has been constituted to report sexual harassment incidents at the workplace. During the year, no complaints of this nature were received.

### Attracting Quality Talent

**3,337**

Number of employees

**31.2**

Mean employee age

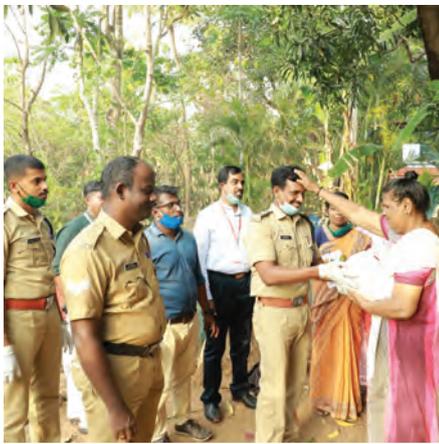
**31.25**

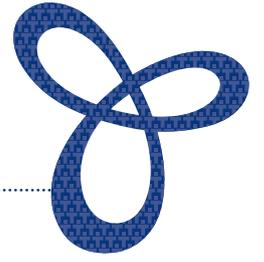
Percentage of women employees

\*Data as on 31st March, 2020

# Giving Back to the Community

Giving back is an integral part of our corporate culture. Through our localised approach to community development, our aim is to contribute to inclusivity and the holistic well-being of society. We aim to progressively enhance our support to those who are underserved, by committing financial and volunteer support, and improve their lives.









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

- Addressing social, environmental and economic needs of the poor and the marginalised sections of the society
- An approach that integrates 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 like-minded 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

CSR Initiatives	Key Objective
<b>ESAF Balajyothis</b>	<ul style="list-style-type: none"> <li>• To transform neighbourhood with academically bright and socially responsible youth</li> <li>• To equip and prepare children to be active members in development and progress of the society</li> <li>• To enhance school enrolment of children</li> </ul>
<b>ESAF – Yuvajyothis – CYRC</b>	<ul style="list-style-type: none"> <li>• To increase the number of play facilities for children</li> <li>• To rejuvenate community-based Arts and Sports Clubs</li> <li>• To create a space for bonding between children from diverse socio-economic backgrounds</li> </ul>
<b>ESAF Suvidi – ESAF Sustainable Village Development Initiative</b>	<ul style="list-style-type: none"> <li>• To improve livelihood prospects of youth and women</li> <li>• To develop play facilities for children in Nutrition Rehabilitation Centre</li> <li>• To improve communication skills and personality development of rural youth</li> </ul>

CSR Initiatives	Key Objective
<b>ESAF Cinder (ESAF Centre for Integrated Development Research) - Waste 2 Wealth Entrepreneurship</b>	<ul style="list-style-type: none"> <li>To build a community-based solid waste management system in partnership with local self-government</li> <li>To increase knowledge among households regarding proper waste management and environment protection</li> <li>To increase income and job opportunity for the poor, socially deprived, informal workers and small entrepreneurs</li> </ul>
<b>ESAF Liveable City Projects</b>	<ul style="list-style-type: none"> <li>To conduct a situation analysis to understand about the quantity, quality, institutions, and policies for open public spaces, markets and streets</li> <li>To create awareness among the public, NGOs, other organisations, policy makers about importance of quality open public spaces, markets, streets</li> <li>To build the capacity of public, NGOs, local officials other organisations, policy makers to participate in designing, building, and maintaining quality open public spaces, markets, and streets</li> </ul>
<b>Community School Infrastructure at Jharkhand</b>	<ul style="list-style-type: none"> <li>To promote quality education among marginalised children from tribal hamlets of Jharkhand</li> <li>To impart primary education to the tribal children who lack access</li> <li>To create better learning environment for children through artistic student-friendly infrastructure</li> <li>To provide good sanitation and basic infrastructure facilities</li> </ul>
<b>ESAF Krushak Mithra for Farmers &amp; Farmer Collectives</b>	<ul style="list-style-type: none"> <li>To see 'farming' as a sustainable and profitable livelihood / entrepreneurship option, by introducing newer farming technologies, environment-friendly farming methods through farmer collectives (FCs)</li> <li>To provide market linkage to the FCs for achieving a regular, profitable source of income to its farmer members</li> <li>To strengthen FIGs and set their targets in crop produce aggregation, input services</li> <li>To train Lead Farmers on relevant banking services such as savings, loans and insurances for deepening financial inclusion</li> </ul>
<b>ESAF Garshom - Projects for Migrant Labourers</b>	<ul style="list-style-type: none"> <li>To provide quality and affordable healthcare services to migrant workers</li> <li>To develop a unique model which caters to healthcare needs of the workers</li> </ul>
<b>Skill Training for Rural Artisans, Rural Youths at Lahanti Institute of Multiple Skills</b>	<ul style="list-style-type: none"> <li>To develop an infrastructure and create facilities to provide employability skills among unemployed rural youth and women, so that they can aspire for better livelihood and entrepreneurial opportunities</li> <li>To provide subsidies for the entrepreneurship trainings at LIMS</li> </ul>
<b>Flood Rehabilitation</b>	<ul style="list-style-type: none"> <li>To build new houses for flood-affected people in Kerala who have endured severe damage to their houses</li> <li>To repair/renovate public institutions</li> <li>To provide livelihood support to flood-affected community</li> </ul>
<b>COVID-19 Response Programme</b>	<ul style="list-style-type: none"> <li>To provide adequate relief support to the vulnerable population for ensuring basic supplies and improve livelihood</li> <li>To build the COVID-19 treatment facilities of hospitals through COVID-19 isolation wards by providing personnel protection equipment for medical staff</li> </ul>
<b>ESAF Suvidi - ESAF Sustainable Village Development Initiative</b>	<ul style="list-style-type: none"> <li>To improve the employability skills of educated youth</li> <li>To instil better psychological identity and self-acceptance</li> <li>To improve nutrition status of the youth</li> <li>To introduce financial literacy and inculcate financial disciplines</li> </ul>
<b>ESAF Arogyamitra-Health Entrepreneurship Development</b>	<ul style="list-style-type: none"> <li>To increase access to preventive health information related to hygiene, nutrition, communicable/non-communicable diseases, mental health</li> <li>To improve promotion of basic health monitoring, early detection of diseases, health care of the elderly</li> <li>To increase access to primary curative services</li> </ul>
<b>Lahanti Public School</b>	<ul style="list-style-type: none"> <li>To enhance academic performance and experimental education</li> <li>To provide a better learning environment for children from rural areas and to establish facilities to address issues such as health and sanitation</li> </ul>

# Management Discussion & Analysis



## Global Economy

As per the International Monetary Fund (IMF) estimates, the global economy grew at 2.9% in 2019, as against 3.6% in 2018. The subdued growth is a consequence of elevated trade barriers, Brexit related concerns, geopolitical tensions, and macroeconomic stress in several emerging economies. The beginning of 2020 saw several positives, which include United States (US)-China trade negotiations, a successful Brexit and continued monetary easing. However, the outbreak of Covid-19 pandemic in the first quarter of 2020 has been severely impacting the economic activity. Protecting lives and boosting healthcare systems have resulted in isolation, lockdowns, and widespread closures to contain the spread of the virus. As a result of the pandemic, global economy is expected to contract sharply to -3% in 2020, much worse than the financial crisis a decade ago. A raft of stimulus packages has been put in place by major economies and financial institutions to limit the economic

fallout. Nonetheless, growth is expected to rebound to 5.8% in 2021, reflecting the normalization of economic activity helped by policy support.

*(Source: IMF World Economic Outlook April 2020)*

## Indian Economy

India is expected to record a Gross Domestic Product (GDP) growth of 4.2% in FY 2019-20, much lower than the 6.8% growth clocked in FY 2018-19. (Source: IMF). Global economic slowdown, weakening demand and private investment, tight financial conditions due to the non-banking financial (NBFC) crisis are the major factors for the growth deceleration. The rapid spread of Covid-19 has created new roadblocks for the Indian economy and is seen having a severe disruptive impact on investment and consumption. (Source: CARE Ratings Report)

Despite the headwinds, India achieved a rank of 63, moving up 14 notches in the World Bank's Ease of Doing Business Index 2020. This was fueled by key reforms enforced by the government, including Goods and Services Tax (GST), Insolvency and Bankruptcy Code (IBC), corporate tax cuts, among others. The government continues to take bold initiatives towards becoming the targeted USD 5 trillion economy by 2024. Recent measures such as corporate tax rate cuts, front-loaded infrastructure investment programmes, and bank recapitalisation are likely to drive growth. Focus on improving agricultural productivity, increase in financial inclusion, and adoption of digital technology will propel rural demand. Reduced tax rates for individuals will put more disposable money in the hands of taxpayers and boost spending and consumption. (Source: PWC Report)

### Inflation and Monetary Policy

India's Consumer Price Index (CPI) inflation stood at 5.91% in March 2020 vis-à-vis 6.58% in February 2020 on the back of easing food prices. However, supply shortages due to the nationwide lockdown is expected to push up inflation in the coming months, followed by a subsequent resumption of correction in retail inflation, as the situation normalizes. (Source: <https://www.livemint.com/news/india/retail-inflation-eases-to-below-6-in-march-11586779208538.html>). The annual Wholesale Price Index (WPI) inflation softened to 1% on account of broad-based moderation across segments along with deflation in fuel and power. (Source: <https://www.businesstoday.in/current/economy-politics/wpi-inflation-eases-to-4-year-low-at-1-in-fy20/story/401116.html>)

The Reserve Bank of India (RBI), in the year 2019, slashed the benchmark repo rate by 135 basis points (bps) to 5.15% in five successive rate cuts from February to October 2019. The Monetary Policy Committee's (MPC) decision was guided by subdued inflation and the need to strengthen domestic growth by spurring private investment and consumption. At the same time, the stance of the MPC continued to be accommodative as it reduced the policy rate.

### Covid-19 Impact

The unexpected and untimely outbreak of coronavirus pandemic has been hitting the demand and supply sides of the economy via multiple channels. A government-mandated lockdown has brought the country's manufacturing and service sectors to a grinding halt, and disrupted supply chains. The growing spread of the virus, social distancing measures and fears among consumers and businesses have escalated sharply in India. As a result of the pandemic, Indian economic growth has decelerated considerably and is estimated at 1.9% for FY 2020-21 with potential downsides. Growth is, however, expected to recover sharply to 7.4% in FY 2021-22, buoyed by fiscal and monetary stimulus to limit the economic fallout.

### Support Measures

However, policymakers have been implementing substantial fiscal, monetary and financial market measures to support affected households and businesses. These actions will help counteract the economic damage as the pandemic abates and containment measures are lifted.

On the fiscal front, the government announced a stimulus package of ₹ 1.7 trillion, primarily in the form of transfers to households and farmers to help them deal with the rising challenges. In a bid to maintain financial stability and revive growth, the RBI reduced the policy rate by 75 bps to 4.4% from 5.15% in March 2020. The lower interest rates are expected to boost borrowers' capacity for repayment. Along with this, it slashed the cash reserve ratio by 100 bps to release ₹ 1.37 lakh crore across the banking system. In addition, it allowed commercial banks and non-bank finance companies to offer their customers a three-month moratorium on payment of instalments on their loans. With all these relief measures, growth is expected to recover sharply to 7.4% in FY 2021-22, as estimated by IMF.

### Indian Banking Industry Trends and Developments

The Indian banking sector plays an important role in the economic development of the country and is the most dominant segment of the financial sector. It accounts for nearly 7.7% of India's GDP and employs 1.5 million people.

The banking system comprises the following:

- Public Sector Banks
- Private Sector Banks
- Foreign Banks
- Regional Rural Banks
- Cooperative Banks
- Small Finance Banks
- Payments Banks
- Other Financial Institutions

### Recent Trends and Developments

- In December 2018, the RBI announced external benchmarking of retail loans. As per RBI, this move is expected to bring standardization, as banks will have to adjust their loan rates as per the external benchmark. It will also ensure transparency and better understanding of the loan products.
- In August 2019, the government announced an upfront capital infusion of ₹ 70,000 crore into public sector banks to boost lending and improve liquidity. This will support growth by encouraging the flow of credit into the economy.

- To revitalize the banking sector, the government, in the month of September 2019, announced an extensive consolidation of 10 public sector banks into four entities. This will strengthen bank capacity and create lenders of global scale, with a strong national presence.
- The RBI in the year 2019, slashed the benchmark repo rate by 135 bps to 5.15% in five successive rate cuts from February to October 2019. Further, in the light of Covid-19 pandemic, it also reduced the repo rate by 75 bps to 4.4% and reverse repo rate by 90 bps to 4% in March 2020 to maintain financial stability. It also allowed commercial banks and non-bank finance companies to offer their customers a three-month moratorium on payment of instalments on their loans.
- The Insolvency and Bankruptcy Code has instilled a significantly better credit culture in the country and enhanced investor confidence. With this reform, the RBI has sent a strong signal to borrowers to adhere to the credit discipline and encourages banks to break resolution deadlocks by introducing definite timelines.
- Rapid pace of innovation and digital adoption in banking is expected to lead to higher share of digital transactions in the coming years. (Source: <https://bfsi.economictimes.indiatimes.com/news/banking/what-next-in-indias-digital-payments/72342323>)
- Financial inclusion schemes of the government, such as Pradhan Mantri Jan Dhan Yojana (PMJDY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), among others, are aimed at giving access to financial services to every individual in society without any form of discrimination.

As per the RBI, non-food credit (NFC) grew at 7.3% year-on-year in February 2020 vis-à-vis 13.2% in February 2019. Credit growth to the services sector decelerated to 6.9% in February 2020 from 23.7% in February 2019. Growth slowed as loans to all major sectors- agriculture, industry and services slowed. Retail was the only segment to post a higher growth. Personal loans growth accelerated marginally to 17% year-on-year from 16.7% in February 2019. The slowdown in credit growth was spread across all banks, especially those in the private sector. However, in Q4 of FY 2019-20, there has been a moderate uptick in credit offtake by public sector banks.

**As per the RBI, non-food credit (NFC) grew at 7.3% year-on-year in February 2020 vis-à-vis 13.2% in February 2019. Credit growth to the services sector decelerated to 6.9% in February 2020 from 23.7% in February 2019. Growth slowed as loans to all major sectors- agriculture, industry and services slowed.**

Further, with the Covid-19 pandemic posing huge risks for the Indian economy, credit growth is likely to remain modest, reflecting weak demand and risk aversion. (Source: RBI : [https://www.business-standard.com/article/finance/coronavirus-impact-credit-growth-likely-to-remain-modest-says-rbi-120041000071\\_1.html](https://www.business-standard.com/article/finance/coronavirus-impact-credit-growth-likely-to-remain-modest-says-rbi-120041000071_1.html)) The rapid outbreak and subsequent lockdown measures are expected to result in elevated credit costs and higher slippages in the banking sector. However, the steps enforced by the RBI in the form of rate cuts, reducing the cash reserve ratio, three-month moratorium on term loans, among others, would push lending rates down, encourage banks to infuse money into productive sectors and address the financial stress caused by the pandemic. (Source: <https://economictimes.indiatimes.com/news/economy/policy/rbi-measures-to-boost-liquidity-incentivise-banks-to-lend-more-to-boost-economy-finance-minister/articleshow/75199983.cms?from=mdr>).

## Agenda on Financial Inclusion

Greater financial intermediation has a positive impact on the economic development of a country, and banks can help bring down income inequality by giving credit to unserved and underserved small enterprises and rural populations. Despite numerous models such as priority sector lending, SHG (self-help group) model, correspondent banking, regional rural banks (RRBs), urban co-operative banks (UCBs) etc., the agenda of financial inclusion is still far from being met.

Financial inclusion is increasingly being recognised as a key driver of economic growth and poverty alleviation across the world. Access to formal finance can boost job creation, reduce vulnerability to economic shocks and increase investments in human capital. Seven of the United Nations Sustainable Development Goals (SDGs) of 2030 view financial inclusion as a key enabler for achieving sustainable development worldwide. Hence, financial inclusion has been a major economic policy of the government of India.

Various initiatives have been taken by the government and the RBI for strengthening the financial inclusion. A new entrant is the RBI's recent innovation- 'small finance banks (SFBs)', which have a vision of furthering financial services for the marginalised sections. On one hand, this would create new opportunities for SFBs to expand operations and target niche sectors, while on the other hand, it will enable the government to fulfil its agenda of financial inclusion.

## Urban-rural divide- Opportunity for SFBs

Lack of outreach to the poorer sections of society and to communities in remote and hilly areas, lack of resources, high non-performing assets, capacity-building problems, and limited impact due to over-dependence on a mono-product strategy have left the micro-finance institutions (MFI) sector stunted. 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. Further, rural areas in India have lower financial inclusion compared to urban areas and there is less competition for banking services in rural areas compared to urban areas. This presents small finance banks significant growth opportunities in rural and unserved areas.

Particularly, bank credit and deposit penetration is low in the northern and eastern zones of the country. In addition, the pace of opening new branches by scheduled commercial banks in these regions has slowed down in recent times. CRISIL Research believes that this is mainly due to the banks' focus on reducing the costs associated with physical branches. This provides ample headroom for SFBs to take the banking services to the remotest locations of the country.

## Small Finance Banks Industry: An Overview

### Evolution of Small Finance Banks in India

On November 27, 2014, the RBI committed to a paradigm shift in its financial inclusion prerogative by introducing guidelines for a new class of banks called Small Finance Banks (SFBs). In 2015, the RBI issued in-principle approvals to 10 entities to convert into SFBs.

Source: [https://www.researchgate.net/publication/338101466\\_Banking\\_For\\_The\\_Poor\\_A\\_GLM\\_Study\\_On\\_Small\\_Finance\\_Banks\\_In\\_India](https://www.researchgate.net/publication/338101466_Banking_For_The_Poor_A_GLM_Study_On_Small_Finance_Banks_In_India)

These SFBs were introduced by the RBI to extend basic banking and credit facilities to the unbanked and underbanked sections of society. The objective is to drive financial inclusion and supply credit services to small business units, marginal farmers, micro-enterprises and other unorganised entities through low-cost, high-technology operations.

Akin to commercial banks, SFBs can undertake all banking activities, including lending and taking deposits. RBI guidelines state clearly and unequivocally that preference will be accorded to institutions that focus on underserved regions of the North-east, and eastern and central India; work with unserved and underserved populations in general; and target the marginalised segments of small businesses, entities in the unorganised sector, low-income households, and farmers through credit and savings products.

### Mandate for SFBs

- Extend 75% of Adjusted Net Bank Credit (ANBC) to sectors eligible for classification as priority sector lending (PSL).
- Maintain at least 25% of their branches in unbanked rural areas with no restrictions in areas of operations.
- At least 50% of loan portfolio to comprise loans and advances of up to ₹ 25 lakh.

- Maintain minimum Capital Adequacy Ratio (CAR) of 15% of its risk-weighted assets (RWA).

### Minimum Capital Requirement

Under the new on-tap licensing guidelines, the RBI doubled the minimum capital requirement to ₹ 200 crore from ₹ 100 crore earlier, with certain exceptions, such as in case of SFBs which are transited from primary (Urban) Co-operative Banks, or converted from NBFCs/MFIs etc., the requirement is separately set out.

### Promoter's Contribution

Under the earlier guidelines, shareholding by promoters in the bank had to be brought down to 40% within five years, subsequently to 30% within ten years and to 26% within 12 years. However, under the new guidelines, shareholding by promoters in the bank has to be brought down to 40% within five years, subsequently to 30% within ten years and to 15% within 15 years.

### Key Features of SFBs

- SFBs perform activities similar to that of a universal commercial bank, offering basic banking services and non-risk sharing financial services. These banks can also offer foreign exchange services as an Authorized Dealer- Category II.
- SFBs offer a comprehensive suite of products and can cross-sell products to improve customer stickiness and loyalty.
- Conversion to SFBs enables NBFCs to raise deposits and lower their cost of funds. With low cost of funds, these banks can expand their product portfolio and provide competitive rates in the market.
- Greater use of technology enables SFBs to provide customised product offerings to the target customer segments at lower turnaround times.

## Opportunities and Challenges upon conversion to SFB

### Opportunities

#### Huge market opportunity

Despite a significant contribution of nearly 47% to India's GDP, rural areas have only a 10% share of total credit outstanding. This opens up a huge market opportunity for SFBs to extend financial inclusion in rural areas. Their chief aim is to drive last-mile banking connectivity and bring the unserved and underserved inside the umbrella of formal banking.

#### Presence of high informal credit channels

Higher presence of informal credit channels in remote locations provides an opportunity for SFBs to tap the unbanked population.

### Geographical diversification

With increasing focus on portfolio diversification and geographical expansion in the hinterlands and untapped areas, SFBs are expected to grow significantly as they penetrate newer regions.

### Target audience

SFBs target the low-income segment and offer them differentiated products. Unlike the NBFCs which expand horizontally with a special focus product, small finance banks 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, small finance banks can build loyal customer relationships.

### Lower operational expenses

With prior experience in micro-finance loans, SFBs have a deep understanding of the needs and potential of the marginalised, unbanked and under-banked segments of society. This, coupled with robust technology systems, will help them maintain operational efficiency and economies of scale.

### NBFCs' liquidity crisis – Opportunity for SFBs

The liquidity squeeze in the NBFC sector sparked panic and eroded investor confidence, leading to a significant dip in lending to NBFCs. Subsequently, it led to a spike in market rates and increased borrowing costs. Funding constraints have been weakening the financial health of NBFCs and slowing their growth since the second half of fiscal 2018-19.

The crisis in the NBFC sector opens up opportunities for small finance banks. According to CRISIL, non-banks have been losing their market share to well capitalised banks and small finance banks amid the liquidity crunch. Access to deposits, resulting in lower cost of fund will allow small finance banks to compete with NBFCs on pricing in the underpenetrated regions. This will, in turn, enable SFBs to garner significant market share and drive overall business growth.

## Challenges

### Geographical concentration

NBFCs and MFIs are geographically concentrated and are highly vulnerable to systemic risks. SFBs, in view of the regulatory requirements of branch opening, further poses operational challenges.

### Growing competition

SFBs face a major challenge of intensifying competition from other banks, financial institutions, and increasing number of fintech players, which may impact their growth prospects.

### Asset diversification

Considering the limited expertise and experience of small finance banks, diversifying to newer products may become a challenge.

### External volatility

Volatility in global or domestic economy, political uncertainty, or local developments may hamper growth as SFBs largely cater to the underserved and most vulnerable masses.

### On-tap licensing of Small Finance Banks

In December 2019, the RBI issued guidelines for on-tap licensing of SFBs to further financial inclusion and widen competition. More players will now be able to apply for an SFB license, subject to the fulfilment of regulatory conditions.

## ESAF Small Finance Bank: An Overview

ESAF Small Finance Bank is one of the leading small finance banks in terms of yield on advances, Assets Under Management (AUM) growth rate and share of retail deposits. Along with its promoters, the Bank has a history of more than 25 years of primarily serving the unserved and underserved, with a focus on financial inclusion. Its business model focuses on the principles of responsible banking, providing customer-centric products and services through the extensive application of technology. As at March 31, 2020, the Bank has operations in 18 states and union territories, 454 Branches, and has served over 40 lakh customers.

The Bank follows a social business strategy with a triple bottom line approach, emphasizing on people, planet, and prosperity. Its goal is to become one of India's leading banks in the microfinance sector that offers equal opportunities through universal financial access and inclusion and livelihood and economic development. The roots of the Bank can be traced back to 1992, when Kadambelil Paul Thomas, the Managing Director and Chief Executive Officer, along with others, founded ESAF Society, a society focused on the development of microenterprises, community development, and community health development. ESAF Society started its microfinance activities in 1995. In 2006, Kadambelil Paul Thomas along with others acquired the Corporate Promoter. Thereafter, ESAF Society transferred its microfinance business undertaking to its Corporate Promoter in 2008 pursuant to a business transfer agreement dated March 31, 2008. Its Corporate Promoter was awarded NBFC-MFI status in 2014. The Corporate Promoter transferred its business undertaking, comprising its lending and financing business, to the Bank in 2017 pursuant to a Business Transfer Agreement dated February 22, 2017. ESAF commenced its business as a small finance bank on March 10, 2017.

The asset products of the Bank comprise microfinance loans, retail loans and other loans and advances. Liability products comprise current accounts, savings accounts, fixed deposits and recurring deposits. The Bank also serves NRI customers and offers NRE and NRO saving accounts, fixed deposits, and recurring deposits.

Further, it distributes third-party life and general insurance policies, government pension products and act as point of sales (“POS”) terminals. In addition, the Bank provides foreign exchange services, which include currency exchange and outward and inward remittances.

The Bank delivers its products and services through business correspondents, Branches, ATMs, ATM cum debit cards, mobile banking platforms, SMS alerts, internet banking portals and unified payment interface facilities. It has a strong focus on leveraging technology to deliver products and services.

The Bank uses business correspondent entities for sourcing and servicing of customers for microfinance loans, select deposit products and select third-party products. As at March 31, 2020, its business correspondents were responsible for sourcing and/or servicing customers for 92.92% of the gross advances and deposits, respectively. As at March 31, 2017, our business correspondents sourced nil of our deposits.

### Key Strengths

Deep understanding of the microfinance segment, which has enabled the Bank to grow business outside of its home state, Kerala

The microfinance roots of the Bank can be traced back to 1995. The Bank’s deep understanding of the microfinance segment has enabled it to successfully expand its business outside of Kerala. Microfinance loans to customers outside of Kerala has grown from ₹ 549.05 Crore, representing 37.81% of total microfinance loans, as at March 31, 2017, to ₹ 2797.35 Crore as at March 31, 2020, representing 45.53% of our total microfinance loans.

### Strong rural and semi-urban banking franchise

The Bank believes that it has developed an understanding of the rural and semi-urban households in the regions in which it operates. In 2019, the Bank received the SKOCH award for “Providing access and affordable banking services for financially underserved areas” and the “best performance award for SHG-Bank linkage” from NABARD. The Bank focuses on providing microfinance loans and Haritha loans (agricultural loans) to customer in rural and semi-urban areas. As at March 31, 2020, advances to microfinance loan customers in rural and semi-urban areas (combined), accounted for 74% of total gross advances.

The share of rural areas in total credit outstanding is only 10%, compared with 90% for urban India. The massive divergence in the share of rural areas and urban areas in India’s GDP and banking credit serves as an indicator of the extremely low penetration of large banks in rural and urban areas. (Source: “Report on Indian Banking Industry, Small Finance Banks sector and various loans products” dated January, 2020, issued by CRISIL Limited)

As rural areas in India have lower financial inclusion compared to urban areas and there is less competition for banking services in rural as compared to urban areas, this presents smaller banks with significant growth opportunities in rural areas. (Source: CRISIL Research Report).

The Bank believes that its strong rural and semi-urban franchise will enable it to take advantage of this growth opportunity. Its customers in rural and semi-urban areas have increased from 0.08 million and 1.06 million as at March 31, 2017 to 0.23 million and 1.66 million as at March 31, 2020, respectively. The Bank had 454 branches as at 31 March 2020, with 37 Metro branches, 72 urban branches, 274 semi-urban, and 71 rural branches. Rural and semi-urban branches accounted for 75.9 9% of the bank’s presence. The Bank also services customers through 136 business correspondent outlets.

### Fast growing Retail Deposit portfolio with low concentration risk

The Bank has been able to leverage the strength of the “ESAF” brand, which has been built over a period of more than 25 years, to rapidly grow its deposit portfolio since commencement of operations. The Bank has the highest share of Retail Deposits as a percentage of total deposits as compared to other small finance banks (Source: CRISIL Research Report).

As at March 31, 2020, the Retail Deposits accounted for 95.08% of our total deposits. As an NBFC-MFI, the Corporate Promoter was unable to accept deposits as per applicable laws in India. After acquiring the business of the Corporate Promoter, the Bank has placed a strong emphasis on increasing its retail deposits, as they have lower rates of interest compared to wholesale deposits. In particular, CASA tends to provide a stable and low-cost source of deposits compared to wholesale deposits. As at March 31, 2020, its deposits from the 20 largest depositors accounted for 11.15% of total deposits.

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**As at March 31, 2020, the retail deposits accounted for 95.08% of our total deposits.**

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Kerala is the home state of the Bank, where it has a presence in all 14 districts. Kerala has the highest share of inward remittances into India. Kerala, Karnataka, Tamil Nadu, and Maharashtra are estimated to account for approximately 59% of the inward remittances during Fiscal 2017. (Source: CRISIL Research Report). NRIs deposits in Kerala were ₹ 1.9 trillion as at April 2019. Kerala has a savings surplus of approximately ₹ 2.00 trillion as at March 2019, with six deposit accounts per every one loan account. (Source: CRISIL Research Report). Due to the foregoing and our presence in all districts in Kerala, the Bank has been able to capitalize on this opportunity and increase its NRI deposits.

### **Strong customer connect driven by customer centric products and processes and other non-financial services for microfinance customers**

The Bank aims to provide the best in class banking services to its customers, as it believes customers are the most important stakeholders in its business. Its 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. An example of the Bank's customer-centric approach is that its microfinance 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 microfinance recurring deposits. The business correspondents collect repayments and through regular meetings with microfinance customers, the business correspondents are able to understand them better. The Bank believes that the business correspondents' constant engagement with microfinance customers leads to a lower risk of delinquencies.

In addition to the provision of financial services, its business correspondents undertake various non-financial services, which includes, among other things, conducting financial literacy programs, livelihood programs, entrepreneurship training programs, and community engagement programs.

The Bank's guiding principles include transparency, preventing 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 by providing emergency funding in the form of "Utdhan Loans" to customers for rebuilding their livelihood and meeting other expenses, moratoriums on repayment of their loans for a period of up to one year depending upon the needs of such customers affected by the floods and extending total repayment periods for up to 36 months on certain categories of loans. No penal interest was charged for the month of August 2019.

The Bank believes that its customer-centric products and processes have resulted in high customer retention rates. As at March 31, 2020, 77% of its current borrowers had previously borrowed from the Bank. In 2018, the Bank had received the "MSME Banking Excellence Award" from the Chamber of Indian Micro Small and Medium Enterprises for serving MSMEs.

### **Technology driven model with an advanced digital technology platform**

The Bank offers its 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. Its customers are also able to register their savings accounts on unified payment interface based mobile applications.

The Bank's account opening and loan underwriting process have been digitalized by using tablets, which enables it to reduce turnaround time and offers better service to customers. CASA accounts can be opened through tablets, which enables it to provide doorstep services to customers. By leveraging technology solutions, the Bank provides customers with pre-generated kits immediately upon account opening, enabling them to use the ATM-cum-debit card provided with the pre-generated kits without having to wait for the ATM-cum-debit card to be activated across channels, thereby resulting in increased customer satisfaction.

The Bank has a digitalized central credit-processing unit for its microfinance loans. Its customer on-boarding process has been predominantly digitalized for its microfinance loans. It leverages technology for underwriting and credit sanctioning for loan products based upon inputs from credit bureaus and/or customer data analytics. The Bank has implemented technology solutions that enables it to ensure cashless disbursement of loans. Its collections mechanism has also been digitalized through the use of mobile applications.

The Bank continuously works towards improving customers' experience through the use of technology. It has implemented a customer relationship management solution to better handle customer requests. ESAF believes that such initiatives have helped it improve customer service and enabled it to deliver services in a more cost-effective manner.

### **Experienced Board and Key Management Personnel**

The Bank has an experienced Board comprising members with diverse business experience, many of whom have held senior positions in well-known financial services institutions. Mr. Kadambelil Paul Thomas, the Managing Director and Chief Executive Officer,

was previously a senior field representative at Indian Farmers Fertilizers Co-operative Limited and since 2013 he has been the president of Kerala Association of Microfinance Institutional Entrepreneurs. Members of the Key Management Personnel have been working in the banking and financial services sector for more than 25 years. The Key Management Personnel have expertise in scaling up financial services organizations and collectively they have all the relevant experience in credit evaluation, risk management, treasury, and technology.

## Operational Highlights

As at March 31, 2020, the total customer base of the Bank stood at 40 lakh+, while the total Savings Bank Deposit Accounts of the Bank stood at 38.73 Lakhs.

The total advances made by the Bank increased to ₹ 6606.51 Crores in FY2019-20 from ₹ 4587.07 Crores in the previous year.

## Micro-Banking

For the financial year 2019-20, the Bank had 28.63 lakhs micro-banking borrowers, of which 5.04 lakhs were fresh borrowers. Of the total loan amount of ₹ 7427.15 disbursed during the period, ₹ 6830.44 Crores were disbursed to micro-banking customers. Major activities financed were Agriculture, Small Trading, Animal Husbandry, and Micro-Manufacturing.

The Bank appointed 12 Business Correspondents (BC) in order to reach the underserved. ESAF Swasraya Multi-State Agro Co-operative Society (Thrissur, Kerala); People Action for Transformation Ltd, (Trichy, Tamil Nadu); Grameen Development & Finance Pvt. Ltd, (Kamrup, Assam); Sambandh Finserv Pvt. Ltd, (Bhubaneswar, Odisha); and Lahanti Last Mile Services Pvt. Ltd (Trichur, Kerala). Agora Microfinance India Limited, Navachetana Microfin Services, Sampoorana Training and Entrepreneurship Program, Vindhyanchal Finlease Private Limited, Kamal Fincap Private Limited, Margadarshak Financial Services Limited, DVARA Kshetriya Gramin Financial Services.

## Retail Liabilities

The total Retail Deposit portfolio of the Bank, as at March 31, 2020, stood at ₹ 6682.38 Crores, registering a year-on-year growth of 64.39% over the previous year from ₹ 4065.01 Crores. The total liabilities book has grown from ₹ 4317.01 Crores in FY2018-19 to ₹ 7028.38 Crores in FY2019-20, registering a growth of 62.81%.

The CASA portfolio stood at ₹ 960.28 Crores, which was 13.66% of the total deposits. Total CASA increased from ₹ 582.02 Crores to ₹ 960.28 Crores, registering a Y-o-Y growth of 64.14%.

New customer acquisition has been a focus area for the Bank during the year, and as a result, the total number

of deposit accounts increased from 32.50 lakhs in March 2019 to 41.95 lakhs in March 2020, registering a 29.10% growth.

The Bank garnered Non-Resident business of ₹ 1312 Crores by onboarding 0.30 Lakhs customers. The NRI segment has been identified as an area for fuelling the deposit growth in the coming years.

## Retail Assets

The total asset portfolio, excluding micro-banking business, of the Bank stood at ₹ 467.56 Crores as at March 31, 2020, as compared to ₹ 169.29 Crores as at March 31, 2019. The Bank constantly strives to design products that suit the needs of its target customers and are in line with its core business philosophy.

## 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, 2020, stood at ₹ 1745.46 Crores as compared to ₹ 1530.75 Crores on March 31, 2019. The investment deposit ratio stood at 24.69%, as compared to 35.46% in the previous year. Increase in gross investments is mainly attributed to increase in Non-SLR instruments like Certificate of Deposits for short-term liquidity deployment.

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 11.74% and 10.35% of our total income during Fiscals 2020 and 2019, respectively.

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**As at March 31, 2020, the total customer base of the Bank stood at 40 lakh+, while the total Savings Bank Deposit Accounts of the Bank stood at 38.73 Lakhs.**  
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## Financial Highlights

Particulars	₹ in crore			
	Year ended 31 March 2020	Year ended 31 March 2019	Y-o-Y growth	
			Amount	%
Income from Advances	1,238.29	914.61	323.68	35.39%
Investment Income	135.68	97.01	38.67	39.86%
Other Interest Income	39.28	20.02	19.26	96.20%
<b>Interest Income (A)</b>	<b>1,413.25</b>	<b>1,031.64</b>	<b>381.61</b>	<b>36.99%</b>
<b>Interest Expended (B)</b>	<b>621.06</b>	<b>458.28</b>	<b>162.78</b>	<b>35.52%</b>
<b>Net Interest Income(C) = A-B</b>	<b>792.19</b>	<b>573.36</b>	<b>218.83</b>	<b>38.17%</b>
Commission, exchange and brokerage	97.98	54.22	43.76	80.71%
Profit on sale of investments (Net)	6.40	1.00	5.40	540.00%
Recovery on written off loan	8.85	1.43	7.42	518.88%
Interest Spread on Securitisation/ Assignment transaction	8.63	41.69	(33.06)	(79.30)%
Other Non-Interest Income	11.33	10.81	0.52	4.81%
<b>Non-Interest Income (D)</b>	<b>133.19</b>	<b>109.15</b>	<b>24.04</b>	<b>22.02%</b>
<b>Total Income (E) = A+D</b>	<b>1,546.64</b>	<b>1,140.79</b>	<b>405.65</b>	<b>35.56%</b>
<b>Net Total Income (F) = C+D</b>	<b>925.38</b>	<b>682.51</b>	<b>242.87</b>	<b>35.58%</b>
Payments to and provisions for employees	144.06	77.10	66.96	86.84%
Rent, taxes and lighting	33.91	26.78	7.13	26.62%
Insurance	6.08	2.59	3.49	134.75%
BC - service charges	277.78	238.23	39.55	16.60%
Housekeeping and Maintenance	11.24	7.67	3.57	46.54%
Depreciation	23.17	16.91	6.26	37.02%
Other expenditure	104.44	84.11	20.33	24.17%
<b>Non Interest Exp. (G)</b>	<b>600.68</b>	<b>453.39</b>	<b>147.29</b>	<b>32.49%</b>
Operating Profit (H) = F-G	324.70	229.12	95.58	41.72%
Standard asset provision	10.07	9.23	0.84	9.21%
NPA provisions	49.15	91.94	(42.79)	(46.54)%
Provision for depreciation on Investments	1.83	-	1.83	100.00%
Provision - others	7.39	0.76	6.63	872.37%
<b>Total provision</b>	<b>68.44</b>	<b>101.93</b>	<b>(33.49)</b>	<b>(32.86)%</b>
<b>Profit Before Tax</b>	<b>256.26</b>	<b>127.19</b>	<b>129.07</b>	<b>101.48%</b>
<b>Provision for Tax</b>	<b>65.87</b>	<b>36.90</b>	<b>28.97</b>	<b>78.51%</b>
<b>Net Profit</b>	<b>190.39</b>	<b>90.29</b>	<b>100.10</b>	<b>110.86%</b>

- Interest Income grew by 36.99% from ₹ 1,031.64 crore for the year ended 31 March 2019 (or Fiscal 2019) to ₹ 1,413.25 crore for the year ended 31 March 2020 (or Fiscal 2020). The primary reasons for this increase are discussed below.

- ◆ Income from advances increased by ₹ 323.68 crore (35.39%), which was primarily due to ₹ 1,552.73 Crore (39.80%) increase in Average Interest-Earning Advances to ₹ 5,454.33 crore for Fiscal 2020 from ₹ 3,901.60 crore for Fiscal 2019., which was partially offset by a decrease in the Yield on Average Interest-Earning Advances to 22.71% for Fiscal 2020 from 23.44% for Fiscal 2019.

- ◆ Investment income increased by ₹ 38.67 crore (39.86%) to ₹ 135.68 crore for Fiscal 2020 from ₹ 97.01 crore for Fiscal 2019. This increase was primarily due to a ₹ 533.33 crore (42.70%) increase in Average Interest-Earning Investments to ₹1,782.37 crore for Fiscal 2020 from ₹ 1,249.04 crore for Fiscal 2019, which was partially offset by a decrease] in the Yield on Average Interest-Earning Investments to 7.61% for Fiscal 2020 from 7.77% for Fiscal 2019.

- ◆ Other interest income increased by ₹ 19.26 crore (96.20%) to ₹ 39.28 crore for Fiscal 2020 from ₹ 20.02 crore for Fiscal 2019. This increase was primarily due to a ₹ 166.34 crore (57.20%) increase in Average Interest-Earning Balances with Reserve Bank of India and other Inter-Bank Funds to ₹ 457.14 crore for Fiscal 2020 from ₹ 290.80 crore for Fiscal 2019.

- Interest expended increased by 35.52% from ₹458.28 crore for Fiscal 2019 to ₹ 621.06 crore for Fiscal 2020. The primary reasons for this increase are discussed below.

- ◆ Interest on deposits increased by ₹ 219.21 crore (82.44%) to ₹ 485.12 crore for Fiscal 2020 from ₹ 265.91 crore for Fiscal 2019, which was due to a 86.42% increase in Average Interest-Bearing Deposits to ₹ 5,798.27 crore for Fiscal 2020 from ₹ 3,110.24 crore for Fiscal 2019, [which was partially offset by a decrease] in the Cost of Average Interest-Bearing Deposits to 8.37% for Fiscal 2020 from 8.55% for Fiscal 2019.

- ◆ Interest on Reserve Bank of India / inter-bank borrowings and others decreased by ₹ 56.44 crore (29.34%) to ₹ 135.94 crore for Fiscal 2020 from ₹ 192.38 crore for Fiscal 2019. This [decrease] was primarily due to a ₹ 555.35crore (28.73%) decrease in Average Borrowings to ₹ 1,377.32 crore for Fiscal 2020 from ₹ 1,932.67 crore for Fiscal 2019 and a decrease in the Cost of Average Borrowings to 9.87 % for Fiscal 2020 from 9.95% for Fiscal 2019.

- Net interest income (NII) increased by 38.16% from ₹ 573.36 crore for the year ended 31 March 2019 to ₹ 792.19

crore for the year ended 31 March 2020, which increase was primarily due to the reasons discussed above.

- Non-interest income increased by 22.02% from ₹109.15 crore for the year ended 31 March 2019 to ₹133.19 crore for the year 31 March 2020. The primary reasons for this increase were:

- ◆ ₹ 43.76 crore (80.71%) increase in income from commissions, exchanges and brokerage to ₹97.98 crore for Fiscal 2020 from ₹ 54.22 crore for Fiscal 2019, which was primarily due to a ₹ 33.11 crore (70.09%) increase in processing fees on advances to ₹ 80.35 crore for Fiscal 2020 from ₹47.24 crore for Fiscal 2019;

- ◆ ₹ 5.40 crore (540.00%) increase in Profit on sale of investments to ₹ 6.40 crore for Fiscal 2020 from ₹ 1.00 crore for Fiscal 2019.

- Non-interest expenditure increased by 147.29 crore (32.49%) to ₹ 600.68 crore for Fiscal 2020 from ₹453.39 crore for Fiscal 2019. The primary reasons for this increase are discussed below.

- ◆ Payments to and provisions for employees increased by ₹ 66.96 Crore (86.84%), to 144.06 crore for the year ended 31 March 2020 from ₹ 77.10 Crore for the year ended 31 March 2019, which was primarily due to an increase in head count from 2168 as at 31 March 2019 to 3397 as at 31 March 2020.

- ◆ BC - service charges increased by ₹ 39.55 crore (16.60%) to ₹ 277.78 Crore for the year ended 31 March 2020 from ₹ 238.23 crore for the year ended 31 March 2019, primarily due to a ₹ 1374.05 crore increase (35.97%) increase in our Average Microfinance Loans to ₹ 5,193.62 crore for Fiscal 2020 from ₹ 3,819.57 crore for Fiscal 2019

- NPA provisions decreased by ₹42.79 crore (46.54%) to ₹ 49.15 crore for Fiscal 2020 from ₹ 91.94 crore for Fiscal 2019. The primary reasons for this decrease was due to an additional provision of 75% made during Fiscal 2019 for NPAs classified during June 2017 on account of demonetisation, loan waivers and political intervention in Maharashtra.

- Provision –others increased to ₹ 7.39 crore for Fiscal 2020 from ₹ 0.76 crore for Fiscal 2019. The primary reason for this increase is that the Bank on a prudential basis has created a provision of ₹ 4.80 crore on an estimated basis towards the possible upward revision in remuneration payable to certain employees due to The Government of Kerala vide extraordinary gazette notification dated 16th January 2020.

- Net profit increased by ₹ 100.10 crore (110.86%) to ₹ 190.39 crore for Fiscal 2020 to ₹ 90.29 crore for Fiscal 2019, which was primarily due to the reasons described above.

## Key Financial Highlights

Particulars	₹ in crore		
	31 March 2020	31 March 2019	% Change
Total Business	13846.13	9289.34	49.05%
Total Deposits	7028.38	4317.01	62.81%
Advances (AUM)	6817.75	4972.33	37.11%
Gross Advances	6606.51	4587.06	44.02%
CD Ratio (%)	97.00%	115.18%	
Savings Deposits	902.44	551.05	63.77%
Demand Deposits	57.84	33.97	70.27%
Total CASA	960.28	585.02	64.14%
CASA % to Deposits	13.66%	13.55%	
Term Deposits	6068.10	3731.98	62.60%
Bulk Deposits	346.00	252.00	37.30%

The component wise growth in asset balance:

SL NO	Advances	₹ in crore		
		31 March 2020	31 March 2019	Y-o-Y growth Growth %
I	Microfinance Loans	6,138.95	4,417.77	1,721.18 38.96%
II	Retail Loans	361.27	138.29	222.98 161.24%
III	Corporate Loans	106.29	31.00	75.29 242.87%
	<b>GROSS ADVANCE (I+II)</b>	<b>6,606.51</b>	<b>4,587.06</b>	<b>2,019.45 44.03%</b>

## Non-Performing Asset (NPA) Position

Particulars	₹ in crore	
	Mar-20	Mar-19
Advances	6,607	4,587
Standard Assets	6,506	4,513
NPA	101	74
NPA Provision	59	39
Net NPA	42	35
GNPA (%)	1.53%	1.61%
Net NPA (%)	0.64%	0.77%
Provision coverage Ratio	79.93%	78.45%

## Key Performance Indicators

Key Ratios	₹ in crore	
	Mar-20	Mar-19
Average yield - earning assets	18.35%	19.15%
Average cost	8.61%	9.05%
Net Interest Margin	10.29%	10.65%
<b>Measures of Return</b>		
Return of Assets (Annualised)	2.24%	1.52%
Cost income (efficiency) ratio	64.91%	66.43%
Earnings Per Share (Basic and Diluted)	4.45	2.37
Book Value per Share	25.34	20.89
CRAR	24.03%	27.59%
ROE	19.31%	13.86%
Gross NPA (%)	1.53%	1.61%
Net NPA (%)	0.64%	0.77%
Provision Coverage Ratio	79.93%	78.45%

Average Yield on earning assets stands reduced from 19.15% for the year ended 31 March 2019 to 18.35% for the year ended 31 March 2020 mainly on account of parking of surplus funds in low yielding instruments.

Average Cost of funds reduced from 9.05% for the year ended 31 March 2019 to 8.61% for the year ended 31 March 2020 mainly on account of reduction in interest rates of term deposits and repayment of Grandfathered borrowings by the Bank.

Return on Assets increased from 1.52% for the year ended 31 March 2019 to 2.24% for the year ended 31 March 2020 on account of increase in Profit.

## Capital Adequacy

The following table sets forth the capital, risk-weighted assets and capital adequacy ratios computed as on 31 March 2020 and 31 March 2019 in accordance with the applicable RBI guidelines under Basel II.

Particulars	₹ in crore	
	31 March 2020	31 March 2019
Tier I Capital	1,122.50	939.40
<i>Of which</i>		
<i>Perpetual Debt Instruments</i>	48.00	48.00
Tier II Capital	162.72	173.05
<i>Of which</i>		
<i>Subordinated Debt</i>	127.00	151.00
Total Capital	1,285.22	1,112.45

Particulars	₹ in crore	
	31 March 2020	31 March 2019
Total risk weighted assets and contingencies	5,438.19	4,033.15
Tier I Capital Adequacy Ratio (%)	20.39	23.30
Tier II Capital Adequacy Ratio (%)	3.04	4.29
<b>Total Capital Adequacy Ratio (%)</b>	<b>24.03</b>	<b>27.59</b>

The Bank's capital position continues to be healthy with a sufficiently higher Tier I capital to take care of immediate business requirement leaving adequate headroom for raising Tier II capital as well.

## Our Strategies

### Expand geographical presence and penetrate deeper into existing geographies

The Bank has operations in 18 states and union territories. As at March 31, 2020, the Bank has 454 Branches, 311 ATMs and 12 business correspondent entities. It intends to increase its distribution within the existing states and expand our reach to new states by selectively opening additional Branches, ATMs, and entering into relationships with new business correspondent entities.

The Bank plans to open branches in new states and union territories, predominately in North India and North East India. Further, it intends to continue expanding presence in South India (primarily outside of Kerala). The aim is to selectively open branches in urban and semi-urban areas after considering district wise 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, including through exchange house. In the urban and semi-urban branches, focus is on customer acquisition by servicing customers with cash dispensers, ATMs, and POS terminals.

### Increase deposits, particularly NRI and CASA deposits

The Bank plans to continue to increase its deposits, in particular the NRI deposits and CASA, in order to reduce cost of fund. Total deposits stood at ₹ 7028.38 Crores as at March 31, 2020, which represented 85.38% of the total deposits and borrowings, respectively. CASA deposits stood at ₹ 960.28 Crores, which represented 13.66% of the total deposits.

To increase our deposits, sales executives of the Bank will continue to target new and existing customers to source deposits in the form of CASA, fixed deposits, and recurring deposits by focusing on customer service and offering competitive pricing. The Bank will also continue to offer current/ savings accounts to eligible customers who are the account holders.

The business correspondent entities of the Bank will be the primary channel for sourcing deposits from microfinance loan customers. In addition, the Bank has relocated many of its former Ultra-Small Branches over time to more suitable locations for deposit taking business. The Ultra-Small Branches are the erstwhile microfinance branches from when its business was owned by the Corporate Promoter. They catered primarily to the microfinance loan customers.

Furthermore, the Bank intends to target NRIs to scale up its CASA base. The Bank began offering NRI deposits in June 2018. Deposits from NRIs represented 18.67% of the total deposits as at March 31, 2020. To target NRIs, 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.

It also intends to target high net worth individuals ("HNIs") to scale up CASA base. To target HNIs, focus is on leveraging its branches by appointing dedicated relationship managers to source deposits from HNI customers.

### Provide a comprehensive suite of banking products catering to the needs of diverse customer base

The Bank has a diverse customer base, which includes women entrepreneurs, migrant labourers, small and medium farmers, MSMEs, NRIs, and senior citizens. It aims to be a one-stop shop for all the financial requirements of customers. Through market research and deep understanding of customers' requirements, the Bank intends to continue to develop products tailored to customers' needs.

As at March 31, 2020, microfinance loans represented 92.92% of total gross advances. Microfinance loans will continue to form an important part of the overall strategy. The Bank aims to continuously provide a comprehensive suite of products to microfinance loan customers, including asset products, liability products, insurance products and financial planning products.

In fiscal 2018, the Bank began offering home loans, clean energy product loans, ESAF Haritha Loans, business loans, micro housing loans, gold and vehicle loans to retail customers. It intends to increase retail and other advances as a percentage of gross advances by targeting households with NRI family members, salaried employees, students, and senior citizens, thereby expanding the retail loan customer base. Further, it plans to focus on individual and MSME segments of the retail customer base to build retail loan portfolio along with capitalizing on its relationship with existing microfinance

loan customers whose borrowing ability has increased and require an increased loan amount.

The Bank plans to launch CASA variants and products focusing on NRIs, students and senior citizens. It continues to focus on offering payment solutions and personalized loan products to the salaried account holders.

The Bank further plans to explore cross-selling and up-selling opportunities within its microfinance loan customer base by marketing to microfinance loan customers' family members, thereby deepening its relationships with them and becoming their trusted bank of choice. In September 2019, we started catering to small traders by providing them with POS terminals along with current account facilities.

### **Increase third-party and service offerings to enhance fee-based income**

The Bank intends to focus on increasing its fee-based income by expanding third-party product and service offerings. The commission earned on selling of insurance policies and pension plans was ₹ 8.92 Crores for the year ended March 31, 2020, which represented 0.58% of the total income. It began distributing the National Pension System in fiscal 2019, Atal Pension Yojna in fiscal 2019, third-party life insurance products in Fiscal 2020, third-party general insurance products in fiscal 2019 and POS terminals in fiscal 2020. It plans to distribute mutual funds, provide financial advisory services and other fee-based offerings.

### **Continue to leverage technology and customer data analytics**

The Bank believes that use of advanced technology has significantly improved efficiency of its operations. It plans 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 perform more reliable data analytics, resulting in more efficient risk management processes, targeted customer profiling and offer customized products to suit customers' diverse requirements.

In addition, the Bank plans to roll out additional features on its website and mobile application, such as support for unified payment interface transactions, thereby expanding its digital reach.

### **Information Technology**

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 minimize its upfront capital expenditure costs and avoid redundancy risk.

The Bank has rolled out FIS' core banking solution across all its branches and a customized 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 disaster recovery centre is in Hyderabad, both of which are operated by FIS.

### **Human Resources**

The Bank believes that its employees are one of the most important assets and that a content and happy workforce will deliver the joy of banking to customers and drive organizational performance.

Internal promotions are conducted every year based on a well-defined process, published in advance to make the process fully transparent. Promoted employees are given special training on leadership and teambuilding. The Bank recognizes the importance of continuous learning and have adopted a comprehensive learning and development policy.

Each employee on-boarded has to mandatorily undergo a minimum of two weeks' training, which includes on-the-job training in microfinance at its Branches. After on the job training at Branches, they are given one week's residential induction training and also another week's training on core banking solution software.

The Bank has facilitated a culture of self-learning for its employees by establishing an online learning portal, ESAF Small Finance Bank Online Academy. It also conducts various topic-based trainings for employees. The Bank has tie-ups with coaching institutes in multiple locations for approved certification courses at concessional fees for employees and gives incentives to those employees who pass those courses. Employees can also avail professional development loans to pay for these courses. The Bank also regularly nominates senior staff to attend programs arranged by certain financial educational institutes.

As at March 31, 2020, the total number of employees at the Bank stood at 3337.

## Risk Management

The Risk Management Architecture of the Bank comprises the following:

- Active Board and senior management oversight
- Appropriate policies, procedures, and limits
- Comprehensive and timely identification, measurement, mitigation, controlling, monitoring, and reporting of risks
- Appropriate management information systems at the business and firm wide level
- Comprehensive internal controls

While the Board is responsible for overall governance and oversight of core risk management activities, it has delegated authority to the Risk Management Committee of the Board for oversight and review of the processes and practices of risk management, and further sub-delegated to the executive level Credit Risk Management Committee for managing credit risk, Operational Risk Management Committee for managing operational risk and the ALCO for managing market risk and liquidity risk. The Risk Management Committee approves and recommends to the Board for its review and approval, the policies, strategies, and framework for management of risk. It ensures an appropriate risk organization structure with authority and responsibility clearly defined, ensuring the independence of risk management function.

The risk management department is 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 risk management department is headed by the Chief Risk Officer, who is independent of all businesses and other functions, and reports directly to the Managing Director and Chief Executive Officer, with parallel reporting to the Board through the Risk Management Committee. The risk management department has six divisions attached to it - credit risk, market risk, operational risk, anti-money laundering and transaction monitoring, and information security and internal financial control divisions, for undertaking risk management functions. Heads of the divisions report to the Chief Risk Officer. The Chief Information Security Officer, 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. Other important aspects of the Bank’s risk architecture are:

- Segregation of duties across the ‘three lines of defense’ model, whereby business functions, risk management and compliance and internal audit roles are made independent of one another;
- Risk strategy is approved by the Board on an annual basis and is defined based on the risk appetite aligning 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. Policies, processes, and systems are in place to enhance risk management capability; and
- The risk function has appropriate representation on the management committees to ensure that risk view is factored into business decisions. Stress testing tools and escalation processes are established to monitor the performance against approved risk appetite parameters.

The risk management activities of the Bank are governed by various policy documents approved by the Board.

## 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.

Credit risk management is the direct responsibility of the Credit Risk Management Committee. The Credit Risk Management Committee manages implementation of credit risk management framework and provides recommendations to the Risk Management Committee and the Board. It ensures implementation of credit risk policy and procedures, as approved by the Risk Management Committee and the Board, and recommends changes thereto, 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 and instructs business units with directions to rectify the deficiencies.

The credit risk division of the risk management department implements policies and processes for credit risk identification, assessment, measurement, monitoring and control. Credit risk appetite statements are drawn up with inputs from the business units, and credit risk parameters and credit exposure and concentration limits are set by the Board and the RBI. The division constructs credit risk identification systems, monitors the quality of loan portfolio, identifies problem credits and undertakes asset quality reviews with support from the business units and submits its analysis and reports to the Risk Management Committee and the Board on an on-going basis. The credit risk division captures early warning signals in the loan portfolio for identification of weak exposures, suggests remedial measures and monitors the actions taken.

### 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 primary 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. While the immediate impact of this risk is on Net Interest Income and the value of fixed income investments, in the long term, variations in interest rates impact the net worth of the Bank, since the economic value of the assets, liabilities and off-balance sheet positions get affected.

#### Liquidity Risk

Liquidity refers to the ability 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. Liquidity risk arises when the Bank is unable to meet such obligations. Liquidity risk 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, support normal banking activity or, at worst, cease to be an ongoing concern.

Market risk management is overseen and undertaken by the market risk division of the risk management department. The division is responsible for the design and implementation of market risk management and asset liability management system. The division is independent from 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 is attached to the market risk division of the risk management department. The mid office prepares and analyses daily reports on various activities of our treasury department. The mid office is responsible for independent market risk monitoring, measurement and analysis reports to the Chief Risk Officer.

The market risk management and asset liability management functions are handled by the ALCO together with the executive level committee, which is headed by the Managing Director and Chief Executive Officer.

The major functions of the ALCO with respect to managing risks in banking and investment books 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;
- Ensuring that the business strategy is in line with the stated risk management objectives;
- Determining the structure, responsibilities, and controls for managing market risk and the liquidity positions; and
- Ensuring independence in the working of the mid office and market risk functions.

#### 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. This definition includes legal risk but excludes strategic risk and reputational risk. While operational risk management 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.

The Operational Risk Management Committee mitigates operational risk by creation and maintenance of an explicit operational risk management process. It conducts detailed reviews of all operational risk exposures and focuses on all operational risk issues.

The Operational Risk Management Committee reviews the risk profile to take into account future changes and threats and concurs on areas of high priority and related mitigation strategies with different departments and business units. The committee ensures that adequate resources are being assigned to mitigate risks as needed, and communicates to business units and staff, the importance of operational risk management.

In addition to the Operational Risk Management Committee, the operational risk division also coordinates with the Product and Process Approval Committee, the Outsourcing and Vendor Risk Management Committee and the Business Continuity Management Committee. The Product and Process Approval Committee is responsible for new product and process approvals, as well as refinement of existing products, systems, and processes. The Operational Risk Management Committee is responsible for the assessment and evaluation of outsourcing activities and vendor selection and addressing the risks in those activities.

Business continuity management and coordination of relevant activities are also the functions of the operational risk division. 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 division has operationalized the risk control and self-assessment process, which assesses the operational risks in various banking operations and effectiveness of controls in place. Monitoring of key risk indicators is done on a quarterly basis to monitor the risk movements. Appropriate corrective action plans are initiated in case of adverse movement of risk levels. The operational risk management model facilitates conducting of risk and control assessments and scenario assessments, controls testing, investigation of incidents, tracking of issues 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 on operational risks.

### **Information Security Risk and Cyber Security Risk**

Oversight of information security governance is done by the Information Security Governance Committee. The Information Security Governance Committee is an executive level committee headed by the Managing Director and Chief Executive Officer.

The cyber security policies of the Bank are approved and periodically reviewed by the Board. The Chief Information Security Officer is responsible for articulating and enforcing the policies used to protect the information assets and 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 Business Continuity Management Policy, Fraud Risk Management Policy and Information Security Policy.

The Information Security Governance Committee monitors, reviews, directs, and manages the information security risk management system by establishing a robust information security risk management framework. This committee reports to the Board through the IT Strategy Committee of the Board and keeps the Board apprised of relevant risks that need attention.

### **AML and Transaction Monitoring as a Risk Management activity**

The Bank has regulatory controls and compliance requirements in place with an objective of ensuring that its customers do not include persons prone to attempt money laundering and other financial crimes. The AML and transaction monitoring division of the risk management department focuses on the following:

- Risk categorization of customers at the time of account opening, and transaction monitoring measures that align with the risk categorization of the Bank's customers;
- Maintenance of a compliance culture across the organization ensures that all employees understand money laundering risks and the consequences of breaches in AML norms;
- Effective implementation of our KYC and AML policy helps ensure that the Bank is 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 organizations 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.

### **Emergence of Covid-19 and Mitigation Strategy**

Since the outbreak of novel coronavirus pandemic, the Risk Management Department has been proactively devising strategies to protect the interest of all the stakeholders. The various measures undertaken by the department include issuance of guidelines to the operating functions to protect themselves as well as

the Bank's assets, analysis of the credit portfolio to understand the behaviour and impact, close monitoring of the transactions, implementation of guidelines and protocols to protect the IT infrastructure of the Bank, and close monitoring of the system security.

The Bank initiated business continuity measures from 6<sup>th</sup> March 2020 and convened a meeting of the Crisis Management Committee (CMC) of the Board. A comprehensive Business Continuity Plan (BCP) document specifically dealing with the Covid-19 situation was prepared by the risk management department and placed before the Management Committee of the Board. The BCP document was circulated to all branches and offices for implementation. The Bank's Covid-19 strategy has been formulated based on this document. Although no business continuity or disaster recovery plan can guarantee full and immediate resumption of business operations given the unknown impact of the pandemic, the purpose is to create a sound framework as well as to implement strong processes and controls to help the Bank and its employees manage the significant disruptions to business operations.

To coordinate the activities and decision-making across the Bank in the wake of the Covid-19 scenario, a Quick Response Team (QRT) of senior officers was formed on 17<sup>th</sup> March 2020 to assess and give feedback to the CMC and top management on a regular basis. The QRT - CMC conducted daily conference calls led by the Managing Director and CEO and coordinated by the CRO. Various steps were implemented by the Bank such as phased functioning of critical operations, regular coordination with branches and customers, periodic assessment of business impact and liquidity position, employee alteration, employee engagement and safety programs, management and Board level reviews, among others. These measures will help the Bank ensure business continuity and safeguard the interests of its stakeholders.

### Internal Control Systems

Internal financial controls are the policies and procedures adopted by the Bank to help ensure orderly and efficient conduct of business, including adherence to policies, safeguarding of 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 framework in line with the requirements prescribed by the Companies Act, 2013. The Bank has an internal financial control division under the risk management department that is responsible for implementing the internal financial controls. The Audit Committee of the Board oversees implementation of internal financial controls and submits a report to the Board. The Board confirms that the internal financial controls are adequate and operating effectively.

The Bank has identified and documented risk control matrices incorporating all the major processes along with the key risks associated with them.

The internal financial control division maintains repository of all process walk-through documents and the risk control matrices. Based on the risk assessment, processes are categorized 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.

### 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, Mannuthy, Thrissur - Palakkad National Highway, Thrissur, Kerala, Pin - 680 651

# Notice

## for the 04<sup>th</sup> Annual General Meeting of the Bank

Notice is hereby given that the Fourth Annual General Meeting of Shareholders of ESAF Small Finance Bank Limited (the Bank) will be held on Monday, 10<sup>th</sup> August, 2020, at the Registered and Corporate Office of the Bank, Building No. VII/83/8, ESAF Bhavan, Mannuthy, Thrissur – Palakkad National Highway, Thrissur, Kerala, Pin - 680 651 at 02.00 PM to transact the following businesses:

### ORDINARY BUSINESS

**Item No.1 - To consider and adopt the Audited Balance Sheet as on 31<sup>st</sup> March 2020, 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. Saneesh Singh, 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 the Financial Year 2020-2021 and fixing of their remuneration**

**"RESOLVED THAT** pursuant to Section 30 and other applicable provisions of the Banking Regulation Act, 1949 and Section 139 and other applicable provisions of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 (including any statutory modification(s) or re-enactments thereof, for the time being in force), 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, based on the approval of Reserve Bank of India vide letter No. Ref DOS.ARG. No.AS-10/08.61.005/2019-20 dated 08<sup>th</sup> May 2020 and recommendation of the Audit Committee of the Board, as the Statutory Auditors of the Bank for the Financial Year 2020-2021, to hold office from the conclusion of 04<sup>th</sup> Annual General Meeting till the conclusion of 05<sup>th</sup> Annual General Meeting of the Bank."

**"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 - Appointment of Shri. Thomas Jacob Kalappila as Independent Director 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 Sections 149, 152 read with Schedule IV and any other applicable provisions of the Companies Act, 2013 ('the Act'), the Companies (Appointment and Qualification of Directors) Rules, 2014 and the applicable provisions of the Banking Regulation Act, 1949 (including any statutory modification(s) or re-enactment thereof, for the time being in force), Shri. Thomas Jacob Kalappila, holding DIN: 00812892, who was appointed as an Additional Director (Independent Director) on the Board of Directors of the Bank, pursuant to provisions of Section 161 of the Companies Act 2013 and pursuant to the recommendations of the Nomination Remuneration and Compensation Committee and the Board of Directors, and who has submitted a declaration that he meets the criteria for independence as provided in Section 149(6) of the Act and who has submitted declaration that he meets the fit and proper criteria laid down by the Reserve Bank of India who is eligible for appointment and in respect of whom the Bank has received a notice in writing under Section 160(1) of the Act from a Member, signifying his intention to propose Shri. Thomas Jacob Kalappila's candidature for the office of Director, be and is hereby appointed as the Non-Executive Independent Director of the Bank, for a period of three (3) consecutive years which shall commence from 10<sup>th</sup> March, 2020 up to 09<sup>th</sup> March, 2023 and whose office shall not be liable to retire by rotation."

**Item No. 5 - Re-Appointment of Shri. Joseph Vadakkekara Antony as Non-Executive Independent Director 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 Special Resolution:

**“RESOLVED THAT** pursuant to the provisions of Sections 149, 152 and other applicable provisions, if any, of the Companies Act, 2013 (“the Act”) read with Schedule IV to the Act (including any statutory modification(s) or re-enactment(s) thereof, for the time being in force) and the Companies (Appointment and Qualification of Directors) Rules, 2014 and the applicable provisions of the Banking Regulation Act, 1949, as amended from time to time, and pursuant to the recommendation of the Nomination Remuneration and Compensation Committee and the Board of Directors, Mr. Joseph Vadakkekara Antony (DIN: 00181554), who holds office of Independent Director up to 16th August, 2020 and who has submitted a declaration that he meets the criteria for independence as provided under Section 149(6) of the Act, and who has submitted declaration that he meets the fit and proper criteria laid down by the Reserve Bank of India who is eligible for re-appointment, and in respect of whom the Bank has

received a notice in writing under Section 160(1) of the Act from a Member, signifying his intention to propose Mr. Joseph Vadakkekara Antony's candidature for the office of Director, be and is hereby re-appointed as a Non-Executive Independent Director of the Bank, for a second term of three consecutive years commencing from 17<sup>th</sup> August, 2020 up to 16<sup>th</sup> August, 2023 and whose office shall not be liable to retire by rotation.”

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



**Ranjith Raj P**

Place: Thrissur  
Date: 08<sup>th</sup> July, 2020

Company Secretary  
Membership No. A 30388

## NOTES

- A Member entitled to attend and vote at 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, at least 48 hours prior to the time fixed for the meeting. Proxy Form is enclosed herewith.
- 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 twenty four 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 three days notice in writing of the intention so to inspect is given to the Bank.
- Explanatory statement pursuant to Section 102 of the Companies Act, 2013, relating to the Special Business to be transacted at the meeting, 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 for the Members at the Registered Office of the Bank during business hours and shall be accessible to the person attending the meeting.
- Corporate members intending to send their authorized representatives to attend the meeting are requested to send to the Bank, a certified copy of the Board resolution authorizing their representative to attend and vote on their behalf at the meeting.
- Route Map of the Bank 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 who hold shares in dematerialized form are requested to write their DP ID and Client ID No.(s) and those who hold share(s) in physical form are requested to write their Folio Numbers in their attendance slip for attending the meeting to facilitate identification of membership at the meeting.
- In case of Joint holders attending the meeting, only such joint holder who is higher in the order of names will be entitled to vote.
- The members are requested to register their e-mail or update their e-mail ID which has already been registered with the Depository Participant.
- Members can avail of the facility of nomination in respect of shares held by them in physical form pursuant to the provisions of Section 72 of the Companies Act, 2013. Members desiring to avail of this facility may send their nomination in the prescribed Form No. SH-13 duly filled, to M/s. Link Intime India Private Limited, Registrar and Transfer Agent (RTA) of the Bank. Members holding shares in electronic form may contact their respective Depository Participants for availing this facility.

- Pursuant to General Circular No. 20/2020 dated 05<sup>th</sup> May, 2020, issued by the Ministry of Corporate Affairs, Members can attend the meeting through electronic mode, the details of which are as follows:

Meeting Access Link: <https://airtel1.webex.com/airtel1/j.php?MTID=m77cef378384d5ddaf1c07047b4ea5b2c>

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

### Item No. 4 – Appointment of Shri. Thomas Jacob Kalappila as Non-Executive Independent Director of the Bank

Shri. Thomas Jacob Kalappila was appointed as an Additional Director (Independent Director) of the Bank with effect from 10<sup>th</sup> March, 2020, by the Board of Directors of the Bank in the meeting held on 04<sup>th</sup> March, 2020 in place of the retiring director, Shri. George Joseph.

In terms of Section 161 of the Companies Act, 2013, he holds office up to the conclusion of the 04<sup>th</sup> Annual General Meeting of the Bank. Based on the recommendations of the Nomination Remuneration and Compensation Committee of the Board (NRCCB) and in compliance with the provisions of Sections 149, 152 of the Companies Act, 2013, the rules framed thereunder read with Schedule IV to the Companies Act, 2013, the directions of the Reserve Bank of India and the Nomination Policy of the Bank, the Board of Directors of the Bank decided to accord its recommendation to the members of the Bank to appoint Shri. Thomas Jacob Kalappila, holding DIN: 00812892, as an Independent Director of the Bank in the 04<sup>th</sup> Annual General Meeting of the Bank for a term not exceeding three (3) consecutive years commencing from the date of initial appointment as Additional Director by the Board on 10<sup>th</sup> March, 2020. The period of office of Shri. Thomas Jacob Kalappila as the Independent Director of the Bank shall not be liable to determination by retirement of directors by rotation at every Annual General Meeting. The Bank has received a notice in writing pursuant to Section 160 of the Companies Act, 2013 from a Member proposing the candidature of Shri. Thomas Jacob Kalappila for his appointment to the office of Independent Director.

Shri. Thomas Jacob Kalappila is a Fellow Member of the Institute of Chartered Accountants of India (F.C.A) holding a D.I.S.A (Diploma Information Systems Audit) certification. He has over 40 years of post-qualification experience as a Chartered Accountant and has been in

practice for more than 37 years providing financial and management consultancy services to various reputed entities. Currently, Shri. Thomas is the Senior Partner of M/s. Thomas Jacob & Co. and is leading all major audit and attest assignments in the firm. He has rich experience in Statutory Audit, Internal and Forensic Audit of banks for more than 35 years and is currently undertaking the audit of Canara Bank, Indian Overseas Bank and Indian Bank. He has previously served as the Independent Director on the Boards of South Indian Bank Limited and Malabar Cements Limited.

In terms of the provisions of the Companies Act, 2013, Shri. Thomas has submitted requisite consent(s)/ disclosures before the Board. The Bank has also received an intimation from Shri. Thomas in Form DIR-8 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 Shri. Thomas Jacob Kalappila complied with the fit and proper norms of RBI, provisions of Companies Act, 2013, applicable SEBI Regulations and Internal Policies of the Bank, for being appointed as an Independent Director on the Board of the Bank.

In the opinion of the Board, Shri. Thomas Jacob Kalappila meets the criteria of independence as stipulated under Section 149(6) of the Companies Act, 2013 and rules framed thereunder and that he is independent of the management. Shri. Thomas Jacob Kalappila is entitled to sitting fees for attending the meetings of the Board and its Committee(s).

Except Shri. Thomas Jacob Kalappila, no other Director or Key Managerial Personnel of the Bank and any of their relatives, is concerned or interested in Item No.4 as specified in the Notice.

Considering the knowledge, background, experience and expertise of Shri. Thomas Jacob Kalappila, the Nomination Remuneration and Compensation Committee of the Board and the Board of Directors of the Bank are of the view that the appointment of Shri. Thomas Jacob Kalappila as an Independent Director of the Bank shall be of immense benefit to the Bank.

The Board recommends Resolution No. 4 as an Ordinary Resolution for approval by the Members. The disclosures as per Secretarial Standards - 2 is enclosed herewith.

**Disclosures as per Secretarial Standards - 2**

Name of the proposed Director	Shri. Thomas Jacob Kalappila	
Age	66 Years	
Qualification	<ul style="list-style-type: none"> <li>Fellow Member of the Institute of Chartered Accountants of India (1984)</li> <li>DISA (Diploma in Information Systems Audit) (2006)</li> <li>Bachelor of Science from University of Kerala (1974)</li> </ul>	
Expertise in specific functional areas	Accountancy and Finance.	
Experience	2010 – 2018	Independent Director of M/s. South Indian Bank Limited
	2015 – 2016	Independent Director of M/s. Malabar Cements Limited
	1997 – Present	Director of M/s. Spotmarkets Securities Private Limited
	1994 – Present	Director of M/s. Syncon Management Consultants Private Limited
	1982 – Present	Practising Chartered Accountant (Senior Partner of M/s. Thomas Jacob & Co., Chartered Accountants, Trivandrum)
	1979 – 1982	Accounts Manager – Tata Engineering and Locomotive Company Limited, Jamshedpur
Terms and Conditions of appointment	Appointment as Independent Director for a period of 3 years and not liable to retire by rotation.	
Details of remuneration sought to be paid	No remuneration will be paid except Sitting Fees for attending meetings of the Board and Committees.	
Remuneration last drawn	NIL	
Date of First appointment on the Board	NA	
Shareholding in the Bank	NIL	
Relationship with other Directors, Manager and other Key Managerial Personnel	NIL	
Number of meetings of the Board attended during the year.	NA	
Directorships held in other companies	He is currently holding directorship in the Board of Spotmarkets Securities Private Limited and Syncon Management Consultants Private Limited.	

**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	

**Item No. 5 – Re - Appointment of Shri. Joseph Vadakkekara Antony as Non-Executive Independent Director of the Bank**

Shri. Joseph Vadakkekara Antony was appointed as a Non-Executive Independent Director of the Bank based on the approval from Reserve Bank of India with effect from 17<sup>th</sup> August, 2017, by the Board of Directors of the Bank in the meeting held on 17<sup>th</sup> August, 2017.

The Nomination Remuneration and Compensation Committee in its meeting held on 29<sup>th</sup> May, 2020, after taking into account the average performance evaluation of 4.95 out of 5 of Shri. Joseph Vadakkekara Antony during his first term of three years and considering his knowledge, acumen, expertise and experience in the field of Banking and the substantial contribution made by the Director during his tenure as an Independent Director since his appointment, has recommended to the Board that continued association of the Director as an Independent Director would be in the interest of the Bank. Based on the above, the Nomination Remuneration and Compensation Committee and the Board of Directors has recommended the re-appointment of Shri. Joseph Vadakkekara Antony as Non-Executive Independent Director on the Board of the Bank, to hold office for the second term of three consecutive years

commencing from 17<sup>th</sup> August, 2020 up to 16<sup>th</sup> August, 2023 and not liable to retire by rotation. The Bank has received a notice in writing pursuant to Section 160 of the Companies Act, 2013 from a Member proposing the candidature of Mr. Joseph Vadakkekara Antony for his re-appointment to the office of Independent Director.

In terms of the provisions of the Companies Act, 2013, Shri. Joseph Vadakkekara Antony has submitted requisite consent(s)/ disclosures before the Board. The Bank has also received an intimation from Shri. Joseph Vadakkekara Antony in Form DIR-8 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 Shri. Joseph Vadakkekara Antony complied with the fit and proper norms of Reserve Bank of India, provisions of Companies Act, 2013, applicable regulations of Securities and Exchange Board of India and Internal Policies of the Bank, for being re-appointed as an Independent Director on the Board of the Bank.

In the opinion of the Board, Shri. Joseph Vadakkekara Antony meets the criteria of independence as stipulated under Section 149(6) of the Companies Act, 2013 and rules framed thereunder and that he is independent of

the management. Shri. Joseph Vadakkekara Antony is entitled to sitting fees for attending the meetings of the Board and its Committee(s).

Except Shri. Joseph Vadakkekara Antony, no other Director or Key Managerial Personnel of the Bank and any of their relatives, is concerned or interested in Item No.5 as specified in the Notice.

In terms of Section 149 of the Companies Act, 2013 re-appointment of an Independent Director requires the approval of members through Special Resolution.

The Board recommends Resolution No. 5 as Special Resolution for approval by the Members. The disclosures as per Secretarial Standards - 2 is enclosed herewith.

### Disclosures as per Secretarial Standards - 2

Name of the proposed Director	Shri. Joseph Vadakkekara Antony	
Age	69 Years	
Qualification	<ul style="list-style-type: none"> <li>• Masters in Commerce from Kerala University</li> <li>• Masters in Personnel Management from Pune University</li> <li>• Bachelor of Law from Pune University</li> <li>• Doctor of Philosophy in Business Economics</li> <li>• Certified Associate of the India Institute of Bankers</li> </ul>	
Expertise in specific functional areas	Banking	
Experience	2005-2008	Chairman & CEO of M/s. South Indian Bank Limited
	2008-2014	MD & CEO of M/s. South Indian Bank Limited
	2015-2018	Director of M/s. ET Marlabs Private Limited
	2018	Director of M/s. Muthoot Homefin (India) Limited
	2019	Director of M/s. SP Life Care Private Limited
Terms and Conditions of appointment	Re-appointment as Independent Director for a period of three consecutive years and not liable to retire by rotation.	
Details of remuneration sought to be paid	No remuneration will be paid except Sitting Fees for attending meetings of the Board and Committees.	
Remuneration last drawn	No remuneration has been paid except Sitting Fees for attending meetings of the Board and Committees.	
Date of First appointment on the Board	17 <sup>th</sup> August, 2017	
Shareholding in the Bank	NIL	
Relationship with other Directors, Manager and other Key Managerial Personnel	NIL	
Number of meetings of the Board attended during the year.	15	
Directorships held in other companies	He is currently not a director in any other Companies.	

### 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	

# Directors' Report

To,  
The Members of  
ESAF Small Finance Bank Limited

Your Directors are pleased to present the Fourth Annual Report of ESAF Small Finance Bank Limited together with the audited financial statements for the Financial Year ended 31st March, 2020.

## 1. Financial Highlights and State of Affairs

Particulars	Rs. in crore	
	For the Year ended 31st March, 2020	For the Year ended 31st March, 2019
Deposits	7,028	4,317
Advances	6,548	4,548
Total Income	1,546	1,141
Total Expenditures excluding Tax	1,290	1,014
Profit Before Tax	256	127
Provision for Tax	66	37
Net Profit	190	90
Profit brought forward	88	21
Total Profit available for appropriation	278	111
Appropriation		
Transfer to Statutory Reserve	48	22
Transfer to Investment Reserve	4	1
Balance carried to Balance Sheet	227	88
Earnings per Share – Basic and Diluted (Rs.)	4.45	2.37

## 2. 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.

Rs. 427,79,54,900 (Rupees Four Hundred and Twenty-Seven Crores Seventy-Nine Lakhs Fifty-Four Thousand and Nine Hundred) divided into 42,77,95,490 (Forty-Two Crores Seventy-Seven Lakhs Ninety-Five Thousand and Four Hundred Ninety) Equity Shares of Rs. 10 (Rupees Ten) each.

## 3. Capital

During the year, authorized capital of the Bank was increased from Rs. 450,00,00,000 (Rupees Four Hundred and Fifty Crores) divided into 45,00,00,000 (Forty-Five Crores) Equity Shares of Rs. 10 (Rupees Ten) each to Rs. 600,00,00,000 (Rupees Six Hundred Crores) divided into 60,00,00,000 (Sixty Crores) Equity Shares of Rs. 10 (Rupees Ten) each.

There were no changes in the issued, subscribed and paid-up share capital of the Bank during the Financial Year 2019-20.

Your Bank has a Capital Adequacy ratio of 24.03% as on 31st March, 2020 as against the minimum requirement of 15.00% stipulated by the Reserve Bank of India.

As on 31st March, 2020, the issued, subscribed and paid-up share capital of the Bank stands at

#### 4. Credit Rating

Credit ratings assigned to various debt instruments of the Bank during the Financial Year ended March 31, 2020 are as follows:

Instrument Name	Name of the Credit Rating Agency	Amount	Rating	Date of Issue	Date of Re-Affirmation
Non-Convertible Debentures	Brickwork Ratings	50 Crores	BWR A Stable	14.12.2015	18.03.2020
Non-Convertible Debentures	Brickwork Ratings		BWR A Stable	14.12.2015	18.03.2020
Non-Convertible Debentures	CARE Ratings	80 Crores	CARE A; Stable (Single A; Outlook; Stable)	30.11.2017	02.03.2020
Non-Convertible Debentures	CARE Ratings		CARE A; Stable (Single A; Outlook; Stable)	30.11.2017	02.03.2020
Non-Convertible Debentures	CARE Ratings		CARE A; Stable (Single A; Outlook; Stable)	30.11.2017	02.03.2020

#### 5. Status of listing of Equity Shares of the Bank

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 Rs. 500 Crores.

Hence, in accordance with the same, the Bank shall list the equity shares on or before 30th July, 2021.

In Compliance with the above, the Board of Directors and shareholders of the Bank has decided to undertake an Initial Public Offering by offering Equity Shares aggregating up to Rs. 9,762.40 million comprising a Fresh Issue aggregating up to Rs. 8,000.00 million and an Offer for Sale aggregating up to Rs.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

#### 6. Material changes after the Balance Sheet Date as on 31st March, 2020

There have been no material changes and commitments between the end of the Financial Year 2019-20 and the date of this report, affecting the financial position of the Bank.

#### 7. 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.

#### 8. 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.

#### 9. Meetings of the Board

The Board of Directors have met 15 times during the Financial Year 2019-20 on 08th April, 2019, 10th May, 2019, 06th August, 2019, 22nd August, 2019, 05th September, 2019, 27th September, 2019, 05th November, 2019, 11th November, 2019, 30th November, 2019, 11th December, 2019, 23rd December, 2019, 04th January, 2020, 06th January, 2020, 05th February, 2020 and 04th March, 2020.

The gap between any two Board Meetings have not exceeded 120 days and the requisite quorum was present for all the Board Meetings during the year.

#### 10. Directors

- Shri. Saneesh Singh, Non-Executive Nominee Director of the Bank who retires by rotation as a Director, at the conclusion of this Annual General Meeting is proposed to be reappointed who offered himself for re-appointment.
- **Retirement of Shri. Prabha Raveendranathan as Part Time Chairman and Non-Executive Independent Director of the Bank**  
 Shri. Prabha Raveendranathan (DIN: 01828812), who was the Part Time Chairman and Non-Executive Independent Director of the Bank, retired from the directorship on completion of his term of appointment of three years on 12th December, 2019. The Board of Directors of the Bank placed on record their appreciation for the valuable contributions by Shri. Prabha Raveendranathan during his tenure as the Director of the Bank.
- **Appointment of Shri. Ravimohan Periyakavil Ramakrishnan as Part Time Chairman and 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 11th December, 2019, approved the appointment of Shri. Ravimohan Periyakavil Ramakrishnan (DIN: 08534931) as a Non-Executive Independent Director on the Board of the Bank for a period of three consecutive years commencing from 21st December, 2019. He assumed as the Part-Time Chairman of the Bank on 23rd December, 2019.

- **Re-appointment of Shri. Alex Parackal 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 and the results of the Performance Evaluation, the Shareholders in the Extra Ordinary General Meeting held on 11th December, 2019 approved the re-appointment of Shri. Alex Parackal George (DIN: 07491420) as Non-Executive Independent Director of the Bank for a period of three consecutive years with effect from 13th December, 2019.

- **Re-appointment of Smt. Asha Morley 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 in the Extra Ordinary General Meeting held on 11th December, 2019 approved the re-appointment of Smt. Asha Morley (DIN: 02012799) as

Non-Executive Independent Director of the Bank for a period of three consecutive years with effect from 13th December, 2019.

- **Retirement of Shri. George Joseph as Non-Executive Independent Director of the Bank**

Shri. George Joseph (DIN: 00253754), who was the Non-Executive Independent Director of the Bank, retired from the directorship on completion of his term of appointment of three years on 09th March, 2020. The Board of Directors of the Bank placed on record their appreciation for the valuable contributions by Shri. George Joseph during his tenure as the Director of the Bank.

- **Appointment of Shri. Thomas Jacob Kalappila as Additional Director (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, recommended for approval of the members, the appointment of 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. He is holding office till the conclusion of the ensuing 04th Annual General Meeting of Shareholders of the Bank. The proposal for his appointment as Non-Executive Independent Director of the Bank for a period of three years is being placed for consideration of shareholders of the Bank.

*\*(Please refer Item No. 04 of the notice of the 04th Annual General Meeting of Shareholders for further details)*

## 11. Key Managerial Personnel

During the year, the following officials were designated as Key Managerial Personnel of the Bank by the Board of Directors:

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. Sivasankaran N	Chief Compliance Officer
6.	Shri. Dominic Joseph	Chief Vigilance Officer
7.	Shri. Antoo.P.K	Head – Internal Audit

The Key Managerial Personnel of the Bank as on 31st March, 2020 are as follows:

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

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

## 12. 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.

## 13. Evaluation of Board Performance

The performance evaluation of the Board of Directors, Committees of the Board and individual directors were conducted during the Financial Year. The performances of the Board and Board Committees were evaluated after seeking inputs from all the directors and committee members respectively. The Board and the Nomination Remuneration and Compensation Committee of the Board reviewed the performance of the Individual Directors on the basis of the approved criteria for evaluation. In addition, the Chairman and Managing Director and CEO were also evaluated on the key aspects of their roles. Your Board of Directors have framed a Policy on Performance Evaluation of Directors for the evaluation of Individual Directors, Committees and the Board of Directors as a whole.

A Board effectiveness assessment questionnaire designed for the performance evaluation of the Board, its Committees, Chairman and individual directors (including Independent directors) in accordance with the criteria set and covering 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.

## 14. 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: <b>MD &amp; CEO</b> <b>44 times</b> Other Directors                      Other directors are not paid any remuneration other than Sitting Fee for attending meetings of the Board and Committees.
ii)	the percentage increase in remuneration of each Director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year;	<ul style="list-style-type: none"> <li>Managing Director &amp; CEO – NIL</li> <li>Chief Financial Officer – 2.6%</li> <li>Company Secretary – 15.4%</li> </ul>
iii)	the percentage increase in the median remuneration of employees in the financial year;	7.1%
iv)	the number of permanent employees on the rolls of the Bank as on 31st March, 2020	3,337
v)	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 7.96% was made to the salaries of employees other than the managerial personnel and no increase was made in the managerial remuneration in the last financial year.
vi)	affirmation that the remuneration is as per the remuneration policy of the Bank	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 Rs. 1,32,00,000/- (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

**15. 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 31st March, 2020, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- ii) such accounting policies as specified in Schedule 17 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 31st March, 2020 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.

**16. Statutory Auditors**

M/s. S.R. Batliboi & Associates LLP, Chartered Accountants, Statutory Auditors of your Bank, retire on the conclusion of the Fourth Annual General Meeting of the Bank. They have been the auditors of the Bank for the last four financial years. Pursuant to the guidelines issued by the Reserve

Bank of India (RBI), an audit firm is allowed to continue as the Statutory Auditor of a Bank for a continuous period of four years only. On the basis of recommendation of Audit Committee of the Board and the approval of the Reserve Bank of India vide letter Ref DOS.ARG.No AS-10/08.61.005/2019-20 dated 08th May, 2020, the Board of Directors in the meeting held on 29th May, 2020 recommended to appoint, M/s. Deloitte Haskins & Sells, Chartered Accountants (Firm Reg. No: 117365W), as the Statutory Auditors of the Bank for the Financial year 2020-2021, in place of the existing auditors. The details of appointment of the auditors along with the relevant details is specified in the Notice of the 04th Annual General Meeting as Item No. 03.

**17. Details in respect of frauds, if any, reported by Statutory Auditors:**

There were no frauds reported by the Statutory Auditors for the Financial Year 2019-20.

**18. 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 Bank has appointed M/s. Krishnaprasad R.S & Co., Practicing Company Secretaries to conduct Secretarial Audit of the Bank for the Financial Year 2019-20. The Secretarial Audit Report does not contain any qualification, reservation or adverse remark and the Report for the Financial Year 2019-20 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.

**19. 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.

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

## 21. Risk Management

The Bank has formulated and adopted a robust Risk Management framework. The Bank has also constituted Risk Management Committee of the Board, which periodically reviews the risks faced by the Bank and the practices/ processes followed to manage them.

## 22. Policy on Director's appointment and remuneration

In pursuance to Section 178 of the Companies Act, 2013, the Bank has formulated and adopted a Nomination Policy and Compensation Policy for appointment of Directors' and fixing of their remuneration.

## 23. 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 the rules made thereunder. This Policy provides an opportunity to address concerns of employees, vendors & 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 2019-20, two complaints were taken up for investigation which has resulted in certain staff actions against the persons involved in such cases.

The policies are available on the official website of the Bank. ([www.esafbank.com](http://www.esafbank.com))

## 24. 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 year, the Bank has foreign currency expenditure of Rs. 1,02,40,880 during the Financial Year 2019-20 and has no foreign currency earnings.

## 25. Particulars of contracts or arrangements with Related Parties

The details of transactions to be reported under Section 188 (1) of the Companies Act, 2013, in Form AOC-2 are enclosed herewith as Annexure-I.

## 26. Loans / Guarantees / Investments

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

## 27. 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 2019-20, no complaints were received under the Policy.

## 28. MGT - 9

The extract of the Annual Return in MGT-9 as required under Section 92(3) of the Companies Act, 2013 and Rule 12 of the Companies (Management and Administration) Rules, 2014 is enclosed herewith as Annexure-II of this report.

## 29. 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. 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 implementing agencies for CSR activities.

The total amount which was approved by the Board of Directors to be spent for the Financial Year was Rs. 2.89 Crores which is 5% of average net profit of three years as decided by the Board, of which Rs. 1.25 Crores has been spent which is above the requirement of 2% of the average net profits of the preceding three years. The report on CSR activities is enclosed herewith as Annexure-III.

## 30. 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.

### 31. Pillar III Disclosures

The Pillar III Disclosures of the Bank as on 31st March, 2020, is enclosed herewith as Annexure-V.

### 32. 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.

### 33. Cost Records

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

#### For and on behalf of the Board of Directors

Sd/-

**Ravimohan Periyakavil Ramakrishnan**

Chairman

Date : 08th July, 2020

Place : Thrissur

### 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 the employees of the Bank for their commitment and contribution to the growth of the Bank.

Sd/-

**Kadambelil Paul Thomas**

Managing Director & CEO

## 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 company 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)
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)
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	26.05.2017
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

#### b) Contracts with Shri. Kadambelil Paul Thomas

Sl. No	Particulars	Details
1.	Name(s) of the related party and nature of relationship	Mr. Kadambelil Paul Thomas (Managing Director and Chief Executive Officer of the Bank)
2.	Nature of contracts/ arrangements/ transactions.	Lease Agreement.
3.	Duration of the contracts/ arrangements/ transactions.	3 Years
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 Mr. Kadambelil Paul Thomas for guest house purpose of the Bank, based on the valuation report obtained from an Independent Valuer. The Agreement has been terminated with effect from 31st March, 2020.
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

Sl. No	Particulars	Details
1.	Name(s) of the related party and nature of relationship.	Mr. Kadambelil Paul Thomas (Managing Director and Chief Executive Officer of the Bank)
2.	Nature of contracts/ arrangements/ transactions.	Rent Agreement.
3.	Duration of the contracts/ arrangements/ transactions.	3 Years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	The bank entered into a lease agreement with Mr. Kadambelil Paul Thomas, Managing Director and CEO of the Bank for taking on lease a residential property for use of the Bank. The Monetary value is Rs. 20,000 per month. The Agreement has been terminated with effect from 31st March, 2020.
5.	Date(s) of approval by the Board	01.11.2017
6.	Amount paid as advances, if any.	Rs.1,20,000 as Interest Free Security Deposit
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. 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)
2.	Nature of contracts/ arrangements/ transactions	Rent Agreement
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, Thrissur admeasuring 800 Sq. Ft/ Rs. 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)
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.	Administrative cost not exceeding the amount specified in the Companies Act, 2013 will be provided.
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)
2.	Nature of contracts/ arrangements/ transactions	Royalty 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.	Royalty 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

**d) Contracts with M/s. Cedar Retail Private Limited**

Sl. No	Particulars	Details
1.	Name(s) of the related party and nature of relationship	Cedar Retail Private Limited (Company in which Directors are members Relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	Purchase of Grocery items, Stationery, Gifts, Goods for Office consumption
3.	Duration of the contracts/ arrangements/ transactions	Continuing transactions
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	Purchases are made in accordance with the Purchase Policy of the Bank. The transactions have been discontinued with effect from 31st March, 2020.
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

**e) Contracts with M/s. ESAF Swasraya Producers Company Limited**

Sl. No	Particulars	Details
1.	Name(s) of the related party and nature of relationship	ESAF Swasraya Producers Company Limited (Company in which Directors are members Relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	Purchase of Stationery, Gifts, Goods for Office consumption
3.	Duration of the contracts/ arrangements/ transactions	Continuing transactions
4.	Salient terms of the contracts or arrangements or transactions including the value, if any.	Purchases are made in accordance with the Purchase Policy of the Bank. The transactions have been discontinued with effect from 31st March, 2020.
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

**f) Contracts with M/s. ESAF Homes and Infrastructure Private Limited**

Sl. No	Particulars	Details
1.	Name(s) of the related party and nature of relationship:	ESAF Homes and Infrastructure Private Limited (Company in which Directors are members Relatives of Directors are members and Directors)
2.	Nature of contracts/ arrangements/ transactions	Lease 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.	The Bank has taken on lease a property held by ESAF 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

**g) Contracts with M/s. ESAF Financial Holdings Private Limited**

Sl. No	Particulars	Details
1.	Name(s) of the related party and nature of relationship.	ESAF Financial Holdings Private Limited [formerly known as ESAF Microfinance and Investments Private Limited (EMFIL)]. (Entity in which directors are members/ directors and relatives of directors are members/directors. ESAF Financial Holdings Private Limited is the Promoting Entity of the Bank).
2.	Nature of contracts/ arrangements/ transactions.	Rent Agreement.
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 ESAF Financial Holdings Private Limited located at Pattikkad, Thrissur admeasuring 1250 Sq.Ft/ Rs.30 per Sq. Ft has been taken on lease by the Bank. The Agreement has been terminated with effect from 06th August, 2019.
5.	Date(s) of approval by the Board	06.02.2018
6.	Amount paid as advances, if any.	Rs. 2,25,000/- as Interest Free Security Deposit
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

**h) 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/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

**i) 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 the Key Managerial Persons are members Relatives of Directors are 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.	Administrative cost not exceeding the limit specified in the Companies Act, 2013 shall be provided.
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

**j) 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 are 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

**2. Details of Contracts or Arrangements or Transactions Not in Arm's Length Basis:**

NIL

**Form No. MGT-9**  
**EXTRACT OF ANNUAL RETURN**  
**as on the Financial Year ended on 31st March, 2020**

[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	05th 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, Mannuthy, Thrissur – Palakkad National Highway, Thrissur, Kerala, Pin-680651. Ph. No: 0487 7123456/ 457
vi.	Whether listed company	Debt securities are listed with BSE Ltd.
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	CATALYST TRUSTEESHIP LIMITED, Office No.83-87, 08th 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.	Banking and Financial Services	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				% Change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
<b>A. Promoters</b>									
<b>(1) Indian</b>									
a. Individual/ HUF	3,11,86,790	-	3,11,86,790	7.290%	3,11,86,790	-	3,11,86,790	7.290%	-
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	65.629%	-
e. Banks / FI	-	-	-	-	-	-	-	-	-
f. Any Other	-	-	-	-	-	-	-	-	-
<b>Sub-total (A) (1):-</b>	<b>31,19,45,181</b>	<b>-</b>	<b>31,19,45,181</b>	<b>72.919%</b>	<b>31,19,45,181</b>	<b>-</b>	<b>31,19,45,181</b>	<b>72.919%</b>	<b>-</b>
<b>(2) Foreign</b>									
a) NRIs - Individuals	-	-	-	-	-	-	-	-	-
b) Other - Individuals	-	-	-	-	-	-	-	-	-
c) Body Corporates.	-	-	-	-	-	-	-	-	-
d) Banks / FI	-	-	-	-	-	-	-	-	-
e) Any Other.	-	-	-	-	-	-	-	-	-
<b>Sub-total (A) (2):-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total shareholding of Promoter (A) = (A)(1) +(A)(2)</b>	<b>31,19,45,181</b>	<b>-</b>	<b>31,19,45,181</b>	<b>72.919%</b>	<b>31,19,45,181</b>	<b>-</b>	<b>31,19,45,181</b>	<b>72.919%</b>	<b>-</b>
<b>B. Public Shareholding</b>									
<b>1. Institutions</b>									
a) Mutual Funds	-	-	-	-	-	-	-	-	-
b) Banks / FI	1,87,17,244	-	1,87,17,244	4.375%	1,87,17,244	-	1,87,17,244	4.375%	-
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	10.532%	-
g) FIs	-	-	-	-	-	-	-	-	-
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
<b>i) Others (M/s. ESAF Swasraya Multi State Agro Co - Operative Society Limited)</b>	<b>2,13,46,993</b>	<b>-</b>	<b>2,13,46,993</b>	<b>4.989%</b>	<b>2,13,46,993</b>	<b>-</b>	<b>2,13,46,993</b>	<b>4.989%</b>	<b>-</b>
<b>Sub-total (B)(1):-</b>	<b>8,51,19,739</b>	<b>-</b>	<b>8,51,19,739</b>	<b>19.896%</b>	<b>8,51,19,739</b>	<b>-</b>	<b>8,51,19,739</b>	<b>19.896%</b>	<b>-</b>
<b>2. Non-Institutions</b>									
a) Body Corp.									
i) Indian	88,84,452	-	88,84,452	2.076%	88,84,452	-	88,84,452	2.076%	-
ii) Overseas	-	-	-	-	-	-	-	-	-
b) Individuals									
i) Individual shareholders holding nominal share capital upto Rs. 1 lakh	-	-	-	-	-	-	-	-	-
ii) Individual shareholders holding nominal share capital in excess of Rs. 1 lakh	2,18,46,118	-	2,18,46,118	5.106%	2,18,46,118	-	2,18,46,118	5.106%	-
c) Others (specify)	-	-	-	-	-	-	-	-	-
<b>Sub-total (B)(2):-</b>	<b>3,07,30,570</b>	<b>-</b>	<b>3,07,30,570</b>	<b>7.182%</b>	<b>3,07,30,570</b>	<b>-</b>	<b>3,07,30,570</b>	<b>7.182%</b>	<b>-</b>
<b>Total Public Shareholding (B)=(B)(1)+(B)(2)</b>	<b>11,58,50,309</b>	<b>-</b>	<b>11,58,50,309</b>	<b>27.078%</b>	<b>11,58,50,309</b>	<b>-</b>	<b>11,58,50,309</b>	<b>27.078%</b>	<b>-</b>
C. Shares held by Custodian for GDRs & ADRs	-	-	-	-	-	-	-	-	-
<b>Grand Total (A+B+C)</b>	<b>42,77,95,490</b>	<b>-</b>	<b>42,77,95,490</b>	<b>100.00%</b>	<b>42,77,95,490</b>	<b>-</b>	<b>42,77,95,490</b>	<b>100.00%</b>	<b>-</b>

## 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	65.629%	-	-
Kadambelil Paul Thomas	3,11,86,785	7.290%	-	3,11,86,785	7.290%	-	-
Mereena Paul	1	-	-	1	-	-	-
Alok Thomas Paul	1	-	-	1	-	-	-
Emy Acha Paul	1	-	-	1	-	-	-
George K John	1	-	-	1	-	-	-
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
<b>1. Mr. Kadambelil Paul Thomas</b>			
<b>At the Beginning of the year</b>	3,11,86,785	7.290%	3,11,86,785
Date wise Increase /Decrease in Shareholding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus / sweat equity, etc.)	-	-	-
<b>At the End of the year</b>	<b>3,11,86,785</b>	<b>7.290%</b>	<b>3,11,86,785</b>

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

## 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		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No. of shares	% of total shares of the company
1.	M/s. PNB Metlife India Insurance Company Limited	2,13,46,993	4.990%	2,13,46,993	4.990%
2.	M/s. ESAF Swasraya Multi State Agro Co-Operative Society Limited	2,13,46,993	4.990%	2,13,46,993	4.990%
3.	Shri. Yusuffali Musaliyam Veettil Abdul Kader	2,13,46,993	4.990%	2,13,46,993	4.990%
4.	M/s. Muthoot Finance Limited	1,87,17,244	4.375%	1,87,17,244	4.375%
5.	M/s. Bajaj Allianz Life Insurance Company Limited	1,74,69,428	4.084%	1,74,69,428	4.084%
6.	M/s. PI Ventures LLP	87,34,714	2.042%	87,34,714	2.042%
7.	M/s. ICICI Lombard General Insurance Company Limited	62,39,081	1.458%	62,39,081	1.458%
8.	Shri. John Chakola	2,49,563	0.058%	2,49,563	0.058%
9.	M/s. Lahanti Lastmile Services Private Limited	1,49,738	0.035%	1,49,738	0.035%
10.	Shri. Abraham. K. John	1,24,781	0.029%	1,24,781	0.029%

**v) Shareholding of Directors and Key Managerial Personnel**

Sl. No.	Name of the Shareholder	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.	Shri. Kadambelil Paul Thomas	3,11,86,785	7.290%	3,11,86,785	7.290%
2.	Shri. Assan Khan Akbar	1,24,781	0.029%	1,24,781	0.029%

**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/WTD/ Manager	
		Shri. Kadambelil Paul Thomas (Managing Director and Chief Executive Officer)	Total Amount (Rs.)
1.	Gross salary		
	(a) Salary as per provisions contained in Section 17(1) of the Income-Tax Act, 1961	1,31,93,000	1,31,93,000
	(b) Value of Perquisites under Section 17(2) of the Income-Tax Act, 1961	39,600	39,600
	(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
4.	Commission		
	• As Percentage of Profit	NIL	NIL
	• Others (specify)	NIL	NIL
5.	Others	NIL	NIL
	<b>Total (A)</b>	<b>1,32,32,600</b>	<b>1,32,32,600</b>
	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
<b>Independent Directors</b>					
1.	Shri. Prabha Raveendranathan	12,50,000	NIL	NIL	12,50,000
2.	Shri. Ravimohan Periyakavil Ramakrishnan	5,70,000	NIL	NIL	5,70,000
3.	Dr. V.A. Joseph	16,40,000	NIL	NIL	16,40,000
4.	Smt. Asha Morley	12,30,000	NIL	NIL	12,30,000
5.	Shri. Alex Parackal George	10,50,000	NIL	NIL	10,50,000
6.	Shri. George Joseph	11,90,000	NIL	NIL	11,90,000
7.	Shri. Thomas Jacob Kalappila	NIL	NIL	NIL	NIL
<b>Other Non-Executive Directors</b>					
1.	Shri. Assan Khan Akbar	15,60,000	NIL	NIL	15,60,000
2.	Shri. Saneesh Singh	10,30,000	NIL	NIL	10,30,000
	<b>Total</b>				<b>95,20,000</b>

**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 Key Managerial Person	Designation	Particulars of Remuneration										Total	
			Gross Salary					Commission						Others
			Salary as per provisions contained in Section 17(1) of the Income-Tax Act, 1961	Value of Perquisites under Section 17(2) of the Income-Tax Act, 1961	Profits in lieu of Salary under Section 17(3) of the Income-Tax Act, 1961	Stock Option	Sweat Equity	As percentage of profit	Others (specify)					
1	Shri. Gireesh C.P	Chief Financial Officer	47,07,739.00	-	-	-	-	-	-	-	-	-	47,07,739.00	
2	Shri. Ranjith Raj P	Company Secretary	13,72,697.00	-	-	-	-	-	-	-	-	-	13,72,697.00	
3	Shri. M.G. Ajayan	Executive Vice President - Operations	17,88,623.00	-	-	-	-	-	-	-	-	-	17,88,623.00	
4	Shri. George Thomas	Executive Vice President - Corporate Services	38,12,000.00	27,000.00	-	-	-	-	-	-	-	-	38,39,000.00	
5	Shri. George K John	Executive Vice President - Business	38,10,102.00	32,400.00	-	-	-	-	-	-	-	-	38,42,502.00	
6	Shri. Sivasankaran N	Chief Compliance Officer	21,26,664.00	-	-	-	-	-	-	-	-	-	21,26,664.00	
7	Shri. K R Mohanachandran	Chief Risk Officer	27,03,907.00	-	-	-	-	-	-	-	-	-	27,03,907.00	
8	Shri. Dominic Joseph	Chief Vigilance Officer	12,88,679.00	-	-	-	-	-	-	-	-	-	12,88,679.00	
9	Shri. Antoo. P.K	Head - Internal Audit	5,49,191.00	-	-	-	-	-	-	-	-	-	5,49,191.00	

**Note:** The disclosure regarding Remuneration of Key Managerial Personnel 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
<b>A. Company</b>					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
<b>B. Directors</b>					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
<b>C. Other Officers in Default</b>					
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**  
Chairman

Sd/-

**Kadambelil Paul Thomas**  
Managing Director & CEO

Date : 08th July, 2020

Place : Thrissur

**Form No. MR-3**  
**SECRETARIAL AUDIT REPORT**

**For The Financial Year Ended 31st March, 2020**

[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 of**  
**ESAF Small Finance Bank Limited**

Building No.VII/83/8,ESAF Bhavan,  
Thrissur-Palakkad National Highway,  
Mannuthy, Thrissur, Kerala-680651

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.

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, 2020 complied with the statutory provisions listed hereunder to the exception that the company was unable to file Form DIR 12 with respect to the appointment of Key Managerial Personnel as per Section 2(51)(v), since the form has no such facility 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, 2020 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 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;
- (d) The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014; **(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; **(not applicable to the Company during the audit period)**
- (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; and **(not applicable to the Company during the audit period)**
- (h) The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998; **(not applicable to the Company during the audit period)**
- (i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015.

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 Agreements entered into by the Company with Bombay Stock Exchange(s);
- iii. Tripartite Agreement between the Company, Registrar & Transfer Agent and Depositories

During the period under review the Company has complied with the following laws specifically applicable to the Company (as confirmed by the Company) including Rules, Regulations, circulars and directions issued there under:

- i. The Reserve Bank of India Act, 1934
- ii. The Banking Regulation Act, 1949
- iii. The Deposit Insurance and Credit Guarantee Corporation Act, 1961
- iv. The Payment and Settlement System Act, 2007
- v. Foreign Exchange Management Act, 1999
- vi. Prevention of Money Laundering Act, 2002

#### 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 wherever possible and consent of all the members of the Board and attendance of independent directors were confirmed in case of meeting held with shorter notice; 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 while the dissenting members' views are captured and recorded as part of the minutes.

I/we 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 entered into the following major transactions:

Sl No.	Date of event	Particulars	Approved by
1	11.12.2019	Increase of Authorised Share Capital and of the Company from 450 crores to 600 crores	Shareholders
2	11.12.2019	Alteration of Memorandum of Association consequent to increase of Authorised Share Capital from 450 crores to 600 crores	Shareholders
3	11.12.2019	Alteration of Articles of Association to explore the options for undertaking an Initial Public Offering of equity shares	Shareholders
4	11.12.2019	Appointment of Shri. Ravimohan Periyakavil Ramakrishnan (DIN: 08534931) as Independent Director with effect from 21.12.2019	Shareholders
5	03.01.2020	Issue of 2,25,15,552 (Two Crore Twenty Five Lakhs Fifteen Thousand Five Hundred And Fifty Two) (face value Rs.10/-) as Employee Stock Option Plan, to the benefit of permanent employees of the company	Shareholders
6	03.01.2020	Initial Public Offer of Equity Shares of Rs. 976 crores	Shareholders

Place: Trivandrum

Date: 08th July, 2020

This report is to be read with our letter of even date which is annexed as Annexure 1 and forms an integral part of this report.

Sd/-  
 Krishnaprasad R.S.  
 FCS No. 7080  
 CP No. 7379

## Annexure -1

**To,  
The Members of  
ESAF Small Finance Bank Limited**

Building No.VII/83/8,ESAF Bhavan,  
Thrissur-Palakkad National Highway,  
Mannuthy, Thrissur, Kerala-680651

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. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We 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. We believe that the processes and practices, we followed provide a reasonable basis for our opinion.
3. We have not verified the correctness and appropriateness of financial records and Books of Accounts of the company.
4. Where ever required, we 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. Our 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.

Date: 08th July, 2020

Place: Trivandrum

## CORPORATE SOCIAL RESPONSIBILITY REPORT FOR THE FINANCIAL YEAR 2019-20

Sr. No.	Particulars	Remarks
1.	A Brief outline of the Company's CSR policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR policy and project or programs.	<b>ESFB CSR Policy</b> ESAF SMALL FINANCE BANK is committed the transformation of lives and communities by: <ol style="list-style-type: none"> <li>3.1 Addressing social, environmental and economic needs of the poor and the marginalized sections of the society</li> <li>3.2 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.</li> <li>3.3 Employee participation and networking with likeminded agencies in the projects for larger synergy and impact as an institution</li> <li>3.4 Aligning the corporate social responsibility strategies with the ESAF vision for a just and fair society, fighting the partiality of prosperity</li> </ol>
2.	The Composition of the CSR Committee of the Board	Shri Saneesh Singh (Chair person) Shri Kadambelil Paul Thomas (Member) Dr V A Joseph (Member)
3.	Average net profit of the Company for last three financial years.	<b>Rs. 57,73,97,621 (Rupees fifty seven crores, seventy three lakhs ninety seven thousand six hundred twenty one only)</b>
4.	Prescribed CSR Expenditure (two per cent. of the amount as in item 3 above).	<b>Rs. 1,15,47,952 (Rupees One Crore, fifteen lakhs forty seven thousand nine hundred fifty two only)</b>
5.	<b>Details of CSR spent during the financial year:</b>	
a)	Total amount to be spent for the financial year	<b>Rs. 1,15,47,952 (Rupees One Crore, fifteen lakhs forty seven thousand nine hundred fifty two only)</b>
b)	Total amount spent during the financial year	<b>Rs. 125, 16,705 (Rupees One Crore twenty five lakhs sixteen thousand seven hundred and five only)</b>
c)	Amount unspent, if any	Not Applicable (The Bank had allocated Rs. 2,89,00,000 (Rupees Two Crores Eighty Nine Lakhs only) being 5% of average net profits, out of which Rs. 125, 16,705 (Rupees One Crore twenty five lakhs sixteen thousand seven hundred and five only) was spent during the year.)

5.d) Manner in which the amount spent during the financial year is detailed below

<b>ESAF Small Finance Bank</b>							
<b>ESAF-CSR- FY 2019-20- Status as on 31-03-2020</b>							
1	2	3	4	5	6	7	8
Sl. No.	CSR Project Activity Identified	Sector in Which the Project is Covered	Projects or Programs (1) Local Area or Other (2) Specify the State and District Where Projects or Programs was Undertaken	Amount Outlay (Budget) Project or Programs Wise	Amount Spent on the Projects or Programs Sub-Heads; (1) Direct Expenditure on Projects or Programs (2) Overheads:	Cumulative Expenditure upto the Reporting Period	Amount Spent: Direct Or Through *Implementing Agency
1.	<b>ESAF Balajyothi</b>	<b>Schedule VII Point # 2</b>	Community Based Children Clubs/ Balajyothi Study Center/Leadership Programmes/Library Settings	5,100,000	2,268,919 119,417	2,388,336	ESAF
		SDG 4- Quality Education SDG 17- Partnerships	Location (States): Kerala, Maharashtra, Jharkhand, MP				
2.	<b>ESAF Yuvajyothi (CYRC)</b>	<b>Schedule VII Point # 2</b> <b>Schedule VII Point # 7:-</b>	Project- Summer Camps/Playground Facilities/Play Materials /Addon Programmes	1,100,000	379,250 19,961	399,210	ESAF
		SDG 3 - Good Health and Wellbeing SDG 17 - Partnerships for the Goals	Location: Kerala-Thrissur & Palakkad				
3.	<b>ESAF SUVIDI- ESAF Sustainable Village Development Initiative</b>	<b>Schedule VII Point # 10:-</b> <b>Schedule VII Point # 4:-</b>	Youth /Women Employed and Sustained in Their Jobs Play/ Other Facilities Developed in Nutrition Rehab Centre Community-Based Education	700,000	461,339 24,281	485,620	ESAF
		SDG 1 - No Poverty SDG 8 - Decent Work and Economic Growth SDG 10 - Reduced Inequalities	Location: Kerala-Attappady				
4.	<b>ESAF Cinder (ESAF Center For Integrated Development Research)- Waste2 Wealth Entrepreneurship</b>	<b>Schedule VII Point # 2:-</b> <b>Schedule VII # 4:-</b>	Livelihood Generation From Solid Waste Management System	1,100,000	50,5391 26,600	531,990	ESAF
		SDG 11 - Sustainable Cities and Communities SDG 8 - Decent Work and Economic Growth SDG 12 - Ensure Sustainable Consumption and Production Patterns	Location: Kerala-Thrissur				
5.	<b>ESAF Krushak Mithra for Farmers &amp; Farmer Collectives</b>	<b>Schedule VII Point # 2:-</b> <b>Schedule VII Point # 4:-</b>	Entrepreneurs & Capacity Building Training Workshops on Business Linkages- Trader Requirements Aggregation and Sale of Farmer Products	2,600,000	771,977 40,630	812,607	ESAF
		SDG 1 - No Poverty SDG 2 - Zero Hunger SDG 12 - Responsible Consumption and Production	Location: Tamil Nadu, Karnataka, Chattisgarh, Assam & Jharkhand				

**ESAF Small Finance Bank**
**ESAF-CSR- FY 2019-20- Status as on 31-03-2020**

1	2	3	4	5	6	7	8
Sl. No.	CSR Project Activity Identified	Sector in Which the Project is Covered	Projects or Programs (1) Local Area or Other (2) Specify the State and District Where Projects or Programs was Undertaken	Amount Outlay (Budget) Project or Programs Wise	Amount Spent on the Projects or Programs Sub-Heads; (1) Direct Expenditure on Projects or Programs (2) Overheads:	Cumulative Expenditure upto the Reporting Period	Amount Spent: Direct Or Through *Implementing Agency
6.	<b>Flood Rehabilitation Kerala</b>		House Construction Renovation of Schools Livelihood Support Disbursement		1,507,983		
		SDG 1 – No Poverty SDG 9 – Decent Work and Economic Growth	Location: Kerala	3,300,000	79,368	1,587,351	ESAF
7.	<b>Lahanti Community School- Dumka</b>	<b>Schedule VII Point # 2:- Schedule VII Point # 10:-</b>	Development of a Model School with Hygienic Toilets, Child Centric Hostel, Digital Classrooms And Laboratory Networking Community Mobilisation		892,307		
		SDG 4 – Quality Education SDG 6 – Clean Water and Sanitation	Location: Jharkhand	2,100,000	46,964	939,271	ESAF
8.	<b>Skill Training For Rural Artisans, Rural Youths @ LIMS</b>	<b>Schedule VII Point # 2:- Schedule VII Point # 10:-</b>	900 Entrepreneurs Training Subsidies for increased Self-Employment Opportunities Among Rural Youth & Women		1,502,491		
		SDG 4 – Quality Education SDG 9 – Industry Innovation and Infrastructure SDG 10 – Reduced Inequalities	Location: Jharkhand, Bihar, West Bengal and Assam	1,600,000	79,078	1,581,569	ESAF
9.	<b>ESAF Liveable City Projects</b>	<b>Schedule VII Point # 2:- Schedule VII Point # 4:-</b>	Advocacy and Community Program for Livability Improvement. Dissemination Seminar, Media Sensitization Capacity Building Programs for Policy Makers and Communities		540,427		
		SDG 11 – Sustainable Cities and Communities SDG 13 – Climate Action SDG 17 – Partnership for the Goals	Location: Kerala, Karnataka, Maharashtra, Assam	1,600,000	28,444	568,870	ESAF
10.	<b>ESAF Garshom-Projects for Migrant Labourers</b>	<b>Schedule VII Point # 1:-</b>	Mobile Medical Clinic and Health Awareness		694,450		
		SDG 3 – Good Health and Well Being SDG 10 – Reduced Inequalities	Location: Kerala	1,000,000	36,550	731,000	ESAF

## ESAF Small Finance Bank

## ESAF-CSR- FY 2019-20- Status as on 31-03-2020

1	2	3	4	5	6	7	8
Sl. No.	CSR Project Activity Identified	Sector in Which the Project is Covered	Projects or Programs (1) Local Area or Other (2) Specify the State and District Where Projects or Programs was Undertaken	Amount Outlay (Budget) Project or Programs Wise	Amount Spent on the Projects or Programs Sub-Heads; (1) Direct Expenditure on Projects or Programs (2) Overheads:	Cumulative Expenditure upto the Reporting Period	Amount Spent: Direct Or Through *Implementing Agency
11.	<b>ESAF COVID-19 Response Program</b>		Provide Relief Kits Production of Face Masks Through Rural Women Entrepreneurs. Disbursement of Livelihood Support Construction of Isolation Wards or Provide PPE Materials to 1 Hospital, Scheduled from April 2020		0		
		SDG 1 – No Poverty SDG 2 – Zero Hunger SDG 3 – Good Health and Well Being SDG 8 – Decent work and Economic Growth	Location: Kerala, Maharashtra, Madhya Pradesh, Chattisgarh, Tamilnadu	2,500,000	0	0	ESAF
12.	<b>ESAF Suvidi (Sustainable Village Development Initiative)</b>	<b>Schedule VII Point # 10:-</b> <b>Schedule VII Point # 4:-</b>	Finishing School Livelihood Program for Youth Soft Skills		24,392		
		SDG 4 – Quality Education SDG 8 – Decent Work and Economic Growth SDG 10 – Reduced Inequalities	Location: Kalahandi, Odisha	150,000	1,284	25,676	PDS
13.	<b>ESAF Arogyamitra-Health Entrepreneurship Development</b>	<b>Schedule VII Point # 1:-</b>	Community Clinics and Health Awareness		114,332		
		SDG 3 – Good Health and Well Being	Location: Assam and Jharkhand	350,000	6,017	120,349	PDS
14.	<b>Lahanti Public School</b>	<b>Schedule VII Point # 2:-</b> <b>Schedule VII Point # 10:-</b>	Development of a Model School with Hygienic Toilets, Child Centric Hostel, Digital Classrooms and Laboratory		1,334,613		
		SDG 4 – Quality Education SDG 6 – Clean Water and Sanitation	Location: Jharkhand	2,000,000	70,243	1,404,856	PDS
15.	<b>Flood Rehabilitation- Eastern India</b>		House Construction and Maintenance Renovation of Schools Livelihood Support Disbursement		893,000		
		SDG 1 – No Poverty SDG 11 – Sustainable Cities and Communities	Location: Assam, JK, Eastern India	1,200,000	47,000	940,000	PDS

**ESAF Small Finance Bank**
**ESAF-CSR- FY 2019-20- Status as on 31-03-2020**

1	2	3	4	5	6	7	8
Sl. No.	CSR Project Activity Identified	Sector in Which the Project is Covered	Projects or Programs (1) Local Area or Other (2) Specify the State and District Where Projects or Programs was Undertaken	Amount Outlay (Budget) Project or Programs Wise	Amount Spent on the Projects or Programs Sub-Heads; (1) Direct Expenditure on Projects or Programs (2) Overheads:	Cumulative Expenditure upto the Reporting Period	Amount Spent: Direct Or Through *Implementing Agency
16.	<b>PDS COVID-19 Response Program</b>		Bandhu Helpline as a Resource Centre Provide Relief Kit Awareness Campaigns Scheduled from April 2020		0		
		SDG 1 - No Poverty	Location: Assam, Jharkhand		0		
		SDG 2 - Zero Hunger		2,500,000		0	PDS
		SDG 3 - Good Health and Well Being					
		SDG 8 - Decent work and Economic Growth					
<b>Total</b>				<b>28,900,000</b>	<b>12,516,705</b>	<b>12,516,705</b>	

\* Implementing Agencies. ESAF - Evangelical Social Action Forum (a Society registered under the Travancore Cochin Literal and Scientific Charitable Societies Act, 1955. PDS - Prachodhan Development Services (Section 8 Company)

- 1) In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the reasons for not spending the amount in its Board report.- Not Applicable (as the CSR spending is above the mandated 2% average net profit of three years)
- 2) A responsibility statement: The CSR Board Committee hereby confirm that the implementation and monitoring of CSR Policy is in compliance with CSR objectives and Policy of the company.

**Kadambelil Paul Thomas**

Managing Director & Chief Executive Officer

**Saneesh Singh**

Chairperson, CSR Board Committee

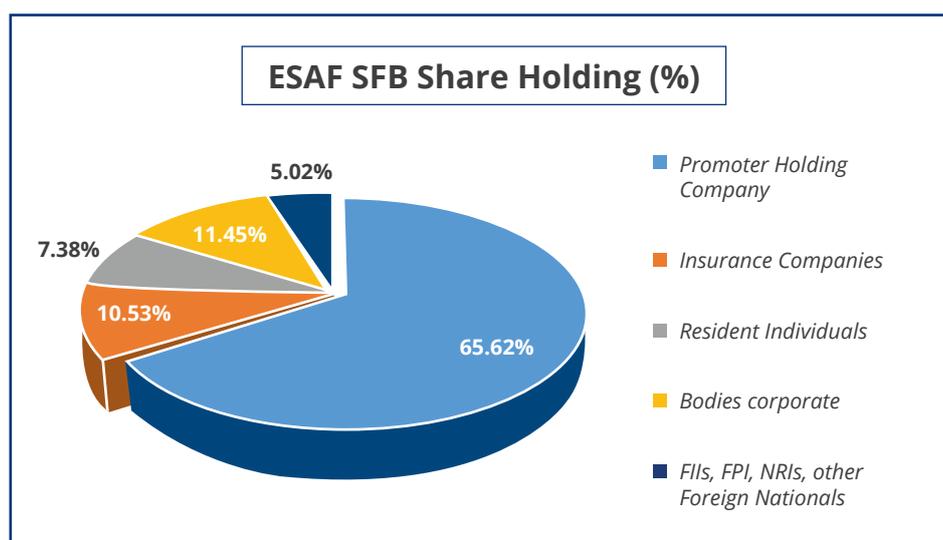
# Pillar III Disclosures

## as of 31st March, 2020

ESAF Small Finance Bank Limited ("the Bank") is a public limited company incorporated in India on 5th May, 2016 under the provisions of Companies Act, 2013. The Bank received license from Reserve Bank of India (RBI) on 18th November, 2016 to carry on the business of Small Finance Bank (SFB) in India and commenced its banking operations on 10th March, 2017. 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 does not have any foreign operations.

The shareholding pattern of the Bank is as shown below:

Description	Share Holding (%)
Promoter Holding Company	65.62
Insurance Companies	10.53
Resident Individuals	7.38
Bodies corporate	11.45
FII's, FPI, NRIs, other Foreign Nationals	5.02
<b>TOTAL</b>	<b>100.00</b>



Pillar III 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 (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 8th 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 March 2020)	Rs. in Crore
<b>Tier I capital –(I)</b>	
Paid Up Capital	427.80
Reserves	652.15
Perpetual Debt Instrument	48.00
Total	1,127.95
<b>Deductions – (II)</b>	
Intangible Assets (IPO expenditure A/C)	5.45
First loss credit enhancement provided for securitized assets	0.00
Second loss credit enhancement provided for securitized assets	0.00
Any Other Deductions	0.00
Total Deductions	0.00
<b>Total Tier I Capital Total (I-II) A</b>	<b>1,122.50</b>
<b>Tier II Capital – (III)</b>	
General provisions on Standard Assets	31.59
Investment Fluctuation Reserve	4.13
Sub Ordinated term Debt	127.00
Total	162.72
<b>Deductions – (IV)</b>	
First loss credit enhancement provided for securitized assets	0.00
Second loss credit enhancement provided for securitized assets	0.00
Total Deductions for Tier II	0.00
<b>Total Tier II Capital (III-IV) B</b>	<b>162.72</b>
<b>Total Capital (A+B)</b>	<b>1,285.22</b>

## 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 is well 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 and quarterly assessments are put up to the Board of Directors of the Bank. 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 I and Pillar II risks for Capital Adequacy assessment. The Pillar I & Pillar II risks assessed in the Bank's ICAAP include the following:

### 1.4 Pillar I & Pillar II Risks Assessed Table-2

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

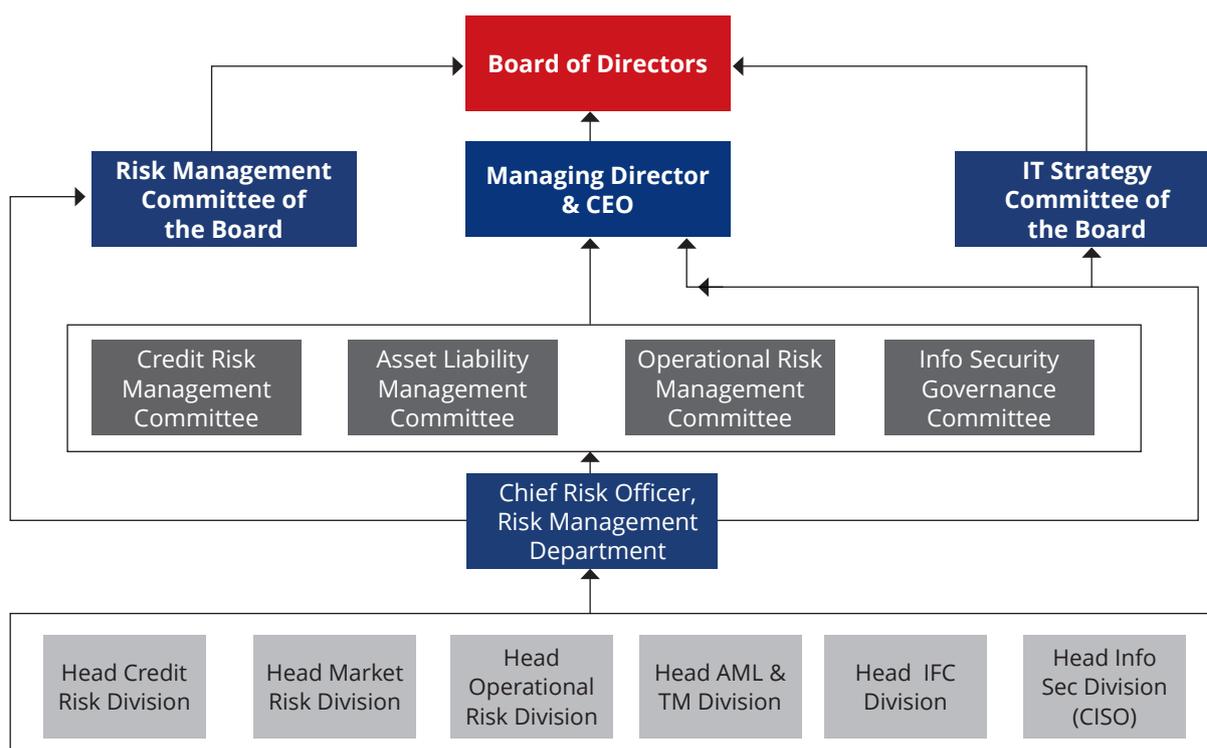
The Bank has also put in place a Risk Appetite Framework (RAF) under the ICAAP. Risk Appetite framework is the overall approach, including policies, processes, controls and systems through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement, risk limits, 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 on Capital and other Pillar I risks under normal and stressed scenario 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 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 II 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 culture within the Bank.

## 1.5 Risk Governance Framework



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

- a) The Board of Directors is responsible for overall governance and oversight of core risk management activities of the Bank.
- b) The Bank's risk appetite, risk tolerance and related strategies and policies are approved by the Board.
- c) 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.
- d) 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.
- e) Segregation of duties across the 'three lines of defence' model, whereby front-office functions, risk management & oversight and Internal audit roles are played by functions independent of one another.
- f) 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.
- g) 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.
- h) The Risk function is having appropriate representation on management 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 Management Committee (ORMC)

and Asset Liability Management Committee (ALCO) support RMCB to facilitate effective execution of its above responsibilities. In addition, the Risk Management functions are also supported by the Business Continuity Management Committee (BCMC), Outsourcing and Vendor Risk Management Committee (OVRMC), IFC Apex Committee (IAC) and the FATCA Compliance Monitoring Committee (FCMC). 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, AML & Transaction Monitoring and Internal Financial Control Divisions assist the above 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	ALCO
Operational Risk, Reputation Risk, Strategic Risk, Transaction Risk, People Risk, Fraud Risk, Compliance Risk	ORMC
Outsourcing Risk and Vendor Risk	OVRMC
Product Risk and Process Risk	PPAC
Business Continuity Risk, Disaster Recovery Risk and Crisis Management	BCMC/ CMC
Information and Cyber Security Risk	ISGC
FATCA Compliance	FCMC
Internal Financial Control	IAC

### 2.2 Quantitative Disclosures: Table 4

Sr. No.	Particulars As on 31-03-2020	Rs. in Crore
A	Capital Requirements for Credit Risk	802.23
A.1	Portfolio Subject to Standardized approach	802.23
A.2	For Off Balance Sheet Credit Portfolio	0.00
A3	For Off Balance Sheet Corporate Guarantee	0.00
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

Sr. No.	Particulars As on 31-03-2020	Rs. in Crore
B.4	For Commodities Risk	Nil
B.5	For Options risk	Nil
C	Capital Requirements for Operational Risk	Nil
	<b>Total Capital Requirement (A+B+C)</b>	<b>802.23</b>
	<b>Total Risk Weighted Assets (RWA for all types of assets)</b>	<b>5,348.19</b>
	Total Capital Funds	1,285.22
	CRAR (%)	24.03%
	Tier -1 Capital Adequacy Ratio (%)	20.99%
	Tier -2 Capital Adequacy Ratio (%)	3.04%

### 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 customer 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 31-03-2020, 92.92 % 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 a 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 NPA 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 NPA 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) manages 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 of implementing processes for credit risk identification, assessment, measurement, monitoring and control. Credit risk appetite statements 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 / RMCB and RBI. The Division constructs credit risk identification systems, monitors quality of the bank's loan portfolio, identifies problem credits and undertakes asset quality reviews with support from the business units. The Division captures early warning signals in the loan portfolio for identification of weak exposures, suggests 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 oversight, 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 customer segment. 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 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 expected to further evolve and get fine-tuned when more and more loans are sanctioned based on detailed credit appraisal.

### 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.

### 3.7 Credit Exposures & Risk Summary - 31-03-2020

#### a) Exposure - Facility Type -Table 5

S. No.	Exposure Type	Rs. in Crore
1	Gross Loans & Advances (Excludes Loan against Term Deposits)	6,546.39
2	Add: Undrawn exposure	21.14
3	Total Credit Exposure - Fund Based (1+2)	6,567.53
4	Add: Non Fund Based	0.00
5	<b>Total Credit Exposure (Total of 3+4 above)</b>	<b>6,567.53</b>

#### b) Geographic distribution of credit exposure - Table 6

S. No.	Exposure Type	Rs. in Crore
1	Domestic Fund Based <sup>@</sup>	6,567.53
2	Domestic Non Fund based	Nil
3	Foreign	Nil
4	Foreign Non Fund Based	Nil
<b>Total</b>		<b>6,567.53</b>

@ Excluded

1. Loans/ Overdrafts against Term Deposits (Rs. 60.12 Crores)

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.

## b – 1) State-wise distribution of Gross Loans &amp; Advances (31-03-2020)-Table 7

(Rs. in Crore)		
State	Total Credit Portfolio	State Share %
Kerala	3,699.97	56.00%
Tamil Nadu	1,570.40	23.77%
Maharashtra	329.47	4.99%
MP	273.97	4.15%
Chhattisgarh	182.70	2.77%
Karnataka	216.89	3.28%
Jharkhand	101.70	1.54%
Pondicherry	42.57	0.64%
Bihar	69.22	1.05%
West Bengal	24.12	0.36%
Assam	34.53	0.52%
Orissa	9.03	0.14%
UP	21.64	0.33%
Tripura	0.07	0.00%
Delhi (NCT)	6.00	0.09%
AP	9.07	0.14%
Gujrat	3.48	0.05%
Punjab	5.00	0.08%
Rajasthan	6.68	0.10%
<b>Total</b>	<b>6,606.51</b>	<b>100.00%</b>

The Bank is taking steps for reducing the geographic credit concentration by expanding its loan book to other states and geographies where the reach is less at present.

## c) Sector wise distribution of Gross Loans &amp; Advances Table-8

(Rs. in Crore)			
S. No.	Industry Classification	Amount o/s	% Share
1	Agriculture and Allied Activities	3,352.82	50.75%
2	Industries Sector	1,121.05	16.97%
4	Trade & Services	1,160.75	17.57%
5	Personal Loans and other Retail	971.89	14.71%
<b>Total</b>		<b>6,606.51</b>	<b>100.00%</b>

## d) Credit Exposure by Risk Weights Table-9

(Rs. in Crore)			
S. No.	Risk Weight	Gross Outstanding Credit	Risk Weighted Exposure for Credit
1	Below 100% risk weight	6,281.48	4,539.63
2	100% Risk weight	316.78	316.78
3	More than 100% risk weight	8.25	10.31
<b>Total</b>		<b>6,606.51</b>	<b>4,866.73</b>

## e) Credit Risk Mitigation Table 10

(Rs. in Crore)				
S. No.	Particulars	Exposure	Credit Risk Mitigant	Net Exposure
1	Gold Loan	161.14	161.14	Nil
2	Loan against FD	60.12	60.12	Nil

**f) Maturity pattern of Assets Table -11**

(Rs. in Crore) – As on 31-03-2020							
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	88.27	36.25	0.00	0.00	0.00	0.46	124.98
2-7 Days	0.00	0.00	24.99	0.00	0.00	312.73	337.72
8-14 Days	0.00	0.00	50.03	0.00	0.00	3.18	53.21
15-30 Days	4.71	6.27	0.00	0.00	0.00	6.37	17.35
31 Days and up to 2 months	6.71	25.01	34.71	0.00	0.00	3.19	69.62
Over 2 Months and up to 3 months	8.55	0.00	3.56	0.00	0.00	3.19	15.30
Over 3 Months and up to 6 months	27.16	170.00	53.04	713.68	0.00	6.37	970.25
Over 6 Months and up to 1 year	61.10	50.16	110.38	2,485.17	0.00	38.23	2,745.04
Over 1 Year and up to 3 years	83.41	0.00	20.51	2,853.27	0.00	0.00	2,957.19
Over 3 Years and up to 5 years	2.69	0.20	126.81	379.13	0.00	0.00	508.83
Over 5 years and up to 7 years	2.68	0.00	289.24	74.40	120.11	232.84	719.27
Over 7 years and up to 10 years	0.46	0.13	547.77	0.00	0.00	0.00	548.36
Over 10 year and up to 15 years	0.00	0.00	419.91	0.00	0.00	0.00	419.91
Over 15 years	19.03	0.00	52.68	0.00	0.00	0.00	71.71
<b>Total</b>	<b>304.77</b>	<b>288.02</b>	<b>1,733.63</b>	<b>6,505.66</b>	<b>120.11</b>	<b>606.56</b>	<b>9,558.74</b>

\* 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 (OD/CC).
- 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.

**Note:** Under Covid-19 Regulatory package, announced by RBI on 27th March, 2020, banks are permitted to grant borrowers a moratorium of three months on payment of all instalments/interest, falling due between 1st March, 2020 and 31st May, 2020. NPA classification as on 31st March, 2020 is subject to such norms as well.

**3.8.2 Provisioning**

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.

**(i) Amount of NPA as on 31 March 2020 Table-12**

S. No.	Category	Rs. in Crore
A	Amount of NPA (Gross)	100.86
A.1	Substandard	78.73
A.2	Doubtful (All 100% provision)	22.13
A.3	Loss	0
	NPA Provision	58.69
B	Net NPAs	42.17
C	Advances	
C1	Gross Advances	6,606.52
C3	Net Advances	6,547.82
D	NPA Ratios	
D.1	Gross NPAs to gross advances (%)	1.53 %
D.2	Net NPAs to net advances (%)	0.64 %

**(ii) Movement of NPA for the Year ending 31-03-2020 Table-13**

Particulars	(Rs. in Crore)	
	Gross NPA	Net NPA
Opening balance at 1 April, 2019	74.01	35.21
Addition during the period	80.11	42.22
Reduction/Upgradation/ Write-off/ during the period (Net)	53.26	35.26
<b>Closing balance at 31 March 2020</b>	<b>100.86</b>	<b>42.17</b>

**(iii) Movement of NPA Provision for the Period ended 31-03-2020 - Table 14**

Particulars	Rs. in Crore
Opening balance at 1 April, 2019	38.81
Provision made during the period	61.90
Write off/ write back excess provision	42.02
<b>Closing balance at 31 March 2020</b>	<b>58.69</b>

**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 7 May 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 of transaction structures 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 transfer 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

Particulars	(Rs. in Crore)	
	FY 2018-2019	FY 2019-20
Total number of loan assets securitised (Numbers)	1,46,644	0
Book value of loan assets securitized	120.49	0
Sale consideration received for the securitized assets	116.27	0
Interest spread on Securitization during the period	41.12	8.63
Form of services provided	Credit enhancement & post securitisation asset servicing	
<b>Outstanding value as on</b>	<b>31-03-2019</b>	<b>31-03-2020</b>
Cash Collateral	36.85	0
Over Collateral	17.51	0
Exposure to own securitization	8	0

### 4.4.2 Quantitative details of Assignment Transactions originated. Table 16

Particulars	(Rs. in Crore)	
	FY 2018-2019	FY 2019-20
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	0.57	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 31-03-2020 – Table 17

Particulars	(Rs. in Crore)
<b>On Balance Sheet Exposure</b>	
1 On-balance sheet items (excluding derivatives and Securities Financing Transactions (SFT), but including collateral)	9,469.97
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	0
3 Total on-balance sheet exposures (excluding derivatives and SFTs) (1+2)	9,469.97
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 <b>Total derivative exposures (sum of lines 4 to 10)</b>	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 <b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	0
<b>Other off-balance sheet exposures</b>	
17 Off-balance sheet exposure at gross notional amount	1.50
18 (Adjustments for conversion to credit equivalent amounts)	0
19 <b>Off-balance sheet items (sum of lines 17 and 18)</b>	1.50
<b>Capital and total exposures</b>	
20 <b>Tier 1 capital</b>	<b>1,122.50</b>
21 <b>Total exposures (sum of lines 3, 11, 16 and 19)</b>	<b>9,471.47</b>
<b>Leverage ratio</b>	
22 Basel III Leverage Ratio	<b>11.85 %</b>
<b>Summary comparison of accounting assets vs. leverage ratio exposure measure</b>	
1 Total consolidated assets as per published financial statements	9,469.97
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 <b>Leverage ratio exposure</b>	<b>9,471.47</b>

## 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. Asset Liability Management Committee (ALCO) also known as Market Risk Management Committee is primarily responsible for establishing Market Risk Management and Asset Liability Management in the Bank.

The 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 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/ALM system. The Division is independent from business and trading units, and provides an independent risk assessment, which is critical to the 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 Asset Liability Management Committee (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, Asset Liability Pricing Policy and Liquidity Risk Management Policy which covers the broad 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 Asset-Liability Management Committee (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 through Asset-Liability Management Policy of the Bank. 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. 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, ALCO reviews interest rate sensitivity statement on 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

	(Rs. in Crore)
<b>Impact on NII (31-03-2020)</b>	
Impact of 100 bps parallel shift in interest rate on both assets & liabilities on Net Interest Income (NII)	6.10

### b) Market Value of Equity (MVE) Table 19

	(Rs. in Crore)
<b>Impact on NII (31-03-2020)</b>	
Impact of 200 bps parallel shift in interest rate on both assets & liabilities on Market Value of Equity	69.96
Impact of 100 bps parallel shift in interest rate on both assets & liabilities on Market Value of Equity	34.98

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

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

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 management function

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 Management Committee (ORMC) at the executive level oversees bank-wide implementation of the Board approved policies and processes. The principal objective of the ORMC is mitigation of operational risk in the institution by creation and maintenance of an explicit operational risk management process.

The ORMC 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.

Operational Risk management, Business Continuity Management and coordination of relevant activities 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, 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 is in the process of implementing an enterprise-wide Risk Management software solution, for management of Credit, Market and Operational Risks. The application automates the management of Governance, Risk, and Compliance (GRC) data, and facilitates the entry, collection, transfer, storage, tracking, and reporting of operational losses, gains, recoveries, and key risk indicators (KRIs) that are drawn from multiple locations across the organization.

It facilitates conducting of Risk and Control Self Assessments, 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 GRC information.

The Bank has also framed a Whistle Blower Policy, which enables the employees and vendors in raising their concerns, with full confidentiality, on any fraud, malpractice or any other untoward activity or event.

Since RBI has not prescribed capital charge for Operational Risk for SFBs, the Bank has not computed capital charge for Operational Risk.

## 10. Business Continuity Management

Business Continuity Management in the Bank is overseen by the Business Continuity Management (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 Committee (CMC) at Head Office level functions as a sub-committee of the BCM Committee. The CMC takes responsibility and acts swiftly in case of breakdown or failure of critical systems, occurrence of natural disasters/ accidents or any other events affecting business continuity.

## 11. AML and Transaction Monitoring as a Risk Management activity

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 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 AML & Transaction Monitoring Division to Risk Management Department.

The AML & 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.
- Monitoring of transactions in digital and core banking channels for identifying and preventing frauds and other malpractices.

## 12. Information Security Risk Management

Robust information and cyber security frameworks are established for securing the IT infrastructure and systems of the Bank. Oversight of Information

Security Governance for the Bank is the responsibility of the Information Security Governance Committee (ISGC). The ISGC is a management level committee headed by the Managing Director & CEO. ISGC is the central representative body of senior management from different business functions to provide 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 acts as apex committee 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, who reports to the Chief Risk Officer.

### 13. Internal Financial Control (IFC)

The Bank has developed an Internal Financial Control (IFC) Framework in line with requirements of the Companies Act, 2013. To implement this, an Internal Financial Control Division is established under the Risk Management Department. 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 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 a report to the Board of Directors, who in turn makes an assertion in Director's Responsibility Statement that Internal Financial Controls (IFCs) have been laid down and that such IFCs are adequate and operating effectively.

In order to ensure effective working of the IFC Framework, the IFC Division coordinates with identified officials in each Department/ Function. These officials and the respective Heads of Departments are responsible for ensuring that IFC documentation is current and up to date. The various departments ensure that the process changes and new products introduced are put up to the Product and Process Approval Committee (PPAC). The processes approved by the PPAC are incorporated in the IFC documentation of the respective function. IFC Division checks for this updation. Further, IFC Division, with assistance from Operational Risk Division of the

Risk Management Department and IT Department identifies any design level control gaps, as a result of the changes in the process or introduction of a new product, and highlights to the respective department and Internal Audit Department

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 IFC Division 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 Team 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 certifications from Heads of Departments and Internal Audit, Head - IFC Division confirms to the Chief Financial Officer, who will certify to the Audit Committee of the Board on the Bank's IFC compliance, as per the provision of the Companies Act, 2013.

### 14. Risk Management for 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, ensure that all of its valuable stakeholders are protected from any undesirable events, outcomes, sufferings and losses, in the best manner possible.

## 15. Covid-19 Pandemic

COVID-19 virus, a global pandemic has affected the world economy including India leading to significant decline and volatility in financial markets and decline in economic activities. On 24 March 2020, the Indian Government announced a strict 21-day lock-down which was further extended three times up to 31 May 2020 across the country to contain the spread of the virus. The Bank Initiated Business Continuity measures from 6 March 2020. The Bank formulated and circulated to all its branches and offices, a Business Continuity Plan document specifically dealing with the Covid-19 situation containing detailed instructions on dealing with the situation. The purpose was to create a sound framework as well as to implement strong processes and controls to help the Bank and its employees to handle and manage the significant disruptions to business operations. The Crisis Management Committee (CMC) of the Bank met daily from 16 March 2020 onwards through conference calls to assess and give feedback to the top management on a regular basis. The Bank has also formed a Quick Response Team of Senior Executives to deal with the business continuity issues on a day to day basis and to update the Crisis Management Committee.

The RBI on 27 March 2020 and 17 April 2020, announced 'COVID-19 Regulatory Package' on asset classification and provisioning. In terms of the RBI guidelines, the lending institutions have been permitted to grant a moratorium of three months on payment of all instalments/interest. as applicable, falling due between 1 March 2020 and 31 May 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. In accordance with the COVID Regulatory package, the bank has granted moratorium to all eligible borrowers. The Bank has made a provision of Rs. 4.41 Crore as on 31 March 2020 in respect of loan accounts which are in default but retained as standard assets based on the loan moratorium norms announced by RBI. The Provision held by the Bank is in line with the RBI guidelines.

## 16. Conclusion

The transformation 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 of commencing operations, 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. Additional infrastructure facilities are also being put in place and recruitment and training of staff to meet the challenges ahead are progressing. 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 Reserve Bank of India from time to time.

# Report on Corporate Governance

The report on the Bank's Corporate Governance, for the Financial Year 2019-2020, 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, 2020, the Board of Directors, comprising a combination of Executive and Non-Executive directors, consisted of Eight members, of whom Seven 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, 2020 is furnished as hereunder:

## Board of Directors

### Board Profile

#### **Shri. Ravimohan Periyakavil Ramakrishnan (Part-time Chairman and Non-Executive Independent Director)**

Ravimohan Periyakavil Ramakrishnan is the Part-Time Chairman and Independent Director of the 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 of the financial sector supervision, International Monetary Fund, AFRITAC South, Mauritius

#### **Shri. Kadambelil Paul Thomas (Managing Director and Chief Executive Officer)**

Kadambelil Paul Thomas is the Managing Director and Chief Executive Officer of the Bank. He holds a Master's Degree in Business Administration from Annamalai University. He was previously the 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 26 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, ESAF 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. Presently, he is the President of Kerala State Association of Financial Inclusion Institutions (KASAFI).

#### **Shri Joseph Vadakkekara Antony (Non-Executive Independent Director)**

Joseph Vadakkekara Antony is an Independent Director on the Board of the 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 received the Sunday Standard Best Banker award in 2013 and IDRBT Technology Excellence Award in 2012.

#### **Smt. Asha Morley (Non-Executive Independent Director)**

Asha Morley is an Independent Director on the Board of the 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 (F.C.A.) holding a D.I.S.A. (Diploma Information Systems Audit) certification. 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)**

Alex Parackal George is an Independent Director on the Board of the Bank. He holds a Bachelor of Technology degree 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 - Additional Director)**

Thomas Jacob Kalappila is a Fellow Member of the Institute of Chartered Accountants of India (F.C.A) holding a D.I.S.A (Diploma Information Systems Audit) certification. He has over 40 years of post-qualification experience as a Chartered Accountant and has been in practice for more than 37 years providing financial and management consultancy services to various reputed entities. Currently, Shri. Thomas is the Senior Partner of M/s. Thomas Jacob & Co. and is leading all major audit and attest assignments in the firm. He has rich experience in Statutory Audit, Internal and Forensic Audit of banks for more than 35 years and is currently undertaking the audit of Canara Bank, Indian Overseas Bank and Indian Bank. He has previously served as the Independent Director on the Boards of South Indian Bank Limited and Malabar Cements Limited.

### Shri. Saneesh Singh (Non-Executive Nominee Director)

Saneesh Singh is the Non-Executive Nominee Director of the 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. Assan Khan Akbar \* (Non-Executive Nominee Director)

Assan Khan Akbar is 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 15 times during the Financial Year 2019-20 on 08th April, 2019, 10th May, 2019, 06th August, 2019, 22nd August, 2019, 05th September, 2019, 27th September, 2019, 05th November, 2019, 11th November, 2019, 30th November, 2019, 11th December, 2019, 23rd December, 2019, 04th January, 2020, 06th January, 2020, 05th February, 2020 and 04th March, 2020. 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. Prabha Raveendranathan*	10	10	Yes
2.	Shri. Ravimohan Periyakavil Ramakrishnan **	5	5	NA
3.	Shri. Kadambelil Paul Thomas	15	15	Yes
4.	Shri. Joseph Vadakkekara Antony	15	15	Yes
5.	Smt. Asha Morley	15	15	Yes
6.	Shri. Alex Parackal George	15	15	Yes
7.	Shri. George Joseph ***	15	15	Yes
8.	Shri. Thomas Jacob Kalappila ****	NIL	NIL	NA
9.	Shri. Assan Khan Akbar *****	15	15	Yes
10.	Shri. Saneesh Singh	15	15	Yes

\* Shri. Prabha Raveendranathan retired from the office as the Independent Director on completion of his term of appointment on 12th December, 2019.

\*\* Shri. Ravimohan Periyakavil Ramakrishnan was appointed as the Independent Director on the Board of the Bank with effect from 21st December, 2019.

\*\*\* Shri. George Joseph retired from the office as the Independent Director on completion of his term of appointment on 09th March, 2020.

\*\*\*\* Shri. Thomas Jacob Kalappila was appointed as the Independent Director on the Board of the Bank with effect from 10th March, 2020 and no meetings of the Board of Directors were held during the Financial Year after his appointment.

\*\*\*\*\* Shri. Assan Khan Akbar retired from the office as the Non-Executive Nominee Director on completion of his term of appointment on 04th May, 2020.

### 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, 2020. 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 (CSRCB)
8.	High Value Fraud Monitoring Committee of the Board (HVFMCB)
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 13th December, 2016. The Committee was reconstituted on 23rd December, 2019 and 04th March, 2020 during the year. As on 31st March, 2020, the Committee had Four (4) 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. Assan Khan Akbar *	Member

\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

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 2019-20, seven (7) meetings of the Committee were held on the following dates:

Sl. No.	Date of Meeting
1.	10th May, 2019
2.	06th August, 2019
3.	05th September, 2019
4.	05th November, 2019
5.	30th November, 2019
6.	23rd December, 2019
7.	05th February, 2020

The details regarding the constitution of the Audit Committee along with the attendance recorded in the meetings held during the Financial Year 2019-20 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1.	Smt. Asha Morley	Chairperson	7	7
2.	Shri. Prabha Raveendranathan*	Member	5	5
3.	Shri. Ravimohan Periyakavil Ramakrishnan **	Member	1	1
4.	Shri. Assan Khan Akbar ***	Member	7	7
5.	Shri. George Joseph ****	Member	7	7
6.	Shri. Thomas Jacob Kalappila *****	Member	NIL	NIL

\* Shri. Prabha Raveendranathan ceased to be a member of the Committee on 12th December, 2019.

\*\* Shri. Ravimohan Periyakavil Ramakrishnan was appointed as member of the Committee on 23rd December, 2019.

\*\*\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

\*\*\*\* Shri. George Joseph ceased to be a member of the Committee on 04th March, 2020.

\*\*\*\*\* Shri. Thomas Jacob Kalappila was appointed as member of the Committee on 04th March, 2020.

## Risk Management Committee of the Board (RMCB)

The Risk Management Committee was constituted by a meeting of the Board of Directors held on 13th December, 2016. The Committee was reconstituted on 23rd December, 2019 and 04th March, 2020 during the year. As on 31st March, 2020, 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. Assan Khan Akbar *	Member

\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

During the Financial Year 2019-20, four (4) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	09th May, 2019
2.	22nd August, 2019
3.	30th November, 2019
4.	04th March, 2020

The details regarding the constitution of the Risk Management Committee along with the attendance recorded in the meetings held during the Financial Year 2019-20 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	4	4
2.	Shri. Assan Khan Akbar*	Member	4	4
3.	Shri. Ravimohan Periyakavil Ramakrishnan **	Member	1	1
4.	Shri. George Joseph ***	Member	4	4
5.	Shri. Thomas Jacob Kalappila ****	Member	NIL	NIL

\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

\*\* Shri. Ravimohan Periyakavil Ramakrishnan was appointed as member of the Committee on 23rd December, 2019.

\*\*\* Shri. George Joseph ceased to be a member of the Committee on 04th March, 2020.

\*\*\*\* Shri. Thomas Jacob Kalappila was appointed as member of the Committee on 04th March, 2020.

## Nomination Remuneration and Compensation Committee of the Board (NRCCB)

The Nomination Remuneration and Compensation Committee was constituted by a meeting of the Board of Directors held on 13th December, 2016. The Committee was reconstituted on 23rd December, 2019 during the year. As on 31st March, 2020, the Committee had Four (4) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Joseph Vadakkekara Antony	Chairman
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member
3.	Smt. Asha Morley	Member
4.	Shri. Saneesh Singh	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 2019-20, eight (8) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	10th May, 2019
2.	06th August, 2019
3.	22nd August, 2019
4.	05th September, 2019
5.	05th November, 2019
6.	23rd December, 2019
7.	05th February, 2020
8.	04th March, 2020

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 2019-20 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. Joseph Vadakkekara Antony	Chairman	8	8
2.	Shri. Saneesh Singh	Member	8	8
3.	Smt. Asha Morley	Member	8	8
4.	Shri. Prabha Raveendranathan*	Member	5	5
5.	Shri. Ravimohan Periyakavil Ramakrishnan **	Member	2	2

\* Shri. Prabha Raveendranathan ceased to be a member of the Committee on 12th December, 2019.

\*\* Shri. Ravimohan Periyakavil Ramakrishnan was appointed as member of the Committee on 23rd December, 2019.

## Management Committee of the Board (MCB)

The Management Committee of the Board was constituted by a meeting of the Board of Directors held on 17th August, 2017. The Committee was reconstituted on 23rd December, 2019 during the year. As on 31st March, 2020, 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.	Shri. Joseph Vadakkekara Antony	Member
4.	Shri. Assan Khan Akbar *	Member

\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

During the Financial Year 2019-20, Thirteen (13) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	29th April, 2019
2.	28th May, 2019
3.	24th June, 2019

Sl. No.	Date of Meeting
4.	05th August, 2019
5.	27th August, 2019
6.	05th September, 2019
7.	27th September, 2019
8.	24th October, 2019
9.	30th November, 2019
10.	11th December, 2019
11.	28th January, 2020
12.	04th March, 2020
13.	20th March, 2020

The details regarding the constitution of the Management Committee along with the attendance recorded in the meetings held during the Financial Year 2019-20 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. Prabha Raveendranathan*	Chairman	10	10
2.	Shri. Ravimohan Periyakavil Ramakrishnan **	Chairman	3	3
3.	Shri. Kadambelil Paul Thomas	Member	13	13
4.	Shri. Joseph Vadakkekara Antony	Member	13	13
5.	Shri. Assan Khan Akbar ***	Member	13	13

\* Shri. Prabha Raveendranathan ceased to be a member of the Committee on 12th December, 2019.

\*\* Shri. Ravimohan Periyakavil Ramakrishnan was appointed as member of the Committee on 23rd December, 2019.

\*\*\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th 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. There were no changes in the constitution of the Committee during the Financial Year 2019-20. As on 31st March, 2020 there were Three (3) members in the Committee:

Sl. No.	Name of the Member	Designation
1.	Shri. Assan Khan Akbar *	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Shri. Alex Parackal George	Member

\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

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 Three (3) times during the Financial Year 2019-20 on the following dates:

Sl. No.	Date of Meeting
1.	09th May, 2019
2.	05th August, 2019
3.	30th November, 2019

The details regarding the constitution of the IT Strategy Committee along with the attendance recorded in the meetings held during the Financial Year 2019-20 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. Assan Khan Akbar *	Chairman	3	3
2.	Shri. Kadambelil Paul Thomas	Member	3	3
3.	Shri. Alex Parackal George	Member	3	3

\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

### 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 04th March, 2020 during the year. As on 31st March, 2020, 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. Thomas Jacob Kalappila	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Shri. Alex Parackal George	Member

The Customer Service Committee of the Board was convened Four (4) times during the Financial Year 2019-20 on the following dates:

Sl. No.	Date of Meeting
1.	09th May, 2019
2.	05th August, 2019
3.	04th November, 2019
4.	04th February, 2020

The details regarding the constitution of the Customer Service Committee along with the attendance recorded in the meetings held during the Financial Year 2019-20 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. George Joseph *	Chairman	4	4
2.	Shri. Thomas Jacob Kalappila **	Chairman	NIL	NIL
3.	Shri. Kadambelil Paul Thomas	Member	4	4
4.	Shri. Alex Parackal George	Member	4	4

\* Shri. George Joseph ceased to be a member of the Committee on 04th March, 2020.

\*\* Shri. Thomas Jacob Kalappila was appointed as member of the Committee on 04th March, 2020 and no meetings of the Committee were held during the Financial Year after his appointment.

### 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 17th August, 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.

There were no changes in the constitution of the Committee during the Financial Year 2019-20. As on 31st March, 2020, the Committee had Three (3) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Saneesh Singh	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Shri. Joseph Vadakkekara Antony	Member

During the Financial Year 2019-20, two (2) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	27th September, 2019
2.	31st March, 2020

The details regarding the constitution of the Corporate Social Responsibility Committee along with the attendance recorded in the meetings held during the Financial Year 2019-20 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	2	2
2.	Shri. Kadambelil Paul Thomas	Member	2	2
3.	Shri. Joseph Vadakkekara Antony	Member	2	2

### 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 03rd October, 2018 to monitor and review all 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.

There were no changes in the constitution of the Committee during the Financial Year 2019-20. As on 31st March, 2020, the Committee had Five (5) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Kadambelil Paul Thomas	Chairman
2.	Shri. Saneesh Singh	Member
3.	Shri. Joseph Vadakkekara Antony	Member
4.	Smt. Asha Morley	Member
5.	Shri. Assan Khan Akbar *	Member

\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th May, 2020.

During the Financial Year 2019-20, one (1) meeting of the Committee was convened on 04th November, 2019.

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 2019-20 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	1	1
2.	Shri. Saneesh Singh	Member	1	1
3.	Shri. Joseph Vadakkekara Antony	Member	1	1
4.	Smt. Asha Morley	Member	1	1
5.	Shri. Assan Khan Akbar *	Member	1	1

\* Shri. Assan Khan Akbar ceased to be a member of the Committee on 04th 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. The Committee was reconstituted on 23rd December, 2019 during the Financial Year 2019-20. As on 31st March, 2020, 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.	Shri. Joseph Vadakkekara Antony	Member

During the Financial Year 2019-20, Five (5) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	13th August, 2019
2.	27th August, 2019
3.	23rd September, 2019
4.	24th October, 2019
5.	11th November, 2019

The details regarding the constitution of the IPO Steering Committee along with the attendance recorded in the meetings held during the Financial Year 2019-20 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. Prabha Raveendranathan*	Chairman	5	5
2.	Shri. Ravimohan Periyakavil Ramakrishnan **	Chairman	NIL	NIL
3.	Shri. Kadambelil Paul Thomas	Member	5	5
4.	Shri. Joseph Vadakkekara Antony	Member	5	5

\* Shri. Prabha Raveendranathan ceased to be a member of the Committee on 12th December, 2019.

\*\* Shri. Ravimohan Periyakavil Ramakrishnan was appointed as member of the Committee on 23rd December, 2019.

### 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 11th December, 2019 and thereafter no change has been made in the constitution of the Committee during the Financial Year 2019-20. As on 31st March, 2020, the Committee had three (3) members:

Sl. No.	Name of the Member	Designation
1.	Shri. Joseph Vadakkekara Antony	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Shri. Alex Parackal George	Member

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 2019-20.

**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	Rs. 50,000 per meeting
2.	Meetings of the Sub-Committees of the Board	Committee Members	Rs. 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:

Link In Time India Private Limited, C 101, 247 Park, L.B.S.Marg, Vikhroli (West), Mumbai - 400083, 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 : **05th May, 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**

**04th Annual General Meeting of the Bank:**

- Date and Time : **Monday, 10th August, 2020 at 02.00 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**

# 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 2020, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and notes to the financial statements, including 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 as well as the Companies Act, 2013, as amended ("the Act") in the manner so required for banking companies and give a true and fair view in conformity with the provisions of Section 29 of the Banking Regulation Act, 1949, accounting principles generally accepted in India, applicable accounting standards specified under section 133 of the Act read with the Companies (Accounts) Rules, 2014 in so far as they apply to the Bank and guidelines and directions issued by Reserve Bank of India from time to time, of the state of affairs of the Bank as at 31 March 2020, 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 (SAs), as specified under section 143(10) of the Act. Our responsibilities under those Standards are further described in the 'Auditor's Responsibilities 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 together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

### Emphasis of Matter

We draw attention to Schedule 18.A – Note 7(h) to the financial statements, which describes the extent to which COVID- 19 Pandemic will impact the Bank's operations and asset quality will depend on future developments, which are highly uncertain.

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 for the financial year ended 31 March 2020. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have determined the matters described below to be the key audit matters to be communicated in our report. We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Key audit matters	How our audit addressed the key audit matter
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**Identification of Non-performing advances and provisioning of advances:**

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 2020, the Net Advances of the Bank was Rs. 6547.82 crores and Gross NPA of the Bank was Rs 100.86 crores. Gross NPA ratio of the Bank was 1.53% and Net NPA ratio of the Bank was 0.64%

The Reserve Bank of India's ("RBI") guidelines on Income recognition and asset classification ("IRAC") and guidelines relating to COVID-19 Regulatory Package prescribes the prudential norms for identification and classification of NPAs and the minimum provision required for such assets along with asset classification benefits and provisioning requirements for specific advances availing moratorium benefits as per COVID-19 Regulatory Package.

Identification & provisioning on the NPAs can be inherently subjective and involve significant judgement over both timing and identification of NPA and estimation of size of such provisioning. We have focused on this area given volume of loans and subjective judgements by the management in determining the necessity and quantum of provisioning on advances.

The Bank has detailed its policy in this regard.

**Identification of NPAs:**

Our audit procedures included the following:

- Considered and assessed the Bank's policies for NPA identification and assessed compliance with the IRAC norms and guidelines relating to COVID-19 regulatory package dated 27 March 2020 and April 17, 2020.
- Obtained an understanding and performed walk through of key processes controls around identification of NPAs with respect to extant IRAC norms.
- Evaluated the design and operating effectiveness of key controls (including application controls) around identification of NPAs, controls around implementation of the moratorium on loans and asset classification benefit for overdue standard advances as on February 29, 2020.
- Identified customer accounts availing more than one loan from the Bank and assessed that all loans availed by a delinquent customer are classified appropriately.
- Performed procedures to assess the completeness of the NPAs

**Provisioning of Advances:**

Our audit procedures included the following:

- Gained an understanding of the Bank's process for provisioning of advances.
- Examined on a sample basis the calculation performed by the management for compliance with RBI regulations and reasonableness of internal Bank's policies for provisioning.
- Assessed management calculation and arithmetical accuracy of the provisioning on advances based on IRAC norms and guidelines relating to COVID-19 regulatory package dated 27 March 2020 and April 17, 2020.
- Assessed the disclosures in financial statements with respect to advances and non performing advances as specified by RBI including the specific disclosures made with regard to impact of COVID -19.

**Information Technology ("IT") Systems and Controls**

The IT infrastructure is critical for seamless functioning of the Bank's business operations and timely and accurate financial reporting.

Due to the pervasive nature and complexity of the IT environment and considering that the monitoring of the IT systems is outsourced, we have ascertained IT systems and controls as a key audit matter.

Our audit procedures included the following:

- For testing the IT general controls, application controls and IT dependent manual controls, we included IT auditors as part of the audit team. The IT audit team also assisted in testing of the information produced by the Bank's IT systems.
- Tested the design and operating effectiveness of the Bank's IT access controls over the information systems that are critical to financial reporting.
- Tested IT general controls (logical access, changes management and aspects of IT operational controls). This included testing of requests for access to systems and whether these were appropriately reviewed and authorized.

### Information Technology ("IT") Systems and Controls

- Tested the Bank's periodic review of access rights. Inspected requests of changes to systems for appropriate approval and authorization. Further, considered the control environment relating to various interfaces, configuration and other application controls identified as key to our audit.
- Tested the design and operating effectiveness of certain automated controls that were considered as key internal controls over financial reporting.
- Instances where deficiencies were identified, tested compensating controls or performed alternate procedures.

### Transactions with Related Parties

During the current year the Bank had transactions with its related parties primarily on account of business correspondence transaction with respect to collection of Bank's loans amongst others.

We identified these transactions as a key audit matter due to quantum of these transactions and uniqueness of these related party transactions.

Our audit procedures included the following:

- Obtained an understanding of the Bank's policies and procedures in respect of related party transactions.
- Evaluated the appropriateness of management's process for identifying and recording related party transactions.
- Obtained and read the contracts and agreements with related parties 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 other information. The other information received by us comprises of the Annual report but does not include the financial statements and our auditor's reports thereon. The Annual Report is expected to be made available to us after the date of the audit report.

Our opinion on the financial statements does not cover the other information and we do 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 such other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

### Responsibilities of Management and Those Charged with Governance 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 principles generally accepted in India, including the applicable accounting standards specified under section 133 of the Act read with the Companies (Accounts) Rules, 2014 in so far as they apply to the Bank and guidelines and directions issued by 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 of 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 the 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 statements 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 Charged with Governance are also responsible for overseeing the Bank's financial reporting process.

## **Auditor's Responsibilities 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 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 with reference to financial statements 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 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.

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 for the financial year ended 31 March 2020 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.

## Report on Other Legal and Regulatory Requirements

1. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with the Companies (Accounting Standards) Rules 2006 (as amended) specified under section 133 of the Act read with the Companies (Accounts) Rules, 2014.
2. As required by sub section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
  - a. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
  - b. The transactions of the Bank, which have come to our notice, have been within the powers of the Bank; and
  - c. The financial accounting systems of the Bank are centralized and therefore, accounting returns for the purpose of preparing financial statements are not required to be submitted by its branches; we have visited 51 branches for the purpose of our audit.
3. As required by Section 143(3) of the Act, 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;
  - (b) 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;
  - (c) The Balance Sheet, the Statement of Profit and Loss and the Cash Flow Statement dealt with by this Report are in agreement with the books of account;
  - (d) In our opinion, the aforesaid financial statements comply with the Companies (Accounting Standards) Rules 2006 (as amended) specified under section 133 of the Act read with the Companies (Accounts) Rules, 2014;
  - (e) On the basis of the written representations received from the directors as on 31 March 2020 taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2020 from being appointed as a director in terms of Section 164 (2) of the Act;
  - (f) With respect to the adequacy of the internal financial controls over financial reporting of the Bank with reference to these financial statements and the operating effectiveness of such controls, refer to our separate Report in "Annexure 2" to this report;
  - (g) In our opinion, the entity being a banking company, the remuneration to whole-time directors during the year ended 31 March 2020 has been paid by the Bank in accordance with the provisions of Section 35B (1) of the Banking Regulation Act, 1949; and
  - (h) 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 does not have any pending litigations which would impact its financial position for the year ended 31 March 2020;
    - 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 – Refer Schedule 17- Note 4.12 and Schedule 18.A - Note 12 to the financial statements;
    - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank.

For **S.R. Batliboi & Associates LLP**

Chartered Accountants

ICAI Firm Registration Number: 101049W/E300004

Sd/-

per **Sarvesh Warty**

Partner

Membership Number: 121411

UDIN: 20121411AAAACQ2541

Place: Mumbai

Date: May 29, 2020

## **ANNEXURE 1 TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE ON THE FINANCIAL STATEMENTS OF ESAF SMALL FINANCE BANK LIMITED**

### **Report on the Internal Financial Controls under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 (the "Act")**

To the Members of ESAF Small Finance Bank Limited

We have audited the internal financial controls over financial reporting of ESAF Small Finance Bank Limited (the "Bank") as of 31 March 2020 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 issued by the Institute of Chartered Accountants of India. 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 the 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 Companies Act, 2013.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing as specified under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. 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 were 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 internal financial controls system over financial reporting.

#### **Meaning of Internal Financial Controls Over Financial Reporting**

A company'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 company'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 company; (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 company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company'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, 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 2020, 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 issued by the Institute of Chartered Accountants of India.

For **S.R. Batliboi & Associates LLP**

Chartered Accountants

ICAI Firm Registration Number: 101049W/E300004

Sd/-

per **Sarvesh Warty**

Partner

Membership Number: 121411

UDIN: 20121411AAAACQ2541

Place: Mumbai

Date: May 29, 2020

# Balance Sheet

as at 31 March 2020

Rs. in Thousands			
	Schedule No.	As at 31 March 2020	As at 31 March 2019
<b>CAPITAL AND LIABILITIES</b>			
Capital	1	42,77,955	42,77,955
Reserves and Surplus	2	65,62,853	46,58,955
Deposits	3	7,02,83,823	4,31,70,082
Borrowings	4	1,20,33,170	1,70,23,595
Other Liabilities and Provisions	5	15,41,920	14,53,544
<b>Total</b>		<b>9,46,99,721</b>	<b>7,05,84,131</b>
<b>ASSETS</b>			
Cash and Balances with Reserve Bank of India	6	30,47,723	24,67,407
Balances with Banks and Money at Call and Short Notice	7	59,80,193	53,47,151
Investments	8	1,73,36,253	1,53,07,499
Advances	9	6,54,78,216	4,54,82,545
Fixed Assets	10	12,01,069	8,99,406
Other Assets	11	16,56,267	10,80,123
<b>Total</b>		<b>9,46,99,721</b>	<b>7,05,84,131</b>
Contingent Liabilities	12	15,042	5,83,266
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.

As per our report of even date attached  
 For **S.R.Batliboi & Associates LLP**  
 Chartered Accountants  
 Firm Registration No. 101049W/E300004

Sd/-  
 per **Sarvesh Warty**  
 Partner  
 Membership No. 121411

Place : Mumbai  
 Date : 29 May 2020

**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 : 29 May 2020

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 2020

Particulars	Schedule No.	Rs. in Thousands	
		For the year ended 31 March 2020	For the year ended 31 March 2019
<b>I. INCOME</b>			
Interest Earned	13	1,41,32,453	1,03,16,385
Other Income	14	13,31,896	10,91,505
<b>Total</b>		<b>1,54,64,349</b>	<b>1,14,07,890</b>
<b>II. EXPENDITURE</b>			
Interest expended	15	62,10,572	45,82,817
Operating Expenses	16	60,06,765	45,33,942
Provisions and Contingencies		13,43,114	13,88,293
<b>Total</b>		<b>1,35,60,451</b>	<b>1,05,05,052</b>
<b>III. PROFIT</b>			
Net Profit for the year (I - II)		<b>19,03,898</b>	<b>9,02,838</b>
Add: Balance in Profit and Loss account brought forward from Previous Year		8,79,974	2,08,184
		<b>27,83,872</b>	<b>11,11,022</b>
<b>IV. APPROPRIATIONS</b>			
Transfer to Statutory Reserve		4,75,975	2,25,709
Transfer to Capital Reserve		-	-
Transfer to/(from) Investment Fluctuation Reserve		35,930	5,339
Balance carried over to Balance Sheet		22,71,967	8,79,974
<b>Total</b>		<b>27,83,872</b>	<b>11,11,022</b>
Earnings per share (face value of Rs.10/- each) (Refer Note B.1 of schedule 18)			
Basic (Rs.)		4.45	2.37
Diluted (Rs.)		4.45	2.37
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.

As per our report of even date attached  
For **S.R.Batliboi & Associates LLP**  
Chartered Accountants  
Firm Registration No. 101049W/E300004

Sd/-  
per **Sarvesh Warty**  
Partner  
Membership No. 121411

Place : Mumbai  
Date : 29 May 2020

**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 : 29 May 2020

Sd/-  
**Kadambelil Paul Thomas**  
Managing Director & CEO  
DIN: 00199925

Sd/-  
**Ranjith Raj P**  
Company Secretary

# Cash Flow Statement

for the year ended 31 March 2020

Particulars	Rs. in Thousands	
	Year ended 31 March 2020	Year ended 31 March 2019
<b>Cash Flow from Operating Activities</b>		
<b>Net Profit before tax</b>	25,62,565	12,71,816
Adjustments for:		
Depreciation on Bank's Property	2,31,668	1,69,064
Amortisation of Premium on HTM Investments	35,250	21,985
Profit on sale of investments (net)	(64,019)	(10,043)
Profit on sale of Fixed Assets	(394)	(260)
Provision for Non Performing Advances	4,91,506	9,19,377
Provision for Standard Advances	1,00,761	92,330
Provision for Depreciation on Investments	18,322	-
Provision for Other Contingencies	73,857	7,608
	<b>34,49,516</b>	<b>24,71,877</b>
(Increase)/ Decrease in Investments (other than HTM Investments)	37,96,592	(66,73,028)
(Increase)/ Decrease in Advances	(2,04,87,176)	(1,48,51,063)
(Increase)/ Decrease in Fixed Deposit with Bank (Original Maturity greater than 3 months)	(16,62,837)	(59,304)
(Increase)/ Decrease in Other Assets	(4,98,776)	(3,23,340)
Increase/ (Decrease) in Deposits	2,71,13,740	1,79,39,158
Increase/ (Decrease) in Other liabilities and provisions	(86,242)	(4,89,382)
Direct taxes paid	(7,36,035)	(4,06,249)
<b>Net Cash Flow from/(used in) Operating Activities (A)</b>	<b>1,08,88,782</b>	<b>(23,91,331)</b>
<b>Cash Flow from/(Used in) Investing Activities</b>		
Purchase of Fixed Assets	(5,33,932)	(3,81,462)
Proceeds from Sale of Fixed Assets	995	275
(Increase)/ Decrease in Held to Maturity Investments	(58,14,898)	(13,27,779)
<b>Net Cash Used in Investing Activities (B)</b>	<b>(63,47,835)</b>	<b>(17,08,966)</b>
<b>Cash Flow from/(Used in) Financing Activities</b>		
Proceeds from Issue of Share Capital (including Share Premium)	-	46,42,122
Share Issue Expenses	-	(41,529)
Increase/(Decrease) in Borrowings	(49,90,425)	2,77,092
<b>Cash Flow from/(Used in) Financing Activities (C)</b>	<b>(49,90,425)</b>	<b>48,77,685</b>
<b>Net Increase in Cash and Cash Equivalents (A+B+C)</b>	<b>(4,49,478)</b>	<b>7,77,388</b>
Cash and Cash Equivalents at the beginning of year	72,09,829	64,32,441
Cash and Cash Equivalents at the end of year (refer note below)	67,60,351	72,09,829
<b>Note:</b>		
Cash in Hand (Schedule 6 I)	7,61,280	2,02,039
Balance with RBI in Current Account (Schedule 6 II (i))	22,86,443	22,65,368
Balance with Banks in India in Current Account (Schedule 7 I (i) a)	3,62,628	8,92,422
Balance with banks in India in Fixed Deposit	2,50,000	8,50,000
Money at Call and Short Notice (Schedule 7 I (ii) a)	-	22,00,000
Lending Under Reverse Repo Notice (Schedule 7 I (ii) c)	31,00,000	8,00,000
<b>Cash and cash equivalents at the end of the year</b>	<b>67,60,351</b>	<b>72,09,829</b>

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 (Accounts) Rules, 2014.

As per our report of even date attached  
 For **S.R.Batliboi & Associates LLP**  
 Chartered Accountants  
 Firm Registration No. 101049W/E300004

Sd/-  
 per **Sarvesh Warty**  
 Partner  
 Membership No. 121411

Place : Mumbai  
 Date : 29 May 2020

**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 : 29 May 2020

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 2020

## 1. Capital

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
<b>Authorised Capital</b>		
60,00,00,000 Equity Shares of Rs.10/- each (45,00,00,000 Equity Shares of Rs.10/- each)	60,00,000	45,00,000
<b>Issued, Subscribed and Paid up Capital*</b>		
42,77,95,490 Equity Shares of Rs.10/- each (42,77,95,490 Equity Shares of Rs.10/- each)	42,77,955	42,77,955
<b>Total</b>	<b>42,77,955</b>	<b>42,77,955</b>

## 2. Reserves and Surplus

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
<b>I. Statutory Reserve</b>		
Opening balance	2,95,104	69,395
Additions during the year	4,75,975	2,25,709
	<b>7,71,079</b>	<b>2,95,104</b>
<b>II. Capital Reserves</b>		
(a) Revaluation Reserve		
Opening balance	-	-
Additions during the year	-	-
(b) Others		
Opening balance	-	-
Additions during the year	-	-
<b>III. Share premium*</b>		
Opening balance	34,78,538	36,448
Additions during the year	-	34,83,619
Less : Capital Raise expenses (Refer Note A.14 of Schedule 18)	-	41,529
	<b>34,78,538</b>	<b>34,78,538</b>
<b>IV. Revenue and Other Reserves</b>		
a) Revenue Reserve		
Opening balance	-	-
Additions during the year	-	-
Deductions during the year	-	-
b) Investment Fluctuation Reserve		
Opening balance	5,339	-
Additions during the year	35,930	5,339
	<b>41,269</b>	<b>5,339</b>
<b>V. Balance in Profit and Loss Account</b>	<b>22,71,967</b>	<b>8,79,974</b>
<b>Total (I to V)</b>	<b>65,62,853</b>	<b>46,58,955</b>

\*During the year ended 31 March 2019, the Bank has raised tier 1 capital of Rs. 46,42,122 Thousand through private placements of 1,15,850 Thousands Equity Shares having the face value of Rs. 10/- each at an issue price of Rs. 40.07 per Equity Share. The related issue expenses amounting to Rs. 41,529 Thousands have been drawn from Share Premium.

## 3. Deposits

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
<b>A. I. Demand Deposits</b>		
i. From Banks	26,199	28,738
ii. From Others	5,52,227	3,11,006
	<b>5,78,426</b>	<b>3,39,744</b>
<b>II. Savings Bank Deposits</b>	90,24,415	55,10,497

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
III. Term Deposits		
i. From Banks	59,90,471	52,05,940
ii. From Others	5,46,90,511	3,21,13,901
	6,06,80,982	3,73,19,841
<b>Total (I to III)</b>	<b>7,02,83,823</b>	<b>4,31,70,082</b>
B. I. Deposits of branches in India	7,02,83,823	4,31,70,082
II. Deposits of branches outside India	-	-
<b>Total (I to II)</b>	<b>7,02,83,823</b>	<b>4,31,70,082</b>

## 4. Borrowings

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
I. Borrowings in India		
i. Reserve Bank of India	16,30,000	-
ii. Other Banks	-	8,59,931
iii. Other institutions and agencies	80,23,170	1,37,83,664
iv. Subordinated Debt	19,00,000	19,00,000
v. Perpetual Debt Instrument	4,80,000	4,80,000
	1,20,33,170	1,70,23,595
II. Borrowings outside India	-	-
<b>Total (I to II)</b>	<b>1,20,33,170</b>	<b>1,70,23,595</b>
Secured Borrowings included in I and II above	3,170	23,22,345

## 5. Other Liabilities and Provisions

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
I. Bills Payable	5,838	7,714
II. Inter - office adjustments (Net)	-	-
III. Interest accrued	1,88,740	2,66,916
IV. Provision for Standard Assets (Refer Note A.7(g) of Schedule 18)	3,15,902	2,15,141
V. Others (including Provisions)	10,31,440	9,63,773
<b>Total (I to V)</b>	<b>15,41,920</b>	<b>14,53,544</b>

## 6. Cash and Balances with Reserve Bank of India

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
I. Cash in hand	7,61,280	2,02,039
II. Balance with Reserve Bank of India		
i. in Current Accounts	22,86,443	22,65,368
ii. in Other Accounts	-	-
<b>Total (I to II)</b>	<b>30,47,723</b>	<b>24,67,407</b>

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## 7. Balances with Banks and Money at call and Short Notice

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
I. In India		
i. Balances with Banks		
a. in Current Accounts	3,62,628	8,92,422
b. in Other Deposit Accounts	25,17,565	14,54,729
<b>Total</b>	<b>28,80,193</b>	<b>23,47,151</b>
ii. Money at Call and Short Notice		
a. With Banks	-	22,00,000
b. With Other Institutions	-	-
c. Lending under Reverse Repo (RBI)	31,00,000	8,00,000
<b>Total</b>	<b>31,00,000</b>	<b>30,00,000</b>
<b>Total (I)</b>	<b>59,80,193</b>	<b>53,47,151</b>
II. Outside India		
i. in Current Accounts	-	-
ii. in Other Deposit Accounts	-	-
iii. Money at call and short notice	-	-
<b>Total (II)</b>	<b>-</b>	<b>-</b>
<b>Total (I to II)</b>	<b>59,80,193</b>	<b>53,47,151</b>

## 8. Investments (Net of Provisions)

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
I. Investments in India in :		
i. Government Securities	1,50,69,474	88,64,094
ii. Other approved Securities	-	-
iii. Shares	35,601	-
iv. Debentures and Bonds	-	-
v. Subsidiaries/ Joint Ventures	-	-
vi. Others [Certificate of Deposits (CDs), Pass Through Certificates (PTCs)S etc.]	22,31,178	64,43,405
<b>Total (I)</b>	<b>1,73,36,253</b>	<b>1,53,07,499</b>
II. Investments outside India	-	-
<b>Total (II)</b>	<b>-</b>	<b>-</b>
<b>Total (I to II)</b>	<b>1,73,36,253</b>	<b>1,53,07,499</b>
Gross Investments	1,73,54,575	1,53,07,499
Less: Depreciation/ Provision for Investments	18,322	-
<b>Net Investments</b>	<b>1,73,36,253</b>	<b>1,53,07,499</b>

## 9. Advances (Net of Provisions)

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
A. i. Bills purchased and discounted	-	-
ii. Cash credits, overdrafts and loans repayable on demand	3,08,082	1,26,568
iii. Term loans	6,51,70,134	4,53,55,977
<b>Total</b>	<b>6,54,78,216</b>	<b>4,54,82,545</b>
B. i. Secured by tangible assets	42,05,546	14,96,216
ii. Covered by Bank/Government guarantees	-	-
iii. Unsecured	6,12,72,670	4,39,86,329
<b>Total</b>	<b>6,54,78,216</b>	<b>4,54,82,545</b>

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
<b>C. I. Advances in India</b>		
i. Priority Sectors	5,65,19,538	4,21,00,013
ii. Public Sector	-	-
iii. Banks	-	-
iv. Others	89,58,678	33,82,532
<b>Total (I)</b>	<b>6,54,78,216</b>	<b>4,54,82,545</b>
<b>II. Advances outside India</b>		
i. Due from Banks	-	-
ii. Due from Others	-	-
a) Bills purchased and discounted	-	-
b) Syndicated Loans	-	-
c) Others	-	-
<b>Total (II)</b>	<b>-</b>	<b>-</b>
<b>Total (I to II)</b>	<b>6,54,78,216</b>	<b>4,54,82,545</b>

## 10. Fixed Assets

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
<b>I. Owned Assets</b>		
<b>a. Premises</b>		
<b>Gross Block</b>		
At the beginning of the year	-	-
Additions during the year	-	-
Deductions during the year	-	-
Closing Balance	-	-
<b>Depreciation</b>		
As at the beginning of the year	-	-
Charge for the Year	-	-
Deductions during the year	-	-
Depreciation to date	-	-
<b>Net Block</b>	<b>-</b>	<b>-</b>
<b>b. Other fixed assets</b>		
(including furniture and fixtures)		
<b>Gross Block</b>		
At the beginning of the year	11,24,200	7,01,658
Additions during the year	5,34,954	4,22,842
Deductions during the year	1,202	300
<b>Closing Balance</b>	<b>16,57,952</b>	<b>11,24,200</b>
<b>Depreciation</b>		
As at the beginning of the year	2,67,462	98,683
Charge for the year	2,31,966	1,69,063
Deductions during the year	601	284
Depreciation to date	4,98,827	2,67,462
<b>Net Block</b>	<b>11,59,125</b>	<b>8,56,738</b>
<b>II. Assets Given on Lease</b>		
<b>Gross Block</b>		
At the beginning of the year	-	-

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
Additions during the year	-	-
Deductions during the year	-	-
Closing Balance	-	-
<b>Depreciation</b>		
As at the beginning of the year	-	-
Charge for the year	-	-
Deductions during the year	-	-
Depreciation to date	-	-
<b>Net Block</b>	-	-
II. Capital Work in progress (Including Capital Advances)	41,944	42,668
<b>Total (I &amp; II)</b>	<b>12,01,069</b>	<b>8,99,406</b>

## 11. Other Assets

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
I. Inter - office adjustments (net)	-	-
II. Interest accrued	6,37,274	4,09,337
III. Tax paid in advance/Tax Deducted at source (Net of provision)	1,01,105	78,569
IV. Stationery and Stamps	383	112
V. Non-banking assets acquired in satisfaction of claims	-	-
VI. Deferred tax asset (net)	1,13,604	58,771
VII. Others	8,03,901	5,33,334
<b>Total (I to VII)</b>	<b>16,56,267</b>	<b>10,80,123</b>

## 12. Contingent Liabilities

Particulars	Rs. in Thousands	
	As at 31 March 2020	As at 31 March 2019
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	6,442
IV. Acceptances, endorsements and other obligations	-	-
V. Other items for which the Bank is contingently liable	2,000	5,76,824
<b>Total (I to V)</b>	<b>15,042</b>	<b>5,83,266</b>

## 13. Interest Earned

Particulars	Rs. in Thousands	
	For the year ended 31 March 2020	For the year ended 31 March 2019
I. Interest/discount on advances/bills	1,23,82,838	91,46,081
II. Income on investments	13,56,823	9,70,059
III. Interest on balances with Reserve Bank of India and other inter-bank funds	3,92,792	2,00,245
IV. Others	-	-
<b>Total (I to IV)</b>	<b>1,41,32,453</b>	<b>1,03,16,385</b>

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## 14. Other Income

Particulars	Rs. in Thousands	
	For the year ended 31 March 2020	For the year ended 31 March 2019
I. Commission, exchange and brokerage	9,79,790	5,42,158
II. Profit on sale of investments (Net)	64,019	10,043
III. Profit on revaluation of investments (Net)	-	-
IV. Profit on sale of land, buildings and other assets (Net)	394	260
V. Profit on foreign exchange transactions (Net)	2,382	230
VI. Income earned by way of dividends etc. from companies	36	-
VII. Miscellaneous income	2,85,275	5,38,814
<b>Total (I to VII)</b>	<b>13,31,896</b>	<b>10,91,505</b>

## 15. Interest Expended

Particulars	Rs. in Thousands	
	For the year ended 31 March 2020	For the year ended 31 March 2019
I. Interest on deposits	48,51,171	26,59,070
II. Interest on Reserve Bank of India/Inter bank borrowings	23,357	2,66,260
III. Others	13,36,044	16,57,487
<b>Total (I to III)</b>	<b>62,10,572</b>	<b>45,82,817</b>

## 16. Operating Expenses

Particulars	Rs. in Thousands	
	For the year ended 31 March 2020	For the year ended 31 March 2019
I. Payments to and provisions for employees	14,40,647	7,71,043
II. Rent, taxes and lighting	3,39,124	2,67,833
III. Printing and stationery	53,363	53,596
IV. Advertisement and publicity	34,803	80,406
V. Depreciation on Bank's property	2,31,668	1,69,064
VI. Directors' fees, allowances and expenses	14,744	11,496
VII. Auditors' fees and expenses	7,670	8,468
VIII. Law charges	2,021	7,225
IX. Postage, Telegrams, Telephones etc	73,711	38,600
X. Repairs and maintenance	13,123	12,034
XI. Insurance	60,773	25,878
XII. Other expenditure *	37,35,118	30,88,299
<b>Total (I to XII)</b>	<b>60,06,765</b>	<b>45,33,942</b>

\* included expenditure towards

Particulars	Rs. in Thousands	
	For the year ended 31 March 2020	For the year ended 31 March 2019
Corporate Social Responsibility	28,900	11,500
Business Correspondent expenses	27,77,820	23,82,305

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Forming Part of the Financial Statements for the year ended 31 March 2020

## 17. Significant accounting policies appended to and Forming Part of the Financial Statements for the year ended 31 March 2020

### 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 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 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. The Bank is in process of listing pursuant to resolution passed by Board of Directors on 23 December 2019 to list its Equity shares in BSE Limited and National Stock Exchange. The Bank has filed Draft Red Herring Prospectus (DRHP) for Initial Public Offer (IPO) with Securities and Exchange Board of India ("SEBI") on 6 January 2020 and obtained final observations vide their letter dated 20 March 2020.

### 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 (as amended), 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 recognised prospectively in current and future periods.

## 4 Significant Accounting Policies

### 4.1 Revenue Recognition

Revenue is recognised 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 recognised in the Profit and Loss Account on accrual basis, except in the case of non-performing assets. Interest on non-performing assets is recognised upon realisation 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 recognised over the tenure of the instrument on a straight line basis. In case of coupon bearing discounted instruments, discount income is recognised 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 of income of 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 proportion accrual basis taking into account the amounts outstanding and the rates applicable.

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## Forming Part of the Financial Statements for the year ended 31 March 2020

- 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 portfolio loans. In case of any loss, the same is recognised in the Profit and Loss Account immediately. Income from interest strip (excess interest spread) is recognised 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.

### 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 are 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 shall be the market price of the scrip as available from the trades/ quotes on the stock exchanges, SGL account transactions, price list of RBI, prices declared by Primary Dealers Association of India jointly with Fixed Income Money Market and Derivatives Association ("FIMMDA")/ Financial Benchmark Indian Private Limited ("FBIL") periodically.

The market/ fair value of other than quoted SLR securities for the purpose of periodical valuation of investments included in the AFS and HFT categories shall be as per the rates put out by FIMMDA/FBIL.

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

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Forming Part of the Financial Statements for the year ended 31 March 2020

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 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, RBI through circular number RBI/2017-18/147 DBR.No.BP.BC.102/21.04.048/2017-18 dated 2 April 2018, advised all banks to create an IFR with effect from the FY 2018-19.

Amount transferred 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 is drawn down from IFR as per the guidelines prescribed by Reserve Bank of India

## 4.3 Advances

- i. Advances are classified into performing assets ("Standard") and non-performing assets ("NPAs") as per the RBI guidelines and are stated net of interest in suspense for non performing advances and specific provisions made towards NPAs. 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. Amounts recovered against debts written off are recognised in the Profit and Loss account and included under "Other Income".
- iii. Provision for standard advances is made as per the extant RBI guidelines.
- iv. 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.

## 4.4 Fixed Assets (Property Plant & Equipment and Intangible Assets) and Depreciation / Amortisation

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 Equipment's	5	5
Computers	3	3
Furniture & Fixtures	10	10
Motor Vehicles	4	8
Servers	5	6

An intangible asset is recognised only when its cost can be measured reliably and it is probable

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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 recognised 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, Service regulations and Service awards as the case may be. The Bank's liability is actuarially determined (using Projected Unit Credit Method) as at the Balance Sheet date. The actuarial gain or loss arising during the period 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 Securities 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

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## Forming Part of the Financial Statements for the year ended 31 March 2020

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 unrecognised deferred tax assets. It recognises unrecognised 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 the 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 (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 on funds borrowed and other expenses.

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 banking services. The principal expenses of the segment consist of interest expense on funds borrowed and other expenses.

c) **Retail banking:** The Retail Banking segment provides loans to non-corporate customers identified on the basis of RBI guidelines. 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 on funds borrowed 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 inter-segment revenues based on a transfer pricing mechanism. Segment expenses consist of interest expenses including allocated 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, employees' stock option (grants outstanding) and proposed dividend and dividend tax thereon.

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.

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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 recognised 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 recognised because it cannot be measured reliably. The Bank does not recognise 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 as 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 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 not recognised 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.

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.

### 4.15 Accounting of Priority Sector Lending Certificate (PSLC)

The Bank vide RBI circular FIDD.CO.Plan.BC.23/04.09.01/2015-16 dated 7 April 2016 trades in priority sector portfolio by selling or buying PSLC, without transfer of risks or loan assets in these transactions. The fee paid for purchase of the PSLC is treated as an Other Expenditure and the fee received from the sale of PSLCs is treated as 'Other Income', which is accounted upfront.

### 4.16 Securitisation Transaction and direct assignments

The Bank transfers its loan receivables through Direct Assignment route as well as transfer to Special Purpose Vehicle (SPV).

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.

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Forming Part of the Financial Statements for the year ended 31 March 2020

## 18. Notes on Accounts Forming Part of the Financial Statements for the year ended 31 March 2020

### 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 2020 are denominated as Rupees in Crore to conform to extant RBI guidelines.

#### 1. Capital Adequacy Ratio:

The Bank is subject to the Basel II Capital Adequacy guidelines (NCAF) stipulated by RBI. The Capital Adequacy Ratio (CRAR) of the Bank is calculated as per the Standardised 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 at 31 March 2020 is 24.03% (Previous Year 27.59%) against the regulatory requirement of 15.00% prescribed by RBI.

The Bank has also considered an additional Risk Weight of 25% on assets under lien for its "grandfathered" legacy borrowings as per instructions received from 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	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
Common Equity Tier I Capital	1,074.50	891.40
Tier I Capital - A	1,122.50	939.40
Tier II Capital - B	162.72	173.05
Total Capital (A)+(B)	1,285.22	1,112.45
Total Risk Weighted Assets	5,348.19	4,032.22
<b>Capital Ratios:</b>		
(i) Common Equity Tier I Capital (%)	20.09%	22.11%
(ii) Tier I Capital (%)	20.99%	23.30%
(iii) Tier II Capital (%)	3.04%	4.29%
(iv) Total CRAR %	24.03%	27.59%
(v) Percentage of the shareholding of the Government of India in Public Sector Banks	NA	NA
(vi) Amount raised by issue of Equity Shares (Including Share Premium)	-	464.21
(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	-	40.00
Preference share capital instruments	-	-

#### 2. Investments

##### 2.1 Category-wise details of Investments (Net of provision for depreciation):

Sl. No	Particulars	Rupees in Crore							
		As at 31 March 2020				As at 31 March 2019			
		HTM	AFS	HFT	Total	HTM	AFS	HFT	Total
(i)	Government securities	1,282.74	224.21	-	1,506.95	704.77	156.86	24.78	886.41
(ii)	Other approved securities	-	-	-	-	-	-	-	-
(iii)	Shares	-	3.56	-	3.56	-	-	-	-
(iv)	Debentures and bonds	-	-	-	-	-	-	-	-
(v)	Others	-	223.12	-	223.12	-	494.85	149.49	644.34
	<b>Total</b>	<b>1,282.74</b>	<b>450.89</b>	<b>-</b>	<b>1,733.63</b>	<b>704.77</b>	<b>651.71</b>	<b>174.27</b>	<b>1,530.75</b>

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## Securities kept as margin

The details of securities that are kept as margin are under:

Sl. No	Particulars	Rupees in Crore	
		Face Value as at 31 March	
		2020	2019
1.	Securities kept as margin with Clearing Corporation of India towards Collateral and funds management - Securities segment	7.10	5.10

## 2.2 The details of investments of Bank :

Sl. No	Particulars	Rupees in Crore	
		As at 31 March 2020	As at 31 March 2019
<b>1.</b>	<b>Value of Investments</b>		
i.	Gross value of Investments		
a.	In India	1,735.46	1,530.75
b.	Outside India	-	-
ii.	Provision for Depreciation		
a.	In India	1.83	-
b.	Outside India	-	-
iii.	Net value of Investments		
a.	In India	1,733.63	1,530.75
b.	Outside India	-	-
<b>2</b>	<b>Movement of provisions held towards depreciation on investments</b>		
i.	Opening Balance	-	-
ii.	Add : Provisions made during the year	1.83	0.45
iii.	Less : Write off/ Write back of excess provisions made during the year	-	0.45
iv.	Closing Balance	1.83	-

## 3. Details of Repo /Reverse Repos including Liquidity Adjustment Facility (LAF) Transactions in (face value terms)

Particulars	Rupees in Crore			
	As at 31 March 2020			Outstanding as on 31 March 2020
	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year*	
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

Particulars	Rupees in Crore			
	As at 31 March 2019			Outstanding as on 31 March 2019
	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year*	
Securities sold under repos				
i. Government securities	-	-	-	-
ii. Corporate debt securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	-	80.00	1.18	80.00
ii. Corporate debt securities	-	-	-	-

\*daily average is considered for entire year including the days when outstanding were nil

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Forming Part of the Financial Statements for the year ended 31 March 2020

## 4. Disclosure in respect of Non-SLR Investment Portfolio:

### (i) Issuer Composition of Non SLR Investments as at 31 March 2020

Rupees 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] <sup>1</sup>	[5] <sup>1</sup>	[6] <sup>1,2</sup>	[7] <sup>1,3</sup>
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)	-	-	-	-
<b>Total</b>		<b>226.68</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

<sup>1</sup>Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive

<sup>2</sup>Excludes Investments in Equity Shares in line with extant RBI guidelines

<sup>3</sup>Excludes Investments in Equity shares, Commercial Papers and Certificate of Deposits in line with extant RBI guidelines

### Issuer Composition of Non SLR Investments as at 31 March 2019

Rupees 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] <sup>1</sup>	[5] <sup>1</sup>	[6] <sup>1</sup>	[7] <sup>1,2</sup>
1	PSUs	-	-	-	-	-
2	FIs	191.98	-	-	-	-
3	Banks	444.36	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	8.00	8.00	-	-	8.00
7	Provision held towards depreciation	-	-	-	-	-
<b>Total</b>		<b>644.34</b>	<b>8.00</b>	<b>-</b>	<b>-</b>	<b>8.00</b>

<sup>1</sup>Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive

<sup>2</sup>Excludes Investments in 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 2020 and 31 March 2019

## 5. Sale/ transfer of securities to/from HTM category

During the years ended 31 March 2020 and 31 March 2019 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

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## 6. Derivatives:

The Bank did not have any transactions in derivative instruments. Hence the disclosure is not applicable.

## 7. Asset Quality

### a. Non Performing Assets:

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
(i) Net NPAs to Net Advances (%)	0.64%	0.77%
(ii) Movement of Gross NPAs		
(a) Opening balance	74.01	121.05
(b) Additions during the year	80.11	76.08
(c) Reductions during the year		
i) Recoveries (excluding recoveries made from upgraded accounts)	4.90	3.04
ii) Upgradations	19.09	30.71
iii) Technical / Prudential Write-offs	29.27	89.37
iv) Write-offs other than those under (iii) above	-	-
(d) Closing balance	100.86	74.01
(iii) Movement of Net NPAs		
(a) Opening balance	35.20	84.81
(b) Additions during the year	42.22	35.15
(c) Reductions during the year	35.25	84.76
(d) Closing balance	42.17	35.20
(iv) Movement of provision for NPAs (excluding provisions on standard assets)		
(a) Opening balance	38.81	36.24
(b) Additions during the year	61.90	101.20
(c) Reductions during the year*	42.02	98.63
(d) Closing balance	58.69	38.81

\*includes provision withdrawn for technical write off of Rs. 29.27 Crore ( Previous Year: Rs. 89.37 Crore)

### b. Divergence in asset Classification and provisioning

The Bank has been subjected to assessment by the RBI during the year ended 31 March 2020 and final the Assessment report is awaited from the regulator. In the absence of any report in past by RBI, 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.

### c. Particulars of Accounts Restructured

The Bank does not have any restructured account as on and for the year ended 31 March 2020 and 31 March 2019.

### d. Details of Financial Assets sold to Securitisation/Reconstruction Company for Asset Reconstruction

During the year ended 31 March 2020 and 31 March 2019, there was no sale of non-performing financial assets to Securitisation Company/ Reconstruction Company for asset reconstruction.

### e. Details of book value of investments in Security Receipt

The Bank has not invested in Security receipts during the year and as at 31 March 2020 and 31 March 2019

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## f. Details of Non Performing Assets Purchased/Sold

The Bank did not sell/purchase any non-performing asset during the year ended 31 March 2020 and 31 March 2019

## g. Provisions on Standard Assets outstanding

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
Provisions towards Standard Assets	31.59*	21.51

\*includes Rs. 4.41 Crore (Previous Year Rs. Nil) of Provision made in respect of standard accounts in overdue category as on 29 February 2020 against the potential impact of COVID -19 (Refer Note A. 7h of Schedule 18)

## h. COVID Regulatory Package Asset classification and provisioning

The outbreak of COVID-19 virus, declared as a global pandemic by the World Health Organisation (WHO) has affected the world economy including India leading to a significant decline and volatility in financial markets and decline in economic activities across the globe. Various governments and central banks have introduced a variety of measures to contain the spread of the virus and to moderate the impact on economic activities and disruptions. On 24 March 2020, the Government of India announced a 21-day lock-down which was further extended three times up to 31 May 2020 across the country to contain the spread of the Virus. The extent to which the COVID-19 pandemic will impact the Bank's business prospects, asset quality, results of operations and other future developments, is highly uncertain. However, the Bank is taking all possible steps to take care of the activities and take proactive steps leveraging the Government of India measures to strengthen the rural economy including among the other things to reduce the severity of the COVID-19 pandemic.

In accordance with the RBI guidelines relating to COVID-19 regulatory package dated 27 March 2020, 17 April 2020 and 23 May 2020, the Bank has granted a moratorium of six months on the payment of installments and/ or interest, as applicable, falling due between 1 March 2020 to 31 August 2020 to all eligible borrowers. For all such accounts where the moratorium is granted, the asset classification shall remain standstill during the moratorium period (i.e. the number of days past due shall exclude the moratorium period for the purpose of asset classification under the income recognition, asset classification and provisioning norms). In line with the RBI guidelines, the Bank has made a provision of Rs. 4.41 Crore as on 31 March 2020 in respect of accounts in overdue standard category against the potential impact of COVID-19.

### Disclosure as per RBI Circular on DOR.No.BP.BC.63/21.04.048/2019-20 dated 17 April 2020

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
Respective amounts in SMA/overdue categories, where the moratorium/deferment was extended	88.16	Not Applicable
Respective amount where asset classification benefits is extended	6,570.88	Not Applicable
Provisions Made during the Year	4.41	Not Applicable
Provisions adjusted during the respective accounting periods against slippages and the residual provisions	Not Applicable	Not Applicable

## 8. Business ratios / information:

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
Interest income as a percentage of Working Funds*	16.61%	17.34%
Non interest income as a percentage of Working Funds*	1.57%	1.83%
Operating profit # as a percentage of Working Funds*	3.82%	3.85%
Return on assets (Based on Working Fund*)	2.24%	1.52%
Business ^ (deposit plus advance) per employee (Rupees in Crores)\$	3.89	3.85
Profit per employee \$ (Rupees in Crores)	0.06	0.04

\*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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Forming Part of the Financial Statements for the year ended 31 March 2020

## 9. Asset Liability Management

Maturity Pattern of certain items of assets and liabilities as at 31 March 2020:

Particulars	Rupees in Crore											
	Day - 1	2-7 Days	8-14 Days	15-30 Days & up to 2 months	31 Days and up to 3 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	Total
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	-	-	-	-	-	-	-	-	-	-	-	-

Maturity Pattern of certain items of assets and liabilities as at 31 March 2019:

Particulars	Rupees in Crore											
	Day - 1	2-7 Days	8-14 Days	15-30 Days & up to 2 months	31 Days and up to 3 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	Total
Advances	16.15	96.93	113.08	258.47	343.71	343.71	932.64	1,319.66	1,042.11	58.53	23.26	4,548.25
Investments	0.20	126.74	76.73	1.95	2.83	78.61	290.16	146.94	72.14	3.79	730.66	1,530.75
Deposits	7.39	57.09	48.34	44.51	94.26	99.40	343.26	1,555.95	2,062.87	2.33	1.61	4,317.01
Borrowings	0.03	-	11.53	2.72	14.92	80.35	219.75	302.94	751.48	145.64	173.00	1,702.36
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-	-

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	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
<b>Direct exposure</b>		
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>	78.87	35.47
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	-	-
iii Investments in Mortgage Backed Securities (MBS) and other securitised exposures		
- Residential	-	-
- Commercial Real Estate	-	-
<b>Indirect Exposure</b>		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	-	-
<b>Total Exposure to Real Estate Sector</b>	<b>78.87</b>	<b>35.47</b>

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## b. Exposure to Capital Market

		Rupees in Crore	
Particulars	As at 31 March 2020	As at 31 March 2019	
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;	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)	-	-
<b>Total Exposure to Capital Market</b>		<b>5.39</b>	<b>-</b>

## 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 2020 and 31 March 2019, 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.

## e. Unsecured Advances

During the year ended 31 March 2020 and 31 March 2019, 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 2020 and 31 March 2019, 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.

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Forming Part of the Financial Statements for the year ended 31 March 2020

## 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	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Provision towards NPA	49.15	91.94
Provision towards Standard Assets	10.08	9.23
Provision towards Depreciation on Investments	1.83	-
<b>Provision made towards income tax</b>		
- Current Tax expense	71.35	32.90
- Deferred Tax	(5.48)	4.00
Other Provision and Contingencies	7.39	0.76
<b>Total Provisions and Contingencies</b>	<b>134.31</b>	<b>138.83</b>

## 13. Floating Provisions

The Bank does not have any floating provisions for the year ended 31 March 2020 and 31 March 2019.

## 14. Drawdown from Reserves

The Bank has not drawn down any amount from its opening reserves during the year ended 31 March 2020 and 31 March 2019. During the year ended 31 March 2019, an amount of Rs.4.15 Crore being the expenditure in connection with further Issue of shares has been charged against Share Premium account in accordance with the accounting policy and as permitted under section 52 of the Companies Act 2013.

## 15. Disclosure of Complaints

### a. Customer Complaints

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
(a) No. of complaints pending at the beginning of the Year	5	-
(b) No. of complaints received during the Year	6,089	194
(c) No. of complaints redressed during the Year	6,061	189
(d) No. of complaints pending at the end of the Year	33	5

### b. Awards passed by the Banking Ombudsman:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
(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	-	-

### c. Details of Shareholder Complaints:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
(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.	-	-

The Bank has compiled the data for the purpose of the disclosure (from its internal MIS system and has been furnished by the management) which has been relied upon by the auditors.

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Forming Part of the Financial Statements for the year ended 31 March 2020

## 16. Disclosures of Letter of Comfort (LOC) issued by Bank

The Bank has not issued any LOC during the year ended 31 March 2020 and year ended 31 March 2019.

## 17. Provisioning Coverage Ratio

The Provision Coverage Ratio (PCR) of the Bank is 79.93% as at 31 March 2020 (As at 31 March 2019 - 78.45%).

## 18. Bancassurance Business

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Fees/remuneration received from bancassurance business:		
- For selling life insurance policies	8.52	0.27
- For selling non-life insurance policies	0.32	-
- For selling pension products	0.08	0.10
<b>Total</b>	<b>8.92</b>	<b>0.37</b>

## 19. Concentration of deposits, advances, exposures and NPAs

### a. Concentration of deposits:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Total deposits of twenty largest depositors	783.45	707.25
Percentage of deposits of twenty largest depositors to total deposits of the Bank	11.15%	16.38%

### b. Concentration of advances:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Total advances to twenty largest borrowers	129.33	34.39
Percentage of advances to twenty largest borrowers to total advances of the Bank	1.97%	0.76%

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:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Total exposure to twenty largest borrowers/customers	154.75	42.24
Percentage of exposures to twenty largest borrowers/customers to total exposure of the Bank on borrowers/customers	2.35%	0.93%

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:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Total Exposure to top Four NPA Accounts	0.61	0.45
Total Exposure to top four NPA accounts to Gross NPA	0.60%	0.61%

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## 20. Sector-wise Advances

		Rupees in Crore		
Sl. No	Sector	As at 31 March 2020		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
<b>A</b>	<b>Priority Sector</b>			
1	Agricultural and Allied Activities	3,352.82	50.96	1.52%
2	Advances to Industries Sector eligible as Priority sector lending	621.05	16.59	2.67%
3	Services	1,160.75	19.12	1.65%
4	Personal Loans and others	572.76	9.49	1.66%
	<b>Sub-Total (A)</b>	<b>5,707.38</b>	<b>96.16</b>	<b>1.68%</b>
<b>B</b>	<b>Non Priority Sector</b>			
1	Agricultural and Allied Activities	-	-	-
2	Industry	500.00	-	-
3	Services	-	-	-
4	Personal loans and others	399.14	4.70	1.18%
	<b>Sub-Total (B)</b>	<b>899.14</b>	<b>4.70</b>	<b>0.52%</b>
	<b>Total (A+B)</b>	<b>6,606.52</b>	<b>100.86</b>	<b>1.53%</b>

		As at 31 March 2019		
Sl. No	Sector	Percentage of Gross NPAs to Gross Advances in that Sector		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
<b>A</b>	<b>Priority Sector</b>			
1	Agricultural and Allied Activities	2,590.66	40.16	1.55%
2	Advances to Industries Sector eligible as Priority sector lending	577.52	3.63	0.63%
3	Services	776.25	7.72	0.99%
4	Personal Loans and others	499.60	15.72	3.15%
	<b>Sub-Total (A)</b>	<b>4,444.03</b>	<b>67.23</b>	<b>1.51%</b>
<b>B</b>	<b>Non Priority Sector</b>			
1	Agricultural and Allied Activities	-	-	-
2	Industry	-	-	-
3	Services	-	-	-
4	Personal loans and others	143.04	6.78	4.74%
	<b>Sub-Total (B)</b>	<b>143.04</b>	<b>6.78</b>	<b>4.74%</b>
	<b>Total (A+B)</b>	<b>4,587.07</b>	<b>74.01</b>	<b>1.61%</b>

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:

		Rupees in Crore	
Particulars	Year ended		
	31 March 2020	31 March 2019	
<b>Opening balance of Technical/Prudential written-off accounts</b>	89.37	-	
Add: Technical/Prudential write-offs during the year	29.27	89.37	
<b>Sub-total (A)</b>	<b>118.64</b>	<b>89.37</b>	
Less: Reduction due to recovery made from previously technical/prudential written-off accounts during the year	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	-	-	
<b>Sub-total (B)</b>	<b>9.44</b>	-	
<b>Closing balance (A-B)</b>	<b>109.20</b>	<b>89.37</b>	

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Forming Part of the Financial Statements for the year ended 31 March 2020

## 22. Overseas Assets, NPAs and Revenue:

The Bank does not have any overseas Assets during the years ended 31 March 2020 and 31 March 2019

## 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 2020 and 31 March 2019.

## 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 of 4 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 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 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, 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 2020

## B. Quantitative Disclosures

### a) Number of meetings held by the Remuneration Committee and remuneration paid to its members.

During the year ended 31 March 2020 8 meetings of Nomination and Remuneration committee was held (year ended 31 March 2019- 4). Each Member of the Nomination and Remuneration committee is paid a sitting fee of Rs. 30,000 per meeting upto 30 November 2019. W.e.f 1 December 2019 sitting fee is increased to Rs. 40,000 per meeting.

### b) Number of employees having received a variable remuneration awards.

Year ended 31 March 2020 - Four [Quantitative Disclosure is restricted to MD & CEO and 4 EVPs [1 EVP joined during the year and 1 EVP resigned during the year ]

Year ended 31 March 2019 - Five [Quantitative Disclosure is restricted to MD & CEO and 4 EVPs ] [1 EVP resigned during the period]"

### 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 (Year ended 31 March 2019: Rs Nil)

### f) Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms

Nil (Year ended 31 March 2019: Rs Nil)

### g) Total amount of deferred remuneration paid out in the financial year.

Nil (Year ended 31 March 2019: Rs 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 - Rs.2.32 Crore (Year ended 31 March 2019:Rs. 2.35 Crore)

Variable Pay and Bonus Paid - Rs. 0.24 Crore (Year ended 31 March 2019 : Rs. 1.05 Crore)

### i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.

Nil (Year ended 31 March 2019: Rs Nil)

### j) Total amount of reductions during the financial year due to ex- post explicit adjustments.

Nil (Year ended 31 March 2019: Rs Nil)

## 25. Disclosures relating to Securitisation

Sl. No	Particulars	Rupees in Crore	
		Year ended 31 March 2020	Year ended 31 March 2019
1	No. of SPVs sponsored by the Bank for securitisation transactions	-	6
2	Total amount of Securitised assets as per books of the SPVs sponsored by the Bank	-	90.09
3	Total amount of exposures retained by the Bank to comply with MRR as on date of balance sheet	-	-
<b>A Off Balance Sheet exposures</b>			
	First Loss	-	3.12
	Others	-	-

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

Sl. No	Particulars	Rupees in Crore	
		Year ended 31 March 2020	Year ended 31 March 2019
	<b>B On Balance Sheet exposures</b>		
	First Loss (Cash Collateral)	-	36.85
	Others (Credit Enhancement)	-	17.51
4	Amount of exposures to securitisation transactions other than MRR as on the date of balance sheet		
	<b>A Off Balance Sheet Exposures</b>		
	Exposure to own Securitisation		
	First Loss (Subordination of Interest Strip)	-	-
	Others	-	-
	Exposure to Third Party Securitisation		
	First Loss	-	-
	Others	-	-
	<b>B On Balance Sheet Exposures</b>		
	<b>Exposure to own securitisations</b>		
	First Loss	-	8.00
	Others	-	-
	<b>Exposure to third party securitisation</b>		
	First Loss	-	-
	Others	-	-

## 26. Credit Default Swaps

The Bank has not entered into any Credit Default Swap transactions during the Year ended 31 March 2020 and 31 March 2019

## 27. Intra Group Exposures

The Bank does not have any intra group exposures for the year ended 31 March 2020 and 31 March 2019

## 28. Transfer to Depositor Education and Awareness Fund (DEAF)

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
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 2020 and 31 March 2019

## 30. Priority sector lending certificates

The amount of PSLCs (Category wise) sold/ purchased

Sl. No	Type of PSLCs	Rupees in Crore			
		Year ended 31 March 2020		Year ended 31 March 2019	
		Purchase	Sale	Purchase	Purchase
1	PSLC- Agriculture	-	-	-	-
2	PSLC- Micro enterprises	-	500.00	-	-

## 31. Provisioning Pertaining to Fraud Accounts

The Bank has reported 23 cases (Previous Year : 6Cases) of fraud for the Year ended 31 March 2020 amounting to 1.02 Crore (Previous Year: Rs. 0.20 Crore). Adequate provision after recovery has been made in the financial statements. Bank does not have any unamortised loss in this regard as of 31 March 2020 (As at 31 March 2019: Nil).

# Schedules

Forming Part of the Financial Statements for the year ended 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 2020 is Rs. 200 Crore (As at 31 March 2019 : Rs. 300 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 2020 and 31 March 2019. Hence the disclosures relating to the same is not applicable to the Bank.

## 34. A. Liquidity Coverage Ratio

		Rupees in Crore							
		Q1 2019-20		Q2 2019-20		Q3 2019-20		Q4 2019-20	
High Quality Liquid Assets		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
<b>Cash Outflows</b>									
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	96.19	93.35
7	Other contingent funding obligations	-	-	3.38	0.10	1.64	0.05	1.30	0.04
8	<b>Total Cash Outflows</b>	<b>4,311.02</b>	<b>695.14</b>	<b>5,231.77</b>	<b>869.42</b>	<b>5,949.74</b>	<b>1,054.30</b>	<b>6,540.19</b>	<b>1,145.89</b>
<b>Cash Inflows</b>									
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	<b>Total Cash Inflows</b>	<b>904.10</b>	<b>607.06</b>	<b>973.61</b>	<b>653.78</b>	<b>791.80</b>	<b>446.87</b>	<b>563.72</b>	<b>325.55</b>
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		820.34
15	25% of Total cash flow		173.79		217.36		263.58		286.47
16	Total Net Cash inflows [Higher of 14 or 15] (b)		173.79		217.36		607.43		820.34
17	<b>Liquidity Coverage Ratio (%) (a/b)</b>		<b>522.44%</b>		<b>507.01%</b>		<b>217.53%</b>		<b>176.05%</b>

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

		Rupees in Crore							
		Q1 2018-19		Q2 2018-19		Q3 2018-19		Q4 2018-19	
		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)
<b>High Quality Liquid Assets</b>									
1	Total High Quality Liquid Assets (HQLA)	515.26	515.26	665.16	665.16	783.73	783.73	725.59	725.59
<b>Cash Outflows</b>									
2	Retail deposits and deposits from small business customers, of which:								
	i. Stable deposits	1,149.09	57.45	1,578.44	78.92	2,328.82	116.44	2,856.20	142.81
	ii. Less stable deposits	124.47	12.44	64.23	6.43	113.34	11.33	86.51	8.65
3	Unsecured wholesale funding, of which								
	i. Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	ii. Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	iii. Unsecured debt	1,022.12	695.83	738.28	586.29	452.41	337.07	351.63	191.36
4	Secured wholesale funding	78.94	78.94	41.35	41.35	104.51	104.51	17.81	17.81
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	67.74	67.74	43.44	43.44	39.91	39.91	34.56	34.56
6	Other contractual funding obligations	111.64	111.64	132.42	132.42	83.99	83.99	66.71	66.71
7	Other contingent funding obligations								
8	<b>Total Cash Outflows</b>	<b>2,554.01</b>	<b>1,024.04</b>	<b>2,598.15</b>	<b>888.84</b>	<b>3,122.97</b>	<b>693.25</b>	<b>3,413.42</b>	<b>461.90</b>
<b>Cash Inflows</b>									
9	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	392.39	196.20	521.12	260.56	570.67	285.34	568.15	284.08
11	Other cash inflows	429.89	429.89	575.00	575.00	426.85	426.85	373.80	373.80
12	<b>Total Cash Inflows</b>	<b>822.29</b>	<b>626.09</b>	<b>1,096.12</b>	<b>835.56</b>	<b>997.52</b>	<b>712.18</b>	<b>941.95</b>	<b>657.88</b>
13	Total HQLA (a)	515.26	515.26	665.16	665.16	783.73	783.73	725.59	725.59
14	Total Net Cash Outflows		397.95		53.28		(18.93)		(195.98)
15	25% of Total Cash Flow		256.01		141.12		173.31		141.12
16	Total Net Cash inflows [Higher of 14 or 15] (b)		397.95		141.12		173.31		141.12
17	<b>Liquidity Coverage Ratio (%) (a/b)</b>		<b>129.48%</b>		<b>471.35%</b>		<b>452.20%</b>		<b>514.16%</b>

## 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.

The LCR requirement has been introduced in a phased manner with banks required to maintain minimum LCR of 60% till Dec 2017 and the 70% from Jan 2018 onwards. The requirement will be increasing by 10% annually to 100% by Jan 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.

# Schedules

## Forming Part of the Financial Statements for the year ended 31 March 2020

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 2020, the LCR stood at 176.01% (Previous year : 628.35%)

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.

### B. Other Disclosures:

#### 1. Earnings per Equity Share:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	year ended 31 March 2019
Net Profit attributable to equity Share holders (Rupees in Crore)	190.39	90.28
Weighted average number of equity shares used in computation of basic and diluted earnings per share	42,77,95,490	38,09,50,623
Nominal value per share	10.00	10.00
Basic and diluted earnings per share	4.45	2.37

#### 2. Segment Reporting:

Segment Revenue	Rupees in Crore				
	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
<b>Segment Results</b>	<b>13.76</b>	<b>2.76</b>	<b>224.58</b>	<b>15.16</b>	<b>256.26</b>
Income Tax Expenses					65.87
Net Profit					190.39
<b>Segment Assets</b>	<b>2,598.30</b>	<b>106.48</b>	<b>6,623.61</b>		<b>9,328.39</b>
Unallocated Assets					141.58
Total Assets					9,469.97
<b>Segment Liabilities</b>	<b>1,490.18</b>	<b>0.43</b>	<b>6,792.67</b>		<b>8,283.28</b>
Unallocated Liabilities					102.61
Share Capital and Reserves and Surplus					1,084.08
<b>Total Liabilities</b>					<b>9,469.97</b>

Segment Revenue	Rupees in Crore				
	As at 31 March 2019				
	Treasury	Wholesale Banking	Retail Banking	Other Banking Operations	Total
Segment Revenue	118.07	0.70	1,020.23	1.79	1,140.79
<b>Segment Results</b>	<b>5.02</b>	<b>0.50</b>	<b>120.60</b>	<b>1.06</b>	<b>127.18</b>
Income Tax Expenses					36.90
Net Profit					90.28

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

Segment Revenue	As at 31 March 2019				Total
	Treasury	Wholesale Banking	Retail Banking	Other Banking Operations	
<b>Segment Assets</b>	2,308.26	31.01	4,614.55	-	6,953.82
Unallocated Assets					103.67
Total Assets			-	-	7,057.49
<b>Segment Liabilities</b>	1113.75	0.01	4,953.81	-	6,067.57
Unallocated Liabilities			-		96.23
Share Capital and Reserves and Surplus					893.69
<b>Total Liabilities</b>			-	-	<b>7,057.49</b>

Segmental information is provided as per the MIS available for internal reporting purposes, which included certain estimates and assumptions

### 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 Rs. 28.32 Crore (year ended 31 March 2019 - Rs. 23.27 Crore).

The future minimum lease payments under non cancellable operating leases are given below

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
not later than one year	29.36	25.22
later than one year but not later than five years	124.15	108.94
later than five years	97.71	22.72

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	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
<b>Deferred Tax Asset (A)</b>		
Provision for Employee Benefits	1.53	1.34
Provision for Standard assets	5.30	3.20
Fixed Assets : on differences between book balances and tax balance of fixed asset	1.02	-
other Provisions	3.51	1.48
<b>Total A</b>	<b>11.36</b>	<b>6.02</b>
<b>Deferred Tax Liabilities (B)</b>		
Fixed Assets : on differences between book balances and tax balance of fixed asset	-	0.14
<b>Total B</b>	<b>-</b>	<b>0.14</b>
<b>Deferred Tax Asset (net) (A)-(B)</b>	<b>11.36</b>	<b>5.88</b>

### 5. Credit card reward points:

The Bank does not have credit card products. Hence reward points are not applicable.

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## 6. Fixed Assets as per Schedule 10 include intangible assets relating to purchased software and system development expenditure which are as follows:

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
<b>Gross Block</b>		
At cost on 31st March of the preceding year	12.63	11.36
Additions during the year	2.49	1.27
Deductions during the year	-	-
<b>Total</b>	<b>15.12</b>	<b>12.63</b>
<b>Depreciation / Amortisation</b>		
As at 31st March of the preceding year	5.90	2.91
Charge for the year	3.15	2.99
Deductions during the year	-	-
<b>Depreciation to date</b>	<b>9.05</b>	<b>5.90</b>
<b>Net Block</b>	<b>6.07</b>	<b>6.73</b>

## 7. Related Party Disclosures:

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)
ESAF Homes and Infrastructure Private Ltd. ("ESAF Homes & Infrastructure")	Entities in which Key Managerial Person (KMP) is a member (shareholder)
ESAF Swasraya Producers Company Ltd. ("ESAF Producer Company")	Entities in which Key Managerial Person (KMP) is a member (shareholder)
K. Paul Thomas	Key Managerial Person (MD and CEO)
Mereena Paul	Relative of KMP
Emy Acha Paul	Relative of KMP
Alok Paul Thomas	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
Lahanti Last Mile Service Limited ("LLMS")	Enterprises over which KMP has significant influence through relative
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 (Account) Rules, 2014

\*EFHL holds 65.93% of the equity share capital of the Bank. However, since the voting rights of any investor in Banks are restricted to 26% to the provisions of RBI guidelines, EFHL has been considered as significant Investor.

## Transactions during the year with the Related Party

Nature of Transaction	Related Party	Rupees in Crore	
		Year ended 31 March 2020	Year ended 31 March 2019
<b>Liabilities</b>			
Term Deposit Placed	ESCO	45.20	-
	ESAF Society	0.50	0.60
	LLMS	2.60	-
	K. Paul Thomas	0.25	-
	Emy Acha Paul	0.07	-
	Beena George	0.03	-
	Cedar Retail	8.55	43.91
Term Deposit Matured	EFHL	-	133.36
	Cedar Retail	7.10	41.61
	ESCO	41.60	50.00

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

Nature of Transaction	Related Party	Rupees in Crore	
		Year ended 31 March 2020	Year ended 31 March 2019
	Beena George	*	0.02
	LLMS	0.10	-
Transactions in Demand Deposit [Net]	ESCO	(0.65)	(36.81)
	Cedar Retail	(3.20)	2.35
	ESAF Society	0.12	0.03
	EFHL	1.29	(2.46)
	LLMS	(2.04)	2.25
Transactions in Savings Deposit (Net)	K. Paul Thomas	*	0.32
	Mereena Paul	0.17	0.06
	ESCO	(60.37)	102.76
	Emy Acha Paul	*	*
	Alok Paul Thomas	*	*
	ESAF Society	0.54	1.74
	Beena George	0.01	0.01
Interest accrued and due on Deposits	ESCO	4.60	3.78
	Cedar Retail	0.25	0.20
	EFHL	5.23	15.00
	ESAF Society	0.31	0.08
	LLMS	0.07	-
	K. Paul Thomas	0.04	0.01
	Mareena Paul	0.01	*
	Emy Acha Paul	*	*
	Alok Paul Thomas	*	*
	Beena George	*	*
Subordinate Debt	ESCO	-	40.00
Interest Accrued & Payable on PDI	ESCO	6.24	6.24
Interest Accrued & Payable on Sub Debt	ESCO	9.58	8.77
Issue of Equity Shares	ESCO	-	21.35
Share premium	ESCO	-	64.19
Collections as per Agency agreement	Cedar Retail	0.01	0.04
Payment of Collections as per Agency agreement	Cedar Retail		0.33
<b>Contingent Liability</b>			
Bank Guarantee Given		0.50	0.59
<b>Assets</b>			
Advances	EFHL	4.44	3.50
	Cedar Retail	1.68	3.00
	Beena George	0.75	
Advnances repaid	Cedar Retail	0.68	3.00
	Beena George	0.05	-
Vehicle Purchased	EFHL	-	0.35
Rent Deposit Repaid	EFHL	-	0.02
<b>Expenses</b>			
Rent paid	ESAF Homes & Infrastructure	2.10	1.82
	EFHL	-	0.04
	K. Paul Thomas	0.15	0.14
	ESAF Society	0.02	0.02
Interest paid on deposits	ESCO	4.60	3.78
	Cedar Retail	0.25	0.20
	EFHL	5.23	15.00
	ESAF Society	0.31	0.08

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

Nature of Transaction	Related Party	Rupees in Crore	
		Year ended 31 March 2020	Year ended 31 March 2019
	LLMS	0.07	-
	K. Paul Thomas	0.04	0.01
	Mareena Paul	0.01	*
	Emy Acha Paul	*	*
	Alok Paul Thomas	*	*
	Beena George	*	
Interest paid on PDI	ESCO	6.24	6.24
Interest paid on Sub Debt	ESCO	9.58	7.03
Office stationery	Cedar Retail	0.02	0.04
Gifts & Conference kit	ESAF Producer Company	*	0.03
BC Servicer Fee	ESCO	241.54	234.94
	LLMS	20.48	
Contribution towards Corporate Facility Management service charges	ESCO	9.77	6.92
Remuneration and Sitting Fees	K. Paul Thomas	1.32	1.29
Corporate Responsibility expense	ESAF Society	2.27	1.15
	Prachodan	0.62	-
Project cost for rebuilding the houses in relation to flood relief	ESAF Society	-	0.05
<b>Income</b>			
Interest received on Advances	Cedar Retail	0.01	0.01
	Beena George	0.02	-
	EFHL	0.73	0.61

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.

## Balance outstanding as at :

Items/Related Party	Rupees in Crore			
	Significant Investor		KMP and Enterprises over which KMP/Relative of KMP have control / significant influence	
	As at 31 March 2020	As at 31 March 2019	As at 31 March 2020	As at 31 March 2019
<b>Liabilities</b>				
Term Deposits	35.26	35.26	11.53	2.30
Demand Deposit	1.71	0.42	58.68	124.09
Equity Shares	283.90	283.90	117.23	117.23
Borrowings		-	133.00	133.00
Other Liabilities		0.01	28.95	2.96
<b>Contingent Liability</b>				
Bank Guarantee			1.09	0.59
<b>Assets</b>				
Advances	7.94	3.50	1.73	-
Others	-	-	1.59	1.59

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## Maximum Balance outstanding during the year

Items/Related Party	Rupees in Crore			
	Significant Investor		KMP and Enterprises over which KMP/Relative of KMP have control / significant influence	
	Year ended 31 March 2020	Year ended 31 March 2019	Year ended 31 March 2020	Year ended 31 March 2019
<b>Liabilities</b>				
Term Deposits	35.70	168.37	60.13	50.60
Demand Deposits	4.13	56.75	129.83	124.06
Equity Shares	283.90	283.90	117.23	117.23
Borrowings	-	-	133.00	133.00
<b>Assets</b>				
Advances	7.94	3.50	2.42	3.00

## 8. Employee Share Based Payments

The Bank has not made any share based payments (Previous year: Nil)

## 9. Advances securitised by the Bank:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Book value of advances securitised	656.01	656.01
Number of accounts	3,95,389.00	3,95,389.00
Sale consideration received for the accounts securitised	656.01	656.01
Interest spread on securitisation during the year	8.63	41.12
Credit enhancement, liquidity support provided	57.69	57.69
Provision on securitised assets	-	1.63
Number of accounts as on date	-	1,32,056
Outstanding as on date	-	72.58
Nature of post securitisation 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.

## 10. Employee Benefits

- i. The Bank has recognised the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds:

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Provident Fund	5.95	2.06

### 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 Rs.0.20 Crore.

Reconciliation of opening and closing balance of present value of defined benefit obligation for gratuity benefits is given below.

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## Reconciliation of Defined Benefit Obligation (DBO)

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
Present value of DBO at start of year	3.54	2.06
Current Service Cost	2.03	1.10
Interest Cost	0.26	0.15
Benefits Paid	(0.07)	(0.04)
Past Service Cost	-	-
Actuarial Gain/Loss	(0.07)	0.27
<b>Present value of DBO at end of year</b>	<b>5.69</b>	<b>3.54</b>

## Reconciliation of Fair Value of Plan Assets

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
<b>Fair value of Plan assets at start of year</b>	<b>1.30</b>	<b>1.25</b>
Contributions by employer	2.86	-
Benefits Paid	(0.07)	(0.04)
Expected return on plan assets	0.20	0.09
Actuarial Gain/Loss	(0.10)	0.00
<b>Fair value of Plan assets at end of year</b>	<b>4.19</b>	<b>1.30</b>
Actual Return on plan assets	0.10	0.09
Expected Employer Contributions for the coming year	1.50	0.70

## Expense recognised in the Profit and Loss account

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Current Service Cost	2.03	1.10
Interest Cost	0.26	0.15
Past Service Cost	-	-
Expected return on plan assets	(0.20)	(0.09)
Actuarial (Gain)/Loss	0.03	0.27
<b>Employer Expense/( Income)</b>	<b>2.12</b>	<b>1.43</b>

## Net Liability/(Asset) recognised in the Balance Sheet

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
Present value of DBO	5.69	3.54
Fair value of plan assets	4.19	1.30
<b>Net liability/(Asset)</b>	<b>1.50</b>	<b>2.24</b>
Less: Unrecognised Past Service Cost	-	-
<b>Liability/(Asset) recognised in the Balance sheet</b>	<b>1.50</b>	<b>2.24</b>

## Category of Plan Assets

Particulars	Rs in Crore	
	As at 31 March 2020	As at 31 March 2019
Insurer managed fund	99.50%	100%
Bank Balance	0.50%	-

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## Actuarial assumptions used

Particulars	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
Salary Growth Rate	7.5% p.a	7.5% p.a
Discount Rate	6.4% p.a	7.2% p.a
Withdrawal/Attrition Rate	10% p.a	10% p.a
Expected return on plan assets	7.2% p.a.	7.4% p.a
Mortality Rate	IALM 2012-14 (Ult)	IALM 2006-08 (Ult)
Expected average remaining working lives of employees	7 years	7 Years

## Experience adjustments

Particulars	Rupees in Crore			
	As at 31 March 2020	As at 31 March 2019	As at 31 March 2018	As at 31 March 2017
Defined benefit obligation	5.69	3.54	2.06	1.24
Fair value of Plan assets	4.19	1.30	1.25	-
Surplus / (Deficit)	(1.50)	(2.24)	(0.81)	(1.24)
Experience adjustment on plan liabilities : (gain)/loss	(0.42)	(0.21)	(0.20)	NA
Experience adjustment on plan assets : gain/(loss)	(0.11)	*	-	-

\* Amounts are below the rounding off limits adopted by the Bank

# the Bank commenced operation in March 2017. Consequently, experience adjustments are given to current year and last 3 years.

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.

### iii. Leave Encashment

The employees of the Bank are entitled to compensated absence. The employees can carry forward a portion of the unutilised accrued compensated absence and utilize it in future periods or receive cash compensation at retirement or termination of employment for the unutilised 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 accumulated privilege leave of the employees of the Bank is given below:

Assumptions	Rupees in Crore	
	As at 31 March 2020	As at 31 March 2019
Privilege leave	30 days	30 days
Sick leave	30 days	30 days
Discount rate (Privilege/ Sick leave)	6.40%	7.20%
Salary escalation rate (Privilege/ Sick leave)	7.50%	7.50%
Attrition Rate (Privilege/ Sick leave)	10%	10%
<b>Actuarial liability - Privilege leave</b>	<b>2.49</b>	<b>1.51</b>
Charged in Profit and Loss account - Privilege Leave	0.98	1.07
<b>Actuarial liability - Sick Leave</b>	<b>2.19</b>	<b>0.96</b>
Charged in Profit and Loss account - Sick leave	1.23	0.38

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.

# Schedules

Forming Part of the Financial Statements for the year ended 31 March 2020

## 11. Corporate Social Responsibility (CSR)

Operating expenses include Rs. 2.89 Crore (Previous Year Rs 1.15 Crore) for the year ended 31 March, 2020 towards corporate Social Responsibility (CSR) in accordance with the Companies Act, 2013

Gross Amount required to be spent Rs. 1.15 Crore (Previous Year - Rs. 0.46 Crore)

Details of amount Spent during the year towards CSR are as under

### For the year ended 31 March 2020

Particulars	Rupees 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 Rs. 2.89 Crore to the implementing agencies who have actually spent Rs. 1.19 Crore as on 31 March 2020

### For the year ended 31 March 2019

Particulars	Rupees in Crore		
	Paid	Yet to be paid	Total
i) Construction/ Acquisition of any assets	-	-	-
ii) For purpose other than (i) above	1.15	-	1.15

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 Rs. 190 Crore (As at 31 March 2019 : Rs.190 Crore). Out of the above, Rs.65 Crores 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 Rs. 24.63 Crore (Previous year : Rs. 23.78 Crore) on Subordinated Debt

## 13. Details of payments of audit fees (Exclusive of Goods and Service Tax)

Particulars	Rupees in Crore	
	Year ended 31 March 2020	Year ended 31 March 2019
Statutory Audit fees	0.45	0.45
Other Attestation work	0.10	0.10
Other Certification *	0.18	0.22
Certification fees relating to Draft Red Herring prospectus for the Proposed IPO	0.67	0.00
Out of pocket expenses	0.04	0.02
<b>Total</b>	<b>1.44</b>	<b>0.79</b>

\* current year fees on estimated basis.

## 14. Description of Contingent Liabilities:

The Bank has contingent liability of Rs. 0.20 Crore (Previous year Rs.57.68 Crore) for securitisation transactions and guarantee given to Pension Fund Regulatory Development Authority (PFRDA) and Rs. 1.30 Crore(Previous Year: 0.64 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 2020 and 31 March 2019, 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.

# Schedules

## Forming Part of the Financial Statements for the year ended 31 March 2020

**16.** 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 2020 and 31 March 2019. Further, there are no outstanding against those suppliers as on 31 March 2020 and 31 March 2019. The above is based on information available with the Bank and relied upon by the Auditors.

### 17. IPO Expenses

As on 31 March 2020, 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 Rs. 5.45 Crore. In accordance with the accounting policy approved by the Board, the provision 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]) in the Balance Sheet as on March 31, 2020 pending adjustment from share premium account.

### 18. Previous Year's figures

Previous year figures have been regrouped/reclassified wherever necessary to correspond with the current year's classification/disclosure.

As per our report of even date attached  
For **S.R.Batliboi & Associates LLP**  
Chartered Accountants  
Firm Registration No. 101049W/E300004

Sd/-  
per **Sarvesh Warty**  
Partner  
Membership No. 121411

Place : Mumbai  
Date : 29 May 2020

### For and on behalf of the Board of Directors

Sd/-  
**P R Ravi Mohan**  
Chairman  
DIN:08534931

Sd/-  
**Asha Morley**  
Director  
DIN: 02012799

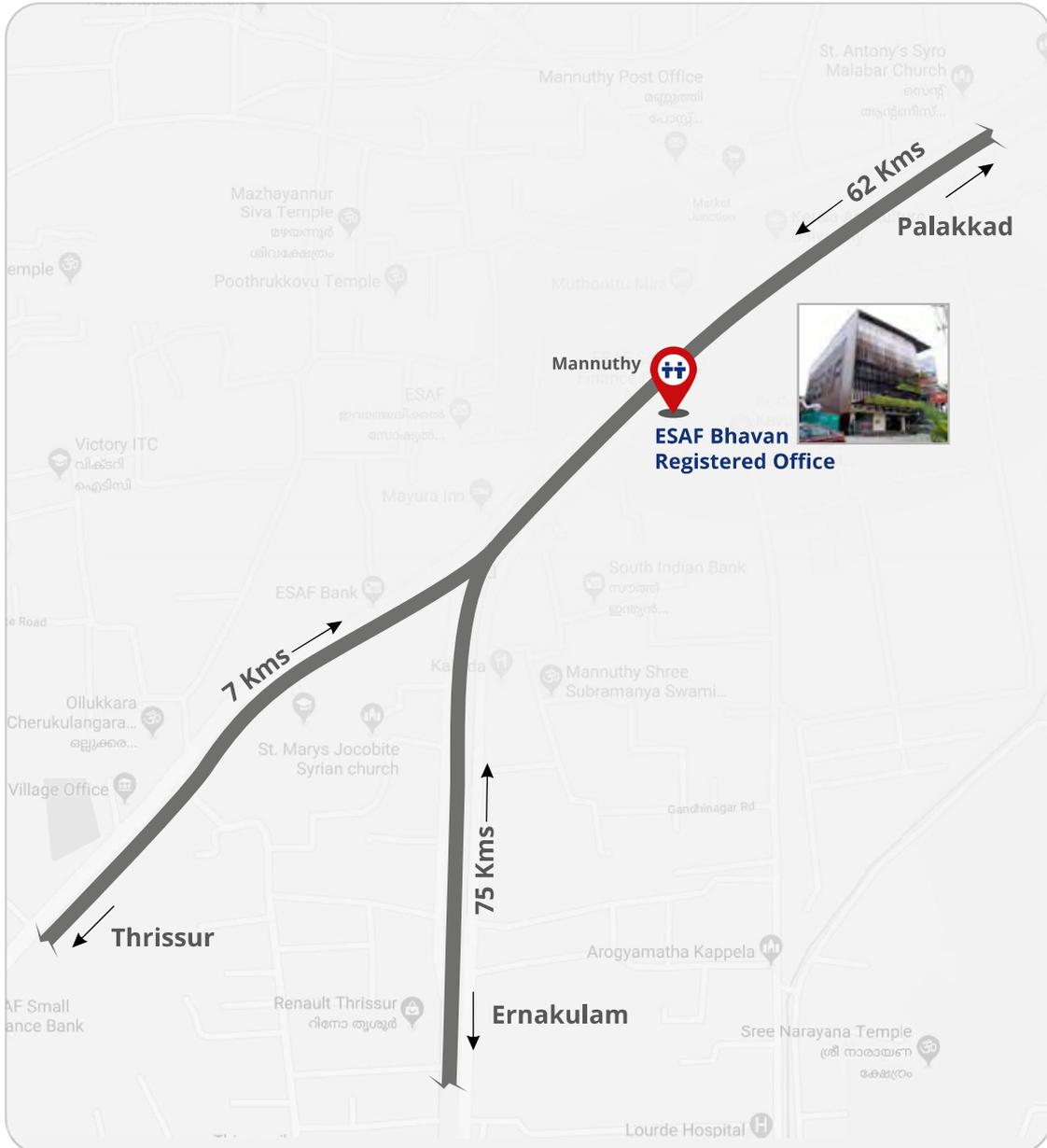
Sd/-  
**Gireesh C P**  
Chief Financial officer

Place : Mannuthy  
Date : 29 May 2020

Sd/-  
**Kadambelil Paul Thomas**  
Managing Director & CEO  
DIN: 00199925

Sd/-  
**Ranjith Raj P**  
Company Secretary

# Route Map to the venue



Land Mark: College of Veterinary & Animal Sciences, Mannuthy

### 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 04th Annual General Meeting of the Bank on Monday, 10th August, 2020 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 02.00 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. : .....

I/We, being the member (s) of ..... shares of the above named company, hereby appoint:

- Name : .....  
Address : .....  
E-mail Id : .....  
Signature : ....., or failing him
- Name : .....  
Address : .....  
E-mail Id : .....  
Signature : ....., or failing him
- Name : .....  
Address : .....  
E-mail Id : .....  
Signature : ....., or failing him





as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the 04th Annual General Meeting of the Bank, to be held on Monday, 10th August, 2020 at 02.00 PM at the Registered office at the Bank at Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651 and at any adjournment thereof in respect of such resolutions as are indicated below:

1. ....
2. ....
3. ....
4. ....

Signed this .....day of .....2020



Signature of Shareholder: .....

Signature of Proxy holder(s): .....

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.





# Awards and Accolades

ESAF SFB wins Dhanam Kerala Bank of the Year Award 2019



ESAF Small Finance Bank awarded the Economic Times 'Best BFSI Brand 2019'



9th European Microfinance Award



ESAF Bank hosts GABV Asia Pacific Summit 2019 at Kochi.





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[www.esafbank.com](http://www.esafbank.com)