

ANNUAL REPORT 2018 - 2019



*A year of big leap...*



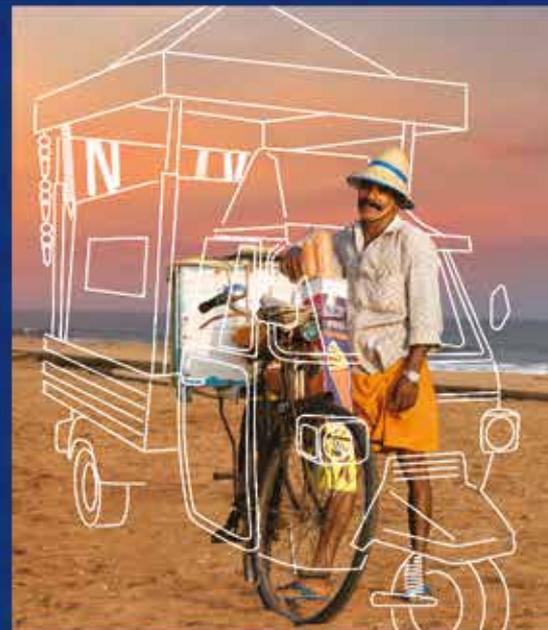
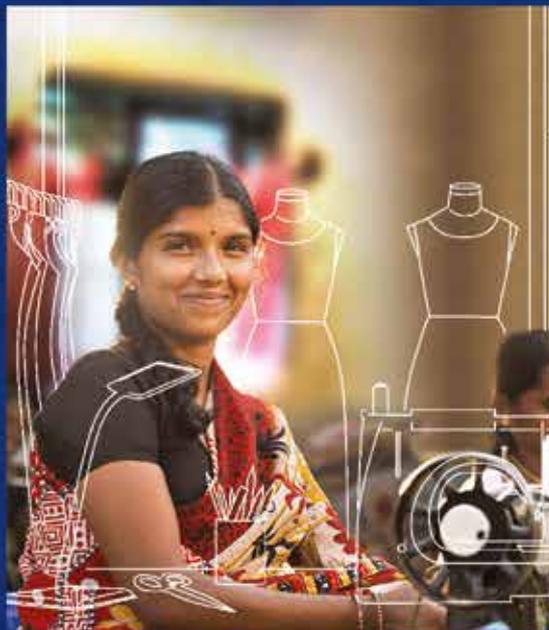
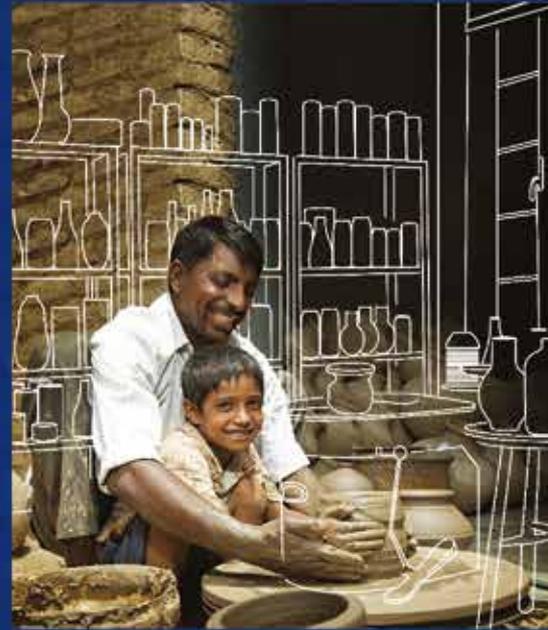
## VISION

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.

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## MISSION

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



*...fulfilling your dreams*



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



**Disclaimer:** This document contains certain forward-looking statements based on current expectations of ESAF Small Finance Bank's management. Actual results may vary from the forward-looking statements contained in this document due to various risks and political conditions in India and outside India, volatility in interest rates and in the securities market, new regulations and Government policies etc., that may impact the business of the bank. These documents do not constitute an offer or recommendation to buy or sell any securities of the Bank. This document also does not constitute an offer or recommendation to buy or sell any financial products offered by the Bank.



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## BOARD OF DIRECTORS



**Mr. Prabha Raveendranathan**  
Chairman & Independent Director



**Mr. Kadambelil Paul Thomas**  
Managing Director & CEO



**Mr. Assan Khan Akbar**  
Non Executive Director



**Mr. Saneesh Singh**  
Non Executive Director



**Mrs. Asha Morley**  
Independent Director



**Mr. Alex P. George**  
Independent Director



**Mr. George Joseph**  
Independent Director



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

## EXECUTIVE VICE PRESIDENTS



**A.G. Varughese**



**George Thomas**



**Ajit K. Choudhary**



**George K. John**

## SENIOR MANAGEMENT TEAM



**Murali N. A.**  
Head-Treasury



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



**Hanza M. M.**  
Head-Operations



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



**Hari Velloor**  
Head-Branch Banking



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



**Padmakumar K.**  
Head-Strategy,  
Planning & MIS



**Swaminathan K.**  
Head-Digital Banking,  
Alternate Channels &  
Third Party Products



**Raju Antony**  
Head-IT



**Mathews M.**  
Chief Compliance Officer



**Dominic Joseph**  
Chief Vigilance Officer



**Jose A.V.**  
Head-Human Resources



**Narayanan Kutty M.**  
Head-Internal Audit



**Sabu Thomas**  
Head-Marketing



**Jaleesh Peter**  
Head-Branding  
& Communications



**Reji Daniel**  
Head-Sustainable Banking



**Abiesh Jose**  
Head-Customer  
Service Quality



**Ranjith Raj P.**  
Company Secretary

# AGENCIES, AUDITORS & CONSULTANTS

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System Integrators



Statutory Auditors



Secretarial Auditors



Consultants-Branding & Communications



**Sony V Mathew**  
(Independent Consultant)

# BUSINESS CORRESPONDENTS

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*11<sup>th</sup> AGM of ESAF SFB in progress: Shri R. Prabha, Chairman and Shri. K. Paul Thomas, Founder, ESAF Small Finance Bank addressing the Second Annual General Meeting.*



Dear Shareholders,

Financial year 2018-19 is the second full year of operations of ESAF Small Finance Bank and I am happy to acknowledge that the bank has successfully navigated the journey so far, which has thrown up multifaceted challenges.

At the outset, let me welcome the new shareholders who have supported the Bank in its maiden capital infusion. I thank them for reposing confidence in this fledgling Institution of high promise.

It is extremely pleasing to report that the Bank's total business grew to 9289.33 crores, registering Compounded Annual Growth Rate of 22%. Its profit after tax grew from Rs 26.99 crore to Rs 90.28 crore during the year. Its presence expanded significantly from 413 branches in March 2018 to 424 branches including Ultra Small Branches in March 2019, covering 14 states. Its Net NPA as at the end of the year was 0.77%. The earning per share improved from Rs. 0.89 to Rs. 2.37. Nevertheless, the past twelve months were not without challenges. The headwinds we faced in Kerala in the form of flood in August – September last year, took its toll on our financials, but having strong financial fundamentals and goodwill have helped us to come out of those challenges in flying colors.

I would like to take this opportunity to complement the enlightened and highly motivated leadership provided by Sri K. Paul Thomas, MD and CEO of the Bank and the Top Management who are always there to lead from the front. This extraordinary performance would not have been possible but for the highly dedicated workforce of the Bank, including

## MESSAGE FROM THE CHAIRMAN

the Banking Correspondents, Business Associates etc. Also, I would like to thank the State and Central Governments for their cooperation and the timely guidance and directions of the Reserve Bank of India.

Now, a word about the Customers, more than 97% of our 32 lakh customer base is women from economically backward sections whose unwavering commitment to the Institution has helped us to tide over difficult times. I also thank our Depositors who have entrusted their life savings with us.

***Our long term goal is to develop the Bank as a one stop shop for customers to meet their financial needs and emerge as the best governed Bank in the country, thereby creating value for our shareholders.***

Our country is today one of the fastest growing economies in the world. For the year 2019-20, it is expected to grow at over 7%. The Bank is well poised to take full advantage of this growth momentum and the

business projections for 2019-20 have been approved after taking into consideration the growth potential of the economy.

Today, Digitalization is changing the face of every industry; we are at the threshold of a great Industrial revolution. The footfall at the branches is falling gradually. Customer preference is slowly but surely shifting

***Our employees are our greatest assets. Creating a customer oriented talent pool with proper cultural integration is a vital part of our business strategy and hence we continue to invest in training and development of our employees.***

towards the digital medium. Your Bank would take every possible step to offer new digitally enabled products and services and will strive to be in the forefront of the banking industry.

Our employees are our greatest assets. Creating a customer oriented talent pool with proper cultural integration is a vital part of our business strategy and hence we continue to invest in training and development of our employees. It is truly an honor for me to be presiding over a highly enlightened and committed Board. I thank each and every Board member for steering the Bank during turbulent times and for the guidance they have provided in framing robust policies. The strong foundation the Board has laid shall hold the Bank in good stead for a long time to come.

As I mentioned in the last year's report, our long term goal is to develop the Bank as a one stop shop for customers to meet their financial needs and emerge as the best governed Bank in the country, thereby creating value for our shareholders. The Bank is clearly aware of the Challenges lying ahead. We are now working on asset diversification to come out of the MFI mould. Integration of remaining Ultra Small Branches into full-fledged Branches, needs careful planning. I am sure the Bank is capable of handling these Challenges with the able guidance of its well experienced Board of Directors and with the co-operation of all stakeholders.

The Bank is on a high growth trajectory. We were successful in overcoming the initial teething troubles and the next few years would witness performance of a higher order. I seek the cooperation and support of all the stakeholders in its journey forward.

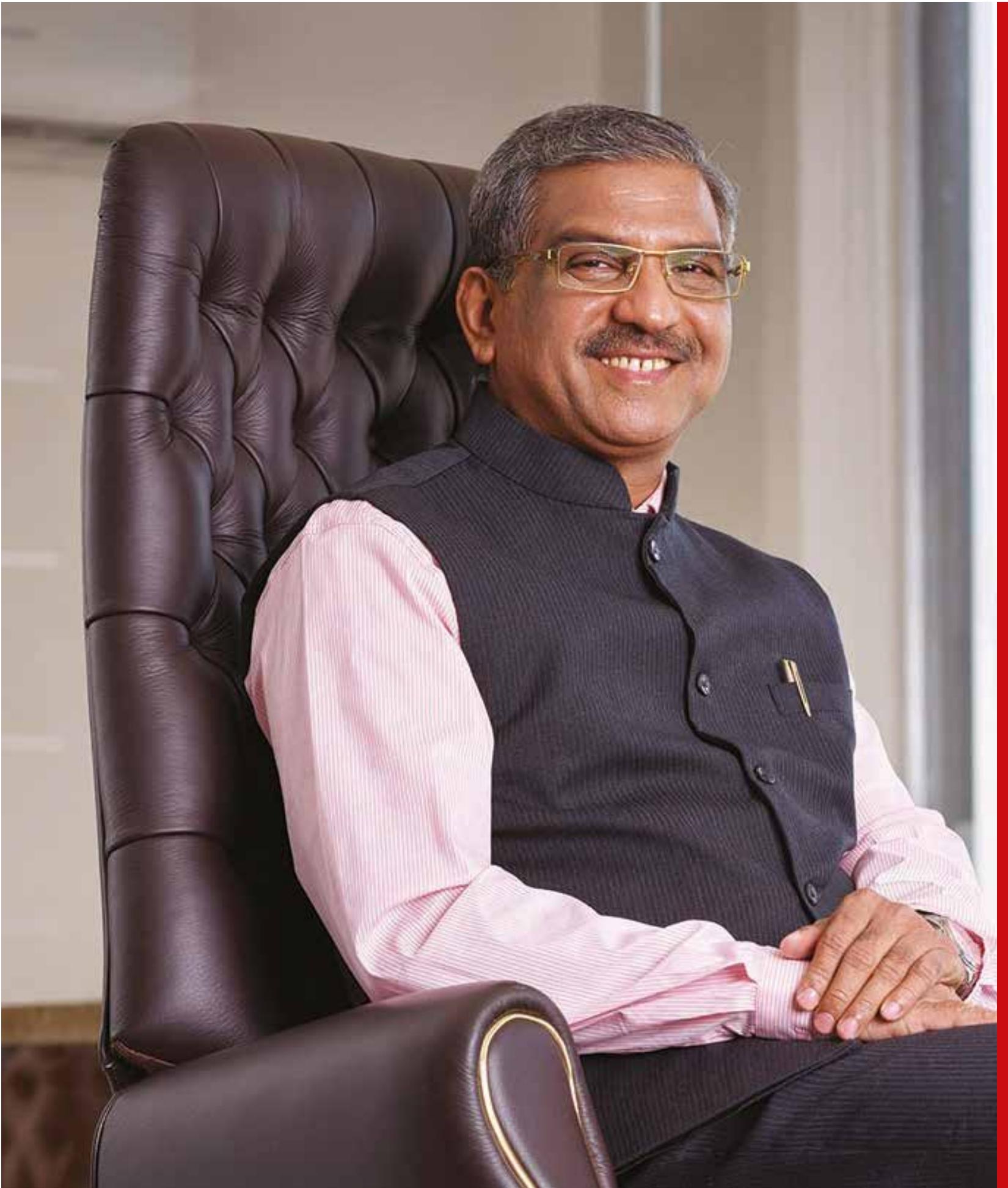
I thank you for your continued trust, confidence and support.

Best Regards,

Sd/-

**Prabha Raveendranathan**

Chairman



Dear Stakeholders,

It gives me immense pleasure and real pride to present to you the third Annual Report of your Bank. For ESAF SFB, it has been a very exciting journey so far, as we complete another Financial Year as a banking entity.

As you are aware the contours of Indian financial landscape is changing and they are changing fast. The industry is in the midst of a transformation with huge unexplored rural opportunities on one side and the potential of digital technology still waiting to be tapped on the other side, for the benefits of the end customers. With digitisation surging aggressively forward, the future of banking is more promising than ever.

Government of India (GOI) is also driving several path-breaking initiatives, such as Less-cash Economy, Digitalisation, Financial Inclusion, Make in India, Aadhaar-based Transaction Monitoring, Affordable Housing, Real Estate Act (RERA), Swachh Bharat Abhiyan, and so on. For the smooth functioning of the banks, the Government was quick to implement Insolvency and Bankruptcy Code. They also hardened the stance on bad loan recoveries and allowed banks to take ownership and management control. These purposeful initiatives are further corroborated in spirit and action by the Reserve Bank of India (RBI) and other regulators.

No wonder, despite headwinds, India continues to remain among the fastest-growing economies in the world. Our economy is projected to grow at 7.7% by FY 2019-20 (Source: World Bank). Within banking, there lies a big opportunity. In India, only 53% of the households have active

## FROM THE DESK OF MD & CEO

operating bank account compared to 97% in the UK and 88% in the USA. Likewise, our current penetration of cards, ATMs and POS terminals is lowest among the developing nations. Hence digitally driven models that are disruptive in nature have huge possibilities to stay ahead of

***At ESAF, we continuously strive to keep pace with the changing dynamics and we are focussed on creating new touch points for improved consumer experience. During the coming financial year, the Bank has plans to expand its footprints into newer geographies.***

the curve, especially when mobile phone penetration is all set to cross 1 billion mark.

Through innovative products and services, ESAF always caters to the needs of the un-served and the underserved masses of the society as envisaged by the RBI. We continue to support them through JLG schemes and other new products in MSME and Housing Loan segments. By inculcating the habit of savings among the members, through the product Recurring Deposits (RD), we bring them to the forefront of mainstream banking. Our vision is always driven by the three 'P's - People, Planet and Prosperity. At the same time, we are focussed on delivering state of the art banking facilities to the poor by relying on cutting-edge technologies.

During FY2018-19, ESAF Small Finance Bank raised capital to the tune of Rs 464 cr through private placements. This signifies the confidence of Investors in the operations of ESAF Small Finance Bank. During the year, the Bank launched 122 new Banking Outlets and transformed 111 Ultra Small Branches into fullfledged Banking Outlets pan India. ESAF is now operating out of 124 districts in 14 states pan India. The total number of banking outlets of ESAF has now reached 424 as on March 31, 2019.

At ESAF, we continuously strive to keep pace with the changing dynamics and we are focussed on creating new touch points for improved consumer experience. During the coming financial year, the Bank has plans to expand its footprints into newer geographies.

Currently the Bank has operations in the states of Andhra Pradesh, Bihar, Chhattisgarh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, New Delhi, Odisha, Pondicherry, Tamil Nadu, West Bengal and Assam.

In the Financial Year 2018-19, your Bank was included in the Second Schedule of the RBI Act 1934. Also, ESAF was the first Small Finance Bank to launch a humanoid named EIDA to deliver joy of banking to the customers in Thrissur branch.

The Bank has an outreach of over 32.75 lakhs customers during the year. The year closed at a total Loan Portfolio Outstanding of Rs. 4972.33 crore and Deposit Base of Rs. 4317.01 crore. The Bank proposes to more than double its business in 2019-20. The Bank is adequately capitalized with a CRAR of 27.59 % and closed the year with a Net Profit of Rs. 90.28 crore. The Gross NPA and Net NPA have been registered at 1.61% and 0.77% respectively, as on March 31, 2019.

Our banking services can be accessed through multiple channels like Branches, 24\*7 ATMs, Internet Banking, Mobile Banking and Call Centres. The Bank outlets are equipped with full range of banking services from Savings & Current Accounts, Fixed and Recurring Deposits to Microcredit, Retail Loans and Insurance Products.

On the Technology front, the Bank has added brown label and white label ATMs across all the states in which we have operations. For operational efficiency at Branches, tablets have been rolled out to all the field staff. The Bank has ambitious plans of paperless banking with E-KYC and similar initiatives in the coming FY.

People are the most important assets of any organization. At ESAF, we always believe in empowering people, by nurturing their talents and by providing them adequate training in the right direction. Moreover, our employee base increased from 993 to 2168 as on March 31, 2019, with 708 women employees.

I firmly believe that our strategic initiatives will help us scale new vistas of growth, while taking our valued consumers through new digital doors and to an even more joyful future, though challenges still remain on various counts in terms of competition and regulation.

Even though the process of digitisation is yielding significant benefits, the cost incurred for technology up-gradation is still a concern.

Before I conclude, I would like to take this opportunity to thank all our partners, employees, consumers and shareholders for their unstinted support and cooperation over the years. The doors to the future are wide open, and together we shall emerge through them, stronger and more agile.

Best Regards,

Sd/-

**Kadambelil Paul Thomas**  
Managing Director & CEO



Prof. C. Ravindranath, Minister for Education, Govt. of Kerala inaugurating the 2<sup>nd</sup> Anniversary celebrations of ESAF Small Finance Bank. Adv. K. Rajan MLA, Sri. Anil Akkara MLA, Sri. K. Paul Thomas, MD & CEO, ESAF Small Finance Bank and Smt. Mereena Paul, Chairman, ESAF Co-operative are also seen.



Shri. K. Paul Thomas, MD & CEO along with Shri. R. Prabha, Chairman, ESAF Small Finance Bank, handing over a DD of Rs. 25,00,000 to Shri. Pinarayi Vijayan, Chief Minister, Kerala as ESAF SFB's Kerala Flood Relief Mission Contribution. Also seen is Prof. C. Raveendranath, Minister of Education, Govt. of Kerala.

# MILESTONES

<p>2015</p>  <p>ESAF Microfinance has received in-principal approval for setting up of Small Finance Bank from the RBI</p>	<p>2017</p>  <p>ESAF launches ESAF Small Finance Bank, the first bank from Kerala since independence</p>	<p>2018</p>  <p>Govt. 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>



## THE JOY OF INCLUSIVE FINANCE

An inclusive financial ecosystem is ideal for the economic prosperity of a nation. SFBs have proved their worth in implementing and spreading the tenets of financial inclusion to the unbanked and disadvantaged sections in the society at affordable costs.

Complementing the efforts of the Govt., the RBI is also propagating financial literacy, which lends sustainability to the inclusion process. Landmark schemes launched by the Central Government including Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Jeevan Jyoti Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Sukanya Samriddhi Yojana (SSY) and Atal Pension Yojana (APY) were aimed at providing a holistic financial coverage to low income households.

The objective of Small Finance Banks is to offer the provision of savings and credit to the unserved and under-served sections of the society. These include small business units, marginal farmers, micro and small industries and other unorganised sector entities. Traditional banks would refrain from lending to these segments due to lack of credit information, lack of collateral and absence of financial history. Small Finance Banks are expected to provide access and services by leveraging technology and by lowering cost of operations.

ESAF has been in the space of financial inclusion for more than 25 years, with a vision of bringing in financial peace, by fighting the partiality of prosperity. We have traversed in-depth into the hearts of the under

banked and the underserved all these years by building on their financial and social capabilities. Simplicity and customer centricity are the basis upon which we function and we adhere to the highest standards of compliance and governance.

Our research insights are closely integrated with technology and we are set to create holistic financial services to our customers. We have developed simple products like Savings Accounts and Recurring Deposits to allow customers to save small amounts every month. In case of unfortunate events at households, government insurance schemes like PMJJBY and PMBSY are also offered to customers.

With an aim to build a supportive eco-system to our beneficiaries using cutting-edge technology, we have launched TAB banking. This allows ESAF SFB staff to visit the customers at their place and carry out basic banking services such as account opening, cash deposit, EMI payment etc. Also our financial literacy programs are aimed at building financial discipline and capabilities for the customers.

Furthering the scope of financial inclusion is our core agenda and we believe that the future is full of opportunities. Apart from our normal microfinance customers we are also targeting customers in the income range of less than Rs. 1 lakh to Rs.5 lakh. We have diversified into other lending activities such as affordable housing and loans against properties. Our commercial vehicle loans enable small entrepreneurs to own a vehicle of their own.

We will continue to innovate and better our offerings backed by strong client insights and analytics to proactively meet the life cycle needs of our customers. Our endeavour is to consistently deliver an unparalleled and joyful banking experience to our customers through best in class customer service.



## IMPACT OF FINANCIAL INCLUSION

### **Bolstering growth and economic resilience through financial inclusion**

Access to and use of financial services plays a critical role in supporting inclusive and sustainable development. ESAF Small Finance Bank, since its launch in 2017, was able to drive the financial inclusion agenda as a strategic pillar that could garner greater fillip to the overall business objective.

Technology was properly leveraged to ensure that financial inclusion agenda was more focused and meaningful. The bank bolstered its focus on financial literacy with structured and planned education on digital banking literacy. Appointment of Business Correspondents has been a dramatic but effective step to infuse financial inclusion in some of the unbanked and underbanked areas of our country. Village Level banking agents are now being piloted to make sure that access to finance is a reality for those located in the most remote parts of our country. We have also tried to include the financially neglected communities such as

women, farmers, artisans, students and senior citizens in the purview of financial inclusion agenda in a way that their stakes as active banking beneficiaries are addressed successfully. We understand that financial inclusion, if used rightly, has a positive impact in the lives of the poor and it is with the same conviction that we have gone an extra mile to offer our services to those who are not financially mainstreamed. Market research, need assessment, customer experience report etc., are blended with business to make relevant strategies that are aligned to make financial inclusion more appealing and responsive. As we look at financial inclusion from the lens of customer centricity, we have conducted several interfaces with our customers through which, we were able to remove the hurdles towards optimal utilisation and were better able to offer what our customers required while following the dictum, 'do no harm' ! We have invested in educating our semi-literate customers on effectively using the digital banking platforms and also we have worked on a robust cybersecurity, data privacy as well as physical infrastructure that are welcoming to customers from all segments.

ESAF SFB has purposely chosen to infuse financial deepening in critical sectors such as agriculture, micro enterprises, affordable housing, clean energy etc., as a means to boost local economy and promote growth.

## 1. Snapshot of financial inclusion-Reach and impact

No.	Indicators	Figures
1	No. of states	14
2	No. of districts	124
3	No. of customers	3275881
4	No. of including ultra smallbranches	424
5	No. of branches in backward districts (As listed by Govt. of India)	35
6	No. of new customers reached during the year	772157
7	No. of Unbanked Rural Branches	40
8	No. of LWE-Unbanked Rural Branches	17
9	No. of Semi Urban Branches	249
10	No. of ATMs	233
11	No. of micro enterprises supported for expansion during the year	63244
12	No. of loan accounts less than INR 25,000	682031
13	PMJDY account (Jan Dhan)	2953757
14	Saving account	3087453
15	Pension account	426149
16	% of customers with Physical Disability	2.33%
17	% of tribal population covered	5.1%
18	% of women headed households	9.3%
19	% of micro enterprises started exclusively after ESAF loan	26%
20	No. of micro enterprises supported for expansion during the year	63244

## 2. Leveraging technology for enabling last mile connectivity

ESAF SFB has boldly decided to adopt emergent technology to deliver a broader range of financial services, which include elimination of paper based processes by moving completely to digital mode of customer on boarding, accepting electronic applications, digitally managing the process of customer financial training, credit appraisal, in-field verification, mandatory customer identity and address proof verification using eKYC based on biometric Aadhaar records, processing of applications & account opening at one go, cashless disbursement & paperless repayment collections etc.

Digital solution of ESAF SFB was launched in March 2017. It serves the customers at the bottom of the pyramid, with low literacy levels and often-imperfect identity and address proofs, who mainly engages in small-scale economic activities, which involve cottage industry, daily labour work etc., and their businesses lack verifiable cash flows. Many of these reasons, along with high cost of servicing have ensured that they remain largely financially excluded by mainstream banks. For them, spending too much time in seeking financial services means loss of wages and earnings, making it unviable for them.

As compared to the earlier process, our digital solution involves use of an internet connected tablet by field officers, capable to scan biometric identity (iris) of applicants. At the first stage itself, QR code in Aadhaar Card (a widely available biometric based Identity number issued by UIDAI – a govt. initiated program) is scanned to fetch the data and auto populate the form. Also, photos of the customers and the documents will be taken on Tablet for record. Further, details are automatically transmitted for credit bureau verification, anti-money laundering

verification (necessary to open a savings account with a bank) and deduplication (ensuring same person is not coming in the system with two different identities) and business rules verification, all of which runs on automated logics in-built in the system.

Manual verification done by a small team of five members is the only exception in the digital solutions offered by us. Successful applicants will be given training after verification at homes. A supervisor will be assigned to do group checking on tablets, which involve taking photographs at various stages along with geo-tagging locations through GPS, making these completely verifiable. The entire set of opening documents for loan and savings account are pre-filled, while taking printouts for obtaining customers' signature. When it is time for disbursement, funds are transferred to savings account opened with ESAF SFB and customers are given ATM cards to withdraw money in convenient tranches from any ATM. Earlier, staff used to carry large amounts of money, which was highly risky to their lives and the business as a whole. Adoption of digital solutions helped us to solve issues related to risks and higher cost of conveyance. Also customers now withdraw only the money they actually want, which can trim down unintended use of money.

Most importantly, turnaround time to deliver the service has come down to five days for new customers and one day for repeat borrowers, resulting in high level of customer delight and huge competitive advantage for ESAF SFB. It was found that actually 96% of our new customers were given loans within 3 days from receiving the application, saving costs significantly for both customers as well as ESAF SFB.

Similarly, loan repayment collections happen on Tablet, which has eliminated the paper based process of taking long print-outs of demand

sheet and delayed credit to customers account. Now the demand is available on Tablet for view and verification and also repayments are credited instantaneously to customers' account.

### Usage of digital banking-customer end

Within one year of launching the Bank, ESAF SFB could open 233 ATMs aiding cash withdrawals 24x7 and also empowering and educating over 2 million semi-literate women to handle machine led banking. Initially hesitant and fearful, women customers from the villages were quick to find themselves at ease in using ATMs as well as some even using debit card at POS machine for making purchases.

### 3. Customer Education and Empowerment Program-CEEP for capacity building

Regular customer education programs are organised to educate the customers on various aspects that are aimed at improving their capacities to optimally utilise their loans and also to make wise financial planning, which can secure their future from financial shocks while helping them to create productive assets as well. Modules on financial literacy are prepared using FAME booklet of the RBI as the base.

Apart from financial literacy, low income customers are also helped through education on various other aspects that could positively bring a change in their lives. Therefore, awareness on health issues, environment matters, entrepreneurial development programs were also provided. The details are given below.

Training programs	No of customers reached
Financial Literacy Programs	844709
Environmental Awareness Programs	512932
Women Empowerment Programs	237780
Health Awareness Programs	31169
Entrepreneurship Development Programs	4238
<b>Total</b>	<b>16,30,828</b>





ESAF Small Finance Bank was chosen as the runner-up of the much coveted European Microfinance Award on the theme 'Financial inclusion through technology' at the European Microfinance Week held in Luxembourg. ESAF was the only Organization from India to compete for the Award and was chosen from among 22 countries.



## **ESAF SMALL FINANCE BANK: RUNNER UP AT THE EUROPEAN MICROFINANCE AWARD**



global alliance  
for banking  
on values 

In 2018, ESAF became the only bank in India to get a membership in GABV, Global Alliance for Banking on Values. ESAF Small Finance Bank is always at the forefront of delivering performance, when it comes to economic and social development.

**Photo:** Shri. K. Paul Thomas, MD & CEO, ESAF Small Finance Bank speaking at the GABV summit held at Vancouver.

 **ESAF SMALL  
FINANCE BANK  
BECOMES THE  
MEMBER OF GABV**



## **ESAF SMALL FINANCE BANK WINS PFRDA AWARD**

In 2018, ESAF Small Finance Bank won PFRDA Leadership Capital Award.

**Photo:** Shri. K. Paul Thomas, MD & CEO, ESAF Small Finance Bank receiving the Leadership Capital Award instituted by the PFRDA of India from Rajiv Kumar, Secretary of Financial Services, Ministry of Finance, Govt. of India. Also seen is Supratim Bandyopandhyay, Whole-Time Member (Finance) of Pension Fund Regulatory and Development Authority of India.



ESAF Balajyothi Program in progress

## CORPORATE SOCIAL RESPONSIBILITY

CSR is aimed at building our brand equity by meaningfully utilizing the profits for the society at large.

The ESAF-SFB Board has adopted the CSR Policy, paving way for further deeper involvement towards realizing triple bottom line goals.

The Board has approved the following projects in line with our CSR Policy and the Schedule VII of the Companies Act, 2013

### 1. ESAF DON BOSCO-Child and Youth Resource Centre, Thrissur, Kerala

- Act as a knowledge hub and information exchange for children and youth.
- Act as an agent for physical, social and intellectual development of children and youth.
- Act as a space for development of creative potential and skills of children and youth.
- Act as a learning and facilitation center for the integral development of children and youth.
- Function as a resource and development center for the under privileged children and youth.

### 2. ESAF Balajyothi- A Child Development Initiative at the National Level

- Start Balajyothi Clubs under selected branches for empowering under privileged children.

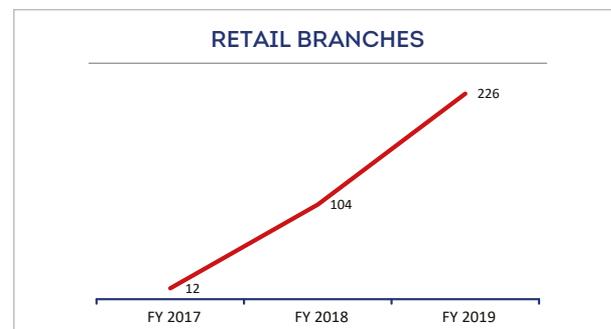
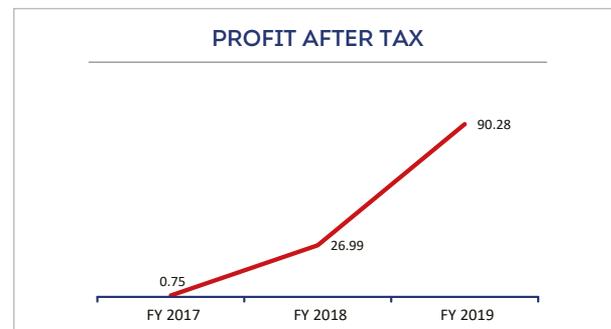
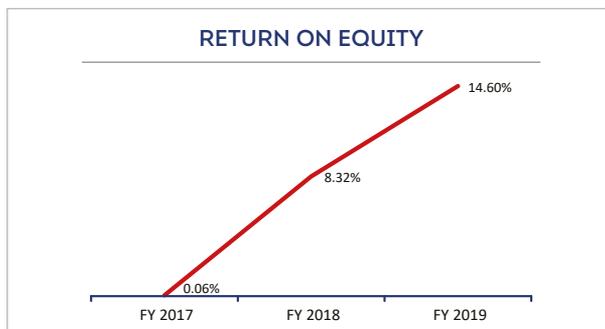
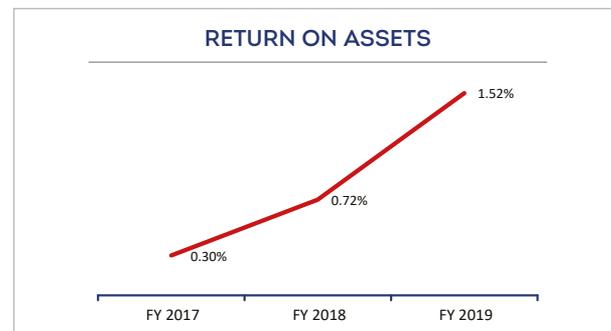
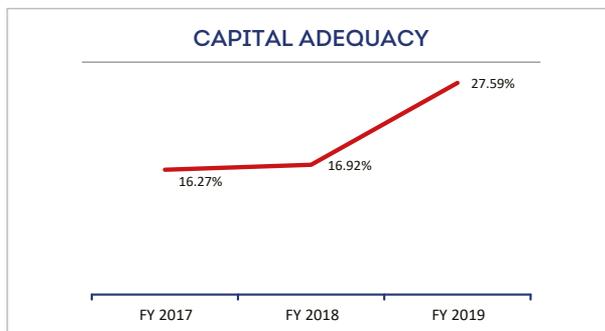
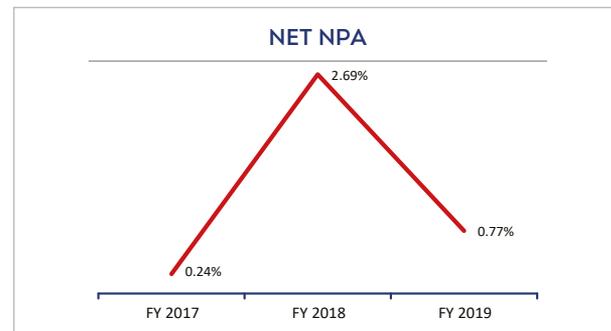
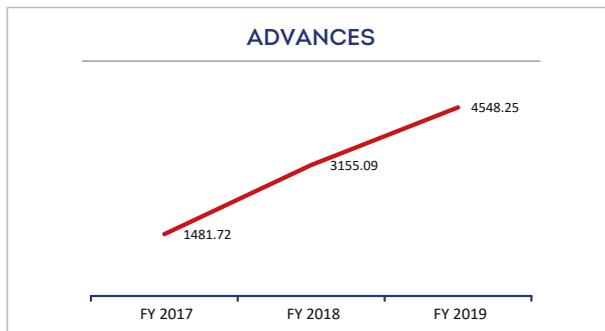
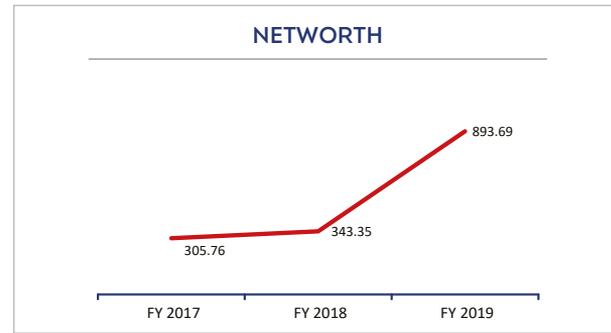
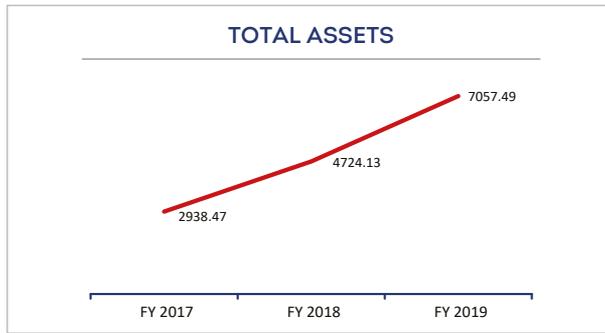
- Integrate marginalized children into the mainstream society through focused and target oriented interventions.
  - Conceptualize and implement various campaigns on child development through Balajyothi Clubs.
3. Integrated Tribal Development Program at Attappady, Kerala
- Two community schools- Community finishing schools were started with an aim to improve employability skills.
  - Improved health for all – This project was aimed at improving the health aspects. of the public (including drinking water habits).
  - Skill Training Programs.
  - Access to quality education – Academic support services.

### ESAF SFB CSR POLICY

ESAF SMALL FINANCE BANK is committed to the transformation of lives and communities by:

1. Addressing social, environmental and economic needs of the poor and the marginalized sections of the society.
2. An approach that integrate the solutions to the critical problems of the society into the strategies of the bank, which helps in benefitting the communities at large with a Triple Bottom Line impact.
3. Employee and customer participation in the projects and networking with founding society, group companies and likeminded entities.
4. Aligning the corporate social responsibility strategies with ESAF group's vision for a just and fair society, thereby fighting the partiality of prosperity.

# FINANCIAL HIGHLIGHTS



Amounts are Rs. in crores



## MANAGEMENT DISCUSSION & ANALYSIS REPORT

India has emerged as the fastest growing economy in the world and is expected to be one of the top three economic powers in the world over the next 10-15 years. India's GDP is estimated to have increased 7.2 per cent in 2017-18 and 7 per cent in 2018-19. India has retained its position as the third largest start up base in the world with over 7,700 technology start-ups. India's labour force is expected to touch 160-170 million by 2020, based on growth rate of population, increased labour force participation and higher education enrolment among other factors, according to a study by ASSOCHAM and Thought Arbitrage Research Institute. India's foreign exchange reserves were US\$ 405.64 billion in the week up to March 15, 2019, according to data from the RBI.

### Recent Developments

As a result of an improved economic scenario, investments have been on the rise across various sectors in the economy. The M&A activity in India has reached a record of US\$ 129.4 billion in 2018 while private equity (PE) and venture capital (VC) investments have reached US\$ 20.5 billion. Some of the important recent developments in Indian economy are as follows:

- During the FY 2018-19 (up to February 2019), merchandise exports from India have increased 8.85 per cent year-on-year to US\$ 298.47 billion, while services exports have grown 8.54 per cent year-on-year to US\$ 185.51 billion.
- Nikkei India Manufacturing Purchasing Managers' Index (PMI) reached a 14-month high in February 2019 and stood at 54.3.
- Net direct tax collection for 2018-19 had crossed Rs 10 trillion (US\$ 144.57 billion) by March 16, 2019, while Goods and Services Tax (GST) collection stood at Rs 10.70 trillion (US\$ 154.69 billion)

as of February 2019.

- Proceeds through Initial Public Offerings (IPO) in India reached US\$ 5.5 billion in 2018 and US\$ 0.9 billion in Q1 2018-19.
- India's Foreign Direct Investment (FDI) equity inflows reached US\$ 409.15 billion between April 2000 and December 2018, with maximum contribution from services, computer software and hardware, telecommunications, construction, trading and automobiles.
- India's Index of Industrial Production (IIP) rose 4.4 per cent year-on-year in 2018-19 (up to January 2019).
- Consumer Price Index (CPI) inflation stood at 2.57 per cent in February 2019.
- Net employment generation in the country reached a 17-month high in January 2019.

Numerous foreign companies are setting up their facilities in India on account of various government initiatives like Make in India and Digital India. The Government of India has launched the Make in India initiative with an aim to boost the manufacturing sector and to increase the purchasing power of an average Indian consumer, which would further boost demand, and hence spur development, in addition to benefiting investors. The Government of India, through the Make in India initiative, is aiming at boosting the manufacturing sector's contribution to the economy from the current 17% level to 25%. Besides, the Government has also come up with Digital India initiative, which focuses on three core components: creating digital infrastructure, delivering digital services and enhancing digital literacy.

## Banking Industry

According to The Reserve Bank of India (RBI), India's banking sector is sufficiently capitalised and well-regulated. The financial and economic conditions in the country are far superior, compared to its peers. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like Payment Banks and Small Finance Banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry. The Indian banking system consists of 27 Public Sector Banks, 21 Private Sector Banks, 49 Foreign Banks, 56 Regional Rural Banks, 1,562 Urban Cooperative Banks and 94,384 Rural Cooperative Banks, in addition to Cooperative Credit Institutions.

Increase in working population & growing disposable income will raise demand for banking & related services. Housing & personal finance are expected to remain the key demand drivers. Rural banking is expected to witness significant growth in the future and rising fee income will improve the revenue mix of banks. As of Q3 FY19, the total credit extended by commercial banks surged to Rs 93,751.17 billion (US\$ 1,299.39 billion) and deposits grew to Rs 120,818.92 billion (US\$ 1,866.22 billion). Assets of public sector banks stood at US\$ 1,557.04 billion in FY18. Credit off-take has been surging ahead over the past decade, aided by strong economic growth, rising disposable incomes, increasing consumerism & easier access to credit. During FY 07-18, credit off-take grew at a CAGR of 11%. As of Q1 FY19, total credit extended had surged to Rs 86,976 billion (US\$ 1,297.4 billion). Demand has grown for both corporate & retail loans; particularly businesses related to real estate, consumer durables, agriculture and allied sectors have led the growth in credit.

The Reserve Bank of India (RBI) has decided to set up Public Credit Registry (PCR), an extensive database of credit information which is accessible to all stakeholders. The Insolvency and Bankruptcy Code (Amendment) Ordinance, 2017 Bill has been passed and is expected to further strengthen the banking sector.

From 336.6 mn accounts opened under Pradhan Mantri Jan Dhan Yojana (PMJDY), the total value of deposits increased to Rs 926.78 billion (US\$ 12.85 billion). In May 2018, the Government of India provided Rs 6 trillion (US\$ 93.1 billion) loans to 120 million beneficiaries under Mudra scheme and in May 2018, the total number of subscribers was 11 million, under Atal Pension Yojna.

As of September 2018, Department of Financial Services (DFS), Ministry of Finance and National Informatics Centre (NIC) launched Jan Dhan Darshak, a mobile app to help people locate financial services in India, as part of financial inclusion initiative.

## ESAF Small Finance Bank's Strategy and Overall Approach

### ESAF is all about three Ps - People, Planet and Prosperity

Your Bank has the mission "To provide responsive banking services to the underserved and un-served households in India facilitated by customer-centric products, high quality service and innovative technology". The focus of your bank is to make a meaningful contribution to the unserved and underserved strata of the society through its existing infrastructure, products and services. Your Bank's journey started as an NGO in 1992 with the objective of uplifting the poor and the marginalised. Even after more than 25 years of journey and after crossing quite a few milestones, Your Bank is still committed to this objective without fail.

Your Bank is committed to its four core values - Customer centricity,

Accountability, Transparency & Commitment. Brand ESAF is built on the overarching pillars of Integrity and Trust. With clear focus on economic viability, ESAF SFB aims to be a leader in social banking by serving the entire spectrum of banked and unbanked population.

Your Bank has adopted a Triple Bottom Line strategy, which is achieved through three lenses:

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**People: Social capital created by the Bank**  
**Planet: Environmental impact of the Bank's actions**  
**Prosperity: The economic value created by the Bank**

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Your Bank evaluates every aspects of its business through these lenses. With over 99 % of the client base and 41% of the total workforce as women, ESAF Small Finance Bank has made conscious strategies to develop women friendly policies and projects.

### • The joy of delivering through three Ps

People, Planet and Prosperity are the pillars upon which brand ESAF has moulded its motives. Your Company believes that holistic development of an individual is not possible only through financial means. We successfully practise a handholding approach through non-financial services. As a social bank, we have plans to set social targets for each branch on indicators such as reaching the poor and the marginalised in backward areas, reaching vulnerable communities affected by natural disasters, providing financial literacy, providing awareness on the importance of clean energy products etc.

Your bank will focus on leveraging technology to deliver best-in-class services to our retail customers across categories. Through personalised, accessible, safer and spontaneous services, we want to deliver our brand promise – joy of banking. For that to be possible, Your Bank should be ready with products and services that meet our customers' needs of today and tomorrow. For the coming years, plans are on the anvil to focus on increasing the share of digital channels like internet & mobile banking.

## Impact on prosperity

Despite the catastrophic flood that hit the State of Kerala, the financial performance of the Bank during the year ended March 31, 2019 was healthy and promising. The spike in portfolio delinquencies during the preceding financial year on account of cash flow paucity at the grass root level, due to issues related to the implementation of demonetization and GST, had been fully provided for during the current year. Total interest income for the financial year crossed the four-digit mark with an increase of 72.4%. Net Total Income (Net Interest Income Plus Other Income) increased by 62.86 per cent to Rs.1137 crore from Rs.698.7crore in the previous year. Revenue growth was driven by an increase in both Net Interest Income and Other Income.

Net Interest Margin (NIM) continued to remain healthy at 10.65% during the year ended March 31, 2019 as against 8.66% in the previous year. In tandem with the growth in network and business, headcount stands increased by 1175 during the year and hence the staff cost increased by 95.12 % and non-staff cost increased by 27.85%, excluding BC cost. Also, BC cost increased by 50.07% in line with business growth. Despite the addition to the infrastructure and manpower, the Cost to Income Ratio decreased to 16.25% on account of healthy business and operational parameters.

The Provision Coverage Ratio as per the RBI guidelines stood at 78.45% per cent as against 29.94% as on March 31, 2018. The Bank has made

a prudential write off of Rs. 89 crore during the current financial year. During the year under review, the bank's Profit Before Tax (PBT) grew by 190.09% to Rs.127.18 crore. After providing for Tax of Rs. 36.90 crore, the Net Profit increased by 234.53% to Rs.90.28 crore from Rs.26.99 crore. Return on Average Asset was 1.52% while the Earnings Per Share was Rs. 2.37 up from Rs. 0.89 on a dilutive basis.

Also during the year, the bank opened 122 new banking outlets and 53 ATMs. As on March 31, 2019, the bank's Total Balance Sheet stood at Rs.7057.49 crore, with a year on year increase of 49.39%. The liability franchise focused approach has yielded healthy results in the Y-o-Y growth of retail deposits by 110%. The growth in Advances was 21.67%. CASA increased by 131.73% on a Y-O-Y basis and stood at 13.56% of total deposits as at the year end. The bank was permitted to accept Rupee deposits from Non-Residents, which was well appreciated by our customers and the NRE deposits constituted 10.48% at the year end.

The Bank has successfully raised Equity Capital of Rs. 464 crore during the Financial Year ended March 31, 2019 thereby catalyzed in improving the CRAR to a healthy level of 27.59%.

Particulars	Rs. in Crores
Profit	90.28 (YOY 235%)
Net Interest Income	573.36 (YOY 103%)
Non-Interest Income	109.15 (YOY 7%)
Operating Expenses	454 (YOY 48%)
Provisions and Contingencies	138.83 (YOY 174%)
Reserves and Surpluses	465.89 (YOY 1384%)
Assets	7057.48 (YOY 49%)
CRAR	27.59%

## Segment-wise Updates

To achieve the growth and build a sustainable bank, ESAF SFB has created the following Strategic Business Units (SBUs):

- Retail Liabilities and Third party products
- Micro Banking
- Retail Assets

### Retail Liabilities

#### Business Position

The total Retail deposit portfolio of your Bank, as on 31<sup>st</sup> March, 2019, at the end of the second year of operation, stood at Rs.3986 Cr, registering a year-on-year growth of 153% over the previous year from Rs 2410 cr. The total liabilities book has grown from Rs.2523 Cr in FY18 to Rs.4317 Cr in FY19, registering a growth of 71%.

The CASA portfolio stood at Rs.585 Cr, which was 13.56% of the total deposit. Total CASA increased from Rs.252 Cr to Rs.585 Cr registering a YoY growth of 132%. The Bank seeks to increase the contribution of CASA book to total liability book by 20 % over the next two years.

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 25,03,472 in March 2018 to 32,75,881 in March 2019, registering a 31% growth.

During the year, our Bank has been granted the license to undertake NRI business by the Reserve Bank of India in 100 branches and the

operations were commenced on 29<sup>th</sup> June, 2018. Within a limited period of 9 months, we could garner Non Resident business of Rs.453 cr by onboarding 3,414 customers. NRI segment has been identified as an area for fuelling the deposit growth in the coming years.

Trusts/Associations/Societies/Clubs (TASC) has been identified as another driver for the deposit growth in the coming years. With ESAF Bank being included in the 2<sup>nd</sup> Schedule of the RBI Act, 1934, we expect this segment to develop sooner than later.

### Branch Network

As on March 31, 2019, your bank operates in 14 States and one Union Territory. While expanding the branch network, the major considerations we tend to address include business potential of the location with special focus on increasing the liability franchise, leveraging micro banking presence and network, adhering to regulatory guidelines in increasing branches in unbanked rural locations etc.

We focus on building a bank with national presence by expanding our footprints to states other than Kerala and Tamil Nadu. We also take special attention in converting grandfathered USBs into full-fledged banking outlets in order to fulfil the licensing conditions stipulated by the RBI.

As on 31<sup>st</sup> March, 2019, the Bank has commenced operations in 226 branches, spread across 14 states in India. Among this, 37 branches were converted from the existing Ultra Small Branches and 85 were newly launched branches. Among the 226 branches, 57 branches are located in Unbanked Rural Centers, in line with the mandate given by the Regulator. Out of the total 309 legacy ultra small branches, 74 of them were merged with existing branches in addition to 37 fully converted branches. Plans are afoot to convert the balance 198 branches into full-fledged branches, before March 2020. By the end of the current financial year, the targeted total number of branches is 500, with presence in 22 states and one UT.

### Cross selling/Third party products

ESAF Bank offers a bouquet of products to its customers and some of them are meticulously conceived and indigenously built by our team, keeping client convenience and innovation in mind, and a few other products are offered straight from our partners' garage. Through this approach we support customers by offering the entire gamut of financial products ranging from Banking, Insurance, and Pension Streams.

Cross selling greatly reduces cost of distribution and repeat customers can enjoy the benefits. The Bank has embarked on a tie-up with Bajaj Life Allianz Insurance Company Ltd and PNB Metlife Life Insurance Company for distribution of Life Insurance products. The customer chooses the product of his choice with the bank happily assisting the process.

For offering protection in non-life assets of the customer, the bank has entered into a partnership with companies like ICICI Lombard and IFFCO Tokio General Insurance. The recent massive floods in Kerala paved way for building a more resilient community. Partnering with our General Insurance partners, the Bank has tailor-made two General Insurance variants to cover all the risks associated with dwelling and financial position of the customers for a nominal premium.

The branch network licensed as per IRDA norms caters to the customer base in cross-selling Banc assurance products. Also the Bank has embarked on propensity modelling through Digital analytics tools, which helps in identifying and catering right products to the right customers at the right time.

When it comes to financial planning, often planning with a long term

perspective takes a back seat. Our bank who's catering to the unserved and underserved communities has been a front-runner in taking forward Government initiatives like Atal Pension Yojana, providing pension schemes to the unorganised sector. Also, we are proud to say that our bank was the only Small Finance Bank to get selected for the Leadership Award by the Joint Secretary, Department of Financial Services, Govt. of India.

### Micro-banking

Microfinance, also called microcredit, is a type of banking service that is provided to underprivileged or low-income individuals or groups who otherwise would have no other access to financial services. Micro banking is broadly aimed at bridging the gap between the haves and the have-nots and making the poor financially independent.

ESAF is an established name in Microfinance and the Organization has successfully expanded the Micro Enterprise Development program across the country ever since it was launched in 1995. The Micro-Banking SBU of ESAF Small Finance Bank is also aimed at empowering the economically active people from lower income strata. Loans are given to individual clients, to set up or expand their own micro / small

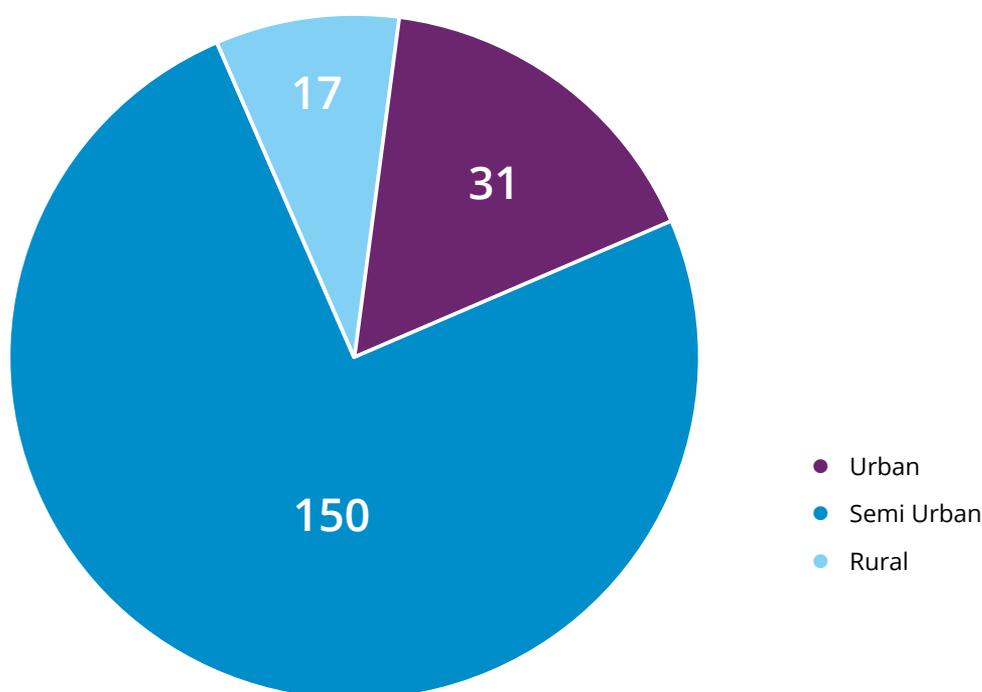
businesses or meet any other household needs aimed at improving the quality of life. Each client of the group agrees to provide joint guarantee for the repayments of all other group clients in accordance with the Joint Liability Group principles (JLG).

Micro-Banking provides a broad package of financial inclusion products and business development services to the socially and economically challenged. In Micro-Banking all banking services are provided right at the customers' doorstep through group-based models. ESAF gives priority to women when it comes to Micro-banking activities and had over 2.1million women enjoying the benefits of our services currently. ESAF recently launched mobility banking in order to serve our customers faster & better. ESAF also provides all customers access to PM Jan Dhan account with Debit cum ATM card, under the Micro-Banking scheme.

### Micro-banking business

As on 31<sup>st</sup> March 2019, the total micro banking outlets of the bank stood at 198. Out of the 198 micro-banking outlets 31 outlets are located in urban areas, 150 outlets are located in semi-urban areas and 17 outlets are located in rural areas.

Geographical spread of Micro-Banking outlets



As on 31<sup>st</sup> March 2019 the total customer base of the bank stood at 32,75,881 Nos. As on March 31, 2019 the total Savings Bank Deposit Accounts of the bank was totalled at 30,87,454 Nos.

As at the end of the financial year 2018-19, the Bank has 21,11,568 Micro-banking borrowers, out of which 6,31,998 borrowers are fresh borrowers. Out of the total loan amount of Rs 5,505 cr disbursed during the financial year 2018-19, Rs 5277.97 cr were disbursed to Micro-banking customers. Major activities financed were Agriculture, Small Trading, Animal Husbandry and Micro Manufacturing. As at the end of the financial year 2017-18, the bank has Micro-banking loan outstanding of Rs. 4803.04 Crs (AUM).

Under financial inclusion programs, the bank has conducted 670

different programs at various centres, during the financial year 2018-19, and 1,20,554 customers were benefited from the same.

Towards the end of the FY 2018-19, the bank has appointed two Business Correspondents (BC) in order to extend banking services to the underserved. Currently, the bank has six BC partners for outsourcing microfinance activities - ESAF Swasraya Multi State Agro Co-operative Society (Trichur, Kerala), People Action for Transformation Ltd., (Trichy, Tamil Nadu), Varam Capital Ltd., (Chennai, Tamil Nadu), Grameen Development & Finance Pvt. Ltd., (Kamrup, Assam), Sambandh Finserv Pvt Ltd., (Bhubaneshwar, Odisha) and Lahanti Last Mile Services Pvt. Ltd., (Trichur, Kerala).

Sl.No	Particular	Plan 18-19	Achievement as on 31 <sup>st</sup> March 19
1	Total No. of Customers of the Bank (Total No. of Deposit Accounts)	35,00,000	32,75,881
2	No. of Basic Savings Bank Deposit Account opened during the year	13,00,000	6,44,069
3	No. of Basic Savings Bank Deposit Account as at the end of the year	35,00,000	29,44,437
4	No. of Micro-Banking Borrowers	30,00,000	21,11,568
5	No. of Fresh Borrowers brought to the fold as at the end of the year	13,00,000	6,56,448
6	No. of Business Correspondents appointed during the Year	5	2
7	Total No. of Business Correspondents at the end of the Year	9	6
8	No. of Micro Banking Clients	30,00,000	28,84,173
9	Total disbursement during the year	Rs. 9,000 Cr	Rs. 5505 Cr
10	Value of Micro- Banking Loans – Outstanding	Rs. 7,000 Cr	Rs. 4803.04 Cr
11	Major Activities financed	Agriculture, Small Trading, Animal Husbandry, Micro Manufacturing	

## Retail Assets

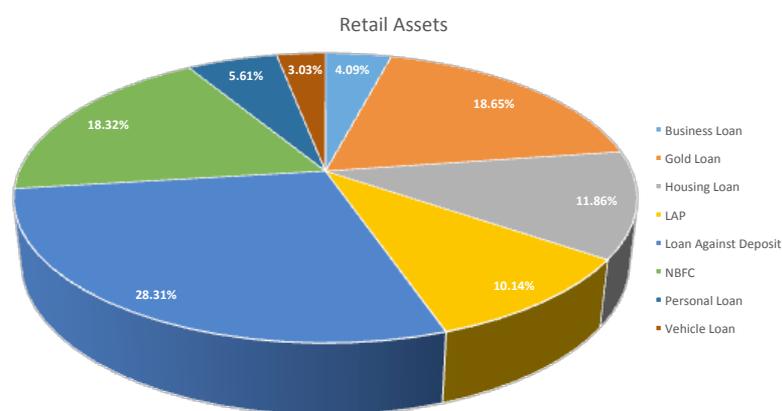
The total asset portfolio excluding micro-banking business of your bank is Rs.169.29 crores as on 31<sup>st</sup> March 2019. The bank has made conscious efforts to design products that suit the needs of its target customers as well as the core business philosophy. Accordingly, the focus of your bank has been across the following asset portfolio:

- 1. Auto Loans:** This includes - Two wheeler loans, Three Wheeler Loans and Light commercial Vehicle Loans.
- 2. Gold Loans:** Gold Loan has been a safe secured asset product and has the lowest NPA amongst the Bank's Asset Vertical/ Product.
- 3. Housing Loan and Loan against Property:**
- 4. Clean Energy Loans:** Clean energy loans are unique offerings from your bank and are a result of your bank's focus on its triple bottom line.

In the last FY, the total advances made by your bank have grown by 121.06 crores, registering a growth of 251%.

The distribution of Retail Asset portfolio as on 31<sup>st</sup> March 2019 is shown below:

## Retail Asset Outstanding Portfolio Distribution



## Innovations/Service Delivery Channels

1. ESAF SFB becomes the first Small finance bank to induct a humanoid into customer service to meet and greet the customer. She can lead the customer to the required counter and help them to know about their account details. Customers also feel engaged when the 33 year old start conversing with her own topics of interests. She can provide details on various products and services. One of the often-requested details is the list of documents required for opening the account.
2. Robotics in customer service is one of the reeds in weaving the fabric of digitalization. It helps in successful on-boarding of customers for various types of liability accounts, lead generation from the customers and prospects etc. It also saves time for branch resources and enable them to execute doorstep banking services effectively.
3. The disbursement of loans has been centralized and carried out on a digitalized environment, which entails transparency, availability of electronic logs and speedy fulfillment of services, resulting in delivering the joy of banking. Collection of dues and receivables through tablets and micro ATMs ensures time stamp of transactions and accuracy resulting in lesser grievances and complaints.
4. Various third-party products like APY, NPS etc., are offered along with normal banking services using appropriate technology. The Bank keeps futuristic trends in mind to offer end-to-end digitalization of various products and processes.
5. Your Bank has launched platinum variants of Rupay International Debit card to the Current and Savings customers of the bank. The Debit card comes with enhanced insurance coverage and access to Airport lounges. Plans are on the anvil to introduce prepaid cards. Another farmer-centric card named 'krishak bandhu card' was launched to enable famers to access funds in their own savings account.
6. Retail Internet Banking, Corporate Internet Banking and Mobile Banking are some of the digital channels being offered by the Bank. These channels allow customers to access services at their own convenience. Immediate mobile payment service platform allows the customers round-the-year (24x7) fund transfer service, using both internet and mobile banking applications.
7. Bharat bill payment services and Unified payment services are the payment platforms being offered at present.
8. We have developed partnerships for setting up both Brown label and White label ATMs, which help the customers to access their accounts with ease 24 x 7. Other bank customers can also access our ATMs through National Financial Switch.
9. Legacy of SFBs is built around their effectiveness in delivering last mile connectivity. Our bank is no exception and we have introduced micro ATMs to facilitate Business Correspondents in effectively executing door step delivery services. Domestic money transfer service, card-based transactions etc., are also offered as part of the BC channel.
10. Your Bank proposes to cover all the remotest location where banking services are still a distant dream. Brand recall, retention of customers, ease of doing business, extending the horizon of banking population etc., are the key motives behind Agency banking.

## Treasury

In the last Financial Year, Indian Financial market witnessed several challenges such as liquidity crisis in NBFC Segment, global trade tensions and higher international crude prices. Despite the headwinds, the domestic equity benchmark indices outperformed major global peers during the FY 2018-19. The S&P BSE Sensex and NSE Nifty 50 rose 17% and 15% respectively during the FY 2018-19. The buoyancy in the stock markets is attributed to robust retail inflows into equity markets and better long-term economic outlook on Indian Economy.

The real Gross Domestic Product (GDP) is pegged at 7.00% in 2018-19, which was revised down from 7.20% estimated in the Second Advanced Estimate (SAE) of CSO. The downward spiral was mainly the result of a stronger than anticipated drag in net exports and sharp acceleration in the import bill, on the back of a surge in international crude prices in Q2 and slowdown in government consumption as revenue expenditure growth of the Central Government came down in Q3. Looking ahead, favourable factors such as increase in financial flows to the commercial sector, stabilisation in crude oil and commodity prices, consumption, investments enhancing proposals made in the Union Budget 2019-20 and the forecast for normal monsoon are expected to boost economic activity. Taking into account the baseline assumptions, survey indicators, cut in Repo Rate in February 2019 RBI Monetary Policy and model forecasts, the real GDP growth is projected to improve from 7.00% in 2018-19 to 7.20% in 2019-20. The headline inflation has declined sharply since mid-2018, driven mainly by fall in food prices and fuel inflation. The fall in crude prices reached a low of USD 52 per barrel in December 2018 and rebounded in recent months. Overall CPI inflation fell from 3.70% in August – September 2018 to 2.60% in February 2019. During the Financial Year, Reserve Bank of India increased the repo rates in its June 2018 (increased by 25 Basis Points to 6.25%) and August 2018 (increased by 25 Basis Points to 6.50%) policy. However, on inflation remaining benign and due to slowing down of economic growth the RBI in its February 2019 policy reduced the repo rate by 25 Basis Points to 6.25%. The policy stance of “calibrated tightening” was also changed to “neutral” by the Central Bank in its Monetary Policy Committee Meeting on 7<sup>th</sup> February 2019.

Your 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). A significant portion of the Bank's Government Securities is held in HTM category (Held to Maturity), while some are held in Available for Sale (AFS) and Held for Trading (HFT) Categories.

Bank's gross investment portfolio as on March 31, 2019 was at Rs.1530.75 Crs as compared to Rs.731.86 Crs on March 31, 2018. The investment deposit ratio as on March 31, 2019 was at 35.46%. as compared to 29.01% on March 31, 2018. The increase in gross investments is mainly attributed to increase in Non SLR instruments like Certificate of Deposits for short term liquidity deployment. The interest income on gross investments for the financial year ending March 31, 2019 was at Rs.96.78 Crs.

The Bank was granted Forex Authorised Dealer Category II licence by the Reserve Bank of India as on April 17, 2017, for undertaking forex business. 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.

## Information Technology

With respect to IT and Infra, we had a stable third year of operations, especially after the truncated 1<sup>st</sup> year and a full 2<sup>nd</sup> year. Primary focus was given to the areas of security, scalability and availability to provide uninterrupted services to both internal and external customers.

In the FY 2018-19, we have been able to add multiple products and services to the existing application stack, and we have also released new versions of IB (Internet Banking) and MB (Mobile Banking) by adding new features and facilities that ensure smooth and easy navigation experience to the customers. The highly acclaimed new mobile app (CASA on Tab) of the bank has online integration with UIDAI and NSDL to onboard retail customers, with a turnaround time of just 8 minutes.

Also, we have onboarded four external Business Correspondents to the bank to facilitate inorganic growth of the microfinance division. The first one was onboarded through a middleware and the latest three were using our own applications. We have also extended Micro-banking operations in Retail branches to boost the growth of this portfolio.

Our digital channels were supplemented by the launch of two new applications - one for Corporate Banking customers- CIB(Corporate Internet Banking) and another for the retail customers- UPI(Unified Payment Interface). Our CIB is feature rich and is highly secured & scalable, which caters to the end-to-end needs of our corporate customers. Also, our UPI application is now getting popular among the retail customers.

We have also introduced a Platinum Card - a premium debit card that provides multiple benefits and features to our esteemed customers.

In short, IT strategy of the bank is to complement the Bank's business strategy. Our current state-of -the-art IT setup is thus capable of accommodating any products and services envisaged in the Business strategy of the bank.

Your Bank has adopted the following systems and processes to ensure efficiency in operations as well as effective risk management and regulatory compliance aspects:

### Systems/processes adopted by the bank

- Backup & Archival Processes
- Capacity Management Processes
- Change Management Processes
- Exception Handling Processes
- Asset & Information Classification Processes
- IT Outsourcing Processes
- IT Service Continuity Processes
- Migration Processes
- Software Development Processes
- Third Party Vendor Management Processes
- User Access Management Processes
- Website Usage Processes

### Safety of accounts/customer data

- Password Policy
- Access Control Policy
- Information Handling Policy
- User and Customer Awareness Policy

### Security measures

- Network Security Policy
- Patch Management Policy
- Anti-Virus Policy
- Operating System Security Policy
- Database Security Policy

- Firewall Security Policy
- Wireless Security Policy
- Cloud Security Policy
- E-Mail Security Policy
- Security Incident Management
- e-Channel Security
- Application Security Policy
- Cryptography and Key Management Policy
- Protection of Critical Information Infrastructure Policy
- Cyber Security Management Policy

## Risk Management and Portfolio Quality

### Credit Risk

Credit Risk is defined as the possibility of losses occurring due to default by the borrowers and/or reduction in the value of the portfolio due to deterioration of quality of borrowers or counterparties. In other words, Credit risk is defined as the risk of loss resulting from the failure of the Bank's borrowers & other counterparties to fulfil their contractual obligations and the lack of security to cover the dues of the borrowers. Credit risk could stem from transactions happened both on- and off-balance sheet.

Credit Risk Management is the direct responsibility of the Credit Risk Management Committee (CRMC). The CRMC manages implementation of credit risk management framework across the Bank and provides recommendations to the RMCB and the Board. It ensures implementation of credit risk policy and procedures, as approved by 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 the loan portfolio at periodic intervals, identifies problem areas and directs business units to rectify the deficiencies.

The Credit Risk Division of 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 the credit risk parameters and credit exposure / concentration limits are set by the Bank's Board of Directors and the 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 and submits its analysis and reports to the RMCB and the Board of Directors on an on-going basis. The Division captures early warning signals in the loan portfolio for identification of weak exposures, suggests remedial measures and monitors the actions taken.

### Management of Credit Risk

- Through a risk control framework, which outlines clear and consistent policies, principles and guidance for risk managers, the Bank attempts to mitigate this risk by diversifying the credit portfolio and managing concentrations.
- The Bank has put in place Board approved comprehensive Credit Risk Management Policy. The policy aims to provide basic framework for implementation of sound credit risk management system in the Bank. It spells out various areas of credit risk, goals to be achieved, current practices and future strategies. The Bank has also approved a comprehensive Loan Policy and NPA Management Policy approved by the Board of Directors.

## Market Risk

Market risk is the risk of fluctuation in the Bank's income and/or valuation of financial instruments because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices and commodity prices.

### Management of Market Risk

- Market risk is monitored through various risk limits set vide Board approved Market Risk Management Policy. Market Risk & Asset Liability Management Policy and Investment Policy are in place for the conduct of business exposed to Market Risk and also for effective management of Market Risk exposures. The policies and practices also take care of monitoring and controlling of liquidity risk arising out of banking and trading book operations.
- Asset Liability Management Committee (ALCO), is primarily responsible for Market Risk Management and Asset Liability Management in the Bank. The Bank computes LCR (Liquidity Coverage Ratio) periodically. Stress testing and sensitivity analysis are conducted periodically to assess the impact of various contingencies.

## Liquidity Risk

Liquidity risk primarily arises due to the maturity mismatch associated with Assets and Liabilities of the Bank. The cost of such liquidity risk would be in terms of either raising fresh liabilities at higher cost or liquidating its assets at a higher discount rate. This type of risk results in the Bank's failure to meet regulatory liquidity requirements and its inability to support normal banking activities.

### Management of Liquidity Risk

- Liquidity risk of the Bank is assessed through Statements of Structural Liquidity. Structural liquidity position is assessed periodically. Additional prudential limits on liquidity risk fixed as per ALM policy and Liquidity Risk Management policy of the Bank are monitored by ALCO.
- Bank computes LCR (Liquidity Coverage Ratio) periodically. Stress testing and sensitivity analysis etc. are conducted periodically to assess the impact of various contingencies. Liquidity Risk Management Policy and ALM Policy of the Bank, approved by the Board, form the basis of liquidity risk management in the Bank.
- Funding is diversified and raised through both retail and wholesale operations. Bank's Treasury Department ensures access to diverse sources of funding ranging from deposits from retail customers to long-term funding from debt securities and subordinated liabilities.

## Operational Risk

Operational risk is defined by the Basel Committee on Banking Supervision as "the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Bank is exposed to operational risk in all its activities. The Bank evaluates operational risk from multiple dimensions and implements mitigation plans on a regular basis.

### Management of Operational Risk

- Identifying and assessing risks, implementing controls to manage them and monitoring the effectiveness of these controls using the operational risk management framework.
- 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.

- A comprehensive bank-wide Business Continuity Plan is put in place to ensure continuity of critical operations in case of disasters. Information and cyber security frameworks are established for securing the IT infrastructure and systems of the Bank.
- The Bank has put in place a detailed framework for Operational Risk Management with a Board approved ORM Policy. Operational Risk Management Committee (ORMC) at the executive level oversees bank-wide implementation of Board approved policies and processes.

## IT Risk

Information Security and cyber security risks are emerging as major operational risks for banks. Information and cyber security risks may arise from the failure to respond to security and privacy requirements, human error, internal fraud through software manipulation, external fraud by intruders, obsolescence in applications and machines, reliability issues (including software malfunctions) or mismanagement.

### Management of IT Risk

The information security and cyber security policies of the Bank are approved and periodically reviewed by the Board of Directors. The IT Strategic Committee of the Board oversees its implementation. The Information Security Governance Committee (ISGC), headed by the MD & CEO and comprising of members of the Senior Management, is responsible at the management level for the implementation of information security and cyber security. The Chief Information Security Officer (CISO) is responsible for articulating and enforcing the policies that the Bank uses to protect its information assets apart from coordinating the information security related issues / implementation within the organization as well as relevant external agencies. Information Security Division is attached to the Risk Management Department and the CISO reports to the Chief Risk Officer. The Information Technology Department is primarily responsible for identification, measurement, control, and monitoring of technology to avoid risks that threaten the safety and soundness of the systems and technology of the Bank.

## Other relevant risks

### Strategic Risk

Strategic Risk can be defined as the risk associated with a bank's business model and strategic positioning. Strategic risk or business risk means the current and prospective risk to earnings and viability arising from:

- Adverse changes in the business environment with respect to the economy, political landscape, regulations, technology and actions of competitors.
- Adverse business decisions
- Improper implementation of decisions or
- Lack of responsiveness to changes in the business environment.

### Management of Strategic Risk

The Bank has put in place a Board approved Strategic Risk Management Policy, which governs the approach and practices of the Bank in Strategic Risk Management.

To minimize Strategic Risk, the Bank tracks and ensures successful execution of its major initiatives. Strategic plans have been developed to support the execution. Annual budgets are prepared based on expected business volume and operating environment.

## Reputational Risk

Reputation can be interpreted as perception on management and financial stability of an institution by its major stakeholders, which include customers, counterparties, shareholders, investors / regulators and public at large. Reputational Risk is defined as the prospective loss in the value of Bank's business with regard to its Earnings, Capital, Image and Trust. This Risk may result in financial loss, costly litigation and decline in customer base.

### Management of Reputational Risk

The Bank has put in place a Board approved Reputational Risk Management Policy, which governs the Bank's approach and practices in managing reputational risks of sufficient nature.

## Compliance Risk

Compliance risk means exposure to legal penalties, financial forfeiture and material loss the Bank faces when it fails to act in accordance with laws and regulations, internal policies or prescribed best practices, related self-regulatory organizational standards and codes of conduct and ethics applicable to its banking activities.

### Management of Compliance Risk

Regulatory compliance is closely monitored by the Compliance Department headed by the Chief Compliance Officer under the oversight of the Audit Committee of the Board. The Bank has zero tolerance policy for Regulatory and Compliance risk.

## People/ Human Resources Risk

People/ Human Resources Risk is the risk that the Bank may experience on account of losses due to drain or loss of personnel, deterioration of morale, inadequate development of human resources, inappropriate working schedule, inappropriate working and safety environment, inequality or inequity in human resource management or discriminatory conduct. Soundness of compensation practices is a sub category of Human resources risk.

### Management of People / Human Resources Risk

Recruitment process is streamlined to ensure that only the best talents enter the system. The screening process includes aptitude test, group discussion and personal interview. Background checks are done through professional agencies before/ along with the induction process. Bank recruits people through various methods like conducting general recruitment drives, recruiting through campus placements, job portals etc. Bank also recruits specialists through lateral channels. Required trainings are imparted to all the staff members that would help them perform their duties effectively. The attrition rate in the Bank is below the Industry standards for private banks.

## Group Risk

Group risk means exposure to Risk associated with group entities of the Bank. Risk associated with the parties related to the Bank can also have impact on the stability, progress and existence of the Bank. The group entities of the Bank are the main related parties as far as a banking entity is concerned.

### Management of Group Risk

Group Risk Management Policy is approved by the Board of Directors of the Bank. This policy sets out the principles and standards for risk management at the group level, and outlines the approach on monitoring and management of intra-group transactions and exposures.

It also contains quantitative limits on financial Intra Group Transactions and Exposures (as per RBI specified norms) and prudential measures for the non-financial intra group transactions and exposures to ensure that the Bank engages in intra group transactions and exposures in a safe and sound manner in order to contain concentration and contagion risks arising out of intra group transactions and exposures. These measures are aimed at ensuring that the Bank, at all times, maintains arm's length relationship in dealing with the group entities, meet minimum requirements with respect to group risk management and group-wide oversight, and adhere to prudential limits on intra-group exposures. The policy also aims at ensuring that the identified risks are properly reported, both internally and externally.

## Impact on People

This section covers the impact the Bank has made on People. The term 'people' from the bank's perspective covers Customers and Staff and public at large.

### Customer Service

Delivering joy through service is the leitmotif at ESAF. By promptly solving customer concerns and by constantly improving on the delivery aspects, we are always at the forefront to meet customer needs or concerns.

#### The pillars of Customer Service at ESAF:

- **Promptness:** The promise of delivering products must be met on time. Delay in the services and iterative visits of the customer for resolving the same issue / request should be avoided.
- **Politeness:** Whether a prospect turns into a customer or not, we make it a point to say 'hello,' 'good afternoon,' 'sorry,' and 'thank you very much'. Politeness is almost a lost art and using good manners is appropriate for any business.
- **Professionalism:** All customers will be treated professionally, which means the employee/ representative from ESAF is expected to show 'we care for you attitude' towards the customers.
- **Personalization:** Addressing the customer by name can help in establishing personal relationship and developing customer loyalty.

As per the RBI Directives and Banking Code of Ethics, a well-conceived structure has been put in place to address all issues related to deficiency in customer service, disruption of service infrastructure, non-adherence to the prescribed turnaround time, non-adherence of the policies etc.

### Customer Grievance Redressal Framework:

We have a well-established Customer Grievance Redressal mechanism, wherein we receive customer complaints through channels like Banking outlets, Emails, Contact Centres and Written Letters. Apart from that, the Complaint / Feedback Boxes / Registers have been placed at the branches and are available for the customers who would like to specifically note down their Complaints / Feedbacks. The Customer Care functions of the Bank are coordinated by the Head-Customer Service Quality. Also, the employees in the branches are trained and equipped to handle customer queries/ complaints. Branches submit a quarterly report on the maintenance of complaint register and complaint box to the Customer Service Quality Department at the Corporate Office.

We have a 24x7 dedicated Contact Centre that immediately attends queries of the customers. All the calls are recorded and monitored to ensure that Quality Service is delivered to the customers. Constant trainings are provided to the team who handle the queries and complaints efficiently. Also, the Customer Service Quality Department

has a dedicated team at the Central Office to check and reply to all the emails received at [customercare@esafbank.com](mailto:customercare@esafbank.com). All the contact details of customer service are displayed in our website and in the notice boards at the branches for the customers to take note of. The CSQ department reviews the TAT and quality of the grievance redressal happening through various channels and provides necessary support and guidance for faster resolution of complaints.

We have constituted a well-defined Escalation matrix, which facilitates the timely closure of all complaints by escalating it to the next level, for redressing the complaints within specified timelines. For coordinating the activities between the Banking Outlets, Head Office and Regulators, a Principal Nodal officer has been appointed. For any issues not resolved within the business hierarchy is escalated to the Principal Nodal Officer for immediate attention. The contact details of Ombudsman are also displayed in the notice boards and bank website for the customers to contact, if the issue is not resolved within 30 days. Priority will be given to all representations received through ombudsman, to resolve the same immediately.

**At present, the Bank has a three tier customer grievance redressal mechanism in line with the instructions from the RBI.**

1. The Branch Level Customer Service Committee meets once in every month at all branches to encourage a formal channel of communication between the customers and the bank. The report on the same will be sent to the Head Office. The Customer Service Committee meets every fourth Thursday of the month to study complaints/ suggestions, delay in resolution, challenges reported by customers /members of the Committee and try to evolve ways and means to improve customer service. Within three days of the meeting, a detailed report will be sent to the Head Office from the banking outlets, for review and corrective actions.

2. A Standing Committee has been constituted at the Head Office for Customer Service. The members of the Committee are MD&CEO, Two EVPs and other relevant Department Heads along with a customer representative. The committee meets once in every two months to review the quality of redressal mechanism implemented across various channels. Comprehensive review of all the complaints redressed within the turnaround time of 30 days is being done by the committee.

3. The Board Level Committee for Customer Service meets once in every quarter to assess and review the overall implementation of customer service policies and initiatives. The committee reviews the reports to understand the performance of the standing committee, gaps in implementation of code of conduct towards customers, changes required in products / services / procedures to improve customer service, instances of miss-selling of products, position of complaints against the Bank with Banking Ombudsman & Consumer Courts etc. The Committee examines the issues that have a bearing on the quality of customer service and also issues necessary directions to bring about on-going improvements in the quality of customer service provided by the Bank from time to time.

**Customer Service Excellence Award:**

‘Customer Service Excellence Award’ for the branches is the latest initiative launched by the customer service department to constantly improve on the standards of customer service at the retail level. The award intends to recognise branches that are taking the extra effort to deliver excellent and laudable customer service. The parameters framed to rate the branches are efficient handling of customer requests,

proper conduct of monthly Customer Service Committee meetings, expertise in account opening, promptness in responding to customer service initiatives, promotion of the usage of alternate channels by the customers, prevention of frauds, etc. The scores are rated on a monthly basis, so that branches would be aware of their areas of improvement and would work upon them.

The Customer Service Quality team is strongly committed to fulfilling ESAF Bank’s vision of countering the inequality in our society. We wish to deliver banking services that echo values of integrity, trust and responsibility while combining them with cutting edge technology.

**Human Resources**

ESAF Small Finance Bank (ESAF SFB) considers Human Capital as the most important asset to be taken care of, for the success of the Organisation. The Bank believes that a contented and happy workforce who experiences the joy of working with ESAF SFB only can deliver the joy of banking to the customers. With this maxim, underlying the broad HR strategy, the Bank has formulated and established a series of employee- benefit schemes, which help in sourcing competent people and retaining best talents among them.

The HR policy and related guidelines are framed with an objective of developing a competent human capital, which can take the Bank to the next level. People having different educational backgrounds and from across the nation are sourced, cutting the barriers of culture and religion to suit the requirements of the bank in different geographies.

Management Trainees and Executive Trainees are selected well in advance from academic institutes of repute. They can undergo fast track career progression and we groom them as future leaders. Apart from the above two categories, fresh candidates are also selected as trainees and are given intensive training before they get deployed at different branches. A separate development program is also in place for their fast career progress.

The employee benefit schemes are on par with industry standards. The highlights of the employee benefit schemes are the following:

- All statutory benefits
- Bonus /ex-gratia to all
- Annual increment to all regular employees
- Annual performance pay for all based on the annual performance score (PM Score)
- Group Medical Insurance
- Group Term Life Insurance
- Group Personal Accident and Permanent Disability Benefit
- Monthly business incentive to all employees based on new business

In order to have a seamless functioning of the HR Department, HRMS software, has been implemented. In the beginning of each financial year, role-wise KRAs (Key Responsibility Area) are defined and distributed to employees to assess the performance during the year. Performance Management System is thus connected to the predefined KRA to make the system objective.

Performance score is the basis for increments, performance pay, internal promotions and fixing higher responsibilities. The KRAs are compiled in conformity with the Corporate Pillars, “People, Planet and Prosperity” and are based on the processes involved in the business of banking. This model of Performance Management System perfectly syncs with the Vision and Mission of the Organisation.

**Employee Data as on 31.03.2019**

Total No. of Employees	2168
Total No. of women employees	708

## Mentoring Policy:

The Bank has established a Mentoring programme for the Branches. A defined number of Branches are entrusted to Mentors, who are senior officials at the HO. They visit the branches allotted to them and gather information about the business, official requirements and potential for growth of the Bank in the area. Apart from motivating the branch staff, the mentors allow them to air their grievances also, which need to be taken up with the HO for an early resolution.

## Internal Promotions:

Internal promotions are conducted every year based on a well-defined process, published in advance to make the process fully transparent. Regular internal promotion gives an opportunity to the employees to come up in the ladder with more knowledge and competency. The employees thus promoted are given special training on leadership and team-building.

## Learning & Development Initiatives

The Bank has recognised the importance of continuous learning and with this in focus a comprehensive Learning and Development Policy has been approved and established. Each employee onboarded in the Bank has to mandatorily undergo minimum two weeks training, which includes on-the-job training in Micro-banking in small branches and also in big regular branches. After on the job training at branches, they are given one week's residential Induction training and also another one week's training on CBS software.

Theme/topic based trainings are conducted in different parts of the country to suit the convenience of the employees from various branches. A culture of self-learning for employees has been facilitated by establishing an online learning portal, ESAF SFB Online Academy. In the internal promotions, adequate weightage is given for the self-learning scores registered by the employees in quiz competition.

Cash incentives are provided for those who clear the approved certification courses of Indian Institute of Banking and Finance (IIBF). Also weightage is given when internal promotions are due. The bank has tie-ups with coaching Institutes in multiple locations, for courses of IIBF at concessional fees for employees.

Employees can also avail professional development loan for doing courses of IIBF. For trainings of senior officials the bank has Membership of National Institute of Bank Management, Pune.

We also regularly nominate senior staff to attend programmes arranged by CAFRAL, BIRD, CAB and other apex training Institutions in India.

## Staff Welfare Trust:

All the employees are members of the Staff Welfare Trust and the Trust always give a helping hand to the employees in distress or in need.

**Sports meet and Cultural events-** The Bank believes employee engagement is very crucial for keeping the morale of the employees high and with this in mind, the Bank organises All India sports meet, cultural events, and celebrations for all occasions, with family members. This creates a sense of oneness and belongingness among the employees.

## Impact on Planet

### Joy to the Earth - ESAF SFB Environmental Policy & Stewardship Promotion

The Environmental Policy adopted by ESAF SFB affirms the group's commitment to a positive environmental impact and its focus on mitigating risks involved in climate change. ESAF SFB is therefore

committed to improving the environment and lowering the carbon emission by developing and offering Banking products that would contribute to Sustainable Development. This would substantially help the clients of ESAF SFB as well as the community at large to prevent the ill effects of environmental degradation, climate change, poverty, social exclusion and marginalisation.

We have facilitated partnerships with electric mobility – E Autos and E-Bikes for clean energy conscious personal and public transport in the banking domain

## ESAF SFB ENVIRONMENTAL POLICY

ESAF SMALL FINANCE BANK is committed to:

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

### Environmental Stewardship Promotion

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

- Defining and promoting ESG goals- Environmental and Social Governance Goals.
- Developing environmental stewardship centred work culture in SFB operations (Environmental Policy awareness and implementation).
- Facilitating Banking products that will boost environmental stewardship.
- Networking with like-minded groups for larger impacts through synergy.
- Facilitating the Govt initiatives on Environmental stewardship.

### 1. Developing Agri Entrepreneurs through Haritha Loans

Through strategic partnership with Syngenta Foundation, ESAF SFB is developing agri entrepreneurs, who have access to agri technologies and inputs in rural areas. The first three Agri Entrepreneurs in this pattern is being developed at Wardha and Yavatmal in the Vidharbha region of Maharashtra through Haritha Loans.

### 2. Growing with Green Assets- Clean Energy Loans

The clean energy loans support our customers in purchasing Green products like Electric Auto rickshaws, Solar Panels etc., and will have a long term impact on environmental sustainability.

Building MSMEs in Renewable Energy, Agri, Food Processing, Eco-friendly Products etc., continues to be a key focus area.

Considering sensitivity towards the environment, a few lakhs of ESAF-customers have taken loans for smaller solar and green products, which would equip them to progress further. Founded firmly with green values, we would continue to make the bank a hub for those seeking financial services for green businesses.

### 3. Uddhan Loan for Disaster Mitigation

Several of our customers were severely affected by the devastating flood last year. Thousands landed up in relief camps as water gushed inside

their houses washing away whatever they had earned over a period. ESAF SFB together with its sister concerns acted swiftly by initiating rescue, relief and rehabilitation activities to restore lives. 95,802 Relief kits worth INR 8.75 crores were distributed in 747 locations. Repayment holiday too was provided till the time small business and daily wage workers were able to bring their business back to normalcy. ESAF SFB introduced Uddhan Loan (Disaster Mitigation Loan) to help undertake some emergency house repair work and to buy essential household

utilities that was damaged in the floods. In the end, Uddhan Loan totalling up to Rs 75.96 crores benefitted 85,971 affected customers.

**World Environment Day 2018:**

In order to build environment awareness, the World Environment Day 2018 was observed enthusiastically by our branches on 5th June 2018. "Beat the plastic pollution", was the theme of the year propounded by the United Nations.



*Environment week celebrations in progress at Kerala Varma College, Thrissur*

# IMPACT STORIES



## INTO THE DEEP SEA, BRAVING THE TIDES

In 2017, Rekha Karthikeyan (47) became the first licensed fisherwoman in the country, authorized to venture into the deep sea. Before winning the deep sea license from the Central Marine Fisheries Research Institute (CMFRI), she had to navigate troubled waters to make a decent living. At last, her perseverance and poise paid off and she became a role model for many to look up to. With her husband and four daughters, she now lives in a small house next to the sea at Engandiyoor village in Thrissur, Kerala.

From a young age, Rekha was familiar with the tussles and struggles of life. At the age of 18, she chose to live her life with a man hailing from the seashores of Chettuva. "Sealife was dreadful to me, as the village I hailed from didn't have any connection with the sea. It was only after moving here that I actually experienced sea water for the first time in my life", she said. "When I first went out to the deep sea I was not even able to stand or hold steady. For two to three weeks, every journey out into the sea was all about vomiting and sickness. Intolerable back pain and soreness were troubling me each and every day, as my body wasn't used to the turbulence of the sea", she continued.

"I am doing it for my girls" she replied on what kept her going. She is very much concerned about the education and future of her four daughters. Her humbleness was truly remarkable and she added that she was willing to work even harder for the sake of her children. Quite unlike many, Rekha believes in hard work and is well aware that there is no easy way to success.

She is very much indebted to ESAF and is thankful to the Organization. She still remembers the first loan of Rs 8000 she has taken 12 years back to buy her own fishing nets. Later, she had invested money in buying a new boat and also in replacing fishing nets, which were vulnerable to attacks from big fishes. So far she has received a cumulative loan amount of Rs 4 lakhs through different loan cycles.

Now Rekha earns between INR 1000 - 2000 / day, after meeting expenses on conveyance. "I thank Kadalamma (mother of the sea), for this honour and I thank ESAF for all the financial support extended over the years." she concluded.



## MAKING OF A BAKING STORY

The story of Smt. Sajitha Dilddar is an inspiring one for all women who wish to start their own business. She was an unassuming housewife five years ago at Edakkara, in Malappuram District Kerala. Her husband was a daily wage worker. He worked hard to earn a paltry income that was barely sufficient for a decent living.

Like many women in her neighborhood, Sajitha had to spend a good portion of her life within the confines of the kitchen walls. She wished to do something that could bring in additional income to her family and thus she learnt to make cookies and buns with the support of her friends who had oven at home.

She was looking for avenues of finance that would support her ambition to launch a small baking unit of her own. As soon as she came to know about collateral free loans from ESAF, she was quick to join a JLG in her village in 2007. She started the venture with her husband under the name 'Ooty Varkey'. Her cookies became a big hit as bakeries started preferring her cookies over others. Subsequent loans from ESAF helped her to expand her unit. Presently she employs 10 women and five of them are ESAF JLG members.

She intelligently used the loan amounts to purchase assets including a delivery van. Using the van she now delivers two full loads of cookies, bun and other savories, generating revenue of Rs 25000 per day. Ooty Varkey is now the most sought after cookies in her village and demand for the cookies comes even from distant places in the Middle East. No wonder, today she owns a bakery by the name 'Neelagiri'.

In 12 years of association with ESAF, she has earned a name as a successful businesswoman. The community around her testifies the same about Sajitha Ettha (elder sister). She is definitely an example for other aspirants to follow...



## WRITING HER SUCCESS STORY ON PAPER PLATES

Meenakshi Longjevar from Nagpur has been associated with ESAF for the last four years. She was not able to complete her formal education and hence was not confident enough to take up a full-time job. She used to support her husband who was running a small pan shop far away from the home town.

Her lack of education never stopped her from thinking big. She started looking for business opportunities that could generate more income for her. From a newspaper article she came to know about the scope of paper plate business. After conducting a small market study, she was convinced of its possibilities. Soon she underwent training for making paper plates.

Her personal savings coupled with the first loan of Rs. 20,000 from ESAF helped her to buy machines and raw materials. Marketing the product was the biggest challenge for her. But her emphasis on timely delivery and quality helped her to maintain existing clients and find new leads. Her husband and son also supported her in expanding her business.

Her business gained momentum considerably as production capacity at her unit increased. From a single machine her business capacity has now grown considerably to nine machines. She employs six workers and generates a profit of Rs 40 k to 45 k per month. Meenakshi proudly asserts that whatever she has achieved today is only because of ESAF and is very much eager to provide livelihoods to more needy people around her.



## LITTLE BY LITTLE, STEP BY STEP

Kuntibhai Viswakarma from Chattisgarh has been a member of ESAF Vaibhav sangam from 2007, the year in which the Organization has started operations at Bagbahara in Chhattisgarh.

Her story with ESAF began with a loan of Rs 4,000/ availed for selling vegetables. Along with her husband, she started selling vegetables in nearby villages. The initial success prompted her to avail another loan of Rs 8,000 to buy a two wheeler, using which she had started expanding her catchment area for business. Subsequently, her commitment ensured her good financial results. The success of Kunthibhai lies in her keenness to repay loans on time. So far, she has taken 18 cycles of loans and has never committed any default. Also, her success brings joy to 11 other families who are dependent on her.

In 2009, a confident Kuntibhai had decided to expand her business by renting a shop at the village center. The new shop gave her customers wider options to choose from, covering FMCG products and vegetables for daily / essential needs. Kuntibhai always raises the bar when it comes to new challenges. In 2012, she bought a second hand autorickshaw in the name of her husband. The three-wheeler helped her to expand her geographical reach and widen her portfolio containing spices, dal, rice, tea etc., apart from mobile services.

The ambitious and enterprising women entrepreneur then started tea packaging and candle making at a large scale and gave employment opportunities to nearby village women. At present, she employs seven women at her unit. In 2015, she bought a Maruti Omni and thus expanded the delivery services further to nearby villages. Her two sons are also supporting her in the business. When the elder one drives the delivery van the younger one manages the shop.

Using another loan taken in 2015, she drilled a bore well and constructed a toilet at home. On the credit rating front, she scored good as she was repaying the loans promptly. Consequently, she was eligible for bigger loans and utilised the amount for purchasing sewing machines and employing additional staff for tailoring. An elated Kuntibhai said "ESAF has helped me to become financially stable. Using the 18 cycles of loans availed over the years, I could grow my business and now I am able to offer employment to other village women as well. I will never forget the help the bank has done to me and my family".



### **INSTILLING A SENSE OF SUSTAINABILITY**

In the lives of those determined and hard working women, small interventions from ESAF have made big transformations. The story of Pichammal is an inspiring example.

Pichammal was completely ignorant of ESAF and its activities, until she became a member of ESAF Self Help Group in 2010. Sudden demise of her husband left her stranded and shocked. Emotionally drained at the young age of 23, she had to take up the responsibility of her entire family including two daughters. She and her mother-in-law were struggling to keep the kitchen fire burning with their daily wages. Her dreams were again put on the back burner, when her daughter was diagnosed with heart disease at the age of 13. With all the money she borrowed, the daughter was treated well but her life could not be saved. Soon, the life of Pichammal was in complete disarray.

Life took a positive turn for her, ever since ESAF started milk collection center in her village. Soon she became a member of ESAF Self Help Group and availed a loan of Rs. 8000 to buy a cow. Rhema Milk Collection Centre promoted by ESAF has functioned as a window for farmers like Pichammal to market their products.

Before the establishment of Rhema Collection Centre, milk from the cattle farmers was collected by unscrupulous middlemen, who only exploit livestock farmers by paying them rates below the market rates or by paying advance money to fix the rates set by them. The ESAF – RHEMA intervention has brought stability and profitability to the income levels of those farmers. In short, the whole village was benefited by the intervention of ESAF.

Pichammal now owns three cows and has sold around 3740 ltrs of milk till date to Rhema. After completing nine years of association with ESAF, she was still inclined to wax eloquent on ESAF and its interventions.



## WHEN AGARBATHIES BRING FRAGRANCE OF PEACE

Before becoming an entrepreneur, Meena, a housewife from Halekempnahundi, Karnataka, was solely engaged in doing household chores. Being an unassuming lady, she was living a quiet life at her small hamlet.

Her life went topsy-turvy in 2012, when her husband Karunakara had a massive stroke. The entire family responsibility then fell upon Meena. She started stitching clothes for survival, as that was the only skill she knew to earn a livelihood. Soon she was finding it difficult to meet the increased expenses, including medical expenses of her husband and educational expenses of her two daughters.

In 2016, she had entered into an arrangement with an Agarbathies brand and had set up a small packaging unit in her house. From her savings and using some money borrowed from her relatives, she managed the initial funding requirements. But the money was never enough to sustain the business.

During this time, one of her relatives introduced her to ESAF loan officer from T. Narasipura branch and the doors of hope opened in front of her. The first Income Generation Loan (IGL) of Rs. 30,000 from ESAF helped her to cautiously expand her business.

Even the demise of her husband in 2018, couldn't pull her down. She came back with renewed vigor. Her packing unit currently employs 18 workers and packs 12,000 packets of agarbathies every day. Meena has been a proud mother to her daughters and a true role model to the entire women at her village.

Recently, she has purchased a house of her own in Mysore and has rented it out. With a steady income of over Rs. 25,000/- every month from her business, Meena is now aspiring to build a factory in the plot near her house, so that she can provide employment to at least 50 women in her neighborhood. Yes, Meena, is a go-getter with great entrepreneurial passion.



## ADDING BEAUTY TO LIFE

Suraksha Gangare, hailing from Dodhranau in Madhya Pradesh, is a victim of infidelity. At the age of 26, within three years of marriage, she was left stranded by her husband, as he married another woman. Suraksha didn't lose hope and she courageously moved to her ancestral home, to start a new life, with a 10-month old child.

Given her circumstances, she was brave enough to keep her composure intact. She started looking for opportunities to support her parents and the kid. She was a regular visitor to those Government offices and had applied for Government schemes that support small scale businesses, but nothing had materialized as expected by her.

The beauty therapy course she underwent before her marriage soon proved to be more therapeutic for Suraksha's life than she could ever imagine, as she was able to setup a beauty parlour at her village. Before launching the venture, she framed a clear cut plan with regard to Investments and Return on Investments. Later, her search for collateral free loans ended with ESAF.

Her entrepreneurial spirit impressed ESAF team who supported her in the formation of a Self Help Group near her house and soon she received her first loan of Rs 15000. Initially, she started modestly with just two chairs, one mirror and few beauty accessories and products. But the quality of her work began to speak for her skills. With another top up loan of Rs 10 k she soon expanded her business further. Currently, she is now repaying her last loan of Rs. 45,000. She also has plans to hire one more assistant. With a smile on her lips, Suraksha is always thankful to ESAF.



## COLOURING LIFE WITH RANGOLI

Rashida Sheikh and her husband Renjan Sheikh, from Wadi, Nagpur, were finding it hard to survive the period of inflation. Her husband's meager earning was not enough for a family of seven (including five children) to meet their daily needs. In order to give financial support to her husband, Rashida started a small shop of Rangoli (coloured powder) on the streets of Wadi.

As Renjan Sheikh was elected as Mullah' (Muslim clergy), things went from bad to worse for Rashida's family. She had to take care of all her children by herself. Many came forward to sympathize with her but no one offered her genuine support. She was left with no other option but to focus on her business.

In need of funds, she came to ESAF, Wadi branch and the staff advised her to be part of a sangam. Eventually, in 2009 she got her first loan of Rs 8000. Using the loan she built on her stock and her profit started increasing from Rs 200 to Rs 500 per day.

Being a smart business woman, she studied the market well and started selling other seasonal products as well. This approach helped her to create additional sources of income. During hot summers, she stores water in big containers / drums and earns good margins by selling them for at least four months in a row. During Diwali season she sells diyas and fire crackers and other festival accessories.

After associating with ESAF for ten years, she has now become a wholesale dealer of Rangoli in Wadi. "Rangoli is an integral custom of any Maharashtrian family, so is my business," says a smiling Rashida who herself has drawn a beautiful Rangoli of her life through sheer hard work and determination. She now earns up to INR 30,000 per month after meeting her business expenses.

Although her children support her in business, she is very much strict about their education. In 2018, she realized her dream of living in a new big house that can accommodate all and is happily attributing her success to ESAF team and their guidance.

# SUSTAINABLE BANKING

Sustainable/ green business is the order of the day for all kind of businesses from startups to kirana stores, to supermarkets and big corporates. ESAF SFB as a socially responsible Organization has been breathing life into its sustainable model with a triple bottom line approach for the last 27 years. The legacy of ESAF, ever since its formation in 1992, speaks for its commitment in transforming lives & communities and hand-holding / growing with them.

Distinctly differentiated from its peers through triple bottom line approach, ESAF SFB exercises thorough focus on People, Planet and Prosperity with the support of Sustainable banking department. Products and services are designed and developed for measurable outcomes vis a vis social, environmental and financial parameters, without compromising the values of one over the other and also based on the nature of the product.

## Broad areas of work:

Sustainable Livelihood Development aims at providing financial support and facilitating livelihood development among our beneficiaries, thereby,

- Giving them economic sustainability.
- Providing support for livelihood interventions for bank customers
- Developing Micro Enterprise in Agriculture, Renewable Energy & Traditional Livelihoods
- Improving bankability of the region by developing local economic eco-systems
- Facilitating Govt programmes that can boost livelihood initiatives
- Facilitating Banking Products that will finance the livelihood development initiatives
- Providing Entrepreneurship Training and Support for Micro Entrepreneurs – concept to reality
- Developing Business Incubation Centres at Educational Institutions

**How this is institutionalised within the organization through integration with business target/growth.**

Liability products like Hrudaya Deposits, Micro RDs, Balajyothi Accounts, Nightingale Accounts, Krishak Bandhu, etc and Asset Products like Clean Energy Loans, Haritha Loans, MED Loans IGL etc. are widely being promoted by the staff with passion.

Further, discussion is on for finalising Sustainable Banking KRAs for branches that will measure the impact of our products against SDG Goals, so that all the employees may own them up for performance based on SB indicators.

## 1. Joy of Sustainable Livelihoods

Ever since its inception, the legacy of ESAF is built on providing livelihood and self-employment to low-income families. The asset book as on March 31, 2019 shows that sustainable livelihood support has been given to more than 20 lakh families.

## 1.1 Focus on Livelihood Sector Development in Jharkhand:

The bank has taken keen interest in livelihood development by leveraging local economic eco-systems. The bank facilitates skill development by making products with locally available raw materials. From a long term perspective, strategic initiatives like this will arrest distress migration and hundreds of ESAF beneficiaries have benefitted from the market linkages that the bank has facilitated for them.

## 1.2 Heartfully Growing– Hrudaya Deposits

Hrudaya deposit is a product meant for the people living at the bottom of the pyramid. The product helps in mobilising socially responsible citizens to join hands with us (by contributing FD) and eventually they can partake in initiating social transformation. The money invested can be utilised for noble causes like completing the education of a girl child in Jharkhand, providing access to drinking water in a remote village in Uttarkhand or building sanitation facilities in a village in UP. As on 31<sup>st</sup> March 2019, we have a total of INR 13,25,03,000 (Rupees Thirteen Crores Twenty Five Lacs Three thousand only) as Hrudaya Deposits and 3,956 low income customers have received its benefits.

Beyond serving our customers with banking products par excellence, it is always a joy for us to witness their transformation to higher standards of living, with asset products like Income Generation Loan, Educational Loan, Clean Energy Loan, Water and Sanitation Loan, Home Improvement Loan etc.

## 1.3 The Micro Recurring Deposits for Low income families

Aiming to inculcate saving habits among the much vulnerable low income families, we have innovated another micro-liability product during the year, the Micro Recurring Deposits. The Micro RD product gives an opportunity for low income families to save little by little (weekly recurring pattern) and earn big over a period of time.

## 2. Social Performance Management & Research

To measure, evaluate and document bank's progress on ESG Goals we have adopted the following measures:

- Social Impact Assessment & Client Transformation Research
- Publications of Social Impact Stories
- Measuring Financial Inclusion and Socio- Economic Indicators
- Financial Inclusion Projects
- Financial Literacy Improvement Projects

## 3. Joy of Enhancing Social Performance

During the year, our USB branches have conducted several financial literacy / inclusion initiatives.

### 3.1 Vayo-Jyothi Week

October 04 – 12, 2018 was observed by a few selected branches as VAYO JYOTHI WEEK and several hundreds of senior citizens participated in the same to socialize, appreciate and recognize each other. Also, over 1500 senior citizens participated in various events organized across Kerala. They were also enlightened with information on financial literacy topics like latest banking products, developments, care, precautions and protection in their financial dealings.

### 3.2 Balajyothi- Children's Week :

Nov 10 – 17, 2018 was observed as Balajyothi Children's week. Over 7,500 children were reached with essentials of financial education through lectures conducted on topics related to banking on values.

### 3.3 ESAF FOUNDATION WEEK – MARCH 2019 (9<sup>th</sup> March to 16<sup>th</sup> March, 2019)

ESAF Foundation Week was celebrated across all the 440 branches from March 9 – 16, 2019. A total of 32,509 customers attended the meetings at all the branches. Handpicked micro-entrepreneurs, contributing to economic, social and environmental aspects, supported by ESAF SFB were honored during the function.

#### Programs conducted during the year

Project	Nos	Participants
Financial literacy program	2733	90621
Entrepreneurship development program	28	1470
Clean energy and environment awareness program	886	47034
Health awareness program	252	4760

**3.4 Our Social Performance Dash Board:** The quarterly matrix for 2018-19 Dash Board shows a gradual positive upward movement and transformation when it comes to reaching out to meeting the social targets.

**3.5 Strategic Networking:** During the year, we have joined GABV-Global Alliance for Banking on Values. ESAF is the first bank in India that has received membership to this global alliance.

global alliance  
for banking  
on values



**3.6 Awards and Accolades:** During the year, we have received a number of awards and accolades, major among them are

- Finalist to the European Microfinance Award 2018 on the theme – Financial inclusion through technology
- Skoch Award – Gold level for financial inclusion for all
- Special Jury Award for Excellence in MSME

#### 3.7 Research studies-getting customer feedback

- A brief study to know the scope, acceptance, challenges and further innovations required for Micro RD, as a financial deepening tool.
- Brief study to understand the scope, acceptance challenges and further innovations required of Swarnasree loan. (Gold Loan)
- Study on usage of Mobile and Internet banking by ESAF group was conducted with the aim of understanding ESAF staff knowledge, perception and challenges faced in using E platform for net banking. E- Banking training session at Head office for ESAF women staff was conducted later.
- Water related (Knowledge, Attitude, Practice) Survey 2019 among ESAF staff. The survey, addressed issues such as quality of delivered and stored water, various practices and safety of drinking water within the home, individual perceptions on water conservation etc.
- Joyful Stories of Transformation Contest was organized on a PAN India basis to encourage employees to identify and collect successful stories of transformation of the customers. From 49 applications one winner and one finalist were identified from 6 states.
- Market research on e-bike as a viable mode of transportation. Scope and perception study.

- Market research on scope and viability of roof top solar panels among middle class households in Thrissur.
- Attitude and perception on solar led water pump use among farmers with special reference to KUSUM scheme-A market research.
- Asset performance of senior micro-banking customers.
- Need assessment and perception on the use of bicycles.

#### Ongoing studies:

- Customer Satisfaction Study: Almost 2000 customer satisfaction forms have been collected from the customers spread across 25 branches on a PAN India basis. This finding shall provide insights on levels of satisfaction with respect to various products and services as well as expectations from ESAF SFB .which can be beneficial in making modifications, if any that is required.
- Effectiveness of Kisan Mithra loan product and find gaps if any.

#### 3.8 Instituting ESAF STHREE RATNA award:

During the year, we have instituted a special award for outstanding women entrepreneurs for being inspirational examples to look up to. The first of the ESAF STHREE RATNA Award was given to SHRI REKHA KARTHIKEYAN, a long term ESAF sangam member, the first women in the country who has obtained deep sea fishing license.

#### Plans for the future

- 1. Sustainable Development Goals (SDG) and Targets to the branches with external and internal indices:** ESAF SFB is positively making impacts in all 17 SDG Goals. We are working on measurements – with external and internal indices for 9 out of 17 Sustainable Development Goals. This will provide a general sustainability impact framework and priority across the banking domain.
- 2. ESAF Employee Volunteer Program:** ESAF Small Finance Bank shall introduce EMPLOYEE VOLUNTEER PROGRAM for the employees of ESAF Small Finance Bank with the aim of utilizing the skills, hobbies and interest of employees outside their routine work for the larger good of the society. Such a program can help develop actively engaged employees who can create an enriched environment both in professional and personal lives. It will also help in improving mental, physical and emotional exhaustion among employees who can be happier and thus are better able to be more creative and productive.
- 3. Produce Hrudaya Bulletin** every quarter for the Hrudaya investors on the status of their deposit vis a vis its utilization giving them an overall snapshot about the social return on their investments.
- 4. Sustainable Banking Modules** to be incorporated in Learning Management System of ESAF SFB for the benefit of all its employees.
- 5. Document experience of ESAF SFB** on Financial Inclusion and financial deepening
- 6. Product Performances on Sustainability Impact** - Document customer experience on transition from poverty- Joyful Stories of Transformation

# AGM NOTICE

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Notice is hereby given that the Third Annual General Meeting of Shareholders of ESAF Small Finance Bank Limited (the Bank) will be held on Tuesday, 06<sup>th</sup> August 2019 at the Registered and Corporate Office of the Bank, Building No:VII/83/8 ESAF Bhavan, Mannuthy, Thrissur-Palakkad National Highway, Thrissur, Kerala- 680651 at 01:00pm to transact the following businesses:

## Ordinary Business

1. To consider and adopt the Audited Balance Sheet as on 31<sup>st</sup> March 2019, the Profit and Loss account and Cash Flow for the year ended on that date together with the schedules and annexures thereto, the Reports of the Auditors' and Directors' thereon.
2. To re-appoint Mr. Assan Khan Akbar, Director who retires by rotation this year, and being eligible, offered himself for re-appointment.
3. To appoint Statutory Auditors and fix their remuneration.

**"RESOLVED THAT** pursuant to the applicable provisions of the Banking Regulation Act, 1949 and applicable provisions of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 (including any statutory modifications or enactments made there under), consent of the shareholders of the Bank, be and is hereby accorded to appoint M/s. S. R. Batliboi & Associates, LLP, Chartered Accountants with Firm Registration number 101049W/E300004 as recommended by the Audit Committee as the Statutory Auditors of the Bank to hold office from the conclusion of this Annual General Meeting till the conclusion of 4<sup>th</sup> Annual General Meeting.

**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."

## Special Business

1. APPOINTMENT OF MR. KADAMBELIL PAUL THOMAS AS MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER OF THE BANK

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

**"RESOLVED THAT** pursuant to the provisions of section 10B and other applicable provisions of the Banking Regulations Act, 1949 (including any statutory modifications or re-enactment(s) thereof, for the time being in force), applicable provisions, if any, of the Companies Act 2013, subject to the Articles of Association of the Company, such other consents and permission as may be necessary, the consent of the shareholders be and is hereby accorded for the appointment of Mr. Kadambelil Paul Thomas as the Managing Director & Chief Executive Officer of the Bank for a period of three years with effect from 01<sup>st</sup> October 2018, on the terms and conditions as per the Reserve Bank of India letter No. DBR. Appt. No.2655/29.44.005/2018-19 dated October 01, 2018 including remuneration as per the explanatory statement attached.

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

Thrissur

10<sup>th</sup> May, 2019

Sd/-

**Ranjith Raj P.**  
Company Secretary  
Mem. No: A30388

## NOTES

- A Member entitled to attend the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Bank. The Proxy Form, to be effective shall be deposited at the Registered Office of the Bank 48 hours prior to the time fixed for the meeting. Proxy Form is enclosed herewith.
- 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 share holder.
- Explanatory statement pursuant to Section 102 of the Companies Act, 2013 is attached herewith.
- All documents referred to in the Notice and the Explanatory Statement, and requiring Members' approval, and such statutory records and registers, as are required to be kept open for inspection under the Companies Act, 2013, shall be available for inspection by the Members at the Registered 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 shares in physical forms are requested to write their folio No.(s) in their attendance slip for attending the meeting to facilitate identification of membership at the meeting.
- The members are requested to register their e-mail or new e-mail ID which has already been registered with the depository participant/ bank [with the depository participant (for shares held in Demat form) or bank (for shares held in physical form)].

### Explanatory Statement in terms of Section 102 of the Companies Act, 2013.

In terms of the directions of the Reserve Bank of India vide Letter No. DBR.Appt.No.10611/29.44.005/2017-18 dated 28.05.2018, Shri. Kadambelil Paul Thomas had resigned from the office of Managing Director & CEO with effect from 2<sup>nd</sup> June 2018 for the requirement of compliance to Section 10(B) of the Banking Regulation Act, 1949.

Upon compliance to section 10(B) of the Banking Regulation Act, 1949, and the approval of the Reserve Bank of India letter no. DBR.Appt. No.2655/29.44.005/2018-19 dated October 01, 2018, the Board of Directors of the Bank at the meeting held on October 01, 2018, appointed him as the Managing Director and CEO of the Bank with effect from the said date for a period of three years from the set date. His brief profile in terms of secretarial standards - 2 is given below.

<b>Name of the Director</b>	<b>Kadambelil Paul Thomas</b>
Age	55 Years
Date of first appointment on Board	05th May 2016
Qualification	Master of Business Administration
Brief resume including experience and expertise in specific functional areas	K. Paul Thomas is the Founder of ESAF Group of Social Enterprises. He has been a management professional for over 32 years out of which more than 25 years are in the microfinance sector. He was the Managing Director & CEO of the Bank from the date of commencement till 02nd June 2018. He is the pioneer of micro finance in the state of Kerala and was the Chairman and Managing Director of ESAF Microfinance and Investment Pvt Ltd, the promoting entity of the Bank prior to the commencement of business of the Bank. He is on the Boards of apex microfinance bodies like MFIN and he is the founder and President of Kerala Association of Microfinance Institutional Entrepreneurs (KAMFI). Currently, he is the Chairman of CII Kerala.
Other Directorships	Non Executive Director of M/s Prachodhan Development Services ( Section 8 Company)
Chairmanship/Membership of Committees in Companies in which position of Director is held	NIL
Relationship with other Directors, Managers and other Key Managerial Personnel of the Bank	NIL
No. of equity shares held in the Bank	3,11,86,785
No. of board meetings attended during the year	17
Terms and conditions of appointment or re-appointment including remuneration	Provided below

The details of his remuneration is given below

Components	Amount
<b>A Remuneration</b>	
1 Salary	INR 132 Lakhs per annum
2 Dearness Allowance	NA
3 House Rent Allowance	NA
4 Conveyance Allowance	NA
5 Entertainment Allowance	-
6 Other allowances	-
<b>Total</b>	<b>INR 132 Lakhs per annum</b>
<b>B Perquisites</b>	
1 Free furnished house	YES (up to a maximum of INR 12 Lakh per annum)
2 Free use of Bank's car for:	
(i) For official purpose	YES
(ii) For private purpose on compensating the Bank with suitable amount	YES (up to 1000 KM per month is free. Above that, would be compensated to the Banking company @ INR 5 per KM)
3 Provident Fund/Gratuity/Pension	Only PF (10% of the salary. An equal amount to be deducted from the salary as employee contribution)
4 Travelling and Halting allowance	YES Lodging: Domestic: Actuals Abroad: Maximum USD 500 per day Diem Allowance (INR 5000 per day for domestic and USD 200 per day for international)
5 Medical Benefits	Medical Insurance Coverage for self and dependents (premium of INR 2,00,000 per annum) Medical expenses reimbursement for self and dependents up to a maximum of INR 10,00,000 per annum.
6 Reimbursement of Entertainment Expenditure	INR 10 Lakhs per annum based on declaration
7 Other benefits	
(i) LTA	To be reimbursed on actual basis, subject to maximum of INR 10 Lakhs per annum.
(ii) Loan for house construction and festival loan	Up to 5x annual salary (house construction) and 1x monthly salary (festival advance) in compliance with the circular DBR. Dir. BC. No. 38/ 13.03.00/2015-16
(iii) Privilege Leave	30 working days of which 50% can be encashed.
(iv) Mobile connection/ internet facilities.	Free mobile connections and internet facilities.

In terms of the provisions of the Companies Act, 2013 appointment of Managing Director shall be approved by the shareholders in the immediately held meeting. Hence the Board of Directors seek your approval through special resolution.

None of the directors except Shri. Kadambelil Paul Thomas, MD&CEO is interested or concerned in the resolution

# DIRECTORS' REPORT

To the Members of ESAF Small Finance Bank Ltd

The Directors present their Third Annual Report together with the audited accounts of your Bank for the year ended 31<sup>st</sup> March 2019.

## 1. Financial Highlights

Rs. in crore

Particulars	For the Year ended 31 <sup>st</sup> March 2019	For the Year ended 31 <sup>st</sup> March 2018
Deposits	4317	2523
Advances	4548	3155
Total Income	1141	699
Total Expenditures Excluding Tax	1014	655
Profit Before Tax	127	44
Provision for Tax	37	17
Net Profit	90	27
Profit Brought Forward	21	1
Total Profit Available for Appropriation	111	28
Appropriation		
Transfer to Statutory Reserve	22	7
Transfer to Investment Reserve	1	-
Balance Carried to Balance Sheet	88	21
Earnings per Share Basic and Diluted (Rs.)	2.37	0.89

## 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.

## 3. Capital

During the year, your Bank has issued and allotted 11,58,50,309 number of equity shares of face value of Rs. 10/- each at an issue price of Rs.40.07/- per equity share by way of Private Placement thereby raising Rs. 464 Crores. As on 31<sup>st</sup> March 2019, the issued, subscribed and paid-up share capital of the Bank stands at Rs.427,79,54,900.

The Bank has also raised Tier II Capital by way of issuance of Listed, Non-Convertible Rated Bonds in the nature of debentures for an aggregate amount of Rs.40 Crores. As on 31<sup>st</sup> March 2019, the Bank has Rs.48 Crores as additional Tier I Capital and Rs.190 Crores as Tier II Capital.

The break up issuance of capital during the year is provided below:

Date of Allotment	No. of Equity Shares	Name of the Allottee
31.07.2018	1,87,17,244	M/s.PNB Metlife India Insurance Company Limited
31.07.2018	1,87,17,244	M/s. Muthoot Finance Limited
31.07.2018	1,74,69,428	M/s. Bajaj Allianz Life Insurance Company Limited
31.07.2018	87,34,714	M/s. PI Ventures LLP
28.09.2018	26,29,749	M/s. PNB Metlife India Insurance Company Limited
28.09.2018	2,13,46,993	M/s. ESAF Swasraya Multi State Cooperative Society Ltd
28.09.2018	2,13,46,993	M/s. Yussuffali Musaliam Veetil Abdul Kader
28.09.2018	62,39,081	M/s. ICICI Lombard General Insurance Company Ltd
28.09.2018	1,49,738	M/s. Lahanti Lastmile Services Private Limited
28.09.2018	1,24,781	Shri. Abraham K John
28.09.2018	2,49,563	Shri. John Chakola
28.09.2018	1,24,781	Shri. Assan Khan Akbar

The Company during the year has also raised capital by way of issuance of the Tier II Basel III Compliant bonds.

The details of the issuance of Tier II bonds are detailed in the table below:

Sl. No	Date of Allotment	No. of Shares/ Debentures Allotted	Face Value of each share	Coupon Rate	Tenure	Nature of Allotment	Debenture Holder
1.	01.06.2018	400	10,00,000	11.50%	7 years	Private Placement	ESAF Swasraya Multi State Agro Cooperative Society Limited

Your Bank has a Capital Adequacy ratio of 27.59% as on March 31, 2019 as against the minimum requirement of 15.00% stipulated by the RBI.

#### 4. Material changes after the Balance Sheet Date as on March 31, 2019

There have been no material changes and commitments between the end of FY 2018-19 and the date of this report, affecting the financial position of the Bank.

#### 5. Information about Financial Performance / Financial Position of the Subsidiaries, Associates and Joint Venture Companies

The Bank does not have any subsidiaries, associates and Joint Venture Companies.

#### 6. Deposits

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

#### 7. Meetings of the Board

The Board of Directors have met 17 times during the financial year 2018-19 on 22<sup>nd</sup> May, 2018, 04<sup>th</sup> June, 2018, 13<sup>th</sup> June, 2018, 29<sup>th</sup> June, 2018, 26<sup>th</sup> July, 2018, 31<sup>st</sup> July, 2018, 04<sup>th</sup> September, 2018, 24<sup>th</sup> September, 2018, 25<sup>th</sup> September, 2018, 28<sup>th</sup> September, 2018, 01<sup>st</sup> October, 2018, 03<sup>rd</sup> October, 2018, 05<sup>th</sup> November, 2018, 05<sup>th</sup> December, 2018, 17<sup>th</sup> December, 2018, 07<sup>th</sup> February, 2019 and 25<sup>th</sup> March, 2019. The gap between any two Board Meetings did not exceed 120 days and the requisite quorum was present for all the Board Meetings during the year.

#### 8. Directors

Shri. Assan Khan Akbar, Non-Executive Director of the Bank retires by rotation as a Director at the conclusion of this Annual General Meeting and offered for re- appointment.

On June 2<sup>nd</sup>, 2018, Shri. Kadambelil Paul Thomas had resigned from the office of Managing Director and CEO of the bank in compliance to the letter issued by the RBI on May 28<sup>th</sup>, 2018. The Board of Directors of the Bank had made an interim arrangement by constituting a Committee of Directors named as "Executive Committee of Directors" with the approval of the RBI to oversee the operations and administration of the bank in the absence of MD and CEO. Mr. A. G. Varughese, Executive Vice President of the Bank, the senior most executive of the bank was entrusted to look after the day to day affairs of the bank. Shri. Kadambelil Paul Thomas was again appointed as Managing Director and CEO of the bank on October 1<sup>st</sup>, 2018 based on the approval of Reserve Bank of India.

#### 9. Key Managerial Personnel

During the year Shri. Gireesh C. P. was appointed as Chief Financial Officer of the Bank with effect from 05<sup>th</sup> September 2018 in place of Shri. Padmakumar K. The Key Managerial Personnel of the Bank as on 31<sup>st</sup> March 2019 are as follows:

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

#### 10. Declaration from Independent Directors

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

## 11. Evaluation of Board Performance.

The performance evaluation of the Board of Directors was conducted on 25<sup>th</sup> March 2019. Your Board of Directors have framed a Performance Evaluation Policy for the evaluation of individual Directors, Committees and the Board of Directors as a whole.

## 12. 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:

<p>i) Ratio of Remuneration of Each Director with Median Employees Remuneration.</p>	<p>The ratio of remuneration of each Director to median employee remuneration is as below:</p> <table border="1" data-bbox="972 530 1566 728"> <tr> <td data-bbox="972 530 1201 569"><b>MD&amp;CEO</b></td> <td data-bbox="1201 530 1566 569"><b>45 times</b></td> </tr> <tr> <td data-bbox="972 569 1201 728">Other Directors</td> <td data-bbox="1201 569 1566 728">Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees</td> </tr> </table>	<b>MD&amp;CEO</b>	<b>45 times</b>	Other Directors	Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees
<b>MD&amp;CEO</b>	<b>45 times</b>				
Other Directors	Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees				
<p>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.</p>	<p>Managing Director &amp; CEO – 10% Chief Financial Officer (Shri. Padmakumar K.) - 9.24% Company Secretary – 19.18%</p>				
<p>iii) The percentage increase in the median remuneration of employees in the financial year.</p>	<p>11.2%</p>				
<p>iv) The number of permanent employees on the rolls of the Company as on 31<sup>st</sup> March 2019.</p>	<p>2,168</p>				
<p>v) The 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 there of and point out if there are any exceptional circumstances for increase in the managerial remuneration.</p>	<p>Average increase of 10% was made to the salaries of employees other than the managerial personnel and of the managerial personnel in the last financial year.</p>				
<p>vi) Affirmation that the remuneration is as per the remuneration policy of the Company.</p>	<p>The remuneration is as per the Remuneration Policy of the Bank.</p>				

Statement showing	
<p>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.</p>	<p>Nil</p>
<p>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.</p>	<p>Mr Kadambelil Paul Thomas, Managing Director and CEO. Aggregate remuneration in rupees 1,25,45,200/- paid during the year.</p>
<p>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 WholeTime 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 Company.</p>	<p>Nil</p>

### 13. Directors' Responsibility Statement

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

- i) In the preparation of the annual accounts for the year ended March 31, 2019, the applicable accounting standards had been followed along with proper explanation relating to material departures,
- ii) Such accounting policies as specified in Schedule 17 of the Financial Statements have been selected and applied consistently and judgments 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 on March 31, 2019 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.

### 14. Statutory Auditors

In terms of Section 139 of the Companies Act, 2013 and in accordance with the provisions of the Banking Regulation Act, 1949, M/s S. R. Batliboi and Associates. LLP, Chartered Accountants, the existing Statutory Auditors of the Bank, hold office up to the 3<sup>rd</sup> Annual General Meeting of the Bank. It is proposed to re-appoint them as Statutory Auditors of the Bank from the conclusion of the said meeting until the conclusion of the 4<sup>th</sup> Annual General Meeting of the Bank.

### 15. Details in respect of frauds, if any, reported by Auditors:

There were no frauds reported by the auditors for the financial year 2018 -19.

### 16. 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. The secretarial audit report for the financial year 2018 - 19 is enclosed herewith as Annexure - IV.

### 17. 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.

### 18. 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.

### 19. Whistle Blower Policy/ Vigil Mechanism

The Bank has adopted a Whistle Blower and Protected Disclosure Policy and Vigil Mechanism in compliance with the relevant provisions of Companies Act, 2013 and Rules thereunder. This Policy provides an opportunity to address concerns of Employees, Vendors & Directors relating to fraud, malpractice or any other activity or event which is against the interest of the Bank or society as a whole. During the year there were no complaints received in this regard. The policies are available on the website of the bank.

### 20. 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 earnings of rupees 8.84 Lakhs and foreign currency expenditure of rupees 10.54 lakhs.

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

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

### 22. Loans / Guarantees / Investments

Being a banking company, the provisions of Section 186 of the Companies Act, 2013 is not applicable.

### 23. 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 2018-19, no complaints were received under the Policy.

### 24. MGT - 9

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

### 25. 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 as the implementation agency for CSR Activities.

The CSR expenditure incurred by the Bank during the financial Year 2018-19 was Rs. 1.15 Crores which is 5% of the net profit Under

Section 198 of the Companies Act 2013 as against the requirement of 2% of the average net profits of the preceding 3 years (ie.Rs. 0.46 Crore). The report on CSR activities is enclosed herewith as Annexure - III.

## 26. 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.

## 27. Pillar III Disclosures

The Pillar III Disclosures of the Bank as on 31<sup>st</sup> March, 2019 is enclosed herewith as Annexure - V.

## Acknowledgement

The Directors are grateful to the RBI, 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 the Holding Company and their continued guidance and support for executing various activities of the Bank. The Directors also place on record their sincere thanks to the valued clients and customers for their patronage. The Board also expresses its deep sense of appreciation to all employees of the Bank for their commitment and contribution to the growth of the Bank.

For and on behalf of the Board of Directors

Sd/-  
Prabha Raveendranathan  
Chairman

Sd/-  
Kadambelil Paul Thomas  
Managing Director & CEO

Date: 10<sup>th</sup> May, 2019  
Place: Thrissur

**(Pursuant to clause (h) of sub-section (3) of section 134 of  
the Act 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**

SI No.	Particulars	Details
1	Name(s) of the related party and nature of relationship:	ESAF Swasraya Multi State Agro Co-operative Society Ltd. (Entity 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:	Continuing Contract
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

SI No.	Particulars	Details
1	Name(s) of the related party and nature of relationship:	ESAF Swasraya Multi State Agro Co-operative Society Limited (Entity in which relatives of directors are members)
2	Nature of contracts/arrangements/transactions:	Corporate Facility Management Services
3	Duration of the contracts / arrangements/transactions:	Continuing Contract
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**

SI 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.
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

SI 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, MD 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.
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

SI 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

#### d) Contracts with M/s. ESAF Retail Private Limited

SI No.	Particulars	Details
1	Name(s) of the related party and nature of relationship:	ESAF Retail Private Limited (Company in which Relatives of Directors are members)
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.
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

SI No.	Particulars	Details
1	Name(s) of the related party and nature of relationship:	ESAF Swasraya Producers Company Limited (Company in which Relatives of Directors are members)
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.
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

SI No.	Particulars	Details
1	Name(s) of the related party and nature of relationship:	ESAF Homes and Infrastructure Private Limited (Company in which Relatives of Directors are members)
2	Nature of contracts/arrangements/transactions:	Lease Agreement
3	Duration of the contracts / arrangements/transactions:	Continuing Contract.
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

SI 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 directors. ESAF Financial Holdings Private Limited is the Holding Company and 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.
5	Date(s) of approval by the Board.	06.02.2018.
6	Amount paid as advances, if any:	Rs.2,25,000/- as Interest Fee 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 Mrs.Susha Benny (Relative of Mrs. Asha Morley, Director)

SI No.	Particulars	Details
1	Name(s) of the related party and nature of relationship:	Mrs.Susha Benny (Relative of the Director of the Company).
2	Nature of contracts/arrangements/transactions:	Appointment as Relationship Officer.
3	Duration of the contracts / arrangements/transactions:	1 year
4	Salient terms of the contracts or arrangements or transactions including the value, if any:	Mrs.Susha Benny appointed as Relationship Officer - HN1 and Institutional Investments for 1 year on Contract basis. The contract ended on expiry of one year period.
5	Date(s) of approval by the Board	27.03.2018
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.

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

SI 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)
2	Nature of contracts/arrangements/transactions:	The party is acting as Business Correspondent of the Bank.
3	Duration of the contracts / arrangements/transactions:	5 year
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

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

NIL

Date: 10<sup>th</sup> May, 2019

Place: Thrissur

**FORM MGT-9**  
**EXTRACT OF ANNUAL RETURN**

Annexure - II

as on the Financial Year ended on 31<sup>st</sup> March 2019  
[Pursuant to section 92(3) of the Companies Act, 2013 and Rule 12 (1) of the Companies  
(Management and Administration) Rules, 2014]

**I. Registration And Other Details:**

i	CIN	U65990KL2016PLC045669
ii	Registration Date	05 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	Link In Time India Private Limited C-13, Pannalal Silk Mills Compound, LBS Marg, Bhandup West, Mumbai - 400078 Tel :022 - 25946970

**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	Finance and Insurance Service	K1	100%

**III. Particulars Of Holding, Subsidiary And Associate Companies**

Sl. No.	Name and address of the company	CIN/GLN	Holding/ subsidiary/ associate	% of shares held	Applicable section
1	ESAF Financial Holdings Private Limited (Previously known as ESAF Microfinance and Investments Private Limited)	U65910TN1996PTC036650	Holding Company	65.62%	Section 2(87) of the Companies Act, 2013

**IV. Share Holding Pattern**

**V. (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	
A. Promoters									
(1) Indian									
a. Individual/ HUF	-	3,11,86,790	3,11,86,790	9.998%	3,11,86,790	-	3,11,86,790	7.290%	(2.708%)
b. Central Govt	-	-	-	-	-	-	-	-	-
c.State Govt (s)	-	-	-	-	-	-	-	-	-
d.Body Corp.	-	28,07,58,391	28,07,58,391	90.002%	28,07,58,391	-	28,07,58,391	65.629%	(24.373%)
e. Banks / FI	-	-	-	-	-	-	-	-	-
f. Any Other	-	-	-	-	-	-	-	-	-

Sub-total (A) (1):-	-	31,19,45,181	31,19,45,181	100.00%	31,19,45,181	-	31,19,45,181	72.919%	(27.081%)
<b>2) Foreign</b>									
a) NRIs - Individuals	-	-	-	-	-	-	-	-	-
b) Other-Individuals	-	-	-	-	-	-	-	-	-
c) Body Corporates.	-	-	-	-	-	-	-	-	-
d) Banks / FI	-	-	-	-	-	-	-	-	-
e) Any Other....	-	-	-	-	-	-	-	-	-
Sub-total (A) (2):-	-	-	-	-	-	-	-	-	-
Total shareholding of Promoter (A) = (A) (1) +(A)(2)	-	31,19,45,181	31,19,45,181	100.00%	31,19,45,181	-	31,19,45,181	72.919%	(27.081%)
<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%	-
c) Central Govt	-	-	-	-	-	-	-	-	-
d) State Govt(s)	-	-	-	-	-	-	-	-	-
e) Venture Capital Funds	-	-	-	-	-	-	-	-	-
f) Insurance Companies	-	-	-	-	4,50,55,502	-	4,50,55,502	10.532%	-
g) FIs	-	-	-	-	-	-	-	-	-
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
i) Others (M/s. ESAF Swasraya Multi State Agro Co – Operative Society Limited)	-	-	-	-	2,13,46,993	-	2,13,46,993	4.989%	-
Sub-total (B)(1):-	-	-	-	-	8,51,19,739	-	8,51,19,739	19.896%	-
<b>2. Non-Institutions</b>									
<b>a) Body Corp.</b>									
i) Indian	-	-	-	-	88,84,452	-	88,84,452	2.076%	-
ii) Overseas	-	-	-	-	-	-	-	-	-
<b>b) Individuals</b>									
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%	-
<b>c) Others (specify)</b>									
Sub-total (B)(2):-	-	-	-	-	3,07,30,570	-	3,07,30,570	7.182%	-
Total Public Shareholding (B)=(B)(1)+(B)(2)	-	-	-	-	11,58,50,309	-	11,58,50,309	27.078%	-
C. Shares held by Custodian for GDRs & ADRs	-	-	-	-	-	-	-	-	-
Grand Total (A+B+C)	-	31,19,45,181	31,19,45,181	100.00%	42,77,95,490	-	42,77,95,490	100.00%	-

## ii) Shareholding of Promoters

Shareholder's Name	Shareholding at the beginning of the year			Shareholding at the end of the year			% change in Shareholding during the year
	No. of Shares	% of total Shares of the company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total Shares of the company	% of Shares Pledged / encumbered to total shares	
ESAF Financial Holdings Private Limited	28,07,58,391	90.002%	-	28,07,58,391	65.629%	-	(24.373%)
Kadambelil Paul Thomas	3,11,86,785	9.998%	-	3,11,86,785	7.290%	-	(2.708%)
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	No. of Shares	% of total shares of the Company
1	Mr. Kadambelil Paul Thomas				
	At the Beginning of the year	3,11,86,785	9.998%	3,11,86,785	9.998%
	Date wise Increase/Decrease in shareholding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/ bonus/Sweat equity, etc.)		(2.708%)		(2.708%)
	At the end of the year	3,11,86,785	7.290%	3,11,86,785	7.290%

Sl No.		Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the Company	No. of Shares	% of total shares of the Company
2	M/s ESAF Financial Holdings Private Limited				
	At the Beginning of the year	28,07,58,391	90.002%	28,07,58,391	90.002%
	Date wise Increase/Decrease in shareholding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/ bonus/Sweat equity, etc.)		(24.373%)		(24.373%)
	At the end of the year	28,07,58,391	65.629%	28,07,58,391	65.629%

### 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	M/s. ESAF Swasraya Multi State Agro Co-Operative Society Limited	-	-	2,13,46,993	4.990%
3	Shri. Yusuffali Musaliam Veettil Abdul Kader	-	-	2,13,46,993	4.990%
4	M/s. Muthoot Finance Limited	-	-	1,87,17,244	4.375%
5	M/s. Bajaj Allianz Life Insurance Company Limited	-	-	1,74,69,428	4.084%
6	M/s. PI Ventures LLP	-	-	87,34,714	2.042%
7	M/s. ICICI Lombard General Insurance Company Limited	-	-	62,39,081	1.458%
8	Shri. John Chakola	-	-	2,49,563	0.058%
9	M/s. Lahanti Lastmile Services Private Limited	-	-	1,49,738	0.035%
10	Shri. Abraham K. John	-	-	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	9.998%	3,11,86,785	7.290%
2	Shri. Assan Khan Akbar	-	-	1,24,781	0.029%

## VI. Indebtedness

Indebtedness of the Company including interest outstanding/accrued but not due for payment.

Particulars	Secured Loans excluding Deposits (Rs.)	Unsecured Loans (Rs.)	Deposits (Rs.)*	Total Indebtedness (Rs.)
<b>Indebtedness at the beginning of the Financial Year</b>				
i) Principal Amount	14,76,65,02,635	1,98,00,00,000	NA	16,74,65,02,635
ii) Interest due but not paid	Nil	Nil	NA	Nil
iii) Interest accrued but not paid	17,89,10,593	9,08,09,093	NA	26,97,19,687
Total (i+ii+iii)	14,94,54,13,228	2,07,08,09,093	NA	17,01,62,22,322
Change in Indebtedness during the period	Nil	Nil	NA	Nil
Reductions	Nil	Nil	NA	Nil
Net Change	(8,68,66,637)	36,11,55,016	NA	27,42,88,379
<b>Indebtedness at the end of the Financial Year</b>				
Principal Amount	14,64,35,94,786	2,38,00,00,000	NA	17,02,35,94,786
ii) Interest due but not paid	Nil	Nil	NA	Nil
Interest accrued but not paid	21,49,51,805	5,19,64,110	NA	26,69,15,915
Total (i+ii+iii)	14,85,85,46,591	2,43,19,64,110	NA	17,29,05,10,701

\*Section 73 (1) of the Companies Act, 2013, states that the provisions of the said Act relating to acceptance of deposits by companies do not apply to a Banking company as defined in the Reserve Bank of India Act, 1934. Accordingly, information relating to the Bank's deposits is not disclosed in the table above. As per the applicable provisions of the Banking Regulation Act, 1949, details of the Bank's deposits have been included under Schedule 3 - Deposits, in the preparation and presentation of the financial statements of the Bank.

## VII. Remuneration Of Directors And Key Managerial Personnel

Remuneration to Managing Director, Whole-time Directors and/or Manager:

Sl. No.C	Particulars of Remuneration	Name of MD/WTD/ Manager	
		Shri. Kadambelil Paul Thomas (Managing Director and Chief Executive Officer) (Rs.)	Total Amount (Rs.)
	Gross salary		
1	(a) Salary as per provisions contained in Section 17(1) of the Income-Tax Act, 1961	1,25,45,200	1,25,45,200
	(b) Value of Perquisites under Section 17(2) of the Income-Tax Act, 1961	Nil	Nil
	(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>1,25,45,200</b>	<b>1,25,45,200</b>
	Ceiling as per the Act	As per RBI Approval	As per RBI Approval

Note: The disclosure regarding Remuneration of Directors and Key Managerial Personnel made for their tenure in office.

### A. Remuneration to Other Directors:

Particulars of Remuneration	Name					Total Amount (Rs.)
	Mr. Prabha Raveendranathan	Mrs. Asha Morley	Mr. Alex Parackal George	Mr. George Joseph	Dr. V.A. Joseph	
Independent Directors						
Fee for attending Board and Committee Meetings	17,80,000	10,90,000	10,70,000	11,90,000	15,80,000	67,10,000
Commission	Nil	Nil	Nil	Nil	Nil	Nil
Others	Nil	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>17,80,000</b>	<b>10,90,000</b>	<b>10,70,000</b>	<b>11,90,000</b>	<b>15,80,000</b>	<b>67,10,000</b>
Other Non-Executive Directors	Mr. Assan Khan Akbar	Mr. Kadambelil Paul Thomas	Mr. Saneesh Singh			
Fee for attending Board and Committee Meetings	16,40,000	3,20,000	10,30,000			29,90,000
Commission	Nil	Nil	Nil	Nil	Nil	Nil
Others	Nil	Nil	Nil	Nil	Nil	Nil
<b>Total</b>	<b>16,40,000</b>	<b>3,20,000</b>	<b>10,30,000</b>	<b>10,30,000</b>	<b>10,30,000</b>	<b>29,90,000</b>
Total (1+2)						97,00,000

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

Sl. No.	Particulars of Remuneration	Name of Key Managerial Person			Total Amount (Rs.)
		Mr. Padmakumar. K. (Chief Financial Officer) (Till 04 September 2018)	Mr. Gireesh. C.P. (Chief Financial Officer) (From 05 September 2018)	Mr. Ranjith. Raj. P. (Company Secretary)	
	Gross salary				
1	(a) Salary as per provisions contained in Section 17(1) of the Income-Tax Act, 1961	16,87,408	25,12,837	14,44,121	56,44,366
	(b) Value of Perquisites under Section 17(2) of the Income-Tax Act, 1961	Nil	Nil	Nil	Nil
	(c) Profits in lieu of Salary under Section 17(3) of the Income-Tax Act, 1961	Nil	Nil	Nil	Nil
2	Stock Option	Nil	Nil	Nil	Nil
3	Sweat Equity	Nil	Nil	Nil	Nil
4	Commission				
	• As Percentage of Profit	Nil	Nil	Nil	Nil
	• Others (specify)	Nil	Nil	Nil	Nil
5	Others	Nil	Nil	Nil	Nil
	<b>Total</b>	<b>16,87,408</b>	<b>25,12,837</b>	<b>14,44,121</b>	<b>56,44,366</b>

## VIII. 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/-  
**Prabha Raveendranathan**  
Chairman

Sd/-  
**Kadambelil Paul Thomas**  
Managing Director & CEO

Date: 10<sup>th</sup> May, 2019  
Place: Thrissur

## REPORT ON CSR ACTIVITIES

**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.**

ESAF SMALL FINANCE BANK is committed to the transformation of lives and communities by:

- a) Addressing social, environmental and economic needs of the poor and the marginalized sections of the society.
- b) 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.
- c) Employee and customer participation in the projects and networking with founding society, group companies and likeminded entities.
- d) Aligning the corporate social responsibility strategies with ESAF group's vision for a just and fair society, fighting the partiality of prosperity

Web link:- [www.esafbank.com/csr](http://www.esafbank.com/csr)

**2. The Composition of the CSR Committee**

**Composition of the CSR Committee of the Board as on 31.03.2019 was as below**

- a) Saneesh Singh – Chairman
- b) Kadambelil Paul Thomas – Member
- c) Dr. V. A. Joseph - Member

**3. Average net profit of the Company for last three financial years.**

Rs. 23.02 Crores

**4. Prescribed CSR Expenditure** (two per cent. of the amount as in item 3 above).

Rs.0.46 Crores

**5. Details of CSR spent during the financial year:**

- a) **Total amount to be spent for the financial year** - Rs.1.15 Crores
- b) **Amount unspent, if any;** NIL
- c) **Manner in which the amount spent during the financial year is detailed below**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sl. No	CSR project or 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 were 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 up to the reporting period	Amount spent: Direct or through implementing agency *
1	ESAF Don Bosco Child & Youth Resource Centre- Thrissur	Child Development, Sports, Arts	Project- Sumer Camps  Location, District & State Thrissur, Kerala	52,00,000	52,00,000	52,00,000	Through Implementing Agency
2	Bala Jyothi (national)	Child Development, Sports, Arts	Community based children clubs Location: Thrissur & Palakkad	48,00,000	48,00,000	48,00,000	Through Implementing Agency

	Integrated Rural Development Project - Attappady	Rural Development	Attappady, Idukki (District) Kerala	15,00,000	15,00,000	15,00,000	Through Implementing Agency
	TOTAL			1,15,00,000	1,15,00,000	1,15,00,000	

\*Give details of implementing agency:- EVANGELICAL SOCIAL ACTION FORUM, A society registered under the Travancore Cochin Literal and Scientific Charitable Societies Act of 1955

- 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**
- A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.** The CSR Committee hereby confirm that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the Bank.

Sd/-  
Saneesh Singh  
(Chairman CSR Committee)

Sd/-  
Kadambelil Paul Thomas  
(Managing Director & CEO)

Place: Thrissur  
Date: 10<sup>th</sup> May, 2019

## Form No. MR-3 SECRETARIAL AUDIT REPORT

**FOR THE FINANCIAL YEAR ENDED 31<sup>st</sup> MARCH 2019**  
**[Pursuant to Section 204 (1) of the Companies Act, 2013 and rule 9 of the Companies**  
**(Appointment and Remuneration of Managerial Personnel) Rules, 2014]**

To,  
 The Members,  
**M/s. 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, 2019 complied with the statutory provisions listed hereunder and also that the Company has proper Board- processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on 31st March, 2019 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) The Foreign Exchange Management Act, 1999 and the Rules and Regulations made there under to the extent of Foreign Direct Investment (FDI), Overseas Direct Investment (ODI) and External Commercial Borrowings (ECB);
- (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 (**not applicable to the company during the audit period**);
  - (c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018; (**not applicable to the company during the audit period**);
  - (d) The Securities and Exchange Board of India (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;
  - (g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009 (**not applicable to the company during the audit period**);
  - (h) The Securities and Exchange Board of India (Buyback of Securities) Regulation, 2018 (**not applicable to the company during the audit period**); and
  - (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.
- iii. Tripartite Agreement between the Company, Registrar & Transfer Agent and Depositories

During the period under review, the Company, subject to our observations mentioned in **Annexure A**, has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc.

I further report that, having regard to the compliance system prevailing in the Company and on examination of the relevant documents and records in pursuance thereof, on test-check basis, the Company, subject to our observations mentioned in **Annexure A**, 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
- vii. The Foreign Contribution (Regulation) Act, 2010.

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 Board and attendance of independent directors were confirmed in case of meetings 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 wherever applicable are captured and recorded as part of the minutes.

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

I further report that during the audit period the company has entered into the following major transactions:

Sl. No	Date of Event	Particulars	Approved by
1.	22.05.2018	Issue of 400 Rated, Listed Unsecured, Redeemable, Transferable Subordinated, Fully Paid-Up, Non-Convertible, Basel III compliant securities, in the nature of debentures of the face value of Rs.10 Lakhs each aggregating to INR 40,00,00,000/- (Rupees Forty crores only), on preferential basis to M/s ESAF Swasraya Multi State Agro Co-operative Society Limited.	Board of Directors
2.	04.06.2018	Resignation of Managing Director and Chief Executive Officer, Shri. Kadambelil Paul Thomas with effect from 02.06.2018.	Board of Directors
3.	13.06.2018	Enhancing the Authorised Capital of the Company from Rs.350,00,00,000/- (Rupees Three Hundred and Fifty Crore Only) to Rs. 450,00,00,000/- (Rupees Four Hundred and Fifty Crore Only)	Shareholders
4.	26.07.2018	Issue of 6,36,38,630 Equity shares with face value of Rs.10 each at an issue price of Rs.40.07/- per share on private placement.	Shareholders
5.	25.09.2018	Issue of 5,22,11,679 equity shares (ranking in pari-passu with the existing equity shares) having face value of Rs 10/- at an issue price of Rs 40.07/- per share on private placement.	Shareholders
6.	28.09.2018	Shifting of Registered Office Hepzibah Complex, Second Floor, No.X/109/M4, Mannuthy P.O, Thrissur-680651, Kerala to Building No. VII/83/8, ESAF Bhavan, Thrissur-Palakkad National Highway, Mannuthy, Thrissur- 680651, Kerala.	Board of Directors
7.	01.10.2018	Appointment of Shri. Kadambelil Paul Thomas as the Managing Director and Chief Executive officer of the Company .	Board of Directors

Place: Trivandrum

Date: 10<sup>th</sup> May 2019

#### Annexure A

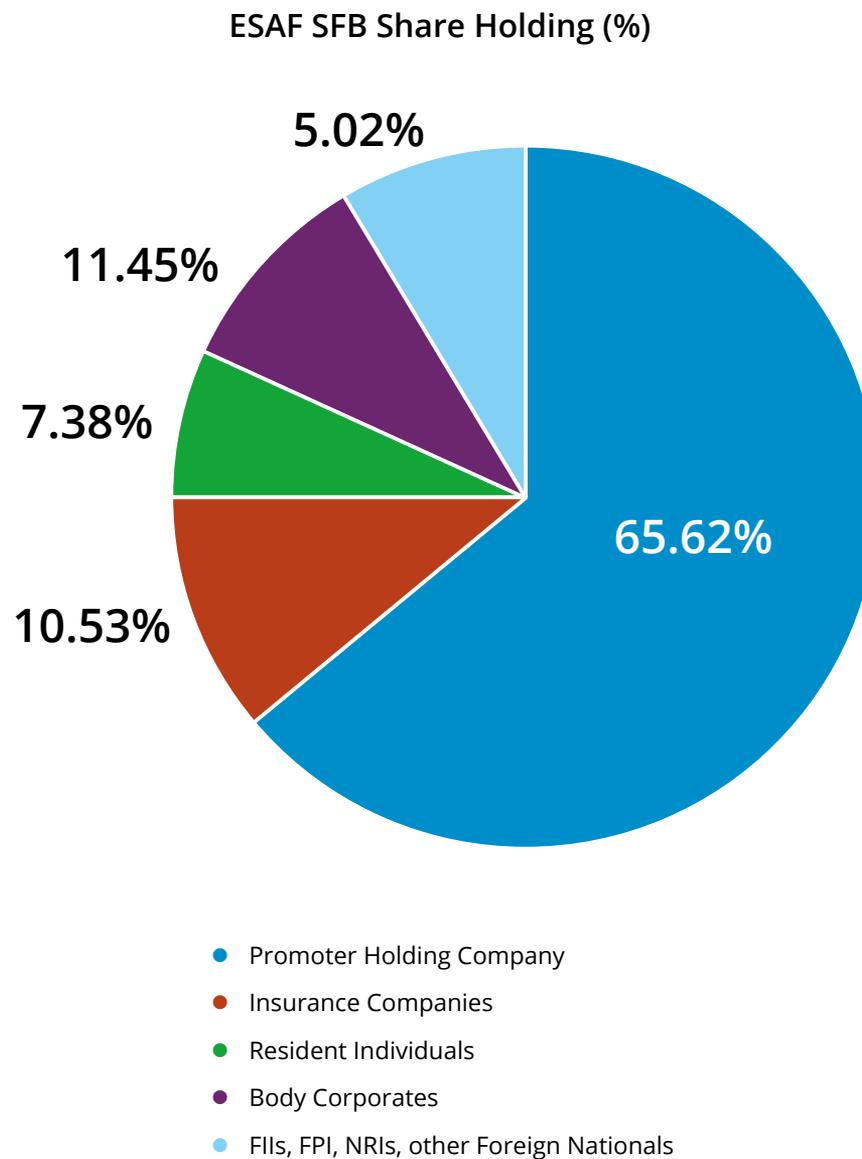
1. Regulation 13(4) of SEBI (LODR) Regulation, 2015 requirement that the statement of Investor Complaints which is submitted before the Stock Exchange shall be placed before the Board on quarterly basis has not been complied with.

Sd/-  
Krishna Prasad R.S.  
FSC No. 7080  
CP No. 7379

ESAF Small Finance Bank Limited ("the Bank") is a public limited company incorporated in India on 05<sup>th</sup> May, 2016 under the provisions of Companies Act, 2013. The Bank received license from Reserve Bank of India (RBI) on November 18, 2016 to carry on the business of Small Finance Bank (SFB) in India and commenced its banking operations on March 10, 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
Corporate Bodies	11.45
FII, 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 the 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 the RBI guidelines, DBR.NBD. No.4502/16.13.218/2017-2018, dated 08<sup>th</sup> November 2017, SFBs are not required to create separate capital charge for market risk and operational risk. As such, your Bank has taken into account capital charge for credit risk only, for arriving at capital adequacy. For credit risk, the 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 for maintaining 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 (31st March 2019)	₹ in Crores
Tier I capital – I	
Paid Up Capital	427.80
Reserves	465.36
Perpetual Debt Instrument	48.00
<b>Deductions – II</b>	<b>1.76</b>
Intangible Assets (Prepaid expenses)	1.76
First loss credit enhancement provided for securitized assets	NIL
Second loss credit enhancement provided for securitized assets	NIL
Any Other Deductions	NIL

Particulars (31st March 2019)	₹ in Crores
<b>Tier II Capital – I</b>	<b>173.05</b>
General provisions on Standard Assets	427.80
Investment Fluctuation Reserve	0.53
Sub Ordinated term Debt	151.00
<b>Deductions – II</b>	
First loss credit enhancement provided for securitized assets	NIL
Second loss credit enhancement provided for securitized assets	NIL
<b>Total Tier II Capital (I-II) B</b>	<b>173.05</b>
<b>Total Capital (A+B)</b>	<b>1,112.45</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 is given below:

- Capital requirements for current business levels and estimated future business levels are assessed on a periodic basis.
  - As per the RBI guidelines for SFBs, minimum capital required to be maintained by the Bank for the period ended 31<sup>st</sup> March, 2019 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, as 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:

Pillar I Risks	Credit Risk
	Market Risk
	Operational Risk
Pillar II Risks	Credit Concentration Risk
	Liquidity Risk
	Interest Rate Risk
	Strategic Risk
	Reputational Risk
	Compliance Risk
	IT and Cyber Security Risk
	People/ Human Resources Risk
	Group Risk
	Outsourcing Risk
	Internal Frauds & Malpractices Risk
	Governance Risk
	Regulatory Norms Violation 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 risks the Bank is willing to assume within its risk capacity to achieve its strategic objectives and business plan. 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.

S. No.	Particulars as on 31-03-2019	₹ in Crores
A	Capital Requirements for Credit Risk	604.83
A.1	Portfolio Subject to Standardized approach	590.75
A.2	For Off Balance Sheet Credit Portfolio	13.52
A3	For Off Balance Sheet Corporate Guarantee	0.56
<b>B</b>	<b>Capital Requirements for Market Risk</b>	Nil
B1	For Interest Rate Risk	Nil
B2	For Equity Risk	Nil
B3	For Forex Risk (including gold)	Nil
B4	For Commodities Risk	Nil
B5	For Options Risk	Nil
<b>C</b>	<b>Capital Requirements for Operational Risk</b>	Nil
	<b>Total Capital Requirement ( A+B+C)</b>	<b>604.83</b>
	<b>Total Risk Weighted Assets ( RWA for all types of assets )</b>	<b>4,032.22</b>
	<b>Total Capital Funds</b>	<b>1,112.45</b>
	<b>CRAR (%)</b>	<b>27.59%</b>
	Tier -1 Capital Adequacy Ratio (%)	23.30%
	Tier -2 Capital Adequacy Ratio (%)	4.29%

Off Balance sheet portfolio includes Securitization, Assignment & Inter Bank Participation Certificates (IBPC). As on 31-03-2019 it amounts to C 385.27 Crs.

## 2. Risk Management

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 the above responsibilities. The Information Security Governance Committee (ISGC) supports the Information Technology Strategy Committee of the Board. The Risk Management Department (RMD) through its Credit Risk, Market Risk, Operational Risk, Information Security, 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.

## 3. Credit Risk

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

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

### 3.1 Credit Risk Governance

The Bank has put in place the Loan Policy, NPA Management Policy and Credit Risk Management Policy, approved by the Board of Directors. While the Loan Policy covers the rules and regulations for processing and sanction of credit, Bank's approach to monitoring of credit, etc., the NPA Management policy covers the rules regarding NPA Management, provisioning, collection & recovery, and mechanisms like compromise settlements, restructuring, legal action, write-off etc. and the Credit Risk Management Policy describes credit risk identification process, procedure for measurement of credit risk and risk mitigation strategies.

### 3.2 Structure and Organization of Credit Risk Management Framework

The Bank has put in place comprehensive Board approved Credit Risk Management Policy. The 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 credit risks in a timely and effective manner.

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 policy 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 the 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 three months to take stock of Bank's credit risk profile, based on the reports placed by Credit Risk Division.

Further, the Bank has put in place a detailed Loan Policy, which spells out various aspects of credit dispensation and credit administration. An effective governance framework is implemented to ensure the independence of the credit risk unit from the business units. 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 by each customer segment. 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. Credit scoring models are used for evaluating applications for credit. The score card is expected to evolve and get fine-tuned when more and more cases are sanctioned based on detailed credit appraisal.

### 3.4 Risk Weights

The Bank adheres to the RBI guidelines defined under the RBI Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) as updated from time to time, for application of risk weights for credit risk measurement and capital computation purposes.

Credit Risk Mitigants have the effect of reducing the net exposure for application of risk weights. Credit Risk Mitigation techniques classified as eligible for reduction in the net exposure include:

- i. Eligible financial collateral
- ii. Guarantees
- iii. On-balance sheet netting

### 3.5 Concentration Risk

The Bank manages concentration risk by means of prudential limits prescribed by the 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 to individual and group borrowers, which are continuously tracked and monitored.

**(ii) Geography-wise exposure:** The Bank continuously monitors the geographical concentration of the business and the inputs are then applied into strategic business planning. The Bank is conscious of its credit concentration in southern states and takes steps to reduce the same by lending in other geographies.

**(iii) Industry exposure:** The Bank's exposure to any single industry is currently not significant. Going forward, the Bank intends to track the exposure to specific industries and also to sensitive sectors, which would contribute to formulating the growth strategy of the Bank.

### 3.6 Credit Exposures & Risk Summary

#### a) Exposure – Facility Type –Table 3

S. No.	Exposure Type	₹ in Crores
1	Gross Loans & Advances	4,587.06
2	Add: Non SLR Investments	644.34
3	Total Fund Based (Total of 1+2 above)	5,231.40
4	Add: Non Fund Based	3.76
	<b>Total (Total of 3+4 above )</b>	<b>5,235.16</b>

#### b) Geographic distribution of credit portfolio -Table 4

S. No.	Exposure Type	₹ in Crores	Percentage
1	Domestic @	4,587.06	100%
2	Foreign	Nil	0%
	<b>Total</b>	<b>4,587.06</b>	<b>100%</b>

@ Excluded are the following

1. Non-SLR investments (Rs. 644.34 Cr) which includes Certificate of Deposits (CD), and Pass Through Certificates (PTC).
  2. Corporate guarantee given for securitization of Rs.3.76 Cr.
- 1 b – 1) State-wise distribution of loan portfolio-Table 5 (Din Crores)

S. No.	State	Portfolio Outstanding	% of Total Portfolio
1	Kerala	2,386.26	52.02%
2	Tamil Nadu	1,331.30	29.02%
3	Maharashtra	228.16	4.98%
4	MP	226.34	4.94%
5	Chhattisgarh	121.69	2.65%
6	Karnataka	129.05	2.81%
7	Jharkhand	59.72	1.30%
8	Pondicherry	32.28	0.71%
9	Bihar	42.74	0.93%
10	West Bengal	17.08	0.37%
11	Assam	11.00	0.24%
12	Orissa	0.77	0.02%
13	Delhi (NCT)	0.17	0.00%
14	AP	0.50	0.01%
	<b>Total</b>	<b>4,587.06</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) Distribution of portfolio between secured and unsecured business Table -6 (₹in Crores)

S. No.	Exposure Type	₹ in Crores
1	Secured	151.10
2	Unsecured	4,435.96
	<b>Total</b>	<b>4,587.06</b>

The Bank is taking steps to diversify the loan portfolio by increasing the secured lending portfolio in a phased manner.

#### d) Sector wise distribution Table -7 (₹in Crores)

S. No.	Industry Classification	Total Exposure	% of Total Exposure
1	Agriculture and Allied Activities	2,590.66	56.48%
2	Advances to Industries Sector eligible as Priority sector lending	577.52	12.59%
3	MSE Trade & Services	776.25	16.92%
4	Personal Loans and other Retail	642.63	14.01%
	<b>Total</b>	<b>4,587.06</b>	<b>100.00%</b>

e) Maturity pattern of Assets Table -8 (₹in Crores)

Maturity Bucket	Cash balance with the RBI	Balance with Banks, Money at Call & Short Notice, GTerm Deposits and other placements	Investments	Loan & advances	Fixed assets	Other assets	Total
Day - 1	71.31	89.24	0.20	16.15	0.00	0.29	177.19
2-7 Days	0.00	170.00	126.74	96.93	0.00	81.75	475.42
8-14 Days	0.00	35.00	76.74	113.08	0.00	2.05	226.87
15-30 Days	1.93	50.00	1.95	258.47	0.00	4.09	316.44
31 Days and up to 2 months	2.79	11.82	2.82	343.71	0.00	2.05	363.19
Over 2 Months and up to 3 months	4.57	0.00	78.61	343.71	0.00	2.05	428.94
Over 3 Months and up to 6 months	14.28	83.71	290.16	932.64	0.00	4.09	1,324.88
Over 6 Months and up to 1 year	51.39	14.61	146.94	1,319.66	0.00	24.56	1,557.16
Over 1 Year and up to 3 years	71.18	0.00	72.14	1,042.11	0.00	0.00	1,185.43
Over 3 Years and up to 5 years	3.74	0.20	3.79	23.32	0.00	0.00	31.05
Over 5 years and up to 7 years	4.72	0.00	188.58	23.27	89.94	107.74	414.25
Over 7 years and up to 10 years	0.03	0.13	109.90	0.00	0.00	0.00	110.06
Over 10 year and up to 15 years	0.00	0.00	199.76	0.00	0.00	0.00	199.76
Over 15 years	20.80	0.00	232.42	0.00	0.00	0.00	253.22
Total	246.74	454.71	1,530.75	4,513.05	89.94	228.67	7,063.86

f) Credit Exposure by Risk Weights Table -9 (₹in Crores)

S. No.	Risk Weight	Gross Outstanding Credit	Risk Weighted Exposure for Credit
1	Below 100% risk weight	4,176.90	3,092.53
2	100% Risk weight	398.97	398.97
3	More than 100% risk weight	11.19	13.99
	<b>Total</b>	<b>4,587.06</b>	<b>3,505.49</b>

g) Credit Risk Mitigation Table -10 (₹in Crores)

S. No.	Particulars	Exposure	Credit Risk Mitigant	Net Exposure
1	Gold Loan	31.57	31.57	Nil
2	Loan against FD	47.91	47.91	Nil

### 3.7 Classification of Non-Performing Assets

#### 3.7.1 Non-performing Assets

An asset including a leased asset becomes non-performing asset, when it ceases to generate income for the Bank. A Non-Performing Asset (NPA) is a loan or an advance where:

- Interest and/or installment 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 installment of principal or interest thereon remains overdue for two crop seasons for short duration crops
- The installment of principal or interest thereon remains overdue for one crop season for long duration crops

**(i) 'Out of Order' status:**

An account is treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days, as on

the date of balance sheet or the credits are not enough to cover the interest debited during the same period, these accounts are treated as 'out of order'.

**(ii) Overdue:**

An amount due to the Bank under any credit facility is overdue, if it is not paid on the due date fixed by the Bank.

**(iii) Special Mention Accounts:**

The Bank identifies incipient stress in accounts by creating a sub asset category named Special Mention Accounts (SMA). It is considered as a corrective action plan to arrest slippages of standard assets to NPA status. Accordingly, the Bank is identifying three sub categories, under SMA as below:

- SMA -0- : Principal or interest payment or any other amount wholly or partly overdue between 1-30 days.
- SMA -1- : Principal or interest overdue between 31 - 60 days.
- SMA -2- : Principal or interest overdue between 61-90 days.

#### 3.7.2 Provisioning

Provision for non-performing advances comprising Sub-standard and Doubtful Assets is made in accordance with the RBI guidelines.

## 1. Amount of NPA as on 31<sup>st</sup> March 2019 Table-11

S. No.	Category	₹ in Crores
A	Amount of NPA (Gross)	74.01
A.1	Substandard	57.19
A.2	Doubtful (100% provision –Unsecured)	16.82
A.3	Loss	0
<b>B</b>	<b>Net NPAs</b>	<b>35.20</b>
C	Advances	
C.1	Gross Advances	4,587.06
C.2	NPA Provisions	38.81
C.3	<b>Net Advances</b>	<b>4,548.25</b>

D	NPA Ratios	
D.1	Gross NPAs to gross advances (%)	1.61%
D.2	Net NPAs to net advances (%)	0.77%

### (ii) Movement of NPA for the Year ending 31<sup>st</sup> March 2019 Table -12 (₹ in Crores)

Particulars	Gross NPA	Net NPA
Opening balance as on April 1, 2018	121.05	84.81
Additions during the period	76.08	35.15
Reduction/Upgradation/ Write-off/ during the period (Net)	123.12	84.76
Closing balance as on 31 <sup>st</sup> March, 2019	74.01	35.20

### (iii) Movement of NPA Provision for the Period ended 31<sup>st</sup> March 2019 - Table 13

Particulars	₹ in Crores
Opening balance as on April 1, 2018	36.24
Provision made during the period	101.20
Write off/ write back excess provision	98.63
Closing balance as on 31 <sup>st</sup> March, 2019	38.81

## 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 securitization guidelines issued by the RBI on May 07, 2012 define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. The Bank undertakes sale transactions through both 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 the 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 the 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 -14 (₹ in Crores)

Particulars	FY 2017-2018	FY 2018-2019
Total number of loan assets securitised (Numbers)	3,29,090	1,46,644
Book value of loan assets securitized	553.03	120.49
Sale consideration received for the securitized assets	539.73	116.27
Interest spread on Securitization during the period	40.97	41.12
Form of services provided	Credit enhancement & post securitisation asset servicing	
Quantum (outstanding value) of services provided:	-	-
Cash Collateral	41.11	36.85
Over Collateral	26.66	17.51
Exposure to own securitization	8	8

#### 4.4.2. Quantitative details of Assignment Transactions originated. Table 15 (₹ in Crores)

Particulars	FY 2017-218	FY 2018-2019
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*	14.36	0.57
Form of services provided	Post transaction asset servicing	
Quantum (outstanding value) of services provided:	-	-

\* Interest spread on Assignment transactions originated in ESAF Microfinance and transferred to ESAF SFB on commencement of the Bank.

## 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 31-03-2019 – Table 16

Leverage Ratio		
	Particulars	₹ in Crores
<b>On Balance Sheet Exposure</b>		
1	On-balance sheet items (excluding derivatives and Securities Financing Transactions (SFT), but including collateral)	7,057.49
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	0
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (1 + 2)	7,057.49
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	58.33
18	(Adjustments for conversion to credit equivalent amounts)	0
19	<b>Off-balance sheet items (sum of lines 17 and 18)</b>	58.33
<b>Capital and total exposures</b>		
20	<b>Tier 1 capital</b>	939.40
21	<b>Total exposures (sum of lines 3, 11, 16 and 19)</b>	7,115.82
<b>Leverage ratio</b>		
22	<b>Basel III leverage ratio</b>	13.20%

## Summary comparison of accounting assets vs. leverage ratio exposure measure

	Particulars	₹ in Crores
1	Total consolidated assets as per published financial statements	7,057.49
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)	58.33
5	Other adjustments	0
6	<b>Leverage ratio exposure</b>	<b>7,115.82</b>

## 6. Liquidity Risk

Liquidity refers to the Bank's ability to fund decrease in liabilities 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, which covers the broad Liquidity Risk, Interest Rate Risk (Banking and Trading book) and Market Risk framework in accordance with the RBI guidelines and as permitted under the rules applicable to Small Finance Banks.

## 7. 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.

### 7.1 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 MD & 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 the 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.

### 7.2 Interest Rate Risk in the Banking Book.

#### 7.2.1 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 repricing period of deposits, borrowings, loans and investments. Economic 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.)

The 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 a monthly basis and monitors the Earnings at Risk (EaR) which measures the change in Net Interest Income of the Bank due to parallel change in interest rate on both assets and liabilities.

The RBI has also stipulated to estimate the impact of change in interest rates on economic value of the Bank's assets and liabilities through interest rate sensitivity under Duration Gap Analysis (IRS – DGA). The Bank also carries out Duration Gap Analysis on a monthly basis as stipulated by the 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% parallel shift in interest rates for both assets and liabilities is estimated.

### 3.7.1 Quantitative Disclosures

#### a) Earnings at Risk (EaR) Table 17 (₹ in Crores)

	Impact on NII (31-03-19)
Impact of 100 bps parallel shift in interest rate on both Assets & Liabilities on Net Interest Income (NII)	5.06

#### b) Market Value of Equity (MVE) Table 18 (₹ in Crores)

	Impact on MVE (31-03-19)
Impact of 200 bps parallel shift in interest rate on both Assets & Liabilities on Market Value of Equity	28.67
Impact of 100 bps parallel shift in interest rate on both Assets & Liabilities on Market Value of Equity	14.34

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.

## 8. 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.

### 8.1 Structure and organization of operational risk management function

Risk Management Committee of the Board oversees the bank-

wide Operational Risk Management. The 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.

### 8.2 Business Continuity Management

The Operational Risk Management Committee also functions as 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. 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 etc. 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 using an enterprise-wide Risk Management software solution, SAS Enterprise GRC, 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.

The Bank has also framed a whistle blower policy, which is open to employees and vendors for raising their concerns, with full confidentiality, on any fraud, malpractice or any other untoward activity or event.

Since the RBI has not prescribed capital charge for Operational

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

### 8.3 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 been given 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.
- Maintenance of a compliance culture across the organization ensuring that all the employees starting from the branch staff, 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 requirements covering systems and controls, training of staff and management oversight and ensure its effective implementation.
- Reporting on cash transactions above the limits specified, transactions involving receipts by non-profit organizations and transactions involving the use of forged or counterfeit currency notes, to the Director, Financial Intelligence Unit- India.

### 9. 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 directly.

### 10. 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 the 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 make an assertion in Directors' 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 Head 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.

## 11. Risk Management for protecting interests of stakeholders

- 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.

## 12. 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 the Reserve Bank of India from time to time.

# REPORT ON CORPORATE GOVERNANCE

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## OUR CORPORATE GOVERNANCE PHILOSOPHY "SERVING THE UNDERSERVED"

For ESAFians, the responsibility of serving the people at the bottom of the pyramid comes as a huge privilege. The Organization knows the weightage of the responsibility on its shoulders and is more resolute and committed in implementing and practicing the best techniques available in Corporate Social Responsibility practices.

Over the past two years, ESAF Bank has been evolved as a financial institution of repute by keeping the following values abreast:

1. **Customer Centric**
2. **Transparency**
3. **Accountability**
4. **Commitment**
5. **Servant leadership**

The Bank and its Directors understand and respect their fiduciary role and responsibility to all its stakeholders.

The report on the Bank's Corporate Governance, as per the applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, is as under:

### Composition of the Board of Directors

Composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949 and Regulation 17 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. As on 31<sup>st</sup> March, 2019, 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 interalia 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 31<sup>st</sup> March, 2019 is furnished as hereunder:

# BOARD OF DIRECTORS

## Board Profile

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**Mr. Prabha Raveendranathan**  
(Chairman and Non-Executive Independent Director)

Mr. Prabha Raveendranathan is a retired General Manager of Canara Bank and has served on the Boards of Sa-Dhan, a national association of microfinance institutions, as an invitee member. He has extensive experience in Commercial Banking both at corporate level and operational level (lending to large Corporates, MEs, Exports, Agriculture and Micro-Finance sector). He has also headed one of the Mega circles of Canara Bank in Chennai with Board /Managing Committee (MC) level exposure and has experience as the Chairman of South Malabar Gramin Bank in Kerala where he was instrumental in introducing good governance practices. He is also known for creating a new model among RRBs. Mr. Prabha has a wide and deep understanding of Microfinance sector and lending to the poor through SHGs/NGOs and CBOs. He has also served as the secretary for the informal group set up by the RBI in 2005 for creating a regulatory framework for the MFI sector.



**Mr. Kadambelil Paul Thomas**  
(Managing Director and CEO)\*

K. Paul Thomas is the Founder of ESAF Group of Social Enterprises including ESAF Microfinance and Investments Pvt Ltd. He has been a management professional for over 32 years out of which more than 25 years are in the microfinance sector. Before starting the microfinance program, Mr. Paul Thomas had worked with Indian Farmers Fertilizers Co-operative Ltd (IFFCO) the world's largest cooperative owned fertilizer company, for 18 years during which he travelled extensively through rural India. During these trips he came to the realization that community transformation is possible through creating opportunities. This inspired him to start microfinance lending under ESAF society. He is on the Boards of apex microfinance bodies like MFIN and he is the founder and President of Kerala Association of Microfinance Institutional Entrepreneurs (KAMFI). Currently, he is the Chairman of CII Kerala.

\*He resigned from the position of Managing Director and CEO on 13<sup>th</sup> June, 2018 and was re-appointed as the Managing Director and CEO with effect from 01st October 2018.



**Mr. Assan Khan Akbar**  
(Non-Executive Director)

Mr. Assan Khan Akbar is a former General Manager of Federal Bank. He has over 40 years of experience in all facets of modern banking. Beginning his career as a probationary officer in Union Bank of India, he has risen to the level of General Manager in Federal Bank Ltd. He has vast knowledge in all areas and aspects of banking, including International Banking. Known for his strong acumen in strategy formulation and implementation he has organized and managed various departments including Agricultural Finance, Priority Sector Lendings, Lead Bank Schemes, Govt. Sponsored Schemes, Planning and Development, HR etc. Mr. Akbar was associated as the Chief Strategic Advisor and Chief Risk Officer at ESAF Microfinance and Investments Pvt Ltd, during the six years period before the launch of the Bank.



**Dr. V. A. Joseph**  
(Non-Executive Independent Director)

Dr. Joseph Vadakkekara Antony (Dr. V.A Joseph), former Chairman, Managing Director and CEO of South Indian Bank, has over four decades of experience in the Banking and financial sector. Dr. Joseph had joined as a Trainee officer in Syndicate Bank during June 1972, and had worked at the Branch Manager level for 15 years in cities like Trivandrum, Ernakulam and Pune. He also adorned roles like Principal of Staff Training College, Udipi, Karnataka for two years and he also headed the Human Resource Development, at Manipal (Head Office). Before joining South Indian Bank, he was the General Manager of Syndicate Bank, Mumbai Zone, overseeing the operations of the Bank in the states of Maharashtra, Gujarat, Goa and Chattisgarh. In the year 2005, he was appointed as the Chairman and CEO of South Indian Bank and then, as the Managing Director and CEO during 2008. He retired from the service of the Bank on 30<sup>th</sup> September 2014. Dr. Joseph is a post graduate in Commerce and Personnel Management. Besides being a certified associate of the Indian Institute of Bankers, he also possesses Ph.D and LLB from Pune University.



**Mr. George Joseph**  
(Non-Executive Independent Director)

Mr. George Joseph is a former Chairman & Managing Director of Syndicate Bank. Before joining Syndicate Bank, he had worked with Canara Bank for 36 years. He joined Canara Bank as a Probationary Officer in 1969 and had worked in its different centers viz, Bengaluru, Chennai, Kerala, Srinagar, Mumbai, Delhi etc. Also while with Canara Bank, he was the Chief Executive of the Exchange Company at Bahrain under Canara Bank management. He is a first rank commerce graduate from Kerala University. He also ranked first among the Indian candidates and 11<sup>th</sup> in the AIB Examination (London) of the Institute of Bankers, London. He is also a Certified Associate of Indian Institute of Banking and Finance. He has hands-on experience in all facets of banking namely: credit, foreign exchange, NRI business, inspection, operations, administration, priority sector lending etc. He has worked in the Corporate Office, Circle Office, Specialized branches and General branches including rural branches. Mr. George has also held the chairmanship of the State Level Banker's Committee, Karnataka. A man of exceptional talent, Mr. George during his tenure has opened over 6 million accounts in a span of three years.



**Mr. Saneesh Singh**  
(Nominee Director)

He has over 26 years of experience in the fields of development, banking & finance, financial inclusion, Micro and Small Enterprise (MSME) lending and social & impact investments. He is currently the Managing Director & CEO of Dia Vikas Capital Pvt. Ltd. (Dia), a subsidiary of Opportunity International Australia (OIA) and leads OIA's initiatives in India. Mr Singh has been engaged in institution building, mentoring and governance of major microfinance institutions and has wide exposure to innovative community finance arrangements & social investments in India and abroad. He is a member of Inclusive Finance India Group of Advisors and has been associated as committee member with various national level MSME technical institutes, industry associations, business incubators and management training institutions etc. He had earlier worked in senior managerial capacities at Small Industries Development Bank of India (SIDBI) and was part of the core team that initiated its highly successful microfinance program.



**Mrs. Asha Morley**  
(Non-Executive Independent Director)

Mrs. Asha Morley 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 has 35 years of post qualification experience as a Chartered Accountant / Consultant across India and the Middle East. She was associated for 9 years with Indian Companies including leaders in the private sector. She has dealt with various Financial Institutions and consortiums. Mrs. Morley has been in Practice / Consultancy for more than 26 years and has rich experience in Statutory, Tax and Internal Audits of Banks, Companies, Finance, and Investment Firms. She is also involved in various capacities in organisations for social causes.



**Mr. Alex Parackal George**  
(Non-Executive Independent Director)

Mr. Alex Parackal George holds a B.tech degree in Chemical Engineering from Indian Institute of Technology, Madras and a Post Graduate Diploma in Management (PGDM) from the Indian Institute of Management, Calcutta. He has nearly 35 years of experience in small and medium industry sectors. He has been a resource person for many years for the MSME Institute, Kerala branch addressing various seminars and conducting training programs apart from being a guide and mentor for their activities, especially entrepreneurship for engineering colleges. He is also a guide and mentor to the KHADI & Village Industries Commission (KVIC), with special focus on fresh entrepreneurs. He has been President of the FIC Industries Association and a member of the Athani Development Plot Manufacturers Association and Kerala Small Industries Association. He is also a resource person for TIE (The Indus Entrepreneurs). Alex has been active in the Stock Markets since early days and is a successful long term investor. He has been involved in many investor promotion activities. He was a Director at Investors Club, Thrissur for more than a decade and was its President for some time. He is also a resource person for Investor Protection seminars and workshops conducted by the Institute of Chartered Accountants of India in association with the Ministry of Company Affairs. He also addresses various forums on Strategy, Budget, Stock Markets and State of the Economy on a regular basis.

## Meetings of the Board of Directors

The Board of Directors during the financial year 2018-19 met 17 times on 22.05.2018, 04.06.2018, 13.06.2018, 29.06.2018, 26.07.2018, 31.07.2018, 04.09.2018, 24.09.2018, 25.09.2018, 28.09.2018, 01.10.2018, 03.10.2018, 05.11.2018, 05.12.2018 17.12.2018, 07.02.2019 and 25.03.2019. 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.

Name	No. of Board Meetings held	No. of Board Meetings attended	Attendance of Last AGM
1. Prabha Raveendranathan	17	17	Yes
2. Kadambelil Paul Thomas	17	17	Yes
3. Asha Morley	17	16	Yes
4. Alex Parackal George	17	17	Yes
5. Assan Khan Akbar	17	17	Yes
6. Saneesh Singh	17	16	Yes
7. George Joseph	17	17	Yes
8. Joseph Vadakkekara Antony	17	17	Yes

## Committees of the Board

The Board has constituted several committees to deal with specific matters and delegated powers for different functional areas. These committees monitor the activities falling within their terms of reference. The Board of Directors have formed Eight Committees (8) as on 31<sup>st</sup> March 2019. The details of the Committees are enlisted in the table below:

Sl.No	Name of the Committee
1	Audit Committee
2	Nomination and Remuneration Committee
3	Risk Management Committee
4	Management Committee
5	CSR Committee
6	IT Strategy Committee
7	Customer Service Committee
8	High Value Fraud Monitoring Committee

### (i) Audit Committee of the Board

Currently, the Committee has four (4) members.

The meetings of the Committee were held on 24<sup>th</sup> April, 2018, 22<sup>nd</sup> May, 2018, 31<sup>st</sup> July, 2018, 05<sup>th</sup> November 2018, 07<sup>th</sup> February 2019 and 25<sup>th</sup> March 2019.

The composition of the Audit Committee along with the attendance recorded in the meetings held during the period 2018-19 are mentioned below:

Sl.No	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1	Asha Morley	Chairperson	6	6
2	Prabha Raveendranathan	Member	6	6
3	Assan Khan Akbar	Member	6	6
4	George Joseph	Member	6	6

## (ii) Nomination and Remuneration Committee of the Board

The Constitution of the Committee was reconstituted during the Financial Year 2018-19 on 03<sup>rd</sup> October 2018.

Currently, the Committee is having Four (4) members. The meetings of the Committee were held on 22<sup>nd</sup> May 2018, 13<sup>th</sup> June, 2018, 26<sup>th</sup> July, 2018, 28<sup>th</sup> September, 2018, 05<sup>th</sup> November, 2018, 05<sup>th</sup> December, 2018, 07<sup>th</sup> February, 2019 and 25<sup>th</sup> March, 2019.

The details of the Committee meetings held during the FY 2018-19 along with the attendance recorded therein are mentioned below:

Sl.No	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1	Dr. V. A. Joseph	Chairperson	8	8
2	Saneesh Singh	Member	8	8
3	Asha Morley	Member	8	8
4	George Joseph**	Member	4	4
5	Assan Khan Akbar**	Member	4	4
6	Prabha Raveendranathan*	Member	4	4

\* Mr. Prabha Raveendranathan was appointed as member of the Committee on 03<sup>rd</sup> October, 2018.

\*\*Mr. Assan Khan Akbar and Mr. George Joseph ceased to be members of the Committee on 03<sup>rd</sup> October, 2018.

## (iii) Risk Management Committee of the Board

The Risk Management Committee of the Board was reconstituted on 03.10.2018. Currently the Committee is having three members. The Risk Management Committee of the Board was convened 5 times during the Financial Year 2018-19 on 22<sup>nd</sup> May, 2018, 29<sup>th</sup> June, 2018, 18<sup>th</sup> September, 2018, 17<sup>th</sup> December, 2018 and 26<sup>th</sup> March, 2019. The details regarding the composition of the Committee along with the attendance recorded therein are detailed in the table below:

Sl.No	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1	Alex Parackal George	Chairman	5	5
2	Prabha Raveendranathan**	Member	3	3
3	V. A. Joseph**	Member	3	3
4	Assan Khan Akbar*	Member	2	2
5	George Joseph*	Member	2	2

\* Mr. Assan Khan Akbar and Mr. George Joseph were appointed as members of the Committee on 03<sup>rd</sup> October, 2018.

\*\*Mr. Prabha Raveendranathan and Dr.V.A. Joseph ceased to be members of the Committee on 03<sup>rd</sup> October, 2018.

## (iv) Management Committee of the Board

The Management Committee of the Board was reconstituted during the FY 2018-19 on 03<sup>rd</sup> October 2018. Currently the Committee is having 4 members.

The Management Committee was convened Eight (8) times during the Financial Year 2018-19 on 24<sup>th</sup> April, 2018, 13<sup>th</sup> June, 2018, 31<sup>st</sup> July, 2018, 04<sup>th</sup> September, 2018, 02<sup>nd</sup> November, 2018, 05<sup>th</sup> December, 2018, 21<sup>st</sup> January, 2019 and 05<sup>th</sup> March, 2019.

The details regarding the composition of the Committee along with the attendance recorded therein are detailed in the table below:

Sl.No	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1	Prabha Raveendranathan	Chairman	8	8
2	Assan Khan Akbar	Member	8	8
3	Kadambelil Paul Thomas*	Member	5	5
4	Dr. V. A. Joseph	Member	8	8

\*Mr. Kadambelil Paul Thomas ceased to be a member of the Committee on 13<sup>th</sup> June, 2018 and was re-appointed as a member of the Committee on 03<sup>rd</sup> October, 2018.

## (v) Corporate Social Responsibility Committee of the Board

The Bank has constituted a Corporate Social Responsibility Committee pursuant to the provisions of the Companies Act, 2013.

The Committee was reconstituted on 13<sup>th</sup> June, 2018 and 03<sup>rd</sup> October, 2018 during the Financial Year 2018-19. During the Financial Year 2018-19, the meeting of the Committee was convened two times on 28<sup>th</sup> September, 2018 and 07<sup>th</sup> February, 2019.

The details pertaining to the constitution of the CSR Committee, the details of meetings convened during the FY 2018-19 and the attendance recorded therein are enlisted in the table below:

Sl.No	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1	Saneesh Singh	Chairman	2	2
2	Kadambelil Paul Thomas*	Member	1	1
3	Dr. V. A. Joseph	Member	2	2
4	George Joseph**	Member	1	1

\*Mr. Kadambelil Paul Thomas ceased to be a member of the Committee on 13<sup>th</sup> June, 2018 and was re-appointed as a member of the Committee on 03<sup>rd</sup> October, 2018.

\*\*Mr. George Joseph was appointed as a member of the Committee on 13<sup>th</sup> June, 2018 and ceased to be a member of the Committee on 03<sup>rd</sup> October, 2018.

## (vi) IT Strategy Committee of the Board

The Bank had constituted an IT Strategy Committee pursuant to the guidelines of the Reserve Bank of India. The Committee was reconstituted on 13<sup>th</sup> June, 2018 and 03<sup>rd</sup> October, 2018 during the Financial Year 2018-19. Currently, there are 3 members in the IT Strategy Committee.

An organisation having a robust IT Policy will definitely enjoy more confidentiality, security and Independence while implementing its managerial decisions. The formulation of the Committee will ensure the following benefits to the Organization:

1. To formulate robust and effective software and hardware policies for the Bank.
2. To recommend the framed policies to the Board of Directors.
3. To monitor the effectiveness and of the existing IT Policies adopted by the Bank.

The IT Strategy Committee of the Board was convened 4 times during the Financial Year 2018-19 on 29<sup>th</sup> June, 2018, 28<sup>th</sup> September, 2018, 17<sup>th</sup> December, 2018 and 27<sup>th</sup> March, 2019.

The details regarding the constitution of the Committee, the number of meetings convened and the attendance recorded therein are detailed below:

Sl.No	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1	Assan Khan Akbar	Chairman	4	4
2	Alex Parackal George	Member	4	4
3	Kadambelil Paul Thomas*	Member	2	2
4	Prabha Raveendranathan**	Member	2	2

\*Mr. Kadambelil Paul Thomas ceased to be a member of the Committee on 13<sup>th</sup> June, 2018 and was re-appointed as a member of the Committee on 03<sup>rd</sup> October, 2018.

\*\*Mr. Prabha Raveendranathan was appointed as a member of the Committee on 13<sup>th</sup> June, 2018 and ceased to be a member of the Committee on 03<sup>rd</sup> October, 2018.

## (vii) Customer Service Committee of the Board

Pursuant to the directives issued by the Reserve Bank of India, the Bank had constituted a Customer Service Committee to bring about improvements in the quality of customer services provided by the Bank.

The Customer Service Committee was reconstituted on 13<sup>th</sup> June, 2018 and 03<sup>rd</sup> October 2018 during the Financial Year 2018-19. The Customer Service Committee comprises of members who have adequate skills and rich experience dealing with the customers belonging to different strata in the society.

The Customer Service Committee of the Board was convened four times during the Financial Year 2018-19 on 25<sup>th</sup> June, 2018, 28<sup>th</sup> September, 2018, 17<sup>th</sup> December, 2018 and 25<sup>th</sup> March, 2019. Currently, the Committee consists of three members.

The details regarding the constitution of the Committee, the number of meetings convened and the attendance recorded therein are detailed below:

Sl.No	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of meetings attended
1	George Joseph	Chairman	4	4
2	Alex Parackal George	Member	4	4
3	Saneesh Singh**	Member	2	2
4	Kadambelil Paul Thomas*	Member	2	2
5	Asha Morley**	Member	2	2

\*Mr. Kadambelil Paul Thomas ceased to be a member of the Committee on 13<sup>th</sup> June, 2018 and was re-appointed as member of the Committee on 03<sup>rd</sup> October, 2018.

\*\*Mr.Saneesh Singh and Mrs. Asha Morley were appointed as members of the Committee on 13<sup>th</sup> June, 2018 and ceased to be members of the Committee on 03<sup>rd</sup> October, 2018.

### (viii) High Value Fraud Monitoring Committee of the Board

A High Value Fraud Monitoring Committee was constituted by the bank on 3<sup>rd</sup> October, 2018 to monitor and review all the frauds of Rs.10 lakhs and above 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 the RBI;
- 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.

No meetings of the Committee were convened as there were no frauds reported above the value of Rs.10 Lakhs during the Financial Year 2018-19.

The Constitution of the High Value Fraud Monitoring Committee consists of the following:

Sl.No	Name of the Members of the Committee	Designation
1	Kadambelil Paul Thomas	Chairman
2	Assan Khan Akbar	Member
3	Saneesh Singh	Member
4	Dr. V.A. Joseph	Member
5	Asha Morley	Member

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 MD & CEO are paid sitting fee as given below:-

1. Board Meeting	Chairman	Rs.50000/- per meeting
	Other Directors	Rs.40000/- per meeting
2. Board Committees	Committee members	Rs.30000/- per meeting

### Fair Practices Code

The Bank has adopted the Fair Practices Code pursuant to the RBI guidelines issued in this regard, which is placed on the Bank's website and displayed 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 Act 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 SEBI and/or any other statutory authorities on matters relating to capital market.
- None of the Directors are related to any other Director.

### Shareholder Information

a. Date, time and Venue of 3<sup>rd</sup> AGM

The 3<sup>rd</sup> AGM of the Bank will be held on Tuesday, 06<sup>th</sup> August, 2019 at the Registered and Corporate Office of the Bank at Building No.VII/83/8, ESAF Bhavan, Mannuthy, Thrissur-Palakkad National Highway, Thrissur, Kerala, PIN-680 651.

b. Financial Calendar

The financial calendar of the Bank is from 1<sup>st</sup> April to 31<sup>st</sup> March.

# RISK MANAGEMENT IN ESAF SMALL FINANCE BANK

## Introduction

ESAF Small Finance Bank has put in place a structured Risk Management architecture in order to manage the Bank's financial and non-financial risks in a manner consistent with its risk appetite, within which the Bank conducts its operations and businesses.

### The Risk Management framework of the Bank is built on the following fundamental principles:

- **Risk Governance:** This is possible through Identification, Measurement, Monitoring, Management and Control of different risks.
- **Independence of Risk Management:** The Bank has an effective and independent risk management function, under the Chief Risk Officer (CRO), who has direct access to the Board of Directors through the Risk Management Committee of the Board (RMCB). Risk Management Department is a key participant of the Bank's second line of defence and is responsible for overseeing risk-taking activities across the Bank. It supports the Board of Directors in implementation, review and approval of the Bank-wide risk governance framework, which includes the Bank's risk culture, risk appetite and risk limits. While the risk managers work closely with the business units, the risk management function works independent of the business units and are not involved in any function of business development or income generation. The Risk Management Department has access to all business lines that have the potential to generate material risks.
- **Top-Down approach in Risk Management:** The Bank follows a top-down approach in Risk Management. The risk management structure supports risk-informed decisions at the Executive Level Committees, ensures a risk dialogue among the top management team and enables proper risk oversight by the Board. The top-down risk management approach provides the crucial leadership and guidance that the Bank needs to possess in order to balance risk and reward optimally and steer it in the right direction. The Bank also has a Board level Risk Management Committee, where the risks are explicitly discussed and the overall risk profile of the Bank and the risks surrounding major decisions are reviewed periodically. While the Risk Management Committee of the Board reviews and recommends appropriate actions, it is the Board of Directors that finally approves any policy level decisions or actions that bring in changes in the risk management strategies of the Bank. The Bank's successful risk transformation is therefore administered and governed from the top.
- **Building up a Risk Management Culture:** The Bank believes in the philosophy of proactively thinking and taking preventive measures before a crisis occurs. Risk awareness is created at the time of employee induction stage itself through various training sessions on Risk Management and Compliance. The Bank has put in place Business Continuity, Crisis Management and Disaster Recovery plans. Further, all the potential and future risks are analysed and presented before the Board of Directors and the Top Management on a quarterly basis through the ICAAP review by the Risk Management Department. Any major areas of concern are communicated across the Bank through circulars, notifications and

emails. The Bank has created a Risk Management Architecture with a well-structured Risk Management Department, comprising of six Divisions dealing with different types of risks.

- **Balancing Business and Risk:** The biggest risk in a bank is the risk of not having required level of business in a stable and sustainable manner. Having a strong risk management culture in the Bank does not mean taking as little risk as possible, but instead helping the Bank to consciously take appropriate business risks that fit its risk appetite, vision and strategy. The Bank has a proper risk management structure in place, intended to ensure that the interests of all stakeholders are protected. The Bank follows the principle of appropriate trade-off between risk and rewards to add to the economic value of its equity.

### Risk Management architecture in the Bank

The Bank has a well-defined Risk Management Architecture with the following key features:

- I. Active board and senior management oversight;
- II. Appropriate policies, procedures and limits;
- III. Comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- IV. Appropriate Management Information Systems (MIS) at the business and firm-wide level; and
- V. Comprehensive internal controls.

While the Board of Directors is responsible for overall governance and oversight of core risk management activities, it has delegated authority to the Risk Management Committee of the Board (RMCB) for oversight and review of the processes and practices of risk management in the Bank, and further sub-delegated to the executive level Credit Risk Management Committee (CRMC) for managing Credit Risk, Operational Risk Management Committee (ORMC) for managing Operational Risk and the Asset Liability Management Committee (ALCO) for managing Market Risk and Liquidity Risk. The RMCB 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 organisation structure with authority and responsibility clearly defined, ensuring the independence of Risk Management function.

Risk Management Department (RMD) is responsible for formulation of risk policies and ICAAP ( Internal Capital Adequacy Assessment Process) , 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 and identifying impact on key risk parameters, coordinating the implementation of risk management framework approved by the Board, periodical risk reporting etc.

The Risk Management Department is headed by the Chief Risk Officer, who is independent of all business and other functions, and reports directly to the Managing Director & CEO, with parallel reporting to the Board of Directors through the Risk Management Committee of the Board. Risk Management Department has six Divisions attached to it - Credit Risk, Market Risk, Operational Risk, Anti Money Laundering & Transaction Monitoring, Information

Security and Internal Financial Control Divisions, for undertaking risk management functions. Heads of the Divisions report to the Chief Risk Officer (CRO). 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 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 throughout the Bank.

To ensure that the Senior Management is free to focus on driving the business objectives of the Bank with adequate emphasis on risk management, controls and compliance, a suitable reporting structure has been created.

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 Risk Architecture of the Bank are:

- I. Segregation of duties across the 'three lines of defence' model, whereby business functions, risk management and compliance and Internal audit roles are made independent of one another.
- II. Risk strategy is approved by the Board on an annual basis and is defined based on the Bank's risk appetite aligning risk, capital and performance targets.
- III. All major risk classes are managed through focused and specific risk management processes; these risks include credit risk, market risk, operational risk, liquidity risk etc. Policies, processes and systems are in place to enhance the risk management capability of the Bank.
- IV. The Risk function has appropriate representation on management committees of the Bank to ensure that risk view is factored into in business decisions. Stress testing tools and escalation processes are established to monitor the performance against approved risk appetite parameters.

The Risk management activities in the Bank are governed by the following Policy documents approved by the Board of Directors:-

Sl.No	Policy Name
1	Risk Management Governance Policy
2	Credit Risk Management Policy
3	ICAAP Policy
4	Policy on Bank Guarantee
5	Loan Policy
6	NPA Management Policy
7	Stress Testing Policy
8	Asset Liability Management/Market Risk Management Policy
9	FATCA Policy
10	Asset & Liability Pricing Policy
11	Liquidity Risk Management Policy
12	Group Risk Management Policy
13	Operational Risk Management Policy
14	Business Continuity Management Policy

15	Fraud Risk Management Policy
16	Model Risk Management Policy
17	Reputational Risk Management Policy
18	Strategic Risk Management Policy
19	Product & Process Approval Policy
20	Outsourcing Risk Management Policy
21	Vendor Risk Management Policy
22	KYC/AML/CFT Policy
23	Information Security Policy
24	Cyber Security Policy
25	IT Privacy Policy
26	Internal Financial Controls Policy

## Credit Risk Management

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 (CRMC). The CRMC manages implementation of credit risk management framework across the Bank and provides recommendations to the RMCB and the Board. It ensures implementation of credit risk policy and procedures, as approved by 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 the 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, 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 the credit risk parameters and credit exposure / concentration limits are set by the Bank's Board of Directors and the 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 and submits its analysis and reports to the RMCB and the Board of Directors on an on-going basis. The 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 major components of market risk include:

- I. **Interest rate risk:** The potential loss due to movements in interest rates.
- II. **Liquidity risk:** The potential loss due to the bank's inability to meet obligations as they fall due, or due to fund increase in assets, without incurring unacceptable cost or losses.
- III. **Equity risk:** The potential loss due to an adverse change in the stock price.

**IV. Foreign exchange risk:** The potential loss due to change in value of the bank's assets and liabilities resulting from exchange rate fluctuations.

**V. Commodity risk:** The potential loss due to an adverse change in commodity prices.

Market Risk Management in the Bank is overseen and undertaken by the Market Risk Division of the Risk Management Department. The Division 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 controlling and managing market risk. 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 independent market risk monitoring, measurement and analysis reports to the Bank's Chief Risk Officer.

The Market Risk Management and Asset Liability Management (ALM) functions of the Bank are handled by the Asset Liability Management Committee (ALCO), the executive level committee, headed by the Managing Director & CEO.

**The major functions of ALCO with respect to managing risks in the banking and investment books of the Bank include:**

- I. Design and implementation of effective market risk management and ALM framework in the Bank
- II. 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.
- III. Ensuring that business strategy of the Bank is in line with Bank's stated risk management objectives.
- IV. Determining the structure, responsibilities and controls for managing Market Risk and the liquidity positions.
- V. Ensuring independence in the working of the Mid Office and Market Risk functions.

### Operational Risk Management

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 by the Operational Risk Management Committee (ORMC).

The ORMC mitigates operational risk by creation and maintenance of an explicit operational risk management process. It conducts detailed reviews of all operational risk exposures across the Bank and focuses on all operational risk issues.

The ORMC 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 ORMC, the Operational Risk Division also coordinates with the Product & Process Approval (PPA) Committee, the Outsourcing & Vendor Risk Management (OVRM) Committee and the Business Continuity Management (BCM) Committee. The

PPAC is responsible for new product and process approvals, as well as refinement of existing products, systems and processes. The OVRMC is responsible for 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 (RCSA) 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 ORM model of the Bank facilitates conducting of Risk and Control Assessments, Scenario Assessments, Controls Testing, Investigation of Incidents, Tracking of Issues and Development of Action Plans etc. 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 Management

Information security governance is the system by which an organization directs and controls its IT security. IT Security governance is distinct from IT Security Risk Management which relates to mitigation and management of risks and vulnerabilities that are centred in the IT infrastructure. Information security governance allocates the authority to make decisions and specifies the accountability framework and oversight to ensure that risks are adequately mitigated or managed. It ensures that security strategies that manage the flow and dissemination of information are aligned with business objectives, consistent with regulations in force.

Oversight of Information Security Governance for the Bank is done by the Information Security Governance Committee (ISGC). The ISGC is an Executive level committee headed by the Managing Director & CEO.

The ISGC monitors/reviews/directs and manages the Bank's Information Security Risk Management System by establishing a robust Information Security Risk Management framework within the Bank. This Committee reports to the Board of Directors through the IT Strategy Committee of the Board and keeps the Board apprised of relevant risks that need attention.

### AML & 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 fraudulent practices. At your Bank, regulatory controls and compliance requirements are in place with an objective of ensuring that the Bank's customer base excludes persons prone to attempt money laundering and other financial crimes. This has occupied 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 the Risk Management Department.

**The AML & TM Division of the Risk Management Department focuses on the following aspects:**

- Risk categorisation of customers at the time of account opening, and transaction monitoring measures that align with the risk categorisation of the customers.
- Maintenance of a compliance culture across the organization ensures that all the employees understand money laundering risks and the consequences of breaches in AML norms.
- Effective implementation of the KYC/AML Policy of the Bank ensures 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 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.
- Monitoring of transactions with the intention of identifying and preventing frauds and malpractices, using fraud monitoring systems.

### Internal Financial Control (IFC)

The Bank has developed an Internal Financial Control (IFC) Framework in line with the requirements prescribed by 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 the 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 and submits a report to the Board of Directors. The Board confirms that the Internal Financial Controls in the Bank are adequate and operating effectively.

The Bank has identified and documented Risk Control Matrices (RCM) incorporating all the major processes along with the key risks associated with them. It also spells out controls, at entity and process levels, for mitigating those risks. The reporting of the status is made to the Audit Committee of the Board (ACB).

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. Testing includes both Test of Design Gaps as well as Test of Operating Effectiveness. After certifications from Heads of Departments, Head – IFC Division confirms to the Chief Financial Officer, who certifies the Bank’s IFC compliance in the Annual Report.

### Material Risk Assessment

The Risk Management Department assesses on a quarterly basis and presents to the Board of Directors all the major risks faced by the Bank and identifies the risks which are material to the Bank through the ICAAP (Internal Capital Adequacy Assessment Process) review document. The Bank’s policies and procedures provide specific guidance for the implementation of broad business strategies and establish, where appropriate, internal limits for various types of risks to which the Bank may be exposed.

Material risks are those risks faced by the Bank that impact the

Bank’s earnings, capital and people. A combination of the following qualitative and quantitative parameters is assessed to study the impact of a specific risk on the Bank to check for materiality:

- Earnings: Earnings include net interest income and non-interest income. The assessment is forward looking and aligned to financial plans.
- Capital: The material risk assessment exercise assesses the impact of adverse events on capital requirements for the Bank. This is mainly done through the Stress testing exercise.
- People: This criterion assesses the impact of different risk events on the staff including staff morale, attrition rate, performance management, training and development, balancing business requirements with personal goals of employees, etc.

Material Risks covered under ICAAP and identified using Expert Judgment Analysis are listed below. A comprehensive review is undertaken during each quarter for each of the identified Material Risks and their management, assessment and monitoring.

Pillar I Risks	Credit Risk
	Market Risk
	Operational Risk
Pillar II Risks	Credit Concentration Risk
	Liquidity Risk
	Interest Rate Risk
	Strategic Risk
	Reputational Risk
	Compliance Risk
	IT and Cyber Security Risk
	People/ Human Resources Risk
	Group Risk
	Outsourcing Risk
	Internal Frauds & Malpractices Risk
	Governance Risk
	Regulatory Norms Violation Risk
	Governance Risk
	Regulatory Norms Violation Risk
Governance Risk	
Regulatory Norms Violation Risk	

### Risk Tolerance Levels and Risk Appetite Statement (RAS)

Risk appetite is the level of risk that the Bank is prepared to accept in pursuit of its business objectives, the level beyond which the Bank does not intend to go. It represents a balance between the potential benefits and the threats. The Bank has degrees of Risk Appetite for various types of risks defined under the Pillar I and Pillar II categories under Basel III norms. This has been established through the Bank’s Risk Appetite statement, approved by the Board of Directors. The Risk appetite / tolerance levels include both qualitative and quantitative parameters

The Bank’s Business plans and Risk Appetite statements are aimed at optimal capital position, defined by regulatory and internal ratios as well as optimal liquidity and funding management.

## Stress Testing

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

For Credit Risk Stress Test, the Bank tests scenarios of increasing NPAs since credit quality generally tends to deteriorate during economic downturn as borrowers begin to experience cash flow problems, which in turn affect servicing of debt leading to possible deterioration in asset quality.

Liquidity Risk Stress Tests are done on the parameters of 'Baseline' (with respect to Institution specific crisis), 'Medium' (with respect to general market crisis) and 'Severe' (with respect to combined scenarios).

The Bank also conducts Stress Tests on Interest Rate Risk using the Economic Value of Equity (EVE) approach. The EVE approach analyses the long-term impact of changing interest rates on the Bank's Market Value of Equity (MVE) or Net Worth under various scenarios. The economic value of the Bank's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

## Business Continuity Planning

The Bank's reliance on increasingly complex technology and business models to deliver the services expected in this age of ever increasing customer needs is very high. Technology based products of the Bank include interconnected Automated Teller Machine (ATM) networks, Tele-banking, Core Banking Solutions, Mobile Banking Application, Internet Banking Solutions etc. In order to cater to various segments of customers and for ensuring seamless customer access, the Bank has established a branch network to provide banking services in urban, semi-urban and rural areas of India. This has created dependencies and consequent vulnerabilities, that could interrupt the business and process flows, unless managed efficiently.

The Bank has established a Business Continuity Plan (BCP), which involves creation and implementation of strategies that recognize threats and risks that the Bank may be subject to, with focus on protection of personnel and assets, while maintaining continued operations in the event of a disaster. The process defines potential risks, measures their impact, designs safeguards and procedures to mitigate those risks, tests those procedures to ensure that they work, and executes the implementation part. The plans and processes are periodically reviewed to ensure that they are effective and functional.

The Bank addresses this need through Business Continuity Management Systems, which include the Business Continuity and

Disaster Management Plans and Processes.

A Crisis Management Committee (CMC) that functions for the Bank as a whole is in place, which manages the business disruptions. The CMC takes swift remedial action in case of any breakdown/ failure of critical systems, occurrence of natural disasters/ accidents or any other events affecting business continuity.

## Risk Management for protecting interests of stakeholders

The Bank 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.

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, ensure that all of its stakeholders are protected from any undesirable events, outcomes, sufferings and losses, in the best manner possible.

The Bank uses an Enterprise-wide Risk Management software solution for management of Credit, Market and Operational Risks.

# INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS

## INDEPENDENT AUDITORS' 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 March 31, 2019, 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 ("the Act") in the manner so required for banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Bank as at March 31, 2019, 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.

#### 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 March 31, 2019. 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
<b>Identification of Non-performing advances and provisioning of advances:</b>	
<p>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 2019, the Net Advances of the Bank was Rs. 4548.25 crores and Gross NPA of the Bank was Rs 74.01 crores .Gross NPA ratio of the Bank was 1.61% and Net NPA ratio of the Bank was 0.77%</p> <p>The Reserve Bank of India's ("RBI") guidelines on Income recognition and asset classification ("IRAC") prescribe the prudential norms for identification and classification of NPAs and the minimum provision required for such assets. Identification &amp; 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.</p> <p>The Bank has detailed its policy in this regard.</p>	<p><b>Identification of NPAs:</b></p> <p>The audit procedures performed, among others, included:</p> <ul style="list-style-type: none"> <li>• Considering the Bank's policies for NPA identification and provisioning and assessing compliance with the IRAC norms.</li> <li>• Obtaining an understanding and walking through the key processes controls around identification of NPAs with respect to extant IRAC norms.</li> <li>• Evaluating the design and operating effectiveness of key controls (including application controls) around identification of NPAs.</li> <li>• Identification of customer accounts availing more than one loan from the Bank and assessing that all loans availed by a delinquent customer are classified appropriately.</li> </ul> <p><b>Provisioning of Advances:</b></p> <p>The audit procedures performed, among others, included:</p> <ul style="list-style-type: none"> <li>• Gaining an understanding of the Bank's process for provisioning of advances.</li> <li>• Performing procedures to assess the completeness of the NPAs</li> <li>• Examining on a sample basis the calculation performed by the management for compliance with RBI regulations and internal Bank's policies for provisioning.</li> <li>• Assessing management calculation arithmetical accuracy of the provisioning on Advances.</li> </ul>

## 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.

The audit procedures performed, among others, included:

- 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.
- Testing the design and operating effectiveness of the Bank’s IT access controls over the information systems that are critical to financial reporting.
- Testing IT general controls (logical access, changes management and aspects of IT operational controls). This included testing that requests for access to systems were appropriately reviewed and authorized.
- Testing the Bank’s periodic review of access rights. Inspecting requests of changes to systems for appropriate approval and authorization. Further, considering the control environment relating to various interfaces, configuration and other application controls identified as key to our audit.
- In addition to the above, testing the design and operating effectiveness of certain automated controls that were considered as key internal controls over financial reporting.
- Instances where deficiencies were identified, testing 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.

The audit procedures in relation to related parties transactions, among others, included:

- Obtaining an understanding of the Bank’s policies and procedures in respect of related party transactions.
- Evaluating the appropriateness of management’s process for identifying and recording related party 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.
- Reading contracts and agreements with related parties to understand the nature of the transactions.
- Agreeing the amounts disclosed to underlying documentation and reviewing relevant agreements, on a sample basis, as part of our evaluation of the disclosure.
- Agreeing the amount disclosed through review of statutory information including approvals by Board of Directors, books and records and other documents obtained during 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 identified above 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 information, we are required to report that fact. We have nothing to report in this regard.

## 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, 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 Companies (Accounting Standards) Rules 2006 (as amended) 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 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 system in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by 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 March 31, 2019 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 38 retail branches and 33 Ultra Small 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 Profit and Loss Account, 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 March 31, 2019 taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2019 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 1" to this report;
- g. In our opinion, the entity being a banking company, the remuneration to whole-time directors during the year ended March 31, 2019 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 2019.
  - ii. The Bank has made provision, as required under the

applicable law or accounting standards, for material for seeable losses, if any, on long-term contracts – Refer Schedule 17- Note 4.12 and Schedule 18A- Note 12 forming part of the financial statements; and

- 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**  
Firm's Registration No.: 101049W/E300004

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

Place: Mannuthy.  
Date: 10 May 2019

# 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 March 31, 2019 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 March 31, 2019, 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

Firm's Registration No.: 101049W/E300004

Sd/-

per Sarvesh Warty

Partner

Membership No.: 121411

Place: Mannuthy.

Date: 10 May 2019

## Balance Sheet as at 31 March 2019

Amount in Rupees

	Schedule No	As at 31 March 2019	As at 31 March 2018
<b>Capital and Liabilities</b>			
Capital	1	4,27,79,54,900	3,11,94,51,810
Reserves and Surplus	2	4,65,89,54,497	31,40,26,385
Deposits	3	43,17,00,82,077	25,23,09,24,525
Borrowings	4	17,02,35,94,786	16,74,65,02,635
Other Liabilities and Provisions	5	1,44,42,80,932	1,83,04,41,362
<b>Total</b>		<b>70,57,48,67,192</b>	<b>47,24,13,46,717</b>
<b>ASSETS</b>			
Cash and Balances with Reserve Bank of India	6	2,46,74,07,284	4,38,45,79,564
Balances with Banks and Money at Call and Short Notice	7	5,34,71,50,342	2,59,32,85,253
Investments	8	15,30,74,98,786	7,31,86,34,155
Advances	9	45,48,25,45,244	31,55,08,58,495
Fixed Assets	10	89,94,06,254	68,70,25,180
Other Assets	11	1,07,08,59,282	70,69,64,070
<b>Total</b>		<b>70,57,48,67,192</b>	<b>47,24,13,46,717</b>
Contingent Liabilities	12	58,32,65,877	61,71,98,285
Bills for collection		-	-
Significant Accounting Policies and notes to account forming part of financial statement	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's Registration No.: 101049W/E300004

Sd/-  
per Sarvesh Warty  
Partner

Membership No.: 121411

Place: Mannuthy.  
Date: 10 May 2019

For and on behalf of the Board of Directors

Sd/-  
Prabha Raveendranathan

Chairman

Sd/-  
Asha Morley  
Director

Sd/-  
Gireesh C P  
Chief Financial officer

Place: Mannuthy.  
Date: 10 May 2019

Sd/-  
Kadambelil Paul Thomas

Managing Director & CEO

Sd/-  
Ranjith Raj P  
Company Secretary

**Profit and Loss Account for the year ended 31 March 2019**

Amount in Rupees

	Schedule No	For the year ended 31 March 2019	For the year ended 31 March 2018
<b>I. INCOME</b>			
Interest Earned	13	10,31,63,85,127	5,96,83,96,300
Other Income	14	1,09,15,05,571	1,01,86,02,352
<b>Total</b>		<b>11,40,78,90,698</b>	<b>6,98,69,98,652</b>
<b>II. EXPENDITURE</b>			
Interest Expended	15	4,58,28,17,052	3,14,82,01,457
Operating Expenses	16	4,53,39,42,364	3,06,28,72,634
Provisions and Contingencies		1,38,82,92,961	50,59,75,913
<b>Total</b>		<b>10,50,50,52,377</b>	<b>6,71,70,50,004</b>
<b>III. PROFIT</b>			
Net Profit for the year (I - II)		90,28,38,321	26,99,48,648
Add: Balance in Profit and Loss account brought forward from Previous Year		20,81,83,653	57,22,168
		<b>1,11,10,21,974</b>	<b>27,56,70,816</b>
<b>IV. APPROPRIATIONS</b>			
Transfer to Statutory Reserve		22,57,09,580	6,74,87,162
Transfer to Capital Reserve		-	-
Transfer to/(from) Investment Reserve Account		53,38,844	-
Balance carried over to Balance Sheet		87,99,73,550	20,81,83,654
<b>Total</b>		<b>1,11,10,21,974</b>	<b>27,56,70,816</b>
Earnings per share (face value of Rs.10/- each)			
Note B.1 of schedule 18			
Basic		2.37	0.89
Diluted		2.37	0.89
Significant Accounting Policies and notes to account forming part of financial statement	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's Registration No.: 101049W/E300004

Sd/-  
per Sarvesh Warty  
Partner

Membership No.: 121411

Place: Mannuthy.  
Date: 10 May 2019

For and on behalf of the Board of Directors

Sd/-  
Prabha Raveendranathan

Chairman

Sd/-  
Asha Morley  
Director

Sd/-  
Gireesh C P  
Chief Financial officer

Place: Mannuthy.  
Date: 10 May 2019

Sd/-  
Kadambelil Paul Thomas

Managing Director & CEO

Sd/-  
Ranjith Raj P  
Company Secretary

## Cash Flow Statement for the year ended 31 March 2019

Amount in Rupees

	For the year ended 31 March 2019	For the year ended 31 March 2018
<b>Cash Flow from Operating Activities</b>		
Net Profit before tax	1,27,18,16,286	43,84,19,270
Adjustments for:		
Depreciation on Bank's Property	16,90,64,332	9,42,63,974
Amortisation of Premium on HTM Investments	2,19,85,029	2,04,02,452
Profit on sale of investments (net)	(1,00,42,973)	(4,82,55,587)
Profit on sale of Fixed Assets	(2,60,000)	-
Provision for Non Performing Advances	91,93,76,709	33,79,58,934
Provision for Standard Advances	9,23,30,142	1,76,37,868
Provision for Other Contingencies	76,08,146	-
	<b>2,47,18,77,671</b>	<b>86,04,26,911</b>
Adjustments for :-		
Investments	(6,68,30,70,910)	(13,62,49,783)
(Increase)/ Decrease in Advances	(14,85,10,63,458)	(17,07,15,56,733)
(Increase)/ Decrease in Fixed Deposit with Bank (Original Maturity greater than 3 months)	(5,93,04,485)	9,78,95,723
(Increase)/ Decrease in Other Assets	(32,53,32,439)	2,83,08,02,439
Increase/ (Decrease) in Deposits	17,93,91,57,552	21,13,75,12,235
Increase/ (Decrease) in Other liabilities and provisions	(48,60,98,717)	(44,53,06,472)
Direct taxes paid	(40,75,40,738)	(26,86,25,953)
<b>Net Cash Flow from/(used in) Operating Activities (A)</b>	<b>(2,40,13,75,524)</b>	<b>7,00,48,98,367</b>
<b>Cash Flow from/(Used in) Investing Activities</b>		
Purchase of Fixed Assets	(38,14,60,407)	(45,22,51,074)
Proceeds from Sale of Fixed Assets	2,75,000	-
(Increase)/ Decrease in Held to Maturity Investments	(1,31,77,35,777)	(1,36,25,79,343)
<b>Net Cash Used in Investing Activities (B)</b>	<b>(1,69,89,21,184)</b>	<b>(1,81,48,30,417)</b>
<b>Cash Flow from/(Used in) Financing Activities</b>		
Proceeds from Issue of Share Capital (including Share Premium)	4,64,21,21,881	10,58,99,990
Share Issue Expenses	(4,15,29,000)	-
Increase/(Decrease) in Borrowings	27,70,92,151	(3,78,19,83,889)
<b>Cash Flow from/(Used in) Financing Activities (C)</b>	<b>4,87,76,85,032</b>	<b>(3,67,60,83,899)</b>
<b>Net Increase in Cash and Cash Equivalents (A+B+C)</b>	<b>77,73,88,324</b>	<b>1,51,39,84,051</b>

## Cash Flow Statement for the year ended 31 March 2019 (Contd.)

Amount in Rupees

	For the year ended 31 March 2019	For the year ended 31 March 2018
Cash and Cash Equivalents at the beginning of year	6,43,24,40,790	4,91,84,56,739
Cash and Cash Equivalents at the end of year (Refer note below)	7,20,98,29,114	6,43,24,40,790
<b>Note:</b>		
Cash in Hand (Schedule 6 I)	20,20,39,029	11,30,41,794
Balance with RBI in Current Account (Schedule 6 II (i))	2,26,53,68,255	4,27,15,37,770
Balance with Banks in India in Current Account (Schedule 7 I (i) a)	89,24,21,830	1,04,78,61,226
Balance with banks in India in Fixed Deposit	85,00,00,000	-
Money at Call and Short Notice	2,20,00,00,000	1,00,00,00,000
Lending Under Reverse Repo	80,00,00,000	-
<b>Cash and cash equivalents at the end of the year</b>	<b>7,20,98,29,114</b>	<b>6,43,24,40,790</b>

As per our report of even date attached

For S. R. Batliboi & Associates LLP.

**Chartered Accountants**

Firm's Registration No.: 101049W/E300004

Sd/-  
per Sarvesh Warty  
Partner

Membership No.: 121411

Place: Mannuthy.  
Date: 10 May 2019

For and on behalf of the Board of Directors

Sd/-  
Prabha Raveendranathan

Chairman

Sd/-  
Asha Morley  
Director

Sd/-  
Gireesh C P  
Chief Financial officer

Place: Mannuthy.  
Date: 10 May 2019

Sd/-  
Kadambelil Paul Thomas

Managing Director & CEO

Sd/-  
Ranjith Raj P  
Company Secretary

## Schedules Forming Part of the Balance Sheet

Amount in Rupees

	As at 31 March 2019	As at 31 March 2018
<b>SCHEDULE 1 - CAPITAL</b>		
<b>Authorised Capital</b>		
45,00,00,000 Equity Shares of Rs.10/- each (Previous Year 35,00,00,000 Equity Shares of Rs.10/- each)	4,50,00,00,000	3,50,00,00,000
<b>Issued, Subscribed and Paid up Capital</b>		
42,77,95,490 Equity Shares of Rs.10/- each (Previous Year 31,19,45,181 Equity Shares of 10/- each)	4,27,79,54,900	3,11,94,51,810
<b>Total</b>	<b>4,27,79,54,900</b>	<b>3,11,94,51,810</b>
<b>SCHEDULE 2 - RESERVES AND SURPLUS</b>		
<b>I. Statutory Reserve</b>		
Opening balance	6,93,94,551	19,07,389
Additions during the year	22,57,09,580	6,74,87,162
	<b>29,51,04,131</b>	<b>6,93,94,551</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	3,64,48,180	3,43,71,710
Additions during the year	3,48,36,18,792	20,76,470
Less : Capital Raise expenses (Refer Note A.14 of Schedule 18)	4,15,29,000	-
	<b>3,47,85,37,972</b>	<b>3,64,48,180</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	-	-
Additions during the year	53,38,844	-
	<b>53,38,844</b>	-
<b>V. Balance in Profit and Loss Account</b>	<b>87,99,73,550</b>	<b>20,81,83,654</b>
<b>Total (I to V)</b>	<b>4,65,89,54,497</b>	<b>31,40,26,385</b>

## SCHEDULES FORMING PART OF THE BALANCE SHEET

Amount in Rupees

	As at 31March 2019	As at 31March 2018
<b>SCHEDULE 3 - DEPOSITS</b>		
A. I. Demand Deposits		
i. From Banks	2,87,37,993	2,16,33,713
ii. From Others	31,10,05,564	45,01,58,557
	<b>33,97,43,557</b>	<b>47,17,92,270</b>
II. Savings Bank Deposits	5,51,04,96,976	2,05,25,99,637
III. Term Deposits		
i. From Banks	5,20,59,40,427	8,98,34,70,917
ii. From Others	32,11,39,01,117	13,72,30,61,701
	<b>37,31,98,41,544</b>	<b>22,70,65,32,618</b>
<b>Total (I to III)</b>	<b>43,17,00,82,077</b>	<b>25,23,09,24,525</b>
B. I. Deposits of branches in India	43,17,00,82,077	25,23,09,24,525
II. Deposits of branches outside India	-	-
<b>Total ( I to II)</b>	<b>43,17,00,82,077</b>	<b>25,23,09,24,525</b>
<b>SCHEDULE 4 - BORROWINGS</b>		
I. Borrowings in India		
i. Reserve Bank of India	-	-
ii. Other Banks	85,99,31,273	4,68,61,59,785
iii. Other institutions and agencies	13,78,36,63,513	10,08,03,42,850
iv. Subordinated Debt	1,90,00,00,000	1,50,00,00,000
v. Perpetual Debt Instrument	48,00,00,000	48,00,00,000
	<b>17,02,35,94,786</b>	<b>16,74,65,02,635</b>
II. Borrowings outside India	-	-
<b>Total (I to II)</b>	<b>17,02,35,94,786</b>	<b>16,74,65,02,635</b>
Secured Borrowings included in II and III above	2,32,23,45,330	7,81,90,97,085
<b>SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS</b>		
I. Bills Payable	-	-
II. Inter - office adjustments (Net)	-	-
III. Interest accrued	26,69,15,915	26,97,19,687
IV. Provision for Standard Assets	21,51,41,321	12,28,11,180
V. Others (including Provisions)	96,22,23,696	1,43,79,10,495
<b>Total (I to V)</b>	<b>1,44,42,80,932</b>	<b>1,83,04,41,362</b>

**SCHEDULES FORMING PART OF THE BALANCE SHEET**

Amount in Rupees

	As at 31 March 2019	As at 31 March 2018
<b>SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA</b>		
I. Cash in hand	20,20,39,029	11,30,41,794
II. Balance with Reserve Bank of India		
i. in Current Accounts	2,26,53,68,255	4,27,15,37,770
ii. in Other Accounts	-	-
<b>Total (I to II)</b>	<b>2,46,74,07,284</b>	<b>4,38,45,79,564</b>
<b>SCHEDULE 7 - BALANCES WITH BANKS AND MONEY</b>		
<b>AT CALL AND SHORT NOTICE</b>		
I. In India		
i. Balances with Banks		
a. in Current Accounts	89,24,21,830	1,04,78,61,226
b. in Other Deposit Accounts	1,45,47,28,512	54,54,24,027
<b>Total</b>	<b>2,34,71,50,342</b>	<b>1,59,32,85,253</b>
ii. Money at Call and Short Notice		
a. With Banks	2,20,00,00,000	1,00,00,00,000
b. With Other Institutions	-	-
c. Lending under Reverse Repo (RBI)	80,00,00,000	-
<b>Total</b>	<b>3,00,00,00,000</b>	<b>1,00,00,00,000</b>
<b>Total (I)</b>	<b>5,34,71,50,342</b>	<b>2,59,32,85,253</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>5,34,71,50,342</b>	<b>2,59,32,85,253</b>
<b>SCHEDULE 8 - INVESTMENTS (net of provisions)</b>		
I. Investments in India in :		
i. Government Securities	8,86,40,93,751	6,73,94,36,163
ii. Other approved Securities	-	-
iii. Shares	-	-
iv. Debentures and Bonds	-	-
v. Subsidiaries/ Joint Ventures	-	-
vi. Others [Certificate of Deposits (CDs), Pass Through Certificates (PTCs) etc.]	6,44,34,05,035	57,91,97,992
<b>Total (I)</b>	<b>15,30,74,98,786</b>	<b>7,31,86,34,155</b>
II. Investments outside India	-	-
<b>Total (II)</b>	<b>-</b>	<b>-</b>
<b>Total (I to II)</b>	<b>15,30,74,98,786</b>	<b>7,31,86,34,155</b>
Gross Investments	15,30,74,98,786	7,31,86,34,155
Less: Depreciation/ Provision for Investments	-	-
<b>Net Investments</b>	<b>15,30,74,98,786</b>	<b>7,31,86,34,155</b>

## SCHEDULES FORMING PART OF THE BALANCE SHEET

Amount in Rupees

	As at 31 March 2019	As at 31 March 2018
<b>SCHEDULE 9 - ADVANCES (NET OF PROVISIONS)</b>		
A. i. Bills purchased and discounted	-	-
ii. Cash credits, overdrafts and loans repayable on demand	12,65,66,916	
iii. Term loans	45,35,59,78,328	31,55,08,58,495
<b>Total</b>	<b>45,48,25,45,244</b>	<b>31,55,08,58,495</b>
B. i. Secured by tangible assets	1,49,62,16,370	18,24,54,727
ii. Covered by Bank/Government guarantees	-	-
iii. Unsecured	43,98,63,28,874	31,36,84,03,768
<b>Total</b>	<b>45,48,25,45,244</b>	<b>31,55,08,58,495</b>
C. I. Advances in India		
i. Priority Sectors	44,10,00,12,756	31,14,31,99,225
ii. Public Sector	-	-
iii. Banks	-	-
iv. Others	1,38,25,32,488	40,76,59,270
<b>Total (I)</b>	<b>45,48,25,45,244</b>	<b>31,55,08,58,495</b>
II. Advances outside India		
i. Due from Banks	-	-
ii. Due from Others	-	-
a) Bills purchased and discounted	-	-
b) Syndicated Loans	-	-
c) Others	-	-
Total (II)	-	-
<b>Total (I to II)</b>	<b>45,48,25,45,244</b>	<b>31,55,08,58,495</b>

## SCHEDULES FORMING PART OF THE BALANCE SHEET

Amount in Rupees

	As at 31 March 2019	As at 31 March 2018
<b>SCHEDULE 10 - FIXED ASSETS</b>		
<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.Other fixed assets</b> (including furniture and fixtures)		
<b>Gross Block</b>		
At the beginning of the year	70,16,57,624	31,30,25,559
Additions during the year	42,28,42,635	38,86,32,065
Deductions during the year	3,00,000	-
<b>Closing Balance</b>	<b>1,12,42,00,259</b>	<b>70,16,57,624</b>
<b>Depreciation</b>		
As at the beginning of the year	9,86,82,249	44,18,275
Charge for the year	16,90,64,332	9,42,63,974
Deductions during the year	2,85,000	-
Depreciation to date	26,74,61,581	9,86,82,249
<b>Net Block</b>	<b>85,67,38,678</b>	<b>60,29,75,375</b>
<b>II ASSETS GIVEN ON LEASE</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>II. Capital Work in progress</b> (Including Capital Advances)	4,26,67,576	8,40,49,805
<b>Total (I &amp; II)</b>	<b>89,94,06,254</b>	<b>68,70,25,180</b>

## SCHEDULES FORMING PART OF THE BALANCE SHEET

Amount in Rupees

	As at 31 March 2019	As at 31 March 2018
<b>SCHEDULE 11 - OTHER ASSETS</b>		
I. Inter - office adjustments (net)	-	-
II. Interest accrued	40,93,36,745	26,90,07,692
III. Tax paid in advance/Tax Deducted at source (Net of provision)	7,85,69,180	-
IV. Stationery and Stamps	1,11,606	61,960
V. Non-banking assets acquired in satisfaction of claims	-	-
VI. Others	52,40,70,290	33,91,16,550
VII. Deferred tax asset	5,87,71,461	9,87,77,868
<b>Total (I to VII)</b>	<b>1,07,08,59,282</b>	<b>70,69,64,070</b>
<b>SCHEDULE 12 - CONTINGENT LIABILITIES</b>		
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	64,41,799	-
IV. Acceptances, endorsements and other obligations	-	-
V. Other items for which the Bank is contingently liable	57,68,24,078	61,71,98,285
<b>Total (I to V)</b>	<b>58,32,65,877</b>	<b>61,71,98,285</b>

## SCHEDULES FORMING PART OF THE PROFIT AND LOSS ACCOUNT

Amount in Rupees

	For the Year Ended 31 March 2019	For the Year Ended 31 March 2018
<b>SCHEDULE 13 - INTEREST EARNED</b>		
I. Interest/discount on advances/bills	9,14,60,80,786	5,36,70,00,532
II. Income on investments	97,00,58,664	49,33,74,504
III. Interest on balances with Reserve Bank of India and other inter-bank funds	20,02,45,677	10,80,21,264
IV. Others	-	-
<b>Total (I to IV)</b>	<b>10,31,63,85,127</b>	<b>5,96,83,96,300</b>
<b>SCHEDULE 14 - OTHER INCOME</b>		
I. Commission, exchange and brokerage	54,21,57,904	41,08,14,553
II. Profit on sale of investments (Net)	1,00,42,973	4,82,55,587
III. Profit on revaluation of investments (Net)	-	-
IV. Profit on sale of land, buildings and other assets (Net)	2,60,000	-
V. Profit on foreign exchange transactions (Net)	2,30,209	-
VI. Income earned by way of dividends etc. from companies	-	-
VII. Miscellaneous income	53,88,14,485	55,95,32,212
<b>Total (I to VII)</b>	<b>1,09,15,05,571</b>	<b>1,01,86,02,352</b>
<b>SCHEDULE 15 - INTEREST EXPENDED</b>		
I. Interest on deposits	2,65,90,69,722	1,06,75,13,749
II. Interest on Reserve Bank of India/Inter bank borrowings	26,62,60,066	89,14,67,729
III. Others	1,65,74,87,264	1,18,92,19,979
<b>Total (I to III)</b>	<b>4,58,28,17,052</b>	<b>3,14,82,01,457</b>
<b>SCHEDULE 16 - OPERATING EXPENSES</b>		
I. Payments to and provisions for employees	77,10,43,170	39,51,56,387
II. Rent, taxes and lighting	26,78,33,064	20,89,61,340
III. Printing and stationery	5,35,95,656	5,10,20,806
IV. Advertisement and publicity	8,04,06,398	12,42,19,593
V. Depreciation	16,90,64,332	9,42,63,974
VI. Directors' fees, allowances and expenses	1,14,95,948	63,19,534
VII. Auditors' fees and expenses (Refer Note B.13 of Schedule 18)	84,67,871	52,87,462
VIII. Law charges	72,25,053	56,88,258
IX. Postage, Telegrams, Telephones etc	3,85,99,562	3,17,09,750
X. Repairs and maintenance	1,20,34,193	1,09,39,382
XI. Insurance	2,58,78,280	42,43,588
XII. Other expenditure *	3,08,82,98,837	2,12,50,62,560
<b>Total (I to XII)</b>	<b>4,53,39,42,364</b>	<b>3,06,28,72,634</b>

\* includes expenditure towards Corporate Social Responsibility Rs. 1.15 Crore (Previous Year :Rs. Nil)  
[Refer Note B.11 Of Schedule 18]

## SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2019

### 1 Background

ESAF Small Finance Bank Limited ("the Bank") is a public limited company incorporated on May 5, 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 September 16, 2015. The Bank received the license from the Reserve Bank of India on November 18, 2016 and commenced its banking operations from March 10, 2017. As per RBI approval, the name of Bank is included in the Second Schedule to the Reserve Bank of India Act, 1934 w.e.f 12 November, 2018.

### 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 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 Reserve Bank of India from time to time and the Accounting Standards prescribed under Section 133 of the Companies Act, 2013 (as amended), read with the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules 2016 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 method 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 period. The Bank's management believes that the estimates used in the preparation of the financial statements shall be prudent and reasonable. Actual results could differ from this estimate. Any revision to accounting estimates is recognized prospectively in current and future periods.

## 4 Significant Accounting Policies

### 4.1 Revenue Recognition

- i. Interest Income is recognized in the profit and loss account on accrual basis, except in the case of non-performing assets. Interest on non-performing assets is recognized upon realization basis as per the prudential norms issued by the RBI.
- ii. Profit or Loss on sale of investments is recognised in the Profit and Loss Account. However, the profit on sale of investments in the 'Held to Maturity' category is appropriated (net of applicable taxes and amount required to be transferred to statutory reserve) to 'Capital Reserve Account'.
- iii. Income on non-coupon bearing discounted instruments is recognized over the tenure of the instrument on a straight line basis. In case of coupon bearing discounted instruments, discount income is recognized over the tenor of the instrument on yield basis.
- iv. Dividend on Investments in shares and units of Mutual Funds are accounted when the Bank's right to receive the dividend is established.

- v. Processing Fee/ upfront fee, handling charges or income by way 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 amount outstanding and the rate applicable.
- viii. Guarantee commission are 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.
- xi. Fees received on sale of priority sector lending certificates is considered as Miscellaneous income, while fees paid for purchase is expensed as other expenses in accordance with the guidelines issued by RBI.

### 4.2 Investments

#### i. Classification:

Investments are classified in to three categories, viz Held to Maturity ("HTM"), Available for Sale ("AFS") and Held for Trading ("HFT") at the time of purchase as per guidelines issued by RBI.

However for disclosure in the Balance Sheet, for Investments in India are classified under six groups - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Others.

#### 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 are 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") website by Financials Benchmark India Private Limited (FBIL) as at the year end.

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 are as per the rates put out by Fixed Income Money Market and Derivatives Association FIMMDA/FBIL.

The valuation of non-SLR securities, other than those quoted on the stock exchanges, wherever linked to the YTM rates, are taken with a mark-up (reflecting associated credit risk) over the YTM rates for government securities put out by FIMMDA. Securities are valued scrip wise and depreciation/appreciation aggregated for each category. Net appreciation in each basket if any, being unrealised, are ignored, while net depreciation are provided for.

Treasury bills and Certificate of Deposits being discounted instruments, are valued at carrying cost.

Passthrough Certificates are valued at RBI guidelines.

Non Performing investments are identified and valued based on RBI guidelines

Transfer of Securities between categories of Investments is accounted as per RBI guidelines.

#### vi. Repo Reverse Repo transactions

In accordance with the RBI guidelines repo and reverse repo transactions in government securities are reflected as borrowing 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

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 April 2, 2018, advised all banks to create an IFR with effect from the FY 2018-19.

Transferred to IFR will be 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.

#### 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 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 are 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 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) and Depreciation / Amortization

Fixed Assets have been stated at cost less accumulated depreciation and amortisation and adjusted for impairment, if any.

Cost includes cost of purchase inclusive of freight, duties, incidental expenses and all expenditure like site preparation, installation costs and professional fees incurred on the asset before it is ready to put to use.

Gain or losses arising from the retirement or disposal of a Fixed Asset 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 provided on straight line basis as per the life prescribed under Schedule II to the Companies Act 2013, which is in accordance with management estimate of the useful life of the underlying assets.

Class of Asset (Tangible and Intangible)	Useful Life in years
Office Equipments	5
Computers	3
Furniture & Fixtures	10
Motor Vehicles	4
Software	4
Server	5

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 including

performance incentive which are expected to be paid in exchange for the services rendered by employees are recognised during the period when the employee renders the service.

## ii. Long Term Employee

### a. Defined Contribution Plan:

**Provident Fund:** In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a pre-determined rate. Contribution to provident fund are recognized as expense as and when the services are rendered. The Bank has no liability for future provident fund benefits other than its annual 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) at the Balance Sheet date. The actuarial gain or loss arising during the year is recognised in the Profit and Loss Account. The Bank makes contribution to gratuity funds administered by trustees and managed by the life insurance companies.

**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 Banks' obligation is actuarially 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 period and are capable of reversal in one or more subsequent period.

Deferred tax assets on account of timing differences are recognised only to the extent there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised. In case of carry forward losses and unabsorbed depreciation, under tax laws, the deferred tax assets are recognised only to the extent there is virtual certainty supported by convincing evidence that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax assets are reassessed at each reporting date, based upon the Management's judgement as to whether realisation is considered as reasonably certain. 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 period of the change.

## 4.9 Cash and Cash equivalent

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice with an original maturity

of three months or less (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

## 4.10 Segment Information

In accordance with guidelines issued by RBI vide DBOD.No.BP. BC.81/21.01.018/2006-07 dated 18th April, 2007 and Accounting Standard 17 (AS-17) on "Segment Reporting", the Banks' business has been segregated into Treasury, Wholesale Banking, Retail Banking Segments and other Banking Operations.

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 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/ adjusting for attributable taxes) by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the year is adjusted for events of bonus issue, bonus element in a rights issue to existing shareholders and share split.

For the purpose of calculating diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the year are adjusted for the effects of all dilutive potential equity shares. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted during the year.

## 4.12 Provisions and contingent assets/liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events beyond the control of the Bank or a present obligation that is not recognized because it is not probable that an outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognized because it cannot be measured reliably. The Bank does not generally recognize a contingent liability but discloses its existence in the financial statements.

The Bank creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. 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 recognized 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 April 7, 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 'Expense' and the fee

received from the sale of PSLCs is treated as 'Other Income'

#### 4.16 Securitisation Transaction and direct assignments

The Bank transfers its loan receivables through Direct Assignment and Inter Bank Participation Certificate (IBP )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 statement of profit and loss 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.

## SCHEDULE 18 - NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

### A. DISCLOSURES AS LAID DOWN BY RBI CIRCULARS:

Amounts in notes forming part of the financial statements for the year ended March 31, 2019 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 Standardized approach for Credit Risk.

As per RBI circular "DBR.NBD.No. 4502/16.13.218/2017-18" dated November 8, 2017, no separate capital charge is prescribed for market

and operational risk. The total Capital Adequacy ratio of the Bank at March 31, 2019 is 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.

(Rupees in crore)

	31 March 2019	31 March 2018
Common Equity Tier I Capital	893.16	343.35
Tier I Capital -A	939.40	390.13
Tier II Capital - B	173.05	142.28
Total Capital (A)+(B)	1,112.45	532.41
Total Risk Weighted Assets	4,032.22	3,147.18
<b>Capital Ratios:</b>		
(i) Common Equity Tier I Capital (%)	22.11%	10.89%
(ii) Tier I Capital (%)	23.30%	12.40%
(iii) Tier II Capital (%)	4.29%	4.52%
(iv) Total CRAR %	27.59%	16.92%
(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	311.95
(vii) Amount of Additional Tier I capital raised of which		
Perpetual Non Cumulative Preference Shares (PNCPS)	-	-
Perpetual debt instruments (PDI)	-	47.50
(viii) Amount of Tier II Capital raised of which		
Debt capital instruments	40.00	150.00
Preference share capital instruments	-	-

#### 2. Investments

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

(Rupees in crore)

Particulars	31 March 2019				31 March 2018			
	HTM	AFS	HFT	Total	HTM	AFS	HFT	Total
(i)Government securities	704.77	156.86	24.78	886.41	574.20	99.74	-	673.94
(ii)Other approved securities	-	-	-	-	-	-	-	-
(iii)Shares	-	-	-	-	-	-	-	-
(iv)Debentures and bonds	-	-	-	-	-	-	-	-
(v)Others	-	494.85	149.49	644.34	-	57.92	-	57.92
<b>Total</b>	<b>704.77</b>	<b>651.71</b>	<b>174.27</b>	<b>1,530.75</b>	<b>574.20</b>	<b>157.66</b>	<b>-</b>	<b>731.86</b>

## Securities kept as margin

The details of securities that are kept as margin are under

(Rupees in crore)

Particulars	Face Value as at 31 March	
	2019	2018
Securities kept as margin with Clearing Corporation of India towards Collateral and funds management - Securities segment	5.10	

## 2.2 The details of investments of Bank as on 31st March, 2019:

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
<b>1. Value of Investments</b>		
i. Gross value of Investments		
a. In India	1,530.75	731.86
b. Outside India	-	-
ii. Provision for Depreciation		
a. In India	-	-
b. Outside India	-	-
iii. Net value of Investments		
a. In India	1,530.75	731.86
b. Outside India	-	-
<b>2. Movement of provisions held towards depreciation on investments</b>		
i. Opening Balance	-	-
ii. Add : Provisions made during the year	0.45	-
iii. Less : Write off/ Write back of excess provisions made during the year	0.45	-
iv. Closing Balance	-	-

## 3.Details of Repo /Reverse Repos including Liquidity Adjustment Facility (LAF) Transactions in (face value terms) as at 31 March, 2019:

(Rupees in crore)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year*	Outstanding as on 31 March, 2019
<b>Securities sold under repos</b>				
i. Government securities	-	-	-	-
ii. Corporate debt securities	-	-	-	-
<b>Securities purchased under reverse repos</b>				
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

## As at March 31, 2018

(Rupees in crore)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	Outstanding as on 31 March, 2018
<b>Securities sold under repos</b>				
i. Government securities	-	-	-	-
ii. Corporate debt securities	-	-	-	-
<b>Securities purchased under reverse repos</b>				
i. Government securities	-	-	-	-
ii. Corporate debt securities	-	-	-	-

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

(i) Issuer Composition of Non SLR Investments as at 31 March 2019

(Rupees in crore)

S.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

Issuer Composition of Non SLR Investments as at 31 March 2018

(Rupees in crore)

S.No	Issuer	Amount	"Extent of Private placement"	Extent of 'Below Investment grade'	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	-	-	-	-	-
3	Banks	49.92	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	8.00	8.00	-	-	8.00
7	Provision held towards depreciation	-	-	-	-	-
	<b>Total</b>	<b>57.92</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 as on 31, March 2019. (Previous year Nil)

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

During the years ended 31 March, 2019 and 31 March, 2018 there was no sale/transfer of securities to/from HTM category.

#### 6. Derivatives:

The Bank did not have any transactions in derivative instruments during the period ended 31 March, 2019. (Previous year Nil)

## 7. Asset Quality

### a. Non Performing Assets:

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
(i) Net NPAs to Net Advances (%)	0.77%	2.69%
(ii) Movement of Gross NPAs		
(a) Opening balance	121.05	7.85
(b) Additions during the year	76.08	114.68
(c) Reductions during the year		
(i) Recoveries (excluding recoveries made from upgraded accounts)	3.04	1.48
(ii) Upgradations	30.71	-
(iii) Technical / Prudential Write-offs	89.37	-
(iv) Write-offs other than those under (iii) above	-	-
(d) Closing balance	74.01	121.05
(iii) Movement of Net NPAs		
(a) Opening balance	84.81	3.59
(b) Additions during the year	35.15	82.25
(c) Reductions during the year	84.76	1.03
(d) Closing balance	35.20	84.81
(iv) Movement of provision for NPAs (excluding provisions on standard assets)		
(a) Opening balance	36.24	4.25
(b) Additions during the year	101.20	32.43
(c) Reductions during the year *	98.63	0.44
(d) Closing balance	38.81	36.24

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

### b. Divergence in asset Classification and provisioning

The Bank has not been subject to assessment by the RBI during the current year and in the previous year, in relation to compliance with Prudential norms on income recognition, asset classification and provisioning. Accordingly, the disclosure on divergence in Asset classification and provisioning as per RBI Circular: DBR.BP.BC.No. 63/21.04.018/2016-17 dated April 18, 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, 2019 and 31 March, 2018.

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

During the year, there was no sale of non-performing financial assets to Securitisation Company/ Reconstruction Company for asset reconstruction (Previous year Nil)

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

The Bank has not invested in Security receipts during the year (Previous Year : Nil)

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

The Bank did not sell/purchase any non-performing asset during the year (Previous year Nil).

### g. Provisions on Standard Assets

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Provisions towards Standard Assets	21.51	12.28

## 8. Business ratios / Information:

Particulars	31 March 2019	31 March 2018
Interest income as a percentage of Working Funds*	17.34%	15.85%
Non interest income as a percentage of Working Funds*	1.83%	2.71%
Operating profit # as a percentage of Working Funds*	3.85%	2.06%
Return on assets (Based on Working Fund*)	1.52%	0.72%
Business ^ (deposit plus advance) per employee (Rupees in crores)\$	3.85	4.81
Profit per employee \$ (Rupees in crores)	0.04	0.03

\* 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 average 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.

## 9. Asset Liability Management

### Maturity Pattern of certain items of assets and liabilities as at 31st March, 2019: (Rupees in crore)

Particulars	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & upto 2Months	Morethan 2 months & upto 3Months	Over 3 months & up to 6 Months	Over 6 months & up to 1 year	Over 1 Year & up to 3 years	Over 3 Year & 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	-	-	-	-	-	-	-	-	-	-	-	-

### Maturity Pattern of certain items of assets and liabilities as at 31st March, 2018: (Rupees in crore)

Particulars	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & upto 2Months	Morethan 2 months & upto 3Months	Over 3 months & up to 6 Months	Over 6 months & up to 1 year	Over 1 Year & up to 3 years	Over 3 Year & up to 5 years	Over 5 years	Total
Advances	7.39	44.35	51.74	118.27	140.83	140.83	623.79	1,077.25	838.61	98.45	13.58	3,155.09
Investments	0.06	51.15	1.31	1.92	6.09	3.65	13.48	21.75	41.30	6.45	584.70	731.86
Deposits	2.53	29.10	32.35	13.79	250.23	90.87	383.58	635.53	1,042.16	42.64	0.31	2,523.09
Borrowings	0.02	1.42	22.31	10.94	38.71	87.98	255.76	332.95	527.22	264.34	133.00	1,674.65
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

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
<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>	35.47 18.00	12.71 2.94
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 securitized 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>35.47</b>	<b>12.71</b>

### b. Exposure to Capital Market

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
i Direct investment in equity shares, convertible bonds, convertible debenture and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	-	-
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>-</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. (Previous year Nil)

### d. Details of Single Borrower Limit (SBL)/ Group Borrower Limit

During the year, 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 (Previous year Nil).

### e. Unsecured Advances

The bank has not extended any advances where the collateral is an intangible asset such as a charge over rights, licenses, authorisations, etc., (Previous year Nil).

## 11. Disclosure of penalties imposed by RBI

During the year ended 31 March, 2019 and 31 March, 2018 no penalty had been imposed by Reserve Bank of India on the Bank under the provision of Section 47 A read with section 46(4) of the Banking Regulation Act, 1949.

## 12. Provisions and Contingencies

Breakup of “Provisions and Contingencies” (including write-offs; net of write-backs) shown under the head Expenditure in Profit and Loss Account:

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Provision towards NPA *	91.94	31.99
Provision towards Standard Assets	9.23	1.76
Provision made towards income tax		
-Current Tax expense	32.90	26.16
-Deferred Tax	4.00	(9.31)
Other Provision and Contingencies	0.76	-
Total Provisions and Contingencies	138.83	50.60

\* The Bank has changed the estimate relating to minimum provision of unsecured substandard assets during previous year to incremental additional provision on quarterly basis during the current Year. The impact by way of additional provision during the year on account of the above change in estimate is increase in provision towards NPA by Rs. 7.68 Crore and reduction in the Profit after Tax by Rs. 5.45 Crore.

## 13 Floating Provisions

The bank does not have any floating provisions for the year ended 31 March, 2019. (Previous year Nil)

## 14 Drawdown from Reserves

The Bank has not drawn down any amount from its opening reserves during the year ended 31 March 2019 and 31 March, 2018. An amount of Rs. 4.15 Crore (Previous Year Rs. Nil) being the expenditure in connection with further Issue of shares during the year 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

	31 March 2019	31 March 2018
(a)No. of complaints pending at the beginning of the period	-	-
(b)No. of complaints received during the period	194	48.00
(c)No. of complaints redressed during the period	189	48.00
(d)No. of complaints pending at the end of the period	5	-

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

	31 March 2019	31 March 2018
(a)No. of unimplemented Awards at the beginning of the period	-	-
(b)No. of Awards passed by the Banking Ombudsman during the period	-	-
(c)No. of Awards implemented during the period	-	-
(d)No. of unimplemented Awards at the end of the period	-	-

### c. Details of Shareholder Complaints:

	31 March 2019	31 March 2018
(a)No. of complaints pending at the beginning of the period	-	-
(b)No. of complaints received during the period	-	-
(c)No. of complaints redressed during the period	-	-
(d)No. of complaints pending at the end of the period	-	-

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

The Bank has not issued any LOC during the period ended 31 March 2019 (Previous year Nil)

### 17. Provisioning Coverage Ratio

The Provision Coverage Ratio (PCR) of the Bank is 78.45% as on 31 March 2019 (Previous year 29.94%).

### 18. Bancassurance Business

Commission Exchange and Brokerage in Schedule 14 includes Rs. 0.27 Crore (Previous Year Rs. Nil) in respect of Commission earned on selling life insurance policies.

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

#### a. Concentration of deposits:

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Total deposits of twenty largest depositors	707.25	1,168.80
Percentage of deposits of twenty largest depositors to total deposits of the Bank	16.38%	46.32%

#### b. Concentration of advances:

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Total advances to twenty largest borrowers	34.39	6.09
Percentage of advances to twenty largest borrowers to total advances of the bank	0.76%	0.19%

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 July1, 2015.

#### c. Concentration of exposures:

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Total exposure to twenty largest borrowers/customers	42.24	63.83
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	0.93%	1.96%

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 July 1, 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:

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Total Exposure to top Four NPA Accounts	0.45	0.14
Total Exposure to top four NPA accounts to Gross NPA	0.61%	0.12%

## 20. Sector-wise Advances

(Rupees in crore)

31 March 2019			
Sector	Outstanding Total Advances	Gross NPAs	Percentage of Gross NPAs to Total Advances in that Sector
<b>A 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 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>

(Rupees in crore)

31 March 2018			
Sector	Outstanding Total Advances	Gross NPAs	Percentage of Gross NPAs to Total Advances in that Sector
<b>A Priority Sector</b>	-	-	-
1 Agricultural and Allied Activities	1,833.29	50.21	2.74%
2 Advances to Industries Sector eligible as Priority sector lending	456.85	25.22	5.52%
3 Services	272.98	7.59	2.78%
4 Personal Loans and others	586.65	35.45	6.04%
<b>Sub-Total (A)</b>	<b>3,149.77</b>	<b>118.47</b>	<b>3.76%</b>
<b>B Non Priority Sector</b>	-	-	-
1 Agricultural and Allied Activities	-	-	-
2 Industry	-	-	-
3 Services	-	-	-
4 Personal loans and others	41.56	2.58	6.21%
<b>Sub-Total (B)</b>	<b>41.56</b>	<b>2.58</b>	<b>6.21%</b>
<b>Total (A+B)</b>	<b>3,191.33</b>	<b>121.05</b>	<b>3.79%</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	31-Mar-2019	31-Mar-2018
Opening balance of Technical/Prudential written-off accounts as at April 1	-	-
Add: Technical/Prudential write-offs during the year	89.37	-
<b>Sub-total (A)</b>	<b>89.37</b>	<b>-</b>

Particulars	31-Mar-2019	31-Mar-2018
Less: Reduction due to recovery made from previously technical/prudential written-off accounts during the year	-	-
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>Closing balance as at March 31 (A-B)</b>	<b>89.37</b>	-

## 22. Overseas Assets, NPAs and Revenue:

The Bank does not have any overseas Assets during the period ended 31 March 2019 (Previous year Nil)

## 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 current year and previous year.

## 24. Disclosures on Remuneration

### A. Qualitative Disclosures:

**a) Information relating to the composition and mandate of the Remuneration Committee:** The Nomination & Remuneration committee comprises of independent directors of the Bank. Key mandate of the Nomination & Remuneration committee 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 and 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, a significant portion of senior and middle management compensation is 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/ company.

**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 Nomination & Remuneration Committee. 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 Nomination and Remuneration Committee

**e) A discussion of the banks' 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.

### B. Quantitative Disclosures

**a) Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members.**

During year ended 31<sup>st</sup> March, 2019, 8 meetings of Nomination and Remuneration committee was held. Each Member of the Nomination and Remuneration committee is paid a sitting fee of Rs. 30,000 per meeting.

**b) Number of employees having received a variable remuneration award during the financial year.**

Five [Quantitative Disclosure is restricted to MD & CEO and 4 EVPs [2 EVPs resigned during the year] (Previous Year :Four)

**c) Number and total amount of sign-on awards made during the financial year**

Not Applicable

**d) Details of guaranteed bonus, if any, paid as joining / sign on bonus.**

Not Applicable

**e) Details of severance pay, in addition to accrued benefits, if any.**

Nil (previous Year Nil)

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

Nil (previous Year Nil)

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

Nil (previous Year Nil)h) Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non-deferred.

Total Fixed Salary Paid - 2.35 Crore (Previous Year :Rs. 3.04 Crore)

Variable Pay and Bonus Paid - 1.05 Crore (Previous Year : Rs. 0.01 Crore)

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

Nil

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

Nil

## 25. Disclosures relating to Securitization

(Rupees in crore)

Particulars	31-Mar-2019	31-Mar-2018
1. No. of SPVs sponsored by the bank for securitization transactions	6	8
2. Total amount of Securitized assets as per books of the SPVs sponsored by the bank	90.09	438.49
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	3.12
Others		
<b>B On Balance Sheet exposures</b>		
First Loss (Cash Collateral)	36.85	41.11
Others (Credit Enhancement)	17.51	17.29
4. Amount of exposures to securitization transactions other than MRR as on the date of balance sheet		
<b>A Off Balance Sheet Exposures</b>		
<b>Exposure to own Securitization</b>		
First Loss (Subordination of Interest Strip)	-	-
Others	-	-
<b>Exposure to Third Party Securitization</b>		
First Loss	-	-
Others	-	-
<b>B On Balance Sheet Exposures</b>		
<b>Exposure to own securitizations</b>		
First Loss	8.00	8.00
Others	-	-
<b>Exposure to third party securitization</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 2019. (Previous year Nil)

## 27. Intra Group Exposures

The Bank does not have any intra group exposures for the year ended 31 March, 2019. (Previous year Nil)

**28. Transfer to Depositor Education and Awareness Fund (DEAF)****(Rupees in crore)**

Particulars	31-Mar-2019	31-Mar-2018
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. (Previous year Nil)

**30. Priority sector lending certificates**

The amount of PSLCs (Category wise) sold/ purchased

Type of PSLCs	31-Mar 2019		31-Mar 2018	
	Purchase	Sale	Purchase	Sale
1 PSLC- Agriculture	-	200	-	-
2 PSLC- SF/MF	-	-	-	-
3 PSLC- Micro enterprises	-	-	-	-
4 PSLC- General	-	-	-	-

**31. Provisioning Pertaining to Fraud Accounts**

The Bank has reported 6 cases (Previous year: 1 Case) of fraud in the Financial year ended March 31, 2019 amounting to 0.20 Crore (Previous Year: 0.04Crore). Adequate provision after recovery has provided for the same in the books of account. Bank does not have any unamortised loss in this regard as of March 31, 2019 (Previous Year : Nil).

**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 2019 Rs. 300 crore (Previous Year Rs. Nil).

**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 Current Year and Previous year. Hence the disclosures relating to the same is not applicable to the Bank."

## 34. A. Liquidity Coverage Ratio

(Rupees in crore)

		Q1 2018-19		Q2 2018-19		Q3 2018-19		Q4 2018-19	
High Quality Liquid Assets		Unwei hted	Weig ghted	Unwei hted	Weig ghted	Unwei hted	Weig ghted	Unwei hted	Weig ghted
1	Total High Quality Liquid Assets (HQLA)	515.26	515.26	665.16	665.16	783.73	783.73	725.59	725.59
2	Cash Outflows								
	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 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>
9	Cash Inflows								
	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		222.21		173.31		115.48
16	Total Net Cash inflows [Higher of 13 or 14] (b)		397.95		222.21		173.31		115.48
17	<b>Liquidity Coverage Ratio (%) (a/b)</b>		<b>129.48%</b>		<b>299.34%</b>		<b>452.20%</b>		<b>628.35%</b>

(Rupees in crore)

		Q1 2017-18		Q2 2017-18		Q3 2017-18		Q4 2017-18	
High Quality Liquid Assets		Unwei hted	Weig ghted	Unwei hted	Weig ghted	Unwei hted	Weig ghted	Unwei hted	Weig ghted
1	Total High Quality Liquid Assets (HQLA)	454.22	454.22	602.18	602.18	467.30	467.30	669.76	669.76
<b>Cash Outflows</b>									
2	Retail deposits and deposits from small business customers, of which:								
	i Stable deposits	215.74	10.79	268.15	13.41	534.25	26.71	846.62	42.33
	ii Less stable deposits	18.99	1.90	61.88	6.19	77.19	7.72	58.30	5.83
3	Unsecured wholesale funding, of which								
	i Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	ii Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	iii Unsecured debt	370.76	55.94	538.26	179.16	774.95	321.71	1,311.48	786.43
4	Secured wholesale funding	97.87	97.87	46.86	46.86	64.31	64.31	46.76	46.76
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	77.29	77.29	62.44	62.44	25.62	25.62	69.98	69.98
6	Other contractual funding obligations	63.65	63.65	109.53	109.53	94.18	94.18	133.71	133.71
7	Other contingent funding obligations								
8	<b>Total Cash Outflows</b>	<b>844.30</b>	<b>307.44</b>	<b>1,087.12</b>	<b>417.59</b>	<b>1,570.50</b>	<b>540.25</b>	<b>2,466.85</b>	<b>1,085.04</b>
<b>Cash Inflows</b>									
9	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	113.60	113.60	-	-	-	-	-	-
11	Other cash inflows	260.90	198.28	376.95	276.47	354.33	213.83	368.50	213.92
12	<b>Total Cash Inflows</b>	<b>374.50</b>	<b>311.88</b>	<b>376.95</b>	<b>276.47</b>	<b>354.33</b>	<b>213.83</b>	<b>368.50</b>	<b>213.92</b>
13	Total HQLA (a)	454.22	454.22	602.18	602.18	467.30	467.30	669.76	669.76
14	Total Net Cash Outflows		(4.44)		141.12		326.42		871.12
15	25% of Total Cash Flow (b)		76.86		141.12		326.42		871.12
16	<b>Liquidity Coverage Ratio (%) (a/b)</b>		<b>590.97%</b>		<b>426.71%</b>		<b>143.16%</b>		<b>76.88%</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 80% effective Jan 2019.

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 2019, the LCR stood at 628.35% (Previous year : 76.88%. )

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.

## SCHEDULE 18 - NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

### B. OTHER DISCLOSURES:

#### 1. Earnings per Equity Share:

Particulars	31 March 2019	31 March 2018
Net Profit attributable to equity Share holders (Rupees in crore)	90.28	26.99
Weighted average number of equity shares used in computation of basic and diluted earnings per share	38,09,50,623	30,32,69,517
Nominal value per share	10.00	10.00
Basic and diluted earnings per share	2.37	0.89

#### 2. Segment Reporting:

(Rupees in crore)

Segment Revenue	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
<b>Segment Assets</b>	<b>2308.26</b>	<b>31.01</b>	<b>4,614.55</b>	-	<b>6,953.82</b>
Unallocated Assets	-	-	-	-	103.67
Total Assets	-	-	-	-	7,057.49
<b>Segment Liabilities</b>	<b>1,113.75</b>	<b>0.01</b>	<b>4,953.80</b>	-	<b>6,067.57</b>
Unallocated Liabilities					96.23
Share Capital and Reserves and Surplus					893.69
<b>Total Liabilities</b>					<b>7,057.49</b>

(Rupees in crore)

31 March 2018					
Segment Revenue	Treasury	Wholesale Banking	Retail Banking	Other Banking Operations	Total
Segment Revenue	79.58	-	619.00	0.12	698.70
<b>Segment Results</b>	<b>11.85</b>	-	<b>32.07</b>	<b>(0.08)</b>	<b>43.84</b>
Income Tax Expenses	-	-	-	-	16.85
Net Profit	-	-	-	-	26.99
<b>Segment Assets</b>	<b>1428.42</b>	-	<b>3,225.01</b>	-	<b>4,653.43</b>
Unallocated Assets	-	-	-	-	70.70
Total Assets	-	-	-	-	4,724.13
<b>Segment Liabilities</b>	<b>502.04</b>	-	<b>3,734.96</b>	-	<b>4,237.00</b>
Unallocated Liabilities	-	-	-	-	143.78
Share Capital and Reserves and Surplus	-	-	-	-	343.35
<b>Total Liabilities</b>	-	-	-	-	<b>4,724.13</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 branch premises for periods ranging from 11 months to 120 months. The lease payments recognised in the profit and loss account is Rs.23.27 Crore (Previous year Rs.15.41 Crore).

### 4. Deferred Taxes:

(Rupees in crore)

Particulars	31-Mar-2019	31-Mar-2018
<b>Deferred Tax Asset (A)</b>		
Provision for Employee Benefits	1.34	1.03
Provision for Standard assets and NPA	3.20	9.17
other Provisions	1.48	0.67
<b>Total A</b>	<b>6.02</b>	<b>10.87</b>
<b>Deferred Tax Liabilities (B)</b>		
Fixed Assets : on differences between book balances and tax balance of fixed asset	0.14	0.99
<b>Total B</b>	<b>0.14</b>	<b>0.99</b>
<b>Deferred Tax Asset (net) (A)-(B)</b>	<b>6.88</b>	<b>9.88</b>

5. Credit card reward points: The Bank does not have credit card products hence reward points are not applicable.

6. Fixed Assets as per Schedule 10 include intangible assets relating to purchased software and system development expenditure which are as follows:

(Rupees in crore)

Particulars	31-Mar-2019	31-Mar-2018
<b>Gross Block</b>		
At cost on 31st March of the preceding year	11.36	10.61
Additions during the period	1.27	0.75
Deductions during the period	-	-
<b>Total</b>	<b>12.63</b>	<b>11.36</b>
<b>Depreciation / Amortization</b>		
As at 31st March of the preceding year	2.91	0.21
Charge for the period	2.99	2.7
Deductions during the period	0	-
Depreciation to date	5.90	2.91
<b>Net Block</b>	<b>6.73</b>	<b>8.45</b>

## 7. Related Party Disclosures:

Related Party	Nature of Relationship
ESAF Financial Holdings Private Limited ("erstwhile ESAF Microfinance and Investments Private Ltd.") ("ESAF - MFI") ESAF Retail Private Ltd. ("ESAF Retail")	Holding Company 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	Spouse of Key managerial person
Emy Acha Paul	Daughter of Key managerial person
Alok Paul Thomas	Son of Key managerial person
ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd) ("ESCO") through relative Evangelical Social Action Forum ("ESAF Society")	Enterprises over which KMP has significant influence  Enterprises over which KMP has significant influence

### Transactions during the year with the Related Party

(Rupees in Crore)

Nature of Transaction	Related Party	31 March 2019	31 March 2018
<b>Liabilities</b>			
Term Deposit placed	ESAF Retail	43.91	-
Term Deposit Matured	ESAF - MFI	133.36	61.63
	ESCO	50.00	-
	ESAF Retail	41.61	-
Transactions in Demand Deposit [Net]	ESCO	(36.81)	37.74
	ESAF Retail	2.35	1.94
	ESAF - MFI	(2.46)	2.67
Transactions in Savings Deposit (Net)	K. Paul Thomas	0.32	0
	Mereena Paul	0.06	*
	ESCO	102.76	10.13
	Emy Acha Paul	*	*
	Alok Paul Thomas	*	*
Interest accrued and due on Deposits	ESCO	3.78	8.30
	ESAF - MFI	15.00	26.69
	ESAF Retail	0.20	
	K. Paul Thomas	0.01	
Subordinate Debt	ESCO	40.00	45.00
Perpetual Debt	ESCO	-	48.00

Interest Accrued & Payable on PDI	ESCO	8.77	4.74
Interest Accrued & Payable on Sub Debt	ESCO	6.24	2.12
Issue of Equity Shares	ESCO	21.34	-
	K Paul Thomas	-	10.38
Securities Premium	ESCO	64.19	-
	K. Paul Thomas	-	0.21
Collections as per Agency agreement	ESAF Retail	0.04	1.57
Payment of Collections as per Agency agreement	ESAF Retail	0.33	1.70
<b>Assets</b>			
Loan against Fixed Deposit	ESAF - MFI	3.50	8.50
	ESAF Retail	3.00	-
Loan against Fixed Deposit - Repaid	ESAF - MFI	-	8.50
	ESAF Retail	3.00	-
Rent Deposit	ESAF - MFI	-	0.02
	K. Paul Thomas	-	0.07
Vehicle Purchased	ESAF - MFI	0.35	-
Rent Deposit Repaid	ESAF - MFI	0.02	-
<b>Expenses</b>			
Rent paid	ESAF Homes & Infrastructure	1.82	1.82
	ESAF - MFI	0.04	0.01
	K. Paul Thomas	0.14	0.13
Interest paid on deposits	ESCO	3.78	8.30
	ESAF - MFI	15.00	26.69
	K. Paul Thomas	0.01	0.01
	Mereena Paul	*	*
	Emy Acha Paul	*	*
	Alok Paul Thomas	*	*
Interest paid on PDI	ESCO	6.24	4.74
Interest paid on Sub Debt	ESCO	7.03	2.12
Office stationery	ESAF Retail	0.04	0.15
Gifts & Conference kit	ESAF Producer Company	0.03	0.03
BC Servicer Fee	ESCO	234.94	158.54
Corporate Facility Management service charges	ESCO	6.92	2.92
Remuneration and Sitting Fees	K. Paul Thomas	1.29	1.40
Corporate Social Responsibility Expenses	ESAF Society	1.15	-
Project cost for rebuilding of houses in relation to flood relief	ESAF Society	0.50	-
<b>Income</b>			
Interest received on Loan against Fixed Deposit	ESAF Retail	0.01	-
Interest received on Loan against Fixed Deposit	ESAF - MFI	-	0.61

Figures in brackets indicate net outflow Balance outstanding as at :

(Rupees in crore)

Items/Related Party	Holding Company		KMP and Enterprises over which KMP/Relative of KMP have control / significant influence	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
<b>Liabilities</b>				
Deposits	35.26	168.37	2.30	50.00
Demand Deposit	0.42	2.88	119.06	50.37
Equity Shares	283.90	283.90	117.2	31.69
Borrowings	-	-	133.00	93.00
Other Liabilities	0.01	0.38	2.96	15.22
<b>Assets</b>				
Advances	3.50	-	-	-
Others	-	0.02	1.59	1.59

Maximum Balance outstanding during the year

(Rupees in crore)

Items/Related Party	Holding Company		KMP and Enterprises over which KMP/Relative of KMP have control / significant influence	
	31 March 2019	31 March 2018	31 March 2019	31 March 2018
<b>Liabilities</b>				
Term Deposits	168.37	168.37	50.00	50.00
Deposits	56.75	2.88	119.06	50.37
Equity Shares	283.90	283.90	117.22	31.69
Borrowings	-	-	133.00	93.00
<b>Assets</b>				
Advances	3.50	8.50	3.00	-

\* Amounts are below the rounding off limits adopted by the bank

8. Employee Share Based Payments The Bank has not made any share based payments (Previous Year: Nil)

9. Advances securitized by the Bank:

(Rupees in crore)

Particulars	31-Mar-2019	31-Mar-2018
Book value of advances securitized	656.01	539.73
Number of accounts	3,95,389	5,01,256
Sale consideration received for the accounts securitized	656.01	539.73
Interest spread on securitisation during the year	41.12	40.96
Credit enhancement, liquidity support provided	57.48	61.52
Provision on securitized assets	1.63	3.20
Number of accounts as on date	1,32,056	3,72,072
Outstanding as on date	72.58	411.82
Nature of post securitization support	-	-

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

10. Employee Benefits

i. The Bank has recognized the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds:

(Rupees in crore)

Particulars	31-Mar-2019	31-Mar-2018
Provident Fund	2.06*	1.01

\* Honourable supreme court vide their judgement dated February 28, 2019 clarified the scope of definition of “Basic Salary” for provident fund component. Based on the legal opinion, the Bank believes that the liability on account of this decision is prospective and has provided for the incremental liability with effect from 1st March, 2019.

## 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

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Present value of DBO at start of year	2.06	1.24
Current Service Cost	1.10	0.42
Interest Cost	0.15	0.09
Benefits Paid	(0.04)	-
Past Service Cost	-	0.25
Actuarial Gain/Loss	0.27	0.06
Present value of DBO at end of year	3.54	2.06

## Reconciliation of Fair Value of Plan Assets

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Fair value of Plan assets at start of year	1.25	-
Contributions by employer	-	1.24
Benefits Paid	(0.04)	-
Expected return on plan assets	0.09	0.01
Actuarial Gain/Loss	0.00	0.00
Fair value of Plan assets at end of year	1.30	1.25
Actual Return on plan assets	0.09	0.01
Expected Employer Contributions for the coming Year	0.70	0.70

## Expense recognized in the Profit and Loss account

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Current Service Cost	1.10	0.42
Interest Cost	0.15	0.09
Past Service Cost	-	0.25
Expected return on plan assets	(0.09)	(0.01)
Actuarial (Gain)/Loss	0.27	0.06
Employer Expense/( Income)	1.43	0.81

## Net Liability/(Asset) recognized in the Balance Sheet

(Rupees in crore)

Particulars	31 March 2019	31 March 2018
Present value of DBO	3.54	2.06
Fair value of plan assets	1.30	1.25
Net liability/(Asset)	2.24	0.81
Less: Unrecognized Past Service Cost	-	-
Liability/(Asset) recognized in the Balance sheet	2.24	0.81

## Category of Plan Assets

Particulars	31 March 2019	31 March 2018
Insurer managed fund (traditional)	100%	100%
Actuarial assumptions used		
Particulars	31 March 2019	31 March 2018
Salary Growth Rate	7.5% p.a	7.5% p.a
Discount Rate	7.2% p.a	7.4% p.a
Withdrawal/Attrition Rate	10% p.a	10% p.a
Expected return on plan assets	7.40% p.a	7% p.a
Mortality Rate	IALM 2012-14 (Ult)	IALM 2006-08
Expected average remaining working lives of employees	7 years	6years

## Experience adjustments

(Rupees in crore)

Particulars	31 March 2019	31 March 2018	31 March 2017
Defined benefit obligation	3.54	2.06	1.24
Fair value of Plan assets	1.30	1.25	-
Surplus / (Deficit)	(2.24)	(0.81)	(1.24)
Experience adjustment on plan liabilities: (gain)/loss	0.21	(0.20)	-
Experience adjustment on plan assets: gain/(loss)	*	-	-

\* Amounts are below the rounding off limits adopted by the bank

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

### iii. Leave Encashment

The employees of the Bank are entitled to compensated absence. The employees can carry forward a portion of the unutilized accrued compensated absence and utilize it in future periods or receive cash compensation at retirement or termination of employment for the unutilized accrued compensated absence for a maximum of 30 days. The Bank records an obligation for compensated absences in the period in which the employee renders the services that increase this entitlement. The Bank measures the expected cost of compensated absence as the additional amount that the Bank expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date based on actuarial valuations.

The Actuarial liability of compensated absences of accumulated privilege leave of the employees of the Bank is given below:

(Rupees in crore)

Assumptions	31 March 2019	31 March 2018
Privilege leave	30 days	30 days
Sick leave	30 days	30 days
Discount rate (Privilege/ Sick leave)	7.20%	7.40%
Salary escalation rate (Privilege/ Sick leave)	7.50%	7.50%
Attrition Rate (Privilege/ Sick leave)	10%	10%
Actuarial liability - Privilege leave	1.51	0.44
Charged in Profit and Loss account - Privilege Leave	1.07	0.31
Actuarial liability - Sick Leave	0.96	0.58
Charged in Profit and Loss account - Sick leave	0.38	0.70

The discount rate is based on the prevailing market yields of Government of India securities as at the Balance Sheet date for the estimated term of the obligations.

The estimate of future salary increases, takes into account the inflation, seniority, promotion, increments and other relevant factors. The above information is as certified by the actuary and relied upon by the auditors.

#### 11. Corporate Social Responsibility (CSR)

Operating expenses include Rs 1.15 Crore for the year ended 31 March, 2019 towards corporate Social Responsibility (CSR) in accordance with the Companies Act, 2013 paid to M/s Evangelical Social Action Forum ("ESAF Society").

#### For the year ended 31 March 2019

(Rupees in crore)

Particulars	Paid	Yet to be paid	Total
i) Construction/ Acquisition of any assets	-	-	-
ii) For purpose other than (i) above	1.15	-	1.15

As per the provisions of Section 135 of the Companies Act, 2013, the Bank is not required to contribute towards CSR expenditure for the year ended 31 March, 2018 and related disclosures are not applicable.

#### 12. Subordinated Debt

a. The Bank has an outstanding subordinated debt of Rs. 190 Crore (Previous year : Rs.150 Crore). Out of the above, Rs.65 crores has been taken over by the Bank as per the 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

b. Interest Expended-Others includes interest of Rs. 23.78 Crore (Previous year : Rs. 12.70 Crore) on Subordinated Debt

#### 13. Details of payments of audit fees (Exclusive of Goods and Service Tax)

(Rupees in crore)

Particulars	31-Mar-2019	31-Mar-2018
Statutory Audit fees	0.45	0.40
Other Attestation Work	0.20	-
Other Certification	0.12	0.05
Out of pocket expenses	0.02	0.08
<b>Total</b>	<b>0.79</b>	<b>0.53</b>

14. Other expenses includes Rs 238.23 crore (Previous year - 158. 54 crore) Fee paid towards Business Correspondent.

**15. Description of Contingent Liabilities:**

The Bank has contingent liability of Rs.57.68 Crore(Previous year Rs. 61.72 crore) for securitization transactions and guarantee given to Pension Fund Regulatory Development Authority (PFRDA) and Rs. 0.64 Crore (Previous Year: Nil ) with respect to guarantees given on behalf of constituents in India.

16. The Bank has a process whereby periodically all long term contracts are assessed for material foreseeable losses. At the year end, 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.

17.The Bank has received few intimations from “suppliers” regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and there is no outstanding against those suppliers as on 31<sup>st</sup>

March, 2019 hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid / payable as required under the said Act have not been given. The above is based on information available with the Bank and relied upon by the Auditors.

**18. Previous Year’s figures**

Previous year’s 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’s Registration No.: 101049W/E300004

**Sd/-  
per Sarvesh Warty  
Partner**

Membership No.: 121411

Place: Mannuthy.  
Date: 10 May 2019

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

**Sd/-  
Prabha Raveendranathan**

Chairman

**Sd/-  
Asha Morley  
Director**

**Sd/-  
Gireesh C P  
Chief Financial officer**

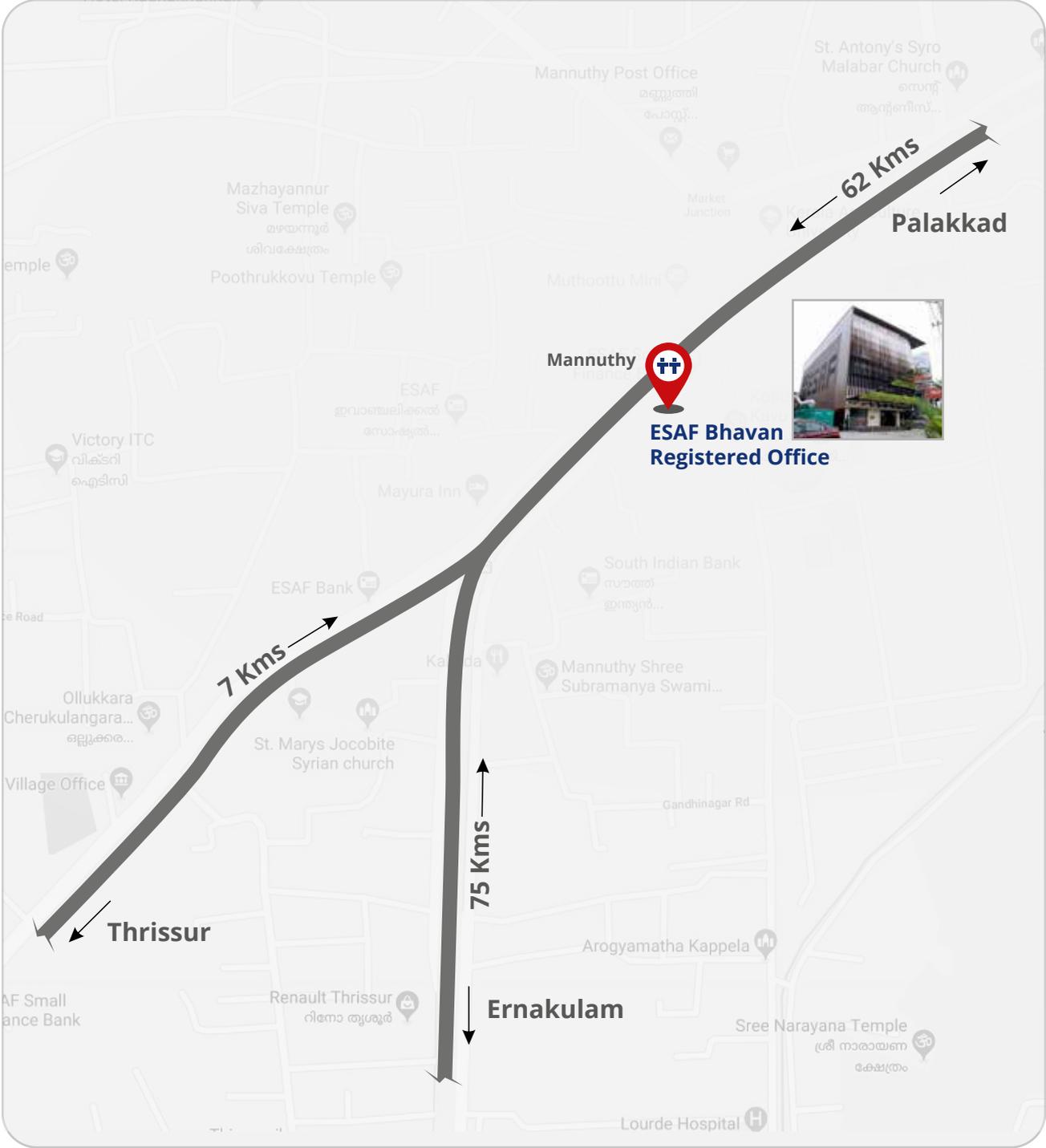
Place: Mannuthy.  
Date: 10 May 2019

**Sd/-  
Kadambelil Paul Thomas**

Managing Director & CEO

**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 – 680651

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 03<sup>rd</sup> Annual General Meeting of the Company on Tuesday, August 06<sup>th</sup>, 2019 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 - 680651 at 01.00 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, 680651

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

1. Name : .....  
Address :  
E-mail Id :  
Signature :....., or failing him
  
2. Name : .....  
Address:  
E-mail Id :  
Signature:....., or failing him
  
3. Name : .....  
Address:  
E-mail Id:  
Signature:.....





as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the 03rd Annual general meeting of the company, to be held on 06th August 2019 at 01.00 PM at the Registered office of the Bank at Building No.VII/83/8, ESAF Bhavan, Thrissur - Palakkad National Highway, Mannuthy, Thrissur, Kerala, 680651 and at any adjournment thereof in respect of such resolutions as are indicated below :

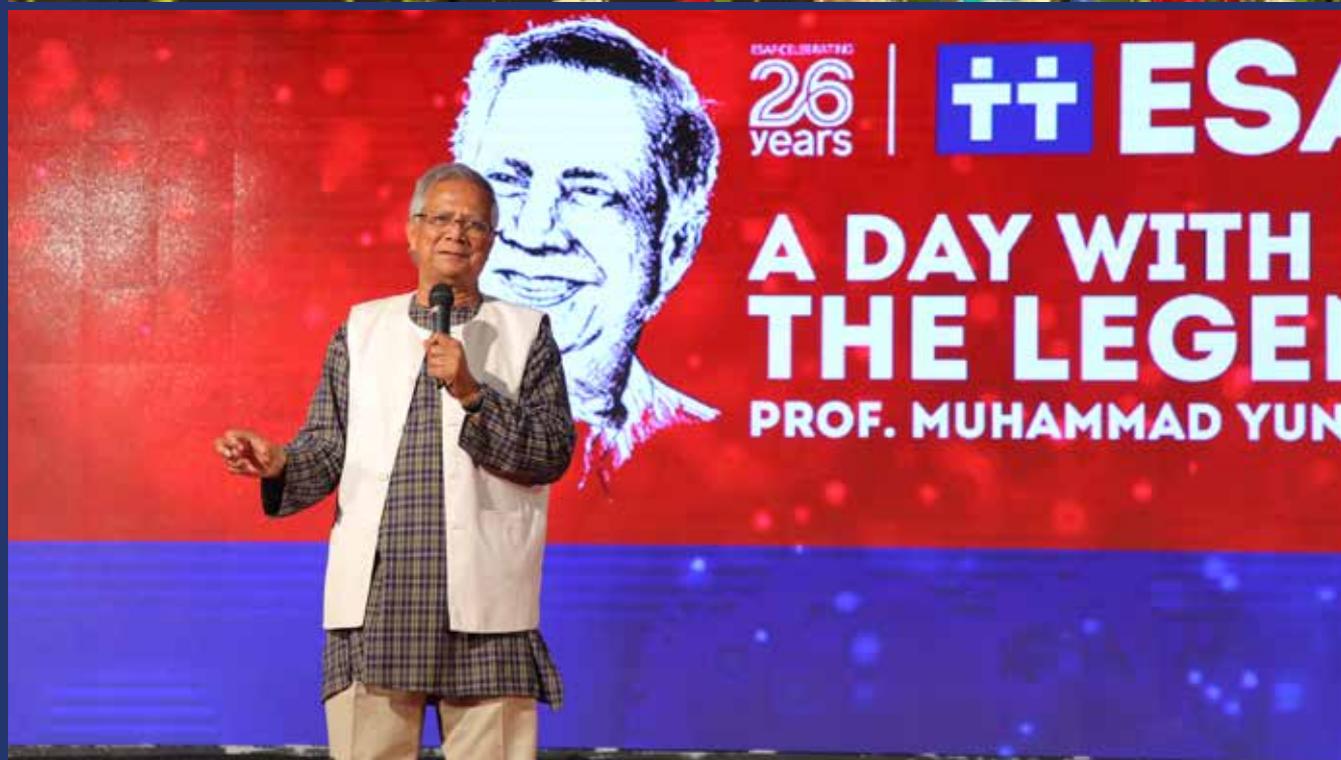
Signed this..... day of..... 2019

Signature of shareholder :.....

Affix  
Revenue  
Stamp

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 Company, not less than 48 hours before the commencement of the Meeting.



A Day with the Legend - Prof. Muhammad Yunus interacting with the audience at ESAF Annual Lecture Series, 2018



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