SUSTAINABLE DEVELOPMENT GOALS

ESAF
ESAF SMALL FINANCE BANK
Joy of Banking

Nurturing Customers. Building Bonds. Enriching Lives.

2021-22
Annual Report

What's Inside

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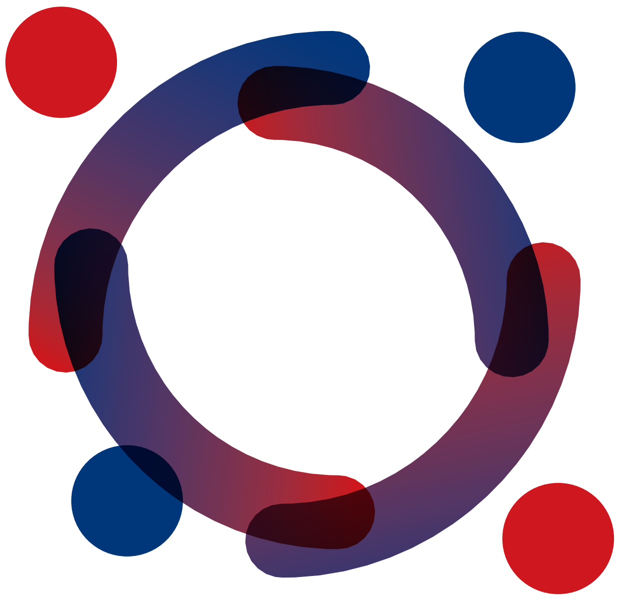
SUSTAINABLE DEVELOPMENT GOALS

Nurturing Customers.
Building Bonds.
Enriching Lives.



We focus on putting our customers at the heart of our activities. We are constantly working to embed the "customer first" approach in everything we do as a bank. We strive to do better for our customers every day and spot opportunities to serve them better every day – bringing about more radical changes in the way we operate.

We are the new-age social bank that continues to redefine the banking experience for all our stakeholders – particularly the customers. We primarily focus on expanding the banking horizon to new unbanked/ underbanked areas, yet we stand as a "Bank for All" with a presence in urban, semi-urban, rural and rural unbanked areas.

We are constantly improving what we do to take us towards our goal of customer value creation. We don't just provide transactional banking services to our customers. Instead, we offer all-round financial support to our "ever-loyal" customers. Our holistic financial experience is aimed at guiding them in financial management and ensuring they maintain a good credit history.

Well-aligned with our corporate theme of "Collaborate, Leverage and Surge", we have a clear ambition to be known for good customer service, trust and advocacy. As we reinforce our customer bonds and make them even stronger, our key emphasis remains on serving them well while driving higher loyalty and lifetime value.

One of the Most Socially Responsible Banks in India

We are ESAF Small Finance Bank

We are the 5th scheduled bank from Kerala, and the first bank from the state to have received a banking licence since Independence. We provide safe, secure and convenient banking facilities in order to fulfil the dreams of our customers.

A new-age social bank

As a new-age social bank, we continue to redefine the banking experience of all the stakeholders. We primarily focus on expanding the banking horizon to new unbanked and underbanked areas, yet we stand as a "Bank for All" with a presence in the urban, semi-urban, rural and rural unbanked areas.

Led by a strong customer-centric value proposition

With appropriate application of technology, we offer customer-centric products and services to our 40 lakh customers spread across all segments of society through our 575 banking outlets across 21 states and 2 union territories.

Steered by the ethos of inclusive banking

We are here for a purpose. By leveraging the strength of ESAF brand, we have been enabling financial inclusion through a legacy spanning over three decades. As we serve the unserved and underserved segments of our society, we remain focussed on inclusive and responsible banking.

A responsible banking philosophy

We are one of the leading Small Finance Banks in terms of share of retail deposits, yield on advances and growth rate of assets under management. Our wide range of banking services include digital banking and investment solutions. As on 31st March 2022, retail deposits accounted for 93.71% of our total deposits. We are also focussing on leveraging our branch network, digital channels and presence to further expand our customer base.

A triple-bottom-line approach

We aim to achieve universal financial access and financial inclusion by fulfilling the dreams of our customers. With an emphasis on People, Planet and Prosperity, our aim is to predominantly serve the low-income and middle-income segments in India, supporting their livelihood and economic development.

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.

Mission

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

Brand Promise

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

An extensive portfolio of world-class banking products

- Micro Banking
- Retail Assets
- Retail Liability
- Agri Lending
- MSME

Engaging with our customers

- Banking Outlets
- Digital Channels
- Business Correspondents

Providing a full range of Banking Services

- Serving the underserved and unserved segments
- Enabling a strong customer-centric value proposition for 26 lakh customers
- Serving customers through 575 banking outlets across 21 states and 2 UTs
- Offering savings and credit solutions and banking services to the customers

Business Profile - A Snapshot

Deposits
₹12,815.07 Cr

Gross Advances
₹12,130.64 Cr

Total Assets
₹17,707.56 Cr

CASA Ratio
22.84%

Net NPA Ratio
3.92%

Cost to Income Ratio
63.69%

Nurturing Customers. Building Bonds. Enriching Lives.

Serving customers across the value chain

One of our key focus areas is to constantly increase customer lifetime value by emphasising as well as reshaping customer journeys. We map and optimise customer journeys and handhold them throughout their lifecycle. Our diligent strategy towards this is helping us improve customer retention and gain a competitive advantage.

To be in a position to offer appropriate products to our customers, what we need is a genuine understanding of each customer and his/her financial life. Besides considering the big picture of customer needs, we build deep customer relationships, identify customer behaviours and product combinations, and set immediate priorities based on knowledge of total customer relationships, including the potential for lowered credit risk, thereby increasing customer lifetime value.

At ESAF Small Finance Bank, we don't restrict ourselves as a run-of-the-mill Deposit and Loan provider. We provide all-round and holistic financial experience to our customers by providing guidance on Financial Management. We understand that our customers are continually shifting and evolving. Understanding our customer is more critical now than at any other time in history. We serve our customers by understanding their focus needs and wants at each stage.

We boost our customer lifetime value by optimising the onboarding process, offering our customers a personalised experience, building strong relationships with our customers, and providing high-end customer service with omnichannel support.

Design. Develop. Deliver.

We design, develop and deliver products as per customers' changing needs and preferences. Being the first bank of choice for all banking and financial requirements, we deliver value-accretive and tech-driven products to our customers.

Successfully onboarding 9 lakh plus customers on the general banking side has driven our liability growth – CASA and Fixed Deposits. Our plan is to double our retail customer base to 20 lakh in a few years, as we handhold them in their journey from being small credit customers to users of other essential banking services.

Constant desire to serve customers

Today, we have a wide base of 56 lakh customers in total. We are building our CASA retail base through personal, auto, car, and MSME loans over the last four years in a planned manner. Our key focus is to continually build the CASA base of the Bank.

Multiple cycles of credit

We engage in multiple cycles of credit with our customers, reflecting the bond and trust they have placed in the Bank. For us, winning a customer on the Liabilities side is just the beginning, as we continuously engage with them and build on the business. We have dedicated banking officers attending to our valuable customers. They keep in touch with the customers, serve them efficiently, and offer products that suit their needs and preferences. We also provide doorstep delivery on the Assets and Liabilities side.

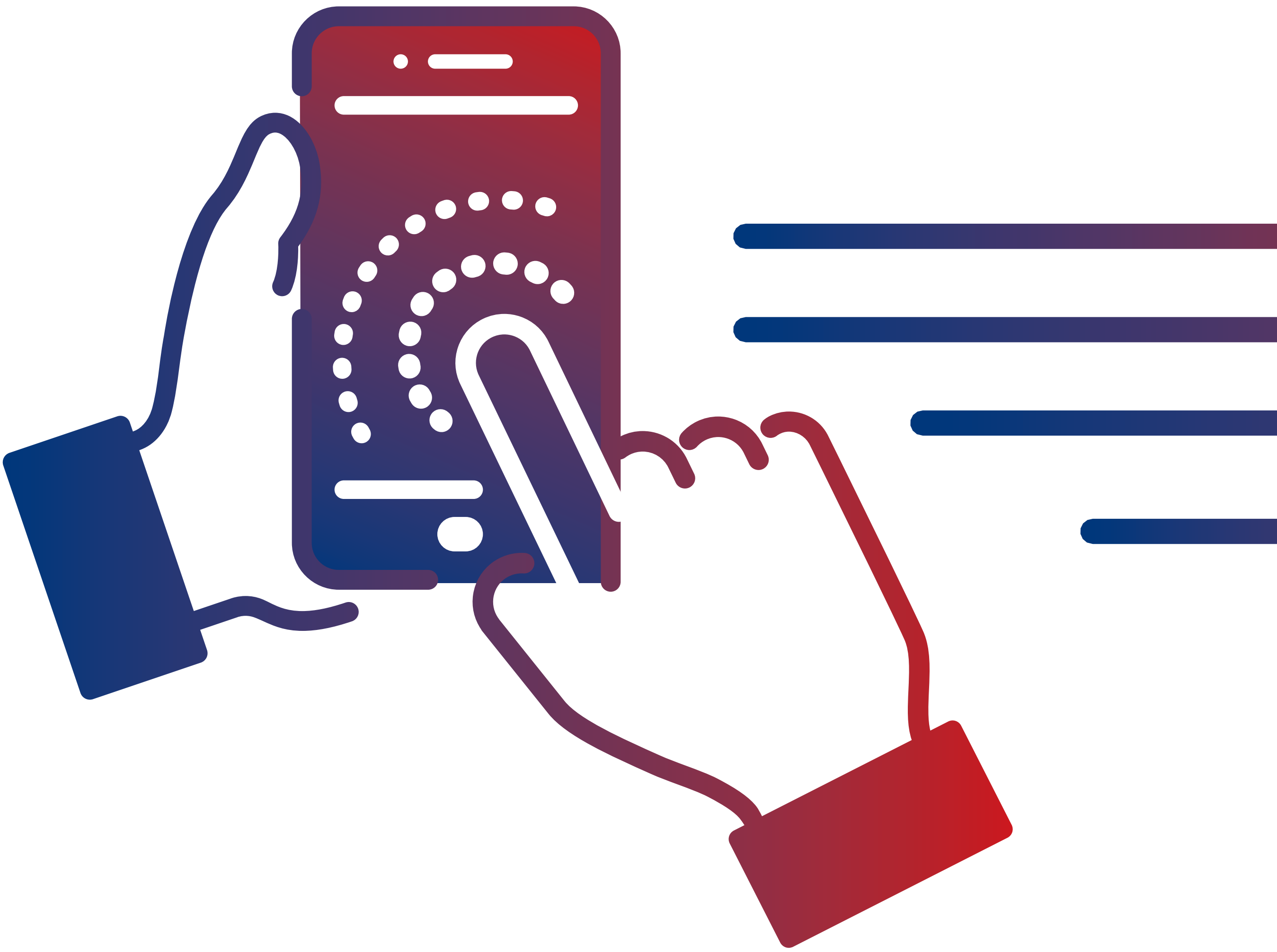
Raising customer awareness

We make sure our customers understand the importance of financial management. For this purpose, we engage with them in education-related programmes and sensitise them on different financial topics. We also offer attractive incentive schemes to engage with the customers and maintain long-term relationships with them.

Integrating Hi-Touch with Hi-Tech

Being the first "Bank of Choice" for our customers

Our traditional, Hi-Touch, in-person interactions are traits that differentiate us from our peers. In an era of prolific and efficient online financial services, we combine the relative benefits of Hi-Touch and Hi-Tech banking services.



Today, technology has ushered in greater convenience than ever before, placing our customers in the driver's seat. At a time when customers are relying more on digital channels for their banking needs, our physical branches are our key differentiators and they define the in-person retail experience.

At ESAF, every customer is greeted with a joyful smile. We have built one-to-one relationships with 40 lakh customers and have extended them a helping hand for financial inclusion and economic development. Through a mix of world-class technology and doorstep services, we not only realise our customers' inimitable requirements but also deliver consistent value to our customers and the nation.

Addressing customers' requirements

The key traits of the Bank are courtesy, quick resolution of issues and timely services to our customers. We endeavour to address all the requirements of our customers – to open a bank account or fixed deposit, or to sanction or disburse loans – within the shortest possible time and this helps in the growth of our customer base. Even for our microfinance customers, we place great emphasis on face-to-face meetings as it helps us understand them better and bring down the credit risk.

First bank of choice

Through our compassionate and Hi-Touch customer service, we strive to become the "first bank of choice" and go the extra mile to satiate our customers' banking and financial requirements. Our constant emphasis is on deepening and strengthening our relationships with the customers by engaging with them through a one-to-one connection using our tech-driven products.

From the Chairman's Desk

Dear Shareholders,

Since we last communicated through our previous annual report, the banking industry successfully navigated the COVID-19 impact. The banking systems' resilience jointly propelled economic recovery and put the economy back on track. The banking industry looked beyond the pandemic, built significant capital buffers and reimagined their role in the new reality.

At ESAF Small Finance Bank, with strong fundamentals and an agile response to the external environment, we not only battled the challenging environment but also capitalised on emerging trends and rose with a new resolve in the evolving world.

Three decades of ESAF

It has been five years since the Bank was launched and it has been 30 years since ESAF, as a social organisation, was formed. Today, we are proud to be one of India's leading small finance banks and one of the few socially responsible banks, with an endeavour to impact the lives of people from the bottom of the pyramid. In a very short span of time, the Bank has achieved remarkable milestones and has been able to fulfil the big dreams of the common people by establishing its inevitable presence in the non-banked areas of rural India. For the past 30 years, ESAF has been contributing towards lessening the income disparity in rural areas.

Building the nation from its roots

If India wants to become a US$ 5 trillion economy by 2024-25, then it is important to support micro-level entrepreneurs. I strongly believe they will drive the India story. These are the people who need to be focussed on. Beyond loans, they also need capacity building and linkages with the industry. As a social bank, we are focussed on this customer segment and their holistic development by creating job opportunities. We will slowly diversify, but without losing focus on the low and middle-income groups.

We are on our way to creating a more enabling environment for the sustenance and development of the vulnerable sections of our society, particularly amid the ongoing health crisis. We reach out to them and offer loans for scaling up their business. Our joint lending group called ESAF Sangam stands testimony to our commitment to the well-being of the communities we operate within. Through this, we provide constant support to the unbanked and underbanked.

Enabling economic empowerment

Financial inclusion is not just about opening bank accounts and bank branches in remote areas. It is also about creating an ecosystem for employment generation so that people can start earning and focus on saving and investing. Small finance banks, launched half a decade ago, are driving this change in the remotest corners of India.

On our journey of fulfilling our vision of reducing social inequality in society, we believe employment generation is a means for economic empowerment. Small loans can transform communities. The Bank has facilitated the creation of lakhs of job opportunities through micro-entrepreneurs. With about 30 lakh people in these self-help groups, at least 10% of these offer jobs to two or more people. We even trained tribal women in Kerala and offered small loans to them to start their micro-enterprises. We are touching segments where financial inclusion is needed.

Creating opportunities for the less privileged

Today, we cater to over 56 lakh customers through our 575 banking outlets across 23 states and two union territories. Founded on strong governance standards, we have built an institution of high quality and professionalism. We maintained our assertiveness as we focussed on customer needs to drive efficiency and build further resilience. Our customers also showed immense resilience in the face of this adversity. Collection efficiency sustainably improved post-COVID and activity level attained near normalcy.

Measures to stimulate recovery

With the pandemic testing our credit and business model, we enhanced our communication with customers to build trust. With 80.92% of our lending book being towards Micro Lending, our asset quality was affected as gross NPAs increased with COVID, resulting in loss of income and livelihood activities. Nearly 97% of our NPAs belong to this segment.

The Bank took suitable steps to restore the confidence of customers and employees and to return to normalcy. We maintained an acute focus on protecting our balance sheet and tightening the risk filters to manage and preserve our credit quality. We also maintained surplus liquidity and remained well-capitalised.

With a strong understanding that the traditional way will not work with our customers, we showed flexibility towards our borrowers. We handheld them with supplementary or comfort loans to help them restart their activities. We understand they are not wilful defaulters – it is just that they were unable to pay due to the loss of livelihoods during the pandemic.

A majority of our customers have had multiple cycles of credit with us. They have taken loans from the Bank at least 2-5 times, and we have a long-standing relationship with each of them. With an increasing resolve to empower our customers, we enhanced their financial awareness and literacy through campaigns.

As businesses revived and normalcy returned during the pandemic, our borrowers showed more prudence in repayment. This led to a substantial reduction in our Non-Performing Assets. Our customers started paying back funds to us, based on the money available at hand. We are also confident that once there is complete normalcy in the economic and banking system, our customers will come back stronger, thanks to their resilience and positive attitude. And hence, the Bank is not too worried about its NPAs. As it is paramount to win the confidence of our borrowers, the Bank is taking several affirmative steps to boost their confidence.

Hi-Touch and Hi-Tech model of banking

There is a straightforward simplicity in the manner in which we conduct our routine business. With honesty in our dealings, we deliver what we promise by providing a consistent experience. We believe in serving our customers by going the extra mile. Our "Senior Citizen" customers hold us in high regard for treating them with utmost respect, by providing timely services with a courteous attitude. Our compassion towards customers has enabled us to grow our customer base from 14.35 lakh at the time of the launch of banking operations to 55.86 lakh today.

Through our "Hi-Touch" model of banking, we listen carefully to our customers, focus on what they really value and offer them valuable services. We place great prominence on face-to-face meetings with banking customers and borrowers, in order to assess their needs and repayment abilities. Through our Customer Service Centres, we aim to meet every single micro-banking customer several times in a year, to be able to understand them better and bring down the credit risk.

Through branch banking too, we endeavour to address the varied customer requirements such as opening a bank account or fixed deposit and sanctioning / disbursing any type of loan – personal, gold, agriculture, home – within the shortest possible time.

Capitalising on experience and expertise

Small Finance Banks will lead future growth in banking given their deep distribution networks, competitive rates on the back of lower cost of funds and a wide range of products to cater to the changing customer needs. ESAF's expertise in giving loans on the basis of unstructured data, its ability to penetrate into the untapped market and the government's thrust on financial inclusion make us well-poised in the small lending space. Our key philosophy is to reach out to unbanked and underbanked customers. We associate with them through different touchpoints, enabling real financial inclusion.

By doing this, we not only enable financial literacy but also ensure financial liberation for our customers. Our inclusive approach involves providing not just banking services, but also inculcating the unserved into the formal banking system. Our social and education initiatives ensure all-round community development and help us fulfil our social responsibilities.

Vote of Thanks

Moving forward, we will continue to focus on asset quality and moderate growth to focus more on quality issues and have specific actions planned for the same. The foundational values of the Bank will continue to guide us and are embedded deeply into the culture.

In conclusion, we continue to express gratitude to all our stakeholders for supporting the Bank and being a part of the Team, mentoring and nurturing this young and vibrant banking institution.

Stay safe and healthy.

With Regards,

Ravimohan Periyakavil Ramakrishnan
Chairman

MD & CEO's Message

Dear Shareholders,

Last year, we continued to build a strong foundation for growth. Adding to our affirmed belief in attaining higher goals, we continued to advance on our purpose, crystallised our actions and accelerated our capabilities with renewed vigour. Our focus is to serve the vulnerable sections of society, as we step into more promising times ahead.

In the banking sector, it was even tougher during the pandemic as banks were responsible for shaping the economic recovery and helping their customers rebuild their financial health. The industry continued to fill an enormous credit gap and played a crucial role in distributing stimulus packages developed by the Reserve Bank of India (RBI), which gave a fillip to growth. The rural and semi-urban segments bounced back faster, once recovery happened and collections picked up efficiently.

At ESAF Small Finance Bank, we believe that the resilience of the rural economy and the government's focus on financial inclusion amidst COVID-19 are the key factors that worked in our favour. The situation is improving with falling NPAs and impressive credit growth. With good economic recovery, we also see significant growth among small finance banks as their credit growth is better than the rest of the banking ecosystem.

During the year, our focus was to continue strengthening the asset quality, liquidity and capital adequacy. We enabled portfolio and geographical diversification by improvising our product portfolio to fulfil the needs of customers across states. Our robust risk mitigation measures helped us minimise the impact of the COVID-19 pandemic and the tough macro environment. We expanded our distribution network and reinforced the Bank's human capital.

How we performed

Our overall performance during the year was commendable. We, as a bank, could continue to serve our valued customers better in the difficult times. As discussed above, the resilience of the rural economy held us in good stead. As the pandemic curbs eased, and with the resultant improvement in economic activity, our blended collection efficiency improved to 95%. Despite the tough macro environment, we strengthened our balance sheet and exercised prudent capital management, which led to robust financial performance.

Total business increased by 43.25% to ₹ 24,946 crore from ₹ 17,414 crore as of 31st March 2021, with both deposits and gross advances showing a positive trend. Total deposits increased 42.41% to ₹ 12,816 crore as of 31st March 2022, compared to ₹ 8,999 crore of the same period last year. Savings deposits rose 69.88% and term deposits by 36.35%. Demand deposits and savings bank deposits (CASA) grew 67.51% to ₹ 2,927 crore and the CASA ratio rose to 22.84% from 19.42% in March 2021. Led by a larger demand for small-ticket loans from microloans, gross advances increased by 44.15% to ₹ 12,131 crore compared to ₹ 8,415 crore as of 31st March 2021.

The microfinance loan book stood at 80.92% of the Gross Advances as on 31st March 2022, as against 84.78% of the Gross Advances as on 31st March 2021. Next to MFI loans, our gold loans stood at ₹ 1,056.46 crore as on 31st March 2022. The Bank also disbursed relief loans to our non-delinquent customers during the year, in order to support the income generation activity of the clients impacted by the pandemic, which stood at ₹ 4,197.17 crore as on 31st March 2022, nearly 34.60% of Gross Advances.

For ESAF, the conversion from an MFI into a small finance bank was always an inherent advantage. A banking licence lowers the cost of funds by allowing SFBs to raise deposits. We are exposed to public deposits, and that has really helped us in building our CASA book. Our focus on digitalisation, prudent approach, digitally-led relationship management and emphasis on cost rationalisation are reflected in our figures. Even in a challenging environment, the Bank continued to perform well and witnessed growth momentum in revenue and net profit.

We reported a lower profit for the year ending March 2022 at ₹ 54.73 crore. The CASA ratio stood at 22.84% of the liabilities portfolio. Strong capital adequacy and comfortable liquidity position and a strong operating model were the highlights of the year. Our CAR and Tier 1 CAR stood comfortably at 18.64% and 16.16%, respectively, as on 31st March 2022, as against 24.23% and 21.54% as on 31st March 2021, against the minimum regulatory requirement of 15% and 7.5%.

Collaborate. Leverage. Surge.

Taking social and environmental factors into consideration, we are operating our business responsibly and continue to strengthen our sustainability journey, with strategic priority on the theme "Collaborate. Leverage. Surge." Being dedicated to our endeavours and the Bank's overall mission, we are moving actively forward and are making an impact on society through last-mile banking connectivity. Focussed on our guiding principles of transparency, prevention of over-indebtedness among borrowers and fair treatment of customers, we move ahead with zest and renewed vigour. The deposits mobilised by the Bank are being utilised in serving the underprivileged, unbanked and underbanked.

Our philosophy of "Collaborate. Leverage. Surge." has moved to the external environment. Our focus is on continually leveraging the power of our partnerships with our diverse stakeholders. A constant endeavour of the Bank is to collaborate with our partners, feed off each other's strengths and surge in business using these strengths. The Bank is also creating awareness on climate change risks and furthering the importance of sustainable banking.

Progressing ahead

While we diversified our loan portfolio by adding new asset-based products, our customer base also grew. We handhold our customers through multiple cycles of credit, with an increasing resolve to empower. We also enhance their financial awareness and literacy through campaigns.

Today, we serve 56 lakh customers – in 21 states and 2 union territories – and 95% of them are retail customers. We also expanded our geographic presence and added 25 branches taking our total count to 575, and another 300 Customer Service Centres, run by banking correspondents.

In the year ahead, we have plans to launch 50 more branches and 300 more Customer Service Centres. SFBs have become pioneers in underwriting small loans to self-employed people who do not have enough credit history for assessing their creditworthiness. We have a unique MFI borrower base, with 25% of our customers eligible for higher loans of up to ₹ 1 lakh.

Delivering digital value

At ESAF, we scaled up our technology and digitalisation drive during the year. We built several industry-first digital capabilities over the period of time and used them to our advantage. Our efforts in scaling up our digital interface and people strength will help us build the resilience of our brand. This will enable us to garner bigger mindshare of our stakeholders.

Our digital capabilities were brought to the fore in the truest sense to ensure that our customers could seamlessly interact with us during the pandemic. To enhance the convenience of our customers, the Bank introduced several other initiatives including video KYC, digital collection and interaction with customers via video conference, with the aim of continuing our customer-centric culture, well supported by technology and digital platforms.

Moving forward

Today ESAF is in better shape to exploit the growing opportunities in the banking industry. We understand that the new financial year will bring its own set of challenges and geo-political tensions. We are, however, confident that things will only get better for the economy at large. We will continue to strengthen our achievements by utilising the existing resources and accelerating the growth engine.

Our journey of innovation and social responsibility would not have been possible without the continued support and belief of our customers, employees, regulators and the stakeholders. We look forward to serving and working closely with all of you to ensure that we set many more benchmarks and continue to be the "small finance bank of choice" for the citizens of our country.

Conclusion

In hindsight, I am happy to have received the prestigious 'FE Pillar of the BFSI Industry Award' at the FE Modern BFSI Summit held in Mumbai. The award was conferred for the Bank's exemplary contribution to the Banking, Financial Services and Insurance (BFSI) sector which has inspired many and helped to ensure resilience and innovation.

Further, on behalf of my colleagues on the Bank's Board of Directors, I would like to thank our Team for their unflinching commitment to our vision and goals.

We are also deeply grateful to our customers, shareholders and other stakeholders for their unwavering trust in the Bank, inspiring our continuing journey towards greater excellence and value creation.

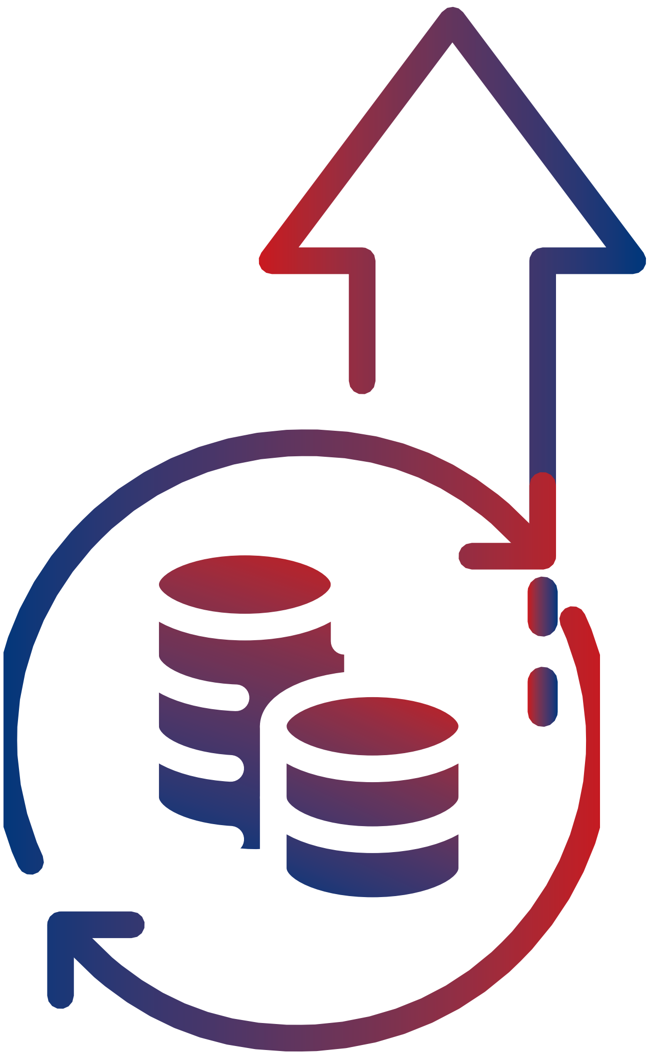
Thanking You,

K. Paul Thomas
Managing Director & CEO

Scaling Higher to Serve the Unbanked and Underbanked

Ensuring product and service excellence to 40 lakh customers

An increase in the scale of our operations, reduction in gross stressed assets and improvement in capital adequacy levels are helping us scale higher and encourage financial inclusion. Today, we continue to maintain a favourable asset-liability maturity profile and healthy liquidity, supported by a shorter tenor asset mix and long-term funding support.



Assets managed by the Bank have grown over the years, as our customer base has exceeded 55.86 lakh. Since our launch as a small finance bank, we have improved our geographical and product diversification. We have grown to become a pan-India bank, doing business efficiently and effectively in 23 states in India. We are serving the unbanked and underbanked through our network of 575 branches, 572 Customer Service Centres and 16,000 agents.

Our network is helping us further the cause of inclusive banking and drive economic development. As most of our branches are in the hinterlands of India, we will increase penetration further and take our banking services to the needy, thus upholding our motto of fighting the partiality of prosperity.

Widening our Geographic Presence

Branch Network

A key milestone of the year has been the opening of our 575th branch. We are expanding our presence beyond the home turf. Today, we have 29.86% of our presence outside southern parts of the country.

Business Correspondents

Our Business Correspondent model has helped us achieve consistent growth over the years. The Business Correspondents, who are a part of our Business Partner Channel with 572 Customer Service Centres, are doing business exclusively with ESAF Bank.

Banking Agents

Our Banking Agents help us expand our distribution and presence without investing in banking infrastructure. As part of this asset-light business structure, we are hiring retired bankers and ex-servicemen to serve our customers. This supplement activity helps the Bank earn incremental business.

Expanding Product Segment. Adding Innovation.

We provide a comprehensive and uniquely designed product portfolio to our customers in metros, urban and semi-urban cities and rural India. Our key strategy is to be a one-stop financial and investment solutions provider to our customers.

Product innovation has been a prime reason for the growth of our book size. We are expanding the product portfolio in agriculture, MSME and gold loans. We are building our asset franchise further through auto, housing and gold loans.

In line with our target segments, we are offering new loan products. Some of these are affordable Micro Housing Loans, Vehicle Loans, Agriculture and Allied Loans, Home Loans, Secured Loans, Gold Loans, Agri Loans, and Micro & SME Loans. Our emphasis is on growing the liability base, especially CASA. During the year, we ventured into new products like Loan Against Property (LAP), Business Loans, Corporate Loans and Gold Loans. In addition to savings and credit products, a key element of our strategy is to leverage the opportunity of cross-selling banking products to micro-finance customers. The Bank's Joint Lending model is replicated in agri-lending, and this portfolio has grown to ₹ 320 crore.

In addition, we are augmenting our focus on third-party products, which today account for 40% of our total loan portfolio. With our philosophy of financial inclusion, we remain committed to providing low-cost and affordable insurance solutions to our unserved and underserved customers. In addition to providing Demat, pension and insurance services, we are enhancing our fee-based income by adding cards.

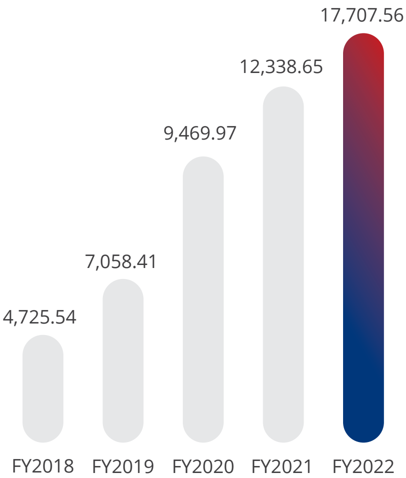
Solidifying People Strength

We are a pan-India bank with a diverse set of people. Our focus is on building the right capabilities and capacities across levels and growing our talent pool. We are hiring talent with the right experience to take up higher responsibilities. We also align the training and development strategy by upskilling our staff members and enabling them to meet the ever-evolving needs of our customers.

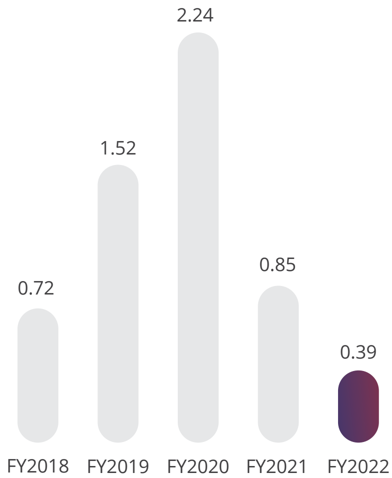
We have been awarded the "Great Place to Work" certification by the Great Place to Work Institute, acknowledging the Bank's commitment and credibility amongst its employees.

Making Significant Progress across Key Metrics

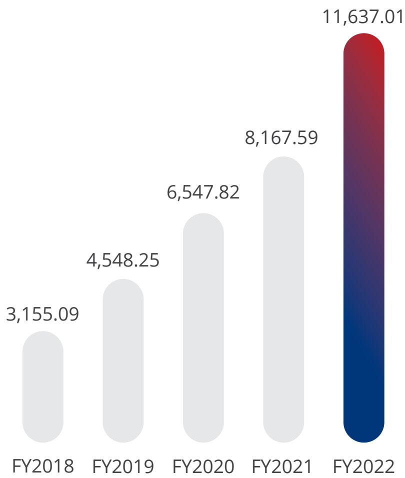
Total Asset
(₹ crore)



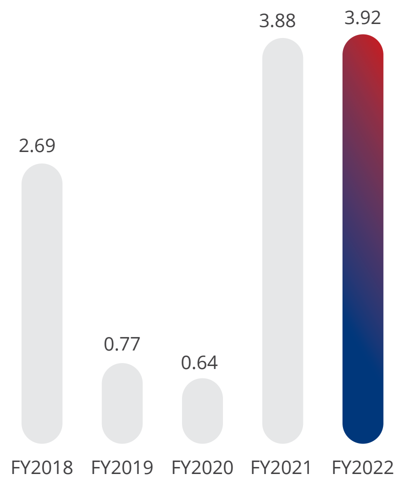
Return on Assets
(%)



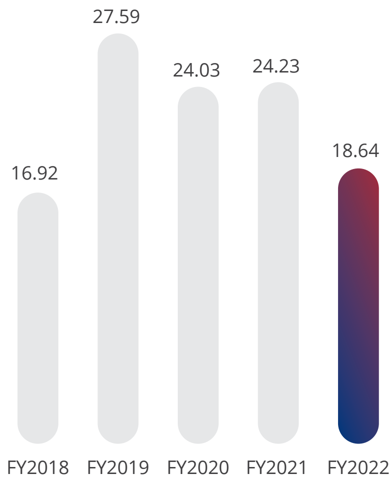
Net Advances
(₹ crore)



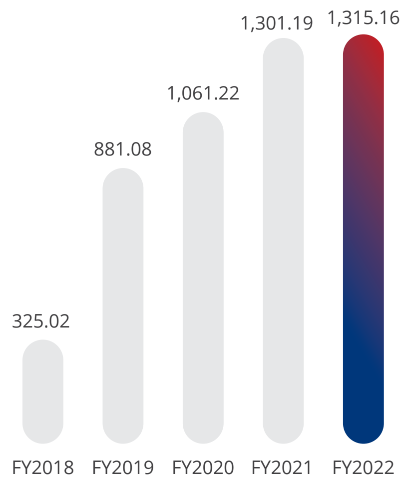
Net NPA
(%)



Capital Adequacy
(%)

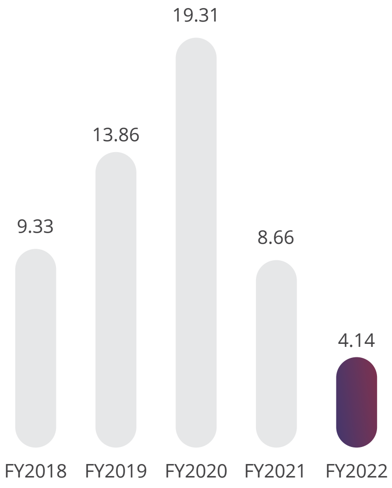


Net Worth
(₹ crore)



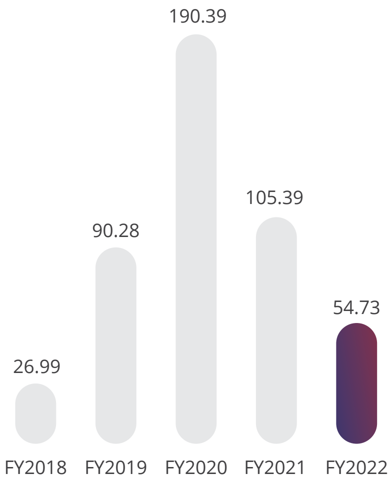
Return on Equity

(%)



Profit After Tax

(₹ crore)



Key Highlights

Operational Performance

18.87%
Yield on Advances

44.15%
Gross Advances Growth Rate

18.64%
CRAR

93.71%
Retail Deposits

Customer Profile

45 lakh
MFI Customers

11 lakh
Retail Customers

45 lakh
Women Borrowers

Our Network

575
Bank Branches

386
ATMs

572
Customer Service Centres

1,280
Banking Agents

Our Journey

2016

ESAF Microfinance receives licence to commence banking operations from the RBI

2017

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

2018

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

2018

ESAF Small Finance Bank receives RBI approval for NRI operations

2018

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

2018

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

2018

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

2018

ESAF Small Finance Bank wins PFRDA Award

2018

ESAF Small Finance Bank receives Scheduled Bank status

2019

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

2019

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

2019

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

2019

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

2020

ESAF Small Finance Bank's Business crosses ₹ 10,000 crore

2020

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

2020

ESAF Small Finance Bank crosses 500 Retail Banking Outlets

2021

ESAF Small Finance Bank receives Great Place to Work certification

2022

ESAF Small Finance Bank receives the Prestigious Rising Brand of Asia Award 2022 instituted by BARC Asia

Corporate Information

CHIEF FINANCIAL OFFICER
Gireesh C. P.

COMPANY SECRETARY
Ranjith Raj P.

STATUTORY AUDITORS
Deloitte Haskins & Sells

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

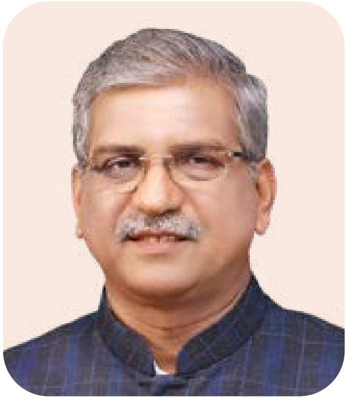
SECRETARIAL AUDITORS
Vasudevan M.

SAFE HARBOUR
Certain statements in this Report relating to our business operations and prospects may be forward-looking statements. These are dependent on assumptions, data or methods that may be incorrect or imprecise and hence may be incapable of being realised. Such statements are not guaranteed of future operating, financial and other results, but constitute our current expectations based on reasonable assumptions. The Bank's actual results could materially differ from those projected in any forward-looking statements due to various future events, risks and uncertainties, some of which are beyond our control. We do not assume any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Unless stated otherwise, all numbers are as on 31st March 2022.

Leading Responsibly

Our Board

P.R. Ravi Mohan
Chairman & Independent Director



Kadambelil Paul Thomas
Managing Director & CEO

Asha Morley
Independent Director

Alex P. George
Independent Director

Dr. V. A. Joseph
Independent Director

Thomas Jacob Kalappila
Independent Director

Vinod Vijayalekshmi Vasudevan
Independent Director (Additional)

Saneesh Singh
Nominee Director

C.P. Mohan
Nominee Director

Our Leadership Team


M. G. Ajayan
Executive Vice President


George K. John
Executive Vice President


George Thomas
Executive Vice President


Hari Velloor
Retail and Channels


Bosco Joseph
Administration, Infrastructure & Procurement


Gireesh C. P.
Chief Financial Officer


Rabindra Kumar Dash
Treasury


Wilson Cyriac
Chief Risk Officer


Sudev Kumar V.
Chief Compliance Officer


Dr. A. V. Jose
Learning and Development


Padmakumar K.
Micro Banking


Swaminathan K.
Strategy & Planning and TPP


Mathews Markose
Retail Liabilities


Sunny K.
Collections & Recovery


Antoo P. K.
Internal Audit


Sibu K. A.
Business Correspondent Channel


Soney Jose
MSME and Corporate Business


E. A. Jacob
Chief of Internal Vigilance


Ali Mohammad Saquib
Chief Technology Officer


Dinesh Kallarackal
Legal


Radhakrishnan D.
Agri Business


Sony V. Mathew
Branding and Communications


Manojkumar Subhashchandran
Credit Sanctions


Paul Joy Palocaren
Mortgage Loans


George Paul
Internal Audit - Treasury


Sathianathan K. M.
Priority Sector Lending and Lead Bank


Bobby Abraham Mathew
Human Resources


Reji Koshy Daniel
Sustainable Banking


Prabhakar G. S.
Management Information System


Abiesh Jose
Customer Service Quality


Vinod G. Thampi
Credit Administration and Monitoring


Sreekanth C. K.
Marketing


Ranjith Raj P.
Company Secretary

Embracing Technology. Being a New-Age Bank.

We are on our way to improving our digital quotient and becoming a tech-led, customer-centric bank, having fast-tracked our digital journey by deploying an integrated engagement platform. Technology is heralding a new paradigm for us, helping us become proven campaigners in delivering last-mile connectivity.

Technology has empowered the world and has turned banking into a commodity that is accessible anytime, anywhere without any hassle. At ESAF Small Finance Bank, our technology roadmap is helping us lengthen the lifetime value, increase spend-per-capture, optimise response time and drive revenue growth. It works in line with optimising tech to serve the underbanked and unbanked customer segments efficiently and effectively, managing the entire customer lifecycle and setting the course for the future of convenient banking.

The COVID-19 pandemic prompted the industry to revisit the approach of traditional banking to ensure accessibility and increase our reach in times of lockdowns. As a result, we focussed on utilising technology to streamline our banking processes by reducing documentation to a minimum, improving service delivery to customers through a paperless experience and addressing queries better.

The technology stack being implemented by us is at par with some of the leading banks in India. Technology has helped us take banking to customers' doorsteps while making customer acquisition and turnaround time (TAT) for services across CASA, one of the industry's best. Tech-led services are also helping us open multiple channels to serve customers and reduce our operating costs. The Bank collaborated with FIS, a global financial software company, and supported the partnership with an experienced IT Department with the sole motive of improving the ease of doing banking.

Adopting the digital route

With technology, we are delivering an improved customer experience to all sections of customers. Our business strategy is to build lending capability and a low-cost, stable and long-term deposit franchise. We take pride in having enabled digital customer onboarding since the beginning and paperless acquisition of savings account customers through e-KYC, which is helping us increase customer acquisition. We are also working on opening accounts faster through the digitally assisted route.

During the year, we made a mark in acquiring new customers digitally. Today most of our collections are digitised, with no paper receipt, and the credit goes into the customer's account. Also, there is 99% Aadhaar-based authentication.

We are embarking on innovative products and processes and new digital strategies including video onboarding, video KYC and microlending to make them fully digitised. We are also starting to use a loan origination system for microfinance and retail lending.

Enhancing our digital intelligence

The Bank is leveraging analytics to deliver a customised and personalised banking experience. It is increasing the penetration of Artificial Intelligence and Machine Learning in Chatbots to bring about a permanent shift in its business as usual. We are employing the intelligence of technology to improve our processes, deliver better and faster products to customers, and enhance the penetration of banking to make it accessible to all.

We are making use of data analytics to gain a more comprehensive understanding of our customers. We are anticipating and integrating technology transformation to reinvent our customer experience, expand customer reach and lower the cost to serve them. We make use of analytics backed by data visualisation and AI/ML to draw inferences, take quick decisions, and are also in the process of implementing Oracle Marketing Cloud. Also, with the use of advanced security systems, we are securing our transactions and digital footprint.

The Bank is rolling out its AI capabilities to reduce operational costs and increase efficiency. We are building capabilities around analytics to understand customer behaviour and push for increased and deeper wallet penetration of the customers. Further, we are evaluating possibilities of leveraging AI/ML in chatbots and other processes, saving our precious manpower, and utilising multiple data source availability.

Building the Nation from its Roots

We are not just a bank opening accounts and branches in remote areas to enable financial inclusion. We are creating an ecosystem for employment generation as a means of economic empowerment to help people start earning, and we also focus on saving and investing, driving change in the remotest corners of India.

We are the pioneers in underwriting small loans to self-employed people who do not have enough credit history for assessing their creditworthiness. Our deep distribution networks, competitive rates on the back of lower cost of funds and wide range of products help us create opportunities for the less privileged.

Our expertise in giving loans on the basis of unstructured data, ability to penetrate into the untapped market, and the government's thrust on financial inclusion make us well-poised in the small lending space. We inaugurated the state-level Local Sustainable Economic Development Programme with NABARD to help build financial literacy, and bring financial empowerment and economic independence to our customers.

Through our efforts, we are benefiting 300 panchayats across Kerala, increasing our contribution to a social and solidarity-based economy. We are supporting the transition of our society to a more sustainable economic model by adopting ethical, ecological and social practices and thereby creating long-term value.

Committed to a triple bottom line approach

The triple bottom line approach of the Bank is the underlying theme around which the larger vision of ESAF revolves. We believe in the depth and breadth of development and this approach proves to be the right catalyst for the holistic change that we aspire to. On par with the financial bottom line, we give emphasis to the social and environmental bottom line too. This assertive approach has been intact in all stages of our transformation – from society to an NBFC-MFI, and from an MFI to a Small Finance Bank. The approach is paying rich dividends in the growth of ESAF as a brand.

We adopted a unique social business strategy with a triple bottom line approach emphasising the philosophy of People, Planet and Prosperity. We have a single-minded approach to achieving the social, environmental and economic objectives of the Bank.

Our key priority is to drive financial inclusion agenda for low-income individuals and MSME customers and to fully support their aspirations. Today, we provide responsive and full-fledged banking services through differentiated but customer-centric products to our customers, high-quality services and innovative technology.

We are one of the pioneers in establishing a formal and structured form of lending by forming mutually trusted groups at the village level, which not only brought financial sustainability but also reinforced the fact that the poor of our country are trustworthy.

Cultivating financial discipline

We are constantly cultivating a culture of financial discipline in the remote and unbanked/underbanked regions of the country. We also improved the workers' participation rate as women joined the workforce or started income generation activities that helped them financially support their households. Our financial literacy mission not only brought our customers know-how on how to spend wisely but also secured their future.

We adopted a unique social business strategy with a triple bottom line approach emphasising the philosophy of People, Planet and Prosperity. We have a single-minded approach to achieving the social, environmental and economic objectives of the Bank.

Monitoring Our Environment Footprint

We remain committed to ensuring everyone in our ecosystem benefits, and we understand, implement and integrate this belief across our banking operations with cognizance. We are also mindful of the impact of our actions on the ecosystem.

At ESAF Small Finance Bank, we believe we can prosper only if others around us prosper. By caring for our employees, customers, dealers, partners and the environment, we aim to create a constant ripple effect, generate more jobs and income and facilitate wealth creation for individuals.

Improving our environment and social footprint

On World Environment Day, we joined the global community to observe, celebrate and initiate actions to the cause of environment stewardship. The ESAF Bank Environment Week was observed from 5th June to 14th June to rekindle environment-conscious behaviour among our customers and nurture a green portfolio. The Bank expressed its endeavour to enhance the environment impact through its products and services, driven by its Environment Policy, ESG Policies, CSR Policy and Sustainable Policy.

Activities observed:

Joy of Planting

We celebrated the joy of planting 1 lakh saplings with the support of our employees, branches and micro banking JLGs. The Sustainable Banking team also distributed free saplings to employees, in coordination with Social Forestry Department and ESPCL.

World Environment Day Pledge

We took the pledge to commit ourselves to the theme "Only One Earth", living sustainably in harmony with nature. Through this, we imbibed the spirit of "no second chance for climate justice" to help our future generations to adopt an environment-friendly life.

Green Expo

Our branches exhibited eco-friendly products in partnership with manufacturers and agents of such products.

Green Joy Products

The branches honoured its customers and environmentalists for their Green Entrepreneurships and their contribution to the environment stewardship activities.

Employee Engagement

Green Desk Award

An employee engagement activity was organised to appreciate the staff that showcased green practices at their workstation based on their green pursuit.

Today a Sapling, Tomorrow a Tree

To imbibe the future generation with the habit of Reduce, Reuse and Recycle, we encouraged the staff to plant a sapling with their family.

Environment Day Quiz

The competition was aimed at bringing out the best minds of the ESAF ecosystem with brilliant environment acumen. The awardees were identified based on those who scored the highest pan-India and region-wise.

Green Business Awards

The Green Business Awards have been introduced to recognise, celebrate and reward employees who foster environmental stewardship and have sourced the maximum number of electric two-wheelers.

Green Bank Branch Awards

The Green Bank Branch Awards were announced with the purpose of recognising branches committed to green protocol and promoting green portfolio of the Bank. Branches and clusters were categorised as Gold, Silver and Runner-up.

ESAF Go Green

Coinciding with COP-26, we launched ESAF Go Green range of electric vehicle loan schemes which validate our social business strategy focussing on a triple bottom line impact on People, Planet and Prosperity. With these schemes, we are helping our customers purchase eco-friendly electric vehicles at low-interest rates, zero foreclosure charges, minimal processing fees and zero documentation charges.

The government and local bodies have introduced concessions and incentives to increase the use of electric vehicles, which are beneficial to consumers and the environment. In the Union Budget this year, the government has accorded special consideration to promote the use of electric vehicles.

Undertaking Responsible Actions Contributing to a more inclusive India

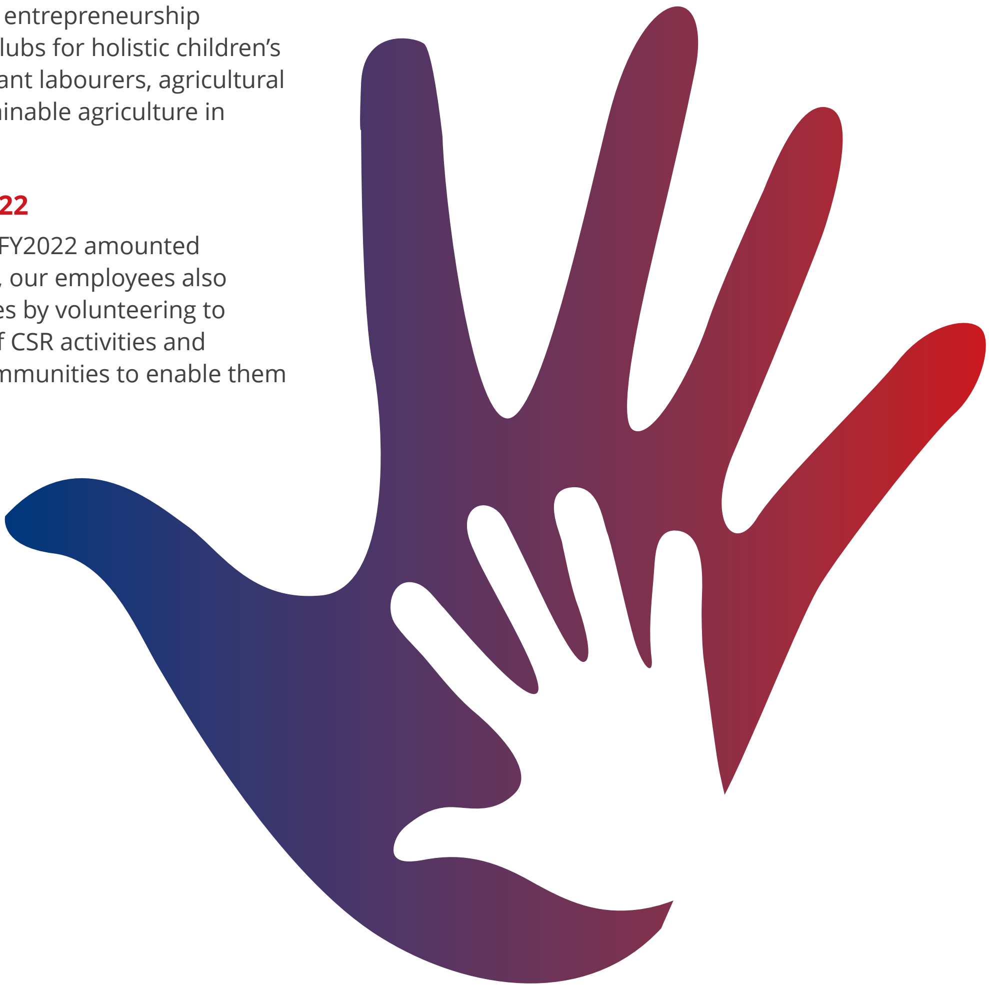
At ESAF Small Finance Bank, our objective is to empower the poor and marginalised through financial inclusion. Besides providing quality and affordable financial services to the underserved and unserved, the Bank is also focussing on improving the quality of life of the low-income constituents.

At ESAF Bank, we believe that social responsibilities should arise out of needs, beyond regulatory obligations. Our development mandates and CSR-related initiatives at the Bank are implemented and executed on the ground through our BC partners and CSR implementation partners ESAF Foundation and Prachodhan Development Services Limited. Going beyond the statutes of its CSR guidelines, the Bank has adopted a full-fledged CSR Policy which contributes an average of up to 5% of the Bank's total Net Profit in the last three fiscal years to carry out the social initiatives.

We aim to build a sustainable society through our diverse projects which include building infrastructure for rural schools, skills training, entrepreneurship training, setting up BalaJyothi Clubs for holistic children's development, projects for migrant labourers, agricultural initiatives and training for sustainable agriculture in different segments.

Key CSR initiatives in FY2022

The Bank's total CSR outlay for FY2022 amounted to ₹ 8.76 crore. During the year, our employees also contributed to the CSR initiatives by volunteering to contribute over 10,000 hours of CSR activities and provided full support to the communities to enable them to build back better. Through our key focus areas in CSR, we demonstrated the manner in which our community stakeholders contributed towards achieving our goals. We also encouraged non-profit humanitarian work to bring about a positive change in society.



Key CSR Areas of Focus:
- Preventive healthcare
- Education
- Sanitation
- Livelihoods
- Environment

Building financial literacy

We joined hands with NABARD for local economic development and organised a state-level Local Sustainable Economic Development Training Programme. This is a step towards building financial literacy at the grassroot level. Through this project, we are bringing financial empowerment and economic independence to the local level through training.
We are also enabling the elected representatives of the Panchayati Raj institutions to meaningfully intervene and build the well-being of the people in the constituencies they represent. The project will initially benefit around 300 panchayats across the state of Kerala.

Partnering with insurance companies

Many middle and lower socio-economic class families from non-metro cities do not have access to the services offered by the formal finance sector. We are partnering with life insurance companies to fulfil our vision of enabling our customers – existing and new – to understand the value of life insurance better and make more informed decisions.

Sangam-Sangamam – An all-India initiative

- Financial management
- Guiding groups in financial management
- Helping people with financial literacy
- Giving credit history to 40 lakh women and helping them with credit score
- Travelling to their places and explaining the importance of financial literacy
- Explaining how to become more responsible and careful in Financial Management (importance of having good financial discipline)

Being committed to social inclusion

Bringing MFI customers into mainstream activities through skill development and training. For example, initiatives in the Dumka district, making our presence felt through training and upskilling programmes.

Being socially responsible

We also accord great importance to the agriculture segment. We provide agriculture and crop loans to farmers for cultivation and consumption needs. These loans are offered at attractive interest rates. We also provide prompt service and customised solutions to farmers to cater to all their farming needs. Our interventions for livelihood generation, financial inclusion, rural infrastructure, rural healthcare and rural education are aimed at empowering communities and enabling sustainable livelihoods. We also undertook community development programmes like the construction of toilets and the facilitation of water connections in rural areas to support the Swachh Bharat movement.

Local Sustainable Economic Development Project

In partnership with NABARD, the Bank undertook Local Sustainable Economic Development Project in 251 Local Self-Governments (LSG) in Kerala. This was aimed at bringing about financial empowerment and economic independence at the local level by way of training.

A total of 251 LSGs were covered, reaching nearly 5,444 elected representatives across 14 districts in the state. The representatives can constructively work towards financial empowerment of families and provide knowledge on financial management.

The project also aligns with the state government's LED programme by promoting economic recovery and growth, supporting small and medium enterprises, boosting creation of new jobs and decreasing poverty and giving fillip to financial inclusion agenda of the government. The project is aimed at enhancing the know-how of individuals and their families and helping them plan for their immediate and long-term future and for unexpected life events.

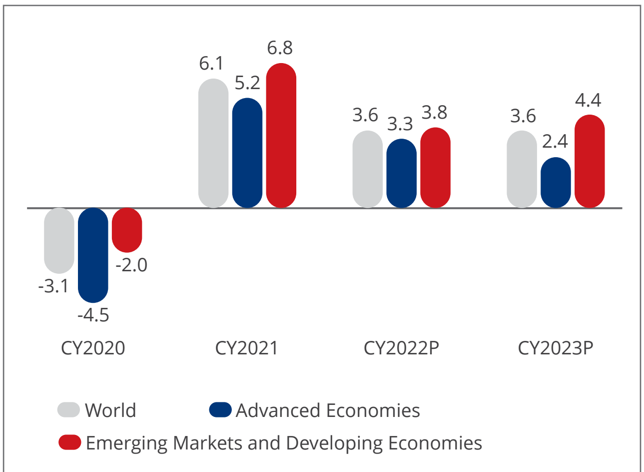
Management Discussion & Analysis

Economy Overview

Global Economy Overview

The emergence of COVID-19 had a detrimental effect on the global economy in CY20, which contributed to the fragile state of the global economy during that year; as a consequence, the output of the global economy fell by 3.1%. Vaccination programmes were swift and effective in the majority of developed economies, while they took longer in the majority of emerging and developing nations. The rising inflationary climate, supply chain challenges, and progressive withdrawal of fiscal stimulus began to have a detrimental effect on global economic activities. This was further aided by the ongoing conflict between Russia-Ukraine and the extraordinary volatility of commodity prices.

World Economic Output (%)



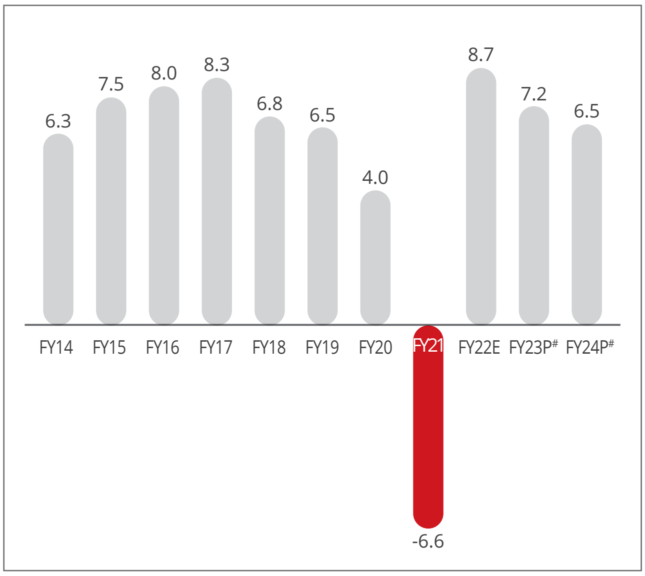
Source: IMF World Economic Outlook April 2022

According to the International Monetary Fund (IMF), the global economy is anticipated to grow moderately by 3.6% in CY22 and at the same rate in CY23. The world economy is grappling with multi-decadal high inflation and sluggish growth, ongoing geopolitical tensions, rising prices of crude oil as well as other commodities, and lingering supply chain bottlenecks. This has led to a tightening of global financial conditions as well as a lowering of growth outlook and financial stability. Advanced economies grew 5.2% in 2021 and are expected to grow at 3.3% in 2022 and 2.4% in 2023. Emerging economies fared better than advanced economies in 2021 growing at 6.8%. In 2022 and 2023, emerging economies are expected to grow at 3.8% and 4.4%. However, it is expected that developing economies and emerging markets would continue to expand at a faster rate than the overall global economy. It is anticipated that India, China, and other Southeast Asian nations would continue to fuel global economic expansion. As inflationary pressures increased, numerous governments tightened their monetary policy. However, significantly heightened risks to the global economic outlook have made policy trade-offs extremely difficult.

Indian Economy Overview

As per the World Economic Outlook by the IMF, India is set to remain the fastest-growing economy in the world. In spite of well-designed fiscal and monetary policies, the COVID-19 pandemic caused a 6.6% decline in India's GDP in FY21. India repressed the third wave of the COVID-19 pandemic while simultaneously pursuing economic recovery via the strength of fast vaccination campaign rollouts and government help. Multiple consecutive gains in indicators, including the mobility index, direct tax receipts, and power consumption, show positive economic growth. The National Statistics Office predicts that India's GDP growth would reach roughly 8.7% in FY22, ranking India among the fastest growing economy in the world. In FY23 and FY24, India's GDP growth is anticipated to be at 7.2% and 6.5% respectively. This growth will be supported by widespread vaccination coverage, gains from supply-side reforms, robust export growth, and budgetary space to increase capital expenditures.

Indian Economic Outlook (%)



Source: National Statistics Office 2nd Advance Estimates dated 31st May 2022

#RBI SPF report as on 8th June

India has been focussing more on reforms on the supply side, such as the deregulation of numerous industries, streamlining of procedures and removal of legacy issues like 'retrospective tax' and privatisation. The government wants to promote a digital economy, fintech, technology-enabled development, energy transition, and climate action. The government undertook major reforms across various industries to boost the economy. Such reforms include:

- The Central Government's important assets have a total monetisation potential of ₹ 6 lakh crore, which can be realised over a period of four years beginning in FY22 and ending in FY25.
- Establishment of Production Linked Incentive (PLI) programmes for a total of thirteen different industries, including the automotive, telecommunications, and pharmaceuticals drug industries.
- Fostering greater participation from the private sector in the traditional satellite communication and remote sensing industries by liberalising such markets.
- The Government's method led to a 100% rise in FDI in the defence industry, while the automatic approach only led to a 74% increase.
- The amount of money that can be insured in deposits at each bank has increased from ₹ 1 lakh to ₹ 5 lakh per depositor. As of the 18th May 2022, the DICGC (Deposit Insurance and Credit Guarantee Corporation) has already paid out ₹ 10.38 crore of the total insured deposits. This payment was made on the basis of the willingness obtained from the relevant depositors of the Bank.

Source: Economic Survey 2021-22 | IBEF

Inflation and Monetary Policy

According to the RBI forecasts in March 2022, the annual inflation rate in India jumped to 6.95%, the highest level since October 2020. There is a significant possibility that inflation will continue to be much higher than the maximum allowable level of 6% throughout the first three quarters of FY23. The future path of inflation is surrounded by a significant degree of scepticism due to the uncertainties associated with the global economy and the tensions that exist globally. The supply-side actions that the government has been taking should assist in relieving some of the cost-push pressures that are currently being experienced. However, further shocks to food price inflation could keep pressure on headline inflation.

There has been a requirement for calibrated action on the part of monetary policy in order to maintain anchored inflation expectations and to restrict the broadening of price pressures. As a consequence of this, the Monetary Policy Committee increased the policy repo rate by 50 basis points to 4.90%. In addition, the committee would continue to prioritise tightening monetary policy in order to encourage economic expansion while preserving inflation within the target range going forward.

Source: Reserve Bank of India - Press Releases (rbi.org.in)

Industry Overview

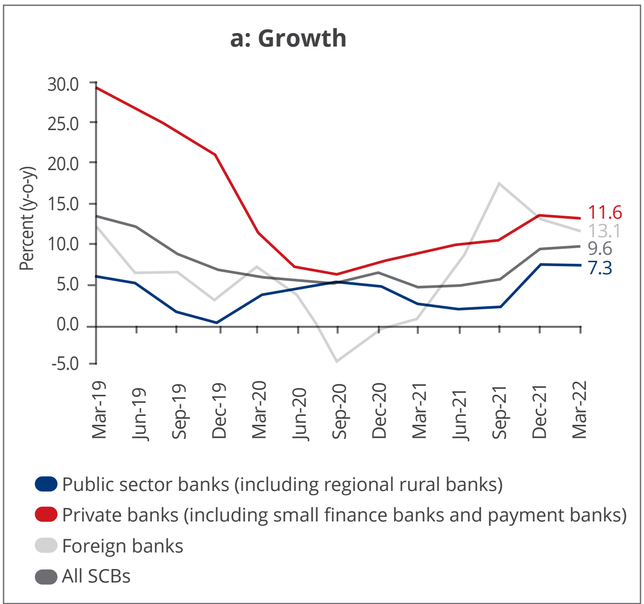
Indian Banking Industry Overview

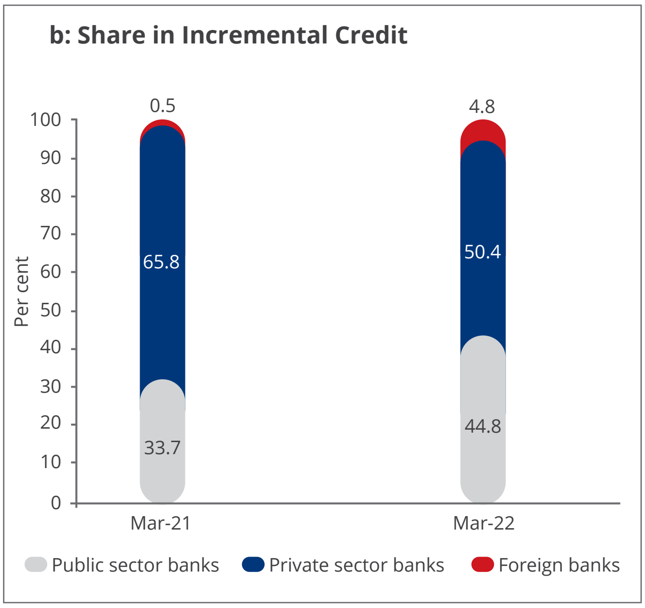
The Indian banking industry is adequately capitalised and is subject to stringent regulations. The financial system in India is mostly supported and driven by the nation's banks, which also contribute significantly to the country's overall economic expansion. Indian banks are generally resilient and have done well despite the global economic slowdown. The banking business in India has recently seen the introduction of new and creative banking formats, such as payments banks and small finance banks. The fresh actions taken by the RBI could go a long way toward assisting in the reorganisation of the domestic banking industry.

Bank credit increased at a compound annual growth rate of 0.29% during FY16 through FY21. When March 2022 is compared to March 2021, credit to agricultural and allied activities climbed by 9.9%, which is lower than the 10.5% growth that occurred the previous year. The total amount of bank credit as of March 2022 was ₹ 123 lakh crore, which is an increase over the ₹ 113 lakh crore recorded the previous year in March 2021, recording a YoY growth of 8.85%. The growth of credit extended to industry grew to 7.1% YoY in March 2022, after having decreased by 0.4% YoY the previous year in March 2021. The amount of credit extended to large businesses increased by only 0.9%, compared to a loss of 2.5% during the previous year.

The growth of credit extended by Scheduled Commercial Banks (SCBs) to the business sector surpassed double digits for the first time since August 2019, and it accelerated to 11.1% on 22nd April 2022, compared to 5.7% the previous year. This was the first time since August 2019 that this milestone had been reached.

Credit Flow across Bank-Groups



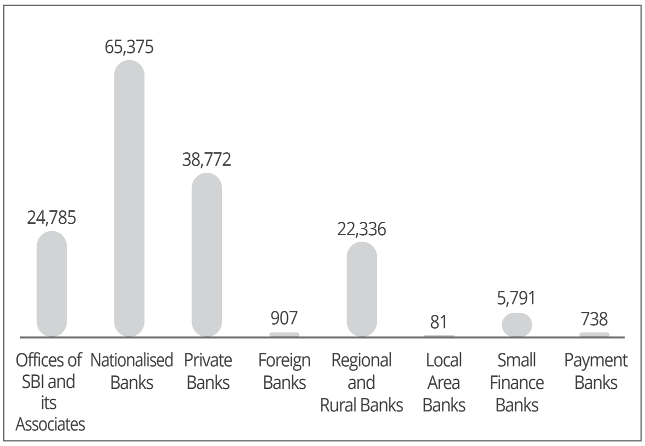


Source: RBI Bulletin

When compared to the 10.3% growth seen in total bank deposits during FY21, total bank deposits saw a 10% gain during FY22. The total bank deposits amounted to ₹ 169 lakh crore in March 2022 as compared to ₹ 155 lakh crore in March 2021, representing a growth of 9.03%. The increase in advancements is likely to be led, as it has been in recent quarters, by the retail and small and medium-sized business industries. In contrast, corporate loans, which previously had a negative trend in relation to the total expansion of industrial credit, are now beginning to move in a positive direction and are exhibiting signs of improvement. With the return of economic activity, retail and SME-focussed lenders (banks, NBFCs) as well as the market for MFIs have experienced stronger collections. According to the RBI, the demand for loans increased by 51.7% in the fourth quarter of FY22, and it is anticipated that the demand will increase by 46.6% in the first quarter of FY23. The demand for loans stood at 46.6% for the third quarter and 44.8% for the fourth quarter of FY22.

The RBI's timely intervention would assist in accelerating the transformation of the domestic banking sector. As of March 2022, there were 1,58,785 operational commercial banks offices in the country, including 65,375 nationalised banks, 38,772 private banks, 907 foreign banks, 24,785 offices of SBI and its affiliates, 22,336 regional and rural banks, 81 local area banks, 5,791 small finance banks, and 738 payment banks.

Total number of functioning offices of Commercial Banks as on March 2022



Source: RBI

India's Immediate Payment Service (IMPS) is the only system in the world to have achieved level five on the Faster Payments Innovation Index (FPII). This indicates that India's digital payment system has advanced the most among the 25 countries analysed in the study. Total digital payment transactions increased from 3,134 billion in FY19 to 5,554 billion in FY21. As of 28th February, 2022, there have been 7,422 billion digital transactions in FY22. The digital payment market is expanding as a result of the growth of e-commerce, the number of active internet users, and smartphone usage.

Recent Trends and Developments

- **Rethinking client relationships**

  During the pandemic, banks and other financial organisations learned the necessity of anticipating client requirements and expectations. To not only secure survival in the market but also for the retention of existing consumers, banks are becoming more customer-centric and customer-focussed. Clients' perceptions of such services' added value are aiding banks in establishing long-lasting ties with their customers. Banks are prioritising creating the appropriate software solution to serve as an intelligent intermediate layer to receive and retrieve the necessary client intelligence. This knowledge is assisting banks in customising and individualising their advisory services for consumers, providing the best counsel, and moving away from transaction-focussed tactical partnerships.

- **Introduction to modern banking services**

  Neobanks are digital banks with no physical location that offer similar services to traditional banks. Banking as a service (BAAS) is its operating model. Using technology and Artificial Intelligence, they offer customised services to clients while minimising operating expenses. As a result of their digital business models, neobanks have reduced operating costs and require fewer employees to conduct business. With the assistance of neobanks, conventional banks may provide specialised services to their targeted consumers at the lowest possible cost. Neobanks are bridging the gap between the services offered by conventional banks and the increasing demands of clients in the digital age. In India, the absence of a banking licence poses the greatest obstacle for neobanks.

- **Buy Now, Pay Later as a type of consumer credit**

  With the rise of fintech startups, Buy Now Pay Later [BNPL] has transformed the Indian financial sector. Banks have realised the significance of efficiently harnessing this notion to enhance customer experience and cultivate a favourable attitude. BNPL is viewed as the new kind of consumer lending, with banks offering clients either interest-free or interest-bearing instalments.

- **The emergence of digitisation and a brand-new ecosystem**

  With the increasing global usage of open banking, worries about data sharing and security are growing. However, nations across the globe are charting out their next steps in terms of developing a legislative approach to data sharing across industries. In recent years, India's financial and demographic landscape has undergone a significant transformation, as an increasing number of fintech startups have emerged. These businesses have revolutionised the digital payments and loans industry, suggesting a rise in digitalisation. India has recently implemented an account aggregation framework for the exchange of financial data and the smooth access of data by users in order to provide a level playing field for all financial institutions.

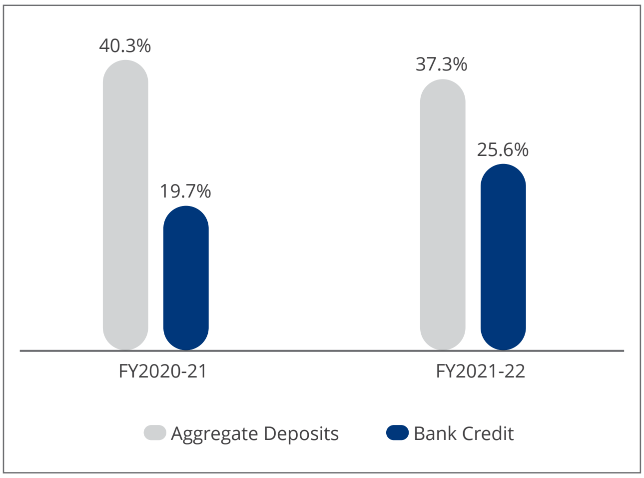
- **Automating the talent acquisition revolution**

  The pandemic redesigned firms' old work practices and replaced them with hybrid or remote work for their employees. The banking business faces increased competition in the employment process and must pay more to attract and retain talent. To ensure a smooth transition to the new working models, banks and financial institutions realised the need of harnessing emerging technology, such as automation, to not only retain existing personnel but also attract the right talent. Utilising this technology has also enabled banks to develop the optimal retention strategy and to enhance and automate hiring decision-making processes.

Small Finance Banks (SFB) Industry Overview

Small Finance Banks (SFB) form a recent addition to the Indian banking market, with a focus on financial inclusion. Their branch network and asset base have developed significantly, while retaining a high quality of assets and generating a good return on assets. These banks have achieved a commendable level of success in reaching out to underserved sectors, such as Micro, Small, and Medium-Sized Enterprises (MSMEs), and have extraordinary client coverage for those with moderate credit needs. The RBI has licensed a total of 12 SFBs in India to provide financial assistance to MSMEs. Bank lending to Micro, Small, and Medium Enterprises (MSMEs) in India increased from ₹ 17.84 lakh crore in FY21 to ₹ 20.22 lakh crore in FY22. The RBI announced in May 2021 a special three-year long-term repo operation (SLTRO) of ₹ 10,000 crore at the repo rate for small financing banks (SFBs) to provide additional support for small business units, micro and small enterprises, and other unorganised sector organisations. In FY22, the aggregate deposits of SFBs climbed by 37.3% YoY, as compared to a growth rate of 40.3% in FY21. While the SFB’s credit expanded by 25.6% in FY22, compared to 19.7% in FY21, this marked a significant increase.

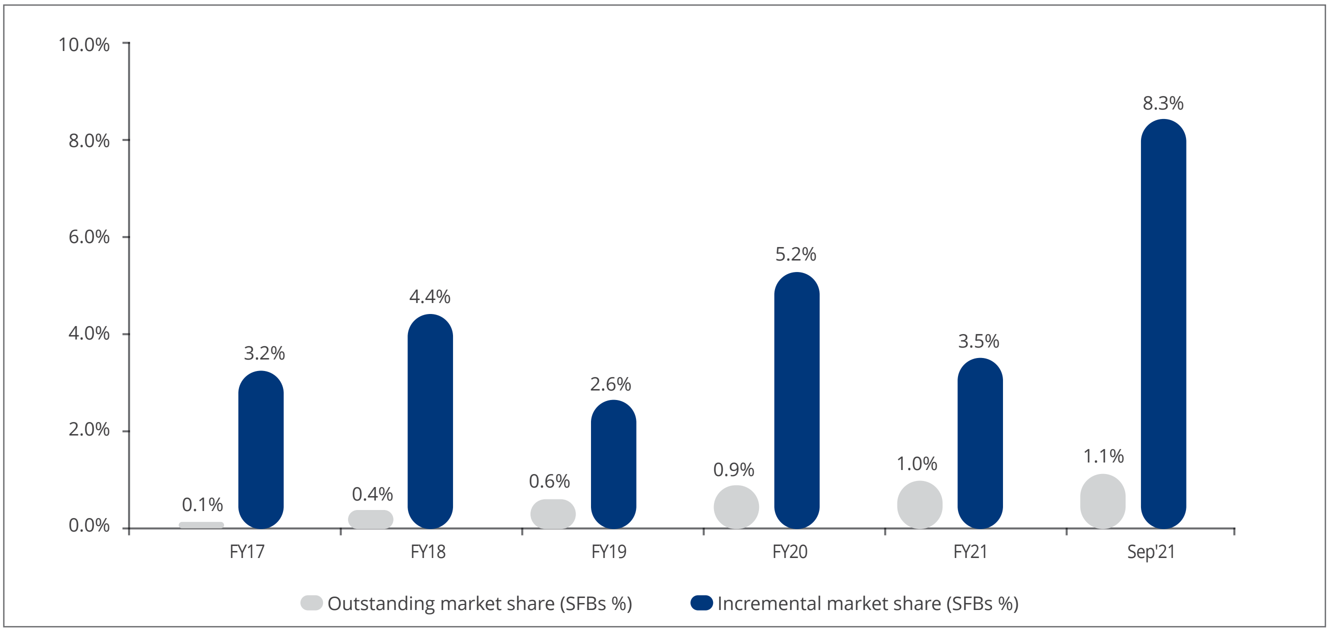
Bank Credit and Deposits (YoY) growth of SFBs



Source: RBI

Rural customers, who make up a large portion of India's economy, are developing confidence in adopting new digital technology and payment systems as the nation progresses toward a cashless economy. The SFBs are technologically driven to reduce operational expenses and accelerate market penetration. According to ICICI research based on RBI Data, SFBs incremental market share increased substantially by 8.3% for the nine months ended FY22, as compared to 3.5% recorded in FY21.

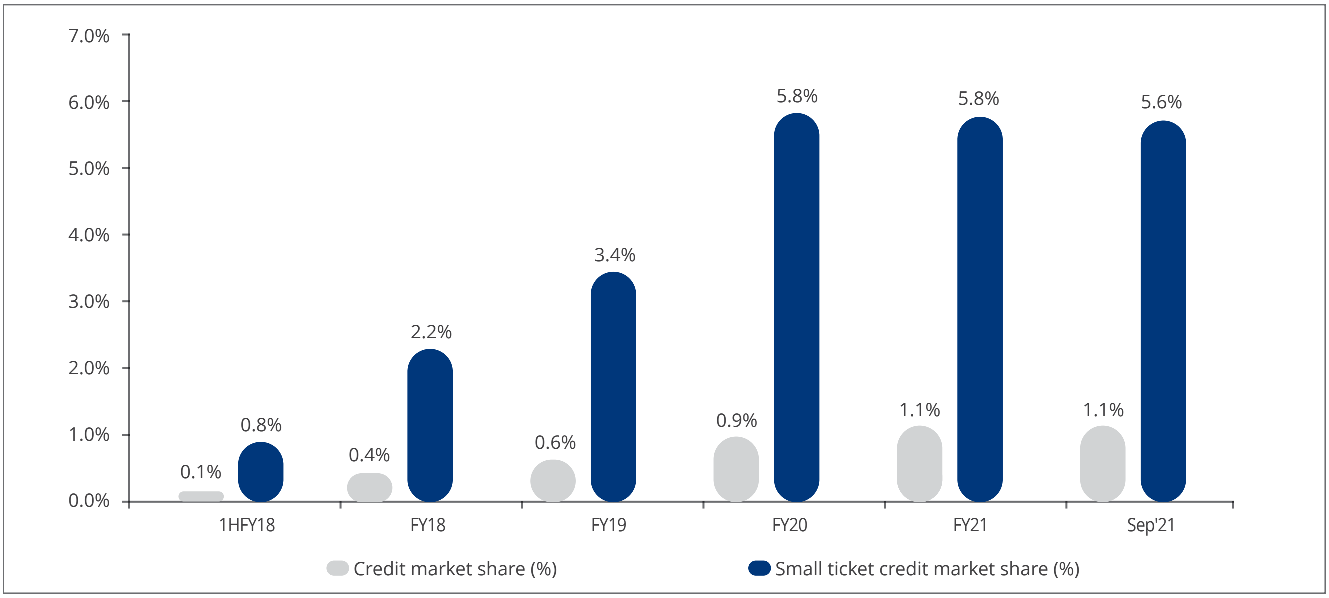
SFBs Incremental market share



Source: RBI

In semi-urban locations, SMBs hold a market share of greater than 2% in the lending industry. Despite undergoing a business transformation over the past four years, realigning their former NBFC operations in accordance with the SFB model, and constructing operations in accordance with their long-term strategy, SFBs remained committed to maintaining their niche position in the non-metro credit market. During the transition era, individual firms adopted different courses in terms of target markets and clients, but the underlying theme was to improve their core market positioning and enter new credit markets cautiously. Due to their MFI roots, most SFBs enjoy a strong position in rural and semi-urban markets. As a result, they hold a larger credit market share of about 1.0% in the rural market, about 2.3% in semi-urban markets, 1.7% in urban markets and 0.7% in metro regions as on September 2022. SFBs hold a prominent position in small-ticket lending, as evidenced by their strong 5.6% market share as of September 2022, compared to less than 1.0% of total systemic credit.

SFBs credit market share in small ticket loans



Source: RBI

There is a significant opportunity for SFBs to capture market share from other player groupings, particularly public sector banks, in rural and semi-urban areas where there is room to expand financial inclusion. SFBs have carved out a niche for themselves in the financing of the small-ticket self-employed segment, thanks to their years of expertise servicing underserved rural and semi-urban populations (including people and small companies) during their time as NBFCs. They are not only increasing the size of the market but also plugging away at the market share held by established competitors at an accelerated rate by offering customised products and individualised services.

Expertise in giving loans on the basis of unstructured data, huge untapped market and the government's thrust on financial inclusion make SFBs well-poised to dominate the small lending space. To target the untapped market, SFBs would need to innovate further in terms of customising and adapting their products. In FY23, the outlook for the banking industry is expected to improve significantly due to stronger balance sheets, an improved forecast for loan demand, and the start of the corporate capex cycle.

Opportunities and Threats for SFBs

Opportunities

- **Huge latent opportunity especially in the rural market:** The financial market is much underpenetrated, and the potential size of the opportunity is projected to be as high as that of MFIs. SFBs are not only engaged in supporting people who do not have bank accounts or who live in rural areas but they are also involved in assisting the urban poor. For these firms, the market includes not only MFIs (Microfinance Institutions), but also SMBs (Small and Medium Business) and housing segments. SFBs target low-income consumers and provide them with distinctive products. In contrast to NBFCs, which expand horizontally with a specialised product, SFBs expand both vertically and horizontally, allowing them to serve a balanced mix of consumers with medium and low value. SFBs can also develop loyal client connections by focussing on rural and microfinance borrowers, who have a low credit penetration and little movement from one player to another. In addition, there is less rivalry for financial services in rural areas compared to urban areas; this creates tremendous growth prospects for small businesses in rural areas.
- **Credibility, user-friendliness, and prompt service:** Small Finance Banks' success will be determined by ease of doing business and quality of client service. Customers are currently uncertain about the success of numerous financial offerings. They typically avoid visiting bank locations since sales professionals frequently sell various goods, which makes them uneasy. Moreover, the processes involved in banking (multiple form filing, KYC, etc.) are significantly more complex than those of local/unorganised firms. The intended consumer group is more interested in service delivery and transactional ease than in interest rates. Over time, a shift in mentality will occur, which should help SFBs expand their deposit business.
- **Presence of numerous informal credit channels:** The presence of numerous informal credit channels in distant areas, where small finance banks have a presence, is advantageous for reaching the unbanked people.
- **Geographic diversification**: In order to meet regulatory requirements, SFBs have experienced rapid branch expansion. With a greater emphasis on diversifying their portfolios and broadening their reach, SFBs are anticipated to record greater growth as they enter newer geographies with a wide array of services.
- **Increasing product coverage:** While microfinance is the primary product for the majority of SFBs, they are shifting their focus to other products. By focussing on product diversification, however, SFBs have been able to expand into retail asset classes such as vehicle loans, business loans, LAP (loan against property), and housing finance.
- **Innovative solutions in play – in their early stages:** Financial illiteracy is largely to blame for lack of trust and product comprehension difficulties; SFB licensees are well aware of this and have been attempting to educate clients. Some microfinance institutions have come up with creative methods to convince customers that small and medium-sized companies are more trustworthy and reliable than unorganised and unstructured firms.
- **SFBs gain from the NBFC Crisis:** Microlenders were marginally impacted by the liquidity crisis hitting NBFCs in India. The lenders that relied on NBFCs for finance curtailed disbursements and sought alternative sources of funding. Better access to retail and wholesale deposits is anticipated to result in market share gains for SMBs.

Threats

In the initial years of their banking operations, SFBs confronted various obstacles, such as adapting to banking technology, increasing retail deposits, establishing additional branches, and training personnel.

- Operations are restricted to certain geographic areas since SFBs are required to open more of their branches in areas that are not already served by any banks; this requirement further complicates the issue of operational difficulties. Currently, MFIs have fewer and smaller branches since service delivery is increasingly driven by a 'door-to-door' model. If this service stops/ small branches are not deemed banking branches, establishing more branches will incur additional costs and result in the loss of the 'low-cost' branches' unique selling proposition.

- Increasing retail liabilities will be a challenge for SFBs due to the fact that it faces direct competition from existing banks.
- Technology plays a crucial part in business, yet there is still uncertainty over internet connection reliability in these unbanked regions. Improving the digital connectivity with the large-scale rural customer base will be necessary.
- The 'traditional banking' habit needs to evolve, and workers would have to become more customer-focussed and technologically knowledgeable in light of the country's changing banking environment.
- Building the liability product portfolio will be a challenge given the low ticket size liability customer base and the ability to gain customer trust.
- Restricting lending to large corporations and groups.
- Controlling NPAs as an unfavourable monsoon and a slowdown in the industrial sector will have a negative impact on farm loans and MSME loans.

However, given their track record of operating in underpenetrated regions of the country, they will be able to endure the initial operating pain in order to capitalise on the enormous prospects in the coming years.

ESAF Small Finance Bank Overview

About the Bank

ESAF Small Finance Bank (hereafter referred to as "ESAF", "the Bank") is one of the leading small finance banks in terms of client base size, the yield on advances, Assets Under Management (AUM) growth rate, total deposit CAGR, Net Interest Margin, loan portfolio concentration in rural and semi-urban areas, and micro loan advances to gross advances ratio. The Bank has a history of more than 30 years of serving financially unserved and under-served segments and is devoted to fostering financial inclusion in the country. The Bank's business model is centred on the principles of responsible banking, providing customer-centric products and services along with substantial use of technology.

As of 31st March 2022, the Bank operated in 19 states and two union territories, maintained 575 branches, and served more than 56 lakh customers.

ESAF aims to become India's premier social Bank, providing equal opportunities through universal financial access and inclusion, as well as livelihood and economic growth. To achieve this objective, the Bank employs a social business strategy with a triple bottom line approach, emphasising people, planet, and prosperity. To fulfil its strategy, the Bank has implemented a number of policies, including an Environmental, Social, and Governance ("ESG") policy. It is committed to (i) protecting the environment and ensuring sustainable development, (ii) promoting financial inclusion and gender equality through specialised financial services, and (iii) establishing a governance framework to ensure accountability, transparency, and compliance with internal and external ESG standards in accordance with its ESG policy.

Mr. K. Paul Thomas, the promoter of the Bank, founded ESAF as a non-governmental organisation, 'ESAF Society' in 1992, which focussed on microenterprise development, community development, and community health development. ESAF Group began microfinance operations in 1995 and established ESAF Microfinance & Investments Private Limited (EMFIL) in 2007. On 16th September 2015, EMFIL acquired provisional clearance from the RBI to create a Small Finance Bank (SFB) in the private sector under Section 22 of the Banking Regulations Act, 1949. The Bank obtained its final licence from the RBI on 18th November 2016, and began commercial operations as an SFB on 10th March 2017. The RBI granted the Bank "Scheduled Bank" status on 27th December 2018. The Bank's registered office is located in Thrissur, Kerala.

Products and Services

Asset or Lending Products

The major asset or loan products offered by ESAF include microfinance loans, retail loans, MSME loans, agricultural loans, and other loans and advances.

- **Micro loans**

  Unsecured micro loans are made available to individuals by the Bank. To qualify for a loan, a person must be a member of a subgroup, which typically consists of five to ten people. Three to five subgroups constitute a "Sangam". Women from unserved and underserved households in India are the target market for our micro loans. As of the 31st March 2022, the Bank had over 32.22 lakh female micro loan borrowers. Micro loans accounted for 80.92% of the Bank's gross advances as of 31st March 2022, totalling ₹ 9,816.19 crore.

  The Bank continues to expand business through cross-selling and up-selling to the micro loan customer base and by marketing other Banking Products to the family members of its micro loan customers, thereby strengthening its relationships with them and becoming their preferred Bank. The Bank's Business Correspondents find and service micro loan borrowers. In addition, the Bank intends to have the Banking Agents begin customer acquisition and additional business.

- **Retail Loans**

  ESAF has been increasing its retail loan product line. Its target customers for retail loans are salaried individuals, the self-employed, businesses, and customers who have graduated from micro loans.

The Bank sources customers for retail loans through its sales executives, dealers, and direct sales agents on a walk-in basis in branches and through Business Correspondents.

Housing loans, loan against property, gold loans, vehicle loans, personal loans, clean energy loans, lease rental discounting, and education loans are included in the retail loan portfolio.

As at 31st March 2022, ₹ 1,464.97 crore represented 12.08% of its gross advances.

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

  The Bank's SMB and corporate lending portfolio has been expanding. The target clients for the MSME and Corporate loans are MSMEs, NBFCs, MFIs, and existing micro loan borrowers who wish to expand their businesses. The Bank is extending its supply chain finance by partnering with fintech/tech platforms to source more customers and other web-based platforms that assist in financing/discounting of MSMEs' trade receivables. Customers for MSME and corporate loans are sourced via branches, internet platforms (excluding corporate loans), direct sourcing, and third-party intermediaries, such as Business Correspondents. ESAF is a member of several TReDS platforms, and by participating in the bidding process on these platforms, bills are discounted.

  As at 31st March 2022, the MSME and corporate loans were ₹ 532.95 crore, which represented 4.39% of gross advances.

- **Agricultural Loans**

  For its agri lending portfolio, the Bank focusses on individual farmers and joint borrowers engaged in agriculture and allied activities, such as dairy farming, fishery, animal husbandry, poultry farming, beekeeping, sericulture, agri infrastructure, agri processing units, and agri ancillary activities. Term loan, dairy development loan, Farmer Producer Organisation (FPO) funding, KCC, and agri gold loan are among the products designed to address the financing needs of farmers engaged in agricultural and allied sectors.

  The Bank's agri relationship officers, who are employed by ESAF, are the primary source of customers for agricultural loans. Through its Branches, FPOs, and Business Correspondents, the Bank also acquires customers for agricultural loans.

  As at 31st March 2022, the Bank's gross agricultural loans were ₹ 316.53 crore which represented 2.61% of gross advances.

Liability Products and Deposits

Current Accounts, Savings Accounts, Term Deposits and Recurring Deposits are the Bank's liability products. In addition to serving HNIs, corporate entities, sole proprietorships, children, farmers, trusts, associations, societies and clubs, Non-Resident Indians (NRIs), micro-loan customers, and senior citizens, the Bank provides personalised banking services, such as doorstep banking and other differentiated products.

Other third-party products and services

ESAF also offers third-party products and services. It sells third-party life and general insurance policies, government pension products (Atal Pension Yojna and the National Pension System), mutual funds, and engages in the referral-based marketing of point-of-sale (POS) devices. The Bank offers foreign exchange services, such as currency exchange and outbound and inward remittances, Third-party Bharat Bill Payment System services, money transfer services, and safe deposit box services.

Multiple distribution channels

The Bank offers its goods and services through three primary channels: Branch Banking, Digital, and Business Correspondent. The Bank serves its customers through a combination of traditional and innovative channels. It aims to continue expanding its branch network. As of 31st March 2022, the Bank has 575 Branches, 192 of which were rural, 217 semi-urban, 95 urban, and 71 metropolitan. The Bank utilises Business Correspondents, Customer Service Centres (which are operated by its Business Correspondents), and Banking Agents to source and service customers for micro loans, mortgage loans, vehicle loans, supply chain and MSME financing, select deposit products, and select third-party products. As of 31st March 2022, the Bank had 14 Business Correspondents, 572 Customer Service Centres, and 617 Banking Agents, also known as Customer Service Stations, to distribute its products and services.

The Bank uses Business Correspondent entities for sourcing and servicing customers for micro loans, mortgage loans, vehicle loans, supply chain and MSME finance, select deposit products and select third-party products. As of 31st March 2022, the total worth of the Business Correspondents serviced customers was ₹ 10,110.45 crore which represented 83.35% of the Bank's gross advances. As of 31st March, the Business Correspondents were responsible for sourcing customers for ₹ 214.51 crore, which represented 1.67% of the deposits.

It focusses heavily on utilising technology to provide products and services. Distribution channels also include ATMs, ATM debit cards, mobile banking platforms, phone/SMS banking, internet banking portals, universal payment interface facilities, contact centres, and kiosk banking.

Key Strengths

1. In-depth knowledge of the micro loan market segment promotes geographical diversification

Over the years, ESAF has developed a comprehensive grasp of the market, allowing it to meet the financial needs of prospective customers. The Bank's engagement with its target customer segments and knowledge of related socioeconomic dynamics enables it to establish effective credit and operational procedures, identify potential market demand, and leverage its existing operating network to introduce new products, expand its customer base, and expand its product offering. The Bank has been able to successfully grow its business outside of Kerala thanks to its in-depth knowledge of the micro loans industry.

Micro loans to consumers outside of Kerala outstanding as on 31st March 2022 is ₹ 5,469.55 crore or 55.72% of total micro loans. Outside of Kerala, the states with the most number of micro loans were Tamil Nadu, Madhya Pradesh, Maharashtra, Chhattisgarh, and Karnataka.

2. Robust rural and semi-urban banking franchise

ESAF's main focus is on providing loans to customers in rural and semi-urban areas. As at 31st March 2022, advances to customers in rural and semi-urban areas (combined) were ₹ 8,286.54 crore which accounted for 68.31% of gross advances. As per the CRISIL Research Report, the Bank as at 31st March 2022 had the highest percentage of gross advances from rural and semi-urban areas among the compared Small Finance Banks. It has developed an understanding of the rural and semi-urban households in the regions in which it operates. In 2019, the Bank received the "Best performance Award for SHG-Bank linkage" from NABARD and the "Banking Gold" SKOCH Award for access and affordable banking services for financially underserved areas. In 2018, it received the "Banking & Finance Gold" SKOCH Award for financial inclusion for all.

3. A retail liability portfolio with rapid growth and minimal concentration risk

Since the beginning of its operations, the Bank has been able to swiftly expand its deposit portfolio by leveraging the high brand equity associated with its name, "ESAF", which translates to "fair and transparent".

The Bank provides customers with a variety of Demand Deposits and Savings Bank Account alternatives, including deposits and other services, to help them achieve their savings objectives. Since becoming a small finance bank, the Bank has placed a significant emphasis on expanding its retail deposit base, as retail deposits are more stable than wholesale deposits.

In comparison to other SFBs and microfinance institutions that have gained a Bank licence (Banks-MFIs), ESAF has the greatest proportion of retail deposits, at 93.71% of total deposits. The Bank seeks to significantly bolster its liability franchise with an emphasis on expanding its retail deposit and CASA deposit base to provide a steady and low-cost funding source. The retail deposits were 93.71% of the Bank's total deposits as of 31st March 2022.

4. Strong customer relationships facilitated by customer-centric goods and processes and other non-financial services for micro loan clients

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

An example of its customer-centric approach is that the micro loans can be repaid on a weekly, fortnightly, or monthly basis based on customers' preferences. Furthermore, money can be deposited on a weekly, fortnightly, or monthly basis for the micro recurring deposits. As at 30th June 2022, 57.06% of the micro loan customers repaid their loans on a weekly basis. The Business Correspondents collect the repayments of the customers and understand their requirements better through regular meetings with micro loan customers. The Business Correspondents' constant engagement with the micro loan customers leads to a lower risk of delinquencies.

In addition to the provision of financial services, the Business Correspondents undertake various non-financial services, which include, among other things, conducting financial literacy programmes, livelihood programmes, entrepreneurship training programmes, and community engagement programmes.

ESAF's guiding principles include transparency, preventing customers from becoming over-indebted, treating customers fairly and being empathetic towards them in times of crisis, which the Bank has demonstrated by launching three new loan products to assist customers during the COVID-19 pandemic: (1) Income Generation Loan Top Up, which is a pre-approved loan and a variant of the Income Generation Loan and is targeted at customers who have an existing Income Generation Loan. (2) Utdhan Loan Series 3 – Covid Care Loan, which is tailor-made to support the financial needs of customers adversely affected by the COVID-19 pandemic. (3) Pratheeksha Kiran Loan, which is mainly for the restoration of livelihoods and households of customers impacted by the pandemic. On 5th May 2021, the RBI announced Resolution Framework 2.0 for advances to individuals and small businesses. The resolution facility was applicable for accounts classified as standard as of 31st March 2021. The resolution plan included the reschedulement of loan EMIs. The resolution plan was required to be finalised and implemented within 90 days from the date of invocation of the resolution process under this window. In accordance with the RBI guidelines and the Board's approved policy, the Bank restructured loans that were standard as at 31st March 2021. For the purpose of restructuring, the balance outstanding on the date of restructuring, including interest accrued as on the said date, was considered residual debt and the EMI was fixed for such debt by extending the tenure of the loan, if required. It also provided an initial repayment holiday based on a borrower's request to start the repayment of a loan as per the Resolution Framework 2.0. Another example is how ESAF supported the customers during Kerala's floods in 2018 and 2019 by providing emergency funding in the form of "Utdhan Loans" to customers for rebuilding their livelihoods and meeting other expenses, moratoriums on repayment of their loans for a period of up to four months depending on the needs of such customers affected by the floods and extending total repayment periods for up to 36 months on certain categories of loans.

ESAF's customer-centric products and processes have resulted in high customer retention rates. As at 31st March 2022, 80.23% of the current borrowers had previously borrowed from the Bank. In 2019, it received the "Kerala Bank of the Year 2019" award from Dhanam Business Magazine and the "Banking Gold" SKOCH Award for access and affordable banking services for financially underserved areas. In 2018, ESAF received the "Banking & Finance Gold" SKOCH Award for financial inclusion for all as well as the "Special Jury Award for Serving MSMEs" MSME Banking Excellence Award from the Chamber of Indian Micro Small and Medium Enterprises.

5. Business model driven by technology with a sophisticated digital technology platform

The Bank offers its customers various digital platforms, including an internet banking portal, a mobile banking platform, SMS alerts, bill payments, and RuPay branded ATM cum debit cards. All banking and payment transactions, such as remittances and utility payments, can be completed through these platforms. The customers are also able to register the Savings Accounts on a Unified Payment Interface based mobile applications.

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

Further, the Bank has a digitalised central credit-processing unit for Micro Loans. The customer onboarding process has been predominantly digitalised for the Micro Loans. Technology is leveraged for underwriting and credit sanctioning for its loan products based on inputs from credit bureaus and/or customer data analytics. ESAF has implemented technology solutions that ensures the cashless disbursement of loans. The collections mechanism has also been digitalised through the use of mobile applications and a payment gateway through which our borrowers can repay their loans. The Bank continuously works towards improving customers' experience through the use of technology. It has implemented a customer relationship management solution to better handle customer requests. These initiatives have helped ESAF improve customer service and deliver services in a more cost-effective manner.

6. Highly Experienced Board of Directors and Management

The Bank has an experienced Board comprising members with diverse business experience, many of whom have held senior positions in well-known financial services institutions. Mr. Kadambelil Paul Thomas, the Managing Director and Chief Executive Officer, was previously a senior field representative at Indian Farmers Fertilizers Co-operative Limited and since 2013 he has been the President of the Kerala Association of Micro Institutional Entrepreneurs. Members of the Key Management Personnel have been working in the banking and financial services sector for more than 26 years. The Key Management Personnel have expertise in scaling up financial services organisations and collectively they have all the relevant experience in credit evaluation, risk management, treasury and technology.

Key Strategies

1. Increase geographic presence and depth of penetration in existing regions

Financial inclusion and growing distribution in rural and semi-urban areas are two of the most important strategic initiatives of ESAF. As of 31st March 2022, ESAF operates through 575 branches, 386 ATMs, and 14 Business Correspondent companies in 19 states and two union territories. The Bank intends to grow its footprints in new states by building additional branches, ATMs, and establishing agreements with new Business Correspondent firms. ESAF intends to create branches in new states and union territories, notably in North India and North-Eastern India, while growing its footprint in South India, especially beyond Kerala. The Bank wants to open branches in urban and semi-urban areas after analysing the RBI statistics for various characteristics, such as total deposits, deposit growth, number of urban households, number of urban households with banking access, share of PSU deposits, and total NRI remittances.

2. Stimulate deposits, especially NRI and CASA deposits

The Bank will continue to concentrate on expanding its CASA and NRI deposits in an effort to minimise its cost of funds. As of 31st March 2022, total deposits reached ₹ 12,815.07 crore. CASA deposits amounted to ₹ 2,927.40 crore or 22.84% of total deposits. As of 31st March 2022, NRI deposits were 15.51% of total deposits.

The Bank will continue to target new and existing customers for CASA deposits by cross-selling CASA products to customers who do not have a CASA account and offering additional types of CASA accounts to existing CASA account holders, with a focus on providing superior customer service and competitive pricing. This would cover underserved customers in the retail segment as well as micro loan customers by means of customised low-ticket size liability products. By recruiting specialised relationship managers, the Bank will also target high-net-worth individuals (HNIs) to expand CASA's clientele. In addition, ESAF intends to transfer many of its past and current Ultra-Small Branches to sites better suited for its deposit-taking operations over time. At present, these Ultra-Small Branches mostly serve micro loan consumers.

The Bank plans to target NRIs in an effort to expand the CASA base. The Bank will continue to target regions with high levels of NRI remittances by launching focussed campaigns around festivals, conducting marketing operations in airports, shopping malls, etc., and forming partnerships with third parties such as remittance arrangers. ESAF also seeks to build agreements with Farmer Producer Organisations/ companies, co-operative societies, government departments, non-government organisations, and educational institutions in order to offer its products and services, such as CASA, to their members/ employees. Additionally, the Bank will offer savings accounts tailored to various types of workers.

3. Continue expanding the micro loan business while expanding other types of advances in absolute terms and as a proportion of overall advances

ESAF has a customer base that is extremely diverse, and the Bank's goal is to become a one-stop shop for various financial needs of all the customers by broadening the kinds of products it sells to meet those needs. The Bank will continue to create and offer a comprehensive suite of customised assets, liability, insurance, and financial planning products. In addition, the Bank intends to develop digital products in response to the rise in customer acceptance of digital means and the accompanying need for digital banking, customer service, payments, advances, and other banking services.

The Bank intends to continue expanding its micro loan business through cross-selling and up-selling to its micro loan customer base and marketing micro loans to the family members of its micro loan customers, thereby strengthening its relationships with them and becoming their preferred Bank. ESAF is also considering appointing new Business Correspondents and employing Banking Agents to begin customer acquisition. By targeting homes with NRI family members, salaried employees, students, and senior citizens, the Bank will expand its retail loan client base and continue to prioritise retail advances, both in terms of dollar amount and as a proportion of total advances.

ESAF would continue to focus on individual borrowers to build its retail loan portfolio, as well as capitalise on its relationships with existing micro loan borrowers whose borrowing capacity has grown and who require larger loan amounts. The Bank will continue to provide salary account customers with customised lending solutions. ESAF would also expand its business lending to Micro, Small, and Medium-sized Enterprises (MSME) and corporations, as well as its portfolio of agricultural loans, by staffing its branch with relationship officers who are solely responsible for cultivating clientele and by investigating recent business models, such as fintech lending, supply chain financing, and the utilisation of Farmer Producer Organisations.

4. Increase fee-based revenue through cross-selling, expansion of third-party products and services, and expansion of fee-based offerings

ESAF's concentration on non-interest income sources is a significant strategic objective. The Bank wants to generate fee-based income by extending its supply of third-party products and services. The Bank distributes the National Pension System, Atal Pension Yojna, as well as third-party life and non-life insurance products, money transfer services, and foreign exchange services. In FY20, the Bank also began providing POS terminals and current account services to small merchants, in addition to introducing a platinum debit card. ESAF intends to provide MSMEs with mutual funds, third-party depositary services, financial advising services, and bank guarantees and letters of credit.

5. **Maintaining reliance on technological advancements and customer data analytics**

ESAF is investing heavily in technology and data analytics to increase operational efficiency and product innovation. For instance, the Bank wants to establish digital dashboards and other tools to track loans and monitor customer history and prospects in an effective manner. In addition, it plans to utilise its front-end technology platforms to enhance client acquisition and transaction management. The Bank intends to strengthen its technology platforms, such as online banking, mobile banking, ATMs, cash deposit machines, customer care applications, and payment interfaces, in an effort to promote the use of service delivery mechanisms. This will also allow the Bank to boost the accuracy of its data and simplify data auditing and monitoring, resulting in more trustworthy data analytics and more effective risk management procedures. Moreover, this will also aid in targeted client profiling and the creation of customised products to meet the various needs of customers.

In addition, the Bank wants to roll out more services on its website and mobile application, such as support for Unified Payment Interface transactions to increase its digital reach.

Operational highlights

As of 31st March 2022, the total customer base of the Bank stood at 55.86 lakh. Gross advances of the Bank increased to ₹ 12,130.64 crore as on 31st March 2022 from ₹ 8,415.00 crore as on 31st March 2021.

Micro Loan

The Bank's micro loans are provided to individuals without being secured by collateral. In order to be given a loan, an individual must be part of a sub-group, which normally comprises five to 10 people. One to five sub-groups combine to form a "Sangam". The Sangam facilitates the repayment process by holding meetings at regular intervals with Sangam members. As of 31st March 2022, the gross micro loans were ₹ 9,816.19 crore which represented 80.92% of the gross advances. The Bank plans to continue to grow its micro loans portfolio by cross-selling and up-selling to its micro loan customer base and marketing to family members of customers, thereby deepening relationships with them and becoming their trusted bank of choice. It also plans to appoint new Business Correspondents and have the Banking Agents start to source customers.

Retail Loans

In Fiscal 2018, ESAF began offering retail loans and since then, it has been expanding its portfolio of retail loan products, including offering gold loans in Fiscal 2019. As of 31st March 2022 the gross retail advances were ₹ 1,464.97 crore representing 12.08% of the gross advances. Gold loans have contributed to the growth of retail loans. As of 31st March 2022, the gross gold loans were ₹ 1,056.46 crore, which represented 8.71% of gross advances, respectively. The Bank plans to continue to increase its retail advances both in terms of amount and as a percentage of gross advances by targeting households with NRI family members, salaried employees, students and senior citizens, thereby expanding the retail loan customer base.

MSME and Corporate Loan Business

In Fiscal 2020, ESAF started offering MSME and corporate loans and since then, it has been expanding its portfolio of MSME and corporate loan products. The target customers for the MSME and corporate loans are MSMEs, NBFCs, MFIs and existing micro loan customers who want to grow their business.

The Bank sources customers for MSME and corporate loans through branches, digital channels (except for corporate loans), direct sourcing, and third-party intermediaries, including Business Correspondents. ESAF is a member of certain TReDS platforms and bills are discounted by participating in the bidding process on these platforms. As of 31st March 2022, the gross MSME and corporate advances were ₹ 532.95 crore which represented 4.39% of the gross advances. It plans to continue to increase MSME and corporate advances both in terms of amount and as a percentage of gross advances by having the relationship managers reach out to MSMEs and offer them working capital and term loans. It will also help the existing micro loan customers to grow their businesses with additional funding. It will encourage the Business Correspondents to find more customers for small-ticket term loans. ESAF also plans to increase its supply chain finance by partnering with fintechs/tech platforms to find more customers for working capital loans. It also uses web-based platforms operated by certain entities which facilitate financing/ discounting of trade receivables of MSMEs, and plans to increase activity on these platforms, thereby increasing the receivables discounting business.

Agricultural Loans

In Fiscal 2020, the Bank set up its Agricultural Business Department. In Fiscal 2021, it introduced four more agricultural loan products. The target customers for the agricultural loans are individual farmers and joint borrowers engaged in agriculture and allied activities, such as dairy farming, fishery, animal husbandry, poultry farming, beekeeping, sericulture, agri infrastructure, agri processing units, and agri ancillary activities.

Deposits

Retail Liabilities: The Bank's liability products comprise Current Accounts, Savings Accounts, Fixed Deposits, and Recurring Deposits. It also serves NRI customers and offers NRE and NRO Current Accounts, Saving Accounts, Fixed Deposits, and Recurring Deposits. The total deposits were ₹ 12,815.07 crore, and ₹ 8,999.43 crore as of 31st March 2022 and 2021, respectively. CASA tends to provide a stable and low-cost source of deposits compared to term deposits. The CASA increased from ₹ 1,747.65 crore as on 31st March 2021 to ₹ 2,927.40 crore as on 31st March 2022. CASA % to Total Deposits increased from 19.42% as of 31st March 2021 to 22.84% as of 31st March 2022.

Treasury Operations

The Bank's Treasury Operations involve Balance Sheet Management, Liquidity Management, Management of Statutory Reserves, and Investment Operations in SLR/ Non-SLR Securities. The Bank maintains a portfolio of Government Securities as per the regulatory prescriptions governing Statutory Liquidity Ratio (SLR). The Bank's gross investment portfolio as of 31st March 2022, stood at ₹ 4,094.29 crore as compared to ₹ 1,932.76 crore on 31st March 2021. The Bank was granted the Forex Authorised Dealer Category II licence by the Reserve Bank of India on 17th April 2017, for undertaking forex business. The Bank's forex activities include currency exchange, money transfer services, and inward and outward remittances. The NRI rupee Deposit Accounts have also significantly contributed to the overall deposit growth.

Financial Overview

The following table sets forth a summary of the Bank's Profit and Loss Account for Fiscals 2022 and 2021.

	Fiscal 2022		Fiscal 2021	
	Amount (₹ in crore)	% of Total Income	Amount (₹ in crore)	% of Total Income
Income:				
Interest Earned	1,939.93	90.33	1,641.17	92.8
Other Income	207.58	9.67	127.25	7.2
Total Income	**2,147.51**	**100**	**1,768.42**	**100**
Expenditure:				
Interest Expended	792.79	36.92	719.58	40.69
Operating Expenses	862.87	40.18	631.85	35.73
Provisions and Contingencies	437.12	20.35	311.59	17.62
Total Expenditure	**2,092.78**	**97.45**	**1,663.02**	**94.04**
Net Profit for the Year	**54.73**	**2.55**	**105.4**	**5.96**

Total Income

The Bank's total income increased by ₹ 379.09 crore or 21.44%, to ₹ 2,147.51 crore for Fiscal 2022 from ₹ 1,768.42 crore for Fiscal 2021 as a result of (i) a ₹ 298.76 crore or 18.20% increase in interest earned to ₹ 1,939.93 crore for Fiscal 2022 from ₹ 1,641.17 crore for Fiscal 2021 (ii) a ₹ 80.33 crore or 63.13%, increase in other income to ₹ 207.58 crore for Fiscal 2022 from ₹ 127.25 crore for Fiscal 2021.

Interest Earned

The table set forth below shows details in relation to the interest earned for Fiscals 2022 and 2021.

Particulars	Fiscal 2022 (₹ in crore)	Fiscal 2021 (₹ in crore)	Percentage increase/ decrease (%)
Interest/discount on advances/bills	1,726.71	1,473.50	17.18
Income on investments	188.31	128.33	46.74
Interest on balances with the Reserve Bank of India and other inter-bank funds	24.91	39.34	-36.69
Total	**1,939.93**	**1,641.17**	**18.20**

The interest earned increased by ₹ 298.76 crore or 18.20%, to ₹ 1,939.93 crore for Fiscal 2022 from ₹ 1,641.17 crore for Fiscal 2021. The primary reasons for this increase are discussed below:

- Interest/discount on advances/bills increased by ₹ 253.21 crore or 17.18%, to ₹ 1,726.71 crore for Fiscal 2022 from ₹ 1,473.50 crore for Fiscal 2021.
    - The increase in interest/discount on advances/bills was primarily due to a ₹ 2,036.54 crore or 27.83%, increase in Average Interest-Earning Advances to ₹ 9,353.55 crore for Fiscal 2022 from ₹ 7,317.01 crore for Fiscal 2021, which increase was primarily due to a ₹ 1,480.39 crore or 21.94%, increase in Average Interest-Earning Micro Loans to ₹ 8,227.46 crore for Fiscal 2022 from ₹ 6,747.07 crore for Fiscal 2021 and a ₹ 654.45 crore or 88.84%, increase in Average Interest-Earning Other Loans to ₹ 1,391.10 crore for Fiscal 2022 from ₹ 736.65 crore for Fiscal 2021.
    - The increase in Average Interest-Earning Advances was partially offset by a decrease in the Yield on Average Interest-Earning Advances to 18.87% for Fiscal 2022 from 20.21% for Fiscal 2021. The Yield on Average Interest-Earning Advances decreased primarily due to the increase in gross NPAs to ₹ 949.60 crore as of 31st March 2022 from ₹ 564.00 crore as of 31st March 2021 (we do not book interest/discount on advances/bills that are NPAs) and due to a decrease in the percentage of Average Interest-Earning Micro Loans (which have a higher yield than our other loans) in our Average Interest-Earning Advances to 85.54% for Fiscal 2022 from 90.16% for Fiscal 2021. The Yield on Average Interest-Earning Micro Loans decreased to 20.25% for Fiscal 2022 from 21.14% for Fiscal 2021 and the Yield on Average Interest-Earning Other Loans decreased to 11.16% for Fiscal 2022 from 11.86% for Fiscal 2021.
- Income from investments increased by ₹ 59.98 crore or 46.74%, to ₹ 188.31 crore for Fiscal 2022 from ₹ 128.33 crore for Fiscal 2021. This increase was primarily due to the increase in our Average Interest-Earning Investments by ₹ 1,144.60 crore or 57.29%, to ₹ 3,142.39 crore for Fiscal 2022 from ₹ 1,997.79 crore for Fiscal 2021, which was partially offset by a decrease in the Yield on Average Interest-Earning Investments to 5.99% for Fiscal 2022 from 6.42% for Fiscal 2021.
- Interest on balances with RBI and other inter-bank funds decreased by 36.69% to ₹ 24.91 crore for Fiscal 2022 from ₹ 39.34 crore for Fiscal 2021. This decrease was primarily due to a decrease in the Average Interest-Earning Balances by ₹ 328.94 crore or 31.74%, with the RBI and other Inter-Bank Funds to ₹ 707.26 crore for Fiscal 2022 from ₹ 1,036.20 crore for Fiscal 2021 and also a decrease in the Yield on Average Interest-Earning Balances with the RBI and other Inter-Bank Funds to 3.52% for Fiscal 2022 from 3.80% for Fiscal 2021.

Other Income

The table set forth below shows details in relation to other income for Fiscals 2022 and 2021.

Particulars	Fiscal 2022 (₹ in crore)	Fiscal 2021 (₹ in crore)	Percentage increase/ decrease (%)
Commission, exchange and brokerage	150.72	64.5	133.68
Profit on sale of investments (Net)	43.51	23.04	88.86
Profit/(loss) on revaluation of investments (Net)	-23.31	1.14	-2,137.24
Profit/(loss) on sale of land, buildings and other assets (Net)	0.01	-2.33	100.26
Profit on foreign exchange transactions (Net)	0.92	0.55	68.61
Income earned by way of dividends etc. from companies	0.16	0.11	41.82
Miscellaneous income	35.57	40.24	-11.61
Total	**207.58**	**127.25**	**63.13**

Other income increased by ₹ 80.33 crore or 63.13%, to ₹ 207.58 crore for Fiscal 2022 from ₹ 127.25 crore for Fiscal 2021. The primary reasons for the increase are (a) the increase in commission, exchange and brokerage by ₹ 86.22 crore or 133.68% to ₹ 150.72 crore for Fiscal 2022 from ₹ 64.50 crore for Fiscal 2021, which was primarily due to the increase in the processing fees on loans by ₹ 64.78 crore or 148.41% to ₹ 108.43 crore for Fiscal 2022 from ₹ 43.65 crore for Fiscal 2021 (b) the increase in income on ATM transactions by ₹ 6.73 crore or 80.21%, to ₹ 15.12 crore for Fiscal 2022 from ₹ 8.39 crore for Fiscal 2021 (c) the increase in service charges collected from deposit customers by ₹ 9.06 crore or 217.79%, to ₹ 13.22 crore for Fiscal 2022 from ₹ 4.16 crore for Fiscal 2021.

The increase in commission, exchange and brokerage income was partially offset by a ₹ 24.45 crore decrease in income resulting from a mark-to-market loss of ₹ 23.31

crore to the investment portfolio during Fiscal 2022 as compared to the mark-to-market gains of ₹ 1.14 crore for Fiscal 2021, which was mainly on account of the rise in yields on government securities as per the RBI guidelines, which led to the corresponding depreciation of such securities.

Total Expenditure

Total expenditure increased by ₹ 429.76 crore or 25.84%, to ₹ 2,092.78 crore for Fiscal 2022 from ₹ 1,663.02 crore for Fiscal 2021. The primary reasons for this increase are discussed below:

Interest Expended

Interest expended increased by ₹ 73.21 crore or 10.17%, to ₹ 792.79 crore for Fiscal 2022 from ₹ 719.58 crore for Fiscal 2021. The primary reasons for this increase are discussed below:

- Interest on deposits increased by ₹ 74.28 crore or 12.29%, to ₹ 678.85 crore for Fiscal 2022 from ₹ 604.57 crore for Fiscal 2021, which was due to a 30.61% increase in Average Interest-Bearing Deposits to ₹ 10,523.52 crore for Fiscal 2022 from ₹ 8,057.38 crore for Fiscal 2021, which was partially offset by a decrease in the Cost of Average Interest-Bearing Deposits to 6.45% for Fiscal 2022 from 7.50% for Fiscal 2021.

- Interest on Reserve Bank of India/inter-bank borrowings and others decreased by ₹ 1.07 crore or 0.93%, to ₹ 113.94 crore for Fiscal 2022 from ₹ 115.01 crore for Fiscal 2021. This was primarily due to a decrease in the Cost of Average Borrowings to 6.71% for Fiscal 2022 from 8.32% for Fiscal 2021, which was partially offset by a ₹ 316.25 crore or 22.88%, increase in Average Borrowings to ₹ 1,699.27 crore for Fiscal 2022 from ₹ 1,382.92 crore for Fiscal 2021.

Operating Expenses

The table below sets forth details in relation to operating expenses for Fiscal 2022 and Fiscal 2021.

Particulars	Fiscal 2022 (₹ in crore)	Fiscal 2021 (₹ in crore)	Percentage increase / decrease (%)
Payments to and provisions for employees	232.14	187.78	23.62
Rent, taxes and lighting	60.02	42.04	42.77
Printing and stationery	6.74	5.29	27.42
Advertisement and publicity	5.9	2.71	117.6
Depreciation on Bank's property	32.77	28.57	14.7
Directors' fees, allowances and expenses	1.48	1.41	4.67
Auditors' fees and expenses	0.75	0.63	18.89
Law charges	0.44	0.26	69.73
Postage, telegrams, telephones, etc.	10.94	9.17	19.35
Repairs and maintenance	1.76	1.58	11.66
Insurance	12.73	10.84	17.52
Other expenditure (1)	497.2	341.58	45.56
Total	862.87	631.86	36.56

Notes:

(1) Includes Business Correspondent expense of ₹348.66 crore and ₹232.81 crore for the year ended 31st March 2022 and 2021, respectively.

Operating expenses increased by ₹ 231.01 crore or 36.56%, to ₹ 862.87 crore for Fiscal 2022 from ₹ 631.86 crore for Fiscal 2021. The primary reasons for this increase are discussed below:

- Other expenditure which increased by ₹ 155.62 crore or 45.56% to ₹ 497.20 crore for Fiscal 2022 from ₹ 341.58 crore for Fiscal 2021, which was primarily due to a ₹ 115.85 crore or 49.76% increase in the Business Correspondent expense to ₹ 348.66 crore for Fiscal 2022 from ₹ 232.81 crore for Fiscal 2021 which was primarily due to a ₹ 1,480.39 crore or 21.94%, increase in Average Interest-Earning Micro Loans to ₹ 8,227.46 crore for Fiscal 2022 from ₹ 6,747.07 crore for Fiscal 2021.

- Payments to and provisions for employees increased by ₹ 44.35 crore or 23.62% to ₹ 232.14 crore for Fiscal 2022 from ₹ 187.78 crore for Fiscal 2021, which was primarily due to an 8.88% increase in the number of employees to 4,141 as at 31st March 2022 from 3,803 as at 31st March 2021 and increments given to employees.

- Rent, taxes and lighting increased by ₹ 17.98 crore or 42.77% to ₹ 60.02 crore for Fiscal 2022 from ₹ 42.04 crore for Fiscal 2021, which was primarily due to a 4.54% increase in the number of Branches and Ultra-Small Branches (combined) from 550 as at 31st March 2021 to 575 Branches as at 31st March 2022.

Provisions and Contingencies

The table set forth below shows details in relation to our provisions and contingencies for Fiscal 2022 and Fiscal 2021.

Particulars	Fiscal 2022 (₹ in crore)	Fiscal 2021 (₹ in crore)	Percentage increase / decrease (%)
Provision towards NPA/Write-offs [A]	320.84	188.74	69.99
Provision towards Standard Assets [B]	93.62	92.55	1.16
Provision made towards Income Tax			
Current Tax Expense [C]	48.5	60.25	-19.5
Deferred Tax Charge (credit) [D]	-29.38	-24.27	21.06
Total provision made towards Income Tax [E] = [C] + [D]	**19.12**	**35.98**	**46.86**
Other Provision and Contingencies [F]	3.54	-5.68	162.25
Total Provisions and Contingencies [G] = [A] + [B] + [E] + [F]	**437.12**	**311.59**	**40.29**

The provisions and contingencies increased by ₹ 125.53 million, or 40.29%, to ₹ 437.12 crore for Fiscal 2022 from ₹ 311.59 crore for Fiscal 2021. The primary reasons for this increase are discussed below:

- Provision towards NPA/write-offs increased by ₹ 131.10 crore or 69.99%, to ₹ 320.84 crore for Fiscal 2022 from ₹ 188.74 crore for Fiscal 2021. The primary reason for the increase in the provision towards NPA/write-offs was a ₹ 187.07 crore or 96.20%, increase in additions during the year, to ₹ 381.53 crore for Fiscal 2022 from ₹ 194.46 crore for Fiscal 2021, which was due to gross NPAs increasing to ₹ 949.60 crore as at 31st March 2022 from ₹ 564.00 crore as at 31st March 2021. The increase was primarily due to cash flows disbursed to the borrowers on account of the COVID-19 pandemic.
- Provision towards other provisions and contingencies increased by ₹ 3.54 crore, to ₹ 9.22 crore for Fiscal 2022 compared to a write-back of ₹ 5.68 crore for Fiscal 2021. The primary reasons for this increase were a write-back of provision in Fiscal 2021 for wage arrears of ₹ 4.80 crore and also a write-back of provision in Fiscal 2021 for pending claims from insurance companies, on the demise of borrowers, amounting to ₹ 0.69 crore as compared to the requirement of provision for pending claims from insurance companies on the demise of borrowers worth ₹ 2.90 crore, during Fiscal 2022.

The above increases were partially offset by the provision made towards current tax expenses decreasing by ₹ 1,175 crore or 19.50%, to ₹ 48.50 crore for Fiscal 2022 from ₹ 60.25 crore for Fiscal 2021. The primary reason for this decrease was a 47.76% decrease in our Net Profit Before Tax (net profit for the year plus provisions made towards income tax) to ₹ 738.50 crore for Fiscal 2022 from ₹ 141.37 crore for Fiscal 2021.

Net Profit for the Year

As a result of the above, the net profit for the year decreased by ₹ 50.67 crore or 48.07%, to ₹ 54.73 crore for Fiscal 2022 from ₹ 105.40 crore for Fiscal 2021.

Key Business Figures

(₹ in crore)

Particulars	31-03-2022	31-03-2021	Growth	Growth %
Total Business	24,946	17,425	7,520	43.16%
Total Deposits	12,815	8,999	3,816	42.40%
Gross Advances	12,131	8,415	3,716	44.15%
CD Ratio (%)	94.66%	93.51%		
Savings Deposits	2,708	1,594	1,113	69.81%
Demand Deposits	220	153	67	43.48%
Total CASA	2,927	1,748	1,180	67.51%
CASA % to Deposits	22.84%	19.42%		
Term Deposits	9,888	7,252	2,636	36.35%
Bulk Deposits	806	203	603	297.16%
NRI Deposits	2,657	2,044	613	29.99%

The table below sets forth the Gross Advances by product groups

	Year ended 31st March 2022		Year ended 31st March 2021	
Classification of Advances	**Advances (₹ in crore)**	**% of Total**	**Advances (₹ in crore)**	**% of Total**
Micro Loans	9,816	80.92	7,134	84.78
Retail Loans	1,465	12.08	961	11.42
MSME and Corporate Loans	533	4.39	311	3.69
Agricultural Loans	317	2.61	9	0.11
Total	**12,131**	**100**	**8,415**	**100**

(₹ in crore, except percentages)

	As at 31st March 2022	As at 31st March 2021
Tier I Capital [A]	1,415.55	1,388.91
Of which:		
Perpetual Debt Instruments	48	48
Tier II Capital [B]	216.62	173.74
Of which: Subordinated Debt	810	89
Total Capital [C= A+B]	1,632.17	1,562.65
Total Risk-Weighted Assets	8,757.82	6,448.90
Tier I Capital (%)	16.16	21.54
Tier II Capital (%)	2.47	2.69
Total Capital Adequacy Ratio (%)	**18.64**	**24.23**

Management Outlook

ESAF is well on its way to achieving its objective of becoming one of India's prime Small Finance Banks. The transition from a Microfinance Institution to a Small Finance Bank has presented a plethora of opportunities and challenges related to funding sources, credit delivery and administration, putting in place the necessary infrastructure, policies and processes, recruiting and training personnel, etc. ESAF has been effective in expanding its funding sources and loan distribution as well as implementing the necessary systems, policies, and procedures in the short time since it began operations.

The longstanding presence of ESAF in underpenetrated regions offer substantial expansion possibilities. The Bank intends to regionally diversify in the next two to three years by building more branches outside Kerala, hence reducing its geographical concentration. The Bank's profitability is expected to increase modestly as a result of a decline in operating expenses caused by the gradual expansion of its digital banking operations. ESAF will continue to manage growth and profitability while maintaining asset quality. This will be supported by a comprehensive range of products and services – a large cross-sell lever; a profound awareness of unserved and underserved client categories; the capacity to raise finance; regional development; product diversification; and execution-focussed leadership.

Information Technology

The Bank operates in a highly dynamic threat environment and has taken a plethora of measures to ensure the safety of customer transactions. The Bank has implemented state-of-the-art security technologies in its infrastructure and monitors the potential threats round-the-clock. A comprehensive strategy encompassing people, process, and technology is constantly reviewed in the light of emerging threats, the security requirements of the business, and best practices. A 24x7 Cyber Security Operations Centre has been established that identifies potential incidents and takes requisite action to respond, recover, and learn from the incidents. The Bank has adopted an approach of continuous improvement when it comes to security. In the field of emerging technologies, the Bank has embraced artificial intelligence, machine learning, data lake and user behaviour analysis for its Security Operations Centre. The Bank regularly participates in cyber drills conducted by the Institute of Development and Research on Banking Technology (IDRBT) and conducts periodic disaster recovery drills for its technology infrastructure to ensure the availability of critical services in the event of a disaster. In order to keep abreast with the security best practices, the Bank participates in meetings conducted by CISO Forum and Data Security Council of India. A well-documented Board-approved Information Security Policy is in place.

Human Resources

The year 2021-22 proved that with persistence, all hurdles and impediments can be eradicated, and organisations can rebuild and achieve progress with a team of passionate and industrious people. ESAF's faith in its people, came through at a time when the organisation most needed it, after the first two quarters were marred by Covid issues. It saw the impact of people coming together and aligning with the organisational goals and outperforming in the third and fourth quarters. This was also a year, where the people pillar of ESAF SFB's mission was put to test, 'provide professionally rewarding careers to employees and, attract and retain quality talent'. The Bank retained the seasoned senior management professionals in important roles like Chief Information Officer, Head of Digital Banking, etc. At the same time, it promoted some of the internal talent to the senior management level as well. In line with its mission, it is committed to building better lives for its customers as well as employees. This drive has brought in many accolades. ESAF was certified as a "Great Place to Work" and one of the best in the SFB segment by Great Place to Work® Institute and Economic Times across 20 industries yet again, for the second consecutive year. The two areas most impacted during the pandemic were physical interaction with the front-end teams and physical induction and training. The Bank was successful in bringing back physical interaction forums like Branch Representative meetings with the branch employees. Physical induction training for the front-end business teams was started across India. The focus on the hybrid model of training and certifications was also quite high and the same was driven through its Learning Management System. This was also a year, where the Bank leveraged the HRMS, implemented last FY, and all HR processes were digitally implemented through the system.

Risk Management Structure

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

- Active Board and senior management overviewing appropriate policies, procedures, and limits for the Bank's risk appetite, risk tolerance, etc.
- Comprehensive and timely identification, measurement, mitigation, controlling, monitoring, and reporting of risks.
- Appropriate management information systems at the business and firm-wide level risk strategy are approved by the Board on an annual basis and is defined based on the Bank's risk appetite, in order to align risk, capital, and performance targets.
- Adequate internal controls and segregation of duties across the 'three lines of defence' model, whereby front-office roles, risk management & oversight, compliance, and internal audit roles are played by functions independent of one another.
- All major risk classes such as Credit Risk, Market Risk, Operational Risk, Liquidity Risk etc. are managed through focussed and specific risk management policies, processes and systems.
- Stress testing tools and escalation processes are established at all risk functions to monitor the Bank's performance against approved risk appetite.
- The Board of Directors is responsible for overall governance and oversight of core risk management activities of the Bank.
- To ensure that the Bank has a sound system of risk management and internal controls in place, the Board has established the Risk Management Committee of the Board (RMCB).
- The RMCB oversees and periodically reviews the processes and practices of risk management in the Bank through various Executive Level committees dealing with different functional responsibilities of risks. Credit Risk Management Committee (CRMC), Operational Risk & Business Continuity Management Committee (OR-BCMC) and Market Risk & Asset Liability Management Committee (MR-ALCO) support RMCB to facilitate the effective execution of its responsibilities.
- The Information Security Governance Committee (ISGC) supports the Information Technology Strategy Committee of the Board.

Key Risks & Mitigation Strategies

Credit Risks

Credit Risk is defined as the possibility of losses associated with a diminution in the credit quality of borrowers or counterparties. Losses stem from an outright default, as defined by the regulator. Through continuous monitoring and enhancement, the Bank has established a distinct risk architecture, policies, and procedures for managing its credit risk. The Bank has positioned itself predominantly as a retail bank with exposure in segments of microfinance, MSE, and affordable housing. The Bank also has a sizeable exposure to institutional clients, who are primarily in the BFSI segment. Prior to the pandemic, the Bank had launched new credit offerings in the personal loans and vehicle loans segments, to provide a comprehensive suite of products to its customer segment. The business strategy to cater to these segments is continuously assessed after factoring in the learnings from the pandemic, and the Bank's strategic imperative. There are robust front-end and back-end systems in place, to ensure credit quality and to minimise loss from defaults.

The factors considered while sanctioning retail loans include income, demographics, and repayment track records of the borrower and tenor of the loan. Credit risk is managed by a robust customer screening process, caps on exposures and ticket size, based on borrower segments and pricing of loans, based on the inherent risk. This is backed by portfolio diversification strategies, stringent credit approval processes, and periodic post-disbursement monitoring for remedial measures, if warranted.

The Credit Risk Management Committee (CRMC) of the Bank meets monthly or at more frequent intervals to review the credit portfolio, the performance of all loans approved within a defined deviation matrix, and issues relating to loan documentation. During the year under review, the credit risk team has implemented risk scorecards to ensure an objective and standardised credit assessment framework, and to provide a risk categorisation for borrowers. The output from these scorecards is linked to credit decision-making and in pricing-related decisions. Factoring the learnings from the pandemic, the Bank has revamped its Early Warning Systems (EWS) to provide proactive insights into the external and internal performance. These warning signals are disseminated to various stakeholders for corrective measures.

The Bank has a conservative and prudent policy for provisioning of standard and NPA exposure. The provision for NPAs is higher than the minimum regulatory requirements while adhering to regulatory norms for the provision of standard assets. During the year, the Bank created a floating provision to eliminate any instances of underestimation in credit risk and to operate as a cover for any future contingencies. Stress testing forms an integral part of risk monitoring, where sensitivity and scenario-based tests are regularly performed on the collection rates, to compute the incremental default rates and associated credit costs. These tests served as an important guiding tool for strategic decision-making and manoeuvring the aftermath of the pandemic.

Market Risks And Liquidity Risks

Market risks arise largely from the Bank's statutory reserve management and trading activity in the interest rate market. The risks are managed through real-time monitoring by the Bank's Treasury Mid Office, which works within a well-defined Limit Management Framework that caps risk in various securities through limits/triggers. The risk measures include sensitivity limits, namely, PV01, modified duration of HFT/HTM Portfolio, Value-at-Risk (VaR) Limits, and Stop Loss Trigger Levels (SLTL), to name a few. These are monitored on an end-of-day basis.

Liquidity Risk is the risk that a Bank may not be able to meet its short-term financial obligations due to an Asset–Liability Mismatch (ALM) or interest rate fluctuations. As part of this process, the Bank has established various limits to mitigate both liquidity and interest risks. While the caps on the mismatches to maturity buckets and stock ratio limits help manage liquidity risk, the sensitivity analysis of Net Interest Income (NII) and Market Value on Equity (MVE) helped mitigate interest rate risks. The Bank had also maintained a comfortable Liquidity Coverage Ratio (LCR) well above the regulatory limits during the year. During the year, the Bank has also commenced monitoring and reporting of the Net Stable Funding Ratio (NSFR) to meet the RBI-mandated requirements. The Bank regularly undertakes various internal assessments of the behavioural patterns exhibited by depositors with respect to premature withdrawal, utilisation, and tenure of deposits. There are now tolerance levels defined internally as part of the Liquidity Risk Management Framework. The Asset Liability and Market Risk Committee (ALCO) of the Bank meet on a monthly basis or at more frequent intervals, if warranted, to evaluate the liquidity situation.

Operational Risks

The Bank has in place a Board-approved Operational Risk Management policy to mitigate and manage operational risks. The Operational Risk Management process is a top-down approach and is driven by strong and sound operating procedures and internal control culture, with well-defined reporting and contingency planning. The Bank is continuously striving to enhance its processes. Manuals, an important spin-off to the various operational risk policies, are now documented for key activities, such as Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRI), and Loss Data Management.

Business Continuity Management (BCM) was critical during the early months of the previous year on account of the pandemic. The Business Continuity Plans were reviewed and enhanced comprehensively to include the pandemic management. These plans are rigorously tested, and gaps are addressed on an ongoing basis.

For effective management of operational risks, the Bank has constituted an Operational Risk Management Committee (ORMC) chaired by the MD and CEO. The Committee, convened by the Chief Risk Officer, meets quarterly to provide oversight on key operational risk issues, the summary of which is presented to the Risk Management Committee of the Board. Operational risk within the Bank is managed through a combination of qualitative and quantitative approaches. It includes stringent product and process reviews, diligent User Acceptance Testing (UAT) of changes to systems, Risk Control and Self-Assessment (RCSA) framework, identifying and monitoring of Key Risk Indicators (KRI), data loss management, thematic reviews, scorecards, outsourcing risk reviews, Internal Financial Control (IFC) testing, and Business Continuity Planning (BCP).

Internal Controls

ESAF has put in place a sufficient system of internal controls that are proportionate to its scale and the type of activities it engages in. The Bank adheres to stringent procedures, systems, policies, and processes to ensure the accuracy of financial information recording, the protection of assets from unauthorised use, the prevention and detection of fraud and errors, the completeness of accounting records, the timely preparation of accurate financial data, and compliance with statutes and laws. The Bank has built the internal financial control architecture in accordance with the 2013 Companies Act's requirements. The Risk Management Department is responsible for implementing internal financial controls. Regular internal audits and inspections guarantee that obligations are carried out efficiently. Management routinely reviews the internal auditors' reports and initiates remedial actions to reinforce the controls and improve the efficacy of the existing systems.

The audit committee of the Board is provided with summaries of all reports and actions taken. The Bank has defined and documented risk control matrices that include all of the primary processes and the corresponding major risks. The department of risk management has a collection of all process walkthrough documentation and risk control matrices. For the purpose of defining testing frequency, processes are categorised into several risk categories based on the risk assessment. Testing includes both the evaluation of design flaws and the evaluation of operational efficiency. The Chief Financial Officer certifies the Internal Financial Control compliance, which is disclosed in the Bank's Annual Report, after certifications from Department Heads.

Compliance

Integrity, ethics, and compliance are the most important aspects of the Bank and the workforce of the Bank is trained to abide by the regulations. In order to foster a culture centred on compliance, the Bank promotes a company-wide understanding of compliance requirements and ethical standards. The policies, methods, and procedures are revised and updated on a regular basis to guarantee full compliance with the RBI's directives and guidelines for small finance banks. At ESAF, compliance is the responsibility of the entire team and begins at the top. The Board of Directors and Audit Committee are accountable for overseeing the management of compliance risk and the organisation-wide application of the compliance risk management framework. The Bank has in place well-documented rules and procedures and operates within the regulatory framework and policies approved by the Board. Audit, risk, and compliance divisions undertake routine audits to ensure that the Bank's activities adhere to the established guidelines. In addition, the Bank monitors the ever-changing rules and regulations, allowing it to proactively manage the organisation in accordance with the requirements.

Corporate Social Responsibility

ESAF aims to actively contribute to social and economic development for evolving a sustainable society. The Bank has a CSR Policy in place, which articulates a positive contribution towards the economic, environmental and social well-being of communities through its CSR activities.

ESAF intends to create its image as a reliable, credible, and responsible business partner by making a positive difference in society and giving back to the community. The Bank's CSR focus areas are education, healthcare, sanitation, and livelihood development. During the year under review, the Bank has undertaken various CSR activities. A few of them are mentioned below:

Eradicating hunger, poverty, and malnutrition, promoting health care including preventive health care and sanitation and making available safe drinking water.

Promoting education, including special education and employment enhancing vocation skills especially, among children, women, elderly and the differently abled, and livelihood enhancement projects.

Disaster management including relief, rehabilitation and reconstruction activities; COVID-19 vaccination support to community; distributing relief kits/other immediate relief measures; providing adequate relief support to the vulnerable population for ensuring basic supplies and improving livelihood.

Community outreach activities - Positive mental health awareness, sessions on parenting and stress management; Rural development; Animal welfare; and Agroforestry, conservation of natural resources and maintaining quality of the soil, air and water.

Cautionary Statement

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

Notice
of the 06th Annual General Meeting of the Bank

Notice is hereby given that the Sixth Annual General Meeting of Shareholders of ESAF Small Finance Bank Limited (the Bank) will be held on Tuesday, December 13, 2022 at 10:30 AM through Video Conferencing (VC)/Other Audio-Visual Means (OAVM), to transact the following businesses. The Venue of the meeting shall be deemed to be the Registered and Corporate Office of the Bank situated at Building No. VII/83/8, ESAF Bhavan, Mannuthy, Thrissur – Palakkad National Highway, Thrissur, Kerala, PIN – 680 651.

ORDINARY BUSINESS

Item No. 1 – To consider and adopt the Audited Standalone Financial Statements of the Bank for the Financial Year ended March 31, 2022, together with the schedules and annexures thereto, the reports of the Board of Directors and Auditors thereon.

Item No. 2 – To appoint M/s. Abarna and Ananthan, Chartered Accountants (Firm Registration Number: 000003S), as one of the Joint Statutory Auditors of the Bank to hold office for a period of 3 (Three) consecutive financial years, who shall hold office from the conclusion of the 06th Annual General Meeting until the conclusion of the 09th Annual General Meeting of the Bank and to authorise the Board of Directors of the Bank to fix their remuneration.

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 139 and other applicable provisions, if any, of the Companies Act, 2013 and the Companies (Audit and Auditors) Rules, 2014 (including any statutory modification, amendment or enactment thereof, for the time being in force) and the applicable provisions of the Banking Regulation Act, 1949 including relevant circular, notification, guidelines issued in this regard and any other applicable laws (including any statutory modification(s) or re-enactment thereof, for the time being in force), M/s. Abarna and Ananthan, Chartered Accountants (Firm Registration Number: 000003S), be and are hereby appointed as one of the Joint Statutory Auditors of the Bank to hold the office for a period of three consecutive financial years, from the conclusion of the 06th Annual General Meeting until the conclusion of the 09th Annual General Meeting of the Bank on such remuneration plus applicable taxes and reimbursement of out-of-pocket expenses in connection with the audit as may be mutually agreed between the Board of Directors of the Bank and the Auditors."

"RESOLVED FURTHER THAT the Board, including the Audit Committee of the Board or any other person(s) authorised by the Board or Audit Committee in this regard, be and is hereby authorised on behalf of the Bank to do all such acts, deeds, matters and things as it may, in its absolute discretion deem necessary or desirable for such purpose and with the power to the Board to settle all questions, difficulties or doubts that may arise in the regard to the implementation of the resolution, including but not limited to determination of roles and responsibilities/scope of work of the respective Joint Statutory Auditors, negotiating, finalising, amending, signing, delivering, executing the terms of appointment, including any contract or document in this regard and to alter and vary the terms and conditions of remuneration arising out of increase in scope of work, amendment in Accounting Standards or regulations and such other requirements resulting in the change in scope of work etc., without being required to seek any further consent or approval of the Members of the Bank."

SPECIAL BUSINESS

Item No. 3 – Appointment of Dr. Vinod Vijayalekshmi Vasudevan (DIN: 02503201) as Non-Executive Independent Director 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 Sections 149, 150, 152 and 160 read with Schedule IV, and other applicable provisions, if any, of the Companies Act, 2013 ('the Act'), the Companies (Appointment and Qualification of Directors) Rules, 2014 and the applicable provisions of the Banking Regulation Act, 1949 including relevant circular, notification, guidelines issued in this regard and any other applicable laws (including any statutory modification(s) or re-enactment thereof, for the time being in force), Articles of Association of the Bank and recommendations of the Nomination, Remuneration and Compensation Committee of the Board and the Board of Directors, Dr. Vinod Vijayalekshmi Vasudevan, holding DIN: 02503201, who was appointed as an Additional Director (Independent Director) on the Board of Directors of the Bank with effect from December 22, 2021, pursuant to provisions of Section 161 of the Companies Act, 2013, who has submitted consent to act as a Director of the Bank in Form DIR-2, who has submitted a declaration that he meets the criteria for independence as provided in Section 149(6) of the Act and that he meets the fit and proper criteria laid down by the Reserve Bank of India and in respect of whom the Bank has received a notice in writing under Section 160(1) of the Act from a member, signifying his intention to propose Dr. Vinod Vijayalekshmi Vasudevan's candidature for the office of Director and who is eligible for appointment, be and is hereby appointed as the Non-Executive Independent Director of the Bank, to hold office for a period of three (3) consecutive years with effect from December 22, 2021 and whose office shall not be liable to retire by rotation."

Item No. 4 – Appointment of Shri. Ravi Venkatraman (DIN: 00307328) as Non-Executive Independent Director 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 Sections 149, 150, 152 and 160, read with Schedule IV, and other applicable provisions, if any, of the Companies Act, 2013 ('the Act') the Companies (Appointment and Qualification of Directors) Rules, 2014 and the applicable provisions of the Banking Regulation Act, 1949 including relevant circular, notification, guidelines issued in this regard and any other applicable laws (including any statutory modification(s) or re-enactment thereof, for the time being in force), Articles of Association of the Bank and recommendations of the Nomination, Remuneration and Compensation Committee of the Board and the Board of Directors, Shri. Ravi Venkatraman, holding DIN: 00307328, who has submitted consent to act as a Director of the Bank in Form DIR-2, who has submitted a declaration that he meets the criteria for independence as provided in Section 149(6) of the Act and that he meets the fit and proper criteria laid down by the Reserve Bank of India and in respect of whom the Bank has received a notice in writing under Section 160(1) of the Act from a member, signifying his intention to propose Shri. Ravi Venkatraman's candidature for the office of Director and who is eligible for appointment, be and is hereby appointed as the Non-Executive Independent Director of the Bank, to hold office for a period of three (3) consecutive years with effect from December 13, 2022 and whose office shall not be liable to retire by rotation."

Item No. 5 – Appointment of Smt. Kolasseril Chandramohanan Ranjani (DIN: 01735529) as Non-Executive Independent Director 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 Sections 149, 150, 152 and 160 read with Schedule IV, and other applicable provisions, if any, of the Companies Act, 2013 ('the Act') the Companies (Appointment and Qualification of Directors) Rules, 2014 and the applicable provisions of the Banking Regulation Act, 1949 including relevant circular, notification, guidelines issued in this regard and any other applicable laws (including any statutory modification(s) or re-enactment thereof, for the time being in force), Articles of Association of the Bank and recommendations of the Nomination, Remuneration and Compensation Committee of the Board and the Board of Directors, Smt. Kolasseril Chandramohanan Ranjani, holding DIN: 01735529, who has submitted consent to act as a Director of the Bank in Form DIR-2, who has submitted a declaration that she meets the criteria for independence as provided in Section 149(6) of the Act and that she meets the fit and proper criteria laid down by the Reserve Bank of India and in respect of whom the Bank has received a notice in writing under Section 160(1) of the Act from a member, signifying his intention to propose Smt. Kolasseril Chandramohanan Ranjani's candidature for the office of Director and who is eligible for appointment, be and is hereby appointed as the Non-Executive Independent Director of the Bank, to hold office for a period of three (3) consecutive years with effect from December 13, 2022 and whose office shall not be liable to retire by rotation."

Item No. 6 – Re-Appointment of Shri. Ravimohan Periyakavil Ramakrishnan (DIN: 08534931) as Non-Executive Independent Director of the Bank

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

"RESOLVED THAT pursuant to the provisions of Sections 149, 150, 152 and 160 read with Schedule IV and other applicable provisions, if any, of the Companies Act, 2013 ('the Act') and the Companies (Appointment and Qualification of Directors) Rules, 2014 and Section 10A and other applicable provisions of the Banking Regulation Act, 1949 including relevant circular, notification, guidelines issued in this regard and any other applicable laws (including any statutory modification(s) or re-enactment thereof, for the time being in force), Shri. Ravimohan Periyakavil Ramakrishnan, holding DIN: 08534931, who has submitted consent to act as a Director of the Bank in Form DIR-2, who has submitted a declaration that he meets the criteria for independence as provided in Section 149(6) of the Act, who has submitted a declaration that he meets the fit and proper criteria laid down by the Reserve Bank of India and in respect of whom the Bank has received a notice in writing under Section 160(1) of the Act from a member, signifying his intention to propose Shri. Ravimohan Periyakavil Ramakrishnan's candidature for the office of Director and who is eligible for re-appointment, be and is hereby re-appointed as a Non-Executive Independent Director of the Bank to hold office for a term up to three consecutive years with effect from December 21, 2022 and whose office shall not be liable to retire by rotation."

Item No. 7 – Revision of Remuneration of Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank

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

"RESOLVED THAT pursuant to the provisions of Section 196, 197 and 198 read with Schedule V and other applicable provisions, if any, of the Companies Act, 2013 and the rules framed thereunder (including any statutory modifications or re-enactment thereof, for the time being in force), Section 35B and other applicable provisions of the Banking Regulation Act, 1949, Articles of Association of the Bank and subject to the approval of the Reserve Bank of India, the approval of the shareholders, be and is hereby accorded for payment of remuneration of an aggregate sum not exceeding ₹ 478 lakh per annum to Shri. Kadambelil Paul Thomas, Managing Director and CEO of the Bank, with effect from April 01, 2021."

"RESOLVED FURTHER THAT the Board of Directors of the Bank including Nomination, Remuneration and Compensation Committee of the Board, be and is hereby authorised to do all such acts, deeds, matters and things, as may be necessary, to give effect to the above resolution, including making changes to the remuneration based upon the approval from Reserve Bank of India within the overall limit approved by the Shareholders."

Item No. 8 – To raise funds through Private Placement of Unsecured, Rated, Redeemable Non-Convertible Debentures (NCDs)

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

"RESOLVED THAT pursuant to the provisions of Sections 42, 71 and 179 and other applicable provisions, if any, of the Companies Act, 2013 read with Rule 18 of the Companies (Share Capital and Debenture) Rules 2014 and Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules 2014 (including any statutory modification(s) or re-enactment thereof for the time being in force), the relevant rules/regulations/guidelines, if any, prescribed by the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI) and/or any other regulatory authority, the relevant provisions of Memorandum and Articles of Association of the Bank and subject to the rules, regulations, guidelines and circulars issued thereunder from time to time by any Regulatory Authorities, the consent of members of the Bank be and is hereby accorded to the Board of Directors (herewith referred to as the Board which expression shall also include a Committee thereof) of the Bank, to offer, issue and allot, in one or more tranches, Unsecured, Rated, Redeemable Non-Convertible Debentures until the conclusion of the Seventh Annual General Meeting, on a private placement basis, for an amount not exceeding in aggregate ₹ 500,00,00,000/- (Rupees Five Hundred crore Only) on such terms and conditions and at such times at par or at such premium/discount, as may be decided by the Board, to such person or persons, including but not limited to, one or more companies, bodies corporate(s), statutory corporations, commercial banks, lending agencies, financial institutions, insurance companies, mutual funds, pension/provident funds and individuals, as the case may be or such other person/persons as the Board may decide so, for the purpose of meeting long-term requirements of funds."

"RESOLVED FURTHER THAT the Board of the Bank, be and are hereby authorised to do all such acts, deeds and things to give effect to the above resolution including the appointment of trustees, registrar and share transfer agents or such other intermediaries, fixing the terms and conditions for the issue of NCDs including but not limited to the price, coupon, premium, discount, tenor, etc., preparation and authentication of offer letters, issue and allotment of debentures, authorising officers of the Bank or such other intermediaries in connection with the issue of NCDs or any other matter incidental or ancillary thereto."

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

Ranjith Raj P.
Company Secretary
Membership No. A 30388

Place: Thrissur
Date: November 21, 2022

NOTES

- In view of the continuing COVID-19 pandemic, the Ministry of Corporate Affairs ("MCA") vide its General Circular nos. 14/2020 dated April 08, 2020, 17/2020 dated April 13, 2020, 20/2020 dated May 05, 2020 and 2/2022 dated May 05, 2022 and the Securities and Exchange Board of India ("SEBI") vide its Circular no. SEBI/HO/CFD/CMD2/CIR/P/2022/62 dated May 13, 2022 (collectively referred to as the "Circulars"), has permitted companies to hold annual general meetings through Video Conferencing ("VC") or Other Audio Visual Means ("OAVM") without the physical presence of the members at a common venue, till 31 December, 2022. Accordingly, the 06th Annual General Meeting ("AGM") of the members of ESAF Small Finance Bank Limited ("Bank") will be convened through VC. The registered office of the Bank shall be deemed to be the venue for the AGM.

- Pursuant to the provisions of the Act, a Member entitled to attend and vote at the AGM is also entitled to appoint a proxy to attend and vote instead of himself/herself and such a proxy need not be a Member of the Bank. Since this AGM is being held pursuant to the MCA Circulars through VC/OAVM, physical attendance of Members has been dispensed with. Accordingly, the facility for the appointment of proxies by the Members will not be available for the AGM and hence the Proxy Form and Attendance Slip are not annexed to this Notice. However, the Body Corporates are entitled to appoint authorised representatives to attend the AGM through VC/OAVM and participate there at and cast their votes.

- Owing to unavoidable circumstances, the Board of Directors of the Bank decided to extend the holding of the AGM of the Bank and the Bank made an application on September 09, 2022 to the Registrar of Companies, Kerala (ROC), seeking an extension of time for holding the Annual General Meeting of the Bank for the Financial Year 2021-22 up to December 31, 2022. The ROC vide Order dated September 13, 2022, accorded its approval to the said application and allowed an extension of time, by three months from September 30, 2022 to hold the AGM. Accordingly, the Board of Directors on November 10, 2022, approved holding of the 06th Annual General Meeting of the Bank on December 13, 2022.

- The explanatory statement pursuant to Section 102(1) of the Companies Act, 2013, read with the relevant Rules made thereunder ("Act"), the Secretarial Standard on General Meetings (SS-2), in respect of item nos. 3 to 8 of this notice, is annexed herewith.

- In the case of joint holders, the Member whose name appears as the first holder in the order of names as per the Register of Members of the Company will be entitled to vote at the AGM.

- Institutional/Corporate shareholders (i.e. other than individuals/HUF, NRI, etc.) intending to participate and vote during the AGM, are requested to send a scanned copy (pdf/jpg format) of its Board or Governing Body's resolution/authorisation etc., authorising their representative to attend and vote in the AGM on their behalf, by sending an e-mail to secretarial@esafbank.com quoting their DP ID and Client ID or folio number.

- Members may note that the attendance of members through VC shall be counted for the purpose of reckoning quorum under Section 103 of the Companies Act, 2013.

- All documents referred to in the Notice and the Explanatory Statement, and requiring Members' approval, and such statutory records and registers, as are required to be kept open for inspection under the Companies Act, 2013, shall be available for inspection by the Members at the Registered and Corporate Office of the Bank during business hours and shall be accessible to the person attending the meeting. In accordance with the MCA Circulars, the said documents have been made accessible for inspection through electronic mode and shall remain open and be accessible to any member till the conclusion of the meeting. Any member intending to inspect the documents through electronic mode shall make a request by sending an e-mail to ranjith.raj@esafbank.com.

- In accordance with the Circulars, a notice of 06th AGM along with the annual report for the Financial Year 2021-22 is being sent only through electronic mode to the members who have registered their e-mail addresses with the Bank/their respective depository participant ("DP"). Accordingly, no physical copy of the notice of the 06th AGM and the Annual Report for the Financial Year 2021-22 is being sent to members who have not registered their e-mail addresses with the Bank/DP. The members will be entitled to a physical copy of the Annual Report for the Financial Year 2021-22, free of cost, upon sending a request to the Bank or its registrar and transfer agent ("RTA") viz. Link Intime India Limited. Members may note that the notice of the 06th AGM and the annual report are also available on the Bank's website at www.esafbank.com.

- The members are requested to register their e-mail or new e-mail ID which has already been registered with the Depository Participant.

- Members/proxies should fill out the attendance slip for attending the meeting and bring the attendance slips to the meeting.

- Members are requested to write their DP ID and Client ID No.(s) in their attendance slip for attending the meeting to facilitate identification of membership at the meeting.

- Members will be able to attend the Annual General Meeting through VC provided by clicking on the link given below and entering the login credentials:

  Video Conferencing Solution: CISCO Webex Meeting

  Meeting Access Code: 2518 575 4160

  Meeting Access Link:
  https://esafbank.webex.com/esafbank/j.php?MTID=m87d8e7bc8c3304082da34f28c600d2a0

- The facility of joining the AGM through VC will be opened 15 minutes before and will be open up to 15 minutes after the scheduled start time of the AGM, i.e., from 10:15 AM to 10:45 AM

- For ease of conduct, members who would like to ask questions/express their views on the items of the businesses to be transacted at the meeting can send in their questions/comments in advance by sending an email to ranjith.raj@esafbank.com before 05:00 PM IST on December 12, 2022, mentioning their name, Demat account no./Folio no., e-mail ID, mobile number, etc. The queries may be raised precisely and in brief to enable the Bank to answer the same suitably depending on the availability of time at the meeting. Please note that only questions from the members holding the shares as on the cut-off date will be considered.

- Since the AGM will be held through VC/OAVM, the Route Map is not annexed in this Notice.

- During the meeting, where a poll on any item is required, the members participating through VC shall cast their vote on the resolutions only by sending e-mails from their registered e-mail ID registered with the Bank to ranjith.raj@esafbank.com.

- Further, members will be required to use a camera, if any, and hence require to use an internet connection with a good speed to avoid any disturbance during the meeting.

- Members who need technical assistance before or during the 06th Annual General Meeting can contact the Bank at secretarial@esafbank.com or helpline – 0487-7123548.

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

Item No. 3 – Appointment of Dr. Vinod Vijayalekshmi Vasudevan (DIN: 02503201) as Non-Executive Independent Director of the Bank

Dr. Vinod Vijayalekshmi Vasudevan (DIN: 02503201) was appointed as an Additional Director of the Bank by the Board of Directors of the Bank in the meeting held on December 22, 2021. In terms of Section 161 of the Companies Act, 2013, he holds office up to the conclusion of the 06th Annual General Meeting of the Bank.

Dr. Vinod Vijayalekshmi Vasudevan comes with extensive experience in the fields of Information Technology and Business Management. Dr. Vinod Vijayalekshmi Vasudevan is currently the Group CEO of Flytxt BV, Dubai and Amsterdam, a company that pioneers in Artificial Intelligence and Analytics solutions for customer lifetime value management for subscription and usage business. Prior to Flytxt, he held technology and business leadership roles in Japan, Singapore, the USA, and India. He was an early hire at the Greenfield Telecom venture 'Reliance Infocom' (subsequently Reliance Communications), where he was responsible for nationwide data and content services and wireless ATM and POS services. These innovative services received national and international awards, such as the "Best IT Implementation" from PC-Quest and the "SOA Award" from IDC.

He has served as a keynote speaker and panellist at global events, is a key participant in ISO standards, has several patents and has authored many papers. He holds a Bachelor's, Master's and Doctorate in Computer Science and Engineering from IIT Kharagpur, where he specialised in Artificial Intelligence.

Whilst considering the appointment of Dr. Vinod Vijayalekshmi Vasudevan as an Independent Director, the Nomination Remuneration and Compensation Committee of the Board (NRCCB) and the Board confirmed that:

- He conforms to the fit and proper norms prescribed by the Reserve Bank of India ("RBI"), the provisions of Companies Act, 2013, applicable SEBI Regulations and Internal Policies of the Bank;

- The Bank has received a declaration from Dr. Vinod Vijayalekshmi Vasudevan that he meets the criteria of independence as prescribed under Section 149(6) of the Act;

- He is not disqualified from being appointed as a Director of the Bank, in terms of Section 164 of the Act, and has given his consent to act as an Independent Director of the Bank. In the opinion of the Board, he fulfils the conditions relating to his appointment as prescribed under the relevant provisions of the Act, the relevant rules made thereunder, the SEBI Listing Regulations, the Banking Regulation Act, 1949, and the Guidelines issued by the RBI, in this regard, from time to time;

- He has the requisite skills, capabilities and expertise in functional areas, namely Information Technology and Business Management, etc. through his qualification and diverse experience, which are beneficial to the Bank.

Given his extensive knowledge, background, experience and expertise in the field of Information Technology and Business Management, the Nomination, Remuneration and Compensation Committee of the Board and the Board of Directors of the Bank are of the view that the appointment of Dr. Vinod Vijayalekshmi Vasudevan as an Independent Director shall be of immense benefit to the Bank and accorded its recommendation to the members to appoint Dr. Vinod Vijayalekshmi Vasudevan as an Independent Director of the Bank for a term of three (3) consecutive years with effect from December 22, 2021.

The period of office of Dr. Vinod Vijayalekshmi Vasudevan as the Independent Director of the Bank shall not be liable to the determination by retirement of directors by rotation, in terms of Section 152 of the Companies Act, 2013. The Bank has received a notice in writing pursuant to Section 160 of the Companies Act, 2013, from a member proposing the candidature of Dr. Vinod Vijayalekshmi Vasudevan.

Dr. Vinod Vijayalekshmi Vasudevan is entitled to sitting fees for attending the meetings of the Board and its Committee(s).

Hence, the Board recommends Resolution No. 3 as an Ordinary Resolution for approval by the Members. The disclosures as per Secretarial Standards – 2 are enclosed herewith.

Except for Dr. Vinod Vijayalekshmi Vasudevan, no other Director or Key Managerial Personnel of the Bank or any of their relatives, is concerned or interested in Item No. 3 as specified in the Notice.

Disclosures as per Secretarial Standards – 2

Name of the proposed Director	Vinod Vijayalekshmi Vasudevan
Age	55 Years
Qualification	• Doctorate in Philosophy from the Indian Institute of Technology, Kharagpur (1994), in Artificial Intelligence with a specialisation in artificial neural networks. • M.Tech from the Indian Institute of Technology, Kharagpur (1990) in Computer Science and Engineering with a specialisation in Artificial Intelligence. • B.Tech (Hons) from Indian Institute of Technology, Kharagpur (1988) in Computer Science and Engineering.
Expertise in specific functional areas	Information Technology and Business Management, etc.
Experience	• He is currently the Group CEO of Flytxt BV, Dubai and Amsterdam, a company that pioneers in Artificial Intelligence and Analytics solutions for customer lifetime value management for subscription and usage business. • He has worked as the Chief Technology Officer in Reliance Communications for a period of six years with a responsibility to conceptualise and launch mobile data networks and services at the Greenfield Telco. • He has worked as the Chief Technology Officer in Newstakes Inc., USA, which is a Silicon Valley startup.
Terms and Conditions of appointment	As per the resolution set forth in item no. 03 of the notice read with explanatory statement thereto.
Details of remuneration sought to be paid	No remuneration will be paid except Sitting Fees for attending meetings of the Board and Committees
Remuneration last drawn	NIL
Date of First appointment on the Board	December 22, 2021
Shareholding in the Bank	NIL
Relationship with other Directors, Managers and other Key Managerial Personnel	NIL
Number of meetings of the Board attended during the year.	04
Directorships held in other companies	• M/s. Flytxt Mobile Solutions International, UAE • M/s. Z3P Tech Fund, Mauritius • M/s. Z3P Global, Mauritius

Memberships/Chairmanship of Committees of other Companies

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

Item No. 4 – Appointment of Shri. Ravi Venkatraman (DIN: 00307328) as Non-Executive Independent Director of the Bank

Based on the recommendations of the Nomination, Remuneration and Compensation Committee of the Board (NRCCB) and in compliance with the provisions of Sections 149, 150, 152 and 160 of the Companies Act, 2013, the rules framed thereunder read with Schedule IV to the Companies Act, 2013, the directions of the Reserve Bank of India and the Nomination Policy of the Bank, the Board of Directors of the Bank accorded its recommendation to the members of the Bank to appoint Shri. Ravi Venkatraman, holding DIN: 00307328, as an Independent Director of the Bank in the 06th Annual General Meeting of the Bank for a period of three (3) consecutive years.

Shri. Ravi Venkatraman is an Associate Member of the Institute of Chartered Accountants of India, New Delhi and has completed the Cost and Management Accountancy Course from the Institute of Cost and Management Accountants of India, Kolkata. He is a B.Com. Graduate from the University of Madras. He has undergone multiple robust training sessions which strengthened his overall professional skills which include Mahindra Universe Program conducted by Harvard Business School, Managing by Results conducted by Homi Mulla, Achieving Outstanding Leadership Program by Mahindra and Mahindra Limited and MMDC Training Institute, Relationship Management Programme by Homi Mulla, IIMC Global Managers Program by IIM Kolkata, Strategic Management Program by IMD, Switzerland and Global Managers Program by IIM Bangalore.

Shri. Ravi Venkatraman is the former Executive Director and Chief Financial Officer of Mahindra and Mahindra Financial Services Limited. He was a core member of the team who was instrumental in setting up and scaling five companies of the Mahindra Group. During his professional journey, he worked with esteemed organisations such as Mahindra and Mahindra Financial Services, Mahindra Ugine Steel Company Limited, and many more companies across the sector. He has been responsible for long-term fundraising, equity capital raising and allocation, investor relations, internal audit, corporate strategy, budgeting, and other consultative guidance. He is a member of key industry committees such as the Finance Industry Development Council, Corporate Finance Committee of Federation of Indian Chambers of Commerce and Industry, Capital Markets Group of Banking, Finance and Economics Committee of the Bombay Chamber of Commerce and Industry, CII National Committee for CFOs, Association of Finance Professionals of India (AFPI), Academic Council of NMIMS, Bangalore, Asia Council of the Conference Board, USA and the Informal Advisory Group of the RBI. During his professional stint, he has been conferred multiple marquee awards and recognitions.

Whilst considering the appointment of Shri. Ravi Venkatraman as an Independent Director, the Nomination Remuneration and Compensation Committee of the Board (NRCCB) and the Board reviewed and confirmed that:

- He conforms to the fit and proper norms prescribed by the Reserve Bank of India ("RBI"), the provisions of Companies Act, 2013, applicable SEBI Regulations and Internal Policies of the Bank;
- The Bank has received a declaration from Shri. Ravi Venkatraman that he meets the criteria of independence as prescribed under Section 149(6) of the Act;
- He is not disqualified from being appointed as a Director of the Bank, in terms of Section 164 of the Act, and has given his consent to act as an Independent Director of the Bank. In the opinion of the Board, he fulfils the conditions relating to his appointment as prescribed under the relevant provisions of the Act, the relevant Rules made thereunder, the SEBI Listing Regulations, the Banking Regulation Act, 1949 and the guidelines issued by the RBI, in this regard, from time to time;
- He has the requisite skills, capabilities and expertise in functional areas namely Agriculture and Rural Economy, Risk Management, Accountancy, Finance and Information Technology, etc. through his qualification and diverse experience, which are beneficial to the Bank.

Considering the knowledge, background, experience and expertise of Shri. Ravi Venkatraman, the Nomination, Remuneration and Compensation Committee of the Board and the Board of Directors of the Bank are of the view that the appointment of Shri. Ravi Venkatraman as an Independent Director of the Bank shall be of immense benefit to the Bank and accorded its recommendation to the members to appoint Shri. Ravi Venkatraman as an Independent Director of the Bank for a term of three (3) consecutive years with effect from December 13, 2022.

The period of office of Shri. Ravi Venkatraman as the Independent Director of the Bank shall not be liable to determination by retirement of Directors by rotation, in terms of Section 152 of the Companies Act, 2013. The Bank has received a notice in writing pursuant to Section 160 of the Companies Act, 2013, from a Member proposing the candidature of Shri. Ravi Venkatraman.

Shri. Ravi Venkatraman is entitled to sitting fees for attending the meetings of the Board and its Committee(s).

Hence, the Board recommends Resolution No. 04 as an Ordinary Resolution for approval by the Members. The disclosures as per Secretarial Standards – 2 are enclosed herewith.

None of the Directors and Key Managerial Personnel of the Bank or any of their relatives, is concerned or interested in Item No. 04 as specified in the Notice.

Disclosures as per Secretarial Standards

<table>
<tr><td>Name of the proposed Director</td><td colspan="3">Ravi Venkatraman</td></tr>
<tr><td>Age</td><td colspan="3">63 Years</td></tr>
<tr><td>Qualification</td><td colspan="3">• Associate Member of the Institute of Chartered Accountants of India, New Delhi. (1983) (Membership No.: 038743)
• Completed Cost and Management Accountancy Course from the Institute of Cost and Management Accountants of India, Kolkata. (1984)
• Bachelor of Commerce from the University of Madras. (1979)</td></tr>
<tr><td>Expertise in specific functional areas</td><td colspan="3">Agriculture and Rural Economy, Risk Management, Accountancy, Finance and Information Technology etc.</td></tr>
<tr><td rowspan="5">Experience</td><td>July, 2020 – July, 2021</td><td>:</td><td>Senior Advisor – Financial Services, M/s. Mahindra and Mahindra Financial Services Limited, Mumbai</td></tr>
<tr><td>October, 1995 – July, 2020</td><td>:</td><td>Executive Director and Chief Financial Officer, M/s. Mahindra and Mahindra Financial Services Limited, Mumbai</td></tr>
<tr><td>July, 1986 – September, 1995</td><td>:</td><td>Senior Executive – Finance and Treasury, M/s. Mahindra Ugine Steel Company Limited, Mumbai</td></tr>
<tr><td>July, 1985 – July, 1986</td><td>:</td><td>Finance Executive, M/s. Ballestra India Limited, Mumbai</td></tr>
<tr><td>June, 1984 – June, 1985</td><td>:</td><td>System Analyst, M/s. Mascom Technical Services Limited, Chennai</td></tr>
<tr><td>Terms and Conditions of appointment</td><td colspan="3">As per the resolution set forth in item no. 04 of the notice read with explanatory statement thereto.</td></tr>
<tr><td>Details of remuneration sought to be paid</td><td colspan="3">No remuneration will be paid except Sitting Fees for attending meetings of the Board and Committees.</td></tr>
<tr><td>Remuneration last drawn</td><td colspan="3">NIL</td></tr>
<tr><td>Date of First appointment on the Board</td><td colspan="3">Not Applicable</td></tr>
<tr><td>Shareholding in the Bank</td><td colspan="3">NIL</td></tr>
<tr><td>Relationship with other Directors, Managers and other Key Managerial Personnel</td><td colspan="3">NIL</td></tr>
<tr><td>Number of meetings of the Board attended during the year</td><td colspan="3">NIL</td></tr>
<tr><td>Directorships held in other companies</td><td colspan="3">
<table>
<tr><th>Sl. No.</th><th>Name of the Company</th><th>Designation</th><th>Period</th></tr>
<tr><td>1.</td><td>Avanse Financial Services Limited</td><td>Director</td><td>July 05, 2021 – Till date</td></tr>
<tr><td>2.</td><td>Kotak Mahindra Prime Limited</td><td>Director</td><td>August 04, 2021 – Till date</td></tr>
<tr><td>3.</td><td>Sarvagram Fincare Private Limited</td><td>Director</td><td>August 26, 2021 – Till date</td></tr>
<tr><td>4.</td><td>Sarvagram Solutions Private Limited</td><td>Director</td><td>August 26, 2021 – Till date</td></tr>
<tr><td>5.</td><td>Bajaj Finserv Mutual Fund Trustee Limited</td><td>Additional Director</td><td>January 27, 2022 – Till date</td></tr>
</table>
</td></tr>
</table>

Memberships/Chairmanship of Committees of other Companies

Sl. No.	Name of the Company	Board Committees in which he is a member	Board Committees in which he is a Chairperson
1	Avanse Financial Services Limited	1. Audit Committee 2. Corporate Social Responsibility Committee 3. Risk Management Committee	1. Audit Committee
2	Kotak Mahindra Prime Limited	1. Audit Committee 2. Corporate Social Responsibility Committee 3. Risk Management Committee	1. Audit Committee
3.	Sarvagram Fincare Private Limited	NIL	NIL
4.	Sarvagram Solutions Private Limited	NIL	NIL
5.	Bajaj Finserv Mutual Fund Trustee Limited	NIL	NIL

Item No. 5 – Appointment of Smt. Kolasseril Chandramohanan Ranjani (DIN: 01735529) as Non-Executive Independent Director of the Bank

Based on the recommendations of the Nomination, Remuneration and Compensation Committee of the Board (NRCCB) and in compliance with the provisions of Sections 149, 150, 152 and 160 of the Companies Act, 2013, the rules framed thereunder read with Schedule IV to the Companies Act, 2013, the directions of the Reserve Bank of India and the Nomination Policy of the Bank, the Board of Directors of the Bank decided to accord its recommendation to the members of the Bank to appoint Smt. Kolasseril Chandramohanan Ranjani, holding DIN: 01735529, as an Independent Director of the Bank in the 06th Annual General Meeting of the Bank for a period of three (3) consecutive years.

Smt. Kolasseril Chandramohanan Ranjani holds a Master's Degree in Bank Management (MBM) from Cochin University of Science and Technology, Ernakulam and a Bachelor of Science Degree from the University of Kerala. She has undergone multiple training programmes including the training programme on Empowering Women through Enterprise – Cranfield School of Management, UK, in July, 1995, CGAP course on Appraising Microfinance Institutions held at Manila in April, 2001, attended the School of Applied Microfinance, Mombasa, Kenya, in 2005, attended the Private Equity Program by the Centre for Executive Education at the Indian School of Business at Hyderabad, India, 2011 and has also participated in the Micro Credit Summit Campaigns in Abidjan in 1999 and in the South East Asia meeting of Councils in New Delhi in 2002.

Smt. Kolasseril Chandramohanan Ranjani has held a senior management position with SIDBI (Small Industries Development Bank of India, the apex Bank for Financing and Development of the MSME sector in India) and various other institutions and is having more than 25 years of experience in Micro, Small and Medium Enterprises in India, wherein she has got rich exposure in Small Scale Industry and MSME sectors. She has served on the Boards of many of the leading Micro Finance Institutions and Investment Companies in India, such as RGVN (North East) Microfinance Limited, Dia Vikas Capital Private Limited, Growing Opportunity Finance (India) Private Limited, Growing Outreach Services Private Limited, Samhita Community Development Services, Sarvajana Rojgaar Services Private Limited, Shikhar Urban and Rural Enterprises Private Limited, MI India Capital and Investment Private Limited, MI India Capital Consultants Private Limited, Aayushya Foundation, etc.

Whilst considering the appointment of Smt. Kolasseril Chandramohanan Ranjani as an Independent Director, the Nomination, Remuneration and Compensation Committee of the Board (NRCCB) and the Board reviewed and confirmed that:

- She conforms to the fit and proper norms prescribed by the Reserve Bank of India ("RBI"), the provisions of Companies Act, 2013, applicable SEBI Regulations and Internal Policies of the Bank;
- The Bank has received a declaration from Smt. Kolasseril Chandramohanan Ranjani that she meets the criteria of independence as prescribed under Section 149(6) of the Act;
- She is not disqualified from being appointed as a Director of the Bank, in terms of Section 164 of the Act and has given her consent to act as an Independent Director of the Bank. In the opinion of the Board, she fulfils the conditions relating to her appointment as prescribed under the relevant provisions of the Act, the relevant Rules made thereunder, the SEBI Listing Regulations, the Banking Regulation Act, 1949 and the Guidelines issued by the RBI, in this regard, from time to time;
- She has the requisite skills, capabilities and expertise in the functional areas namely Banking, Agriculture and Rural Economy, Small Scale Industry, Finance, Co-operation, Business Management, etc. through her qualification and diverse experience, which are beneficial to the Bank.

Considering the knowledge, background, experience and expertise of Smt. Kolasseril Chandramohanan Ranjani, the Nomination, Remuneration and Compensation Committee of the Board and the Board of Directors of the Bank are of the view that the appointment of Smt. Kolasseril Chandramohanan Ranjani as an Independent Director of the Bank shall be of immense benefit to the Bank and accorded its recommendation to the members to appoint Smt. Kolasseril Chandramohanan Ranjani as an Independent Director of the Bank for a term of three (3) consecutive years with effect from December 13, 2022.

The period of office of Smt. Kolasseril Chandramohanan Ranjani as the Independent Director of the Bank shall not be liable to determination by the retirement of Directors by rotation, in terms of Section 152 of the Companies Act, 2013. The Bank has received a notice in writing pursuant to Section 160 of the Companies Act, 2013 from a member proposing the candidature of Smt. Kolasseril Chandramohanan Ranjani.

Smt. Kolasseril Chandramohanan Ranjani is entitled to sitting fees for attending the meetings of the Board and its Committee(s).

Hence, the Board recommends Resolution No. 5 as an Ordinary Resolution for approval by the Members. The disclosures as per Secretarial Standards – 2 are enclosed herewith.

None of the Directors or Key Managerial Personnel of the Bank or any of their relatives, is concerned or interested in Item No. 5 as specified in the Notice.

Disclosures as per Secretarial Standards – 2

Name of the proposed Director	Kolasseril Chandramohanan Ranjani
Age	64 Years
Qualification	• Master of Bank Management (MBM) from the Cochin University of Science and Technology, Ernakulam, Kerala (1980) • Bachelor of Science from the University of Kerala (1978)
Expertise in specific functional areas	Banking, Agriculture and Rural Economy, Small Scale Industry, Finance, Co-operation, Business Management, etc.
Experience	• Consultant (Subject Matter Expertise Economic Development Program) – Habitat For Humanity India (May, 2017 – July, 2020) • Self-employed – Promoted All Good Things Enterprises and Midiary Innovations Private Limited Managed Operations of Mi India Development Trust, being the Founder Trustee (May, 2015 – April, 2017) • Chief Executive Officer/Managing Director – Dia Vikas Capital Private Limited (Subsidiary of Opportunity International Australia in India) (November, 2007 – April, 2015) • Consultant – Opportunity International Australia (February, 2007 – November, 2007) • Senior Microfinance Specialist – Microsave India (January, 2006 – January, 2007) • Retired as Deputy General Manager – Small Industries Development Bank of India, Hyderabad (April, 1990 – August, 2005)
Terms and Conditions of appointment	As per the resolution set forth in item no. 05 of the notice read with explanatory statement thereto.
Details of remuneration sought to be paid	No remuneration will be paid except Sitting Fees for attending meetings of the Board and Committees.
Remuneration last drawn	NIL
Date of First appointment on the Board	Not Applicable
Shareholding in the Bank	NIL
Relationship with other Directors, Managers and other Key Managerial Personnel	NIL
Number of meetings of the Board attended during the year	NIL
Directorships held in other companies	**Sl. No.** | **Name of the Company** | **Designation** | **Period** 1. | M/s. SM Swasthman Foundation | Director | September 13, 2022 – Till Date

Memberships/Chairmanship of Committees of other Companies

Sl. No.	Name of the Company	Board Committees in which he is a member	Board Committees in which he is a Chairperson
1.	M/s. SM Swasthman Foundation	NIL	NIL

Item No. 6 – Re-Appointment of Shri. Ravimohan Periyakavil Ramakrishnan (DIN: 08534931) as Non-Executive Independent Director of the Bank

Shri. Ravimohan Periyakavil Ramakrishnan was appointed as Non-Executive Independent Director of the Bank with effect from December 21, 2019, for a first term of three consecutive years. Further, he was designated as the part-time Chairman of the Bank on the basis of the approval granted by the Reserve Bank of India Vide Letter No. DoR. Appt. No. 4898/29.44.005/2019-20 dated December 19, 2019 with effect from 21st December 2019. As per the terms of appointment, his tenure of appointment shall end on December 20, 2022. The Nomination Remuneration and Compensation Committee of the Board (NRCCB) and the Board of Directors in its meeting held on May 09, 2022 and May 10, 2022, respectively, have recommended the re-appointment of Shri. Ravimohan Periyakavil Ramakrishnan as Non-Executive Independent Director for a period of three consecutive years with effect from December 21, 2022, based on his skills, experience, knowledge and evaluation of performance.

Shri. Ravimohan Periyakavil Ramakrishnan comes with a rich experience in top leadership in the Indian and international banking sectors and was engaged in providing technical assistance regarding banking supervision and financial stability to 13 countries in Sub-Saharan Africa. Previously, he was heading the Banking Supervision Department of the Reserve Bank of India, responsible for the supervision of commercial banks in the country. He has also worked as Chief General Manager with the Department of Banking Operations and Development (DBOD) of the Reserve Bank of India, where he was involved in the regulation of the commercial banking system in the country. He joined the RBI in 1984 after his Masters in Physics and holds a Master of Business Administration degree from the University of Birmingham, UK.

Whilst considering the re-appointment of Shri. Ravimohan Periyakavil Ramakrishnan as a Non-Executive Independent Director, the Nomination Remuneration and Compensation Committee of the Board (NRCCB) and the Board reviewed and confirmed that:

- He conforms to the fit and proper norms prescribed by the Reserve Bank of India ("RBI"), provisions of Companies Act, 2013, applicable SEBI Regulations and Internal Policies of the Bank;
- The Bank has received a declaration from Shri. Ravimohan Periyakavil Ramakrishnan that he meets the criteria of independence as prescribed under Section 149(6) of the Act;
- He is not disqualified from being re-appointed as a Director of the Bank, in terms of Section 164 of the Act and has given his consent to act as a Non-Executive Independent Director of the Bank. In the opinion of the Board, he fulfils the conditions relating to his re-appointment as prescribed under the relevant provisions of the Act, the relevant Rules made thereunder, the SEBI Listing Regulations, the Banking Regulation Act, 1949 and the guidelines issued by the RBI, in this regard, from time to time;
- He has the requisite skills, capabilities and expertise in functional areas, namely Banking, Payment and Settlement Systems, Risk Management, etc. through his qualification or diverse experience, which are beneficial to the Bank.

The Board, considering his vast expertise and knowledge in the field of Banking, Payment and Settlement Systems, Risk Management, etc. considers that his continued association would be of immense benefit to the Bank and therefore, accorded its recommendation to the members for his re-appointment as Non-Executive Independent Director on the Board of the Bank for a period of three consecutive years with effect from December 21, 2022.

The period of office of Shri. Ravimohan Periyakavil Ramakrishnan as the Non-Executive Independent Director of the Bank shall not be liable to determination by the retirement of Directors by rotation, in terms of Section 152 of the Companies Act, 2013. The Bank has received a notice in writing pursuant to Section 160 of the Companies Act, 2013 from a member proposing the candidature of Shri. Ravimohan Periyakavil Ramakrishnan for his re-appointment to the office of Independent Director.

Shri. Ravimohan Periyakavil Ramakrishnan is entitled to sitting fees for attending the meetings of the Board and its Committee(s).

Hence, the Board recommends Resolution No. 6 as an Ordinary Resolution for approval by the members. The disclosures as per Secretarial Standards – 2 are enclosed herewith.

None of the Directors or Key Managerial Personnel of the Bank or any of their relatives, is concerned or interested in Item No. 6 as specified in the Notice.

Disclosures as per Secretarial Standards

<table>
<tr><td>Name of the proposed Director</td><td>Mr. Ravimohan Periyakavil Ramakrishnan</td></tr>
<tr><td>Age</td><td>64 Years</td></tr>
<tr><td>Qualification</td><td>Master in Physics from University of Kerala</td></tr>
<tr><td></td><td>• Master of Business Administration in International Banking and Finance from the University of Birmingham, UK
• Certified Associate of Indian Institute of Bankers</td></tr>
<tr><td>Expertise in specific functional areas</td><td>Banking, Payment and Settlement Systems and Risk Management</td></tr>
<tr><td>Experience</td><td>• Resident Advisor, Financial Sector Supervision, AFRITAC South, IMF, Mauritius (January 2015 – December 2019)
• Chief General Manager – In Charge, Department of Banking Supervision, The Reserve Bank of India. (January 2014 – January 2015)
• Regional Director, The Reserve Bank of India (April 2012 – January 2014)
• Chief General Manager/General Manager in the Department of Banking Operations and Development, The Reserve Bank of India. (2003-2012 March)
• General Manager/Deputy General Manager and Chief Investment Dealer with the Department of External Investments and Operations, The Reserve Bank of India. (1999 - 2003)
• Member of Faculty at the apex training college of the Reserve Bank of India (1992-1999)
• Joined the Reserve Bank of India in 1984 as a middle-level executive and worked in the Bank Supervision Department as an On-site Examiner and Off-site Supervisor. (1984 – 1992)</td></tr>
<tr><td>Terms and Conditions of appointment</td><td>As per the resolution set forth in item no. 06 of the notice read with explanatory statement thereto.</td></tr>
<tr><td>Details of remuneration sought to be paid</td><td>Sitting fee for attending meetings of the Board and its Committees.</td></tr>
<tr><td>Remuneration last drawn</td><td>NIL</td></tr>
<tr><td>Date of First appointment on the Board</td><td>December 21, 2019</td></tr>
<tr><td>Shareholding in the Bank</td><td>NIL</td></tr>
<tr><td>Relationship with other Directors, manager and other Key Managerial Personnel</td><td>NIL</td></tr>
<tr><td>Number of meetings of the Board attended during the year</td><td>13</td></tr>
<tr><td>Directorships held in other companies</td><td><table><tr><th>Sl. No.</th><th>Name of the Company</th><th>Designation</th><th>Period</th></tr><tr><td>1.</td><td>M/s. TP Renewable Microgrid Limited</td><td>Director</td><td>November 13, 2020-Till Date</td></tr><tr><td>2.</td><td>M/s. CARE Ratings (Africa) Private Limited</td><td>Director</td><td>October 20, 2020 - Till Date</td></tr></table></td></tr>
</table>

Directorships, Memberships/Chairmanship of Committees of other Companies

Sl. No.	Name of the Company	Board Committees in which he is a member	Board Committees in which he is a Chairperson
1.	TP Renewable Microgrid Limited	NIL	NIL
2.	CARE Ratings (Africa) Private Limited	NIL	NIL

Item No. 7 – Revision of Remuneration of Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank

The Reserve Bank of India vide Circular no. RBI/2019-20/89 DOR.Appt.BC.No.23/29.67.001/2019-20 dated November 04, 2019 had issued guidelines on Compensation of Whole Time Directors/Chief Executive Officers/Material Risk Takers and Control Function staff. Taking into consideration the conditions as prescribed under the guidelines, the Bank has formulated a compensation policy for the Bank and has identified the Managing Director and CEO of the Bank as the material risk taker in the Bank. In connection with aligning the compensation structure of material risk takers with the peers and for making a market correction, the new salary structure was proposed and the same has been recommended by the Board to the shareholders of the Bank for approval, subject to the approval of the Reserve Bank of India. The said revision is proposed to be effective from April 01, 2021 as per the guidelines issued by the Reserve Bank of India.

The revisions proposed in the remuneration are as shown below:

Particulars	Proposed (INR in Lakh/Annum)
Fixed Pay (including perquisites) per annum	238
Variable Pay per annum	240
Total Compensation (Fixed Pay + Variable Pay)	**478**

The Board recommends Resolution No. 07 as a Special Resolution for approval by the Members.

None of the Directors and Key Managerial Personnel of the Bank or their relatives, except Shri. Kadambelil Paul Thomas, to whom the resolution relates, is concerned or interested in the resolution mentioned in Item No. 07 of the Notice.

Item No. 8: To raise funds through Private Placement of Unsecured, Rated, Redeemable Non-Convertible Debentures (NCDs)

The Bank has been borrowing funds to meet the business requirements within the limits approved by the shareholders by way of issuance of debt securities (bonds) as permitted by the Reserve Bank of India ("RBI") and in accordance with the provisions of the Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021 and other applicable laws, from time to time.

In terms of Section 42 of the Companies Act, 2013, read with Companies (Prospectus and Allotment of Securities) Rules, 2014, a Company can make a private placement of securities subject to the condition that the proposed offer of securities or invitation to subscribe to securities has been previously approved by the Members of the Company, by a special resolution, for each of the offers or invitations/subscriptions. In case of an offer or invitation for subscription of non-convertible debentures, it shall be sufficient if the Members pass a special resolution only once in a year for all the offers or invitation for subscription of such debentures during the year.

Accordingly, the Board of Directors in its meeting dated August 10, 2022 after assessing its fund requirements, has proposed to obtain the consent of the Members of the Bank for borrowing/raising funds by issue of debt securities including but not limited to Additional Tier I bonds (AT1 bonds) and Tier II bonds, or other such debt securities as may be permitted by RBI from time to time towards the stated purpose, up to ₹ 500,00,00,000/- (Rupees Five Hundred Crore only), in one or more tranches and within the limits permitted by regulatory authorities, to eligible investors on private placement basis, on such terms and conditions including the price, coupon, premium/discount, tenor etc., as the Board of Directors or any Committee(s) thereof or such other persons as may be authorised by the Board, from time to time, determine and consider proper and appropriate for the Bank. This would form part of the overall borrowing limits as may be approved by the Members under Section 180(1) of the Companies Act, 2013.

As required under Rule 14(1) of the Companies (Prospects and Allotment of Securities) Rules, 2014, the material facts in connection with the aforesaid issue of NCDs are as follows:

a)	**Particulars of the offer including date of passing of Board resolution**	Unsecured, Rated, Redeemable Non-Convertible Debentures (NCDs) whether cumulative and/or non-cumulative, for an amount not exceeding in aggregate ₹ 500,00,00,000/- (Rupees Five Hundred crore only) in one or more tranches on a private placement basis at such interest rates and on such terms and conditions as may be determined by the Board/Committee of Directors/any person duly authorised by the Board. Date of passing Board Resolution: August 10, 2022
b)	**Kinds of securities offered and the price at which security is being offered**	Unsecured, Rated, Redeemable NCDs at premium, discount or at par, as may be determined by the Board/Committee of Directors/ any person duly authorised by the Board.
c)	**Basis or justification for the price (including premium, if any) at which the offer or invitation is being made**	Since the issuance would be in one or more tranches, price will be determined by the Board/Committee of Directors/any person duly authorised by the Board in accordance with the prevailing market conditions at the time of issue.
d)	**Name and address of valuer who performed valuation**	Not applicable being issuance of NCDs.
e)	**Amount which the company intends to raise by way of such securities**	₹ 500,00,00,000/- (Rupees Five Hundred crore Only)
f)	**Material terms of raising such securities**	Since the issuance would be in one or more tranches, material terms will be determined by the Board/Committee of Directors/ any person duly authorised by the Board, in accordance with the applicable provisions of the Companies Act, 2013 and the Rules framed thereunder and other applicable law for the time being in force.
g)	**Proposed time schedule**	Before the conclusion of the Seventh Annual General Meeting of the Bank.
h)	**Purposes or objects of offer**	For the purpose of onward lending, financing, refinancing the existing indebtedness of the Bank (payment of the interest and/ or repayment/prepayment of principal of borrowings)/General Corporate Purposes. The unsecured NCDs may be in the nature of subordinated debt and will be utilised in accordance with statutory and regulatory requirements including requirements of RBI.
i)	**Contribution being made by the promoters or directors either as part of the offer or separately in furtherance of objects**	None
j)	**Principle terms of assets charged as securities**	The securities proposed to be issued are unsecured in nature.

The Board recommends Resolution No. 08 as a Special Resolution for approval by the Members.

None of the Directors or Key Managerial Personnel of the Bank or any of their relatives is concerned or interested in Item No. 08 as specified in the Notice.

Directors' Report

To,
The members of
ESAF Small Finance Bank Limited

Your Directors are pleased to present the Sixth Annual Report of ESAF Small Finance Bank Limited together with the Audited Financial Statements for the Financial Year ended March 31, 2022.

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

(₹ In crore)

Particulars	For the Year ended March 31, 2022	For the Year ended March 31, 2021
Deposits	12,815	8,999
Advances	11,637	8,168
Total Income	2,148	1,767
Total Expenditures excluding Tax	2,074	1,626
Profit before Tax	74	141
Provision for Tax	19	36
Net Profit	55	105
Profit brought forward	306	227
Total Profit available for Appropriation	361	332
Appropriation		
Transfer to Statutory Reserve	14	26
Transfer to Capital Reserve	4	-
Transfer to Investment Fluctuation Reserve	22	-
Balance carried to Balance Sheet	321	306
Earnings per Share – Basic and Diluted (₹)	1.22	2.46

On a Standalone basis, Profit After Tax of the Bank was ₹ 54.73 crore in Financial Year 2021-22 compared to ₹ 105.39 crore in Financial Year 2020-21. The Interest Income of the Bank for Financial Year 2021-22 was ₹ 1,939.92 crore as against ₹ 1,641.17 crore in Financial Year 2020-21 marking a growth of around 18.20%. Further, the Bank had Capital and Reserves (Net worth) of ₹ 1,406.79 crore as on March 31, 2022 (₹ 1,352.05 crore as on March 31, 2021). The book value per Equity Share was at ₹ 31.30 as on March 31, 2022 (₹ 30.08 as on March 31, 2021). Further, details on the financial performance of your Bank are available in the Management Discussion and Analysis Report.

2. Business Continuity Management

The Bank has established Business Continuity Management (BCM) plans and procedures to maintain critical operations, in the event of any kind of disruptions, to ensure that customers' requirements are met to the maximum possible extent. It is also intended to safeguard the security and integrity of transaction/account data and customer information.

The Bank has a Board approved Business Continuity Management Policy, which governs the business continuity plans and procedures. The Policy also covers Disaster Recovery measures to be adopted to ensure business continuity and defines critical business functions and processes.

The Bank has been able to address the challenges of the COVID-19, by providing all essential services to customers even during the most difficult times of the COVID crisis and has operational disruptions, cyber security threats and people risk. During all the waves of COVID – 19 Pandemic, the Bank ensured that no operational disruptions occurred and that business continuity was maintained in order to maintain the required levels of customer service.

3. Transfer to Reserves

As per the requirement of RBI Regulations, the Bank has transferred the following amount to various reserves during the Financial Year 2021-22:

Amount Transferred to	₹ In crore
Statutory Reserve	14
Capital Reserve	4
Investment Fluctuation Reserve	22

4. Dividend

Considering the need to preserve capital in these uncertain times, your Directors have decided to retain the profits earned to serve the working capital requirements of the Bank. Hence, no dividend is proposed to be declared.

5. Change in the Nature of Business

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

6. Share Capital

During the year, Authorised Capital of the Bank was ₹ 600,00,00,000 (Rupees Six Hundred Crore) divided into 60,00,00,000 (Sixty Crore) Equity Shares of ₹10 (Rupees Ten) each. There were no changes in the Authorised Capital of the Bank during the Financial Year 2021-22.

As on March 31, 2022, the issued, subscribed and paid-up share capital of the Bank stands at ₹449,47,37,980 (Rupees Four Hundred and Forty-Nine Crore Forty-Seven Lakh Thirty-Seven Thousand Nine Hundred and Eighty only) divided into 44,94,73,798 (Forty-Four Crore Ninety-Four Lakh Seventy-Three Thousand Seven Hundred and Ninety-Eight) Equity Shares of ₹ 10 (Rupees Ten) each. There were no changes in the issued, subscribed and paid-up share capital of the Bank during the Financial Year 2021-22.

The total number of shareholders of the Bank as on March 31, 2022, was 86.

7. Capital Adequacy

Your Bank is subject to the Basel II Capital Adequacy guidelines stipulated by the RBI. The Capital Adequacy Ratio of the Bank is calculated as per the standardised approach for credit risk. The Capital Adequacy ratio of the Bank as on March 31, 2022, is 18.64%, as against the minimum requirement of 15.00% stipulated by the Reserve Bank of India.

8. Employee Stock Option Scheme

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

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

1) Loyalty Grant to reward eligible employees for their contributions in the past, tenure in the and continued employment in the Bank, which is a one-time grant.

2) Performance Grant on the basis of employees' annual appraisals for their future performance and continuity of services.

During the Financial Year 2021-22, the Nomination Remuneration and Compensation Committee of the Board granted 11,25,590 options as a first instalment of loyalty grant under the ESOP 2019 Scheme, to the employees identified under the implementation guidelines for ESAF ESOP 2019 as per the terms of granting.

9. Debt Capital

In the previous year, your Bank had issued 20 Rated, Taxable, Unlisted, Redeemable, Unsecured, Basel III compliant Subordinated Tier II Bonds in the form of Non-Convertible Debentures (NCDs) of the face value of ₹ 1,00,00,000/- (Rupees One Crore only) each amounting to ₹ 20 crore to M/s. ESAF Financial Holdings Private Limited, for meeting the capital requirements, on a private placement basis. The total outstanding debt capital, both listed and unlisted, as on March 31, 2022, was ₹ 193 crore.

10. Credit Rating

Credit ratings assigned to various debt instruments of the Bank during the Financial Year ended March 31, 2022, are as follows:

Instrument Name	ISIN	Name of the Credit Rating Agency	Amount	Rating	Date of Issue	Date of Re-affirmation
Non-Convertible Debentures	INE818W08016	CARE Ratings	20 crore	CARE A; Negative (Single A; Outlook: Negative)	30.12.2017	03.01.2022
Non-Convertible Debentures	INE818W08024	CARE Ratings	20 crore	CARE A; Negative (Single A; Outlook: Negative)	28.03.2018	03.01.2022
Non-Convertible Debentures	INE818W08032	CARE Ratings	40 crore	CARE A; Negative (Single A; Outlook: Negative)	01.06.2018	03.01.2022
Non-Convertible Debentures	INE818W08081	Brickwork Ratings	20 crore	BWR A/Negative Assignment	18.03.2022	-
		CARE Ratings		CARE A; Negative (Single A; Outlook: Negative)	23.02.2022	

The Credit Rating assigned by Brickwork Ratings for debt instruments amounting to ₹ 50 crore was withdrawn on December 22, 2021, and December 28, 2021, respectively upon redemption.

11. Selection, Appointment and Remuneration of Directors

In compliance with the provisions of the Banking Regulation Act, 1949, the guidelines issued by the Reserve Bank of India and Section 178 of the Companies Act, 2013, the Bank has formulated and adopted a Nomination Policy for selection and appointment/re-appointment/removal of Directors, which is disclosed on our website (www.esafbank.com). Through the said policy, the Bank has formulated criteria for appointment of Directors and based on the said criteria, Nomination Remuneration and Compensation Committee of the Board (NRCCB) shall conduct a due diligence process to determine the suitability of every person who is being considered for being appointed or re-appointed as a Director of the Bank, based on the range of skills, experience, expertise, qualifications, specialised knowledge, etc. of the candidate, and recommend his/her appointment to the Board. The Nomination Remuneration and Compensation Committee identifies potential candidates from diverse backgrounds including but not limited to Accountancy, Agriculture and Rural Economy, Banking, Co-operation, Finance, Law, Small Scale Industry, Economics, Human Resources, Payment and Settlement Systems, Business Management, Risk Management and Information Technology, thus providing the Board with members who have diverse knowledge, practical experience and skills to serve the business interests of the Bank. Every such person shall meet the 'fit and proper' criteria, as the Reserve Bank of India may stipulate from time to time and accordingly, any appointment or re-appointment of a Director shall be subject to prior approval by the NRCCB of the Bank.

The key objectives of the Nomination Policy shall inter alia include the following:

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

During the appointment/re-appointment/removal of Directors of the Bank, your bank has always ensured that, the provisions of the Companies Act, 2013, Banking Regulation Act/RBI guidelines and directives and guidelines of SEBI to the extent applicable are adhered to. In all respects, your Bank has also kept high standards and met the diversity, structure and size compositions of the Board and its Committees as prescribed in various statutes.

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

The Bank has accordingly obtained prescribed declarations/undertakings from the Directors as per the guidelines of the Reserve Bank of India and the same are placed before the Board of Directors for its review and noting. An assessment on whether the Directors fulfill the prescribed criteria is carried out by the Nomination Remuneration and Compensation Committee of the Board on an annual basis and also at the time of their appointment or re-appointment.

Wherever necessary, the Nomination Remuneration and Compensation Committee is authorised to engage the services of an External Consultant(s)/ expert in the field of succession planning to identify and assess the suitability of candidates for the post of a Director of the Bank.

RBI, vide its circular no. DOR.Appt. BC.No.23/29.67.001/2019-20 dated November 04, 2019, has issued the Guidelines on Compensation of Whole Time Directors/Chief Executive Officers/ Material Risk Takers and Control Function Staff of Private Sector Banks on Compensation Policy. In accordance with the aforesaid RBI Circular, the Board of the Bank has adopted a revised Compensation Policy for its Whole-time Directors, Chief Executive Officer of the Bank and other employees. The salient features of the Compensation Policy are as follows:

- To provide a fair and transparent structure that helps the Bank to retain and acquire the talent pool critical to building competitive advantage and brand equity as a Social Bank focused on social transformation and community development.

12. Board of Directors

As on March 31, 2022, the Bank has Nine Directors out of which there are Six Independent Directors including a Woman Independent Director.

Change in Directors during the Financial Year 2021-22

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

  Shri. Kadambelil Paul Thomas (DIN: 00199925), Managing Director and CEO of the Bank was appointed for a period of three years with effect from October 01, 2018 on the basis of the approval from the Reserve Bank of India vide their letter no. DBR.Appt. No.2655/29.44.005/2018-19 dated October 01, 2018 and his tenure shall be ending on September 30, 2021. In view of the same, the Nomination Remuneration and Compensation Committee of the Board, and the Board of Directors of the Bank in their meeting held on March 20, 2021 have recommended that his continued association as Managing Director & CEO is absolutely essential for its growth and decided to re-appoint Shri. Kadambelil Paul Thomas as the Managing Director and CEO of the Bank for a period of three consecutive years with effect from October 01, 2021, subject to the approval of the Shareholders and the Reserve Bank of India. The Shareholders approved the reappointment of Shri. Kadambelil Paul Thomas as the Managing Director and CEO of the Bank for a period of three consecutive years with effect from October 01, 2021 in their Fifth Annual General Meeting held on September 29, 2021 and the approval from RBI was received on July 20, 2021.

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

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

- **Appointment of Shri. Vinod Vijayalekshmi Vasudevan as Additional Director (Independent Director) of the Bank**

  The Board of Directors in their meeting held on December 22, 2021 had appointed Shri. Vinod Vijayalekshmi Vasudevan (DIN: 02503201) as Additional Director (Independent Director) of the Bank with effect from December 22, 2021, considering his vast knowledge and experience in the fields of Information Technology and Business Management.

  An appropriate resolution recommending his appointment as Non-Executive Independent Director for a period of three years with effect from December 22, 2021 is placed for approval of shareholders as Item no. 3 in the Notice of the 06th Annual General Meeting.

  As on the date of this report, the Bank has Seven Directors out of which there are Six Independent Directors including a Woman Independent Director.

Change in Directors during the Financial Year 2022-23

- **Re-Appointment of Shri. Ravimohan Periyakavil Ramakrishnan as Non-Executive Independent Director of the Bank**

  The Board of Directors in their meeting held on May 10, 2022 had recommended to the Shareholders for the re-appointment of Shri. Ravimohan Periyakavil Ramakrishnan

(DIN: 08534931) as a Non-Executive Independent Director of the Bank w.e.f. December 21, 2022, considering his vast knowledge and experience in the field of Banking, Payment and Settlement Systems and Risk Management and his performance as Chairman of the Bank during last three years.

An appropriate resolution recommending his re-appointment as Non-Executive Independent Director for a period of three years with effect from December 21, 2022 is placed for the approval of Shareholders as Item no. 6 in the Notice of the 06th Annual General Meeting.

- **Withdrawal of Nomination of Shri. Saneesh Singh (DIN: 02254868) and Shri. Chandanathil Pappachan Mohan (DIN: 02661757) as Nominee Directors by M/s. ESAF Financial Holdings Private Limited, the Corporate Promoter of the Bank**
  - The Board of Directors vide Circular Resolution dated August 03, 2022, accepted the withdrawal of the nomination of Shri. Saneesh Singh (DIN: 02254868) from the Board of Directors of the Bank by M/s. ESAF Financial Holdings Private Limited, the Corporate Promoter of the Bank, with effect from July 26, 2022.
  - The Board of Directors vide Circular Resolution dated November 01, 2022, accepted the withdrawal of the nomination of Shri. Chandanathil Pappachan Mohan (DIN: 02661757) from the Board of Directors of the Bank by M/s. ESAF Financial Holdings Private Limited, the Corporate Promoter of the Bank, with effect from October 31, 2022.

Familiarisation Programme

The Bank has familiarised the Independent Directors of the Bank with their roles and responsibilities in the Bank, the nature of industry in which the Bank operates, the business model of the Bank, etc. The details of the familiarisation programme imparted to Independent Directors are available on the website of the Bank www.esafbank.com.

The terms and conditions of the appointment of Independent Directors are also available on the website of the Bank (www.esafbank.com). The appointment of the Independent Director during the year was made with the satisfaction of the Board after ascertaining the integrity, expertise, experience and proficiency of the Directors.

13. Evaluation of Performance of the Board of Directors

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

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

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

14. Declaration from Independent Directors

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

15. Corporate Governance

The Bank is committed to achieving and adhering to the highest standards of Corporate Governance and it consistently benchmarks itself with the best practices, in this regard. A report on Corporate Governance for the Financial Year 2021-22 has been annexed to the Annual Report.

16. Meetings of the Board

The Board of Directors met 13 times during the Financial Year 2021-22 on May 26, 2021, June 18, 2021, and June 29, 2021. July 24, 2021, August 25, 2021, September 29, 2021, November 06, 2021, November 26, 2021, December 22, 2021, January 13, 2022, February 05, 2022, March 10, 2022 and March 29, 2022.

The gap between any two Board Meetings has not exceeded 120 days and the requisite quorum was present for all the Board Meetings during the year. None of the Directors of the Board has sought leave of absence during the Financial Year 2021-22 in any of the meetings of the Board.

17. Key Managerial Personnel

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

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

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

Sl. No.	Name of the Key Managerial Person	Designation
1.	Shri. M.G. Ajayan	Executive Vice President
2.	Shri. George K. John	Executive Vice President
3.	Shri. George Thomas	Executive Vice President
4.	Shri. Hari Velloor*	Executive Vice President
5.	Shri. Hemant Kumar Tamta**	Executive Vice President
6.	Shri. Wilson Cyriac***	Chief Risk Officer
7.	Shri. E. A. Jacob****	Chief of Internal Vigilance
8.	Shri. Antoo P. K.	Head – Internal Audit
9.	Shri. Sudev Kumar *****	Chief Compliance Officer

**Shri. Hari Velloor was appointed as the Executive Vice President of the Bank with effect from May 10, 2022 for a period of one year and was designated as the Key Managerial Personnel of the Bank pursuant to Section 2(51) and other applicable provisions of the Companies Act, 2013 with effect from September 20, 2022.*

*** Shri. Hemant Kumar Tamta was appointed as the Executive Vice President of the Bank with effect from May 10, 2022 for a period of one year and was designated as the Key Managerial Personnel of the Bank pursuant to Section 2(51) and other applicable provisions of the Companies Act, 2013 with effect from September 20, 2022.*

**** Shri. Wilson Cyriac was appointed as the Chief Risk Officer of the Bank with effect from November 30, 2021 for a period of three years and designated him as a Key Managerial Personnel of the Bank pursuant to Section 2(51) and other applicable provisions of the Companies Act, 2013.*

During the year, Shri. Mohanachandran K. R. Chief Risk Officer (CRO) of the Bank, ceased to be the Key Managerial Personnel of the Bank with effect from the close of business hours on November 30, 2021 on expiry of his employment contract. The Board places on record its appreciation for the invaluable contribution rendered by him during his tenure as CRO.

***** Shri. E. A. Jacob was appointed as the Head of Vigilance Department and Chief of Internal Vigilance (CIV) of the Bank with effect from September 30, 2021 for a period of three years and designated him as a Key Managerial Personnel of the Bank pursuant to Section 2(51) and other applicable provisions of the Companies Act, 2013.*

During the year, Shri. Dominic Joseph, Head – Vigilance and Chief Vigilance Officer of the Bank, ceased to be the Key Managerial Personnel of the Bank with effect from the close of business hours on September 30, 2021 on expiry of his employment contract. The Board places on record its appreciation for the invaluable contribution rendered by him during his tenure as Head – Vigilance and Chief Vigilance Officer.

****** Shri. Sudev Kumar was appointed as the Chief Compliance Officer of the Bank with effect from December 15, 2021 for a period of three years and designated him as a Key Managerial Personnel of the Bank pursuant to Section 2(51) and other applicable provisions of the Companies Act, 2013.*

During the year, Shri. Dinesh Kallarackal, Chief Compliance Officer (CCO) of the Bank, ceased to be the Key Managerial Personnel of the Bank with effect from the close of business hours on December 15, 2021 due to a change in role. The Board places on record its appreciation for the invaluable contribution rendered by him during his tenure as CCO.

18. Internal Financial Controls

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

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

The Internal Audit Department of the Bank has tested each of the controls and during the year under review, there are no material or serious observations of inefficiency or inadequacy of such controls.

19. 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, 2022, the applicable accounting standards had been followed along with proper explanations relating to material departures;

ii) Such accounting policies, as specified in Schedule III of the Financial Statements have been selected and applied consistently, and judgements and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as at March 31, 2022 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) A proper system to ensure compliance with the provisions of all applicable laws was in place and the same was adequate and operating effectively.

20. Corporate Social Responsibility Activities

The Bank has constituted the Corporate Social Responsibility and Sustainability ("CSRSCB") Committee of the Board, in accordance with the provisions of Section 135 of the Companies Act, 2013 read with the Companies (Corporate Social Responsibility Policy) Rules, 2014, as amended from time to time.

Through its CSR Projects and Programmes, the Bank pursues inclusive and sustainable development of the community in and through its domain of operations. Beyond charity donations, aligned with its vision statement, the Bank will pursue transformation of lives and communities and would choose projects accordingly.

The CSRSCB is responsible for reviewing and recommending to the Board, the various CSR initiatives for the Bank, including the progress of the Bank's CSR Projects. Based on the recommendations made by the CSRSCB, the Board reviewed and approved the CSR Policy, Projects, Project Expenditure and related matters. Thereafter, with the approval of the Board, the CSR Projects were implemented by the Bank. Your Bank's CSR Policy is available on the Bank's website: www.esafbank.com.

The Bank's CSR Projects and CSR Project Expenditure for the Financial Year 2021-22 are compliant with the CSR mandate as specified under Sections 134 and 135 of the Act read with Schedule VII to the Act and the Companies (Corporate Social Responsibility Policy) Rules, 2014, as amended from time to time and in line with the Government of India's notifications issued from time to time.

The Bank had decided to allocate 5% of the average net profits every Financial Year, as against the statutory obligation of 2% and in accordance with the same, the Bank had allocated ₹ 8,76,00,000 towards CSR expenditures for the Financial Year 2021-22. Out of the allocated amount, the Bank had spent ₹ 4,02,58,892 for ongoing projects during the current Financial Year and the unspent amount of ₹ 3,43,64,000 has been transferred to the Unspent CSR Account on March 31, 2022. Further, the Bank had spent ₹ 4,04,61,548 during the current Financial Year towards completion of the Board approved ongoing CSR projects which were initiated in Financial Year 2020-21.

The implementation of the CSR projects and programmes in Financial Year 2021-22 had been done either directly and/or through implementing partner organisations having a proven track record of implementing cost and process efficient CSR projects and/or programmes that were scalable, sustainable, outcome-driven and committed to making a positive societal impact. Based on the CSRCB's review and recommendation, the Board had reviewed and approved all CSR Projects, CSR Project Expenditure Payments, and CSR Administration Overhead Expenses including the Unspent CSR Project Expenditure Funds of Financial Year 2021-22, which had been transferred to Unspent CSR Account Financial Year 2021-22, on March 31, 2021. A brief outline of the CSR Policy, including the overview of the programmes undertaken, the composition of the CSR Committee, and CSR expenditure during the year under review, has been provided in the Annual Report on CSR activities annexed to this report.

21. Human Resources Initiatives

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

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

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

22. 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. An Internal Complaints Committee has been set up for the redressal of complaints. During the year 2021-22, no complaints were received under the Policy. Presently, 30.7% of the total workforce of the Bank are women.

23. Compliance Functions

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

24. Risk Management

Risk Management in the Bank is overseen by the Board of Directors. The Board approves the Risk Management policies which are reviewed, from time to time, with updated regulatory guidelines and internal instructions. The Risk Management Committee of the Board (RMCB) sets the processes and standards for Risk Management functions, and periodically reviews the same. The Risk Management Department co-ordinates the Bank-wide Risk Management and implements the policies and procedures approved by the Board and the RMCB.

The Department has four divisions: Major Risk Streams, Credit Risk, Operational Risk, Market Risk and Information and Cyber Security Risk.

Executive-Level Risk Management Committees, namely, Credit Risk Management Committee, Operational Risk and Business Continuity Management Committee, Asset Liability Management Committee and Information Security Committee regularly assess the respective risks and initiate remedial actions wherever warranted. The Executive-Level Committees periodically report the various risk events, levels and directions of major risks to the Risk Management Committee of the Board. Chief Risk Officer who reports directly to the Managing Director and CEO co-ordinates the Risk Management functions. The Bank has a robust Internal Capital Adequacy Assessment Process by which all material risks the Bank is facing in its course of business are identified, assessed and monitored. Capital requirement commensurate with the risk profile of the Bank is assessed and capital planning for ensuring growth in future, as per the business strategy of the bank, also is undertaken periodically.

25. Information Security and Cyber Security Risk Management

The Information Security Policy and the Cyber Security Policy approved by the Board of Directors provide the base for information technology risk management and security administration. The Information Security Governance of the Bank is spear-headed by the Board of Directors, Information Technology Strategy Committee of the Board and the Executive Level Information Security Governance Committee.

The Bank has a dedicated Information Security Division which functions under the Risk Management Department. The Information Security Division is headed by the Chief Information Security Officer, who reports to the Chief Risk Officer.

The Bank adopts best practices to ensure the safety and security of customer transactions, data privacy and information security in all three modes of Data at rest, Data in use and Data in transit. The Bank liaisons with various authorities like CSITE (Cyber Security Information Technology Examination) Cell, RBI, CERT-In (Computer Emergency Response Team-India), IDRBT, etc. to keep abreast of the security incidents and measures, and for regulatory compliance on an ongoing basis.

26. IT Initiatives

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

The Bank has rolled out FIS core banking solution across all its branches and Banking Outlets. All of the accounts of the customers are on the core banking solution of the Bank. The primary data centre is in Mumbai and the disaster recovery centre is in Hyderabad, both of which are operated by FIS & CtrlS collaboration. The IT Strategy of the Bank has always been in alignment with the Business strategy, which envisages penetration into specific geographies, launching customised products targeted at specific customer segments and leveraging digital technology & e-channels to extend the outreach to customers. Over the past few years, IT has been bringing significant changes and new initiatives which have been the pivotal factors in achieving the business growth and success of the Bank. With the stabilisation achieved in the Core Banking Operations, IT's next focus will be towards bringing in latest digital technologies and integrations which will be both customer-centric and trendsetters.

A few important IT initiatives undertaken during the Financial Year 2021 - 2022 are, seamless integration of employee connectivity through VPN technologies, additional eKYC provider integrations and additional multi bureau connectivity, which provides the convenience of a single inquiry point that allows consolidation of data from credit bureaus. There has been an initiative on WhatsApp Banking and Neo Banking (Online banking services through FinTechs).

Bank also had launched a new Gold loan application (with Doorstep feature), a new revamped UPI Solution with an additional UPI Switch and application, and an online FD feature accessible directly from the Bank's website. Telecom Regulatory Authority of India's (TRAI) new guidelines on the Bulk SMS Service Industry by introducing Distributed Ledger Technology (DLT) - a blockchain based registration system to maintain the record of all transactions made by business entities is also implemented. Further Enterprise Fraud Risk Management and additional Loan Origination Systems (LOS) and Collection solutions with integrations of Biometric devices were also done during the last Financial Year.

27. Customer Service Quality

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

- **ISO 9001: 2015 Certification:** The Customer Service Quality Department of the Bank has been working on further enhancing the quality of its functioning and raising the standards to International Quality levels. For that, the department has revamped many of its processes to meet the ISO 9001 standards. As a result, the Bank has received ISO 9001: 2015 certification for the following scope of operations.
  - o The Customer Service Quality Initiatives of the Bank.
  - o The Regulatory and Statutory reporting of the Customer Service Quality Department of the Bank.
  - o The Customer Grievance Redressal Mechanism of the Bank.
  - o The Customer Service Call Center Monitoring of the Bank.

- **Customer Service Excellence Awards:** In order to create a competitive spirit among the Branches to give a better customer experience, the Customer Service Quality Department of the bank has successfully driven the Customer Service Excellence Award for the branches. This has motivated branches to take proactive steps to excel in customer service, deepen the relationship with customers, encourage digital transactions, complete the tasks on time and reduce complaints.

- **Nil penalty imposed by Banking Ombudsman:** In the Financial Year 2021-2022, we have received only 32 complaints from the Banking Ombudsman, which is one of the lowest in the country considering the bank has more than 575 branches and around 5.5 million customers. Also, all the complaints were resolved amicably within the stipulated timelines, and the Bank has nil penalty from the Banking Ombudsman since its inception.

- **Uninterrupted functioning of 24x7 Customer Contact Center:** Ensured continuity of contact center services to our customers throughout the year amidst the constraints due to lockdown and even some of the agents tested positive. We made this possible by quickly enabling work-from-home capability for our Contact Centre and training the agents for that. Our Bank has gained the confidence of the customers since most Banks, including the big ones, have completely or partially halted their Contact Centre's during this period.

- **Various telephonic surveys to improve business and customer experience:** Customer Service Quality Department had conducted various surveys, which included Annual Customer Satisfaction Survey, Digital Products Satisfaction Survey, Micro Loans customer satisfaction survey etc. which has helped the Bank to identify the gap and take necessary action to improve the customer experience.

- **Online Training and Learning series to Branches:** Customer Service Quality Department has continuously made efforts to keep the branch staff always updated and guided in the area of customer service and the relevant procedures. A few series of emailers like "Excel and Elevate", "SWAGAT", and "CRM-best practices", were being sent to all Branches periodically.

- **A new way of Customer Interaction during the Pandemic:** After the outbreak of the Covid -19 pandemic, the branches were not having a uniform method of customer handling and were struggling to interact with the customers as direct contacts, smiling through mask, etc. were not possible and customers were feeling kind of not taken care of. With the intention to standardise and train the branches across the nation, the Customer Service Quality Department introduced a new way of customer interaction "SWAGAT" which has helped in educating the frontline staff on how to interact with the customer, giving them a good experience while adhering to all the Covid protocols.

- **Process enhancements and reduction in TAT for customer requests** Using the CRM (Customer Relationship Management) application, the Customer Service Quality Department has generated numerous reports for analysing processes of various customer requests. This helped the Bank to understand the areas and the scope for improvement to reduce the turnaround time of customer requests. The process changes resulted in simplifying and automating many of the requests to increase the productivity of staff and improve the customer experience.

29. Overall Remuneration

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

i)	Ratio of Remuneration of each Director to median employees remuneration.	The ratio of remuneration of each Director to median employee remuneration is as below: **MD & CEO** — **62.5 times** Other Directors — Other Directors are not paid any remuneration other than a sitting fee for attending meetings of the Board and Committees
iii)	The percentage increase in remuneration of each Director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the Financial Year	• Managing Director and CEO – 73.76% • Chief Financial Officer – 4.21% • Company Secretary – 7.53%
iv)	The percentage increase in the median remuneration of employees in the Financial Year	12.08%
v)	The number of permanent employees on the rolls of the Bank as on March 31, 2022	4,141
vi)	Average percentile increase already made in the salaries of employees other than the Managerial Personnel in the last Financial Year and its comparison with the percentile increase in the managerial remuneration and justification thereof, and point out if there are any exceptional circumstances for an increase in the Managerial Remuneration	Average increase of 11.6% was made to the salaries of employees other than the Managerial Personnel and 73.76% increase was made in the managerial remuneration in the last Financial Year.
vii)	Affirmation that the remuneration is as per the remuneration policy of the Company	The remuneration is as per the Remuneration Policy of the Bank.

Statement showing		
i)	The name of every employee, who, if employed throughout the Financial Year, was in receipt of remuneration for that year, which, in the aggregate, was not less than One crore and Two lakh rupees	Shri. Kadambelil Paul Thomas, Managing Director and CEO of the Bank was paid an aggregate remuneration of ₹ 2,45,00,000/- (including perquisites) during the year.
ii)	if employed for a part of the Financial Year, was in receipt of remuneration for any part of that year, at a rate which, in the aggregate, was not less than eight lakh and fifty thousand rupees per month	NIL
iii)	if employed throughout the Financial Year or part thereof, was in receipt of remuneration in that year, which, in the aggregate, or as the case may be, at a rate which, in the aggregate, was in excess of that drawn by the Managing Director or Whole Time Director or Manager and holds by himself or along with his spouse and dependent children, not less than two per cent of the equity shares of the Bank.	NIL

29. Whistle Blower Policy/Vigil Mechanism

The Bank has implemented a Vigil Mechanism through the adoption of a Whistle Blower and Protected Disclosure Policy in compliance with the relevant provisions of the Companies Act, 2013 and rules thereunder. The Bank provides an opportunity to raise concerns of employees, vendors and directors relating to fraud, malpractice or any other activity or event which is against the interest of the Bank or society as a whole. The details of Whistle Blower complaints received and subsequent action taken and the functioning of the Whistle Blower mechanism are reviewed periodically by the Audit Committee of the Board. During the Financial Year 2021-22, seven complaints were received under the Whistle Blower Mechanism. The functioning of the Mechanism is reviewed by the Audit Committee from time to time. No employee of the Bank has been denied access to the Audit Committee for raising a whistle blower complaint.

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

30. Statutory Auditors

The Shareholders of the Bank in the Annual General Meeting held on September 29, 2021 had appointed M/s. Deloitte Haskins and Sells, Chartered Accountants with Firm Registration number 117365W, based on the approval of the Reserve Bank of India vide letter No. Ref DOS.ARG.No.AS-10/08.61.005/2019-20 dated May 08, 2020 as the Statutory Auditors of the Bank for a continuous period of two years, to hold office from the conclusion of the 05th Annual General Meeting till the conclusion of the 07th Annual General Meeting of the Bank, subject to the satisfaction of eligibility norms each year. They have been the Statutory Auditors of the Bank since the Conclusion of the 4th Annual General Meeting of the Bank. The Board of Directors in the meeting held on May 29, 2020 appointed the Statutory Auditors of the Bank for an overall remuneration of ₹ 62.5 lakh (excluding the GST). Any additional payments to the Statutory Auditors shall be subject to the approval of the Audit Committee of the Board as and when found necessary. The Bank has obtained a declaration in Form B from M/s. Deloitte Haskins and Sells as required in the RBI guidelines and evaluated the eligibility criteria as required in the RBI Circular and Board approved policy. Based on the evaluation conducted, it was confirmed that the existing auditors are eligible for continuing for Financial Year 2022-23.

As per the RBI Circular Ref.No.DoS.CO.ARG/SEC.01/08.91.001/2021-22 dated April 27, 2021, entities with an asset size of ₹15,000 crore and above as at the end of the previous year, shall conduct the statutory audit under the joint audit of a minimum of two audit firms [Partnership Firms/Limited Liability Partnerships (LLPs)]. As the asset size of the Bank as on March 31, 2022 was ₹17,707 crore, the Audit Committee of the Board and Board of Directors have recommended the appointment of M/s. Abarna and Ananthan, Chartered Accountants (Firm Registration Number: 000003S) as the Joint Auditor of the Bank for a period of three Financial Years who will hold office from the conclusion of 06th Annual General Meeting till the end of 09th Annual General Meeting. Appropriate resolution recommending their appointment as Joint Auditor for a period of three years with effect from the conclusion of the 06th Annual General Meeting is placed for approval of Shareholders as Item no. 2 in the Notice of the 06th Annual General Meeting.

31. Secretarial Auditor

Pursuant to the provisions of Section 204 of the Companies Act, 2013, and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Board of Directors of the Bank in the meeting held on November 06, 2021 has appointed Shri. M. Vasudevan, FCS, Practicing Company Secretary (COP: 2437), Thrissur, holding Membership No. F 4177 for a second term to conduct a Secretarial Audit of the Bank for the Financial Year 2021-22 and to hold the office till the conclusion of the Sixth Annual General Meeting of the Bank. The Secretarial Audit Report does not contain any qualification, reservation or adverse remark and the report for the Financial Year 2021-22 is enclosed herewith as Annexure–III. The Bank has complied with the Secretarial Standards specified by the Institute of Company Secretaries of India and notified by the Ministry of Corporate Affairs under Section 118(10) of the Companies Act, 2013.

32. Pillar III Disclosures

The Pillar III Disclosures of the Bank as on March 31, 2022, are enclosed herewith as Annexure-IV.

33. Particulars of contracts or arrangements with Related Parties

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

34. Annual Return

In accordance with Section 134(3) and Section 92(3) of the Companies Act, 2013 and pursuant to the Companies (Amendment) Act, 2017, a copy of the Annual Return for the Financial Year 2021-22 will be hosted on the bank's website at www.esafbank.com/investor-relations-info/.

35. Details in respect of frauds, if any, reported by the Auditors:

There were no frauds reported by the Statutory Auditors for the Financial Year 2021-22.

36. Statutory Disclosures

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

37. 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 the conservation of energy or technology absorption.

ii) During the Financial Year 2021-22, the Bank had foreign currency expenditure of ₹ 1,06,97,384/- and there were no foreign currency earnings during the period.

38. Material changes after the Balance Sheet Date as on March 31, 2022

There have been no material changes and commitments between the end of the Financial Year 2021-22 and the date of this report, affecting the financial position of the Bank.

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

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

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

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

41. Deposits

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

42. Loans/Guarantees/Investments

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

43. Cost Records

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

44. 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.

45. Strictures and Penalties

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

Acknowledgement

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

For and on behalf of the Board of Directors

Sd/-
Ravimohan Periyakavil Ramakrishnan
Chairman

Sd/-
Kadambelil Paul Thomas
Managing Director & CEO

Date: November 10, 2022
Place: Thrissur

Annexure – I

Form No. AOC-2

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

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

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

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

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship	Evangelical Social Action Forum (Entity in which Directors and relatives of Directors are Board 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./ ₹ 20 per Sq. Ft. has been taken on lease by the Bank.
5.	Date(s) of approval by the Board	06.02.2018
6.	Amount paid as advances, if any	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188	Not Required

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

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship	Evangelical Social Action Forum (Entity in which Directors and relatives of Directors are Board members)
2.	Nature of contracts/arrangements/ transactions	Trademark Licence Agreement
3.	Duration of the contracts/arrangements/ transactions	15 years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any	The Bank has entered into a Trademark Licence Agreement for an exclusive irrevocable licence to use the trademark subject to the conditions as provided in the agreement dated January 05, 2020 for consideration. The licence fee of 0.3% of the total income or 2.5% of the Net Profit of the Bank, whichever is less (exclusive of applicable indirect taxes), as recorded in the audited financial statements of the respective Financial Year.
5.	Date(s) of approval by the Board	04.01.2020
6.	Amount paid as advances, if any	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

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

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship	Lahanti Homes and Infrastructure Private Limited (previously known as ESAF Homes and Infrastructure Private Limited) (Company in which relatives of Directors are members and Directors)
2.	Nature of contracts/arrangements/ transactions	Lease Agreement
3.	Duration of the contracts/arrangements/ transactions	15 years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any	The Bank has taken on lease a property held by Lahanti Homes and Infrastructure Private Limited, for functioning as the Registered and 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

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

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship	Prachodhan Development Services (PDS) (Company in which Director and Key Managerial Personnel are members and relatives of Directors are members and Directors)
2.	Nature of contracts/arrangements/ transactions	CSR Implementing agency agreement.
3.	Duration of the contracts/arrangements/ transactions	5 years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any	The party acts as Implementing agency for various CSR projects of the Bank.
5.	Date(s) of approval by the Board	27.09.2019
6.	Amount paid as advances, if any	NIL
7.	Date on which the special resolution was passed in the 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

Annexure – II

ANNUAL REPORT ON CSR ACTIVITIES FOR THE FINANCIAL YEAR 2021-22

1. Brief outline on CSR Policy of the Company

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

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

2. Composition of CSR Committee

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

Note: The Corporate Social Responsibility and Sustainability Committee of the Board has been reconstituted on August 03, 2022 based on the cessation of directorship of Shri. Saneesh Singh with effect from July 26, 2022. Post reconstitution, the Committee consists of three members provided in Sl. No. 2-4 and Dr. V. A. Joseph has been appointed as the Chairman of the Committee.

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

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

https://www.esafbank.com/pdf/Composition%20of%20the%20Sub%20Committees%20of%20the%20Board....pdf

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

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

However, the Bank has undertaken an Impact Assessment through an Independent Agency for all the projects in the Financial Years 2018-19, 2019-20, 2020-21, voluntarily. Further, the Bank intends to undertake the same for the Financial Year 2021-22 also. Abstract of the Impact Assessment report is enclosed. The Impact Assessment report is accessible on the website of the Bank www.esafbank.com.

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

₹ 175,16,57,204.79/-

(b) Two per cent of Average Net Profit of the Company as per Section 135(5)

₹ 3,50,33,144.10/-

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

NIL

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

NIL

(e) Total CSR obligation for the Financial Year

As per the provisions of the Companies Act, 2013, the CSR obligation of the bank is ₹ 3,50,33,144.10/-.

The Bank has decided to allocate 5% of the average net profits every financial year, as against the statutory obligation of 2%. In accordance with the same, the Bank has allocated ₹ 8,76,00,000/- towards CSR expenditures for the Financial Year 2021-22.

6. (a) Details of CSR amount spent against ongoing projects for the Financial Year

(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)	(10)	(11)	
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project		Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (Including amount spent in Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation- Direct (Yes/No)	Mode of implementation – Through implementing agency	
				State	District						Name	CSR Registration No.
1.A	BJ-2021-22 ESAF Balajyothi	Point # 2 Point # 7	Yes	Kerala, Tamil Nadu	Trivandrum, Kollam, Pathanamthitta, Alappuzha, Kottayam, Idukki, Ernakulam, Thrissur, Palakkad, Malappuram, Kozhikode, Wayanad, Kannur, Kasaragod, Nilgiris, Coimbatore, Cuddalore, Theni, Villupuram, Kanchipuram, Chennai, Thirukovilur, Tiruvannamalai, Tiruvallur, Tirunelveli, Kanyakumari	April, 2021 to March, 2025	50,00,000	46,34,164	2,52,523	No	ESAF	CSR00002189
1.B	BJ-2021-22 ESAF Balajyothi 2021	Point # 2	Yes	Assam, Maharashtra, Jharkhand, Chhattisgarh, Madhya Pradesh	Lakhimpur, Majuli, Nagpur	April, 2021 to March, 2025	34,00,000	14,98,027	7,62,181	No	ESAF	CSR00002189
2.A1	ST-2021-22 Skill Development Training	Point # 1 Point # 2	Yes	Kerala, Tamil Nadu, Karnataka	Trivandrum, Kollam, Pathanamthitta, Alappuzha, Kottayam, Idukki, Ernakulam, Thrissur, Palakkad, Malappuram, Kozhikode, Wayanad, Kannur, Kasaragod, Villupuram, Dindigul, Thiruvannamalai, Krishnagiri, Nilgiris, Cuddalore, Mandya	April, 2021 to March, 2025	30,00,000	23,87,229	1,22,821	No	ESAF	CSR00002189
2.B1	ST-2021-22 Skill Development Training	Point # 2 Point # 10	Yes	Madhya Pradesh, Maharashtra, Jharkhand, Chhattisgarh	Biswanath, Majuli, Lakhimpur, Dumka, Sahibganj	April, 2021 to March, 2025	20,00,000	3,63,816	9,27,006	No	ESAF	CSR00002189

(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)	(10)	(11)	
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project		Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (Including amount spent in Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation- Direct (Yes/No)	Mode of implementation – Through implementing agency	
				State	District						Name	CSR Registration No.
2.A2	MED-2021-22 ESAF Micro-Entrepreneurship Development Programmes	Point # 2 Point # 4	Yes	Kerala, Karnataka, Tamil Nadu	Trivandrum, Pathanamthitta, Alappuzha, Kottayam, Idukki, Ernakulam, Thrissur, Palakkad, Malappuram, Kozhikode, Wayanad, Kannur, Kasaragod, Hosur, Gudallore, Krishnagiri, Belgaum Dharmapuri, Salem, Ariyaloor, Kolar, Perambalur, Nilgiris, Theni, Erode, Tumkur, Chikkaballapur, Bangalore rural	April, 2021 to March, 2025	60,00,000	44,90,425	1,76,154	No	ESAF	CSR00002189
2.B2	MED-2021-22 ESAF Micro-Entrepreneurship Development Programmes	Point # 2 Point # 4 Point #10	Yes	Assam, Madhya Pradesh, Maharashtra, Jharkhand, Chhattisgarh	Sehore, Bhopal, Dumka, Nagpur, Yavatmal	April, 2021 to March, 2025	40,00,000	10,70,364	19,26,195	No	ESAF	CSR00002189
3.A1	MLCB-2021-22 Market Linkages and Capacity Building for Farmer Collectives	Point # 2 Point # 4	yes	Karnataka and Tamil Nadu	Krishnagiri, Kolar, Dharmapuri, Salem, Ariyaloor, Nilgiris, Perambalur, Theni, Erode, Tumkur, Belgaum, Bangalore rural.	April, 2021 to March, 2025	15,00,000	5,81,938	5,06,941	No	ESAF	CSR00002189
3.B1	MLCB-2021-22 Market Linkages and Capacity Building for Farmer Collectives	Point # 2 Point # 10	yes	Maharashtra, Madhya Pradesh	Bhopal, Sehore, Yavatmal, Wardha	April, 2021 to March, 2025	8,00,000	7,13,092	54,895	No	ESAF	CSR00002189
3.A2	CCMI-2021-22 Support for Setting up Collection Centres and Marketing Infrastructure	Point # 2 Point # 4	Yes	Karnataka and Tamil Nadu	Krishnagiri, Dharmapuri, Salem, Ariyaloor, Perambalur, Nilgiris, Theni, Erode, Tumkur, Kolar, Belgaum, Chikkaballapur, Bangalore rural	April, 2021 to March, 2025	30,00,000	20,92,102	1,08,452	No	ESAF	CSR00002189

(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)	(10)	(11)	
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project		Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (Including amount spent in Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation-Direct (Yes/No)	Mode of implementation – Through implementing agency	
				State	District						Name	CSR Registration No.
3.B2	CCMI-2021-22 Support for Setting up Collection Centres and Marketing Infrastructure	Point # 2 Point # 10	Yes	Maharashtra, Madhya Pradesh	Bhopal, Sehore, Yavatmal, Wardha	April, 2021 to March, 2025	30,00,000	5,37,032	10,77,645	No	ESAF	CSR00002189
4.A	ER-2021-22 Emergency Relief and Community Intervention	The Corporate Affairs Ministry has included “disaster management including relief, rehabilitation and reconstruction activities” in a list of activities that companies are permitted to count towards their CSR spend	Yes	Pan India (where ESAF SFB is operational)	Pan India	April, 2021 to March, 2025	110,00,000	86,49,628	20,38,123	No	ESAF	CSR00002189
4.B	ER-2021-22 Emergency Relief and Community Intervention	The Corporate Affairs Ministry has included “disaster management including relief, rehabilitation and reconstruction activities” in a list of activities that companies are permitted to count towards their CSR spend	Yes	Pan India (where ESAF SFB is operational)	Pan India	April, 2021 to March, 2025	40,00,000	15,68,043	19,88,003	No	ESAF	CSR00002189
5.B	EG-2021-22 ESAF GARSHOM	Point # 1	Yes	Kerala, Odisha	Thrissur, Kalahandi	April, 2021 to March, 2025	60,00,000	29,32,388	30,67,612	No	ESAF	CSR00002189
6.A1.	IHT -2021-22 Rural Hospital Infrastructure, Thachampara	Point # 1	Yes	Kerala	Palakkad	April, 2021 to March, 2025	67,00,000	24,31,280	34,55,752	No	ESAF	CSR00002189

(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)	(10)	(11)	
Sl. No.	Name of the Project	Item from the list of activities in Schedule VII to the Act	Local area (Yes/No)	Location of the project		Project Duration	Amount allocated for the project (in ₹)	Amount spent in the current Financial Year (in ₹) (Including amount spent in Administrative Overheads)	Amount transferred to Unspent CSR Account for the project as per Section 135(6) (in ₹)	Mode of implementation- Direct (Yes/No)	Mode of implementation – Through implementing agency	
				State	District						Name	CSR Registration No.
6.A2	IHM-2021-22 Rural Hospital Infrastructure, Mokama	Point # 1	Yes	Bihar	Mokama	April, 2021 to March, 2025	50,00,000	5,17,054	20,01,502	No	ESAF	CSR00002189
6.A3	HMS-2021-22 Hospital Management Support, Mokama	Point # 1	Yes	Bihar	Patna	April, 2021 to March, 2025	30,00,000	9,56,760	18,36,929	No	ESAF	CSR00002189
6.B1	ISA-2021-22 School Infrastructure Support, Ayakkad	Point # 2	Yes	Kerala	Palakkad	April, 2021 to March, 2025	140,00,000	2,79,329	1,37,20,671	No	ESAF	CSR00002189
6.B2	ISJ-2021-22 Rural School Infrastructure, Jharkhand	Point # 2	Yes	Jharkhand	Dumka	April, 2021 to March, 2025	36,00,000	19,74,842	3,21,974	No	ESAF	CSR00002189
6.B3	ISAM-2021-22 Rural School Infrastructure, Assam	Point # 2	Yes	Assam	Majuli, Lakhimpur	April, 2021 to March, 2025	14,00,000	13,81,379	18,621	No	ESAF	CSR00002189
7.A.	ES-2021-22 ESAF Santhwana	Point # 2	Yes	Kerala	Trivandrum, Kollam, Pathanamthitta, Alappuzha, Kottayam, Idukki, Ernakulam, Thrissur, Palakkad, Malappuram, Kozhikode, Wayanad, Kannur, Kasargod	April, 2021 to March, 2025	12,00,000	12,00,000	0	No	ESAF	CSR00002189
	TOTAL						**876,00,000**	**402,58,892**	**3,43,64,000**			

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

NIL

(c) Amount spent in Administrative Overheads

₹ 20,12,944

(d) Amount spent on Impact Assessment, if applicable

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

(e) Total amount spent for the Financial Year

₹ 402,58,892.46/-

(f) CSR amount spent or unspent for the Financial Year

Total Amount Spent for the Financial Year	Amount Unspent				
	Total Amount transferred to Unspent CSR Account as per Section 135(6)		Amount transferred to any fund specified under Schedule VII as per second proviso to section 135(5)		
	Amount	Date of Transfer	Name of the Fund	Amount	Date of Transfer
4,02,58,892	3,43,64,000	31/03/2022	NIL	NIL	NA

(g) Excess amount for set off, if any

Sl. No.	Particulars	Amount (in ₹)
(i)	Two per cent of Average Net Profit of the Company as per Section 135(5)	3,50,33,144
(ii)	Total amount spent for the Financial Year	8,07,20,440.46
(iii)	Excess amount spent for the Financial Year [(ii) – (i)]	4,56,87,296.36
(iv)	Surplus arising out of the CSR projects or programmes or activities of the previous Financial Years, if any	0
(v)	Amount available for set off in succeeding Financial Years [(iii)-(iv)]	4,56,87,296.36

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

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

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

NIL

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

NOT APPLICABLE, as the CSR spending of the Bank for the Financial Year 2021-22 was above the mandated statutory limit of 2% of the Average Net Profit as per Section 135(5).

Sd/-
Kadambelil Paul Thomas
Managing Director and CEO

Sd/-
Vadakkekara Antony Joseph
Chairman of the CSR and Sustainability Committee of the Board

SUMMARY OF IMPACT ASSESSMENT STUDY

During the Financial Year 2020-21, ESAF Small Finance Bank Limited (the Bank), as per its Corporate Social Responsibility (CSR) Policy, has allocated 5% of its profits for the CSR Projects. The CSR projects are implemented by its two partner organisations – M/s. Evangelical Social Action Forum and M/s. Prachodhan Development Services (PDS).

A number of projects were carried out by these two implementation agencies which have been classified into the following themes:

1. Disaster Management
2. Improving School Infrastructure
3. Agriculture and Farmer Collectives
4. Holistic Development of Children and Youth
5. Microenterprises
6. Migrant Labourers
7. Rural Healthcare
8. Climate Action

The impact assessments for all the projects was undertaken by Prime M2i Consulting Private Limited. The study has been carried out to assess the impact of these projects on the following dimensions:

A. Relevance and Coherence
B. Effectiveness
C. Impact
D. Efficiency
E. Sustainability

Following are the most important findings of the Impact Assessment Exercise:

Relevance and Coherence

- The projects carried out during this year were carried out in the backdrop of probably the worst phase of COVID-19 pandemic. Therefore, most of the projects have a significant COVID-19 footprint. While the COVID-related projects have been classified under disaster management and have the highest share of the budget and activity allocation, many other projects also had COVID-19 related issues as their significant component. Both the implementation agencies have shown remarkable resilience and flexibility to incorporate aspects of COVID in their various projects.

- The two implementing agencies with whom ESAF SFB has been working with have developed expertise in a wide variety of thematic areas, as is evident from the range of projects that have been implemented by the two agencies. This allows these agencies to be flexible enough to accommodate or undertake new interventions as per the needs of the context. In the Financial Year 2021-22 highest proportion of funds was spent on disaster management projects, which mainly involved COVID-19 related activities, including providing food kits during the lockdown, supporting hospitals in improving their infrastructure, creating awareness about vaccination as well as providing logistical support to the government hospitals in carrying out vaccination.

Many other projects have also incorporated COVID-19 related components, although they have been classified under different themes. For example, although the Santhwana project has mental well-being as its overall objective, most of the activities this year under this project have involved mental health issues on account of COVID-19.

- Most of the projects are also being carried out with underprivileged segments of society. Some of the project areas are also geographically very remote (for example, Majuli in Assam and Dumka in Jharkhand) and are underdeveloped in terms of infrastructure. The implementation partners also work with a number of scheduled tribe communities.

- Projects have also been designed on the basis of wider stakeholder consultation and are in line with broader focus areas of the government and have been assessed to be high on the dimension of relevance and coherence.

Effectiveness

During the year, the project reached out to over 109,000 direct beneficiaries in different parts of the country. During the year, the implementing partners have been able to achieve 92% of the activity targets. This is based on an analysis of 150 activity targets. 138 of these activity targets were assessed as having been achieved or exceeded by the implementation partners.

Impact

The nature of impact of different projects has been varied. The following are the most important impacts:

- The individual beneficiaries and the community stakeholders (such as the Panchayat Leaders) of the disaster management project have all valued the timely support provided by the implementation partners during COVID-19 and other natural disasters. The Support provided has enabled the affected people in coping with the situation in a better manner.

- The hospitals and the primary health centres that were provided support to improve their infrastructure reported being able to treat their patients better, particularly during the second wave of COVID-19 in India.

- Since the school buildings supported by the project are still under construction, no immediate impact on the intended beneficiaries is apparent. The projects supporting school infrastructure have a higher gestation period and the impacts will be visible over a long-term.

- The Balajyothi clubs and the study centres are being successful in achieving the holistic development of the children, as evident from the discussions with a sample of parents and children. The teachers and facilitators of the clubs and study centres also reported getting benefitted from their engagement in the activities of the clubs and the study centres.

- The feedback received from the Pashumitras and the farmers supported under the agriculture and farmer collectives has been mixed. While many Pashumitras and farmers reported getting a significant enhancement in their income and farming practices, some of them reported not getting any benefit out of this project. A few also complained of not getting adequate support from the farmer collectives.

- The enterprise training programmes carried out by the implementation partners have been quite useful in imparting necessary skills to the participants. Most of them also reported adding a new source of income and significantly increasing their incomes. The trainings have been particularly useful for the people who already had some experience in the activity. The training sessions on tailoring, particularly, helped the entrepreneurs to learn new business skills and enhance their product offerings. Respondents who received trainings in other trades like mushroom farming and tailoring have not reported any significant benefit from the training.

- The beneficiaries who were provided counselling support under the Santhwana projects reported getting benefits from this experience. They also expressed willingness to share details of the helpline with others.

- The councillors trained by ESAF, themselves, have indicated getting benefitted from the training provided under the project. Other than counselling community members, they also said that the training helped them be more organised and responsive in their regular occupations.

- The Urjabandhus trained and mentored under the Urjabandhus project reported being highly satisfied with the training provided under the project. They also appreciated the follow-up support provided by the resource persons appointed by ESAF. The Urjabandhus reported an increase of 40-60% in their income after receiving this training.

Efficiency

It can be observed that all the projects have completed their budget utilisation targets. It is to be noted that for a few projects the budgets were revised during the year.

Overall intervention cost per beneficiary has been assessed to be ₹ 656. It is to be noted that the intervention cost per beneficiary has ranged between ₹ 170 (for rural healthcare projects) to approximately ₹ 12,000 (for climate action or Urjabandhus project). This is on account of the nature of interventions and the intensity of support provided.

Sustainability

Following are the important observations with respect to sustainability:

- Under most of the projects, the implementation partners have worked with existing institutions like hospitals, local administration, farmer collectives, youth clubs and schools. The support provided to these institutions has resulted in an enhancement in their capacity and the stakeholders have committed to maintaining the supporting infrastructure.

- The Pashumitra and Urjabandhus projects as well as the projects for the training of micro entrepreneurs seek to create entrepreneurs having their own revenue models. Benefits from these projects are likely to sustain beyond the project period.

- The Balajyothi Clubs and Study Centres would require intensive and continuous support for sustaining these activities. While a few Balajyothi clubs are likely to sustain on their own, most of them would find it difficult to sustain if the project support is withdrawn. Similarly, most of the study centres would not be able to continue without the support from the implementation partners.

- Both the projects under rural healthcare (Arogyamitra and Santhwana) are funded out of the grants. No revenue models have been built for these projects. In fact, the Arogyamithras themselves work on a voluntary basis, and many of them have quit on account of a lack of any income for them. Both the projects score low on sustainability aspects and are not likely to continue once the grant support is withdrawn.

The link to the impact assessment reports on the Bank's website:

https://www.esafbank.com/investor-relations-info/

Annexure – III

SECRETARIAL AUDIT REPORT

For the Financial Year ended March 31, 2022

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

To,
The Members,
ESAF Small Finance Bank Limited

I have conducted the Secretarial Audit of the compliance with applicable statutory provisions and the adherence to good corporate practices by ESAF Small Finance Bank Limited (hereinafter called the "company"). The Secretarial Audit was conducted in a manner that provided me with a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

I have conducted online verification and examination of records, as facilitated by the company. 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 authorised representatives during the conduct of the secretarial audit, I hereby report that in my opinion, the company has, during the audit period covering the Financial Year ended on March 31, 2022 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 March 31, 2022 according to the provisions of:

i. The Companies Act, 2013 (the Act) and the rules made thereunder;

ii. The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made thereunder;

iii. The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;

iv. Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;

v. The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-

   a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; (Not applicable to the Company during the audit period)

   b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;

   c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;

   d) The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999; (Not applicable to the Company during the audit period)

   e) The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;

   f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with clients;

   g) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; (Not applicable to the Company during the audit period)

   h) The Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018; (Not applicable to the Company during the audit period)

   i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;

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

   a) The Reserve Bank of India Act, 1934;

   b) The Banking Regulation Act, 1949;

   c) The Banking Companies Regulation (Companies Rules), 1949;

   d) The Banking Companies (Period of preservation of Records) Rules, 1985;

   e) Prevention of Money Laundering Act, 2002;

   f) Credit Information Companies (Regulation) Act, 2005;

   g) The Deposit Insurance and Credit Guarantee Corporation Act, 1961;

   h) The Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002;

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

i. Secretarial Standards issued by The Institute of Company Secretaries of India;

ii. The Listing Agreement entered into by the Company with Bombay Stock Exchange Limited;

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

I further report that

The Board of Directors of the company is duly constituted with a 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 the agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

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

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

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

i. Members have accorded consent at an Extraordinary General Meeting held on July 12, 2021 to make an initial public offer of equity shares of the company aggregating to ₹ 997,78,00,000/- which may include, a fresh issue of equity shares and an offer for sale of equity shares and listing of equity shares on one or more of the stock exchanges.

ii. Members have approved the alteration of Articles of Association at the 05th Annual General Meeting of the Company held on September 29, 2021 to bring them in line with the circular issued by the Reserve Bank of India on Corporate Governance in Banks.

iii. Members have accorded consent to the Board of Directors at an Extraordinary General Meeting held on February 16, 2022:

   - to borrow in excess of the paid-up share capital, free reserves and securities premium account, including the monies already borrowed by the Bank up to a limit of outstanding aggregate value which shall not exceed ₹ 50,00,00,00,000/- or the aggregate of the paid-up capital and free reserves of the Bank, whichever is higher at any time.

   - to offer, issue and allot unsecured, rated, redeemable Non-Convertible Debentures on a private placement basis, for an amount not exceeding the aggregate amount of ₹ 3,00,00,00,000/-.

iv. The Board of Directors have approved through a resolution passed by circulation on March 31, 2022 to allot 20 nos. of 11.25% rated, taxable, unlisted, redeemable, and unsecured Basel III compliant Subordinated Tier II Bonds in the form of Non-Convertible Debentures of a face value of ₹1,00,00,000/- each for an amount not exceeding the aggregate amount of ₹ 20,00,00,000/-

v. Non-Convertible Debentures aggregating to ₹ 50 crore were redeemed by the company during the year.

	Sd/-
Place: Thrissur	Name of Company Secretary in practice:
Date: 10.08.2022	**M. Vasudevan**
	FCS No.: 4177
UDIN: F004177D000764629	C P No.: 2437

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

To,
The Members,
ESAF Small Finance Bank Limited

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

1. Maintenance of secretarial records is the responsibility of the management of the company. My responsibility is to express an opinion on these secretarial records based on my audit.

2. I have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the secretarial records. The verification was done on a test basis to ensure that the correct facts are reflected in the secretarial records. I believe that the processes and practices I followed provide a reasonable basis for my opinion.

3. I have not verified the correctness and appropriateness of financial records and Books of Accounts of the company.

4. Whenever required, I have obtained the Management representation about the compliance of laws, rules and regulations and the happening of events, etc.

5. Compliance with the provisions of Corporate and other applicable laws, rules, regulations and standards is the responsibility of management. My examination was limited to the verification of procedures on a test basis.

6. The Secretarial Audit report is neither an assurance as to the future viability of the company nor of the efficacy or effectiveness with which the management has conducted the affairs of the company.

Place: Thrissur
Date: 10.08.2022

UDIN: F004177D000764629

Sd/-
Name of Company Secretary in practice:
M. Vasudevan
FCS No.: 4177
C P No.: 2437

Annexure – IV

Pillar 3 Disclosures as of March 31, 2022

Pillar 3 disclosures of ESAF Small Finance Bank Limited, on the Capital Structure, Capital Adequacy and Risk Management framework is provided below.

The shareholding pattern of the Bank

Description	Share Holding (%)
Promoter Holding Company	62.46
Insurance Companies	10.02
Resident Individuals	7.44
Bodies Corporate	1.98
FIIs, FPI, NRIs, other Foreign Nationals	18.10
TOTAL	**100.00**

1. Capital Adequacy

1.1 Norms

The Bank is subject to the Capital Adequacy framework as per the Operating Guidelines for Small Finance Banks, issued by RBI. Accordingly, the Bank is required to maintain a minimum Capital to Risk Weighted Assets Ratio (CRAR) of 15%, with a minimum Tier I capital of 7.5%.

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

1.2 Structure - Table 1 (₹ in crore)

Breakup of capital funds is as follows:

Particulars (March 31, 2022)	₹ in crore
Tier I Capital –(I)	
Paid Up Capital	449.47
Reserves	931.13
Perpetual Debt Instrument	48
Total	**1,428.60**
Deductions – (II)	
Intangible Assets	0.00
Any Other Deductions	13.05
Total Deductions	**13.05**
Total Tier I Capital Total (I-II) A	**1,415.55**
Tier II Capital – (III)	
General Provisions on Standard Assets	109.43
Investment Fluctuation Reserve	26.19
Subordinated Term Debt	81.00
Total	**216.62**
Deductions – (IV)	
Total Deductions for Tier II	0.00
Total Tier II Capital (III-IV) B	**216.62**
Total Capital (A+B)	**1,632.17**
Bank's CRAR as on 31-03-2022	**18.64%**

1.3 Disclosures

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

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

As per the RBI guidelines for SFBs, the minimum capital required to be maintained by the Bank is 15% of the Risk-Weighted Assets. The Bank's CRAR as on 31-03-2022 is above the regulatory minimum level.

Quantitative Disclosures – Table 2 (₹ in crore)

Sl. No.	Particulars as on 31-03-2022	₹ in crore
A	**Capital Requirements for Credit Risk**	**1,313.67**
A.1	For Portfolio Subject to Standardised Approach	1,313.67
A.2	For Off Balance Sheet Credit Portfolio	0.00
A3	For Off Balance Sheet Corporate Guarantee	0.00
B	Capital Requirements for Market Risk	0.00
B.1	For Interest Rate Risk	0.00
B.2	For Equity Risk	0.00
B.3	For Forex Risk (including gold)	0.00
B.4	For Commodities Risk	0.00
B.5	For Options risk	0.00
C	Capital Requirements for Operational Risk	0.00
D	**Total Capital Requirement (A+B+C)**	**1,313.67**
E	**Total Risk Weighted Assets (RWA for all types of assets)**	**8,757.82**
F	**Total Capital Funds (Tier I + Tier II)**	**1,632.17**
	CRAR (%)	
A	Tier -1 Capital Adequacy Ratio (%)	16.163%
B	Tier -2 Capital Adequacy Ratio (%)	2.473%
A+B	**Overall CRAR (%)**	**18.64%**

2. Internal Capital Adequacy Assessment Process (ICAAP)

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.

ICAAP aims at the 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.

3. Leverage Ratio

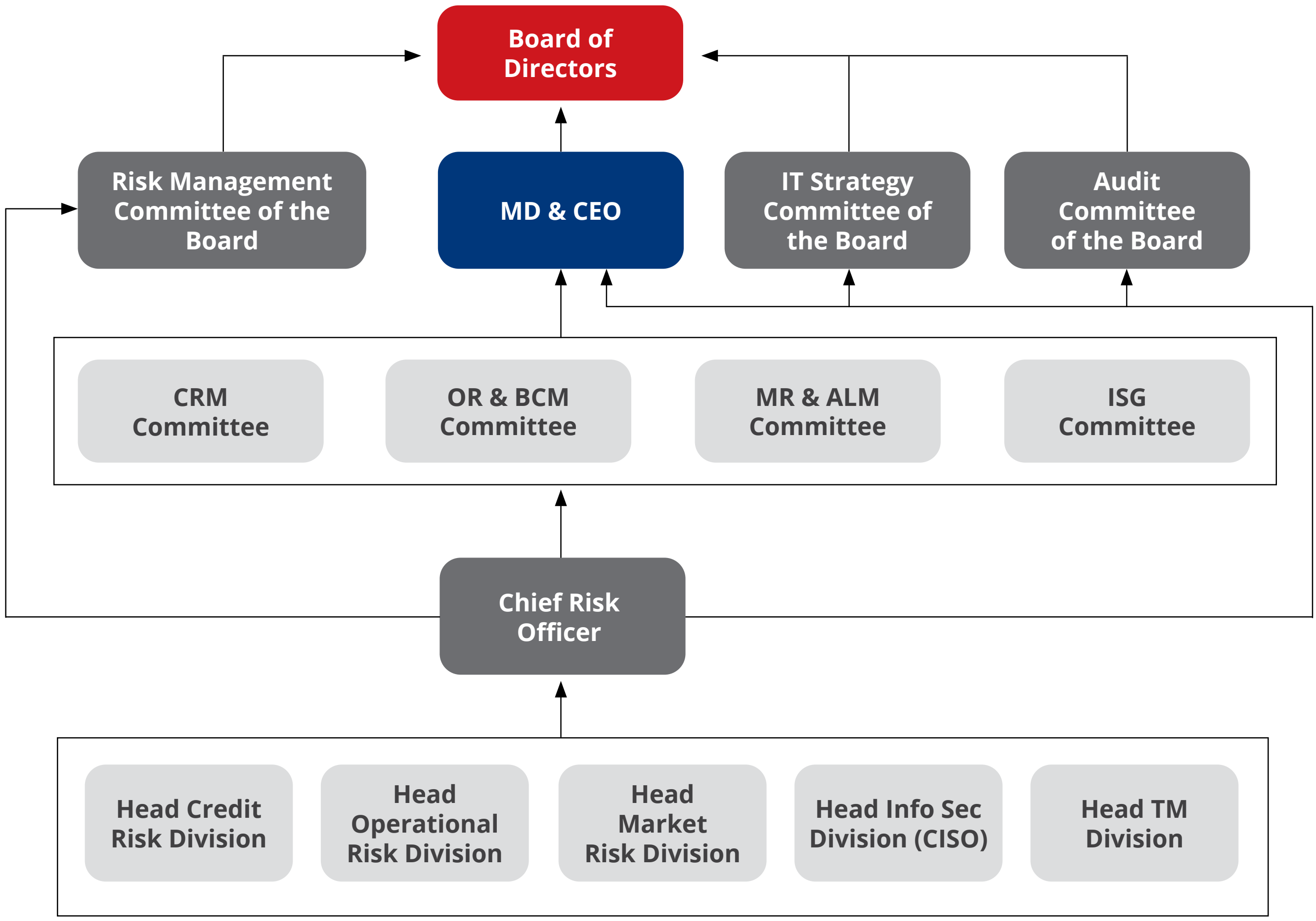
The Bank computes the Leverage Ratio as per the Basel III framework. Leverage Ratio is a non-risk-based measure of exposure over the capital. The Leverage Ratio is calibrated to act as a credible supplementary measure to the risk-based capital requirements.

Leverage Ratio = Capital Measure (Tier I Capital)/Exposure Measure (Total Exposure)

Leverage Ratio - Table 3 (₹ in crore) (31-03-2022)

Sl. No.	Particulars	₹ in crore
	On Balance Sheet Exposure	
1	On-balance sheet items (excluding derivatives and Securities Financing Transactions (SFT), but including collateral)	17,707.56
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	0.00
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (1 + 2)	17,707.56
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0.00
5	Add-on amounts for Potential Future Exposure (PFE) associated with all derivatives transactions	0.00
6	Gross-up for derivatives collateral provided were deducted from the balance sheet assets pursuant to the operative accounting framework	0.00
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0.00
8	(Exempted Central Counter Party (CCP) leg of client-cleared trade exposures)	0.00
9	Adjusted effective notional amount of written credit derivatives	0.00
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0.00
11	**Total derivative exposures (sum of lines 4 to 10)**	**0.00**
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	0.00
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0.00
14	Counterparty Credit Risk (CCR) exposure for SFT assets	0.00
15	Agent transaction exposures	0.00
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	**0.00**
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	2.05
19	(Adjustments for conversion to credit equivalent amounts)	0
19	**Off-balance sheet items (sum of lines 17 and 18)**	**2.05**
	Capital & Total Exposures	
20	**Tier 1 capital**	**1,415.55**
21	Total exposures (sum of lines 3, 11, 16 and 19)	17,709.61
22	**Basel III Leverage Ratio for the Bank**	**7.99%**
	Summary comparison of accounting assets vs. leverage ratio exposure measure	
1	Total consolidated assets as per published financial statements	17,707.56
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0.00
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0.00
4	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	2.05
5	Other adjustments	0
6	**Leverage ratio exposure**	**17,709.61**

4. Risk Governance Framework & Risk Management Structure



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

a) The Board of Directors is responsible for the overall governance and overseeing of core risk management activities of the Bank and the Bank's risk appetite and related strategies and policies are approved by the Board.

b) To ensure that the Bank has a sound system of risk management and internal controls in place, the Board has established the Risk Management Committee of the Board (RMCB). The RMCB assists the Board in overseeing and reviewing the Bank's risk management principles and policies, strategies, appetite, processes and controls.

c) The Risk Management Committee of the Board (RMCB), the Information Technology Strategy Committee of the Board (ITSCB) and the Audit Committee of the Board (ACB) assist the Board in overseeing the functions and conducting periodical reviews of the Bank's risk management principles and policies, strategies, appetites, processes and controls.

d) The RMCB is supported by the Risk Management Department and the Executive Level committees dealing with different functional areas of risk, facilitating effective execution of their responsibilities.

e) Segregation of duties across the 'three lines of defence' model, where front-office/business, functions as the first line, Risk Management and Compliance as the second line and Internal Audit as the third line. The roles played by the functions are independent of one another.

f) Risk strategy is approved by the Board on an annual basis and is defined based on the Bank's risk appetite, in order to align risk, capital and performance targets.

g) All major risk classes are managed through focused and specific risk management processes; these risks include Credit Risk, Operational Risk, Market Risk, Liquidity Risk etc. Policies, processes and systems are put in place to enable the Risk Management capability.

h) Risk Management function is having appropriate representation on Executive Level Committees of the Bank to ensure that risk view is taken into consideration in business decisions. Stress testing tools and escalation processes are established to monitor the performance against the approved risk appetite.

5. Risk Management Committees

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

6. Credit Risk

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

a) Default due to the inability or unwillingness of a borrower 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 the credit quality of borrowers or counterparties.

The Bank is exposed to credit risk through lending to various segments.

6.1 Credit Risk Governance

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

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

6.2 Structure and Organisation of Credit Risk Management Framework

Risk Management Committee of the Board (RMCB) oversees bank-wide risk management. The senior executive level Credit Risk Management Committee (CRMC) monitors the implementation of the credit risk management framework across the Bank and provides recommendations to the RMCB and the Board. CRMC ensures the implementation of credit risk management policies and procedures, as approved by the RMCB and the Board, across the Bank and recommends changes thereto, considering any changes in the regulatory instructions, business or economic conditions. It also monitors the 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 the Risk Management Department, which is supported by all the business units, is entrusted with the responsibility for implementing credit risk identification, assessment, measurement, monitoring and control. Credit risk appetite tolerance limits are drawn up with inputs from the business units and the credit risk parameters and credit exposure/concentration limits set by the Bank’s Board of Directors. The Division constructs credit risk identification systems, oversees the quality of the Bank’s loan portfolio and stressed loans and undertakes portfolio level asset quality reviews with support from the business and credit monitoring functions. The Division looks into early warning signals in the loan portfolio as a whole, analyses the trend of weak exposures, suggests portfolio-wise remedial measures and monitors the actions taken.

CRMC of the Bank meets at least once in a quarter to take stock of the Bank’s credit risk profile, based on the reports placed by the Credit Risk Division. An effective governance framework, to ensure the independence of the credit risk unit from the business units is implemented.

6.3 Credit Process

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

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

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

6.4 Credit Scoring/Rating Models

The foundation of credit risk management rests on the internal credit risk rating system. Credit scoring models are used for evaluating applications for credit. The Bank has developed rating tools specific to most products and market segments to objectively assess underlying risk associated with such exposures. The scorecard/ rating system is validated on an annual basis by backtesting with the standards of outstanding loans.

6.5 Risk Weights

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

6.6 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 borrower-wise and group borrower-wise which are continuously tracked and monitored.

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

(iii) Industry exposure: The Bank's exposure to any single industry is currently not significant.

6.7 Credit Exposures & Risk Summary - 31-03-2022

a) Exposure – Facility Type - Table 4 (₹ in crore) (31-03-2022)

Sl. No.	Exposure Type	Amount
1	Gross Loans & Advances (Excluded Loan against Term Deposits - ₹ 107.88 Cr)	12,022.76
2	Add: Undrawn Exposure	34.52
3	Total Credit Exposure – Fund Based (1+2)	12,057.28
4	Add: Non-Fund Based Exposure (Excluded Contingent Liabilities against 100% Liquid Securities Coverage – ₹ 2.05 Cr)	0.00
	Total Credit Exposure (Total of 3+4 above)	**12,057.28**

b) Geographic distribution of credit exposure - Table 5 (₹ in crore) (31-03-2022)

Sl. No.	Exposure Type	Amount
1	Domestic Fund Based (Excluded Loan Against Term Deposits - ₹ 107.88 Cr)	12,057.28
2	Domestic Non-Fund based (Contingent Liabilities – ₹ 2.05 Cr with 100% Cash Collateral)	0.00
3	Foreign Fund Based	0.00
4	Foreign Non-Fund Based	0.00
Total		**12,057.28**

c) Credit Exposures by Risk Weights - Table 6 (₹ in crore) (31-03-2022)

Sl. No.	Risk Weight	Exposure	Risk Weighted Assets
1	Below 100% risk weight	10,003.58	7,186.21
2	100% risk weight	890.72	702.63
3	More than 100%	1,162.98	126.51
Total		**12,057.28**	**8,015.35**

d) Sector wise distribution of Gross Loans & Advances - Table 7 (₹ in crore) (31-03-2022)

Sl. No.	Industry Classification	Gross Loan Portfolio	% Share
1	Agriculture and Allied Activities	6,195.88	51.08%
2	Industries Sector	849.82	7.00%
4	Trade & Services	2,461.44	20.29%
5	Personal Loans and other Retail	2,623.49	21.63%
Total		**12,130.64**	**100%**

e) Credit Risk Mitigation - Table 8 (₹ in crore) (31-03-2022)

Sl. No.	Particulars	Exposure	Credit Risk Mitigant	Net Exposure
1	Gold Loan	1,056.63	1,055.97	0.66
2	Loan against FD	107.88	107.88	Nil

a) Maturity pattern of Assets - Table 9 (₹ in crore) (31-03-2022)

Maturity Bucket	Cash, Balances with RBI	Balances with Banks, Money at Call & Short Notice, Term Deposits and other placements	Investments	Loans & Advances*	Fixed Assets	Other Assets	Total
Day – 1	223.55	35.61	1.96	28.51	0.00	0.78	290.41
2-7 Days	0.00	75.00	2.59	171.08	0.00	238.68	487.35
8-14 Days	0.00	0.00	1.48	199.60	0.00	405.46	606.54
15-30 Days	14.00	0.00	2.21	456.23	0.00	10.92	483.36
31 Days and up to 2 Months	19.62	0.00	141.08	474.88	0.00	5.46	641.04
Over 2 Months and up to 3 Months	21.76	0.00	100.64	474.88	0.00	5.46	602.74
Over 3 Months and up to 6 Months	65.43	100.00	20.15	1,498.00	0.00	10.92	1,694.50
Over 6 Months and up to 1 Year	140.45	0.00	22.16	3,239.66	0.00	65.49	3,467.76
Over 1 Year and up to 3 Years	138.91	0.50	21.92	4,372.21	0.00	0.00	4,533.54
Over 3 Years and up to 5 Years	3.16	0.00	698.25	133.01	0.00	0.00	834.42
Over 5 Years and up to 7 Years	11.98	0.13	543.02	132.98	159.47	439.97	1,287.55
Over 7 Years and up to 10 Years	1.28	0.00	909.54	0.00	0.00	0.00	910.82
Over 10 Years and up to 15 Years	0.53	0.00	1,580.46	0.00	0.00	0.00	1,580.99
Over 15 Years	26.00	0.00	24.84	0.00	0.00	0.00	50.84
Total	**666.67**	**211.24**	**4,070.30**	**11,181.04**	**159.47**	**1,183.14**	**17,471.86**

** NPA Excluded*

6.8 Classification of Non-Performing Assets

The Bank follows extant guidelines of the RBI on income recognition, asset classification, provisioning and classification of Non-Performing Assets (NPA) and tracking of Special Mention Accounts (SMA). All these are carried out strictly in accordance with the Income Recognition and Asset Classification (IRAC) norms and related RBI circulars as updated from time to time.

6.8.1 Provisioning & NPA

Provisions for NPAs are made at/or above the minimum required level in accordance with the provisioning norms adopted by the Bank and as per the RBI directives on matters relating to prudential norms.

(i) Amount of NPA - Table 10 (₹ in crore) (31-03-2022)

Sl. No.	Category	₹ in crore
A	Amount of NPA (Gross)	949.60
A.1	Substandard	641.93
A.2	Doubtful	307.67
A.3	Loss	0
	NPA Provision	493.64
B	**Net NPAs**	**455.96**
C	**Advances**	
C1	Gross Advances	12,130.64
C3	Net Advances	11,637.00
D	**NPA Ratios**	
D.1	Gross NPAs to Gross Advances (%)	7.83%
D.2	Net NPAs to Net Advances (%)	3.92%

(ii) Movement of Gross NPA & Net NPA, FY 2021-22 - Table 11 (₹ in crore)

Particulars	Gross NPA	Net NPA
Opening balance at April 1, 2021	564.00	316.58
Add: Addition during the period	642.46	456.35
Less: Reduction/Upgradation/Write-off/during the period	256.86	316.97
Closing balance at March 31, 2022	**949.60**	**455.96**

(iii) Movement of NPA Provisions, FY 2021-22 - Table 12 (₹ in crore)

Particulars	₹ in crore
Opening balance at April 1, 2021	247.42
Add: Provision made during the period	381.53
Less: Write-off/write-back excess provision	135.31
Closing balance at March 31, 2022	**493.64**

7. Operational Risk and Business Continuity Management

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is primarily managed by prescribing adequate controls and mitigation measures which are being reviewed and updated on a regular basis to suit the changes in business practices, structure and risk profile.

Business continuity refers to the Bank's capability to continue delivery of its products/services at an acceptable predefined level following a disruptive incident. The Bank recognises the need to continue and recover all critical business functions and to protect systems and data, which are critical to its operations during a crisis. Business Continuity Management (BCM) is a holistic management process that identifies potential impacts that could threaten the Bank, and provides a framework for building resilience and the capability for an effective response that safeguards the interests of its key stakeholders, reputation, brand and value-creating activities.

7.1 Structure and Organisation of Operational Risk & Business Continuity Management

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

The OR-BCMC reviews the risk profile to take into cognizance future changes and threats, and concurs on areas of highest priority and related mitigation strategy with different functions and business units. The committee ensures that adequate resources are being assigned to mitigate risks as needed, and communicates to business units and functions, the importance of operational risk management in business activities.

Business Continuity Management in the Bank is also overseen by the Operational Risk & Business Continuity Management (OR-BCM) Committee, which is responsible for the 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 the continuity of the critical operations of the Bank, covering all identified disasters. A Crisis Management and Quick Response Team (CM-QRT) at the Head Office level functions under the OR-BCM Committee. The CM-QRT takes responsibility and acts swiftly in case of breakdown or failure of critical systems, the occurrence of natural disasters/accidents or any other events (for example Covid-19 pandemic) affecting business continuity.

Operational Risk Management, Business Continuity Management and coordination of relevant activities under CM-QRT are the responsibilities of the Operational Risk Division of Risk Management Department. The Division is responsible for coordinating all the operational risk management and business continuity planning activities of the Bank, to facilitate the 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 Operational Risk Management model of the Bank facilitates conduction of Risk and Control Self-Assessments, (RCSA) scenario assessments, controls testing, investigation of incidents, issues tracking and development of action plans. Each of these activities can be linked to the other activities in the system, thereby providing an integrated and centralized framework for collecting, managing, and storing information.

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

8. 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 period 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 a change in the 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.

8.1 Structure and Organsation of market risk management function

The Risk Management Committee of the Board (RMCB) oversees the bank-wide market risk management. The Market Risk & Asset Liability Management Committee (MR-ALCO) is primarily responsible for establishing Market Risk Management and Asset Liability Management in the Bank.

The MR-ALCO, headed by the Managing Director & CEO, is responsible for implementing risk management guidelines issued by the regulator and monitoring adherence to the internal guidelines, procedures, practices, policies and risk management prudential limits. The major functions of MR-ALCO, with respect to managing risks in the banking and investment books of the Bank include:

- Designing and implementing effective market risk management and ALM framework.
- Reviewing new directives and regulatory limits for market risk, interest rate risk and liquidity risk, monitoring and revisions to the tolerance limits prescribed in the Liquidity Risk Management Policy, Investment Policy and Market Risk Management Policy.
- Ensuring that the business strategy of the Bank is in line with Bank's stated risk management objectives.
- Determining the structure, responsibilities and controls for managing Market Risk and for overseeing the liquidity positions.
- Ensuring the independence of working of the Mid Office and Market Risk functions.

The Market Risk Division of the Risk Management Department is responsible for the design and implementation of the Bank's Market Risk Management/Asset Liability Management system. The Division is independent of business and trading units, and provides an independent risk assessment, which is critical to the MR-ALCO's key function of controlling and managing market risks in accordance with the mandate established by the Board and Risk Management Committee. Mid Office of the Bank's Treasury function is attached to the Market Risk Division of the 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.

8.2 Liquidity Risk

Liquidity risk management in the Bank is governed by the Board approved Market Risk Management Policy, Assets and Liabilities Pricing Policy and Liquidity Risk Management Policy which cover the Liquidity Risk, Interest Rate Risk (Banking and Trading book) and Market Risk framework. The Bank's Market Risk & Asset Liability Management Committee (MR-ALCO) is responsible for overseeing the management and governance of liquidity risk.

The liquidity profile of the Bank is analysed by tracking all the cash inflows and outflows in the maturity ladder based on the actual maturity and expected occurrence predicted through behavioural analysis of cash flows. The renewal pattern and premature withdrawals of term deposits and drawdown of un-availed credit limits are also captured through behavioural studies.

The Bank computes the Regulatory prescribed Liquidity Ratios such as LCR and NSFR, and uses them as effective tools in Liquidity Management. Liquidity stress tests are conducted under different scenarios at periodic intervals to assess the impact on liquidity and to withstand stressed conditions.

8.3 Interest Rate Risk in the Banking Book

Interest rate risk refers to the impact on the Bank's Net Interest Income, and the value of its assets and liabilities arising from fluctuations in the interest rate due to internal and external factors. Internal factors include the composition of the Bank's assets and liabilities, quality, maturity, existing rates, and re-pricing period of deposits, borrowings, loans and investments. External factors cover general economic conditions. Rising or falling interest rates impact the Bank depending on whether the balance sheet is asset sensitive or liability sensitive.

As interest rate risk can impact both Net Interest Income (NII) and the Economic value of capital, it is assessed and managed from both earnings and economic value perspectives.

a) Earnings perspective: Analyses the impact on Bank's Net Interest Income (NII) in the short term through traditional gap analysis.

b) Economic perspective: Analyses the impact on the Net Worth of the Bank due to re-pricing of assets, liabilities and off-balance sheet items through duration gap analysis.

Earnings at Risk (EaR) Table 13 (₹ in crore)

Particulars	Impact on NII (31-03-2022)
Impact of 100 bps parallel shift in interest rate on both assets & liabilities on Net Interest Income (NII)	7.32

Market Value of Equity (MVE) Table 14 (₹ in crore)

Particulars	Impact on MVE (31-03-2022)
Impact of 100 bps parallel shift in interest rate on both assets & liabilities on Market Value of Equity	204.82

As the Reserve Bank of India has not prescribed capital charges for market risk for SFBs, the Bank has not computed capital charges for Market Risk.

9 Information Security & Cyber Security Risk Management

The Bank has established robust information and cyber security frameworks for securing the IT infrastructure and systems. The information security and cyber security policies of the Bank are approved and periodically reviewed by the Board of Directors. The IT Strategic Committee of the Board oversees its implementation. The Information Security Governance Committee (ISGC), headed by the Managing Director & CEO and comprising members of the Senior Management from different business functions, is responsible at the Executive Level for the implementation of measures for ensuring information security and cyber security. ISGC provides clear direction and support for Information Security Risk Management initiatives in the Bank.

The ISGC monitors, reviews, directs and manages the Bank's Information Security Risk Management System within the Bank. This Committee functions as the apex body for handling Information Security risk related initiatives in the Bank, and reports to the Board of Directors through the IT Strategy Committee of the Board and keeps the Board apprised of relevant risks that need attention.

The Information Security Division of Risk Management Department is headed by the Chief Information Security Officer (CISO), who reports to the Chief Risk Officer (CRO). The CISO is responsible for articulating and enforcing the policies that the Bank uses to protect its information assets, apart from coordinating the information security related issues/implementations within the organisation as well as relevant external agencies. The Information Security Division is responsible for creating, implementing and maintaining compliance with the appropriate Information Security Risk Management framework. The Division is responsible for measuring the performance of information security controls across the overall enterprise and reporting risks including incidents and critical audit findings to the ISGC. The Division is responsible for scheduling regular review meetings of the ISGC to report progress on key metrics, the risk management programme and other information security initiatives.

The Bank has implemented a 24 X 7 Security Operations Centre (SOC) to perform the task of detection and analysis of all potential incidents and to notify the application owners who have been affected, for the containment, eradication and recovery from the incident. All cyber security incidents are recorded and reported to Information Security Division. The Information Systems of the Bank are subjected to Vulnerability Assessment and Penetration Testing (VAPT) on a periodic basis, as a preventive measure against cyber-attacks that could threaten the confidentiality, integrity and availability of the data and the systems.

Report on Corporate Governance

The report on the Bank's Corporate Governance for the Financial Year 2021-2022, is as under:

COMPOSITION OF THE BOARD OF DIRECTORS

The Composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949, applicable provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 and as per the provisions of the Companies Act, 2013. As on March 31, 2022, the Board of Directors of the Bank, comprising a combination of Executive and Non-Executive Directors, consisted of Nine (9) members, of whom Eight (8) are Non-Executive Directors. The responsibility of the Board inter alia includes the formulation of an overall strategy for the Bank, taking new initiatives, formulating policies, performance review, monitoring of plans and pursuing of policies and procedures.

A brief profile of the Directors as on March 31, 2022 is furnished as hereunder:

BOARD OF DIRECTORS

Board Profile

Shri. Ravimohan Periyakavil Ramakrishnan

(Part-Time Chairman and Non-Executive Independent Director)

Shri. Ravimohan Periyakavil Ramakrishnan is the Part-Time Chairman and Independent Director of the Bank. He holds a Bachelor's degree in Science and a Master's degree in Science from the Kerala University, and a Master's degree in Business Administration from the Birmingham University. He is a Certified Associate of the Indian Institute of Bankers. He was previously employed as a Chief General Manager in the Department of Banking Supervision of the Reserve Bank of India. He was previously a resident advisor of the Financial Sector Supervision, International Monetary Fund, AFRITAC South, Mauritius.

Shri. Kadambelil Paul Thomas

(Managing Director and Chief Executive Officer)

Shri. Kadambelil Paul Thomas is the Managing Director and Chief Executive Officer of the Bank. He holds a Master's Degree in Business Administration from Annamalai University. He was previously the Chairman and Managing Director of ESAF Financial Holdings Private Limited. He has also served as the Founder Secretary cum Honorary Executive Director of Evangelical Social Action Forum for over 26 years. He was also previously a Director on the Boards of Sanma Garments Private Limited, Rhema Dairy Products India Private Limited, Rhema Milk Producer Company Limited, ESAF Homes and Infrastructure Private Limited, ESAF Health Care Services Private Limited, ESAF Swasraya Producers Company Limited, CEDAR Retail Private Limited, ESAF Enterprise Development Finance Limited and Cedar Livelihood Services Private Limited. Presently, he is the President of the Kerala State Association of Financial Inclusion Institutions (KASAFI).

Dr. Joseph Vadakkekara Antony

(Non-Executive Independent Director)

Dr. Joseph Vadakkekara Antony (Dr. V. A. Joseph) is an Independent Director on the Board of the Bank. He holds a Bachelor's degree in Law, a Master's degree in Personnel Management and a Doctorate in Philosophy (Business Economics) from the Pune University. He is a Certified Associate of the Indian Institute of Bankers. He was the Managing Director and Chief Executive Officer on the Board of South Indian Bank Limited and was also on the Boards of Directors of Muthoot Homefin (India) Limited, SP Life Care Private Limited and ET Marlabs Private Limited. He was previously employed with the Syndicate Bank. He received the Sunday Standard Best Banker Award in 2013 and IDRBT Technology Excellence Award in 2012.

Smt. Asha Morley

(Non-Executive Independent Director)

Smt. Asha Morley is an Independent Director on the Board of the Bank. She holds a Bachelor's degree in Commerce from the Bombay University. She is a Fellow Member of the Institute of Chartered Accountants of India (F. C. A.) holding a D. I. S. A. (Diploma Information Systems Audit) certification. She was previously a Director on the boards of Morley Investments Private Limited and Morley Consultants Private Limited.

Shri. Alex Parackal George

(Non-Executive Independent Director)

Shri. Alex Parackal George is an Independent Director on the Board of the Bank. He holds a Bachelor of Technology degree in Chemical Engineering from the Indian Institute of Technology, Madras and a Post Graduate Diploma in Management from the Indian Institute of Management, Calcutta. He is also the Proprietor of Alco Fasteners, a small-scale industrial unit registered with the Directorate of Industries and Commerce.

Shri. Thomas Jacob Kalappila

(Non-Executive Independent Director)

Shri. Thomas Jacob Kalappila is a Fellow Member of the Institute of Chartered Accountants of India (F.C.A) holding a D.I.S.A (Diploma Information Systems Audit) certification. He has over 40 years of post-qualification experience as a Chartered Accountant and has been in practice for more than 37 years, providing financial and management consultancy services to various reputed entities. Currently, Shri. Thomas is the Senior Partner of M/s. Thomas Jacob & Co. and is leading all major audit and attest assignments in the firm. He has a rich experience in

Statutory Audit and Internal and Forensic Audit of banks for more than 35 years and is currently undertaking the audit of Canara Bank, Indian Overseas Bank and Indian Bank. He has previously served as the Independent Director on the Boards of South Indian Bank Limited and Malabar Cements Limited.

Dr. Vinod Vijayalekshmi Vasudevan

(Non-Executive Independent Director (Additional))

Dr. Vinod Vijayalekshmi Vasudevan is currently the Group CEO of Flytxt BV, a privately held Dutch company pioneering AI at scale solutions for customer lifetime value management subscription and usage business. With roles spanning from research to commercialisation and alternating between small ventures and large multinational corporations, Vinod has been developing and translating intellectual property to technology solutions and scalable business models throughout his career.

Prior to Flytxt, he held technology and business leadership roles in Japan, Singapore, USA, and India. He was an early hire at the greenfield Telecom venture 'Reliance Infocom' (subsequently Reliance Communications), where he was responsible for nationwide data and content services and wireless ATM and POS services. These innovative services received national and international awards such as the "Best IT implementation" from PC-Quest and "SOA Award" from IDC.

Dr. Vinod Vijayalekshmi Vasudevan has served as a keynote speaker and panellist at global events, is a key participant in ISO Standards, has several patents, and has authored many papers. He holds a Bachelor's, Master's and Doctorate in Computer Science and Engineering from IIT Kharagpur, where he specialised in Artificial Intelligence.

** Dr. Vinod Vijayalekshmi Vasudevan was appointed as Non-Executive Independent Director (Additional) of the Bank with effect from December 22, 2021 till the conclusion of the Sixth Annual General Meeting of the Bank.*

The Board of Directors has recommended the appointment of Dr. Vinod Vijayalekshmi Vasudevan as a Non-Executive Independent Director, to hold office for a term of up to three consecutive years with effect from December 22, 2021 to the shareholders for approval.

Shri. Saneesh Singh*

(Non-Executive Nominee Director)

Shri. Saneesh Singh is the Non-Executive Nominee Director of the Bank. He holds a Master's degree in Arts from the Lucknow University and an Advanced Post Graduate Diploma in Computer and Information Management from the Uptron Academy of Computer Learning. He has also completed the HBS ACCION programme on 'Strategic Leadership' in Inclusive Finance from the Harvard Business School. He is the Managing Director of Dia Vikas Capital Private Limited and was previously employed with the Small Industries Development Bank of India. He was awarded the British Chevening Scholarship by the Foreign and Commonwealth Office to study banking at the London School of Economics and Political Science.

**Shri. Saneesh Singh was re-appointed as the Non-Executive Nominee Director of the Bank with effect from December 13, 2021 for a period of three consecutive years. However, due to the withdrawal of the nomination of Shri. Saneesh Singh by nominating authority, Shri. Saneesh Singh ceased to be the Director of the Bank with effect from July 26, 2022.*

Shri. Chandanathil Pappachan Mohan*

(Non-Executive Nominee Director)

Shri. Chandanathil Pappachan Mohan (Shri. C. P. Mohan), former Chief General Manager of NABARD and Managing Director of NABFINS, is a Development Finance Professional with four decades of experience ranging from grassroots to policy level positions across public, private, cooperative, and multilateral institutions, like Gujarat Co-operative Milk Marketing Federation and College of Agriculture Banking of Reserve Bank of India. He has worked with international organisations like the World Bank Group and the FAO of the United Nations as a Technical Specialist in Rural Finance, Post Disaster Needs Assessment and Livelihoods.

He was instrumental in building up NABFINS as a vibrant national-level rural Micro Finance Institution. At the policy level, he was a member of Prof. Sriram Committee on the Formation of Kerala Cooperative Bank, and has supported the Khan Committee of the Reserve Bank of India.

Shri. Mohan has served on the Boards of several development institutions and Regional Rural Banks. Agri-value chains, banking correspondent models, rural finance, and development projects in Europe, Africa, South America and Asia, are his keen areas of interest.

He is a Post Graduate in Rural Management from the Institute of Rural Management, Anand, and holds a B. Sc. degree (Agri & AH) from G. B. Pant University for Agriculture and Technology, Pantnagar, Uttarakhand. He is a Certified Associate of the Indian Institute of Bankers (CAIIB).

**Shri. Chandanathil Pappachan Mohan was appointed as the Non-Executive Nominee Director of the Bank with effect from May 29, 2020 for a period of three consecutive years. However, due to the withdrawal of the nomination of Shri. Chandanathil Pappachan Mohan by the nominating authority, Shri. Chandanathil Pappachan Mohan ceased to be the Director of the Bank with effect from October 31, 2022.*

MEETINGS OF THE BOARD OF DIRECTORS

The Board of Directors met 13 times during the Financial Year 2021-22 on May 26, 2021, June 18, 2021, June 29, 2021, July 24, 2021, August 25, 2021, September 29, 2021, November 06, 2021, November 26, 2021, December 22, 2021, January 13, 2022, February 05, 2022, March 10, 2022 and March 29, 2022. The Board of Directors thus ensured the stipulation laid down in the Companies Act, 2013 with respect to the conduct of Board meetings during the Financial Year.

Sl. No.	Name of the Director	No. of Board Meetings entitled to attend	No. of Board Meetings attended	Attendance of last AGM
1.	Shri. Ravimohan Periyakavil Ramakrishnan	13	13	Yes
2.	Shri. Kadambelil Paul Thomas	13	13	Yes
3.	Dr. V. A. Joseph	13	13	Yes
4.	Smt. Asha Morley	13	13	Yes
5.	Shri. Alex Parackal George	13	13	Yes
6.	Shri. Thomas Jacob Kalappila	13	13	Yes
7.	Dr. Vinod Vijayalekshmi Vasudevan *	4	4	NA
8.	Shri. Saneesh Singh**	13	13	Yes
9.	Shri. C. P. Mohan***	13	13	Yes
10.	Shri. Santhosh George ****	1	1	NA

** Dr. Vinod Vijayalekshmi Vasudevan was appointed as the Non-Executive Independent Director (Additional) of the Bank with effect from December 22, 2021.*

*** Shri. Saneesh Singh ceased to be a Director of the Bank with effect from July 26, 2022, due to the withdrawal of nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority.*

**** Shri. Chandanathil Pappachan Mohan ceased to be a Director of the Bank with effect from October 31, 2022, due to withdrawal of nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority.*

***** Shri. Santhosh George was appointed as the Non-Executive Independent Director of the Bank with effect from December 08, 2020 for a period of three years. He resigned from the Directorship of the Bank due to pre-occupation with effect from May 26, 2021.*

COMMITTEES OF THE BOARD

The Board of Directors, based on the statutory requirements, has constituted several committees to deal with specific matters and has delegated powers to different functional areas. These committees monitor the activities falling within their terms of reference. The Board of Directors has formed Eleven (11) Committees as on March 31, 2022. The details of the Committees are enlisted in the table below:

Sl. No.	Name of the Committee
1.	Audit Committee of the Board (ACB)
2.	Risk Management Committee of the Board (RMCB)
3.	Nomination Remuneration and Compensation Committee of the Board (NRCCB)
4.	Management Committee of the Board (MCB)
5.	IT Strategy Committee of the Board (ITSCB)
6.	Customer Service Committee of the Board (CSCB)
7.	Corporate Social Responsibility Committee of the Board (CSRCB)
8.	Human Resource Committee (HRCB)
9.	High Value Fraud Monitoring Committee of the Board (HVFMCB)
10.	Stakeholders' Relationship Committee of the Board (SRCB)
11.	IPO Steering Committee of the Board (IPOSCB)

Audit Committee of the Board (ACB)

The Audit Committee was constituted by a meeting of the Board of Directors held on December 13, 2016. The Committee was reconstituted on August 25, 2021. As on March 31, 2022, the Committee had Four (4) members:

Sl. No.	Name of the Director	Designation
1.	Smt. Asha Morley	Chairperson
2.	Shri. Thomas Jacob Kalappila	Member
3.	Shri. C. P. Mohan	Member
4.	Dr. V. A. Joseph	Member

The scope and function of the Audit Committee are in accordance with Section 177 of the Companies Act, 2013, Securities and Exchange Board of India Regulations, 2015 and the guidelines issued by the Reserve Bank of India from time to time.

During the Financial Year 2021-22, Seven (7) meetings of the Committee were held on the following dates:

Sl. No.	Date of Meeting
1.	May 26, 2021
2.	June 29, 2021
3.	August 25, 2021
4.	September 28, 2021
5.	November 06, 2021
6.	February 04, 2022
7.	March 24, 2022

The details regarding the constitution of the Audit Committee, along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of Meetings attended
1.	Smt. Asha Morley	Chairperson	7	7
2.	Shri. Ravimohan Periyakavil Ramakrishnan*	Member	3	3
3.	Shri. Thomas Jacob Kalappila	Member	7	7
4.	Shri. C. P. Mohan**	Member	7	7
5.	Dr. V. A. Joseph	Member	7	7

** Shri. Ravimohan Periyakavil Ramakrishnan ceased to be a member of the Committee with effect from August 25, 2021.*

*** Shri. Chandanathil Pappachan Mohan ceased to be a member of the Committee with effect from October 31, 2022, due to the withdrawal of the nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority.*

Risk Management Committee of the Board (RMCB)

The Risk Management Committee was constituted by a meeting of the Board of Directors held on December 13, 2016. The Committee was not reconstituted during the Financial Year 2021-22. As on March 31, 2022, the Committee had Four (4) members:

Sl. No.	Name of the Director	Designation
1.	Shri. Alex Parackal George	Chairman
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member
3.	Shri. Thomas Jacob Kalappila	Member
4.	Shri. Kadambelil Paul Thomas	Member

During the Financial Year 2020-21, Four (4) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	June 29, 2021
2.	September 27, 2021
3.	November 26, 2021
4.	March 05, 2022

The details regarding the constitution of the Risk Management Committee, along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of Meetings attended
1.	Shri. Alex Parackal George	Chairman	4	4
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member	4	4
3.	Shri. Thomas Jacob Kalappila	Member	4	4
4.	Shri. Kadambelil Paul Thomas	Member	4	4

Nomination Remuneration and Compensation Committee of the Board (NRCCB)

The Nomination Remuneration and Compensation Committee of the Board was constituted by a meeting of the Board of Directors held on December 13, 2016. The Committee was not reconstituted during the Financial Year 2021-22. As on March 31, 2022, the Committee had Five (5) members:

Sl. No.	Name of the Director	Designation
1.	Dr. V. A. Joseph	Chairman
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member
3.	Smt. Asha Morley	Member
4.	Shri. Saneesh Singh	Member
5.	Shri. C. P. Mohan	Member

The scope and function of the Nomination Remuneration and Compensation Committee are in accordance with Section 178 of the Companies Act, 2013, Securities and Exchange Board of India Regulations, 2015 and the guidelines issued by the Reserve Bank of India from time to time.

During the Financial Year 2021-22, Nine (9) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	May 24, 2021
2.	June 28, 2021
3.	August 24, 2021
4.	September 27, 2021
5.	November 06, 2021
6.	November 26, 2021
7.	December 22, 2021
8.	February 04, 2022
9.	March 24, 2022

The details regarding the constitution of the Nomination Remuneration and Compensation Committee along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of Meetings attended
1.	Dr. V. A. Joseph	Chairman	9	9
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member	9	9
3.	Smt. Asha Morley	Member	9	9
4.	Shri. Saneesh Singh*	Member	9	9
5.	Shri. C. P. Mohan**	Member	9	9

** Shri. Saneesh Singh ceased to be a member of the Committee with effect from July 26, 2022, due to the withdrawal of the nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority.*

*** Shri. Chandanathil Pappachan Mohan ceased to be a member of the Committee with effect from October 31, 2022, due to the withdrawal of nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority.*

Management Committee of the Board (MCB)

The Management Committee of the Board was constituted by a meeting of the Board of Directors held on August 17, 2017. The Committee was not reconstituted during the Financial Year 2021-22. As on March 31, 2022, the Committee had Four (4) members:

Sl. No.	Name of the Director	Designation
1.	Shri. Ravimohan Periyakavil Ramakrishnan	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Dr. V. A. Joseph	Member
4.	Shri. C. P. Mohan	Member

During the Financial Year 2021-22, Twelve (12) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	May 24, 2021
2.	June 28, 2021
3.	August 02, 2021
4.	August 24, 2021
5.	September 20, 2021
6.	October 29, 2021
7.	November 30, 2021
8.	January 13, 2022
9.	February 04, 2022
10.	March 03, 2022
11.	March 19, 2022
12.	March 24, 2022

The details regarding the constitution of the Management Committee along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of Meetings attended
1.	Shri. Ravimohan Periyakavil Ramakrishnan	Chairman	12	12
2.	Shri. Kadambelil Paul Thomas	Member	12	12
3.	Dr. V. A. Joseph	Member	12	12
4.	Shri. C. P. Mohan*	Member	12	12

** Shri. Chandanathil Pappachan Mohan ceased to be a member of the Committee with effect from October 31, 2022, due to the withdrawal of the nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority.*

IT Strategy Committee of the Board (ITSCB)

Pursuant to the guidelines of the Reserve Bank of India, the IT Strategy Committee of the Board was constituted by a meeting of the Board of Directors held on May 26, 2017. The Committee was reconstituted on December 22, 2021 during the Financial Year 2021-22. As on March 31, 2022, there were Four (4) members in the Committee:

Sl. No.	Name of the Director	Designation
1.	Shri. Thomas Jacob Kalappila	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Shri. Alex Parackal George	Member
4.	Dr. Vinod Vijayalekshmi Vasudevan	Member

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

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

The IT Strategy Committee of the Board was convened Five (5) times during the Financial Year 2021-22 on the following dates:

Sl. No.	Date of Meeting
1.	June 28, 2021
2.	September 28, 2021
3.	November 24, 2021
4.	December 22, 2021
5.	March 05, 2022

The details regarding the constitution of the IT Strategy Committee along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of Meetings attended
1.	Shri. Thomas Jacob Kalappila	Chairman	5	5
2.	Shri. Kadambelil Paul Thomas	Member	5	5
3.	Shri. Alex Parackal George	Member	5	5
4.	Dr. Vinod Vijayalekshmi Vasudevan*	Member	1	1
5.	Shri. Santhosh George**	Member	NIL	NIL

** Dr. Vinod Vijayalekshmi Vasudevan was appointed as a member of the Committee with effect from December 22, 2021.*

*** Shri. Santhosh George was appointed as a member of the Committee on February 04, 2021. He ceased to be a member of the Committee on May 26, 2021.*

Customer Service Committee of the Board (CSCB)

Pursuant to the directives issued by the Reserve Bank of India, the Customer Service Committee of the Board was constituted by a meeting of the Board of Directors held on August 17, 2017 to bring about improvements in the quality of customer services provided by the Bank. The Committee was reconstituted on December 22, 2021 during the year. As on March 31, 2022, the Customer Service Committee comprises the following members who have adequate skills and rich experience dealing with customers belonging to different strata in society:

Sl. No.	Name of the Director	Designation
1.	Shri. C. P. Mohan	Chairman
2.	Shri. Saneesh Singh	Member
3.	Shri. Alex Parackal George	Member
4.	Dr. Vinod Vijayalekshmi Vasudevan	Member

The Customer Service Committee of the Board was convened Four (4) times during the Financial Year 2021-22 on the following dates:

Sl. No.	Date of Meeting
1.	June 28, 2021
2.	August 24, 2021
3.	October 29, 2021
4.	February 05, 2022

The details regarding the constitution of the Customer Service Committee along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of Meetings attended
1.	Shri. C. P. Mohan*	Chairman	4	4
2.	Shri. Saneesh Singh	Member	4	4
3.	Shri. Alex Paracal George	Member	4	4
4.	Dr. Vinod Vijayalekshmi Vasudevan**	Member	1	1
5.	Shri. Santhosh George***	Member	NIL	NIL

** Shri. Chandanathil Pappachan Mohan ceased to be a member of the Committee with effect from October 31, 2022, due to the withdrawal of the nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority. The Committee was reconstituted on November 10, 2022 based on the cessation of the Directorship of Shri. Chandanathil Pappachan Mohan and post reconstitution, Shri. Thomas Jacob Kalappila has been appointed as the Chairman of the Committee.*

*** Dr. Vinod Vijayalekshmi Vasudevan was appointed as the member of the Committee with effect from December 22, 2021.*

**** Shri. Santhosh George was appointed as a member of the Committee on February 04, 2021 and no meetings of the Committee were held during the Financial Year after his appointment. He ceased to be a member of the Committee on May 26, 2021.*

Corporate Social Responsibility and Sustainability Committee of the Board (CSRSCB)

The Bank has constituted a Corporate Social Responsibility and Sustainability Committee of the Board pursuant to Section 135 of the Companies Act, 2013, in the meeting of the Board of Directors held on August 17, 2017. The Committee has been constituted to:

- Formulate and recommend to the Board, a Corporate Social Responsibility Policy, which shall indicate the activities to be undertaken by the Bank, as laid down in Schedule VII to the Companies Act, 2013.
- Recommend the amount to be expended for the CSR activities of the Bank.
- Monitor the Bank's Corporate Social Responsibility Policy and implementation of CSR Projects undertaken from time to time.

There were no changes in the constitution of the Committee during the Financial Year 2021-22. As on March 31, 2022, the Committee had Four (4) members:

Sl. No.	Name of the Director	Designation
1.	Shri. Saneesh Singh	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Dr. V. A. Joseph	Member
4.	Smt. Asha Morley	Member

During the Financial Year 2021-22, three (3) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	May 24, 2021
2.	September 28, 2021
3.	February 04, 2022

The details regarding the constitution of the Corporate Social Responsibility Committee along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

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

** Shri. Saneesh Singh ceased to be a member of the Committee with effect from July 26, 2022, due to the withdrawal of nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority. The Committee was reconstituted on August 03, 2022 based on the cessation of the directorship of Shri. Saneesh Singh and post reconstitution, Dr. V. A. Joseph has been appointed as the Chairman of the Committee.*

High Value Fraud Monitoring Committee of the Board (HVFMCB)

A High Value Fraud Monitoring Committee of the Board was constituted in the meeting of the Board of Directors held on October 03, 2018 to monitor and review all the frauds of ₹ 1 crore 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 the delay in detection, if any, and report the same to the top management of the Bank and Reserve Bank of India;
- Monitor the 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 fraud, such as strengthening internal controls.
- Put in place other measures as may be considered relevant to strengthen preventive measures against fraud.

The Committee was not reconstituted during the Financial Year 2021-22. As on March 31, 2022, the Committee had Five (5) members:

Sl. No.	Name of the Director	Designation
1.	Shri. Kadambelil Paul Thomas	Chairman
2.	Dr. V. A. Joseph	Member
3.	Smt. Asha Morley	Member
4.	Shri. Thomas Jacob Kalappila	Member
5.	Shri. Ravimohan Periyakavil Ramakrishnan	Member

No Meetings of the Committee were convened during the Financial Year 2021-22.

IPO Steering Committee of the Board (IPOSCB)

The IPO Steering Committee of the Board was constituted by a meeting of the Board of Directors held on August 06, 2019. There were no changes in the constitution of the Committee during the Financial Year 2021-22. As on March 31, 2022, the Committee had Three (3) members:

Sl. No.	Name of the Director	Designation
1.	Shri. Ravimohan Periyakavil Ramakrishnan	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Dr. V. A. Joseph	Member

During the Financial Year 2021-22, Three (3) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	June 02, 2021
2.	October 12, 2021
3.	January 13, 2022

The details regarding the constitution of the IPO Steering Committee along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of Meetings attended
1.	Shri. Ravimohan Periyakavil Ramakrishnan	Chairman	3	3
2.	Shri. Kadambelil Paul Thomas	Member	3	3
3.	Dr. V. A. Joseph	Member	3	3

Human Resources Committee of the Board (HRCB)

The Human Resources Committee of the Board (HRCB) was constituted by a meeting of the Board of Directors held on August 25, 2021. There were no changes in the constitution of the Committee since its formation. As on March 31, 2022, the Committee had Four (4) members:

Sl. No.	Name of the Director	Designation
1.	Dr. V. A. Joseph	Chairman
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member
3.	Shri. Kadambelil Paul Thomas	Member

During the Financial Year 2021-22, Three (3) meetings of the Committee were convened on the following dates:

Sl. No.	Date of Meeting
1.	September 27, 2021
2.	December 22, 2021
3.	March 19, 2022

The details regarding the constitution of the Human Resources Committee of the Board along with the attendance recorded in the meetings held during the Financial Year 2021-22 are mentioned below:

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	No. of Meetings attended
1.	Dr. V. A. Joseph	Chairman	3	3
2.	Shri. Ravimohan Periyakavil Ramakrishnan	Member	3	3
3.	Shri. Kadambelil Paul Thomas	Member	3	3

Stakeholders' Relationship Committee of the Board (SRCB)

The Stakeholders' Relationship Committee of the Board was constituted by a meeting of the Board of Directors held on December 11, 2019. There were no changes in the constitution of the Committee during the Financial Year 2021-22. As on March 31, 2022, the Committee had Four (4) members:

Sl. No.	Name of the Director	Designation
1.	Dr. V. A. Joseph	Chairman
2.	Shri. Kadambelil Paul Thomas	Member
3.	Shri. Alex Parackal George	Member
3.	Shri. Saneesh Singh*	Member

** Shri. Saneesh Singh ceased to be a member of the Committee with effect from July 26, 2022, due to the withdrawal of nomination by M/s. ESAF Financial Holdings Private Limited, the nominating authority.*

The scope and function of the Stakeholders' Relationship Committee are in accordance with Section 178 of the Companies Act, 2013 and the Securities and Exchange Board of India Regulations.

The Committee was constituted by envisaging the listing of Equity shares of the Bank in stock exchanges and the progress of the listing is in process. Since the regulatory requirement of holding the meetings of the Committee is not applicable as of now, no meetings of the Committee were convened during the Financial Year 2021-22.

The Company Secretary of the Bank acts as the Secretary of all Sub-Committees of the Board of Directors.

Sitting Fee to Directors

All Directors except Managing Director & CEO are paid Sitting Fee as given below:

1.	Meetings of the Board of Directors	Directors	₹ 50,000 per meeting
2.	Meetings of the Sub-Committees of the Board	Committee Members	₹ 40,000 per meeting

Fair Practices Code

The Bank has adopted the Fair Practices Code pursuant to the guidelines issued by the Reserve Bank of India in this regard, which is displayed on the official website of the Bank and at all branches of the Bank.

Disclosures

- The particulars of transactions between the Bank and its Related Parties (as defined under Section 2(76) of the Companies Act, 2013 and in Accounting Standard 18) are set out in the Financial Statements. The Bank has a record of unqualified financial statements since inception.
- During the last three years, there were no penalties or strictures imposed on the Bank by the Stock Exchange(s) and/or Securities and Exchange Board of India (SEBI) and/or any other statutory authorities on matters relating to the capital market.
- None of the Directors are related to any other Director.
- The relevant disclosures in relation to the number of complaints under the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 have been mentioned in the Directors' Report of the Bank

Name and Address of Stock Exchange at which the Bank's Non-Convertible Debentures are listed

Name of Stock Exchange: BSE Limited

Address of Stock Exchange: Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai- 400001

Security Type: Non-Convertible Debenture

Name and Address of Registrar and Transfer Agent

M/s. Link Intime India Private Limited
C 101, 247 Park, L. B. S. Marg, Vikhroli (West),
Mumbai – 400 083, Maharashtra
Tel: 912249186270

Address for Correspondence

Name of Contact Person: Mr. Ranjith Raj P.

Designation: Company Secretary

Address: Registered and Corporate Office of the Bank, Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651

Shareholder Information

a.	**Date of Incorporation**	: May 05, 2016
b.	**Corporate Identification Number**	: U65990KL2016PLC045669
c.	**RBI Registration Number**	: MUM 124
d.	**Registered and Corporate Office Address**	: Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651

06th Annual General Meeting of the Bank

Date and Time	: Tuesday, December 13, 2022 at 10:30 AM
Venue	: Registered and Corporate Office of the Bank at Building No. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy, Thrissur, Kerala, PIN – 680 651
Financial Year	: April 01 to March 31

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 31 March 2022, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949, Companies Act, 2013 ("the Act") in the manner so required and give a true and fair view in conformity with the Accounting Standards prescribed under section 133 of the Act read with the Companies (Accounting Standards) Rules, 2006, as amended ("Accounting Standards") as applicable to banks and other accounting principles generally accepted in India, of the state of affairs of the Bank as at 31 March 2022, its profit and its cash flows for the year ended on that date.

Basis for Opinion

We conducted our audit of the financial statements in accordance with the Standards on Auditing specified under section 143(10) of the Act (SAs). Our responsibilities under those Standards are further described in the Auditor's Responsibility for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules made thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the ICAI's Code of Ethics. We believe that the audit evidence obtained by us is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Emphasis of Matter

We draw attention to Note 18A. 16 to the Financial Statements which describes that the potential impact of the continuing COVID 19 pandemic on the Bank's results are dependent on future developments which are uncertain.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

Sl. No.	Key Audit Matter	Auditor's Response
1	**Identification of Non-performing advances and provisioning of advances:**	
	(Refer Schedule 9 read with Note 4.3 to the financial statements) 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 2022, the Net Advances of the Bank was ₹11,637 crore (Previous year: ₹8,167.59 crore). Identification of and provisioning for non-performing assets (loans) in accordance with relevant prudential norms issued by the Reserve Bank of India (RBI) in respect of income recognition, asset classification and provisioning pertaining to advances (IRACP) and guidelines relating to Resolution Framework for COVID-19-related Stress (herein after referred as "Relevant RBI guidelines") is a Key Audit Matter (KAM) due to level of regulatory and other stakeholders focus. Also, during the year, the Bank has also considered additional provisions after evaluating past trends of disruptions and the extent to which COVID-19 pandemic and related RBI guidelines will impact its overall operations and performance. Given the uncertainty over the potential macro-economic condition, the impact of the global health pandemic may be different from that estimated as at the date of approval of these financial statements. Since the identification of NPAs and provisioning for advances are significant to the overall audit due to stakeholders and regulatory focus, we have ascertained this as a key audit matter.	Our audit approach included testing the design, operating effectiveness of internal controls and substantive audit procedures in respect of income recognition, asset classification and provisioning pertaining to advances. In particular: • We have evaluated and understood the Bank's internal control system in adhering to the Relevant RBI guidelines regarding income recognition, asset classification and provisioning pertaining to advances including provision on a restructured portfolio. • We have analysed and understood key IT systems/ applications used and tested the design and implementation as well as operational effectiveness of relevant controls, including system generated reports and manual process and controls in relation to income recognition, asset classification, viz., standard, sub-standard, doubtful and loss with reference to relevant RBI guidelines provisioning pertaining to advances; • We test checked advances to examine the validity of the recorded amounts, loan documentation, examined the statement of accounts, indicators of impairment, impairment provision for non-performing assets, and compliance with income recognition, asset classification and provisioning pertaining to advances; • Evaluated the past trends of disruptions, management judgement, governance process and review controls over provisions for standard and non-performing assets including analysis of collection trends, relevant minutes of the Audit Committee meetings and Board meetings; and performed inquiries regarding the provisions made with senior management including the Chief Executive Officer, Chief Financial Officer, Chief Risk Officer and Head Credit Sanctions to assess the adequacy of the overall provision, including additional provisions made.
2	**Key Information Technology ("IT") Systems and Controls:**	
	As a Bank that operates on core banking solution ("CBS") across its branches, the reliability and security of IT systems plays a key role in the business operations. The Bank continued to be highly dependent on third party service providers for its core IT infrastructure. Since a large volume of transactions are processed daily, the IT controls are required to ensure that applications process data as expected and that changes are made in an appropriate manner. The IT infrastructure is critical for smooth functioning of the Bank's business operations as well as for timely and accurate financial accounting and reporting.	We involved our IT specialists to obtain an understanding of the Bank's IT related control environment. Furthermore, we conducted an assessment and identified key IT applications, databases and operating systems that are relevant to our audit. For the key IT systems pertaining to CBS and treasury operations used to prepare accounting and financial information, our areas of audit focus included access security (including controls over privileged access), program change controls, database management and network operations. In particular:

Sl. No.	Key Audit Matter	Auditor's Response
	Due to the pervasive nature and complexity of the IT environment we have ascertained Key Information technology ("IT") systems used in the financial reporting process as a key audit matter.	• We obtained an understanding of the Bank's IT control environment and key changes during the audit period that may be relevant to the audit. • We tested the design, implementation and operating effectiveness of the Bank's General IT controls over the key IT systems that are critical to financial reporting. This included evaluation of the Bank's controls to evaluate segregation of duties and access rights being provisioned / modified based on duly approved requests, access for exit cases being revoked in a timely omission of the word manner during the period of audit; • We also tested key automated and manual business cycle controls and system generated reports relevant to the audit; including testing of the compensating controls or formed alternate procedures to assess whether there were any unaddressed IT Risk that would materiality impact the financial statements.

Information Other than the Financial Statements and Auditor's Report Thereon

- The Bank's Board of Directors is responsible for the preparation of the other information. The other information comprises the Chairman's Statement, the Directors Report including annexures to the Director's report included in the Annual Report, but does not include the financial statement and our auditors report thereon and the Basel II Disclosures under New Capital Adequacy Framework (Basel II Disclosures). The other information is expected to be made available to us after the date of this auditor's report.

- Our opinion on the financial statements does not cover the other information and Basel II Disclosures and accordingly will not express any form of assurance conclusion thereon.

- In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during the course of our audit or otherwise appears to be materially misstated.

- When we read the Other Information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance as required under SA 720 (Revised) 'The Auditor's responsibilities Relating to Other Information'.

Management's Responsibility for the Financial Statements

The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, Accounting Standards and other accounting principles generally accepted in India and the circulars, guidelines and the directions issued by the Reserve Bank of India, from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors are also responsible for overseeing the financial reporting process of the Bank.

Auditor’s Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal financial control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Bank has adequate internal financial controls system in place and the operating effectiveness of such controls.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Materiality is the magnitude of misstatements in the financial statements that, individually or in aggregate, makes it probable that the economic decisions of a reasonably knowledgeable user of the financial statements may be influenced. We consider quantitative materiality and qualitative factors in (i) planning the scope of our audit work and in evaluating the results of our work; and (ii) evaluating the effect of any identified misstatements in the financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

1. As required by Section 143(3) of the Act and Section 30(3) of the Banking Regulation Act, 1949, based on our Audit, we report that:

   a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit and found them to be satisfactory.

   b) In our opinion, the transactions of the Bank which have come to our notice have been within the powers of the Bank.

   c) As explained in the paragraph 2 below, the financial accounting system of the Bank is centralised and, therefore, accounting returns are not required to be submitted by branches.

   d) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books.

   e) The Balance Sheet, Profit and Loss Account and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.

   f) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act as applicable to Banks.

   g) On the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2022 from being appointed as a director in terms of Section 164(2) of the Act.

   h) With respect to the adequacy of the internal financial controls with reference to financial statements and the operating effectiveness of such controls, refer to our separate Report in "Annexure A". Our report expresses an unmodified opinion on the adequacy and operating effectiveness of the Bank's internal financial controls with reference to financial statements.

   i) With respect to the other matters to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended, in our opinion and to the best of our information and according to the explanations given to us, the entity being a banking company, section 197 of the Act related to the managerial remuneration is not applicable by virtue of Section 35B(2A) of the Banking Regulation Act, 1949.

   j) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, as amended in our opinion and to the best of our information and according to the explanations given to us:

      i. The Bank has disclosed the impact of pending litigations on its financial position in its financial statements - Refer Schedule 12 to the financial statements;

      ii. The Bank did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses;

      iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank;

      iv. (a) The Management has represented that, to the best of its knowledge and belief, as disclosed in the notes to the accounts no funds (which are material either individually or in the aggregate) have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Bank to or in any other person(s) or entity(ies), including foreign entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Bank ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries – Refer note 18B 16 to the financial statements.

(b) The Management has represented, that, to the best of its knowledge and belief, as disclosed in the notes to accounts, no funds (which are material either individually or in the aggregate) have been received by the Bank from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the Bank shall, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries – Refer note 18B.16 to the financial statements.

(c) Based on the audit procedures that have been considered reasonable and appropriate in the circumstances, nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) and (ii) of Rule 11(e), as provided under (a) and (b) above, contain any material misstatement.

v. The Bank has not declared or paid any dividend during the year and has not proposed final dividend for the year

2. We report that during the course of our audit we have visited and performed select relevant procedures at 25 branches. Since the Bank considers its key operations to be automated, with the key applications largely integrated to the Core Banking System, it does not require its branches to submit any financial returns. Accordingly, our audit is carried out centrally at Head Office based on the records and data required for the purpose of Audit being made available to us.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants
(Firm Registration No. 117365W)

Neville M. Daruwalla
Partner
(Membership No. 118784)
UDIN: 22118784AISIFH8609

Mumbai, May 10, 2022

ANNEXURE "A" TO THE INDEPENDENT AUDITOR'S REPORT

(Referred to in paragraph 1(h) under 'Report on Other Legal and Regulatory Requirements' section of our report of even date)

Report on the Internal Financial Controls with reference to Financial Statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ("the Act")

We have audited the internal financial controls with reference to financial statements of **ESAF Small Finance Bank Limited** (the "Bank") as of March 31, 2022 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 Bank's policies, the safeguarding of its assets, the prevention and detection of fraud 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, the Banking Regulation Act, 1949 and the guidelines issued by the Reserve Bank of India.

Auditor's Responsibility

Our responsibility is to express an opinion on the internal financial controls with reference to financial statements of the Bank 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") issued by the Institute of Chartered Accountants of India and the Standards on Auditing prescribed under Section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting 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 with reference to financial statements and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls with reference to financial statements, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system over financial reporting.

Meaning of Internal Financial Controls with reference to financial statements

A Bank's internal financial control with reference to financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's internal financial control with reference to financial statements includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Bank; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Bank are being made only in accordance with authorisations of management and directors of the Bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the Bank's assets that could have a material effect on the financial statements.

Inherent Limitations of internal financial control with reference to financial statements

Because of the inherent limitations of internal financial control with reference to financial statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, to the best of our information and according to the explanations given to us the Bank has, in all material respects, an adequate internal financial controls with reference to financial statements and such internal financial controls with reference to financial statements were operating effectively as at 31 March 2022, based on the criteria for internal financial control over financial reporting established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants
(Firm Registration No. 117365W)

Neville M. Daruwalla
Partner
(Membership No. 118784)
UDIN: 22118784AISIFH8609

Mumbai, May 10, 2022

Balance Sheet

as at 31 March 2022

₹ in Thousands

	Schedule No.	As on 31 March 2022	As on 31 March 2021
CAPITAL AND LIABILITIES			
Capital	1	44,94,738	44,94,738
Employee Stock Options Outstanding		48,058	-
Reserves and Surplus	2	95,73,214	90,25,896
Deposits	3	12,81,50,725	8,99,94,260
Borrowings	4	2,95,28,333	1,69,40,000
Other Liabilities and Provisions	5	52,80,573	29,31,622
Total		**17,70,75,641**	**12,33,86,516**
ASSETS			
Cash and Balances with Reserve Bank of India	6	66,66,682	42,80,725
Balances with Banks and Money at Call and Short Notice	7	84,52,364	1,39,10,540
Investments	8	4,07,02,983	1,93,20,690
Advances	9	11,63,70,048	8,16,75,855
Fixed Assets	10	15,94,747	13,85,119
Other Assets	11	32,88,817	28,13,587
Total		**17,70,75,641**	**12,33,86,516**
Contingent Liabilities	12	20,519	15,042
Bills for collection		-	-
Significant Accounting Policies and notes to accounts forming part of financial statements	17 & 18		

Schedules referred to above form an integral part of the financial statements.
The Balance Sheet has been prepared in conformity with Form 'A' of the Third Schedule to the Banking Regulation Act, 1949.

As per our attached report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants
ICAI Firm's Registration Number: 117365W

Sd/-
Neville M. Daruwalla
Partner
Membership No. : 118784

Place : Mumbai
Date : 10 May 2022

For and on behalf of the Board of Directors

Sd/-
P. R. Ravi Mohan
Chairman
DIN: 08534931

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

Sd/-
Asha Morley
Director
DIN: 02012799

Sd/-
Gireesh C. P.
Chief Financial Officer

Sd/-
Ranjith Raj P.
Company Secretary

Place : Mannuthy
Date : 10 May 2022

Profit and Loss Account

for the year ended 31 March 2022

₹ in Thousands

		Schedule No.	Year ended 31 March 2022	Year ended 31 March 2021
I.	**INCOME**			
	Interest Earned	13	1,93,99,255	1,64,11,729
	Other Income	14	20,75,828	12,72,479
	Total		**2,14,75,083**	**1,76,84,208**
II.	**EXPENDITURE**			
	Interest expended	15	79,27,866	71,95,821
	Operating Expenses	16	86,28,711	63,18,552
	Provisions and Contingencies (Refer Note A.14.5 of schedule 18)		43,71,188	31,15,882
	Total		**2,09,27,765**	**1,66,30,255**
III.	**PROFIT**			
	Net Profit for the year (I - II)		5,47,318	10,53,953
	Add: Balance in Profit and Loss account brought forward from Previous Year		30,62,432	22,71,967
			36,09,750	**33,25,920**
IV.	**APPROPRIATIONS**			
	Transfer to Statutory Reserve		1,36,830	2,63,488
	Transfer to Capital Reserve		37,293	-
	Transfer to Investment Fluctuation Reserve		2,20,666	-
	Transfer to proposed dividend		-	-
	Balance carried over to Balance Sheet		32,14,961	30,62,432
	Total		**36,09,750**	**33,25,920**
	Earnings per share (face value of ₹10/- each)			
	(Refer Note B.1 of schedule 18)			
	Basic (₹)		1.22	2.46
	Diluted (₹)		1.22	2.46
	Significant Accounting Policies and notes to accounts forming part of financial statements	17 & 18		

Schedules referred to above form an integral part of the financial statements

The Profit and Loss Account has been prepared in conformity with Form 'B' of the Third Schedule to the Banking Regulation Act, 1949.

As per our attached report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants
ICAI Firm's Registration Number: 117365W

Sd/-
Neville M. Daruwalla
Partner
Membership No. : 118784

Place : Mumbai
Date : 10 May 2022

For and on behalf of the Board of Directors

Sd/-
P. R. Ravi Mohan
Chairman
DIN: 08534931

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

Sd/-
Asha Morley
Director
DIN: 02012799

Sd/-
Gireesh C. P.
Chief Financial Officer

Sd/-
Ranjith Raj P.
Company Secretary

Place : Mannuthy
Date : 10 May 2022

Cash Flow Statement

for the year ended 31 March 2022

₹ In Thousands

Particulars	Year ended 31 March 2022	Year ended 31 March 2021
Cash Flow from Operating Activities		
Profit before tax	7,38,497	14,13,731
Adjustments for:		
Depreciation on Bank's Property	3,27,740	2,85,735
Amortisation of Premium on HTM Investments	80,345	68,460
Profit on sale of investments (net)	(4,35,138)	(2,30,404)
(Profit)/Loss on sale of Fixed Assets	(60)	23,336
Provision for Non Performing Advances	32,06,745	18,87,273
Provision for Standard Advances	9,36,222	9,25,522
Expense on Employee Stock Option	48,058	-
Provision/(Reversal) for Depreciation on Investments	2,33,065	(11,441)
Provision/(Reversal) for Other Contingencies	34,099	(57,072)
	51,69,573	**43,05,140**
(Increase)/ Decrease in Investments (other than HTM Investments)	(1,19,79,401)	40,75,380
(Increase)/ Decrease in Advances	(3,79,00,938)	(1,80,84,912)
(Increase)/ Decrease in Fixed Deposit with Bank (Original Maturity greater than 3 months)	(2,940)	22,64,255
(Increase)/ Decrease in Other Assets	(4,97,394)	(4,24,033)
Increase/ (Decrease) in Deposits	3,81,56,465	1,97,10,437
Increase/ (Decrease) in Other liabilities and provisions	13,78,629	5,21,252
Direct taxes paid	(1,69,016)	(10,93,064)
Net Cash Flow from/(used in) Operating Activities (A)	**(58,45,022)**	**1,12,74,455**
Cash Flow from/(used in) Investing Activities		
Purchase of Fixed Assets	(5,40,140)	(4,95,011)
Proceeds from Sale of Fixed Assets	2,832	1,890
(Increase)/ Decrease in Held to Maturity Investments	(92,81,162)	(58,86,433)
Net Cash Used in Investing Activities (B)	**(98,18,470)**	**(63,79,554)**
Cash Flow from/(Used in) Financing Activities		
Proceeds from Issue of Share Capital (including Share Premium)	-	16,25,873
Increase/(Decrease) in Borrowings	1,25,88,333	49,06,830
Cash Flow from/(Used in) Financing Activities (C)	**1,25,88,333**	**65,32,703**
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	**(30,75,159)**	**1,14,27,604**
Cash and Cash Equivalents at the beginning of year	1,81,87,955	67,60,351
Cash and Cash Equivalents at the end of year	1,51,12,796	1,81,87,955
Note:		
Cash in Hand (Schedule 6 I)	14,66,218	11,55,330
Balance with RBI in Current Account (Schedule 6 II (i))	52,00,464	31,25,395
Balance with Banks in India in Current Account (Schedule 7 I(i) a)	3,56,114	20,07,230
Balance with banks in India in Fixed Deposit	-	-
Money at Call and Short Notice (Schedule 7 I (ii) a)	17,50,000	-
Lending Under Reverse Repo Notice (Schedule 7 I (ii) c)	63,40,000	1,19,00,000
Cash and cash equivalents at the end of the year	**1,51,12,796**	**1,81,87,955**

The above Cash Flow Statement has been prepared under the indirect method as set out in Accounting Standard (AS) 3 - Cash Flow Statements specified under Section 133 of the Companies Act, 2013 read with the Companies (Account) Rules, 2014 .

As per our attached report of even date

For **Deloitte Haskins & Sells**
Chartered Accountants
ICAI Firm's Registration Number: 117365W

Sd/-
Neville M. Daruwalla
Partner
Membership No. : 118784

Place : Mumbai
Date : 10 May 2022

For and on behalf of the Board of Directors

Sd/-
P. R. Ravi Mohan
Chairman
DIN: 08534931

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

Sd/-
Asha Morley
Director
DIN: 02012799

Sd/-
Gireesh C. P.
Chief Financial Officer

Sd/-
Ranjith Raj P.
Company Secretary

Place : Mannuthy
Date : 10 May 2022

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

1 CAPITAL

₹ in Thousands

	As on 31 March 2022	As on 31 March 2021
Authorised Capital		
60,00,00,000 Equity Shares of ₹10/- each (60,00,00,000 Equity Shares of ₹10/- each)	60,00,000	60,00,000
Issued, Subscribed and Paid up Capital #		
44,94,73,798 Equity Shares of ₹10/- each (44,94,73,798 Equity Shares of ₹10/- each)	44,94,738	44,94,738
Total	**44,94,738**	**44,94,738**

2 RESERVES AND SURPLUS

₹ in Thousands

	As on 31 March 2022	As on 31 March 2021
I. Statutory Reserve		
Opening balance	10,34,567	7,71,079
Additions during the year	1,36,830	2,63,488
	11,71,397	**10,34,567**
II. Capital Reserves		
Opening balance	-	-
Additions during the year	37,293	-
	37,293	**-**
III. Share premium		
Opening balance	48,87,628	34,78,538
Additions during the year #	-	14,09,090
	48,87,628	**48,87,628**
IV. Revenue and Other Reserves		
Investment Fluctuation Reserve		
Opening balance	41,269	41,269
Additions during the year	2,20,666	-
	2,61,935	**41,269**
V. Balance in Profit and Loss Account	32,14,961	30,62,432
Total (I to V)	95,73,214	90,25,896

 # During the previous year ended 31 March 2021, the Bank has raised Tier I capital amounting to ₹16,25,873 Thousands by way of private placement of 21,678 Thousands Equity Shares having the face value of ₹10/- each at an issue price of ₹75/- per Equity Share.

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Forming Part of the Financial Statements for the year ended 31 March 2021

3 DEPOSITS

₹ in Thousands

			As on 31 March 2022	As on 31 March 2021
A.	I.	Demand Deposits		
	i.	From Banks	66,879	66,728
	ii.	From Others	21,31,029	14,65,109
	Subtotal (i+ii)		**21,97,908**	**15,31,837**
	II.	Savings Bank Deposits	2,70,76,067	1,59,44,612
	III.	Term Deposits		
	i.	From Banks	1,93,74,605	72,96,065
	ii.	From Others	7,95,02,145	6,52,21,746
	Subtotal (i+ii)		**9,88,76,750**	**7,25,17,811**
	Total (I to III)		**12,81,50,725**	**8,99,94,260**
B.	I.	Deposits of branches in India	12,81,50,725	8,99,94,260
	II.	Deposits of branches outside India	-	-
	Total (I to II)		**12,81,50,725**	**8,99,94,260**

4 BORROWINGS

₹ in Thousands

			As on 31 March 2022	As on 31 March 2021
I.	Borrowings in India			
	i.	Reserve Bank of India	1,03,85,833	14,60,000
	ii.	Other Banks	-	-
	iii.	Other institutions and agencies	1,70,62,500	1,31,00,000
	iv.	Subordinated Debt	16,00,000	19,00,000
	v.	Perpetual Debt Instrument	4,80,000	4,80,000
	Total (i to v)		**2,95,28,333**	**1,69,40,000**
II.	Borrowings outside India		-	-
Total (I to II)			**2,95,28,333**	**1,69,40,000**
Secured Borrowings included in I and II above			1,03,85,833	14,60,000

5 OTHER LIABILITIES AND PROVISIONS

₹ in Thousands

		As on 31 March 2022	As on 31 March 2021
I.	Bills Payable	36,481	26,255
II.	Inter - office adjustments (net)	-	-
III.	Interest accrued	4,07,917	2,19,111
IV.	Provision for Standard Assets	21,77,647	12,41,424
V.	Others (including Provisions)	26,58,528	14,44,832
Total (I to V)		**52,80,573**	**29,31,622**

6 CASH AND BALANCES WITH RESERVE BANK OF INDIA

₹ in Thousands

			As on 31 March 2022	As on 31 March 2021
I.	Cash in hand (including foreign currency notes)		14,66,218	11,55,330
II.	Balance with Reserve Bank of India			
	i.	in Current Accounts	52,00,464	31,25,395
	ii.	in Other Accounts	-	-
Total (I to II)			**66,66,682**	**42,80,725**

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7 BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE

₹ in Thousands

	As on 31 March 2022	As on 31 March 2021
I. In India		
i. Balances with Banks		
a. in Current Accounts	3,56,114	20,07,230
b. in Other Deposit Accounts	6,250	3,310
Total	**3,62,364**	**20,10,540**
ii. Money at Call and Short Notice		
a. With Banks	17,50,000	-
b. With Other Institutions	-	-
c. Lending under Reverse Repo (RBI)	63,40,000	1,19,00,000
Total	**80,90,000**	**1,19,00,000**
Total (I)	**84,52,364**	**1,39,10,540**
II. Outside India		
i. in Current Accounts	-	-
ii. in Other Deposit Accounts	-	-
iii. Money at call and short notice	-	-
Total (II)	**-**	**-**
Total (I to II)	**84,52,364**	**1,39,10,540**

8 INVESTMENTS

₹ in Thousands

	As on 31 March 2022	As on 31 March 2021
I. Investments in India in (Net of Provisions):		
i. Government Securities	3,99,40,959	1,88,89,751
ii. Other approved Securities	-	-
iii. Shares	1,53,935	81,674
iv. Debentures and Bonds	-	-
v. Subsidiaries/ Joint Ventures	-	-
vi. Others [Certificate of Deposits (CDs), Mutual Funds etc.]	6,08,089	3,49,265
Total (I)	**4,07,02,983**	**1,93,20,690**
II. Investments outside India	-	-
Total (II)	**-**	**-**
Total (I to II)	**4,07,02,983**	**1,93,20,690**
Gross Investments	4,09,42,929	1,93,27,572
Less: Depreciation/ Provision for Investments	2,39,946	6,882
Net Investments	**4,07,02,983**	**1,93,20,690**

9 ADVANCES

₹ in Thousands

	As on 31 March 2022	As on 31 March 2021
A. i. Bills purchased and discounted	-	-
ii. Cash credits, overdrafts and loans repayable on demand	11,75,047	7,62,871
iii. Term loans	11,51,95,001	8,09,12,984
Total (Net of Provisions)	**11,63,70,048**	**8,16,75,855**

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Forming Part of the Financial Statements for the year ended 31 March 2021

₹ in Thousands

	As on 31 March 2022	As on 31 March 2021
B. i. Secured by tangible assets *	1,90,95,619	1,18,39,850
ii. Covered by Bank/Government guarantees	-	-
iii. Unsecured	9,72,74,429	6,98,36,005
Total (Net of Provisions)	**11,63,70,048**	**8,16,75,855**
* includes advances against Book debt: ₹ 44,57,572 Thousands (Previous Year : ₹ 427,21,190 Thousands)		
C. I. Advances in India		
i. Priority Sector	8,72,15,566	5,08,89,740
ii. Public Sector	-	-
iii. Banks	-	-
iv. Others	2,91,54,482	3,07,86,115
Total (I) (Net of Provisions)	**11,63,70,048**	**8,16,75,855**
II. Advances outside India		
i. Due from Banks	-	-
ii. Due from Others	-	-
a) Bills purchased and discounted	-	-
b) Syndicated Loans	-	-
c) Others	-	-
Total (II) (Net of Provisions)	**-**	**-**
Total (I to II) (Net of Provisions)	**11,63,70,048**	**8,16,75,855**

10 FIXED ASSETS

₹ in Thousands

	As on 31 March 2022	As on 31 March 2021
I. Premises		
Gross Block		
At the beginning of the year	-	-
Additions during the year	-	-
Deductions during the year	-	-
Closing Balance	**-**	**-**
Depreciation		
As at the beginning of the year	-	-
Charge for the year	-	-
Deductions during the year	-	-
Depreciation to date	-	-
Net Block	**-**	**-**
II. Other fixed assets		
(including furniture and fixtures)		
Gross Block		
At the beginning of the year	20,86,929	16,57,952
Additions during the year	5,98,463	4,77,904
Deductions during the year	12,514	48,927
Closing Balance	**26,72,878**	**20,86,929**

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Forming Part of the Financial Statements for the year ended 31 March 2021

₹ in Thousands

	As on 31 March 2022	As on 31 March 2021
Depreciation		
As at the beginning of the year	7,60,861	4,98,827
Charge for the year	3,27,740	2,85,735
Deductions during the year	9,742	23,701
Depreciation to date	10,78,859	7,60,861
Net Block	**15,94,019**	**13,26,068**
III. Capital Work in progress (Including Capital Advances)	728	59,051
Total (I to III)	**15,94,747**	**13,85,119**

11 OTHER ASSETS

₹ in Thousands

		As on 31 March 2022	As on 31 March 2021
I.	Inter - office adjustments (net)	-	-
II.	Interest accrued	10,91,550	6,78,072
III.	Tax paid in advance/Tax Deducted at source (net of provision)	2,75,709	5,91,693
IV.	Stationery and Stamps	534	1,015
V.	Non-banking assets acquired in satisfaction of claims	-	-
VI.	Deferred tax asset (net)	6,50,123	3,56,302
VII.	Others	12,70,901	11,86,505
Total (I to VII)		**32,88,817**	**28,13,587**

12 CONTINGENT LIABILITIES

₹ in Thousands

		As on 31 March 2022	As on 31 March 2021
I.	Claims against the Bank not acknowledged as debts	-	-
II.	Liability for partly paid investments	-	-
III.	Liability on account of outstanding forward exchange contracts	-	-
IV.	Guarantees given on behalf of constituents - in India	15,519	13,042
V.	Acceptances, endorsements and other obligations	-	-
VI.	Other items for which the Bank is contingently liable	5,000	2,000
Total (I to VI) (Refer B.13 of Schedule 18)		**20,519**	**15,042**

13 INTEREST EARNED

₹ in Thousands

		For the Year Ended 31 March 2022	For the Year Ended 31 March 2021
I.	Interest/discount on advances/bills	1,72,67,116	1,47,35,056
II.	Income on investments	18,83,083	12,83,260
III.	Interest on balances with Reserve Bank of India and other inter-bank funds	2,49,056	3,93,413
IV.	Others	-	-
Total (I to IV)		**1,93,99,255**	**1,64,11,729**

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14 OTHER INCOME

₹ in Thousands

	For the Year Ended 31 March 2022	For the Year Ended 31 March 2021
I. Commission, exchange and brokerage	15,07,225	6,45,009
II. Profit on sale of investments (net)	4,35,138	2,30,404
III. Profit/(Loss) on revaluation of investments (net)	(2,33,065)	11,441
IV. Profit/(Loss) on sale of land, buildings and other assets (net)	60	(23,336)
V. Profit on foreign exchange transactions (net)	9,239	5,475
VI. Income earned by way of dividends etc. from companies	1,565	1,096
VII. Miscellaneous income	3,55,666	4,02,390
Total (I to VII)	**20,75,828**	**12,72,479**

15 INTEREST EXPENDED

₹ in Thousands

	For the Year Ended 31 March 2022	For the Year Ended 31 March 2021
I. Interest on deposits	67,88,463	60,45,684
II. Interest on Reserve Bank of India/Inter bank borrowings	2,04,159	79,196
III. Others	9,35,244	10,70,941
Total (I to III)	**79,27,866**	**71,95,821**

16 OPERATING EXPENSES

₹ in Thousands

	For the Year Ended 31 March 2022	For the Year Ended 31 March 2021
I. Payments to and provisions for employees	23,21,366	18,77,836
II. Rent, taxes and lighting	6,00,209	4,20,387
III. Printing and stationery	67,422	52,914
IV. Advertisement and publicity	58,975	27,097
V. Depreciation on Bank's property	3,27,740	2,85,735
VI. Directors' fees, allowances and expenses	14,795	14,044
VII. Auditors' fees and expenses	7,486	6,304
VIII. Law charges	4,334	2,610
IX. Postage, Telegrams, Telephones etc	1,09,418	91,677
X. Repairs and maintenance	17,624	15,775
XI. Insurance	1,27,333	1,08,349
XII. Other expenditure *	49,72,009	34,15,824
Total (I to XII)	**86,28,711**	**63,18,552**

** includes expenditure towards*

₹ in Thousands

	For the Year Ended 31 March 2022	For the Year Ended 31 March 2021
Corporate Social Responsibility	87,600	71,550
Business Correspondent expenses	34,86,579	23,28,084

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SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 MARCH 2022

1 Background

ESAF Small Finance Bank Limited (the "Bank") is a public limited company incorporated on 5 May 2016 in India, after receiving in principal approval from the Reserve Bank of India (RBI) to establish a small finance bank in the private sector under section 22 of the Banking Regulation Act, 1949 on 16 September 2015. The Bank received the licence from the Reserve Bank of India on 18 November 2016 and commenced its banking operations from 10 March 2017. As per RBI Approval, the name of the Bank is included in the Second Schedule to the Reserve Bank of India Act, 1934 w.e.f 12 November 2018.The Bank provides micro, retail and corporate banking, para banking activities such as debit card, third party financial product distribution, in addition to treasury and permitted foreign exchange business.

In order to get the shares listed in stock exchange, the Bank filed DRHP before SEBI on 24 July 2021 and obtained the final observations on 20 October 2021. As mandated by the Board, the Bank is taking all possible steps for completing the listing process by filing of RHP at an earlier date.

2 Basis of Preparation

The financial statements have been prepared in accordance with the requirements prescribed under the Banking Regulation Act, 1949. The accounting and reporting policies of the Bank used in the preparation of these financial statements conform in all material aspects with Generally Accepted Accounting Principles in India (Indian "GAAP"), the circulars and guidelines issued by RBI from time to time and Accounting Standards prescribed under Section 133 of the Companies Act, 2013, read with the Companies (Accounts) Rules, 2014 to the extent applicable and other relevant provisions of the Companies Act, 2013 (Act) and current practices prevailing within the Banking industry in India. The Bank follows historical cost convention and accrual basis of accounting in the preparation of the financial statements, except otherwise stated. The accounting policies adopted in the presentation of financial statements are consistent with those followed in the previous year.

3 Use of Estimation

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting year. The Bank's Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Actual results could differ from these estimates. Any revision to accounting estimates are recognised prospectively in current and future periods.

4 Significant Accounting Policies

4.1 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured.

i. Interest Income is recognised in the Profit and Loss Account on accrual basis, except in the case of non-performing assets. Interest on non-performing assets is recognised on realisation basis as per the prudential norms issued by the RBI.

ii. Profit or Loss on sale of investments is recognised in the Profit and Loss Account. However, the profit on sale of investments in the 'Held to Maturity' category is appropriated (net of applicable taxes and amount required to be transferred to statutory reserve) to 'Capital Reserve'.

iii Income on non-coupon bearing discounted instruments is recognised over the tenure of the instrument on a straight line basis. In case of coupon bearing discounted instruments, discount income is recognised over the tenure of the instrument on yield basis.

iv Dividend on Investments in shares and units of Mutual Funds are accounted when the Bank's right to receive the dividend is established.

v Processing fee/ upfront fee, handling charges and similar charges collected at the time of sanctioning or renewal of loan/ facility is recognised at the inception/ renewal of loan on upfront basis.

vi Other fees and commission income (including commission income on third party products) are recognised when due, except in cases where the Bank is uncertain of ultimate collection.

vii Interest income on deposits with banks and other financial institutions are recognised on a time proportion accrual basis taking into account the amounts outstanding and the rates applicable.

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viii Guarantee commission is recognised on a straight line basis over the period of contract.

ix Locker rent is recognised on realisation basis.

x. In accordance with the RBI guidelines on Securitisation Transactions, gains arising from assignment / securitisation are amortised over the life of the underlying loan portfolio. In case of any loss, the same is recognised in the Profit and Loss Account immediately. Income from interest strip (excess interest spread) is recognised in the Profit and Loss Account net of any losses when redeemed in cash in line with the relevant Reserve Bank of India guidelines.

xi. Fees received on sale of priority sector lending certificates is considered as Miscellaneous Income, while fees paid for purchase is expended as other expenditure in accordance with the guidelines issued by the RBI on the date of purchase/ sale on upfront basis.

4.2 Investments

i. Classification:

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

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

Purchase and sale transactions in securities are recorded under 'Settlement Date' accounting.

ii. Basis of classification

Investments that the Bank intends to hold till maturity are classified as HTM category.

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.

Investments which are not classified in either of the above two categories are classified under AFS category.

iii. Acquisition Cost :

The cost of investments is determined on weighted average basis. Broken period interest in debt instruments and government securities is treated as a revenue item. The transaction cost including brokerage commission etc. paid at the time of acquisition of investments is charged to the Profit and Loss account.

iv. Disposal of investments:

Investments classified as HFT or AFS - Profit or loss on sale or redemption is recognised in the Profit and Loss Account. Investments classified as HTM - Profit on sale or redemption of investments is recognised in the Profit and Loss Account and is appropriated to Capital Reserve after adjustments for tax and transfer to Statutory Reserve. Loss on sale or redemption is recognised in the Profit and Loss Account.

v. Valuation:

HTM securities are carried at their acquisition cost. Any premium on acquisition of government securities are amortised over the remaining maturity of the security on a straight line basis. Any diminution, other than temporary, in the value of such securities is provided for.

AFS and HFT securities are valued periodically as per the RBI guidelines.

The market/ fair value for the purpose of periodical valuation of quoted investments included in the AFS and HFT categories is measured with respect to the market price of the scrip as available from the trades/ quotes on the stock exchanges, SGL account transactions, price list of the RBI or prices periodically declared by Financial Benchmark India Pvt. Ltd. [FBIL], based on relevant RBI circular.

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

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

Non Performing investments are identified and valued based on the RBI guidelines.

vi. Repo Reverse Repo transactions

In accordance with the RBI guidelines repo and reverse repo transactions in government securities are reflected as borrowings and lending transactions respectively. Borrowing cost on repo transaction is accounted for as interest expense and revenue on reverse repo is accounted for as interest income.

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vii. Investment Fluctuation Reserve ("IFR")

With a view to building up of adequate reserves to protect against increase in yields in accordance with RBI guideline bank started to create an IFR with effect from the Financial Year 2018-19.

Amount appropriated from Net Profit to IFR is not less than lower of the following:

(i) Net profit on sale of investments during the year or

(ii) Net profit for the year less mandatory appropriations, until the amount of IFR is at least 2 percent of the HFT and AFS portfolio, on a continuing basis.

The amount held in the IFR shall be utilized by way of draw down, in accordance with the provisions of the Reserve Bank of India guidelines

viii. Short Sales

The short sale transactions in Central Government dated securities undertaken by the Bank shall be accounted in the following manner in accordance with the RBI guidelines.

- The short position is categorised under HFT category and netted off from investments in the Balance Sheet.

- The short position is marked to market at periodical intervals and loss, if any, is charged to the Profit and Loss Account while gain, if any, is ignored.

- Profit / Loss on settlement of the short position is recognised in the Profit and Loss Account

ix. Transfer of Securities between Categories:

The transfer/shifting of securities between categories of investments is accounted in accordance with the RBI guidelines.

4.3 Advances

i. Advances are classified into performing assets ("Standard") and non-performing assets ("NPA") as per the RBI guidelines and are stated net of unrealised interest/charges in suspense for non performing advances and provisions made towards NPAs and principal portion of advance prepaid by customer, if any. Interest on Non-performing advances is not recognised in Profit and Loss Account and is transferred to an unrealised interest suspense account till the actual realisation. Interest portion of advance prepaid by the customer is disclosed as other liability and recognised to profit and loss account on due basis. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Provisions for NPAs are made at /or above the minimum required level in accordance with the provisioning policy adopted by the Bank and as per the guidelines and circulars of the RBI on matters relating to prudential norms.

ii. Provision for standard advances is made as per the extant the RBI guidelines. Additional Provision on standard assets is made as per the policy decided by the Board.

iii. The Bank transfers advances through interbank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances and where the Bank is participating; the aggregate amount of participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the Bank is participating, the aggregate amount of participation is shown as due from banks under advances.

iv Non Performing Advances are written off as per the Bank's policy. Amounts recovered against debts written off/ technically written off are recognised in the Profit and Loss Account and included under "Other Income".

v. The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances/ securities, which would generally include, among others, alteration of repayment period/ repayable amount/ the amount of installments/ rate of interest (due to reasons other than competitive reasons). Restructured accounts are classified as such by the Bank only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of a restructured account is made and classification thereof is as per the extant RBI guidelines, as amended from time to time. In accordance with the RBI guidelines on the prudential framework for restructure of stressed assets and the resolution framework for Covid 19 related stress, the Bank in accordance with its Board approved policy, carried out one time

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restructuring of eligible borrowers. The asset classification and necessary provisions thereon are done in accordance with the said RBI guidelines.

vi. Priority Sector Lending Certificate (PSLC): The Bank enters into transactions for the sale and/ or purchase of priority sector lending certificates (PSLC). In case of a sale transaction, the Bank sells the fulfillment of priority sector obligations and in the case of a purchase transaction, the Bank buys the fulfillment of priority sector obligations through the RBI trading platform. There is no transfer of loan assets or risks. The fees received for the sale of PSLC is recorded as other income and fees paid for purchase of PSLC is recorded as other expenditure in Profit and Loss Account.

vii. Securitisation Transaction and Direct Assignments:

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

The Securitisation transactions are without recourse to the Bank. The transferred loans and such securitised receivables are de-recognised as and when these are sold (true sale criteria being fully met) and the consideration has been received by the Bank. Gains/losses are recognised only If the Bank surrenders the rights to the benefits specified in the loan contracts.

Profit / premium arising at the time of securitisation / assignment of loan portfolio is amortised over the life of the underlying loan portfolio / securities and any loss arising therefrom is accounted for immediately. Income from interest strip (excess interest spread) is recognised in the Profit and Loss Account net of any losses when redeemed in cash. Interest retained under assignment of loan receivables is recognised on realisation basis over the life of the underlying loan portfolio.

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

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

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

Gains or losses arising from the retirement or disposal of Fixed Assets are determined as the difference between the net disposal proceeds and the carrying amount of assets and recognised as income or expense in the Profit and Loss Account.

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The management believes that the useful life of assets assessed by the Bank, pursuant to the Companies Act, 2013, taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use, fairly reflects its estimate of useful lives of the fixed assets. The estimated useful lives of key fixed assets, based on technical evaluation done by the management are given below:

Class of Asset (Tangible and Intangible)	Estimated Useful Life as assessed by the Bank (in Years)	Estimated Useful Life specified under Schedule II of the Companies Act, 2013. (in Years)
Office Equipment	4-5	5
Computers	2- 3	3
Furniture & Fixtures	9-10	10
Motor Vehicles	2-4	8
Servers	5	6

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset comprises its purchase price including after deducting trade discounts and rebates, any directly attributable cost of bringing the item to its working condition for its intended use following initial recognition. Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets comprising of software is amortised on straight line basis over a period of 4 years, unless it has a shorter useful life.

For assets purchased/ sold during the year, depreciation is being provided on prorata 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.

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4.5 Impairment of Assets

The carrying amounts of assets are reviewed at each Balance Sheet date to determine if there is any indication of impairment based on internal/ external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount which is the greater of the asset's net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

4.6 Retirement and Employee Benefits

i. Short Term Employee Benefit

The undiscounted amount of short-term employee benefits which are expected to be paid in exchange for the services rendered by employees are recognised during the year when the employee renders the service.

ii. Long Term Employee Benefit

a. Defined Contribution Plan:

Provident Fund: In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a pre-determined rate. Contribution to provident fund are recognised as expense as and when the services are rendered. The Bank has no liability for future provident fund benefits other than its fixed contribution.

b. Defined Benefit Plan:

Gratuity: The Bank provides for Gratuity, covering employees in accordance with the Payment of Gratuity Act, 1972. The Bank's liability is actuarially determined (using Projected Unit Credit Method) as at the Balance Sheet date. The actuarial gain or loss arising during the year is recognised in the Profit and Loss Account.

Compensated Absences: The Bank accrues the liability for compensated absences based on the actuarial valuation as at the Balance Sheet date conducted by an independent actuary which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation. The net present value of the Bank's obligation is 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 Share Premium Account as permitted by Section 52 of the Companies Act, 2013 on issue of underlying securities pending which is recognised as "other assets" in the Balance Sheet.

4.8 Income Taxes

Tax expense comprises current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one year and are capable of reversal in one or more subsequent year(s).

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

At each reporting date, the Bank re-assesses unrecognised deferred tax assets. It recognises unrecognised deferred tax asset to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realised.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred tax assets and deferred tax liabilities relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets is reviewed at each reporting date. The Bank writes-down the carrying amount of deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that

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it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted at the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Profit and Loss Account in the year of change.

4.9 Cash and Cash Equivalent

Cash and cash equivalents include cash in hand, balances with the 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 18 April 2007 and Accounting Standard 17 (AS-17) on "Segment Reporting", the Bank's business has been segregated into Treasury, Wholesale Banking, Retail Banking Segments and Other Banking Operations:

a) Treasury: The treasury segment revenue primarily consists of interest earnings on investments portfolio of the Bank, gains or losses on investment operations and earnings from foreign exchange business. The principal expenses of the segment consist of interest expense allocated on funds borrowed/ deposits received and other expenses. Treasury segment liability includes allocation on deposits received from customers.

b) Wholesale Banking: Wholesale Banking segment provides loans to corporate segments identified on the basis of RBI guidelines. Revenues of this segment consist of interest earned on Loans made to corporate customers and the charges/ fees earned from other banking services. The principal expenses of the segment consist of interest expense allocated on funds borrowed/ deposits received and other expenses.

c) Retail Banking: The Retail Banking segment provides loans to non-corporate customers identified on the basis of RBI guidelines and also include deposits from customers. Revenues of this segment consist of interest earned on Loans made to non-corporate customers and the charges/fees earned from other banking services. The principal expenses of the segment consist of interest expense allocated on funds borrowed/ deposits received and other expenses.

d) Other Banking Operations: This segment includes income from para banking activities such as debit cards, third party product distribution and associated costs.

Segment revenues consist of earnings from external customers and other allocated revenues. Segment expenses consist of allocated interest expenses, operating expenses and provisions. Segment results are net of segment revenues and segment expenses.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding net worth.

Unallocated: All items which are reckoned at an enterprise level are classified under this segment. This includes capital, reserves and other un allocable assets and liabilities such as fixed assets, deferred tax, tax paid in advance and income tax provision etc.

Geographical Segment

Since the business operations of the Bank are primarily concentrated in India, the Bank is considered to operate only in the domestic segment.

4.11 Earnings per Share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the year is adjusted for events of bonus issue, bonus element in a rights issue to existing shareholders and share split.

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

4.12 Provisions and Contingent Assets/Liabilities

A contingent liability is a possible obligation that arises from past events whose existence will be confirmed by the occurrence or non-occurrence of one or more

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uncertain future events beyond the control of the Bank or a present obligation that is not recognised because it is not probable that outflow of resources will be required to settle the obligation. A contingent liability also arises in extremely rare cases where there is a liability that cannot be recognised because it cannot be measured reliably. The Bank does not recognise a contingent liability but discloses its existence in the Financial Statements.

The Bank creates a provision when there is a present obligation as a result of a past event that probably requires outflow of resources and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each Balance Sheet date and adjusted to reflect the current best estimate. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation as at the reporting date. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are neither recognised nor disclosed in the Financial Statements.

4.13 Leases

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating lease. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight line basis over the lease term in accordance with AS 19 - Leases.

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 Employee Share Based Payments

The Employee Stock Option Schemes (ESOSs) of the Bank are in accordance with Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014. The Schemes provide for grant of options on equity shares to employees of the Bank to acquire the equity shares of the Bank that vest in a cliff vesting or in a graded manner and that are to be exercised within a specified period.

In accordance with the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 and the Guidance Note on Accounting for Employee Share-based Payments, issued by The Institute of Chartered Accountants of India, the cost of equity-settled transactions is measured using the intrinsic value method. The intrinsic value being the excess, if any, of the fair market price of the share under ESOSs over the exercise price of the option is recognised as deferred employee compensation with a credit to Employee's Stock Option (Grant) Outstanding account. The deferred employee compensation cost is amortised on a straight-line basis over the vesting period of the option. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of equity instruments that are outstanding. Fair market value of an equity share, as determined by a Category I Merchant Banker registered with SEBI, based on the Board Approved Financial Statements within one year prior to the date of Grant.

The options that do not vest because of failure to satisfy vesting condition are reversed by a credit to employee compensation expense, equal to the amortised portion of value of lapsed portion. In respect of the options which expire unexercised the balance standing to the credit of Employee's Stock Option (Grant) Outstanding accounts is transferred to Profit & Loss Account.

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SCHEDULE 18 - NOTES ON ACCOUNTS FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2022

A. DISCLOSURES AS LAID DOWN BY RBI CIRCULARS:

1. Regulatory Capital:

The Bank is subject to the Basel II Capital Adequacy guidelines (NCAF) stipulated by the RBI. The Capital Adequacy Ratio (CRAR) of the Bank is calculated as per the Standardised approach for Credit Risk.

As per the RBI circular "DBR.NBD.No. 4502/16.13.218/2017-18" dated 8 November 2017, no separate capital charge is prescribed for market and operational risk. The total Capital Adequacy ratio of the Bank at 31 March 2022 is 18.64% (Previous Year 24.23%) against the regulatory requirement of 15.00% prescribed by the 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 the RBI.

1.1. Composition of Regulatory Capital

(₹ in crore)

Particulars		As at 31 March 2022	As at 31 March 2021
i)	Common Equity Tier I Capital (CET1)	1,367.55	1,340.91
ii)	Additional Tier 1 Capital	48.00	48.00
iii)	Tier I Capital - A	1,415.55	1,388.91
iv)	Tier II Capital - B	216.62	173.74
v)	Total Capital (A)+(B)	1,632.17	1,562.65
vi)	Total Risk Weighted Assets (RWAs)	8,757.82	6,448.90
Capital Ratios:			
vii)	CET I Capital (%) [CET 1 as a percentage of RWAs]	15.62%	20.79%
vii)	Tier I Capital (%) [Tier I Capital as a percentage of RWAs]	16.16%	21.54%
ix)	Tier II Capital (%) [Tier II Capital as a percentage of RWAs]	2.47%	2.69%
x)	Total CRAR (%) [Total Capital as a percentage of RWAs]	18.64%	24.23%
xi)	Leverage Ratio	7.99%	11.26%
(xii)	Percentage of the shareholding of the Government of India in Public Sector Banks	NA	NA
(xiii)	Amount of paid up capital raised during the year (Including Share Premium)	-	162.59
(xiv)	Amount of non- equity Tier I capital raised during the year	-	-
(xv)	Amount of Tier II Capital raised during the year of the year, of which:		
	Basel III Compliant Subordinated debt Instruments	20.00	-

1.2. Draw Down from Reserves

There has been no draw down from reserves other than those disclosed in Schedule 2.

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Forming Part of the Financial Statements for the year ended 31 March 2021

2. Asset Liability Management

2.1. Maturity Pattern of certain items of assets and liabilities

a. As at 31 March 2022:

(₹ in crore)

Particulars	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & up to 2 Months	Over 2 Months and up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 3 Years	Over 3 Years and up to 5 Years	Over 5 Years	Total
Advances	28.51	171.08	199.60	456.23	474.88	474.88	1,498.00	3,239.66	4,372.21	588.97	132.98	11,637.00
Investments	1.96	2.59	1.48	2.20	141.09	100.64	20.15	22.16	21.92	698.25	3,057.86	4,070.30
Deposits	138.25	323.51	302.37	524.45	742.31	769.07	2,206.06	4,117.33	3,558.65	79.80	53.27	12,815.07
Borrowings	-	293.60	48.98	-	-	54.75	272.00	492.25	1,683.25	40.00	68.00	2,952.83
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-	-

b. As at 31 March 2021:

(₹ in crore)

Particulars	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & up to 2 Months	Over 2 Months and up to 3 Months	Over 3 Months and up to 6 Months	Over 6 Months and up to 1 Year	Over 1 Year and up to 3 Years	Over 3 Years and up to 5 Years	Over 5 Years	Total
Advances	27.17	163.01	190.18	434.70	552.79	552.79	1,457.97	2,020.37	2,255.26	414.97	98.38	8,167.59
Investments	10.00	-	-	24.93	-	8.17	-	-	-	202.12	1,686.85	1,932.07
Deposits	88.50	225.39	146.31	340.14	647.55	470.85	1,322.13	2,151.64	3,466.76	92.43	47.73	8,999.43
Borrowings	-	-	400.00	-	-	58.50	222.50	219.75	620.25	125.00	48.00	1,694.00
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-	-

In computing the above information, certain estimates and assumptions have been made by the Bank's Management for compiling the returns submitted to the RBI, which have been relied upon by the auditors.

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Forming Part of the Financial Statements for the year ended 31 March 2021

2.2. Liquidity Coverage Ratio

a. Year ended 31 March 2022

(₹ in crore)

Particulars	Q1 2021-22		Q2 2021-22		Q3 2021-22		Q4 2021-22	
	Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets (HQLA)								
1 Total High Quality Liquid Assets (HQLA)		3,052.45		3,074.15		3,095.95		3,327.10
Cash Outflows								
2 Retail deposits and deposits from small business customers, of which:								
i Stable deposits	6,575.91	328.80	7,019.45	350.97	7,385.02	369.25	7,806.68	390.33
ii Less stable deposits	706.45	70.64	728.48	72.85	736.28	73.63	910.81	91.08
3 Unsecured wholesale funding, of which								
i Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
ii Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
iii Unsecured debt	1,587.50	1,423.69	1,735.56	1,553.94	2,236.16	1,989.57	2,425.48	2,196.36
4 Secured wholesale funding		-		-		-		-
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 Credit and Liquidity facilities	33.32	10.99	32.15	10.95	25.66	8.04	10.51	2.15
6 Other contractual funding obligations	137.88	137.88	153.45	153.45	126.08	126.08	163.88	163.88
7 Other contingent funding obligations	1.30	0.04	1.30	0.04	1.25	0.04	1.41	0.04
Total Cash Outflows		**1,972.04**		**2,142.20**		**2,566.61**		**2,843.84**
Cash Inflows								
8 Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
9 Inflows from fully performing exposures	584.37	292.18	462.76	231.38	442.28	221.14	471.77	235.89
10 Other cash inflows	11.57	11.57	11.62	11.62	7.50	7.50	41.67	41.67
Total Cash Inflows	**595.94**	**303.75**	**474.38**	**243.00**	**449.78**	**228.64**	**513.44**	**277.56**
11 Total HQLA (a)	-	3,052.45	-	3,074.15	-	3,095.95	-	3,327.10
12 Total Net Cash outflows (b)		1,668.29		1,899.20		2,337.97		2,566.28
Liquidity Coverage Ratio (%) (a/b)		**182.97%**		**161.87%**		**132.42%**		**129.65%**

The average weighted and unweighted amounts are calculated taking simple average based on daily observations from the respective quarters.

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Forming Part of the Financial Statements for the year ended 31 March 2021

b. Year ended 31 March 2021

(₹ in crore)

Particulars			Q1 2020-21		Q2 2020-21		Q3 2020-21		Q4 2020-21	
			Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)
High Quality Liquid Assets (HQLA)										
1	Total High Quality Liquid Assets (HQLA)			1,964.58		2,452.09		3,105.79		2,773.19
Cash Outflows										
2	Retail deposits and deposits from small business customers, of which:									
	i	Stable deposits	5,516.98	275.85	6,013.59	300.68	6,409.51	320.48	6,457.44	322.87
	ii	Less stable deposits	480.03	48.00	556.46	55.65	547.21	54.72	674.99	67.50
3	Unsecured wholesale funding, of which									
	i	Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	ii	Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	iii	Unsecured debt	1,006.60	899.26	1,202.15	1,075.55	1,282.04	1,141.64	1,385.17	1,253.78
4	Secured wholesale funding			0.03		4.20		0.03		0.01
5	Additional requirements, of which									
	i	Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
	ii	Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
	iii	Credit and Liquidity facilities	29.28	10.77	29.68	10.80	30.75	10.87	33.01	11.06
6	Other contractual funding obligations		127.02	127.02	149.19	149.19	174.57	174.57	241.38	241.38
7	Other contingent funding obligations		1.30	0.04	1.29	0.04	1.29	0.04	1.30	0.04
	Total Cash Outflows			**1,360.97**		**1,596.11**		**1,702.35**		**1,896.64**
Cash Inflows										
8	Secured lending (e.g. reverse repos)		-	-	-	-	-	-	-	-
9	Inflows from fully performing exposures		-	-	265.24	132.62	498.54	249.27	528.86	264.43
10	Other cash inflows		49.53	49.53	404.55	404.55	8.34	8.34	8.33	8.33
	Total Cash Inflows		**49.53**	**49.53**	**669.79**	**537.17**	**506.88**	**257.61**	**537.19**	**272.76**
11	Total HQLA (a)		-	1,964.58	-	2,452.09	-	3,105.79	-	2,773.19
12	Total Net Cash inflows (b)			1,311.44		1,058.94		1,444.74		1,623.88
	Liquidity Coverage Ratio (%)	**(a/b)**		**149.80%**		**231.56%**		**214.97%**		**170.78%**

Average of all Quarters is simple average of monthly observations for the Quarter.

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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 December 2017, 70% from January 2018 and the requirement increased by 10% annually to 100% by January 2021. However on account of COVID outbreak and in terms of the RBI Circular DOR.BP.BC.No.65/21.04.098/2019-20 dated April 17, 2020, banks are permitted to maintain 80% from the date of circular to 30 September 2020, 90% from 1 October 2020 to 31 March 2021 and 100% from 1 April 2021.

The ratio comprises 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 the 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. Average LCR for quarter ended 31 March 2022 was 129.65% (quarter ended 31 March 2021: 170.78%)

Asset Liability Committee (ALCO) of the Bank is the primary governing body for Liquidity Risk Management, Risk Management Department (RMD), Finance and Treasury. Treasury is the central repository of funds within the Bank and is vested with the responsibility of managing liquidity risk within the risk appetite of the Bank. Bank has incorporated Basel Liquidity Standards - LCR for liquidity risk. In computing the above information, certain estimates and assumptions have been made by bank's management which have been relied upon by auditors.

2.3 Net Stable Funding Ratio

As at 31 March 2022

(Rupees in crore)

		Unweighted value by residual maturity				Weighted value
		No Maturity	< 6 months	6 months to < 1yr	≥ 1 yr	
ASF Item						
1	Capital: (2+3)	1,672.56	-	-	145.00	1,817.56
2	Regulatory capital	1,672.56	-	-	145.00	1,817.56
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers: (5+6)	-	2,596.18	2,628.52	4,041.02	8,744.99
5	Stable deposits	-	2,137.26	2,509.42	2,010.21	6,397.04
6	Less stable deposits	-	458.92	119.10	2,030.81	2,347.95
7	Wholesale funding: (8+9)	-	586.96	1,955.51	1,598.25	2,869.49
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	586.96	1,955.51	1,598.25	2,869.49
10	Other liabilities: (11+12)	315.10	2,168.46	-	-	-
11	NSFR derivative liabilities		-	-	-	
12	All other liabilities and equity not included in the above categories	315.10	2,168.46	-	-	-
13	**Total ASF (1+4+7+10)**	**1,987.66**	**5,351.60**	**4,584.03**	**5,784.27**	**13,432.04**

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Forming Part of the Financial Statements for the year ended 31 March 2021

(Rupees in crore)

		Unweighted value by residual maturity				Weighted value
		No Maturity	< 6 months	6 months to < 1yr	≥ 1 yr	
RSF Item						
14	Total NSFR high-quality liquid assets (HQLA)	666.67	634.00		3,994.10	1,234.95
15	Deposits held at other financial institutions for operational purposes	36.24	-	-	-	18.12
16	Performing loans and securities: (17+18+19+21+23)	14.62	3,537.60	3,239.66	3,679.36	6,418.47
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	237.11	7.89	-	39.51
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	3,300.38	3,231.45	3,491.62	6,233.80
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
21	Performing residential mortgages, of which:	-	0.11	0.32	187.74	132.73
22	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	14.62	-	-		12.43
24	Other assets: (sum of rows 25 to 29)	946.46	-	-	958.83	1,905.30
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR derivative assets	-	-	-	-	-
28	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	946.46	-	-	958.83	1,905.30
30	Off-balance sheet items	-	-	-	-	-
31	**Total RSF (14+15+16+24+30)**	**1,663.99**	**4,171.60**	**3,239.66**	**8,632.29**	**9,576.84**
32	**Net Stable Funding Ratio (%)**					**140.26%**

As at 31 December 2021

(Rupees in crore)

		Unweighted value by residual maturity				Weighted value
		No Maturity	< 6 months	6 months to < 1yr	≥ 1yr	
ASF Item						
1	Capital: (2+3)	1,618.42	-	-	140.00	1,758.42
2	Regulatory capital	1,618.42	-	-	140.00	1,758.42
3	Other capital instruments	-	-	-	-	-
4	Retail deposits and deposits from small business customers: (5+6)	-	2,142.74	2,518.56	4,211.28	8,458.75
5	Stable deposits	-	1,756.74	2,440.07	3,630.16	7,517.70
6	Less stable deposits	-	386.00	78.49	581.12	941.05
7	Wholesale funding: (8+9)	-	510.72	1,755.29	1,358.49	2,482.62
8	Operational deposits	-	-	-	-	-
9	Other wholesale funding	-	510.72	1,755.29	1,358.49	2,482.62
10	Other liabilities: (11+12)	262.47	1,012.99	-	-	-
11	NSFR derivative liabilities		-	-	-	
12	All other liabilities and equity not included in the above categories	262.47	1,012.99	-	-	-
13	**Total ASF (1+4+7+10)**	**1,880.89**	**3,666.45**	**4,273.85**	**5,709.77**	**12,699.79**

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Forming Part of the Financial Statements for the year ended 31 March 2021

(Rupees in crore)

		Unweighted value by residual maturity				Weighted value
		No Maturity	< 6 months	6 months to < 1yr	≥ 1yr	
RSF Item						
14	Total NSFR high-quality liquid assets (HQLA)	581.98	670.00		3,552.69	874.99
15	Deposits held at other financial institutions for operational purposes	28.11	-	-	-	14.06
16	Performing loans and securities: (17+18+19+21+23)	10.66	3,128.86	2,778.36	2,543.60	5,086.74
17	Performing loans to financial institutions secured by Level 1 HQLA	-	-	-	-	-
18	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	-	32.48	2.51	-	6.13
19	Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:	-	3,096.37	2,775.79	2,410.43	4,984.95
20	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
21	Performing residential mortgages, of which:	-	0.01	0.06	133.17	86.60
22	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk	-	-	-	-	-
23	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	10.66	-	-		9.06
24	Other assets: (sum of rows 25 to 29)	683.17	-	-	1,553.52	2,236.69
25	Physical traded commodities, including gold	-	-	-	-	-
26	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	-	-	-	-	-
27	NSFR derivative assets	-	-	-	-	-
28	NSFR derivative liabilities before deduction of variation margin posted	-	-	-	-	-
29	All other assets not included in the above categories	683.17	-	-	1,553.52	2,236.69
30	Off-balance sheet items	-	-	-	-	-
31	**Total RSF (14+15+16+24+30)**	**1,303.92**	**3,798.86**	**2,778.36**	**7,649.81**	**8,212.48**
32	**Net Stable Funding Ratio (%)**					**154.64%**

Qualitative Disclosure

As per the RBI guideline on Net Stable Funding Ratio (NSFR) dated May 17, 2018, the Bank is required to maintain the NSFR on an ongoing basis. The minimum NSFR requirement set out in the RBI guideline effective Oct 1, 2021 is 100%. The Basel Committee on Banking Supervision (BCBS) had introduced the Net Stable Funding Ratio (NSFR) to ensure resilience over a longer time horizon by requiring banks to fund their activities with more stable sources of funding. NSFR is defined as the amount of Available Stable Funding relative to the amount of Required Stable Funding. "Available Stable Funding" (ASF) is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by NSFR, which extends to one year. The amount of "Required Stable Funding" (RSF) of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by the institution as well as those of its off-balance sheet (OBS) exposures.

In computing the above information, certain estimates and assumptions have been made by Bank's management which have been relied upon by the auditors.

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Forming Part of the Financial Statements for the year ended 31 March 2021

3. Investments

3.1 Composition of Investment Portfolio

a) As at 31 March 2022

(₹ in crore)

Sl. No.	Particulars	Investments in India						
		Government securities	Other approved securities	Shares	Debentures and bonds	Subsidiaries and/or joint ventures	Others	Total Investments in India
I.	**Held to Maturity**							
	Gross	2,784.62	-	-	-	-	-	2,784.62
	Less: Provision for non performing investments (NPI)	-	-	-	-	-	-	-
	Net	2,784.62	-	-	-	-	-	2,784.62
II	**Available for sale**							
	Gross	1,060.62	-	16.29	-	-	60.82	1,137.73
	Less: Provision for non performing investments (NPI)	-	-	-	-	-	-	-
	Less: Provision for depreciation	21.34	-	0.89	-	-	0.02	22.25
	Net	1,039.28	-	15.40	-	-	60.80	1,115.48
III	**Held for Trading**							
	Gross	171.94	-	-	-	-	-	171.94
	Less: Provision for non performing investments (NPI)	-	-	-	-	-	-	-
	Less: Provision for depreciation	1.74	-	-	-	-	-	1.74
	Net	170.20	-	-	-	-	-	170.20
IV	**Total Investments**	**4,017.18**	**-**	**16.29**	**-**	**-**	**60.82**	**4,094.29**
	Less: Provision for non-performing investments	-	-	-	-	-	-	-
	Less: Provision for depreciation	23.08	-	0.89	-	-	0.02	23.99
	Net	**3,994.10**	**-**	**15.40**	**-**	**-**	**60.80**	**4,070.30**

As on 31 March 2022, the bank does not have Investments outside India. Hence corresponding disclosures are not made.

b) As at 31 March 2021

(₹ in crore)

Sl. No.	Particulars	Investments in India						
		Government securities	Other approved securities	Shares	Debentures and bonds	Subsidiaries and/or joint ventures	Others	Total Investments in India
I.	**Held to Maturity**							
	Gross	1,864.54	-	-	-	-	-	1,864.54
	Less: Provision for non performing investments (NPI)	-	-	-	-	-	-	-
	Net	1,864.54	-	-	-	-	-	1,864.54
II	**Available for sale**							
	Gross	24.57	-	8.72	-	-	34.93	68.22
	Less: Provision for non performing investments (NPI)	-	-	-	-	-		-
	Less: Provision for depreciation	0.14	-	0.55	-	-	-	0.69
	Net	24.43	-	8.17	-	-	34.93	67.53
III	**Held for Trading**							
	Gross	-	-	-	-	-	-	-
	Less: Provision for non performing investments (NPI)	-	-	-	-	-	-	-
	Less: Provision for depreciation	-	-	-	-	-	-	-
	Net	-	-	-	-	-	-	-
IV	**Total Investments**	**1,889.11**	**-**	**8.72**	**-**	**-**	**34.93**	**1,932.76**
	Less: Provision for non-performing investments	-	-	-	-	-	-	-
	Less: Provision for depreciation	0.14	-	0.55	-	-	-	0.69
	Net	**1,888.97**	**-**	**8.17**	**-**	**-**	**34.93**	**1,932.07**

As on 31 March 2021, the bank does not have Investments outside India. Hence corresponding disclosures are not made.

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Forming Part of the Financial Statements for the year ended 31 March 2021

3.2 Movement of Provisions for Depreciation and Investment Fluctuation Reserve :

(₹ in crore)

	Particulars	As at 31 March 2022	As at 31 March 2021
1	**Movement of provisions held towards depreciation on investments**		
i.	Opening Balance	0.69	1.83
ii.	Add : Provisions made during the year	28.74	1.73
iii.	Less : Write-off/ Write-back of excess provisions made during the year	5.44	2.87
iv.	Closing Balance	23.99	0.69
2	**Movement of Investment Fluctuation Reserve**		
i.	Opening Balance	4.13	4.13
ii.	Add : Amount transferred during the year	22.06	-
iii.	Less : Drawdown	-	-
iv.	Closing Balance	26.19	4.13
3	**Closing balance in IFR as a percentage of closing balance of Investments in AFS and HFT Category**	2.04%	6.11%

3.3. Sale/ transfer of securities to/from HTM category

During the years ended 31 March 2022 and 31 March 2021 there was no sale/transfer of securities to/from HTM category in excess of 5% of book value of investments held in HTM category at the beginning of the year.

In accordance with the RBI guidelines, sales from, and transfers to / from the HTM category exclude the following from the 5% cap:

a) One-time transfer of securities permitted to be undertaken by banks at the beginning of the accounting year with the approval of the Board of Directors;

b) Sales to the RBI under pre-announced open market operation auctions and the Government securities acquisition programme;

c) Additional shifting of securities explicitly permitted by the RBI from time to time;

d) Direct sales from HTM for bringing down SLR holdings in the HTM category consequent to a downward revision in SLR investments by the RBI;

e) Repurchase of state development loans by the respective State Governments under buyback/ switch operations;

3.4. Disclosure in respect of Non-SLR Investment Portfolio:

a) Non-performing Non-SLR investments:

The Bank does not have any non performing non-SLR investments during the year and as at 31 March 2022 and 31 March 2021.

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Forming Part of the Financial Statements for the year ended 31 March 2021

b) i. Issuer Composition of Non SLR Investments as at 31 March 2022

(₹ in crore)

Sl. No	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
[1]	[2]	[3]	[4] [1]	[5] [1]	[6] [1 2]	[7] [1 2]
1	PSUs	1.30	-	-	-	-
2	FIs	-	-	-	-	-
3	Banks	62.31	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint Ventures	-	-	-	-	-
6	Others	13.50	-	-	-	-
7	Provision held towards depreciation	(0.91)	-	-	-	-
	Total	**76.20**	**-**	**-**	**-**	**-**

[1] *Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive.*

[2] *Excludes Investments in Equity shares, Equity Oriented Mutual Funds and Certificate of Deposits in line with extant RBI guidelines.*

ii. Issuer Composition of Non SLR Investments as at 31 March 2021

(₹ in crore)

Sl. No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
[1]	[2]	[3]	[4] [1]	[5] [1]	[6] [1 2]	[7] [1 2]
1	PSUs	-	-	-	-	-
2	FIs	-	-	-	-	-
3	Banks	28.85	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	14.80	-	-	-	-
7	Provision held towards depreciation	(0.55)	-	-	-	-
	Total	**43.10**	**-**	**-**	**-**	**-**

[1] *Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive.*

[2] *Excludes Investments in Equity shares, Equity Oriented Mutual Funds and Certificate of Deposits in line with extant RBI guidelines.*

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

As at 31 March 2022

(₹ in crore)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year *	Outstanding as on 31 March 2022
Securities sold under repos				
i. Government securities	146.00	1,060.46	493.15	1,038.58
ii. Corporate debt securities	-	-	-	-
iii. Any other securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	50.00	1,270.00	689.97	634.00
ii. Corporate debt securities	-	-	-	-
iii. Any other securities	-	-	-	-

** Daily average is considered for the entire year including the days when outstanding were nil.*

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Forming Part of the Financial Statements for the year ended 31 March 2021

As at 31 March 2021

(₹ in crore)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year *	Outstanding as on 31 March 2022
Securities sold under repos				
i. Government securities	146.00	163.00	153.80	146.00
ii. Corporate debt securities	-	-	-	-
iii. Any other securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	270.00	1,315.00	828.95	1,190.00
ii. Corporate debt securities	-	-	-	-
iii. Any other securities	-	-	-	-

** Daily average is considered for entire year including the days when outstanding were nil.*

4. Asset Quality

4.1. Classification of Advances and Provision held

As at 31 March 2022

(₹ in crore)

Particulars	Standard	Non-Performing				Total
	Total Standard Advances	Sub-Standard	Doubtful	Loss	Total NPA	
Gross Standard Advances and NPAs						
Opening Balance	7,851.00	473.31	90.69	-	564.00	8,415.00
Add: Additions during the year					642.46	
Less: Reductions during the year *					256.86	
Closing balance	11,181.04	641.93	307.67	-	949.60	12,130.64
* Reductions in Gross NPAs due to:						
i) Recoveries (excluding recoveries made from upgraded accounts)					21.01	
ii) Upgradations					161.39	
iii)Technical / Prudential Write-offs					74.46	
iv) Write-offs other than those under (iii) above					-	
Provisions (excluding floating provisions)						
Opening balance of provision held	124.14	156.73	90.69	-	247.42	371.56
Add: Fresh provisions made during the year					381.53	
Less: Excess provision reversed/ written-off loans					135.31	
Closing balance of provisions held	217.76	185.97	307.67	-	493.64	711.40
Net NPAs						
Opening Balance		316.58	-	-	316.58	
Add: Fresh Additions during the year					456.35	
Less: Reductions during the year					316.97	
Closing balance		455.96	-	-	455.96	

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Forming Part of the Financial Statements for the year ended 31 March 2021

(₹ in crore)

Particulars	Standard	Non-Performing				Total
	Total Standard Advances	Sub-Standard	Doubtful	Loss	Total NPA	
Floating Provisions						
Opening balance						-
Add: Additional provisions during the year						-
Less: Amount draw down during the year						-
Closing balance of floating provisions						-
Technical write- offs and the recoveries made thereon						
Opening balance of Technical/ prudential write off accounts						106.33
Add: Technical/ prudential write-off accounts during the year						74.46
Less: Recoveries made from previously technical/ prudential written off accounts during the year						7.99
Closing Balance						172.80

As at 31 March 2021

(₹ in crore)

Particulars	Standard	Non-Performing				Total
	Total Standard Advances	Sub-Standard	Doubtful	Loss	Total NPA	
Gross Standard Advances and NPAs						
Opening Balance	6,505.65	78.73	22.13	-	100.86	6,606.51
Add: Additions during the year					473.46	
Less: Reductions during the year *					10.32	
Closing balance	7,851.00	473.31	90.69		564.00	8,415.00
* Reductions in Gross NPAs due to:						
i) Recoveries (excluding recoveries made from upgraded accounts)					2.38	
ii) Upgradations					7.94	
iii) Technical / Prudential Write-offs					-	
iv) Write-offs other than those under (iii) above					-	
Provisions(excluding floating provisions)						
Opening balance of provision held	31.59	36.56	22.13	-	58.69	90.28
Add: Fresh provisions made during the year					194.46	
Less: Excess provision reversed/ written of loans					5.73	
Closing balance of provisions held	124.14	156.73	90.69	-	247.42	371.56
Net NPAs						
Opening Balance		42.17	-	-	42.17	
Add: Fresh Additions during the year					316.74	
Less: Reductions during the year					42.33	
Closing balance		316.58	-	-	316.58	

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Forming Part of the Financial Statements for the year ended 31 March 2021

(₹ in crore)

Particulars	Standard	Non-Performing				Total
	Total Standard Advances	Sub-Standard	Doubtful	Loss	Total NPA	
Floating Provisions						-
Opening balance						-
Add: Additional provisions during the year						-
Less: Amount draw down during the year						-
Closing balance of floating provisions						
Technical write- offs and the recoveries made thereon						
Opening balance of Technical/ prudential write off accounts						109.20
Add: Technical/ prudential write off accounts during the year						-
Less: Recoveries made from previously technical/ prudential written off accounts during the year						2.87
Closing Balance						106.33

Asset Quality Ratios

Particulars	31 March 2022	31 March 2021
Gross NPA to Gross Advances (%)	7.83%	6.70%
Net NPA to Net Advances (%)	3.92%	3.88%
Provision Coverage Ratio (%)	59.38%	52.77%

4.2. Sector-wise Advances and Gross NPAs

(₹ in crore)

Sl. No.	Sector	31 March 2022		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
A	**Priority Sector**			
1	Agricultural and Allied Activities	5,245.88	373.55	7.12%
2	Advances to Industries Sector eligible as Priority sector lending	849.82	137.54	16.18%
3	Services	1,601.50	194.97	12.17%
4	Personal Loans	1,507.54	229.77	15.24%
	Sub-Total (A)	**9,204.74**	**935.83**	**10.17%**
B	**Non Priority Sector**			
1	Agricultural and Allied Activities	950.00	-	-
2	Industry	-	-	-
3	Services	859.94	-	-
4	Personal loans	1,115.96	13.77	1.23%
	Sub-Total (B)	**2,925.90**	**13.77**	**0.47%**
	Total (A+B)	**12,130.64**	**949.60**	**7.83%**

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Forming Part of the Financial Statements for the year ended 31 March 2021

(₹ in crore)

Sl. No.	Sector	31 March 2021		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
A	**Priority Sector**			
1	Agricultural and Allied Activities	3,748.53	254.65	6.79%
2	Advances to Industries Sector eligible as Priority sector lending	447.44	105.16	23.50%
3	Services	465.80	121.96	26.18%
4	Personal Loans	665.97	63.71	9.57%
	Sub-Total (A)	**5,327.74**	**545.48**	**10.24%**
B	**Non Priority Sector**			
1	Agricultural and Allied Activities	-	-	-
2	Industry	500.00	-	-
3	Services	1,000.00	-	-
4	Personal loans	1,587.26	18.52	1.17%
	Sub-Total (B)	**3,087.26**	**18.52**	**0.60%**
	Total (A+B)	**8,415.00**	**564.00**	**6.70%**

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.

4.3. Overseas Assets, NPAs and Revenue:

The Bank does not have any overseas assets during the years ended 31 March 2022 and 31 March 2021.

4.4 Resolution of Stressed Assets-Revised Frame Work

The Bank is having Nil loan account for resolution of stressed asset (revised framework) as on 31 March 2022 (Previous Year : Nil) as per the RBI Circular DBR.No. BP.BC.45/21.04.048/ 2018-19 dated 7 June 2019, as amended.

4.5. Divergence in Asset Classification and Provisioning

The Bank has been subjected to assessment by the RBI during the period up to 31 March 2019 and no divergence is reported by the Reserve Bank of India in its assessment report. The Bank has not been subject to assessment by the RBI for the years subsequent to it. On account of the same, the disclosure on divergence in Asset classification and provisioning as per RBI Circular: DBR.BP.BC.No. 63/21.04.018/2016-17 dated April 18, 2017 is not applicable.

4.6. Disclosure of Transfer of Loan Exposures

The Bank has not done any transfer of stressed loans during the year. Hence the disclosure is not applicable.

4.7. Fraud Accounts

(₹ in crore)

Particulars	31 March 2022	31 March 2021
Number of frauds reported	39	10
Amount involved in fraud (₹ crore)	0.85	0.05
Amount of provision made for such frauds *	0.65	0.03
Amount of unmortised provision debited from 'other reserves' as at the end of the year	-	-

**Provision is made net of recovery.*

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Forming Part of the Financial Statements for the year ended 31 March 2021

4.8 Disclosure under Resolution Framework for COVID-19 Related Stress

Details of resolution plan implemented under the Resolution Framework for COVID-19-related Stress as per RBI circular dated 6 August 2020 (Resolution Framework 1.0) and 5 May 2021 (Resolution framework 2.0) are given below.

(₹ in crore)

Particulars	Exposure to accounts classified as standard consequent to implementation of resolution plan - position as at the end of the previous half year ended 30 September 2021 (A)	of (A) aggregate debt that slipped into NPA during the half year ended 31 March 2022	of (A) amount written off during the half - year	of (A) amount paid by the borrowers during the half year	Exposure to accounts classified as standard consequent to implementation of resolution plan - position as at the end of this half year ended 31 March 2022
Personal Loans	355.83	100.64	-	147.05	108.14
Corporate Persons	-	-	-	-	-
Of which MSMEs	-	-	-	-	-
Others	1,179.91	254.47	-	481.67	443.77
Total	**1,535.74**	**355.11**	**-**	**628.72**	**551.91**

5. Exposures

5.1. Exposure to Real Estate Sector:

(₹ in crore)

	Particulars	31 March 2022	31 March 2021
	Direct exposure		
i	Residential Mortgages – Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented;	156.95	124.45
	of which individual Housing loans eligible for inclusion in priority sector advances	140.24	97.05
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		-
	Indirect Exposure		
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).		-
	Total Exposure to Real Estate Sector	156.95	124.45

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Forming Part of the Financial Statements for the year ended 31 March 2021

5.2. Exposure to Capital Market

(₹ in crore)

	Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
i	Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	17.69	18.72
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)	-	-
	Total Exposure to Capital Market	**17.69**	**18.72**

5.3. 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.

5.4. Unsecured Advances

During the years ended 31 March 2022 and 31 March 2021, the Bank has not extended any advances where the collateral is an intangible asset such as a charge over rights, licences, authorisations, etc.

5.5. Details of Factoring Exposure:

The factoring exposure of the Bank as at 31 March 2022 is Nil (Previous Year: Nil).

5.6. Intra Group Exposures

The Bank does not have any intra group exposures for the year ended 31 March 2022 and 31 March 2021. Exposure is computed as per the RBI Master Circular on Exposure Norms DBOD. No. Dir.BC.12/13.03.00/ 2015-16 dated July 1, 2015.

5.7. Unhedged Foreign Currency Exposure

The Bank has made NIL provisions during the year (Previous Year: Nil). The bank held no incremental capital on advances to borrowers with unhedged foreign currency as on 31 March 2022.

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Forming Part of the Financial Statements for the year ended 31 March 2021

6. Concentration of deposits, advances, exposures and NPAs

6.1. Concentration of deposits:

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Total deposits of twenty largest depositors	2,034.12	819.78
Percentage of deposits of twenty largest depositors to total deposits of the Bank	15.87%	9.11%

6.2 Concentration of advances:

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Total advances to twenty largest borrowers	390.22	299.98
Percentage of advances to twenty largest borrowers to total advances of the Bank	3.24%	3.58%

Note: Advance is computed as per the definition of Credit Exposure in the RBI Master Circular on Exposure Norms DBOD. No. Dir.BC.12/13.03.00/2015-16 dated July 1, 2015.

6.3. Concentration of exposures:

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Total exposure to twenty largest borrowers/customers	390.22	299.98
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	3.23%	3.58%

Note: Exposure is computed as per the definition of Credit and Investment Exposure in the 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. 6.1 to 6.3 from its internal MIS system and has been furnished by the management, which has been relied upon by the auditors.

6.4. Concentration of NPAs:

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Total Exposure to top twenty NPA Accounts	6.96	5.94
Total Exposure to top twenty NPA accounts to Gross NPA	0.73%	1.05%

7. Derivatives

The Bank did not have any transactions in derivative instruments. Hence the disclosure is not applicable with respect to forward rate agreement / interest rate swap, exchange traded interest rate derivatives, risk exposure in derivatives and credit default swaps for the years ended 31 March 2022 and 31 March 2021.

8. Disclosures relating to Securitisation

The Bank has not undertaken any securitised transaction during the years ended 31 March 2022 and 31 March 2021 and has no outstanding as on 31 March 2022. Hence the disclosure is not applicable to the Bank.

9. Off Balance Sheet SPVs sponsored

There are no Off-Balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms) during the years ended 31 March 2022 and 31 March 2021.

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10. Transfer to Depositor Education and Awareness Fund (DEAF)

During the years ended 31st March 2022 and 31st March 2021, the bank was not required to transfer any amount to Depositor Education and Awareness Fund.

11. Disclosure of Complaints

a. Customer Complaints

Sl. No.	Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
(a)	No. of complaints pending at the beginning of the Year	218	33
(b)	No. of complaints received during the Year	12,894	7,393
(c)	No. of complaints disposed during the Year	13,028	7,208
	Of which, number of complaints rejected by the Bank	1	-
(d)	No. of complaints pending at the end of the Year	84	218

Customer Compaints above includes:

i. ATM transaction disputes relating to Banks customers on Banks ATM

Sl. No.	Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
(a)	No. of complaints pending at the beginning of the Year	12	-
(b)	No. of complaints received during the Year	818	378
(c)	No. of complaints disposed during the Year	829	366
	Of which, number of complaints rejected by the bank	-	-
(d)	No. of complaints pending at the end of the Year	1	12

ii. ATM transaction disputes relating to Banks customers on other Banks ATM

Sl. No.	Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
(a)	No. of complaints pending at the beginning of the Year	101	6
(b)	No. of complaints received during the Year	5,580	4,047
(c)	No. of complaints disposed during the Year	5,643	3,952
	Of which, number of complaints rejected by the Bank	-	-
(d)	No. of complaints pending at the end of the Year	38	101

b. Maintainable complaints received by the Bank from Office of Ombudsman

Sl. No.	Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
(a)	Number of maintainable complaints received by the Bank from Office of Ombudsman	32	31
	Of (a), number of complaints resolved in favour of the Bank by Office of Ombudsman	32	31
	Of (a), number of complaints resolved through conciliation/ mediation/advisories issued by Office of Ombudsman		
	Of (a) , number of complaints resolved after passing of Awards by Office of Ombudsman against	-	-
(b)	Number of Awards unimplemented within the stipulated time (other than those appealed)	-	-
		-	-

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C. Top five grounds of complaints received by the bank from customers

Year ended 31 March 2022

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Number of complaints pending beyond 30 days
ATM Cards/ Debit Cards	150	7,101	40.61%	43	-
Internet banking/ Mobile Banking/ Electronic banking	68	5,745	153.53%	40	1
Account opening/ difficulty in operation of accounts	-	23	-59.65%	1	-
Loans and advances	-	13	-18.75%	-	-
Para Banking	-	2	100.00%	-	-
Others	-	10	233.33%	-	-
Total	**218**	**12,894**	**74.41%**	**84**	**1**

Year ended 31 March 2021

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
ATM Cards/ Debit Cards	23	5,050	-2.13%	150	2
Internet banking/ Mobile Banking/ Electronic banking	10	2,266	177.00%	68	-
Account opening/ difficulty in operation of accounts	-	57	-8.06%	-	-
Loans and advances	-	16	-54.28%	-	-
Cheques/drafts/bills	-	1	100.00%	-	-
Others	-	3	-76.900%	-	-
Total	**33**	**7,393**	**21.41%**	**218**	**2**

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.

12. Disclosure of penalties imposed by the RBI

During the years ended 31 March 2022 and 31 March 2021, no penalty has been imposed by the Reserve Bank of India on the Bank under the provision of (i) Banking Regulation Act, 1949, (ii) Payment and Settlement system act, 207 and (iii) Government Securities Act, 2006 (for bouncing of SGL).

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13. Disclosure of Remuneration

A. *Qualitative Disclosures:*

a) *Information relating to the composition and mandate of the Remuneration Committee:*

The Nomination, Remuneration and Compensation committee ("NRC") comprises of five Directors, majority being independent Directors of the Bank. Key mandate of the NRC is to oversee the overall design and operation of the compensation policy of the Bank, formalising criteria for appointment of Directors based on qualification, experience, track record and integrity.

b) *Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy:*

Objective of the Banks' Compensation Policy is:

- To establish guidelines for the fair and equitable administration of salary and benefits in accordance with the policies of the Bank.
- To ensure effective governance of compensation and alignment of compensation practices with prudent risk taking.
- To have mechanisms in place for effective supervisory oversight and Board engagement in compensation. The remuneration process is aligned to the Bank's Compensation Policy objectives.

c) *Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks:*

In order to manage current and future risk and allow a fair amount of time to measure and review both quality and quantity of the delivered outcomes, the Bank has a policy to set apart a portion of the total compensation of senior and middle management as variable.

In addition, remuneration process provides for 'malus' and 'clawback' option to take care of any disciplinary issue or future drop in performance of individual/ business/ Bank.

d) *Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration:*

All bonus (performance linked pay) pay-outs are capped at 70% of the fixed pay for top management and at 60% for the rest of the levels. The Head of Control functions will be evaluated independent of business results by the Chairman of the respective Board Committee and their compensation and rewards will be approved by the Board NRC. The Bank does not have any guaranteed bonus as part of any contract with employees or any severance pay other than what is stipulated by Law; However, any bonus at the time of joining/ sign on bonus will be limited only to the first year and would need to be approved by the Board NRC.

e) *A discussion of the 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 utilises and the rationale for using these different forms:*

Variable remuneration in the form of Cash or in the form ESOP is paid at intervals ranging from Monthly/ Quarterly to Annual.

The form of variable remuneration depends on the job level of individual, risk involved, the time horizon for review of quality and longevity of the assignments performed.

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B. Quantitative Disclosures

Sl. No.	Particulars		31 March 2022	31 March 2021
1	Number of meetings held by the Nomination and Remuneration Committee during the financial year and remuneration paid to its members.		9 Remuneration paid:₹ 0.18 crore	7 Remuneration paid:₹ 0.13 crore
2	(i)	Number of employees who have received variable remuneration awards during the financial year	Four (disclosure covering MD& CEO and one level below.)	Four (disclosure covering MD& CEO and one level below.)
	(ii)	Number and total amount of sign on/ joining bonus made during the financial year	Nil	Nil
	(iii)	Details of Severance pay, in addition to accrued benefits, if any	Nil	Nil
3	i)	Total amount of outstanding deferred remuneration, split into cash, shares and share linked instruments and other forms	Remuneration Payable in cash to MD& CEO as on 31-03-2022- ₹0.62 crore	Nil
	ii)	Total amount of deferred remuneration paid out in the financial year	Nil	Nil
4	Breakdown of amount of remuneration awards for the financial year to show fixed, variable, deferred and non deferred		Fixed Salary : ₹ 2.59 crore Variable Pay : ₹ 0.80 crore Deferred Variable Pay : ₹ 0.62 crore	Fixed Salary : ₹ 2.52 crore Variable Pay : ₹ 0.14 crore Deferred Variable Pay : ₹ Nil
5	(i)	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments	Nil	Nil
	ii)	Total amount of reductions during the financial year due to ex post explicit adjustments		
	iii)	the amount of reductions during the financial year due to ex post implicit adjustments		
6	Number of Material Risk Takers (MRTs) identified		1	1
7	(i) (ii) (iii)	Number of cases where malus has been exercised Number of cases where clawback has been exercised Number of cases where both malus and clawback have been exercised	Nil	Nil
8	The mean pay for the bank as a whole (excluding sub- staff) and the deviation of the pay of each of its WTDs from the mean pay		The mean of the Pay of the Bank as a whole is ₹ 0.05 crore as on 31 March 2022. The ratio of the Remuneration of the Managing Director to the mean pay of the Bank as a whole is 48:1 as on 31 March 2022	The mean of the Pay of the Bank as a whole is ₹ 0.05 crore as on 31 March 2021. The ratio of the Remuneration of the Managing Director to the mean pay of the Bank as a whole is 51:1 as on 31 March 2021

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14. Other Disclosures

14.1. Business ratios / information:

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Interest income as a percentage of working funds *	13.75%	14.76%
Non interest income as a percentage of Working Funds*	1.47%	1.13%
Cost of deposits &	6.45%	7.50%
Net interest margin@@	8.86%	8.97%
Operating profit # as a percentage of Working Funds*	3.49%	3.74%
Return on assets ## *	0.39%	0.95%
Business ^ (deposit plus advance) per employee (₹ in crore)$	5.44	4.32
Profit per employee $ (₹ in crore)	0.01	0.03

** For the purpose of computing the ratio, Working Fund represents the average of total assets as reported in Form X to the RBI under Section 27 of the Banking Regulation Act, 1949.*

& Cost of deposits is calculated as a percentage of Interest expense on deposits to Average deposits.

@@ Net Interest Margin is calculated as percentage of Net Interest Income to Average Earning Assets. Average earning assets consist of Net Advances, Investments, Balances with other banks in Deposit Accounts and Balances with Bank and Money at call and short notice. Average represents monthly average.

 # For the purpose of this ratio, operating profit is net profit for the year before provisions and contingencies.

Return on Assets is computed as a percentage of Profit after tax to the working fund.

$ For the purpose of computing the ratio, number of employees (excluding part-time employees) as on Balance Sheet Date is considered.

^ Business is sum of net advances and deposits as reported to the RBI under section 27 of the Banking Regulation Act, 1949. Interbank deposits are excluded for the purposes of computation of this ratio.

14.2. Bancassurance Business

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Fees/remuneration received from Bancassurance business:		
- For selling life insurance policies	13.38	7.57
- For selling non-life insurance policies	1.29	1.18
- For selling pension products	0.20	0.09
- For Mutual Fund business		
Total	**14.87**	**8.84**

** Amount is below ₹ 50,000*

14.3. Marketing and distribution

The Bank does not receive any fees/remuneration in respect of Marketing and Distribution function (excluding Bancassurance business) during the year ended 31 March 2022 (Previous year: Nil).

14.4. Priority sector lending certificates

The amount of PSLCs (Category wise) sold/ purchased.

(₹ in crore)

Sl. No.	Type of PSLCs	31 March 2022		31 March 2021	
		Purchase	Sale	Purchase	Sale
1	Agriculture	-	-	-	-
2	Micro Enterprise		850.00		1,000.00
3	General	-	-	-	1,000.00
4	Small and Marginal Farmer	-	950.00	-	-

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14.5. 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:

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Provision towards NPA / Write-offs	320.84	188.74
Provision towards Standard Assets #	93.62	92.55
Provision made towards Income Tax		
-Current Tax Expense *	48.50	60.25
-Deferred Tax	(29.38)	(24.27)
Other Provision and Contingencies	3.54	(5.69)
Total Provisions and Contingencies	**437.12**	**311.58**

 # Includes ₹ 66.06 crore (Previous Year : ₹ 40.40 crore) provisions against potential impact of COVID -19.

** Net of reversal of provision for earlier years ₹ Nil (Previous year: ₹ 2 crore).*

14.6. Implementation of IFRS converged Indian Accounting Standards (INDAS)

As per the RBI circular, RBI/2015-16/315 DBR.BP.BC No. 76/21.07.001/ 2015-16 dated 11 February 2016 implementation of Indian Accounting Standards (INDAS), the Banks are advised to follow the Indian accounting standards as notified under the Companies (Indian Accounting Standards) Rules, 2015, subject to any guidelines or directions issued by the Reserve Bank in this regard. The Banks in India currently prepare their financial statements as per the guidelines issued by the RBI, the Accounting Standards notified under section 133 of the companied Act, 2013 and generally accepted accounting principles in India (Indian GAAP). In January 2016, the ministry of Corporate Affairs issued the road map for the implementation of new INDAS, which were based on convergence with the international financial reporting standards (IFRS), for Scheduled Commercial banks , Insurance Companies and Non Banking financial companies. In March 2019 the RBI deferred the implementation of INDAS for Banks till further notice as the recommended legislative amendments were under consideration of Government of India. The Bank had undertaken preliminary diagnostic analysis of the GAAP differences between Indian GAAP vis-a-vis INDAS and shall proceed for ensuring the compliance as per applicable requirement and directions in this regard.

14.7. Payment of DICGC Insurance Premium

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
i) Payment of DICGC Insurance Premium (Including taxes)	12.56	9.90
ii) Arrears in payment of DICGC Premium	Nil	Nil

14.8. Unamortised Pension and Gratuity Liabilities

There are no unamortised pension and gratuity liabilities as at 31 March 2022 and 31 March 2021.

15. Details of Single Borrower Limit (SGL) / Group Borrower Limit (GBL) exceeded by the Bank

During the years ended 31 March 2022 and 31 March 2021, the Bank's credit exposure to single borrower and group borrowers was within the prudential exposure limits prescribed by RBI.

16. The outbreak of COVID-19 pandemic across the globe and in India has contributed to a significant volatility in the financial markets and slowdown in the economic activities. Consequent to the outbreak of the COVID-19 pandemic, the Indian Government announced a lockdown in March 2020. Subsequently, the national lockdown was lifted by the Government, but regional restrictions continued to be implemented in areas, as India witnessed two more waves of the COVID-19 pandemic during the year ended 31 March 2022. Currently, while the number of covid cases has been reduced significantly and the Government of India has withdrawn most of the COVID- 19 restrictions, the Bank continues to carry an additional contingency provision of ₹ 66.06 crore as at 31 March 2022 (Previous Year : ₹ 40.40 crore). The extent to which the COVID-19 pandemic including subsequent waves, if any, may impact the Bank operations and asset quality will depend on the future developments, which are highly uncertain.

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17. Details of Non Performing Financial Assets Purchased

The Bank did not purchase any Non Performing Financial Assets during the years ended 31 March 2022 and 31 March 2021.

18. Details of Special Mention Account (SMA) or Stressed Financial Assets Purchased

The Bank did not purchase any Special Mention Account (SMA) or Stressed Financial Assets during the years ended 31 March 2022 and 31 March 2021.

19. Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances

The Bank has restructured accounts in accordance with the RBI Circular on 'Micro, Small and Medium Enterprises (MSME) sector — Restructuring of Advances' - DBR.No.BP.BC.100/21.04.048/2017-18 dated 07 February 2018, DBR.No.BP.BC.108/21.04.048/2017-18 dated 06 June 2018, DBR.No.BP.BC.18/21.04.048/2018-19 01 January 2019, DOR.No.BP.BC.34/21.04.048/2019-20 dated February 11 2020 and DOR.No. BP.BC/4/21.04.048/2020-21 dated 06 August 2020.

(₹ in crore)

	As at 31 March 2022	As at 31 March 2021
Number of Accounts Restructured	111	117
Amount	1.82	2.14

B. OTHER DISCLOSURES:

1. Earnings per Equity Share:

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Net Profit attributable to equity Shareholders(A)	54.73	105.40
Weighted average number of equity shares used in computation of basic earnings per share (B) (In crore)	44.95	42.79
Add: Effect of dilution - Stock options granted to employees	0.06	
Weighted average number of equity shares used in computation of basic earnings per share (C)(In crore)	45.01	42.79
Basic (₹)[A/B]	1.22	2.46
Diluted (₹)[A/C]	1.22	2.46
Nominal value per share (₹)	10.00	10.00

2. Segment Reporting:

Part A- Business Segments

The business of the Bank has been segregated into four Segments as per RBI guidelines : Treasury, Wholesale Banking, Retail Banking and Other Banking Operations:

(₹ in crore)

Segment Revenue	Thursday, 31 March 2022				
	Treasury	Wholesale Banking	Retail Banking	Other Banking Operations	Total
Segment Revenue	234.22	34.41	1,842.73	36.15	2,147.51
Segment Results (Operating Profit)	(6.13)	15.08	30.28	34.62	73.85
Income Tax Expenses					19.12
Net Profit					54.73
Segment Assets	5,503.91	409.76	11,541.83	-	17,455.50
Unallocated Assets					252.06
Total Assets				-	**17,707.56**
Segment Liabilities	3,320.82	1.62	12,707.66	-	16,030.10
Unallocated Liabilities					270.66
Share Capital and Reserves and Surplus					1,406.80
Total Liabilities					**17,707.56**

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(₹ in crore)

Segment Revenue	Wednesday, 31 March 2021				
	Treasury	Wholesale Banking	Retail Banking	Other Banking Operations	Total
Segment Revenue	192.53	16.76	1,537.21	21.92	1,768.42
Segment Results (Operating Profit)	1.39	5.97	115.04	18.98	141.38
Income Tax Expenses					35.98
Net Profit					105.40
Segment Assets	3,664.06	258.84	8,182.44	-	12,105.34
Unallocated Assets					233.31
Total Assets			-	-	**12,338.65**
Segment Liabilities	2,488.91	1.03	8,352.17	-	10,842.11
Unallocated Liabilities			-		144.48
Share Capital and Reserves and Surplus					1,352.06
Total Liabilities			-	-	**12,338.65**

Segmental information is provided as per the MIS/reports available for internal reporting purposes, which includes certain estimates and assumptions.

The methodology adopted in compiling and reporting the above information has been relied upon by the auditors.

Part B - Geographical Segments

The business of the Bank is in India only. Accordingly, geographical segment is not applicable.

3. Lease Disclosures:

The Bank has taken premises under operating lease for a period ranging from 11 months to 120 months. The lease payments recognised in the Profit and Loss Account is ₹ 49.91 crore (year ended 31 March 2021 - ₹ 35.06 crore).

The future minimum lease payments under non cancellable operating leases is given below.

(₹ in crore)

Particulars	31-Mar-22	31-Mar-21
Not later than one year	47.58	36.61
Later than one year but not later than five years	215.62	173.13
Later than five years	81.56	77.25

The terms of renewal and escalation clauses are those normally prevalent in similar agreements. There are no undue restrictions or onerous clauses in the agreements.

4. Deferred Taxes:

(₹ in crore)

Particulars	As at 31 March 2022	As at 31 March 2021
Deferred Tax Asset		
Provision for Employee Benefits	1.87	2.16
Provision for Standard Assets	54.81	28.59
Fixed Assets : on differences between book balances and tax balance of fixed asset	2.96	2.30
Other Provisions	5.37	2.58
Deferred Tax Asset	65.01	35.63

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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:

(₹ in crore)

Particulars	As at 31 March 2022	As at 31 March 2021
Gross Block		
At cost on 31st March of the preceding year	20.82	15.12
Additions during the year	8.72	5.70
Deductions during the year	-	-
Total	**29.54**	**20.82**
Depreciation / Amortisation		
As at 31st March of the preceding year	12.61	9.05
Charge for the year	3.36	3.56
Deductions during the year	-	-
Depreciation to date	**15.97**	**12.61**
Net Block	**13.57**	**8.21**

7. Related Party Disclosures:

Related Party #	Nature of Relationship
ESAF Financial Holdings Private Limited ("erstwhile ESAF Microfinance and Investments Private Ltd.") ("EFHL")	Significant Investor *
Cedar Retail Private Limited ("erstwhile ESAF Retail Private Ltd.") ("CEDAR Retail")	Entities in which Key Managerial Person (KMP) is a member (shareholder)
Lahanti Homes and Infrastructure (P) Ltd. [Erstwhile ESAF Homes and Infrastructure Private Ltd] ("Lahanti Homes")	Entities in which KMP is a member (shareholder)
ESAF Swasraya Producers Company Ltd. ("ESAF Producer Company")	Entities in which KMP is a member (shareholder)
K. Paul Thomas	Key Managerial Person (MD and CEO)
Mereena Paul	Relative of KMP
Emy Acha Paul	Relative of KMP
Alok Paul Thomas	Relative of KMP
Abhishek Joe Paul	Relative of KMP
Ashish Krish Paul	Relative of KMP
Beena George	Relative of KMP
ESAF Swasraya Multi State Agro Co operative Society Ltd.	Enterprises over which KMP has significant influence through relative (up to 13 March 2021)
Lahanti Last Mile Service Limited ("LLMS")	Entities over which KMP has significant influence through relative (up to 15 March 2021)
Evangelical Social Action Forum ("ESAF Society")	Enterprises over which KMP has significant influence
Prachodhan Development services ("Prachodhan")	Enterprises over which KMP has significant influence through relative

#Related parties are identified as per Accounting Standard 18 - Related Party Disclosures specified under Section 133 of the Companies Act, 2013 read with the Companies (Accounts) Rules, 2014.

**EFHL holds 62.46%of the equity share capital of the Bank. However, since the voting rights of any investor in Banks are restricted to 26% pursuant to the provisions of RBI guidelines, EFHL has been considered as Significant Investor.*

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During the previous year, effective from 13 March 2021, Smt. Mereena Paul and Shri. Alok Thomas Paul (Relatives of MD & CEO) have resigned as Directors of ESAF Swasraya Multi State Agro Cooperative Society Ltd. (ESCO). Further effective from 24 January 2021 Smt. Emy Acha Paul and Shri. Sunny Thomas (Relatives of MD & CEO) have relinquished the Directorships as well as shareholding in Lahanti Lastmile Services Private Limited (LLMS) and Shri. Samu John (Relative of MD & CEO) has resigned as director of LLMS on 15 March 2021. Resulting from the above both ESCO and LLMS ceases to be related parties effective from 13 March 2021 and 15 March 2021 respectively. However, the normal business transactions with the said related parties is disclosed for the full financial year. Since the relationship does not exist as on the Balance sheet, closing balances of the said related parties are not disclosed for the year ended 31-03-2021. During year ended 31 March 2022, no disclosure has been made for the said related parties.

Transactions during the year with the Related Party

(₹ in crore)

Nature of Transaction	Related Party	Thursday, 31 March 2022	Wednesday, 31 March 2021
Liabilities			
Term Deposit Placed	ESCO	NA	9.00
	ESAF Society	0.61	-
	LLMS	NA	2.20
	K. Paul Thomas	-	0.40
	Emy Acha Paul	0.05	-
	Beena George	0.02	0.01
	Cedar Retail	0.50	8.00
	EFHL	72.42	-
Term Deposit Matured	EFHL	108.92	-
	Cedar Retail	-	11.75
	K. Paul Thomas	0.29	
	Beena George	0.01	0.02
	ESAF Society	0.36	
	Emy Acha Paul	0.07	
	LLMS	NA	0.50
Transactions in Demand Deposit (net)	ESCO	NA	0.10
	Cedar Retail	2.43	(1.01)
	ESAF Society	*	(0.09)
	EFHL	0.04	(1.26)
	LLMS	NA	2.26
	Lahanti Homes	(0.19)	0.19
	Prachodan	0.01	0.04
Transactions in Savings Deposit(net)	K. Paul Thomas	0.28	(0.37)
	Mereena Paul	0.35	(0.17)
	ESCO	NA	(13.03)
	Emy Acha Paul	0.01	0.01
	Alok Paul Thomas	*	*
	ESAF Society	2.95	0.85
	Prachodhan	(0.48)	0.98
	Abhishek Joe Paul	*	*
	Ashish Krish Paul	*	*
	Beena George	(0.03)	0.02
	ESAF Producer Company	(0.01)	0.02
Interest accrued and due on Deposits	ESCO	NA	2.75
	Cedar Retail	0.01	0.05
	EFHL	4.94	5.21

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(₹ in crore)

Nature of Transaction	Related Party	Thursday, 31 March 2022	Wednesday, 31 March 2021
	ESAF Society	0.49	0.32
	LLMS	NA	0.24
	K. Paul Thomas	0.08	0.07
	Mereena Paul	0.01	0.01
	Emy Acha Paul	0.01	0.01
	Alok Paul Thomas	*	*
	Abhishek Joe Paul	*	*
	Ashish Krish Paul	*	*
	Beena George	*	*
	Prachodan	0.08	0.06
Interest Accrued & Payable on PDI	ESCO	NA	6.24
Interest Accrued & Payable on Sub Debt	ESCO	NA	9.54
Interest Accrued & Payable on Sub Debt	EFHL	0.01	-
Issue of Equity Shares	Mereena Paul	-	0.03
	Emy Acha Paul	-	0.01
	Alok Paul Thomas	-	0.01
	Beena George	-	0.04
Share premium	Mereena Paul	-	0.22
	Emy Acha Paul	-	0.09
	Alok Paul Thomas	-	0.09
	Beena George	-	0.26
Issue of Sub Debt	EFHL	20.00	-
Contingent Liability			
Bank Guarantee Given/ Renewed		0.45	-
Assets			
Advances	EFHL	21.58	1.10
	Cedar Retail	-	-
	Beena George	-	0.14
Advances Repaid	Cedar Retail	-	1.03
	EFHL	32.40	
	Beena George	-	0.62
Vehicle Purchased	EFHL	-	-
Rent Deposit Repaid	Paul Thomas	-	0.07
Expenses			
Rent Paid	Lahanti Homes	2.10	2.10
	EFHL	-	-
	K. Paul Thomas	-	-
	ESAF Society	0.02	0.02
Interest Paid on Deposits	ESCO	NA	2.75
	Cedar Retail	0.01	0.05
	EFHL	4.94	5.21
	ESAF Society	0.49	0.32
	LLMS	NA	0.24
	K. Paul Thomas	0.08	0.07
	Mereena Paul	0.01	0.01
	Emy Acha Paul	0.01	0.01
	Alok Paul Thomas	*	*
	Abhishek Joe Paul	*	*
	Ashish Krish Paul	*	*
	Beena George	*	*

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

(₹ in crore)

Nature of Transaction	Related Party	Thursday, 31 March 2022	Wednesday, 31 March 2021
	Prachodan	0.08	0.06
Interest paid on PDI	ESCO	NA	6.24
Interest paid on Sub Debt	ESCO	NA	9.54
Interest paid on Sub Debt	EFHL	0.01	
BC Servicer Fee	ESCO	NA	195.03
	LLMS	NA	18.47
Corporate Facility Management service charges	ESCO	NA	12.46
Remuneration and Sitting Fees	K. Paul Thomas	2.45	1.41
Reimbursement of expenses	K. Paul Thomas	-	0.12
Contribution towards Corporate Responsibility expense	ESAF Society	8.76	3.26
	Prachodan	-	3.90
Project cost for rebuilding of houses in relation to flood relief	ESAF Society	-	-
Royalty Expense	ESAF Society	1.44	2.68
Income			
Interest received on Advances	Cedar Retail	-	*
	Beena George	-	0.06
	EFHL	1.78	1.44

Figures in brackets indicate net outflow.

** Amounts are below ₹ 50,000/-.*

The remuneration to KMP does not include the provisions made for gratuity and leave benefits, as they are determined on an actuarial basis for the Bank as a whole.

Balance outstanding as at :

(₹ in crore)

Items/Related Party	Significant Investor		KMP and Enterprises over which KMP/Relative of KMP have control / significant influence	
	Thursday, 31 March 2022	Wednesday, 31 March 2021	Thursday, 31 March 2022	Wednesday, 31 March 2021
Liabilities				
Term Deposits	3.50	35.26	2.55	2.05
Demand Deposit (Including Savings Deposits)	0.48	0.45	11.15	5.91
Equity Shares (Including Share Premium)	283.90	283.90	31.94	31.94
Borrowings	20.00	-	-	-
Other Liabilities	0.01	-	-	2.76
Contingent Liability				
Bank Guarantee	-	-	1.39	1.09
Assets				
Advances	-	9.04	-	-
Others	-	0.23	-	-

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

Maximum Balance outstanding during the year

(₹ in crore)

Items/Related Party	Significant Investor		KMP and Enterprises over which KMP/Relative of KMP have control / significant influence	
	Thursday, 31 March 2022	Wednesday, 31 March 2021	Thursday, 31 March 2022	Wednesday, 31 March 2021
Liabilities				
Term Deposits	35.26	35.26	2.67	2.06
Demand Deposit (Including Savings Deposits)	2.08	4.45	17.38	8.32
Equity Shares (Including Share Premium)	283.90	283.90	31.94	31.94
Borrowings	20.00	-	-	-
Assets				
Advances	20.00	9.04	-	2.42

8. Employee Stock Option Scheme ("ESOS")

i) ESAF Small Finance Bank Employee Stock Option Plan 2019

The Bank, pursuant to the resolutions passed by the Board on 23 December 2019 and Shareholders on January 3, 2020, adopted the ESAF ESOP Plan 2019. The ESAF ESOP Plan 2019 has been framed in compliance with the SEBI Regulations. The ESOP grant is of two types (i) loyalty grant and (ii) performance grant. As on 31 March 2022 no options under performance grant have been granted by the Bank under the ESAF ESOP Plan 2019. The Nomination and Remuneration Committee of the Bank, on 28 June 2021, granted loyalty grant to its eligible employees. The details of the options granted under the ESAF ESOP Plan 2019 as loyalty grant are as follows:

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Outstanding at the beginning of the year	-	-
Surrendered during the year	-	-
Granted during the year	1,125,590	-
Exercised during the year	-	-
Forfeited/ lapsed during the year	-	-
Outstanding at the end of the year	1,125,590	-
Options exercisable	-	-

As per SEBI guidelines the accounting for ESOS can be done either under the 'Intrinsic value basis' or 'Fair value basis'. As per the approval of shareholders, the Bank has adopted 'Intrinsic value method' for accounting of ESOS. In accordance with the SEBI guidelines and the guidance note on "Accounting for Employee Share based payments" issued by the ICAI, the excess, if any, of the market price of the share preceding the date of grant of the option under ESOS over the exercise price of the option is amortised on a straight line basis over the vesting period.

ii) Effect of Fair Value Method of Accounting ESOP:

If "Fair Value Method" had been adopted based on "Black-Scholes pricing model" for pricing and accounting of options, net profit would be lower by ₹ 1.24 crore (Previous Year: ₹ Nil). The modified basic and diluted earnings per share for the year, had the Bank followed Fair Value Method of accounting for ESOS compensation cost would be ₹ 1.19 and ₹ 1.19 (Previous Year: Nil) respectively.

iii) As per the RBI circular RBI/2021-22/9 OR.GOV.REC.44/29.67.001/2021-22 "Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff – Clarification" dated 30 August 2021 (the "RBI Guidelines on Compensation"), the Bank has identified material risk taker and submitted to RBI. During the Quarter and year ended 31 March 2022 no ESOP has been granted to the aforesaid eligible personnel, hence there is no impact on the results for the year ended 31 March 2022 on account of fair valuation of options in accordance with RBI guidelines on compensation to the key risk taker.

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

9. Employee Benefits

i. The Bank has recognised the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds:

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Provident Fund	8.56	7.08

ii. Gratuity

The gratuity plan provides a lump sum payment to vested employees at retirement or on termination of employment based on respective employee's salary and years of employment with the Bank subject to maximum of ₹ 0.20 crore.

The reconciliation of opening and closing balance of present value of defined benefit obligation for gratuity benefits is given below.

Reconciliation of Defined Benefit Obligation (DBO)

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Present value of DBO at start of year	8.42	5.69
Current Service Cost	2.87	3.23
Interest Cost	0.46	0.37
Benefits Paid	(0.26)	(0.19)
Past Service Cost	-	-
Actuarial (Gain)/Loss	(0.44)	(0.68)
Present Value of DBO at end of year	**11.05**	**8.42**

Reconciliation of Fair Value of Plan Assets

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Fair value of Plan Assets at start of year	5.83	4.19
Contributions by Employer	4.49	1.50
Benefits Paid	(0.26)	(0.19)
Expected Return on Plan Assets	0.41	0.32
Actuarial Gain/(Loss)	0.09	0.01
Fair Value of Plan Assets at end of year	10.56	5.83
Actual Return on Plan assets	0.50	0.32
Expected Employer Contributions for the coming year	**0.50**	**2.50**

Expense recognised in the Profit and Loss account

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Current Service Cost	2.87	3.23
Interest Cost	0.46	0.37
Past Service Cost	-	-
Expected Return on Plan Assets	(0.41)	(0.32)
Actuarial (Gain)/Loss	(0.53)	(0.69)
Employer Expense/(Income)	**2.39**	**2.59**

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

Net Liability/(Asset) recognised in the Balance Sheet

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Present Value of DBO	11.05	8.42
Fair Value of Plan Assets	10.56	5.83
Net Liability/(Asset)	**0.49**	**2.59**
Less: Unrecognised Past Service Cost	-	-
Liability/(Asset) recognise in the Balance sheet	**0.49**	**2.59**

Category of Plan Assets

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Insurer Managed Fund	99.90%	99.90%
Bank Balance	0.10%	0.10%

Actuarial Assumptions Used

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Salary Growth Rate	7.5% p.a	7.5% p.a
Discount Rate	5.90% p.a	5.50% p.a
Withdrawal/Attrition Rate	20% p.a	20% p.a
Expected return on plan assets	5.50%	6.40% p.a.
Mortality Rate	IALM 2012-14 (Ult)	IALM 2012-14 (Ult)
Expected average remaining working lives of employees	4 Years	4 Years

Experience Adjustments

(₹ in crore)

Particulars	As at 31 March 2022	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019	As at 31 March 2018
Defined Benefit Obligation	11.05	8.42	5.69	3.54	2.07
Fair Value of Plan Assets	10.56	5.83	4.19	1.30	1.25
Surplus / (Deficit)	(0.49)	(2.59)	(1.50)	(2.24)	(0.82)
Experience Adjustment on Plan Liabilities : (Gain)/Loss	(0.19)	0.68	(0.42)	0.21	(0.20)
Experience Adjustment on Plan Assets : Gain/(Loss)	0.02	(0.03)	(0.11)	0.01	-

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

iii. Leave Encashment

The employees of the Bank are entitled to compensated absence. The employees can carry forward a portion of the unutilised accrued compensated absence and utilise it in future periods or receive cash compensation at retirement or termination of employment for the unutilised accrued compensated absence for a maximum of 30 days. The Bank records an obligation for compensated absences in the period in which the employee renders the services that increase this entitlement. The Bank measures the expected cost of compensated absence as the additional amount that the Bank expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date based on actuarial valuations.

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

The Actuarial liability of compensated absences of accumulated privilege leave of the employees of the Bank is given below:

(₹ in crore)

Assumptions	Thursday, 31 March 2022	Wednesday, 31 March 2021
Privilege Leave	30 days	30 days
Sick Leave	30 days	30 days
Discount Rate (Privilege/ Sick Leave)	5.90%	5.50%
Salary Escalation Rate (Privilege/ Sick Leave)	7.50%	7.50%
Attrition Rate (Privilege/ Sick Leave)	20%	20%
Actuarial Liability - Privilege Leave	4.15	3.79
Charged in Profit and Loss Account- Privilege Leave	0.36	1.30
Actuarial Liability - Sick Leave	2.79	2.32
Charged in Profit and Loss Account- Sick Leave	0.47	0.13

The discount rate is based on the prevailing market yields of the 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.

10. Corporate Social Responsibility (CSR)

Particulars	31 March 2022	31 March 2021
a) Gross amount required to be spend including deficit of previous year	12.82#	7.16
b) Amount spent during the year		
i) Construction / acquisition of any asset	0.26	-
ii) Any other projects	7.83##	3.10
Total	**8.09**	**3.10**
c) Short fall at the year end	4.73	4.06
d) Previous year short fall	-	-
e) Reason for short fall	Ongoing projects	Ongoing projects
f) Nature of CSR activities	Children's education, Sustainable village development, waste management, liveable city projects, community school infrastructure, Krushakmitra for farmer and farmer collectives, Garshom projects for migrant labourers, Skill training for Rural Artisans and rural youth, flood rehabilitation, Covid-19 response programme, Sustainable development initiatives, Arogyamitra - Health Entrepreneurship Development .	Children's education, Sustainable village development, waste management, liveable city projects, community school infrastructure, Krushakmitra for farmer and farmer collectives, Garshom projects for migrant labourers, Skill training for Rural Artisans and rural youth, flood rehabilitation, Covid-19 response programme, Sustainable development initiatives, Arogyamitra - Health Entrepreneurship Development .

** Amount below ₹ 50,000/-*

 # Gross amount required to spend by the Bank during the year include unspent for Financial year ended 31 March 2021 of ₹ 4.06 crore

Amount spent/ incurred during the year includes ₹ 4.06 crore related to Financial year ended 31 March 2021 out of the unspent amount during the said year.

Pursuant to Section135(5) & (6) of Companies Act, 2013 read with Companies (Corporate Social Responsibility Policy) Rules, 2014 (Amended), the Bank transferred ₹ 3.44 crore in “Unspent CSR Account” on 31 March 2022 for the ongoing CSR projects, for spending over the following 3 years period, on the ongoing CSR sub Committee projects.

Refer Note B.7 of Schedule 18 for the related parties involved in activities relating to Corporate Social Responsibility.

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

11. Subordinated Debt and Perpetual Debt

a The Bank has an outstanding subordinated debt of ₹ 160 crore (As at 31 March 2021 : ₹ 190 crore). Out of the above as on 31 March 2022 ₹ 15 crore (Previous Year ₹ 65 crore) has been taken over by the Bank as per the Business Transfer Agreement (BTA) entered into with ESAF Financial Holdings Private Limited ("erstwhile ESAF Microfinance and Investments Private Ltd."). This has been considered as a part of Tier 2 Capital for capital adequacy computation after subjecting to discounting in accordance with RBI guidelines.

During the year ended 31 March 2022, the Bank raised a Subordinated debt of ₹ 20 crore by way of private placement.

The Bank has an outstanding Perpetual Debt Instrument of ₹ 48 crore (As at 31 March 2021: ₹ 48 crore).

b. Interest Expended-Others includes interest of ₹ 22.33 crore (Previous year : ₹ 24.52 crore) on Subordinated Debt and includes interest of ₹ 6.24 crore (Previous Year: ₹ 6.24 crore on perpetual Debt instrument).

12. Details of payments of audit fees (Exclusive of Goods and Service Tax)

(₹ in crore)

Particulars	Thursday, 31 March 2022	Wednesday, 31 March 2021
Statutory Audit fees	0.40	0.35
Other Attestation work	0.13	0.05
Other Certification	0.15	0.21
Certification fees relating to DRHP for the proposed IPO and Other Documentation	0.45	0.40
Out of pocket expenses (Including IPO related services)	0.03	0.02
Total	**1.16**	**1.03**

13. Description of Contingent Liabilities:

The Bank has contingent liability of ₹ 0.50 crore (Previous year ₹ 0.20 crore) for securitisation transactions, guarantee given to Pension Fund Regulatory Development Authority (PFRDA) and other Court matters and ₹ 1.55 crore (Previous Year: 1.30 crore) with respect to guarantees given on behalf of constituents in India.

14. The Bank has a process whereby periodically all long term contracts are assessed for material foreseeable losses. As on 31 March 2022 and 31 March 2021, 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.

15. The Bank has received few intimations from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006. Based on the information received and available with the Bank, there are no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments during the years ended 31 March 2022 and 31 March 2021. Further, there are no outstanding against those suppliers as on 31 March 2022 and 31 March 2021. The above is based on information available with the Bank and relied upon by the Auditors.

16. As a part of the normal banking business, the Bank grants loan and advances to its borrowers with permission to lend/ invest or provide guarantees/ securities in other entities identified by such borrowers or on the basis of the security/ guarantee provided by the co-borrower. Similarly, the Bank may accept funds from its customers who may instruct the bank to lend/ invest/ provide guarantee or security or the like against such deposits in other entities identified by such customers. These transactions are part of the Bank's normal banking business, which is conducted after exercising proper due diligence including adherence to "Know Your customer" guidelines.

Schedules

Forming Part of the Financial Statements for the year ended 31 March 2021

Other than the nature of the transactions described above:

- No funds have been advanced or loaned or invested by the Bank to or in any other person(s) or entity(ies) ("intermediaries") with the understanding that the intermediary shall lend or invest in party identified by or on behalf of the Bank (ultimate beneficiary).
- The Bank has not received any funds from any party(s) (funding party) with the understanding that the Bank shall whether, directly or indirectly lend or invest in other persons or entities by or on behalf of the Bank ("ultimate beneficiaries") or provide any guarantee or security or the like on behalf of the ultimate beneficiary

17. IPO Expenses

As on 31 March 2022, the Bank has incurred expenses in connection with ongoing Initial Public Offer (IPO), which include payments made to Merchant Bankers, Legal Counsel, Statutory Auditors and other incidental expenses amounting to ₹13.05 crore (Previous Year :₹ 7.03 crore). In accordance with the accounting policy approved by the Board, the provisions of the Companies Act, 2013 and Banking Regulation Act, 1949 the Share Issue Expenses are eligible to be drawn from share premium account. As the process of IPO is still in progress the said expenses are included under "others" in other assets (Schedule 11 [vii])of the Balance Sheet.

18. Previous Year's figures

Previous year's figures have been regrouped/reclassified wherever necessary to correspond with the current year's classification/disclosure.

For and on behalf of the Board of Directors

Sd/-
P. R. Ravi Mohan
Chairman
DIN: 08534931

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

Sd/-
Asha Morley
Director
DIN: 02012799

Sd/-
Gireesh C. P.
Chief Financial Officer

Sd/-
Ranjith Raj P.
Company Secretary

Place : Mannuthy
Date : 10 May 2022

NOTES

NOTES

ESAF SMALL FINANCE BANK

www.esafbank.com

Concept, Content & Design (info@wyatt.co.in)

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