

# JOY OF BANKING



 **ESAF**  
ESAF SMALL FINANCE BANK  
*Joy of Banking*

ANNUAL REPORT 2016-17

# THE MEGA LAUNCH



March 17, 2017 Lulu International Convention Centre, Puzhakkal, Thrissur





Sri. Pinarayi Vijayan, Hon'ble Chief Minister of Kerala, inaugurating ESAF Small Finance Bank on 17th March, 2017 at Lulu International Convention Centre, Thrissur, Kerala. Sri. K. Paul Thomas, MD & CEO, Sri. George Thomas, Executive Vice President, ESAF Small Finance Bank and Sri. Ramesh Chennithala, Leader of Opposition, Kerala Legislative Assembly, Adv. K. Rajan MLA are also seen.



Sri. K. Paul Thomas along with Smt. Mereena Paul welcoming Sri. Ramesh Chennithala



A still from the inauguration programme



Sri. K. Paul Thomas along with Sri. Pinarayi Vijayan and Sri. Ramesh Chennithala. Also seen is Sri. Assan Khan Akbar



Sri. Ramesh Chennithala releasing ESAF SFB Debit Card



Smt. Mereena Paul launching the Corporate TV Commercials



Sri. K. Paul Thomas honoring Sri. Pinarayi Vijayan

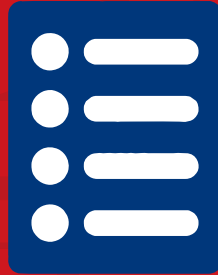
## Vision

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 un-served households in India facilitated by customer-centric products, high quality service and innovative technology.





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## CORPORATE INFORMATION

Registered & Corporate Office	Hepzibah Complex, Second Floor, No.x/109/M4, Mannuthy P.O., Thrissur, Kerala - 680 651	CIN	U65990KL2016PLC045669
		RBI Reg. No.	MUM 124
Time and Date of Meeting	11.00 AM 27 <sup>th</sup> September, 2017		
Board of Directors	<b>Mr. Prabha Raveendranathan</b> (Chairman)	<b>Mr. Kadambelil Paul Thomas</b> (Managing Director & CEO)	
	<b>Mr. Assan Khan Akbar</b>	<b>Mr. George Joseph</b>	
	<b>Mr. Saneesh Singh</b>	<b>Mrs. Asha Morley</b>	
	<b>Mr. Alex P. George</b>		
Consultants /Agencies	Ernst & Young	A. John Moris & Co.	BuzzStop Integrated Communications
	Factor <sup>M</sup>	Mr. Ram Chellam (Finance)	Mr. Sony V. Mathew (Branding & Communications)
	Mr. Vittal Rangan S. (Human Resources)	<b>System Integrator</b>	FIS Global
Executive Vice Presidents	Mr. A.G. Varughese	Mr. George Thomas	Mr. Ajit K. Choudhary
SFB-PMO Director	Mr. Suresh Gurumani	<b>SFB-PMO Dy. Director</b>	Mr. Sridhar Guru
Chief Financial Officer	Mr. Padmakumar K.	<b>Statutory Audiors</b>	S. R. Batliboi & Associates LLP
Company Secretary	Mr. Ranjith Raj P.	<b>Secretarial Audiors</b>	Krishna Prasad R. S. & Co.
Senior Management Team	Mr. Swaminathan N. (Head-Retail Liability)	Mr. Sridhar Kalyananasundharam (Head-Risk and compliance)	
	Mr. Bosco Joseph (Head-Administration, Procurement & Infrastructure)	Mr. Murali N.A. (Head-Treasury)	Mr. George K. John (Head-Micro Banking)
	Mr. Paul Joy Palocaren (Head-Retail Assets)	Mr. Badrinath Kilambi (Head-IT & Operations)	Mr. Sabu Thomas (Head-Internal Audit)
	Mr. Jaleesh Peter (Head-Corp communication)	Dr. Jose A.V. (Head-Training)	Mr. V.A.Varghese (Head-Products)





വിജയനഗരം

# സ്ത്രീകളുടെ സ്വന്തം ബാങ്ക്

കേരളത്തിലെ സ്ത്രീകൾക്ക് സ്വന്തം ബാങ്ക്



## ESAF Small Finance Bank launched in Kerala

### Targets Business Of ₹20K Crore By 2020

TIMES NEWS NETWORK

**Thiruvananthapuram:** Chief minister Pinarayi Vijayan on Friday inaugurated ESAF Small Finance Bank (ESAF SFB), the first ever private scheduled bank in Kerala after Independence, in a grant ceremony held at Lulu International Convention Centre here.

Stressing the need to reach out to common man and the marginalized people in society, Vijayan said that being an organization that started in a single room at Mannuthy way back in 1992, ESAF would be the appropriate forum to take the service for the poor forward. "While more people are becoming victims of phishing and other financial frauds, there is a need for economic literacy in the state," he noted.



Chief minister Pinarayi Vijayan inaugurates ESAF Small Finance Bank on Friday in the presence of K Paul Thomas, MD and CEO.

As per the guidelines of the RBI, the bank should open 25% of its branches in unbanked rural areas, and in Kerala, ESAF it will open not less than 10 branches in such places.

"ESAF Microfinance, which presently has a network of 285 branches in 93 districts spread over 10 states, will

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## ESAF to use agent model to grow business

### The small finance bank to begin operations on March 17

V SAJEEV KUMAR

Thiruvananthapuram, March 10



K Paul Thomas, CMD

ESAF Small Finance Bank, which recently received banking licence, will focus on "agent based business model" to expand its market instead of brick-and-mortar branches.

"The agent network is a successive business model in the banking sector of many African countries and we want to replicate it here," K Paul Thomas, Chairman and Managing Director, said.

The idea is to appoint at least 10,000 agents on a commission basis in the next five years to provide doorstep banking to customers, with services such as opening, extending loans and collections, he told BusinessLine at the sidelines of an event.

ESAF Small Finance Banks will start operations on March 17 to kick-off with a network of 85 retail branches and 300 customer touch points, which would be opened

announced on the inaugural day. Moreover, there will be no restrictions on minimum balance in the first year, he said, adding that the bank has partnered with 30 large commercial banks to facilitate high-value loans. Aimed at HNIs and NRIs, a new deposit called 'Hridaya' will be introduced. The minimum amount to be deposited in this account will be ₹15 lakh, and this will be disbursed as housing, micro, education, and agri loans.

Digital banking will also be given prominence through Skype call facilities in branches, and tab-based banking, he added.

Based on the RBI guidelines that 25 per cent of the branches should be in un-banked areas, Thomas said ESAF has identified 39 branches in Kerala in the first phase and another 17 are

### INTERVIEW | K. PAUL THOMAS

## 'MFIs understand rural customers'

"Small finance banks with microfinance experience can bring about financial inclusion"

**CHANDRAN K. NARAYAN**  
RBI had been in principle approval for 20 institutions to start small finance banks (SFBs) in the country. Among them was ESAF Microfinance, which was set to begin operations as a bank from March 17. In an interview, K. Paul Thomas, founder and chairman, ESAF Microfinance, said on the spot that SFBs needed to fill. Excerpted excerpts:

**What is the significance of a small finance bank in India?**

"The financial inclusion agenda was first mooted about four years ago. The Swachh Bharat Mission was the first such initiative to cover villages with banking facilities.

The initiative proved to be a failure due to lack of financial literacy and technology. A few years later, the government launched the Pradhan Mantri Jan Dhan Yojana (PMJDY) to launch Small Finance Banks and Payments Banks. The recent digital

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**In India, co-operative banks have major presence and people are likely to connect with them. How do you gather support to get business?**

"We are here to deliver a promise - the promise of offering personalized attention that has been missing from the entire banking scenario for a long time.

This is important when banking is going more transactional in nature. We know that the scenario is competitive. Hence, we give emphasis to branding and have adequate plans to build brand 'ESAF' through multiple platforms.

As we communicated through an earlier campaign 'we build the nation from the roots', we will focus more on building the brand through community development.

The proof of the pudding is in the eating. So, merely communicating, merely without delivering the value, is not enough. The fact, the proof of the pudding is in the eating. So, merely communicating, merely without delivering the value, is not enough.



Universal banks have found it difficult to deliver last mile connectivity

connect of cooperative banks and technological might of universal banks will reflect in SFBs.

We don't consider co-operative banks alone as our competitors. Maybe, for a short time it may count. In the long term, we will consider competition on a wider horizon and will stay relevant in all categories of services.

Will you continue your macro finance business?

"Yes. Instead of macro finance business, we will focus on micro finance business."



# Journey of ESAF 1992-2017

<p>1992</p>  <p>Established ESAF Society as an NGO</p>	<p>1995</p>  <p>ESAF launched Micro Enterprise Development (MED) initiative (First in Kerala) and disbursed first loan at Methala, Thrissur</p>	<p>1997</p>  <p>K. Paul Thomas, Founder &amp; MD met Prof. Muhammed Yunus in Bangladesh to understand the nuances of microcredit.</p>	<p>2004</p>  <p>Expanded operations to Tamil Nadu, Maharashtra and Chattisgarh</p>	<p>2007</p>  <p>Wins Micro-Insurance Award instituted by ING Netherlands and Planet Finance India.</p>	<p>2008</p>  <p>Ranked 14<sup>th</sup> in the world, and 4<sup>th</sup> in India for transparency and efficiency, by MIX Market.</p>
<p>2008</p>  <p>MED operations transformed to ESAF Microfinance (RBI Licenced NBFC) after acquiring the portfolio from ESAF NGO</p>	<p>2009</p>  <p>Selected by International Labour Organization (ILO) for the project 'Microfinance for decent work'.</p>	<p>2012</p>  <p>SROI Study suggests that, for the equivalent of every ₹1 invested in ESAF Microfinance, ₹3.19 is returned in social value.</p>	<p>2013</p>  <p>Selected by World Bank Group for 'India Development Marketplace' award.</p>	<p>2013</p>  <p>K. Paul Thomas, CMD becomes the Director of MFIN</p>	<p>2013</p>  <p>ESAF wins the title Socially Transparent and Responsible (STAR) MFI 2013, granted by MIX Market.</p>
<p>2014</p>  <p>Received 'NBFC-MFI' licence from Reserve Bank of India</p>	<p>2014</p>  <p>SIDBI acknowledges ESAF's gender mainstreaming strategy</p>	<p>2014</p>  <p>Rated mFR2 by CRISIL Ratings</p>	<p>2014</p>  <p>ESAF wins Disability Inclusion Award</p>	<p>2014</p>  <p>ESAF among the finalists to receive the prestigious European Microfinance Award</p>	<p>2015</p>  <p>Graded MF2+ and Bank Loan Rating 'BBB+' by Care Ratings</p>
<p>2015</p>  <p>ESAF Crossed ₹10 Billion Gross Loan Portfolio</p>	<p>2015</p>  <p>ESAF Launched Housing Loan in association with Microbuild India Habitat</p>	<p>2016</p>  <p>ESAF Received Special Jury Award for serving MSMEs from Chamber of Indian Micro Small &amp; Medium Enterprises</p>	<p>2016</p>  <p>Graded MFI 1 by Care Ratings</p>	<p>2016</p>  <p>Crossed 1 Million Members &amp; 20 Billion Loan Portfolio</p>	<p>2016</p>  <p>ESAF received SKOCH Order of Merit Award for its excellence in Financial Inclusion space</p>
<p>2016</p>  <p>ESAF received the Final Licence from RBI to launch a Small Finance Bank</p>	<p>2017</p>  <p>ESAF received ₹10 Million as the first trench of Carbon Credit revenue and became the first MFI from India to win Carbon Credit revenues.</p>	<p>2017</p>  <p>ESAF celebrated 25 years of Social Service</p>	<p>2017</p>  <p>ESAF launched ESAF Small Finance Bank, the first bank from Kerala since independence</p>		



Chairman's Message

The first of  
its kind...



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Prabha Raveendranathan, Chairman

Dear Shareholders,

On behalf of the Board of Directors, I have great pleasure in presenting before you the First Annual Report of the Bank for the financial year 2016-17. The transformation from ESAF Microfinance and Investments Pvt Ltd (ESAF Microfinance), an NBFC-MFI to ESAF Small Finance Bank was quite challenging. I compliment and thank Mr. K. Paul Thomas, the Managing Director and CEO, his dedicated team, the outside Agencies who helped the Bank in the transformation process, my colleagues in the Board, The Reserve Bank of India and above all the employees of ESAF Microfinance and ESAF Small Finance Bank and their customers for overcoming the challenges and coming out successful. We could formally launch the Bank on 17th March 2017 in a glittering function at Trichur in the august presence of Sri. Pinarayi Vijayan, Hon. Chief Minister of the State of Kerala, who had inaugurated the function.

The Financial Results of the Bank for 21 days of its existence in the year 2016-17 is before you. The Bank, as permitted by the Reserve Bank of India, has taken over the Assets and Liabilities of ESAF Microfinance, which helped the Bank to earn a net profit of ₹76.29 lacs. As a new entrant in the Banking arena, it would take some time for ESAF to make its presence felt. In anticipation, I thank the shareholders for their understanding and patience.

The Bank can legitimately claim many unique features. The first among them is its ownership structure. The way it is designed manifested the shareholders' aspirations as a common man's Bank. The Bank is here to give its cus-

tomers a different kind of Banking experience. While focusing on the common man, it seeks to provide the same facilities of the most modern Bank at affordable cost to everyone. Its products and services are designed in such way as to suit the common man's needs. The business model adopted by it aims to bring its services to the customers' doorstep. At every move, the Bank is trying to keep the customer at the Central Stage, fully conscious of the expectations from the Society.

We have a highly enlightened and experienced Board at the Apex Level, which would steer the Bank in its glorious journey with Mr. K. Paul Thomas, MD and CEO spearheading all operations of the Bank. The Board shall try its best to develop the Bank as a highly ethical and value based Institution, fully compliant of all regulations. At the same time, it shall endeavour to make reasonable and sustainable profits so as to enhance the shareholders' value and be relevant to its customers and the society at large in the long run.

I take this opportunity to seek the continued support and co-operation of all the shareholders, customers and employees of the Bank and its associates and all well-wishers in building the Bank as a force to reckon within the country in the near future.

Prabha Raveendranathan  
Chairman

From the MD's desk

We will continue  
to fight the partiality  
of prosperity



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K. Paul Thomas, MD & CEO



Addressing my first message to the shareholders of ESAF Small Finance Bank is a great privilege and as the Managing Director and CEO of the bank this is an hour of fulfilment for me. From our humble beginnings, we have made a quantum leap to be the one and only Small Finance bank based out of Kerala. As we started our journey of building a bank, we will continue to pursue our vision of nation building from the roots. We want our bank to serve the interests of all segments of the society, although the new products will mainly cater to the poor and the downtrodden. Yes, fiscal 2017 is truly historic for ESAF. It witnessed the commencement of ESAF Small Finance Bank on March 10, and on March 17 the bank was formally inaugurated by the Hon'ble Chief Minister of Kerala, Sri. Pinarayi Vijayan, in a mega event organized in Thrissur.

On the global front, political and geographical issues dominated in the last year. The focus in global trade was shifted from crunch management to growth. When it comes to economy, there was restraint in growth in both developed and emerging markets. In this backdrop, India took several significant policy level initiatives. At first, we have witnessed the enactment of the Insolvency and Bankruptcy Code. Later, the sensational withdrawal of legal tender status of currency notes of denominations ₹ 500 and ₹ 1,000. Soon new 500 and 2,000 currency notes were introduced. No wonder, the move boosted digital transactions, improved tax compliance and financial savings for individuals as well as the country as a whole. Finally, legislation on the Goods & Services Tax was enacted, paving the way for its implementation. After the phenomenal success of PMJDY, in which a staggering 283 million bank accounts were opened, the Government is hoping that the succeeding moves would reap rich dividends in the coming years.

The aforementioned developments will pave a strong foundation for the country's future, but the corporate sector went through some real big challenges. Poor cash flow from past investments resulted in stress on the asset quality of banks. Hopefully the new amendments to the Banking Regulation Act may facilitate the process of resolution.

In the case of ESAF Small Finance Bank, we just started taking baby steps in the field of banking. We have a full-fledged plan developed along with our consultants, which has the potential to capture opportunities and address challenges. We will continue to function as an Organization with triple bottom line approach by focussing on people, planet and profit. As a bank, we are committed to our stakeholders and public at large. Also, Your Company has long term plans in the areas of environmental banking by focusing on initiatives like funding of green projects based on clean technologies.

We have showed signs of our arrival in the first two weeks of our launch, despite some minor hiccups on the technological front. We will strive to be in the forefront of technology led innovation especially to cater the rural segment. As the bank launch happened a tad late than planned, the chaos of currency shortage didn't affect us.

The launch was well supported by our campaign 'Joy of banking, now for everyone'. It helped us to announce the launch in an impactful manner by having our presence in and across various media platforms like print, TV and outdoor. The employees were given fixed targets and they had shown the zeal to work tirelessly to reach their targets and deliver our brand promise 'joy of banking'. Aspirational products like 'Hrudaya Deposits' also has started making waves among the elite target group. In the banking sector, nowhere else one could find a product that gives maximum returns on financial and emotional terms.

The heritage and legacy of ESAF as a socially oriented NBFC also helped the cause of marketing. Our rich history of serving the nation from its roots and partnering in the growth of the villages literally helped us in winning the confidence of our potential customers. In villages across 11 states in India, we have helped millions of individuals and families achieve their aspirations, as well as played a key role in raising their living standards. Yes, the ethos of ESAF group simply goes beyond its business.

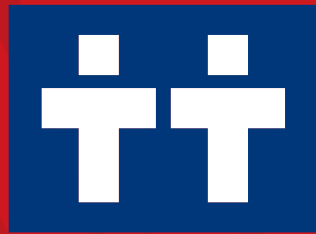
ESAF Small Finance Bank has a robust balance sheet with strong capital levels and has the potential to deliver significant value across its business verticals. As earlier, we will continue to demonstrate our ability to spot emerging opportunities and execute strategies to capture them. A key strength of ESAF Group is the untiring commitment & contributions of its employees. The management team has developed an intense strategy, based on our strengths and by building new capabilities to stay ahead. We are positive about the future, as the banking sector is gradually moving out from the challenges of recent years.

The healthy growth prospects in our business would be primarily driven by factors like mainstreaming of the rural economy, growing urbanisation, rising income levels, evolving technology, government policy initiatives like the Goods & Services Tax; and new electronic payment systems facilitated by the Government & the RBI. Our heritage, capital base, differentiated services and aspiring products position us very well to leverage the growth opportunities across the economy.

Yes, ESAF Small Finance Bank is well-positioned to leverage opportunities for profitable growth and value creation. We will continue our commitment to being a partner in India's growth and development.

I thank all the esteemed shareholders, Board of Directors, employees, consultants and other stakeholders in facilitating a complex but successful transition to ESAF Small Finance Bank. I look forward to your continued support and guidance, as we march ahead to fulfil the vision of fighting the partiality of prosperity.

Thanking you,  
K. Paul Thomas  
Managing Director & CEO



The joy of  
being ESAF

From microfinance to small finance bank, the journey was more about rocks and stones than bedrock gardens. However, Your Company as a whole enjoyed each and every step, thanks to the passion exemplified by all the stakeholders, especially the employees. In the journey from an NGO to a bank, we have transformed ourselves on quite a few occasions to keep pace with a nation on the move. For more than 16 lakh families across 11 states in India we have acted as a catalyst for positive change. Occasional awards and accolades were conferred on us, over the past 25 years; in recognition of our efforts, and in the end came the big one from the apex financial institution in the country – the license to launch a Small Finance Bank. As an NGO, we enjoyed the joy of serving & then we adorned the role of a regulated MFI and enjoyed the joy of serving & financing. Now as a bank Your Company is eager to deliver its brand promise – Joy of banking. The joy of being ESAF is what helped us to deliver the joy all throughout and hopefully in the years ahead.

As a new age social bank we are here to redefine the banking experience to our customers. Even though we focus on expanding the banking horizon to new unbanked areas, we stand as a bank for all with presence in urban, semi urban, rural and rural unbanked areas. No matter whether you are an individual or a business man or an entrepreneur or an NRI, we are here to meet your needs. We have inherited the qualities of enabling livelihoods from our birth and we consider banking as a natural extension of our passion. Yes, we are here to bridge a missing link in the business of banking – the joy of banking. With us, the 'joy' is meant for everyone, anytime and everywhere.

As an NBFC MFI, Your Company has contributed immensely to the mandate of financial inclusion by ensuring access to financial products and services to the unbanked sections of the society. As a bank we need to contribute to the evolving aspirations of a wide cross-section of customers by pursuing the triple bottom line approach of people, planet and profit. Your Company has long term plans in the areas of environmental banking by focusing on initiatives like funding of green projects based on clean technologies like solar energy, water recycling systems, biomass, wind energy, among others.

## Operational Highlights

The bank has plans to open 450 banking outlets and 350 ATMs in next three years.

## Financial Highlights (₹ in Crore)

Particulars	As at 31st March 2017
Total Assets (₹)	2,938.00
Total Advances (₹)	1,481.00
Total Deposits (₹)	409.00
Total Liabilities (₹)	2,461.00
CRAR	16.27%

## Products

Accounts	Deposits	Loans
Regular Savings Account	Regular Fixed Deposit	Loan Against Property
Premium Savings Account	Tax Saver Fixed Deposit	Business Loan
Pradhan Mantri Jan Dhan Yojana	Hrudaya Deposit	Micro Housing Loan
Senior Citizen Savings Account	Regular Recurring Deposit	
Mahila Savings Account	Flexy Recurring Deposit	
Student Savings Account	Group Recurring Deposit	

## Strategic Business Units (SBUs) for effective functioning

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

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

Channels that act as customer touch points

### Some of the key channels defined by the bank are:

**Branches:** ESAF SFB has defined different branch structures covering all the geographies and the RBI guidelines of setting up 25% branches in rural unbanked centres.

**Satellite Offices / Ultra Small Branches:** Bank will continue to leverage its existing MFI branches (now termed as satellite offices or ultra-small branches) to cater to the needs of the JLG customers and offer micro-credit



and micro-savings to the underbanked / unbanked centres.

#### Other channels include:

<b>Business Correspondents</b>
<b>ATMs</b>
<b>Mobile Banking</b>
<b>Phone / IVR Banking</b>
<b>Internet Banking</b>
<b>Agent Banking Network</b>

## Micro Banking

Microfinance segment is the fastest growing business in the financial services industry, growing at a staggering rate of 70% year on year. Industry initiatives to build self-regulatory mechanism through MFIN, RBI regulations on lending norms of not more than two MFIs per borrower, introduction of technology, centralisation of credit processes and integration of credit bureau by MFIs have contributed to a controlled growth reflected in the loss rates which are at sub 1% levels. Being an MFI matured into a bank we will give adequate focus on Micro Banking.

## Geographical Coverage

### Target Geographies

As of March 2017, ESAF has 12 Retail Branches, 309 Ultra Small Branches, administrative offices in 93 districts



across ten states in India viz. Chhattisgarh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, West Bengal, Maharashtra, Bihar, Tamil Nadu and Puducherry. ESAF has constantly focused on diversifying its geographic reach beyond Kerala, expanding to Central, East and North East India.

ESAF SFB is planning to open bank branches in metro, urban, semi urban and rural centres across these states in a phased manner with an emphasis on opening branches in rural unbanked centres to serve the unbanked and the under banked. The bank aims to extend its reach in the highly unbanked centres of Madhya Pradesh, Chhattisgarh, Jharkhand, Bihar and North East. The bank also aims to open urban branches in metros such as New Delhi, Hyderabad, Ahmedabad, etc. to target retail liabilities.

### The joy of delivering through three 'P's

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

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

With over 99 % of the client base and 41% of the total workforce as women, ESAF Small Finance Bank has made conscious strategies to develop women friendly policies and projects. Presently, about 85 % of our clients hail from rural areas and 100 % of them are women. Among them 30 % belong to religious minorities, 24 % are from backward communities, 58 % are from Other Backward Communities (OBCs) and 1% clients are physically challenged. Community ownership, more percentage of female field staff, integrated approach etc. are some of the unique features, which distinguish the Organization as a socially focused entity.

The Company has rolled out multiple products to cater to the diversified demands of its clients, over and above the non-financial services that are offered. Majority of the clientele is comprised of people who are deprived of the benefits of formal banking system. Our business model combines the unique methodology of selecting and servicing customers at the front end with technology, processes & disciplines of modern financial institutions at the back end. We have had an excellent growth and consolidation phase in the past few years. As on 31st March 2017, we have 509 employees for the banking activities.

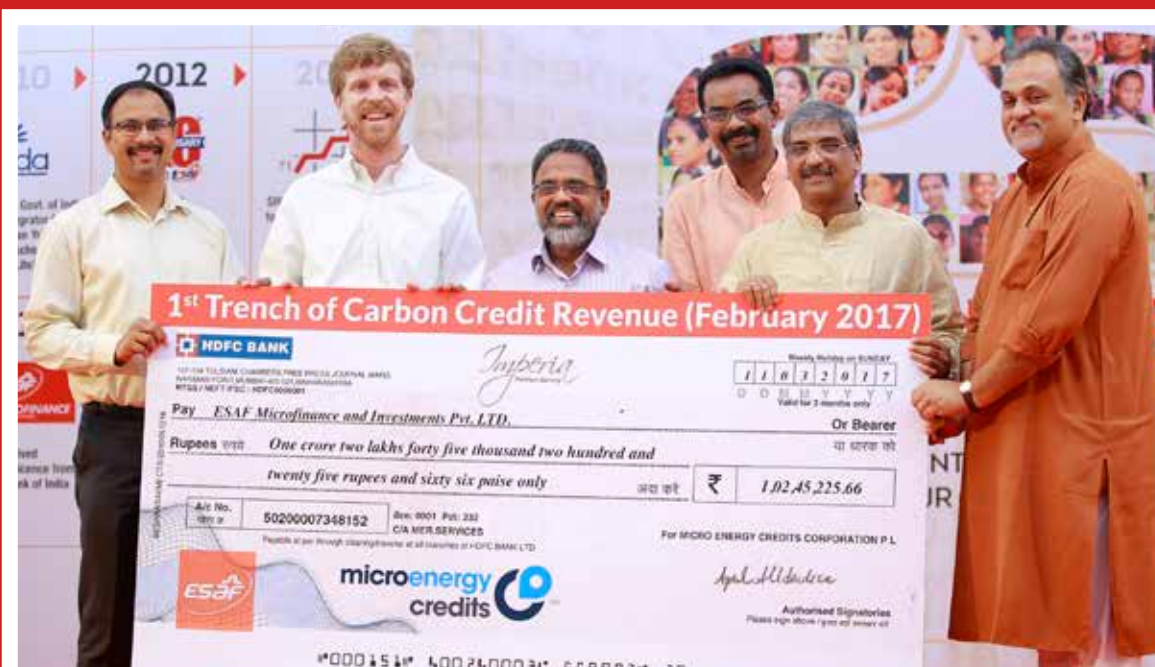
### Credit-Plus Services

ESAF always gives emphasis on providing credit plus services and has developed a range of finance plus services

keeping in mind the needs of the beneficiaries. As a bank we will never deviate from our core mission.

As part of our environment friendly policies we observe world environment day, car free day and world water day without fail. We observe Urja Kiran programme in order to create awareness among the general public and equip them for efficient management of all forms of energy. We also promote clean energy products like cook stove, solar lantern and water purifiers.

Our partnership with Micro Energy Corporation (MEC) is another example of our commitment towards the environment. ESAF Microfinance was the first MFI to receive the carbon fund.



## ESAF receives ₹1 Crore as first tranche of Carbon Credit Revenue

**ESAF received the first Carbon Credit Cheque of ₹ 1 crore. ESAF Microfinance is the first MFI from India to win Carbon Credit revenues.**

Photo: Mr. K. Paul Thomas receiving the cheque from Mr. Nick Nugent, Director, Climate Change and Sustainable Development, Microenergy Credit. Also seen are Mr. Ashok George, CEO, ESAF Retail, Mr. Christudas K.V, General Manager, Environment, Mr. George K. John, General Manager, Operations and Mr. George Thomas, Executive Director.



# Directors' Report



To the **Shareholders** of ESAF Small Finance Bank Ltd

The Directors present their First Annual Report together with the audited accounts of your Bank for the year ended 31st March, 2017.

## 1. Commencement of Banking Business

In compliance with the conditions issued by the Reserve Bank of India while granting in principle license for the Bank, ESAF Small Finance Bank (ESFB or the Bank) was incorporated as a public limited company on 05th May 2016. As part of setting up, pursuant to the directions of RBI, lending and financial business of ESAF Microfinance and Investments Pvt Ltd (the promoting and holding entity of the Bank), as mandated by RBI, deposits and loans of ESAF Swasraya Agro Co-operative Society Ltd and identified loan portfolio of ESAF Enterprise Development Finance Ltd, were folded in to the Bank. On the basis of compliance to the preconditions laid down by the RBI, ESAF Small Finance Bank has commenced its banking business as a small finance bank with effect from 10th March 2017 and formally launched the bank on 17th March 2017.

## 2. Financial Highlights

(₹ in Crores)

Particulars	For the Year ended 31st March 2017 (₹)	For the Year ended 31st March 2016* (₹)
Deposits	409.34	Not Applicable
Borrowings	2052.84	Not Applicable
Advances	1481.72	Not Applicable
Total Income	48.20	Not Applicable
Total Expenditures	47.44	Not Applicable
Net Profits	0.75	Not Applicable
Appropriations		Not Applicable
Statutory Reserve under Section 17 of the Banking Regulation Act, 1949	0.19	Not Applicable
Surplus carried to Balance Sheet	0.57	Not Applicable

\*The Bank was incorporated on 05th May, 2016 and hence reporting for the financial year 2015-16 is not applicable

## 3. Dividend

Being a newly incorporated Banking Company and the profits are not adequate for distribution of dividend, your Directors do not recommend any dividend for the financial year

2016-17.

## 4. Capital Adequacy

The Capital Adequacy Ratio stood at 16.27% as on March 31, 2017 as against the minimum requirement of 15.00% stipulated by the RBI.

## 5. Material changes after the Balance Sheet Date as on March 31, 2017

There have been no material changes and commitments between the end of FY 2016-17 and the date of this report, affecting the financial position of the Bank.

## 6. Share Capital

The Bank has enhanced its Authorized Share Capital twice during the financial year 2016-17 as follows.

- The Authorized Capital was enhanced from ₹10 Lakhs to ₹ 110 Crores by the shareholders on 28th May 2016
- The Authorized Capital was enhanced from ₹110 Crores to ₹ 350 Crores by the shareholders on 27th January 2017

The following allotments of shares were also made to the promoters of the bank during the financial year 2017.

- On 28th May 2016, the Bank has allotted 108900000 no of equity shares of the face value of ₹10 each on face value
- On 03rd March 2017, the Bank has allotted 78817733 no of equity shares of the face value of ₹10 each at an overall premium of ₹ 11822670
- On 10th March 2017, the Bank has allotted 58823529 no of equity shares of the face value of ₹10 each at an overall premium of ₹ 11764710
- On 29th March 2017, the Bank has allotted 49019607 no of equity shares of the face value of ₹10 each at an overall premium of ₹ 9803930
- On 30th March 2017, the Bank has allotted 4901960 no of equity shares of the face value of ₹10 each at an overall premium of ₹ 980400 for consideration otherwise than in cash towards discharge of purchase consideration for the Business undertaking transferred to the Bank from M/s ESAF Microfinance and Investment Pvt Ltd.

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

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

## 8. Deposits

Your Bank being a banking company receives and accepts deposits. The details of the deposits are detailed in the financial statements for the year ended March 31, 2017.

## 9. Meetings of the Board

After incorporation of the Bank, the Board of Directors have met eleven times during the financial year 2016-17 on 12th May 2016, 28th May 2016, 16th June 2016, 27th July 2016, 24th November 2016, 13th December 2016, 23rd December 2016, 27th January 2017, 03rd March 2017, 10th March 2017 and 30th March 2017. 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.

## 10. Directors and Key Managerial Personnel

While selecting Directors, the Bank looks for appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively.

In accordance with the provisions of the Banking Regulation Act, 1949 and based on the approval of the Reserve Bank of India, the Board of Directors of the Bank was constituted with the following persons.

- i) **Mr. Prabha Raveendranathan**
- ii) **Mr. Kadambelil Paul Thomas**
- iii) **Mr. Assan Khan Akbar**
- iv) **Mrs. Asha Morley**
- v) **Mr. Alex Parackal George**
- vi) **Mr. Saneesh Singh**
- vii) **Mr. George Joseph**

The Board of Directors and the shareholders at the meeting held on 10th March 2017 appointed Mr. Kadambelil Paul Thomas, the co-promoter of the Bank as Managing Director and CEO of the Bank and Mr. Prabha Raveendranathan, as part time Chairman of the Bank with the prior permission from the RBI.

Mr. Assan Khan Akbar, Non Executive Director, retires by rotation this year, and being eligible, offers himself for re-appointment. The Directors recommend his re-appointment and appropriate resolution for his re-appointment is being placed for approval of the shareholders at the ensuing Annual General Meeting.

## 11. Declaration from Independent Directors

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

## 12. Evaluation of Board Performance

Evaluation of performance of Directors for the financial year 2016-17 will be carried out after framing policy in this behalf.

## 13. Key Managerial Personnel (KMP)

The KMPs of the Bank as on March 31, 2017 are as follows:

Sl. No.	Name of the KMP	Designation
1.	<b>Kadambelil Paul Thomas</b>	Managing Director and CEO
2.	<b>Padmakumar K.</b>	Chief Financial Officer
3.	<b>Ranjith Raj P</b>	Company Secretary

## 14. Overall Remuneration

Details of all elements of remuneration of all the Directors are given in the Corporate Governance Report. The Nonexecutive Directors of the Bank are not entitled to stock options. Details of remuneration as required under Section 197 (12) of the Companies Act, 2013 read with Rule 5 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are given below:

i) Ratio of Remuneration of Each Director with Median Employees Remuneration.	MD&CEO - 51:1 (Other directors are not paid any remuneration other than sitting fee)
The percentage increase in the median remuneration of employees in the financial year:	NIL
The number of permanent employees on the rolls of the Company as on 31st March 2017	509
Average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the Managerial Remuneration	Not Applicable as there was no increase in remuneration
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

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; (other than MD & CEO)	NIL
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
If employed throughout the financial year or part thereof, was in receipt of remuneration in that year which, in the aggregate, or as the case may be, at a rate which, in the aggregate, is in excess of that drawn by the Managing Director or Whole Time Director or Manager and holds by himself or along with his spouse and dependent children, not less than two percent of the equity shares of the Company	NIL

## 15. Directors' Responsibility Statement

Pursuant to Section 134(3) of the Companies Act, 2013, the Board of Directors hereby declares 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, 2017, the applicable accounting standards had been followed along with proper explanation relating to material departures,
- ii) Such accounting policies as specified in Schedule 17 to the Financial Statements have been selected and applied consistently and judgments and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as on March 31, 2017 and of the profit of the Bank for the year ended on that date,
- iii) Proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the Bank and for preventing and detecting frauds and other irregularities,
- iv) Annual accounts have been prepared on a going concern basis,
- v) Internal financial controls to be followed by the Bank were in place and that the same were adequate and were operating effectively, and
- vi) Proper system to ensure compliance with the

provisions of all applicable laws was in place and the same were adequate and operating effectively.

## 16. Statutory Auditors

Pursuant to the Approval of the Reserve Bank of India, M/s S R Batliboi & Associates LLP (SRB), Chartered Accountants were appointed as the Statutory Auditors of the Bank for the Financial Year 2016-17.

SRB retire at the conclusion of the forthcoming Annual General Meeting and being eligible offer themselves for reappointment. The Bank has received a letter from SRB stating that they satisfy the criteria provided in Section 141 of the Companies Act, 2013 and the reappointment, if approved, will be in accordance with the conditions prescribed under the Companies (Audit and Auditors) Rules, 2014 and the extant RBI Directions in this regard. Hence, subject to approval of RBI and approval of shareholders, the Directors recommend reappointment of M/s S R Batliboi & Associates LLP, Chartered Accountants, as Auditors of the Bank for the financial year 2017-18

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

There have been no frauds reported directly by Auditors during the Financial Year ended March 31, 2017.

## 18. Secretarial Auditor

Pursuant to the provisions of Section 204 of the Companies Act, 2013, and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Bank has appointed M/s Krishnaprasad RS & Co, Practicing Company Secretaries to conduct Secretarial Audit of the Bank. Their report for the financial year 2016-17 has been enclosed. There were no qualifications in the report.

## 19. Explanations or comments by the Board on every qualification, reservation or adverse remark or disclaimer made -

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

## 20. Risk Management

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

## 21. Internal Financial Controls

The Bank has policies in place and delegation of authority, which will be periodically reviewed by the Board. These help in ensuring adequacy of internal financial controls commensurate with the nature and scale of operations of



the Bank. The Board also reviews the adequacy and effectiveness of the Bank's internal financial controls relating to its internal financial statements.

## 22. Whistle Blower Policy/ Vigil Mechanism

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

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

- i) The Bank has no activity relating to conservation of energy or technology absorption.
- ii) During the year, the Bank did not have any foreign currency earnings of foreign currency expenditure during the year.

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

The details of transactions to be reported under Section 188 (1) of the Act in Form AOC-2 is annexed.

## 25. Loans / Guarantees / Investments

The Bank has not given any loans/guarantees and has not made any investment in securities as covered under Section 186 of the Companies Act, 2013.

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

The Bank has in place, a Policy in line with the requirements of the Sexual Harassment of Women at Workplace (Prevention, Prohibition & Redressal) Act, 2013. Internal Complaints Committee has been set up for redressal of complaints. During the year 2016-17, no complaints were received under the Policy.

## 27. MGT - 9

The extract of Annual Return in MGT-9 as required under Section 92(3) of the Act and prescribed in Rule 12 of the Companies (Management and Administration) Rules, 2014 is appended to this Report.

**28.** 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.

## 29. Green Initiatives

Electronic copies of the Annual Report for the FY 2016-17 and the Notice of the AGM is being sent to all the members whose email addresses are registered with the Company. For members who have not registered their email address, physical copies are sent in the permitted mode.

## Acknowledgement

The Directors are grateful to the RBI, other government and regulatory authorities, other banks and financial institutions for their support and guidance. The Directors gratefully acknowledge the excellent relationship with the Board of the Holding Company and their continued guidance and support for the 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/-

Kadambelil Paul Thomas  
Managing Director & CEO  
DIN: 00199925

Sd/-

Prabha Raveendranathan  
Chairman  
DIN: 01828812

22 September 2017  
Thrissur

## Form No. MGT-9

## EXTRACT OF ANNUAL RETURN

as on the financial year ended on 31st March 2017

[Pursuant to section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014]

## I. REGISTRATION AND OTHER DETAILS:

<b>CIN</b>	U65990KL2016PLC045669
<b>Registration Date</b>	05/05/2016
<b>Name of the Company</b>	ESAF SMALL FINANCE BANK LIMITED

<b>Category / Sub-Category of the Company</b>	Public Limited Company
<b>Address of the Registered office and contact details</b>	HEPZIBAH COMPLEX, SECOND FLOOR, NO.X/109/M4, MANNUTHY. PO, Thrissur, Kerala - 680651 PH: 0487 2373813 Email: ho@esafbank.com
<b>Whether listed company</b>	No
<b>Name, Address and Contact details of Registrar and Transfer Agent, if any</b>	Link In Time India Private Limited C-13 Pannalal Silk Mills Compound LBS Marg, Bhandup West Mumbai 400 078 Tel: 022 - 25946970 Fax: 022 - 25946969

## II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

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

Name and Description of main products / services	NIC Code of the Product/ service	% to total turnover of the company
Activities of holding Company	64200	100%

## III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES:

Name And Address Of The Company	CIN/ GLN	Holding / Subsidiary / Associate	% Of Shares Held	Applicable Section
ESAF Micro-finance and Investments Pvt Ltd No 8/9, Mansuk Buildings, Flat No.3A, 3rd Floor, Gangadeeswara Koil St, Pura-sawalkam, Chennai - 600 084	U65910TN1996PTC036650	holding	93.10 %	2 (46)

## IV. SHARE HOLDING PATTERN

(Equity Share Capital Breakup as percentage of Total Equity)

### i) Category-wise Share Holding

#### a) Equity shareholding

Particulars	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physi- cal	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
A. Promoters									
(1) Indian									
a. Individual/ HUF	-	5000	5000	5.00%	-	20804433	20804433	6.90%	1.90 %
b. Central Govt	-	-	-	-	-	-	-	-	-
c. State Govt (s)	-	-	-	-	-	-	-	-	-
d. Bodies Corp.		95000	95000	95.00%	-	280758396	280758396	93.10%	93.10%
e. Banks / FI	-	-	-	-	-	-	-	-	-
f. Any Other....	-	-	-	-	-	-	-	-	-
Sub-total (A) (1):-	-	100000	100000	100.00%	-	301562829	301562829	100.00%	-

Particulars	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% Change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
(2) Foreign									
a) NRIs - Individuals	-	-	-	-	-	-	-	-	-
b) Other - Individuals	-	-	-	-	-	-	-	-	-
c) Bodies Corp.	-	-	-	-	-	-	-	-	-
d) Banks / FI	-	-	-	-	-	-	-	-	-
e) Any Other....	-	-	-	-	-	-	-	-	-
Sub-total (A) (2):-	-	-	-	-	-	-	-	-	-
Total shareholding of Promoter (A) = (A)(1) + (A)(2)	- 100000	100000	100.00%		- 301562829	301562829	100.00%		
B.Public Shareholding									
1.Institutions									
a) Mutual Funds	-	-	-	-	-	-	-	-	-
b) Banks / FI	-	-	-	-	-	-	-	-	-
c) Central Govt	-	-	-	-	-	-	-	-	-
d) State Govt(s)	-	-	-	-	-	-	-	-	-
e) Venture Capital Funds	-	-	-	-	-	-	-	-	-
f) Insurance Companies	-	-	-	-	-	-	-	-	-
g) FIIs	-	-	-	-	-	-	-	-	-
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	-
i) Others (specify)	-	-	-	-	-	-	-	-	-
Sub-total (B)(1):-	-	-	-	-	-	-	-	-	-
2. Non-Institutions									
a) Bodies Corp.	-	-	-	-	-	-	-	-	-
i) Indian	-	-	-	-	-	-	-	-	-
ii) Overseas	-	-	-	-	-	-	-	-	-
b) Individuals	-	-	-	-	-	-	-	-	-
i) Individual share-holders holding nominal share capital upto ₹ 1 lakh	-	-	-	-	-	-	-	-	-

**ii) Shareholding of Promoters**

Shareholder's Name	No. of Shares held at the beginning of the year			No. of Shares held at the end of the year			% Change during the year
	No. of Shares	% of total Shares of the company	% of Shares Pledged / encumbered to total shares	No. of Shares	% of total Shares of the company	% of Shares Pledged / encumbered to total shares	
<b>ESAF Microfinance and Investments Pvt Ltd</b>	95000	95.00%	-	280758396	93.10%	-	(1.90%)
<b>Kadambelil Paul Thomas</b>	5000	5.00%	-	20804433	6.90%	-	1.90%
<b>Total</b>	<b>6,465,000</b>	<b>100.00%</b>	<b>-</b>	<b>301562829</b>	<b>100.00%</b>	<b>-</b>	<b>-</b>

**iii) Change in Promoters' Shareholding**

Particulars	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
	No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
<b>Kadambelil Paul Thomas</b>				
<b>At the beginning of the year</b>	<b>5000</b>	<b>5.00%</b>	<b>5000</b>	<b>5.00%</b>
Date wise Increase /Decrease in Shareholding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus / sweat equity etc):				
1. Allotment on 28.05.2016	1095000		1100000	1.00%
2. Allotment on 09.03.2017	19704433		20804433	6.90%
<b>At the end of the year</b>	<b>20804433</b>	<b>6.90%</b>	<b>20804433</b>	<b>6.90%</b>

Particulars	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
	No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
<b>ESAF Microfinance and Investments Pvt Ltd and its Nominees</b>				
<b>At the beginning of the year</b>	<b>95000</b>	<b>95.00%</b>	<b>95000</b>	<b>95.00%</b>
Date wise Increase /Decrease in Shareholding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus / sweat equity etc):				
1. Allotment on 28.05.2016	108805000		108900000	99.00%
2. Allotment on 09.03.2017	59113300		168013300	88.98%
3. Allotment on 10.03.2017	58823529		226836829	91.60%
4. Allotment on 29.03.2017	49019607		275856436	92.99%
5. Allotment on 30.03.2017	4901960		280758396	93.10%
<b>At the end of the year</b>	<b>280758396</b>	<b>93.10%</b>	<b>280758396</b>	<b>93.10%</b>



**iv) Pattern of top ten Shareholders (other than Directors, Promoters and Holders of GDRs and ADRs):**

Name of the shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
	No. of shares	% of total shares of the Company	No. of shares	% of total shares of the Company
ESAF Microfinance and Investments Pvt Ltd - including nominees	95000	95.00%	280758396	93.10%
Kadambelil Paul Thomas	5000	5.00%	20804433	6.90%

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

Kadambelil Paul Thomas	5000	5.00%	20804433	6.90%
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## V. INDEBTEDNESS

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

Particulars	Secured Loans excluding deposits (₹)	Unsecured Loans (₹)	Deposits (₹)	Total Indebtedness (₹)
Indebtedness at the beginning of the financial year	-	-	-	-
(i) Principal Amount	-	-	-	-
(ii) Interest due but not paid	-	-	-	-
(iii) Interest accrued but not paid	-	-	-	-
Total	-	-	-	-
Change in indebtedness during the period	-	-	-	-
(i) Addition	14,89,95,82,875	5,94,46,42,658	4,09,34,12,290	24,93,76,37,823
(ii) Reduction	30,78,32,396	79,06,613	-	31,57,39,009
Net Change	14,59,17,50,479	59,36,73,60,45	4,09,34,12,290	24,62,18,98,814
Indebtedness at the end of the financial year	14,59,17,50,479	5,93,67,36,044	4,09,34,12,290	24,62,18,98,814
(i) Principal Amount	-	-	-	-
(ii) Interest due but not paid	3,69,87,471	46,01,701	-	4,15,89,172
(iii) Interest accrued but not paid	4,51,61,233	1,03,03,836	-	5,54,65,069

## VI. REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL

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

The Company has a Managing Director and an Executive Director

Sl. No.	Particulars of Remuneration	Kadambelil Paul Thomas Managing Director & CEO w.e.f 10th March 2017	Total Amount (₹)
1.	Gross salary (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 (c) Profits in lieu of salary under section 17(3) Income-tax Act, 1961	4,95,428	4,95,428
2.	Stock Option		

Sl. No.	Particulars of Remuneration	Kadambelil Paul Thomas Managing Director & CEO w.e.f 10th March 2017	Total Amount (₹)
3.	Sweat Equity		
4.	Commission - as % of profit - others, specify...		
5.	Others, please specify (Sitting Fee)	2,40,000	2,40,000
<b>Total (A)</b>		<b>7,35,428</b>	<b>7,35,428</b>
Ceiling as per the Act		As per RBI Approval	As per RBI Approval

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

B. Remuneration to other directors

Particulars of Remuneration	Name				Total Amount
<b>Independent Directors</b>	<b>Prabha Raveen-dranathan</b>	<b>Asha Morley</b>	<b>Alex Parackal George</b>	<b>George Joseph</b>	
Fee for attending board committee meetings	7,90,000	4,80,000	3,30,000	40,000	14,70,000
Commission					
Others, please specify					
<b>Total (1)</b>	<b>7,90,000</b>	<b>4,80,000</b>	<b>3,30,000</b>	<b>40,000</b>	<b>16,40,000</b>
<b>Other Non Executive Directors</b>	<b>Assan Khan Akbar</b>	<b>Saneesh Singh</b>			
Fee for attending board committee meetings		4,00,000		3,90,000	7,90,000
Commission					
Others, please specify					
<b>Total (2)</b>		<b>4,00,000</b>		<b>3,90,000</b>	<b>7,90,000</b>
<b>Total (1+2)</b>					<b>24,30,000</b>

C. Remuneration To Key Managerial Personnel Other Than MD/Manager/WTd:

Particulars of Remuneration	Key Managerial Personnel		Total Amount
	CFO Padmakumar K.	Company Secretary Ranjith Raj P.	
Gross salary			
a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 (Excluding arrear for previous years)	88,661	51,668	140,329
b) Value of perquisites u/s 17(2) Income-tax Act, 1961	NIL	NIL	NIL

Particulars of Remuneration	Key Managerial Personnel		Total Amount
	CFO Padmakumar K.	Company Secretary Ranjith Raj P.	
c) Profits in lieu of salary under section 17(3) Income tax Act, 1961	NIL	NIL	NIL
Stock Option	NIL	NIL	NIL
Sweat Equity	NIL	NIL	NIL
Commission - as % of profit - Others, specify	NIL	NIL	NIL
Others Specify	NIL	NIL	NIL
<b>Total</b>	<b>88,661</b>	<b>51,668</b>	<b>140,329</b>

## VII. PENALTIES / PUNISHMENT/ COMPOUNDING OF OFFENCES

Type	Section of the Companies Act	Brief Description	Detailsof Pen-alty / Punishment/ Compounding fees imposed	Authority [RD / NCLT / COURT]	Appeal made, if any (give Details)
<b>A. Company</b>					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
<b>B. Directors</b>					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL
<b>C. Other officers in default</b>					
Penalty	NIL	NIL	NIL	NIL	NIL
Punishment	NIL	NIL	NIL	NIL	NIL
Compounding	NIL	NIL	NIL	NIL	NIL

For and on behalf of the Board of Directors

Sd/-

Kadambelil Paul Thomas  
Managing Director & CEO  
DIN: 00199925

Sd/-

Prabha Raveendranathan  
Chairman  
DIN: 01828812

22 September 2017  
Thrissur

## Form No. AOC-2

(Pursuant to clause (h) of sub-section (3) of section 134 of the Act and Rule 8(2) of the Companies (Accounts) Rules, 2014 Form for disclosure of particulars of contracts/arrangements entered into by the company with related parties referred to in sub-section (1) of section 188 of the Companies Act, 2013 including certain arms length transactions under third proviso thereto.

### 1. Details of contracts or arrangements or transactions arm's length basis:

#### a) Contracts with ESAF Microfinance and Investments Pvt Ltd

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship:	ESAF Microfinance and Investments Pvt Ltd (EMFIL) (Entity in which directors are members/directors relatives of directors are directors, EMFIL is the holding Company and Promoting Entity of the Bank)
2.	Nature of contracts/arrangements/transactions:	The Bank and EMFIL entered into an 'Agreement to Sell Business Undertaking' ("BTA"). Under the BTA the EMFIL transferred the business undertaking ("Business Undertaking") as a going concern, by way of a slump sale to ESAF Bank on the terms and conditions contained in the BTA for a lump sum consideration as set out in BTA ("Purchase Consideration") as mutually decided by the Company and the Purchaser, where the Purchase Consideration has been arrived at, without values being assigned to the individual assets and liabilities and shall be discharged in a mutually agreed manner. The transaction was made in compliance to the licensing conditions of RBI.
3.	Duration of the contracts / arrangements/ transactions:	One time Transaction
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	A lumpsum consideration of Rs.7 Crore was paid by the Bank to EMFIL partly by issue of shares and in cash
5.	Date(s) of approval by the Board	27.01.2017
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	27.01.2017

#### b) Contracts with ESAF Swasraya Multi State Agro Co-operative Society Ltd

1.	Name(s) of the related party and nature of relationship:	ESAF Swasraya Multi State Agro Co-operative Society Ltd (ESCO) (Entity in which relatives of directors are directors)
2.	Nature of contracts/arrangements/transactions:	A Sourcing Fee of Rs.5 Crore for the deposits transferred from ESCO
3.	Duration of the contracts / arrangements/ transactions:	One time payment
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	Rs. 100/- per deposit account transferred to the Bank subject to an upper limit set at Rs. 5 Crores on the overall payout



Sl. No.	Particulars	Details
5.	Date(s) of approval by the Board	10.03.2017
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

1.	Name(s) of the related party and nature of relationship:	ESAF Swasraya Multi State Agro Co-operative Society Ltd (Entity in which relatives of directors are directors)
2.	Nature of contracts/arrangements/transactions:	The party is acting as Business Correspondent of the Bank
3.	Duration of the contracts / arrangements/ transactions:	Continuing Transactions
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	The party will be paid commission based on the agreement executed with them by the Bank
5.	Date(s) of approval by the Board	10.03.2017
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	10.03.2017

#### c) Contracts with ESAF Retail Pvt Ltd

1.	Name(s) of the related party and nature of relationship:	ESAF Retail Pvt Ltd. (Company in which Directors are members)
2.	Nature of contracts/arrangements/transactions:	Purchase of Grocery items, Stationery, gifts, Goods for Office Consumption
3.	Duration of the contracts / arrangements/ transactions:	Continuing Transactions
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	Purchases are made in accordance with the purchase policy of the Bank
5.	Date(s) of approval by the Board	30.03.2017
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

#### d) Contracts with ESAF Swasraya Producers Company Ltd

1.	Name(s) of the related party and nature of relationship:	ESAF Swasraya Producers Company Ltd (Company in which Directors are members)
2.	Nature of contracts/arrangements/transactions:	Purchase of Grocery items, Stationery, gifts, Goods for Office Consumption
3.	Duration of the contracts / arrangements/ transactions:	Continuing Transactions
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	Purchases are made in accordance with the purchase policy of the Bank
5.	Date(s) of approval by the Board	30.03.2017

Sl. No.	Particulars	Details
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

#### e) Contract with ESAF Homes and Infrastructure Private Limited

1.	Name(s) of the related party and nature of relationship:	ESAF Homes and Infrastructure Private Limited (Company in which Directors are members)
2.	Nature of contracts/arrangements/transactions:	Lease Agreement
3.	Duration of the contracts / arrangements/ transactions:	Continuing Transactions
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	The Bank has taken on lease a property held by ESAF Homes and Infrastructure Private Limited, for constructing 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

#### f) Contract with Shri.Kadambelil Paul Thomas

1.	Name(s) of the related party and nature of relationship:	Shri.Kadambelil Paul Thomas (Managing Director and CEO of the Bank)
2.	Nature of contracts/arrangements/transactions:	Lease 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 Bank has taken on lease a property held by Shri. Kadambelil Paul Thomas, guest house purpose of the Bank, based on the valuation report obtained from an independent valuer.
5.	Date(s) of approval by the Board	30.03.2017
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

## 2. Details of contracts or arrangements or transactions arm's length basis

**NIL**

For and on behalf of the Board of Directors

Sd/-

Kadambelil Paul Thomas  
Managing Director & CEO  
DIN: 00199925

Sd/-

Prabha Raveendranathan  
Chairman  
DIN: 01828812

22 September 2017  
Thrissur

# Form No. MR-3

## SECRETARIAL AUDIT REPORT

**FOR THE FINANCIAL YEAR ENDED 31st MARCH 2017**

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

To The Members, ESAF Small Finance Bank Limited,  
Hepzibah Complex, Second Floor, No. X/109/M4,  
Mannuthy P.O, Thrissur, Kerala - 680651

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

Based on my verification of the Company's books, papers, minute books, forms and returns filed and other records maintained by the company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of secretarial audit, I hereby report that in my opinion, the Company has, during the audit period covering the financial year ended on 31st March, 2017 complied with the statutory provisions listed hereunder and also that the Company has proper Board- processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on 31st March, 2017 according to the provisions of:

(i) The Companies Act, 2013 (the Act) and the rules made there under;

(ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there under; ( Not applicable to the Company during the reporting Period)

(iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed there under;

(iv) The Foreign Exchange Management Act, 1999 and the Rules and Regulations made there under to the extent of Foreign Direct Investment (FDI), Overseas Direct Investment (ODI) and External Commercial Borrowings (ECB); ( Not applicable to the Company during the reporting Period)

(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, 1992(not applicable to the company during the audit period);

(c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 (not applicable to the company during the audit period);

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

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

(f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993; (Not applicable to the Company during the audit Period)

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

(h) The Securities and Exchange Board of India (Buyback of Securities) Regulations 1998(not applicable to the company during the audit period); and

(i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations 2015 (Not applicable to the Company during the Audit Period)

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. Tripartite Agreement between the Company, Registrar & Transfer Agent and Depositories

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, having regard to the compliance system prevailing in the Company and on examination of the relevant documents and records in pursuance thereof, on test-check basis, the Company has complied with the following laws applicable specifically to the Company and rules and regulations including circulars and direction thereunder:

(i) The Reserve Bank of India Act, 1934

- (ii) The Banking Regulation Act, 1949
- (iii) The Deposit Insurance and Credit Guarantee Corporation Act, 1961
- (iv) The Payment and Settlement System Act, 2007
- (v) Foreign Exchange Management Act, 1999
- (vi) Prevention of Money Laundering Act, 2002
- (vii) The Foreign Contribution (Regulation) Act, 2010.

I further report that

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

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were sent at least seven days in advance wherever possible and consent of all the members of Board and attendance of independent directors were confirmed in case of meetings held with shorter notice; and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

Majority decision is carried through while the dissenting members' views are captured and recorded as part of the minutes.

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

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

Sl. No.	Date of Event	Particulars	Approved by
1.	17/05/2016	(1) Enhancement of Authorized Capital from 10,00,000 to 110,00,00,000; (2) Alteration of Clause V of Memorandum of Association;	Shareholders at the Extraordinary General Meeting by way of Special Resolution
2.	17/05/2016	Issue of 109900000 equity shares of Rs.10 each on Private placement basis	Shareholders at the Extraordinary General Meeting by way of Special Resolution
3.	24/11/2016	Noting of Receipt of bank Licence	Board of Directors
4.	13/12/2016	Enhancement of Borrowing Limit upto Rs.3000 crores	Shareholders at the Extraordinary General Meeting by way of Special Resolution
5.	27/01/2017	(1) Enhancement of Authorized Capital from 110,00,00,000 to 350,00,00,000; (2) Alteration of Clause V of Memorandum of Association; (3) Issue of 7,88,17,733 equity shares (ranking in pari-passu with the existing equity shares in all respect) having face value of Rs. 10/- at a price of Rs.10.15 each	Shareholders at the Extraordinary General Meeting by way of Special Resolution
6.	03/03/2017	Issue of 5,88,23,529 equity shares (ranking in pari-passu with the existing equity shares in all respect) having face value of Rs 10/- at a price of Rs 10.20/-	Shareholders at the Extraordinary General Meeting by way of Special Resolution
7.	10/03/2017	Issue of 4,90,19,607 equity shares (ranking in pari-passu with the existing equity shares in all respect) having face value of Rs 10/- at a price of Rs 10.20/-	Shareholders at the Extraordinary General Meeting by way of Special Resolution
8.	30/03/2017	Issue of 4,90,19,60 equity shares (ranking in pari-passu with the existing equity shares in all respect) having face value of Rs 10/- at a price of Rs 10.20/-	Shareholders at the Extraordinary General Meeting by way of Special Resolution

Place: Trivandrum

Date:

Sd:-

Name of Company Secretary in Practice / Firm:

Krishna Prasad R.S. FCS No: 7080

C P No.: 7379





## MEANING OF ESAF LOGO

A creative expression can imply meaning from different perspectives. All the meaning should point to the ultimate vision of the Organization.

ESAF logo is a distinctive depiction of two unique pluses. A plus sign is an integral part of financial institutions and it has relevance from a social service perspective as well. It reflects the return (gain) we offer to every stakeholder including customers, investors, shareholders and employees in more ways than one.

The two equal sized pluses epitomize two humans in egalitarianism, magnifying our motto - "fighting the partiality of prosperity". Of the two humans, one represents the Bank and the other is a customer. The humans with wide-open hands signify the indemnity that the brand promises. The brand promise is all about welcoming every customer with joy and hand holding them in realizing their goals. The same is clearly depicted in our tag line - The Joy of Banking.

The colour RED evokes passion, courage, commitment, strength and energy. The colour BLUE implies trust, confidence, intellect, responsibility, loyalty and faith.

മലയാള മനോരമ



കാഴ്ചപ്പാട്



ESTABLISHED 1888

1192 മീനം 4, 1438 ജമാദ്യുൽ ആഖിർ 19  
അനിഴം 59/12, ഷഷ്ഠി 58/22

2017 മാർച്ച് 18 ശനി

## ‘ഇസാഫ്’ എന്ന സേവന പ്രതീകം

സ്ത്രീശാക്തീകരണത്തിന് ബഹുഭുഖപ്രവർത്തനങ്ങൾ

സാമ്പത്തിക ഉദാരവൽക്കരണത്തിനുശേഷം കേരളത്തിന് അനുഭവിച്ചുകിട്ടിയ ആദ്യത്തെ സകാര്യ ബാങ്കിങ് ലൈസൻസിൽ നിന്നു പുതിയ ചരിത്രം തുടങ്ങുകയാണ്. മലയാളത്തിൽ ഉദിച്ച പല ബാങ്കുകളും അപ്രത്യക്ഷമാകുകയോ ദേശസാൽകൃത ബാങ്കുകളിൽ ലയിക്കുകയോ ചെയ്ത സാഹചര്യത്തിൽ, തൃശ്ശൂർ കേന്ദ്രമായുള്ള ‘ഇസാഫി’ന്റെ ബാങ്കിങ് രംഗപ്രവേശം വലിയ പ്രതീക്ഷ തരുന്നു. റിസർവ് ബാങ്ക് ഓഫ് ഇന്ത്യയുടെ (ആർബിപെ) പുതിയ നയമനുസരിച്ച ലൈസൻസ് നേടുന്ന കേരളത്തിലെ ആദ്യത്തെ സ്ത്രീശാക്തീകരണ ബാങ്ക് എന്ന ബഹുമതി സ്വന്തമാക്കിയതിനൊപ്പം രാജ്യത്തെതന്നെ ചുരുക്കം സ്ത്രീശാക്തീകരണ ബാങ്കുകളുടെ പട്ടികയിലും ഇസാഫ് സ്ഥാനം പിടിക്കുന്നു.

തദ്ദേശീയ നാണയതൊരു ബാങ്കിനു പാടി ആസ്ഥാനപ്പെടുത്തുന്നതിനുള്ള ആദ്യത്തെ സകാര്യ ബാങ്കിങ് ലൈസൻസിൽ നിന്നു പുതിയ ചരിത്രം തുടങ്ങുകയാണ്. മലയാളത്തിൽ ഉദിച്ച പല ബാങ്കുകളും അപ്രത്യക്ഷമാകുകയോ ദേശസാൽകൃത ബാങ്കുകളിൽ ലയിക്കുകയോ ചെയ്ത സാഹചര്യത്തിൽ, തൃശ്ശൂർ കേന്ദ്രമായുള്ള ‘ഇസാഫി’ന്റെ ബാങ്കിങ് രംഗപ്രവേശം വലിയ പ്രതീക്ഷ തരുന്നു. റിസർവ് ബാങ്ക് ഓഫ് ഇന്ത്യയുടെ (ആർബിപെ) പുതിയ നയമനുസരിച്ച ലൈസൻസ് നേടുന്ന കേരളത്തിലെ ആദ്യത്തെ സ്ത്രീശാക്തീകരണ ബാങ്ക് എന്ന ബഹുമതി സ്വന്തമാക്കിയതിനൊപ്പം രാജ്യത്തെതന്നെ ചുരുക്കം സ്ത്രീശാക്തീകരണ ബാങ്കുകളുടെ പട്ടികയിലും ഇസാഫ് സ്ഥാനം പിടിക്കുന്നു.

## Manorama hails ESAF

Malayala Manorama, the largest circulated newspaper in the state has dedicated their best ink for ESAF twice in 2017. An editorial on ESAF was published on March 18, 2017 and Manorama Sunday has published a cover feature on March 12, 2017.

2017 മാർച്ച് 12 ഞായർ



ചിത്രം: ഉണ്ണി കോട്ടയം

പോലീസ് ഓഫീസർ

സേവനം നിക്ഷേപം

ബാങ്ക് നടത്താൻ റിസർവ് ബാങ്ക് ലൈസൻസ് നൽകുന്ന കേരളത്തിലെ ആദ്യ ഷെഡ്യൂൾഡ് ബാങ്ക് ആകുകയാണ് ഇസാഫ്. 30,000 രൂപ കൊണ്ടു തുടങ്ങിയ ഇസാഫ് കഴിഞ്ഞ സാമ്പത്തികവർഷം സ്ത്രീകളുടെ കൂട്ടായ്മയ്ക്കും കർഷകർക്കും ചെറുകിട വായ്പയായി നൽകിയത് 2387 കോടി രൂപ! 25 വർഷത്തിനിടെ വിതരണം ചെയ്തത് 10,000 കോടി രൂപ! ചെറിയൊരു സാമൂഹിക സംഘടനയിൽനിന്ന് ഇസാഫിനെ ബാങ്കാക്കി വളർത്തിയ പോൾ തോമസ് ആ വിജയകഥ പറയുന്നു...



# Report on corporate governance

ESAF Small Finance Bank Ltd has given adequate thrust to Corporate Governance practices built on the principles of ethics, fair practices and transparency in all its dealings with various stakeholders such as Customers, Employees, Investors, Government and the Society at large. Also the Corporate Governance system is in tune with the RBI guidelines, which envisages adherence to transparency, accountability, responsibility and fairness. Sound corporate governance at Your Company is the result of external marketplace commitment and legislation plus a healthy Board culture, which directs the policies and philosophies of the Organization. The Company manages its business and conducts its affairs with the objective of enhancing shareholder value, which also ensures the financial viability of the business.

## Commencement of Business

On fulfillment of the conditions prescribed by the Reserve Bank of India, ESAF Small Finance Bank Ltd was granted license bearing No. MUM 124 on November 18, 2016 to commence banking business under section 22 of the Banking Regulation Act, 1949 and with effect from 10th March 2017, ESFB has commenced its business.

## Board of Directors

As on 31st March 2017, the Board of Directors of the Bank consists of 7 Directors including 4 independent directors, 2 directors nominated by the promoting entity of the Bank and one Managing Director. The Board of the Bank met 11 times during the year 2016-17 on 12th May 2016, 28th May 2016, 16th June 2016, 27th July 2016, 24th November 2016, 13th December 2016, 23rd December 2016, 27th January 2017, 03rd March 2017, 10th March 2017 and 30th March 2017. The gap between two Meetings has not exceeded 120 days. The names and categories of Directors, the number of Directorships, their attendance at Board Meetings as well as their shareholding as on March 31, 2017 are given below.

Name	No. of Board meetings attended		Attendance of Last AGM
Prabha Raveedranathan	11	11	NA
Kadambelil Paul Thomas	11	11	NA
Asha Morley*	6	6	NA
Alex Parackal George#	6	6	NA

Name	No. of Board meetings attended		Attendance of Last AGM
Assan Khan Akbar	11	11	NA
Saneesh Singh*	6	6	NA
George Joseph	1	1	NA

\*Mr. Saneesh Singh, Mrs. Asha Morley & Mr. Alex Parackal George was appointed on 13 December 2016.  
#Mr. George Joseph was appointed on 10th March 2017.

## Committees of the Board

As on 31st March 2017, the Board of Directors is having 3 committees as given below.

1. Audit Committee
2. Nomination and Remuneration Committee
3. Risk Management Committee

### 1. Audit Committee

#### a. Constitution of Audit Committee

Composition The Audit Committee of the Board, which was constituted on 13th December, 2016, was re-constituted on 30th March, 2017 and comprised of Three (3) Non Executive Directors as on March 31, 2017.

Sl. no	Name	Designation
1	Asha Morley	Chairperson
2	Prabha Raveedranathan	Member
3	Assan Khan Akbar	Member

The Board of the Bank has also adopted an Audit Committee Charter in its Meeting held on 13th December, 2016.

#### b. Meeting and Attendance

The Committee held two Meetings during the year on 13th December 2016 and 30th March 2017

Sl. no	Name	No. of Meetings	
		Held	Attended
1	Asha Morley	2	2
2	Prabha Raveedranathan	2	2
3	Assan Khan Akbar*	0	0
4	Saneesh Singh	2	2

\*Mr. Assan Khan Akbar was appointed as Member of the Committee on 30th March 2017



## 2. Remuneration & Nomination Committee

### a. Constitution

Composition The Nomination and Remuneration Committee of the Board, which was constituted on 13th December, 2016, was re-constituted on 30th March, 2017 and comprised of Three Non-Executive Directors as on March 31, 2017.

Sl. no	Name	Designation
1.	George Joseph	Chairman
2.	Prabha Raveedranathan	Member
3.	Saneesh Singh	Member

The Board of the Bank has also adopted an Remuneration and Nomination Committee Charter in its Meeting held on October 20, 2016.

### b. Attendance during the year

The Committee held three Meetings during the year on 13th December 2016, 23rd December 2016 and 10th March 2017.

Sl. no	Name	No. of Meetings	
		Held	Attended
1	George Joseph*	0	0
2.	Prabha Raveedranathan	3	3
3.	Saneesh Singh	3	3
4.	Asha Morley	3	3

\*Mr. George Joseph was appointed as Member of the Committee on 30th March 2017

## 3. Risk Management Committee of the Board

### a. Composition

The Risk Management Committee of the Board, which was constituted on 13th December, 2016, was re-constituted on 30th March, 2017 and comprised of three Non-Executive Directors as on March 31, 2017.

Sl. no	Name	Designation
1.	Alex Parackal George	Chairman
2.	Prabha Raveedranathan	Member
3.	Assan Khan Akbar	Member

The Board of the Bank has also adopted an Risk Management Committee Charter in its Meeting held on 13th December 2016.

### b. Meetings & Attendance

The Committee held three meetings during the year on 3rd March 2017, 10th March 2017 and 30th March 2017.

Sl. no	Name	No. of Meetings	
		Held	Attended
1	Alex Parackal George	3	3
2.	Prabha Raveedranathan	3	3
3.	Assan Khan Akbar *	0	0
4.	Asha Morley	3	3

\*Mr. Assan Khan Akbar was appointed as Member of the Committee on 30th March 2017

### Sitting Fee to Directors

All Directors except Whole Time Directors are paid sitting fee as given below.

Board Meeting	Chairman	₹50,000/- per meeting
	Other Directors	₹40,000/- per meeting
Board Committees	Committee members	₹30,000/- per meeting

### Fair Practices Code

The Bank has adopted the Fair Practices Code pursuant to the RBI guidelines issued in this regard, which is placed on the Bank's website and is displayed at all branches of the Bank.

### Code of Conduct

As per the Bank's policy on Code of Conduct for Directors and Senior Management, all Directors and Senior Management Personnel have affirmed compliance with the Code for the FY 2016-17.

### Disclosures

The particulars of transactions between the Bank and its Related Parties, as defined under Section 2(76) of the Act and in Accounting Standard 18, are set out in the financial statements.

## General Share holder information

### a. Date time and venue of 21st AGM

The 1st AGM of the Company will be held on 27th September 2017 at The Registered Office of the Company at Hephzibah Complex, Mannuthy, Thrissur, Kerala at 11.00 AM.

b. Notice of the first Annual General Meeting has been enclosed separately

### b. Financial Calendar

The financial Calendar of the Company is from 1st April to 31st March.

### Mr. Prabha Raveendranathan

#### Chairman



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

### Mr. Kadambelil Paul Thomas

#### Managing Director & CEO



K. Paul Thomas is the Founder of ESAF Group of Social Enterprises including ESAF Microfinance and Investments Pvt Ltd. He has been a management professional for over 31 years out of which more than 21 years are in the microfinance sector. Before starting the microfinance program, Mr. Paul Thomas had worked with Indian Farmers Fertilizers Co-operative Ltd (IFFCO) the world's largest cooperative owned fertilizer company for 18 years during which he travelled extensively through rural India. During these trips he came to the realization that community transformation is possible through creating opportunities. This inspired him to start microfinance lending under the ESAF society. He is on the Boards of apex microfinance bodies like MFIN and he is the founder and President of Kerala Association of Microfinance Institutional Entrepreneurs (KAMFI). Mr. Paul has also won several awards and recognitions:-

- Dhanam Marketing Man of the Year Award 2016
- Entrepreneur of the Year 2016 by TiE Kerala
- Leadership Excellence Award instituted by College of Cooperation, Banking and Management (CCBM), Kerala Agricultural University
- Emerging Kerala CEO Excellence Award for Social Entrepreneurship instituted by DC Media.
- 'Emerging Entrepreneur of the year' of TiE Kerala. The Indus Entrepreneurs (TiE) is a global not-for-profit organization focused on promoting entrepreneurship

### Mr. Assan Akbar

#### Non Executive Director



Mr. Assan Khan Akbar is a former General Manager of Federal Bank. He has over 40 years of experience in all facets of modern banking. Beginning his career as a direct officer in Union Bank of India and rising to the level of senior most General Manager in Federal Bank Ltd and then as CEO of a new generation bank "Kabul Bank" in Afghanistan. He has vast knowledge in all areas and aspects of banking, including International Banking. Known for his strong acumen in strategy formulation and implementation he has organized and managed various departments including Agricultural Finance, Priority Sector Lendings, Lead Bank Schemes, Govt. Sponsors Scheme, Planning and Development, HR etc. Mr. Assan was associated as the chief Strategic Advisor and Chief Risk Officer at ESAF Microfinance and Investments Pvt Ltd during the past six years.

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## Mr. George Joseph

**Independent Director**



Mr. George Joseph is a former chairman & managing director of Syndicate Bank. He has hands-on experience in all facets of banking namely: credit, foreign exchange, NRI business, inspection, operations, administration, priority sector lending etc. He has worked in the Corporate Office, Circle Office, specialised branches and general branches including rural branch. Mr. George has also held the chairmanship of the state level Banker's Committee, Karnataka. A man of exceptional talent Mr. George during his tenure has opened over 6 million accounts in a span of three years.

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## Mr. Saneesh Singh

**Non Executive Director**



With an experience of over 24 years at various senior management positions and board representation, Mr. Saneesh Singh is currently the Managing Director of Dia Vikas Capital Pvt. Ltd, the leading social investor in the microfinance space in India and a subsidiary of Opportunity International Australia (OIA). He is also a member of the Opportunity International Network, a multi country social/ impact investor network. Within a short duration of just 8 years, he was responsible for building and managing a social investment portfolio, driving and promoting innovations like:- Community Health Facilitator (CHF), a cadre which promotes healthy living (preventative health interventions) and use of safe water and sanitation facilities, and many other organizations covering a large area of needs like the funding for clean energy and clean water interventions at the community level, micro pensions, savings & financial inclusion innovations, micro finance education loans, modern dairy plants and strategic support for ultra-poor projects. He is currently managing a growing program with 12 micro finance investments in India with corpus funding of 50 million USD.

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## Mrs. Asha Morley

**Independent Director**



Mrs. Asha Morley is a Chartered Accountant with over 24 years of experience in practice/ consultancy including Tax and Internal Audits of Banks, Companies, Finance, and Investment consultancy, co-ordination in preparation of Software Packages, Project Financing and Reporting to parent companies with clients in India and abroad. She holds a DISA (Diploma in Information Systems Audit-ICAI) and is a Fellow Member of the Institute of Chartered Accountants of India. She has experience handling a wide range of clients including:- Union Bank of India (3 branches, Mumbai), Gas Authority of India Ltd, Mumbai National Union of Seafarers of India, State Bank of India, Kissan Irrigation Ltd, Kissan Mouldings Ltd, Kanakia Constructions Ltd, Ipca Laboratories Ltd, Maharashtra State Powerloom Corporation etc.

## Mr. Alex P. George

**Independent Director**



Mr. Alex Parackal George holds a B.tech degree in Chemical Engineering from Indian Institute of Technology, Madras and a Post Graduate Diploma in Management (PGDM) from the Indian Institute of Management, Calcutta. He has nearly 35 years of experience in small and medium industry sectors. He has been a resource person for many years for the MSME Institute, Kerala branch addressing various seminars, conducting training programs apart from being a guide and mentor for their activities, especially entrepreneurship for engineering colleges. He is also a guide and mentor to the KHADI & Village Industries Commission (KVIC), with special focus on fresh entrepreneurs. He has been President of the FIC Industries Association and a member of the Athani Development Plot Manufacturers Association and Kerala Small Industries Association. He is also a resource person for TIE (The Indus Entrepreneurs).

Alex has been active in the Stock Markets since early days and is a successful long term investor. He has been involved in many investor promotion activities. He was a Director at Investors Club, Thrissur for more than a decade and was its President for sometime. He is also a resource person for Investor Protection seminars and workshops conducted by the Institute of Chartered Accountants of India in association with the Ministry of Company Affairs. He also addresses various forums on Strategy, Budget, Stock Markets and State of the Economy on a regular basis.



## ESAF MD wins 'Entrepreneur of the year' Award

In 2016, Mr. K. Paul Thomas, Chairman & Managing Director, ESAF Microfinance was conferred the 'Entrepreneur of the year Award' by TiE Kerala Chapter.



# Management discussion and analysis



Global business slowed down in both advanced and emerging economies, during the year 2016. Commodity prices partially recovered and global trade showed an improvement as it was partly led by the rise in commodity prices. Presidential election in the US and UK's decision to withdraw from the European Union were the major political developments in the US and the European regions. In May 2016, the Insolvency and Bankruptcy Code, was enacted providing an institutional framework for the protection for investors and creditors. Later in November, the Government of India (GoI) denotified ₹ 1,000 and ₹ 500 denomination currency notes as legal tender and introduced new ₹ 500 and ₹ 2,000 denomination currency notes. These notes had accounted for 86% of the total currency in circulation. The intention was to focus on digital transaction modes, eliminate the use of counterfeit notes and curb the parallel economy.

With the merger of Railway Budget with the Union Budget fiscal policy was reformed. The Government liberalised the Foreign Investment policies and announced the dissolution of Foreign Investment Promotion Board (FIPB). Goods and Services Tax was enacted, and later implemented. India's Gross Domestic Product (GDP) grew by 7.2% year-on-year during the first nine months of fiscal 2017 compared to a growth of 7.7% during the first nine months of fiscal 2016. The growth was driven largely by government spending in the agriculture sector. During the first 9 months, the agriculture sector grew by 4.1%, the industrial sector by 5.9% and the services sector by 7.9% compared to 0.4%, 8.1% and 9.8% respectively, during the corresponding period of fiscal 2016. The GDP growth is estimated as 7.1% in fiscal 2017 compared to 7.9% in fiscal 2016 by the Central Statistical Organisation. Retail inflation, eased from 4.8% to 3.8% in 2017. The repo rate is reduced by 50 basis points during fiscal 2017 and the cumulative reduction in the repo rate since January 2015, when the policy rate reduction cycle began, is now 175 basis points. During the first nine months exports grew by 1.2% and imports declined by 6.7% year-on-year but growth picked up in the last quarter to 16.8% for exports and 25.6% for imports.

When it comes to banking trends, there was a surge in deposits following the withdrawal of legal tender status of Specified Bank Notes. In the banking system, there was a net increase of ₹ 8.20 trillion in deposits after demonetisation. Total deposit growth picked up to over 15.0% in November 2016 and subsequently moderated to 11.8% on March 31, 2017 (compared to the growth of 9.1% year-on-year on April 1, 2016). However, credit growth remained unchanged.

Foreign Direct Investment (FDI) remained stable with inflow of US\$ 33.1 billion, excluding the last quarter of fiscal 2017. There was a net outflow of investments by Foreign Portfolio Investors (FPI) of US\$ 3.4 billion during the first three quarters, with a net inflow of US\$ 2.2 billion in equity markets and a net outflow of US\$ 5.5 billion in debt markets. However, portfolio inflows improved significantly with estimated inflows of approximately US\$ 10.0 bn in the last quarter. The Rupee depreciated from ₹ 66.4 per U.S. dollar at March 31, 2016 to ₹ 68.8 per U.S. dollar at November 28, 2016 but subsequently appreciated to ₹ 64.9 per U.S. dollar at March 31, 2017. Yields on the Government securities remained in the range of 7.0% to 7.5% (benchmark 10-year) during April-October 2016. The gross NPA ratio for the system increased from 7.8% on March 31, 2016 to 9.1% on September 30, 2016. Total stressed loans increased from 11.7% at March 31, 2016 to 12.3% at September 30, 2016.

Digital financial transactions received a further push in the year as new payment applications were launched. Key launches included the Unified Payment Interface (UPI), a payment platform which allows instant fund transfer to any bank account using a virtual payment address and without requiring bank account details, the Bharat Interface for Money (BHIM) a mobile application built using the UPI interface, and Aadhaar-Enabled Payment System (AePS) which enables banking transactions using Aadhaar authentication. UPI transactions including BHIM totalled a volume of ₹ 69.47 billion in the first year of its launch. The sharp increase in deposit growth compared to credit growth led to a spike in liquidity in the banking system during the third and fourth quarter of fiscal 2017. In line with RBI's objective of maintaining system liquidity at near neutrality, the liquidity in the system prior to the withdrawal of notes was at a deficit of ₹ 350.00 billion. Subsequently, liquidity increased significantly and crossed ₹ 5.00 trillion within weeks. In order to adjust surplus liquidity, RBI had decided to go for an incremental cash reserve ratio (CRR) of 100%, as a temporary arrangement, of the increase in net demand and time liabilities (NDTL), with effect from November 26, 2016.

During the fourth quarter, RBI adopted strategies like reverse repo transactions and issuance of securities to absorb the surplus liquidity. Despite efforts, liquidity remained high at an average daily liquidity surplus of ₹ 5.93 trillion during the fourth quarter vis a vis an average daily liquidity surplus of ₹ 2.24 trillion during the third quarter. Also, a Standing Deposit Facility that will eliminate the requirement of collateral for absorbing liquidity was pro-

posed by the RBI. As the launch of ESAF Small Finance Bank happened to be a tad late than planned, we were not caught up in the ensuing chaos experienced at bank branches.

## Funding Strategy

SFB will use a judicious mix of funding options to ensure adequate liquidity to meet the growth needs. Initially, SFB will rely on wholesale funding through securitisation, Interbank Participation Certificates and bulk deposits to meet the funding needs. In the long run the funding will be diversified with 60% coming from retail deposits through various products tailored for key customer segments.

## Delivering the Joy of IT

With fully functional Core Banking System (CBS) and with all subsystem capabilities, Your Company has launched the first batch of 12 branches with utmost success. The Robust CBS system with proven capabilities is being housed in a sturdy class IV Data Centre. Along with it, Your Company has developed a fully functional and tested Disaster Recovery Site and an effective Network System with adequate redundancy & advanced technological capabilities.

The 24 x 7 Contact Centre of ESAF Bank is in operation from day one to attend to customer enquiries and help them get boarded. It operates on a 24 X 7 basis and is manned by personnel with capabilities to converse in 8 languages. Also, a Help Desk maintained by the CBS technology partner is functional from the first day of operations to support the staff in branches, supplemented by a core team at the Bank's Head Quarters. Other important functions like backend-account opening process, seamless customer on- boarding, customer relationship management etc., are also in place from the beginning.

The bank has so far launched customer friendly services like Internet Banking, Mobile Banking, SMS Banking and Missed Call Banking facilities. Also, Your Company has migrated all the existing 14 lakh microfinance customers to the CBS for better servicing. Debit card facility was also made available to them from the beginning.

ESAF has gone live as the 102nd Bank on the National Financial Switch and hence all the debit cards issued by the bank are acceptable across all ATMs in the country that run on NFS network and vice versa. The bank is live on ATM transactions of all types - On-us, Off-us and remote On-us. A fully operational reconciliation mechanism is also in place. The Bank was launched with 18 own ATMs in

addition to 84 White Label ATMs, all being cash-live.

## Joyful transition of HR- Win-Win for all

*"Business and People are two sides of the same coin, we cannot imagine one without the other"- K. Paul Thomas*

Servant leadership, the primary core value of ESAF is truly reflected in the 'we care for you' attitude the Organization displays vis-a-vis all its stakeholders, whether it is employees, members, suppliers, society or environment. Adequate care will be taken on business decisions that have an impact on sensitive topics like people and environment. The transition to a bank gave opportunities for employees to showcase their talent, raise their skills and become a bank employee. In view of the benefits to all its employees, ESAF chose the road-less-travelled by giving each employee a chance thereby trading-off short-term gains over long-term benefits. ESAF's decision to convert ESAF Cooperative as a Business Correspondent of the ESAF Small Finance Bank, gave opportunities for employees to choose their career in any of the ESAF Group entities of their choice.

**Opportunities open to employees:** Two rounds of Internal Job Watch were announced to employees among all ESAF Group entities, to apply for the selection process of ESAF Small Finance Bank. A total of 1616 employees applied for the process across regions and businesses. The selection involved a process that meticulously gauges (1) Performance in written test (2) Performance in Interview (3) Employees Tenure in ESAF and Past Performance in their roles.

**Fairness in selection process:** To have fairness in selection process the ESAF management ensured that the process was handled by external agencies end-to-end, with only the coordination job handled by ESAF Corporate Team. The online written test was conducted by the external vendor, followed by interviews with expert panels consisting of Retired Bankers, Consultants and Professors from academic institutions. The final evaluation and announcement of results were also externally handled.

**Employee-connect initiative:** All employees were intimated their entity and location of posting. ESAF management team travelled across the Country to reach out to employees, and have conducted town-hall meetings and workshops to clarify employee doubts. Employees who were earlier selected for the Bank, but subsequently not able to take up the opportunity were also provided a chance within a timeframe, to get back to their old roles. As a win-win initiative for all, ESAF's largest people transi-

tion saw over 82% acceptances among employees for the Banking roles and the remaining employees were agreed to settle in their earlier roles.

**Head count:** In total 509 new candidates were identified for ESAF SFB as on March 31, 2017. In total, Kerala has the highest manpower among all the regions with 403 employees followed by Central India with 62 and Tamil Nadu with 33 employees. Among all 319 were males and 190 were females.

**Recruitment:** The Company has a fair and transparent recruitment policy. The positions are normally advertised through leading newspapers/ weeklies / local TV channels/ job sites like Naukri / State Gov. / Community Or-

ganized Job Fairs/ Campus Interviews / Employee Referral Scheme etc. During the year 86 new employees were recruited for different posts in ESAF SFB as on March 31, 2017.

**Training and Development:** Your Company believes in 'placing the right person in the right place' and training plays a significant role towards this. To facilitate, the Company has developed appropriate structured training and development programs covering vision and mission, professional and soft skill development and customer orientation. A total of three training programs were conducted for the 146 staff between March 10, 2017 and March 31, 2017.

*Proposed Corporate office of ESAF Small Finance Bank at Mannuthy, Thrissur, Kerala.*





# Independent Auditors' Report



## To the Members of ESAF Small Finance Bank Limited

### Report on the Financial Statements

1. We have audited the accompanying financial statements of ESAF Small Finance Bank Limited ("the Bank"), which comprise the Balance Sheet as at March 31, 2017, the Profit and Loss Account and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and notes to the financial statements.

### Management's Responsibility for the Standalone Financial Statements

2. The Bank's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016 in so far as they apply to the Bank and the guidelines issued by the Reserve Bank of India. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the design, implementation and maintenance of adequate internal financial control, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of In-

dia, as specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Bank's Directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

### Opinion

5. In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013, in the manner so required for the banking companies and give a true and fair view in conformity with the accounting principles generally accepted in India of the state of affairs of the Bank as at March 31, 2017, its profit and its cash flows for the year ended on that date.

### Report on Other Legal and Regulatory Requirements

6. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016.

7. As required sub section (3) of section 30 of the Banking Regulation Act, 1949 and the appointment letter dated March 15, 2017, we report that:

(a) We have obtained all the information and explanations which, to the best of our knowledge and



belief, were necessary for the purpose of our audit and have found them to be satisfactory;

(b) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank; and

(c) The financial accounting systems of the Bank are centralised and therefore, accounting returns for the purpose of preparing financial statements are not required to be submitted by the branches; we have visited 115 branches for the purpose of our audit.

8. Further, as required by Section 143(3) of the Act, we further 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 purpose of our audit;

(b) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;

(c) The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.

(d) In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016.

(e) On the basis of written representations received from the directors as on March 31, 2017 taken on record by the Board of Directors, none

of the directors is disqualified as on March 31, 2017 from being appointed as a director in terms of Section 164 (2) of the Act.

(f) With respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure I" to this report;

g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, as amended, in our opinion and to the best of our information and according to the explanations given to us:

i. The Bank does not have any pending litigation which would impact its financial position for the period ended March 31, 2017.

ii. The Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses on long-term contracts including derivative contracts - Refer Schedule 17 - Note 13 and Schedule 18 B - Note 15 to the financial statements.

iii. There are no amount required to be transferred, to the Investor Education and Protection Fund by the Bank.

iv. The disclosure requirement as envisaged in Notification G.S.R 308(E) dated 30th March 2017 is not applicable to the Bank - Refer Schedule 18 A - Note 34.

For S. R. BATLIBOI & ASSOCIATES LLP  
ICAI Firm registration number: 101049W/E300004  
Chartered Accountants

Sd-  
per Sarvesh Warty  
Partner  
(Membership No. 121411)

Mumbai  
26 May, 2017

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

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

To the Members of ESAF Small Finance Bank Limited

We have audited the internal financial controls over financial reporting of ESAF Small Finance Bank Limited ("the Bank") as of March 31, 2017 in conjunction with our audit of the financial statements of the Bank for the year ended on that date.

### **Management's Responsibility for Internal Financial Controls**

The Bank's Management is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India. These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to the Bank's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Companies Act, 2013.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting (the "Guidance Note") and the Standards on Auditing as specified under section 143(10) of the Companies Act, 2013, to the extent applicable to an audit of internal financial controls, both applicable to an audit of Internal Financial Controls and, both issued by the Institute of Chartered Accountants of India. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated

effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the internal financial controls system over financial reporting.

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

A company's internal financial control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal financial control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

### **Inherent Limitations of Internal Financial Controls Over Financial Reporting**

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial

reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### Opinion

In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2017, 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.

### Explanatory paragraph

We also have audited, in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India, as specified under Section 143(10) of the Act, the standalone financial statements of the Bank, which comprise the Balance Sheet as at March 31, 2017, and the related Profit and Loss Account and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and notes to the financial statements, and our report dated 27 April 2017 expressed an unqualified opinion thereon.

For S. R. BATLIBOI & ASSOCIATES LLP  
ICAI Firm registration number: 101049W/E300004  
Chartered Accountants

Sd-  
per Sarvesh Warty  
Partner  
(Membership No. 121411)

Mumbai  
26 May, 2017

## Standalone Balance Sheet as at 31 March 2017

Particulars	Note No.	As at 31 March, 2017 (₹)
<b>CAPITAL AND LIABILITIES</b>		
Capital	1	3,01,56,28,290
Reserves and Surplus	2	4,20,01,267
Deposits	3	4,09,34,12,290
Borrowings	4	20,52,84,86,524
Other Liabilities and Provisions	5	1,70,51,91,775
<b>Total</b>		<b>29,38,47,20,146</b>
<b>ASSETS</b>		
Cash and Balances with Reserve Bank of India	6	1,06,86,02,353
Balances with Banks and Money at Call and Short Notice	7	4,49,31,74,136
Investments	8	5,79,19,51,894
Advances	9	14,81,72,44,452
Fixed Assets	10	32,90,38,080
Other Assets	11	2,88,47,09,231
<b>Total</b>		<b>29,38,47,20,146</b>
Contingent Liabilities	12	67,60,57,892
Bills for collection		
Significant Accounting Policies and notes to account forming part of financial statement	17 & 18	

Schedules referred to above form an integral part of the Balance Sheet

The Balance Sheet has been prepared in conformity with Form 'A' of the Third Schedule to the Banking Regulation Act, 1949.

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

For and on behalf of the Board of Directors

**Prabha Raveendranathan**  
Chairman

**Kadambelil Paul Thomas**  
Managing Director & CEO

**per Sarvesh Warty**  
Partner  
Membership No. 121411

**Asha Morley**  
Director

**Padmakumar K.**  
Chief Financial Officer

**Ranjith Raj P.**  
Company Secretary

Place : Mumbai  
Date : 27 June 2017

Place : Mannuthy  
Date : 27 June 2017

## Profit and Loss account for the period 5 May 2016 to 31 March 2017

Particulars	Note No.	As at 31 March, 2017 (₹)
<b>I. INCOME</b>		
Interest Earned	13	29,39,29,264
Other Income	14	18,81,68,597
<b>Total</b>		<b>48,20,97,861</b>
<b>II. EXPENDITURE</b>		
Interest expended	15	16,11,05,331
Operating Expenses	16	23,40,96,119
Provisions and Contingencies		7,92,66,854
<b>Total</b>		<b>47,44,68,304</b>
<b>III. PROFIT</b>		
<b>Net Profit for the year (I - II)</b>		<b>76,29,557</b>
Add: Balance in Profit and Loss account brought forward from Previous Year		-
<b>IV. APPROPRIATIONS</b>		
Transfer to Statutory Reserve		19,07,389
Transfer to Capital Reserve		
Transfer to/(from) Investment Reserve Account		
Balance carried over to Balance Sheet		57,22,168
<b>Total</b>		<b>76,29,557</b>
Earnings per Share (Face value of ₹ 10/- each) (Note 1 of Schedule 18)		
Basic		0.07
Diluted		0.07
Significant Accounting Policies and notes to account forming part of financial statement	17 & 18	

Schedules referred to above form an integral part of the Balance Sheet

The Balance Sheet has been prepared in conformity with Form 'A' of the Third Schedule to the Banking Regulation Act, 1949.

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

**per Sarvesh Warty**  
Partner  
Membership No. 121411

For and on behalf of the Board of Directors

**Prabha Raveendranathan**  
Chairman

**Asha Morley**  
Director

**Padmakumar K.**  
Chief Financial Officer

**Kadambelil Paul Thomas**  
Managing Director & CEO

**Ranjith Raj P.**  
Company Secretary

Place : Mumbai  
Date : 27 June 2017

Place : Mannuthy  
Date : 27 June 2017



## Cash flow statement for the period 5 May 2016 to 31 March 2017

Particulars	As at 31 March, 2017 (₹)
<b>Cash Flow from Operating Activities</b>	
<b>Net Profit before tax</b>	2,19,57,308
<b>Adjustments for:</b>	
Depreciation on Bank's Property	44,18,275
Amortisation of Premium on HTM Investments	12,38,102
Provision on Deferment Assets	1,78,94,442
Reversal of excess provision for standard asset	(10,22,82,829)
Provision for Other Contingencies	54,63,401
	<b>(5,13,11,301)</b>
<b>Adjustments for :-</b>	
(Increase)/ Decrease in Investments (other than HTM Investments)	(1,39,21,73,206)
(Increase)/ Decrease in Advances	(14,81,72,44,452)
(Increase)/ Decrease in Fixed Deposit with Bank (Original Maturity greater than 3 months)	(64,33,19,750)
(Increase)/ Decrease in Other Assets	(2,87,90,66,520)
Increase/ (Decrease) in Deposits	4,09,34,12,290
Increase/ (Decrease) in Other liabilities and provisions	1,76,41,46,299
Direct taxes paid	-
<b>Net Cash Flow from Operating Activities (A)</b>	<b>(13,92,55,56,640)</b>
<b>Cash Flow from/(Used in) Investing Activities</b>	
Purchase of Fixed Assets	(33,34,56,355)
(Increase)/ Decrease in Held to Maturity Investments	(4,40,10,16,790)
<b>Net Cash Used in Investing Activities (B)</b>	<b>(4,73,44,73,145)</b>
<b>Cash Flow from/(Used in) Financing Activities</b>	
Proceeds from Issue of Share Capital	3,05,00,00,000
Increase/(Decrease) in Borrowings	20,52,84,86,524
<b>Net Cash generated from financing Activities (C)</b>	<b>23,57,84,86,524</b>
<b>Net Increase in Cash and Cash Equivalents (A+B+C)</b>	<b>4,91,84,56,739</b>
<b>Cash and Cash Equivalents at the beginning of year</b>	-
<b>Cash and Cash Equivalents at the end of year (refer note below)</b>	4,91,84,56,739

Particulars	As at 31 March, 2017 (₹)
<b>Note:</b>	
Cash in Hand (Schedule 6 I)	1,23,12,785
Balance with RBI in Current Account (Schedule 6 II (i))	1,05,62,89,568
Balance with Banks in India in Current Account (Schedule 7 I (i) a)	1,27,33,34,386
Balance with banks in India in Fixed Deposit	2,57,65,20,000
Cash and cash equivalents at the end of the year	<b>4,91,84,56,739</b>

As per our report of even date attached

For and on behalf of the Board of Directors

For **S.R. Batliboi & Associates LLP**,  
Chartered Accountants  
Firm Registration No. 101049W/E300004

**Prabha Raveendranathan**  
Chairman

**Kadambelil Paul Thomas**  
Managing Director & CEO

**per Sarvesh Warty**  
Partner  
Membership No. 121411

**Asha Morley**  
Director

**Padmakumar K.**  
Chief Financial Officer

**Ranjith Raj P.**  
Company Secretary

Place : July  
Date : 27 July 2017

Place : Mannuthy  
Date : 27 July 2017

## Schedules forming part of the Balance Sheet

Particulars	As at 31 March, 2017 (₹)
<b>Schedule 1 - Capital</b>	
<b>Authorised Capital</b>	
(35,00,00,000 Equity Shares of ₹10/- each)	3,50,00,00,000
<b>Issued, Subscribed and Paid up Capital</b>	
(30,15,62,829 Equity Shares of ₹10/- each)*	3,01,56,28,290
<b>Total</b>	<b>3,01,56,28,290</b>
<b>Schedule 2 - Reserves And Surplus</b>	
<b>I. Statutory Reserve</b>	
Opening balance	-
Additions during the year	19,07,389
<b>II. Capital Reserves</b>	
(a) Revaluation Reserve	
Opening balance	-
Deductions during the year	-
(b) Others	
Opening balance	-
Additions during the year	-
<b>III. Share premium</b>	
Opening balance	-
Additions during the year	3,43,71,710
	<b>3,43,71,710</b>
<b>IV. Revenue and Other Reserves</b>	
a) Revenue Reserve	
Opening Balance	-
Additions during the year	-
Deductions during the year	-
b) Investment Fluctuation Reserve	
Opening Balance	-
Additions during the year	-
c) Special Reserve (As per section 36(1)(viii) of Income Tax Act)	
Opening balance	-
Addition during the year	-
<b>V. Investment Reserve Account</b>	
Opening Balance	-
Additions during the year	-

Particulars	As at 31 March, 2017 (₹)
<b>VI. Contingency Reserve</b>	
Opening Balance	-
Additions during the year	
<b>VII. Balance in Profit and Loss Account</b>	57,22,168
<b>Total (I to VII)</b>	<b>4,20,01,267</b>
<b>Schedule 3 - Deposits</b>	
<b>A. I. Demand Deposits</b>	
i. From Banks	-
ii. From Others	41,45,344
	<b>41,45,344</b>
II. Savings Bank Deposits	<b>73,97,12,618</b>
III. Term Deposits	
i. From Banks	37,00,00,000
ii. From Others	2,97,95,54,328
	<b>3,34,95,54,328</b>
<b>Total (I to III)</b>	<b>4,09,34,12,290</b>
B. I. Deposits of branches in India	4,09,34,12,290
II. Deposits of branches outside India	-
<b>Total (I to II)</b>	<b>4,09,34,12,290</b>
<b>Schedule 4 - Borrowings</b>	
<b>I. Borrowings in India</b>	
i. Reserve Bank of India	-
ii. Other Banks *	11,81,17,82,783
iii. Other institutions and agencies **	8,06,67,03,741
iv. Subordinated Debt ***	65,00,00,000
	<b>20,52,84,86,524</b>
<b>II. Borrowings outside India</b>	-
<b>Total (I to II)</b>	<b>20,52,84,86,524</b>
Borrowings included in I and II above	
* Includes Commercial Paper issued of ₹ 2129,991,971.78	
** Includes Commercial Paper issued of ₹ 933,634,160	
*** Includes Non Convertible Debentures and Unsecured Termloan included in Tier - II capital	
<b>Schedule 5 - Other Liabilities and Provisions</b>	
I. Bills Payable	-
II. Inter - office adjustments (Net)	-

Particulars	As at 31 March, 2017 (₹)
III. Interest accrued	14,23,43,448
IV. Provision for Standard Assets	10,51,73,311
V. Proposed Dividend	-
VI. Others (including Provisions)	1,45,76,75,016
<b>Total (I to VI)</b>	<b>1,70,51,91,775</b>
<b>Schedule 6 - Cash and Balances with Reserve Bank of India</b>	
<b>I. Cash in hand</b>	1,23,12,785
<b>II. Balance with Reserve Bank of India</b>	
i. in Current Accounts	1,05,62,89,568
ii. in Other Accounts	-
<b>Total (I to II)</b>	<b>1,06,86,02,353</b>
<b>Schedule 7 - Balances with Banks and at Call and Short Notice</b>	
<b>I. In India</b>	
i. Balances with Banks	
a. in Current Accounts	1,27,33,34,386
b. in Other Deposit Accounts	3,21,98,39,750
<b>Total</b>	<b>4,49,31,74,136</b>
ii. Money at Call and Short Notice	
a. With Banks	-
b. With Other Institutions	-
<b>Total</b>	<b>-</b>
<b>Total (I)</b>	<b>4,49,31,74,136</b>
<b>II. Outside India</b>	
i. in Current Accounts	-
ii. in Other Deposit Accounts	-
iii. Money at call and short notice	-
<b>Total (II)</b>	<b>-</b>
<b>Total (I to II)</b>	<b>4,49,31,74,136</b>
<b>Schedule 8 - Investments</b>	
<b>I. Investments in India in :</b>	
i. Government Securities	5,79,19,51,894
ii. Other approved Securities	-
iii. Shares	-
iv. Debentures and Bonds	-
v. Subsidiaries/ Joint Ventures	-



Particulars	As at 31 March, 2017 (₹)
vi. Others [Certificate of Deposits (CDs), Pass Through Certificates (PTCs), Security Receipts etc.]	-
<b>Total (I)</b>	<b>5,79,19,51,894</b>
<b>II. Investments outside India</b>	-
<b>Total (II)</b>	-
<b>Total (I to II)</b>	<b>5,79,19,51,894</b>
Gross Investments	5,79,19,51,894
Less: Depreciation/ Provision for Investments	-
Net Investments	<b>5,79,19,51,894</b>
<b>Schedule 9 - Advances (net of provisions)</b>	
A. i. Bills purchased and discounted	-
ii. Cash credits, overdrafts and loans repayable on demand	-
iii. Term loans	14,81,72,44,452
<b>Total</b>	<b>14,81,72,44,452</b>
B. i. Secured by tangible assets	32,45,494
ii. Covered by Bank/Government guarantees	-
iii. Unsecured	14,81,39,98,958
<b>Total</b>	<b>14,81,72,44,452</b>
C. I. Advances in India	
i. Priority Sectors	14,81,39,98,958
ii. Public Sector	-
iii. Banks	-
iv. Others	32,45,494
<b>Total (I)</b>	<b>14,81,72,44,452</b>
II. Advances outside India	
i. Due from Banks	-
ii. Due from Others	-
a) Bills purchased and discounted	-
b) Syndicated Loans	-
c) Others	-
<b>Total (II)</b>	-
<b>Total (I to II)</b>	<b>14,81,72,44,452</b>
<b>Schedule 10 - Fixed Assets</b>	
I OWNED ASSETS	
a. Premises	
Gross Block	

Particulars	As at 31 March, 2017 (₹)
At the beginning of the year	-
Additions during the year	-
Deductions during the year	-
Closing Balance	-
Depreciation	
As at the beginning of the year	-
Charge for the Year	-
Deductions during the year	-
Depreciation to date	-
Net Block	-
b.Other fixed assets (including furniture and fixtures)	
Gross Block	
At the beginning of the year	-
Additions during the year #	31,30,25,559
Deductions during the year	-
Closing Balance	<b>31,30,25,559</b>
Depreciation	
As at the beginning of the year	-
Charge for the year	44,18,275
Deductions during the year	-
Depreciation to date	44,18,275
Net Block	<b>30,86,07,284</b>
II ASSETS GIVEN ON LEASE	
Gross Block	
At the beginning of the year	-
Additions during the year	-
Deductions during the year	-
Closing Balance	-
Depreciation	
As at the beginning of the year	-
Charge for the year	-
Deductions during the year	-
Depreciation to date	-
Net Block	-
II. Capital Work in progress (Including Capital Advances)	2,04,30,796

Particulars	As at 31 March, 2017 (₹)
# Includes assets acquired from Esaf Microfinance ₹128,298,786 And Esaf Swasray Agro cooperative Society ₹ 2,497,476 As per the Business Transfer Agreement (BTA).	
<b>Total (I &amp; II)</b>	<b>32,90,38,080</b>
<b>Schedule 11 - Other Assets</b>	
I. Inter - office adjustments (net)	-
II. Interest accrued	12,43,48,624
III. Tax paid in advance/Tax Deducted at source (Net of provision)	-
IV. Stationery and Stamps	-
V. Non-banking assets acquired in satisfaction of claims	-
VI. Others	2,76,03,60,607
<b>Total (I to VI)</b>	<b>2,88,47,09,231</b>
<b>Schedule 12 - Contingent Liabilities</b>	
I. Claims against the Bank not acknowledged as debts	-
II. Liability on account of outstanding forward exchange contracts	-
III. Guarantees given on behalf of constituents - in India	-
IV. Acceptances, endorsements and other obligations	-
V. Other items for which the Bank is contingently liable	67,60,57,892
<b>Total (I to V)</b>	<b>67,60,57,892</b>
Particulars	For the period 5 May 2016 to 31 March 2017 (₹)
<b>Schedules forming as part of the Profit and Loss account for the period of 5 May 2016 to 31 March 2017</b>	
<b>Schedule 13 - Interest Earned</b>	
I. Interest/discount on advances/bills	21,34,45,453
II. Income on investments	2,14,02,084
III. Interest on balances with Reserve Bank of India and other inter-bank funds	5,90,81,727
IV. Others	-
<b>Total (I to IV)</b>	<b>29,39,29,264</b>
<b>Schedule 14 - Other Income</b>	
I. Commission, exchange and brokerage	1,28,21,379
II. Profit on sale of investments (Net)	36,56,971
III. Profit on revaluation of investments (Net)	-
IV. Profit on sale of land, buildings and other assets (Net)	-
V. Profit on foreign exchange transactions (Net)	-
VI. Income earned by way of dividends etc. from companies	-
VII. Miscellaneous income	17,16,90,247
<b>Total (I to VII)</b>	<b>18,81,68,597</b>

Particulars	For the period 5 May 2016 to 31 March 2017 (₹)
<b>Schedule 15 - Interest Expended</b>	
I. Interest on deposits	2,97,45,854
II. Interest on Reserve Bank of India/Inter bank borrowings	7,14,11,213
III. Others	5,99,48,264
<b>Total (I to III)</b>	<b>16,11,05,331</b>
<b>Schedule 16 - Operating Expenses</b>	
I. Payments to and provisions for employees	1,81,50,769
II. Rent, taxes and lighting	3,18,29,555
III. Printing and stationery	7,14,550
IV. Advertisement and publicity	2,91,13,191
V. Depreciation	44,18,275
VI. Directors' fees, allowances and expenses	29,84,368
VII. Auditors' fees and expenses (including branch auditors fees and expenses)	13,00,000
VIII. Law charges	
IX. Postage, Telegrams, Telephones etc	18,32,142
X. Repairs and maintenance	6,32,945
XI. Insurance	27,90,814
XII. Other expenditure	14,03,29,510
<b>Total (I to XII)</b>	<b>23,40,96,119</b>

## **Schedule 17 - Notes to the Accounts forming a part of the financial statements for the year ended March 31, 2017**

### **1. Background**

ESAF Small Finance Bank Limited ("the Bank") is a public limited company incorporated on May 5, 2016 in India after receiving in principle approval from Reserve Bank of India ("RBI") to establish a small finance bank in the private sector under section 22 of the Banking Regulation Act, 1949 on September 16, 2015. The Bank received the license from the Reserve Bank of India on November 18, 2016 and commenced its banking operations from March 10, 2017.

### **Business Transfer**

Pursuant to the approval received from RBI for commencement of banking operations, all the assets and liabilities pertaining to the lending activities of ESAF Microfinance and Investments (P) Ltd. ("ESAF-MFI") were transferred to the Bank on a slump sale basis for a consideration of ₹ 7 crs. The consideration has been determined as per the Business Transfer Agreement (BTA) dated 22 February, 2017 entered into between the Bank and ESAF-MFI. In the books of the Bank the acquired assets and liabilities are recorded in accordance with the Purchase Price Allocation performed by an Independent Chartered Accountant. The consideration for slump sale was discharged by issue of 49,01,960 equity shares of ₹ 10 each at a premium of Rs 0.20 per share amounting to ₹ 5 crores and ₹ 2 crores was discharged in the form of cash.

The summary of purchase price allocation of assets and liabilities acquired is as follows:

Description	Amount (₹)
Fixed Assets	130,066,370
Investments	4,515,966,043
Cash and Bank Balances	2,357,763,959
Advances	14,884,197,497
Other Assets	936,996,548
<b>Total Assets</b>	<b>22,824,990,417</b>
<b>Other Liabilities and Provisions</b>	<b>22,754,990,417</b>

Further RBI in its approval had specified that all the deposits and outstanding loans of ESAF Swasraya Multi State Agro Co-operative Society (formerly known as Esaf Swasraya Multi State Co-operative Credit Society) ("ESCo") must be folded into Bank before the date of commencement of the business. Accordingly Bank entered into an Assignment Agreement with ESCo dated 10 March 2017 to transfer the below mentioned assets to the Bank.

	ESCo Amount (₹)
Assets	30,99,87,238
Deposits	87,76,20,291

## 2. Basis of Preparation

The financial statements have been prepared in accordance with the requirements prescribed under the Banking Regulation Act, 1949. The accounting and reporting policies of Bank used in the preparation of these financial statements is the accrual method of accounting and historical cost convention and it confirms with Generally Accepted Accounting Principles in India ("Indian GAAP"), the Accounting Standards specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 and other relevant provisions of the Companies Act, 2013 ("the Act") and the Companies (Accounting Standards) Amendment Rules 2016, in so far as they apply to banks and the guidelines issued by RBI.

## 3. Use of Estimation

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expenses during the reporting period. The Bank's Management believes that the estimates used in the preparation of the financial statements shall be prudent and reasonable. Actual results could differ from this estimate. Any revision to accounting estimates is recognized prospectively in current and future periods.

## 4. Significant Accounting Policies

### 4.1 Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured.

Interest Income is recognized in the statement of profit and loss on accrual basis, except in the case of nonperforming assets. Interest on non-performing assets is recognized upon realization as per the prudential norms of the RBI.

Profit or Loss on sale of investments is recognised in the Statement of Profit and Loss. However, the profit on sale of investments in the 'Held to Maturity' category is appropriated (net of applicable taxes and amount required to be transferred to statutory reserve) to 'Capital Reserve Account'.

Income on non-coupon bearing discounted instruments is recognized over the tenure of the instrument on a straight line basis. In case of coupon bearing discounted instruments, discount income is recognized over the tenor of the instrument on yield basis.

Dividend shall be accounted on an accrual basis when the right to receive the dividend is established.

Processing fees collected on loans disbursed, along with related loan acquisition cost are recognised upfront at



Inception/Renewal of loan.

All other fees shall be recognised upfront on their becoming due.

## 4.2 Investments

### Classification:

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

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

### 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.

### Cost of Acquisition:

Brokerage/commission received on subscriptions is reduced from the cost.

Brokerage, commission, securities transaction tax etc. paid in connection with acquisition of investments are expensed upfront and excluded from cost.

Broken period interest paid / received on debt instruments is treated as interest expense/income and is excluded from cost/sale consideration.

Cost is determined on the weighted average cost method for investments under AFS and HFT category and on FIFO basis (first in first out) for investments under HTM category.

### 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.

Valuation:

HTM securities shall be carried at their acquisition cost or at amortised cost if acquired at a premium over the face value. A provision shall be made for other than temporary diminution.

AFS and HFT securities shall be valued periodically as per RBI guidelines.

The market/ fair value for the purpose of periodical valuation of quoted investments included in the AFS and HFT categories shall be the market price of the scrip as available from the trades/ quotes on the stock exchanges, SGL account transactions, price list of RBI, prices declared by Primary Dealers Association of India jointly with Fixed Income Money Market and Derivatives Association ("FIMMDA") periodically.

The market/ fair value of other than quoted SLR securities for the purpose of periodical valuation of investments included in the AFS and HFT categories shall be as per the rates put out by Fixed Income Money Market and Derivatives Association ("FIMMDA").

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. Securities shall be valued scrip wise and depreciation/appreciation aggregated for each category. Net appreciation in each basket if any, being unrealised, shall be ignored, while net depreciation shall be provided for.

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

#### 4.3 Loans / Advances and Provisions thereon

Loans and Advances are disclosed net of specific loan loss provisions, interest in suspense, inter-bank participation certificates issued and bills rediscounted.

Loans and Advances are classified as performing and non-performing, based on the relevant guidelines issued by RBI.

Specific loan loss provisions are made for NPAs based on management's judgement of the degree of impairment of the loan subject to the minimum requirements as per the extant guidelines prescribed by the RBI. The provisions towards Standard Assets is made as per the extant RBI notifications and shall not be netted from gross advances but shall be shown separately as 'Contingent Provisions against Standard Assets'.

Apart from the general provision made on standard assets as above, the Bank may also maintain additional general provisions to cover potential credit losses which are inherent in any loan portfolio but not identified.

#### 4.4 Fixed Assets (Tangible and Intangible) and Depreciation / Amortization

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

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

Gain or losses arising from the retirement or disposal of a Fixed Asset are determined as the difference between the net disposal proceeds and the carrying amount of assets and recognised as income or expense in the Profit and Loss Account.

Depreciation is provided on straight line basis as per the life prescribed under Schedule II to the Companies Act 2013, which is in accordance with management estimate of the useful life of the underlying assets.

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

For assets purchased/ sold during the year, depreciation is being provided on pro rata basis by the Bank.

Assets costing less than ₹ 5,000 shall be fully depreciated in the year of purchase.

Capital work-in-progress includes costs incurred towards creation of fixed assets that are not ready for their intended use and also includes advances paid to acquire fixed assets

#### 4.5 Impairment of Assets

The carrying amounts of assets are reviewed at each balance sheet date to determine if there is any indication of impairment based on internal/external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount which is the greater of the asset's net selling price and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using pre-tax discount rate that reflects current market assessment of the time value of money and risks specific to the asset.

After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

## 4.6 Retirement and employee benefits

### i. Short Term Employee Benefit

The undiscounted amount of short-term employee benefits which are expected to be paid in exchange for the services rendered by employees are recognised during the period when the employee renders the service.

### ii. Long term Employee Benefit

#### a. Defined contribution Plan:

Provident Fund: In accordance with law, all employees of the Bank are entitled to receive benefits under the provident fund, a defined contribution plan in which both the employee and the Bank contribute monthly at a pre-determined rate. Contribution to provident fund are recognized as expense as and when the services are rendered. The Bank has no liability for future provident fund benefits other than its annual contribution.

#### b. Defined Benefit Plan:

Gratuity: The Bank provides for Gratuity, covering employees in accordance with the Payment of Gratuity Act, 1972, Service regulations and Service awards as the case may be. The Bank's liability is actuarially determined (using Projected Unit Credit Method) at the Balance Sheet date.

Compensated Absences: The Bank accrues the liability for compensated absences based on the actuarial valuation as at the Balance Sheet date conducted by an independent actuary which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation. The net present value of the Banks' obligation is determined using the Projected Unit Credit Method as at the Balance Sheet date. Actuarial gains / losses are recognised in the Profit and Loss Account in the year in which they arise.

## 4.7 Share Issue expenses

Share issue expenses are adjusted from Securities Premium Account as permitted by Section 52 of the Companies Act, 2013.

## 4.8 Income Taxes

Tax expense comprises current and deferred tax. Current income-tax is measured at the amount expected to be paid to the tax authorities in accordance with the Income Tax Act, 1961. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences being the difference between the taxable income and the accounting income that originate in one period and are capable of reversal in one or more subsequent period.

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

Deferred tax assets are reassessed at each reporting date, based upon the Management's judgement as to whether realisation is considered as reasonably certain. Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted at the Balance Sheet date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Profit and Loss Account in the period of the change.

## 4.9 Cash and Cash equivalent

Cash and cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice (including the effect of changes in exchange rates on cash and cash equivalents in foreign currency).

## 4.10 Segment Information

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

Segment revenues consist of earnings from external customers and inter-segment revenues based on a transfer pricing mechanism. Segment expenses consist of interest expenses including allocated operating expenses and provisions. Segment results are net of segment revenues and segment expenses.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding net worth, employees' stock option (grants outstanding) and proposed dividend and dividend tax thereon.

Since the business operations of the Bank are primarily concentrated in India, the Bank is considered to operate only in the domestic segment.

#### **4.11 Earnings per Share**

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the year. The weighted average number of equity shares outstanding during the year is adjusted for events of bonus issue, bonus element in a rights issue to existing shareholders and share split.

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

#### **4.12 Provisions and contingent assets/liabilities**

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

The Bank creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognized in the period in which the change occurs.

#### **4.13 Leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased item are classified as operating lease. Operating lease payments are recognised as an expense in the profit and loss account on a straight line basis over the lease term.

#### **4.14 Transaction involving Foreign Exchange**

All transactions in foreign currency are recognised at the exchange rate prevailing on the date of the transfer.

Foreign currency monetary items are reported using the exchange rate prevailing at the Balance Sheet date.

Non-monetary items which are measured in terms of historical cost denominated in foreign currency are reported using the exchange rate at the date of transaction. Non-monetary items which are measured at Fair Value or other similar value denominated in a foreign currency are translated using the exchange rate at the date when such value is determined.

Exchange differences arising on settlement of monetary items or on reporting of such monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognised as income or expense in the year in which they arise.

## Schedule 18 – Notes to the Accounts forming a part of the financial statements for the year ended March 31, 2017

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

#### 1. Capital Adequacy Ratio

The Bank's Capital Adequacy Ratios as per Basel III guidelines issued by Reserve Bank of India are as follows: (₹ in Crores)

Particulars	31 March, 2017 (₹)
Capital Ratios:	
(i) Common Equity Tier I Capital (%)	13.39%
(ii) Tier I Capital (%)	-
(iii) Tier II Capital (%)	2.88%
(iv) Total CRAR %	16.27%
(v) Percentage of the shareholding of the Government of India in Public Sector Banks	NA
(vi) Amount raised by issue of Equity Shares	305.00
(vii) Amount of Additional Tier I capital raised of which Perpetual Non Cumulative Preference Shares (PNCPS)	-
Perpetual debt instruments (PDI)	-
(viii) Amount of Tier II Capital raised of which Debt capital instruments*	65.00
Preference share capital instruments	-

(\* Represents Subordinate debt acquired from ESAF Microfinance and Investments (P) Ltd. as part of Business Transfer Agreement (BTA) Refer Note 1- Schedule -17 and Note 12- Schedule -18 B)

#### 2. Investments

The details of investments of Bank as on 31st March, 2017: (₹ in Crores)

<b>1. Value of Investments</b>	
i. Gross value of Investments	
a. In India	579.19
b. Outside India	-
ii. Provision for Depreciation	
a. In India	-
b. Outside India	-
iii. Net value of Investments	
a. In India	579.19
b. Outside India	-
<b>2. Movement of provisions held towards depreciation on investments</b>	
i. Opening Balance	-
ii. Add: Provisions made during the period/on amalgamation	-
iii. Less: Write back of provisions made during the period ended 31 March, 2017	-
iv. Closing Balance	-



### 3. Details of Repo transaction (in face value terms):

Period ended 31 March, 2017: (₹ in Crores)

Particulars	Minimum out-standing during the period	Maximum out-standing during the period	Daily Average outstanding during the period	Outstanding as on 31 March, 2017
<b>Securities sold under repos</b>				
i. Government securities	-	-	-	-
ii. Corporate debt securities	-	-	-	-
<b>Securities purchased under reverse repos</b>				
i. Government securities	-	-	-	-
ii. Corporate debt securities	-	-	-	-

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

(i) Issuer Composition of Non SLR Investments :

The Bank does not hold any Non SLR Investments as on 31 March, 2017.

(ii) Non-performing Non-SLR investments:

The Bank does not have any non performing non-SLR Investments as on 31, March 2017.

### 5. During the period ended 31 March, 2017 there was no sale/transfer of securities to/from HTM category.

### 6. Derivatives:

The Bank did not have any transactions in derivative instruments during the period ended 31 March, 2017.

### 7. Asset Quality

#### a. Non Performing Assets: (₹ in Crores)

Particulars	31 March, 2017 (₹)
(i) Net NPAs to Net Advances (%)	0.25%
(ii) Movement of Gross NPAs	
Gross NPAs as on March 10, 2017 (opening balance)*	7.80
Additions (Fresh NPAs) during the period	0.05
<b>Sub-total (A)</b>	<b>7.85</b>
Less:	
(i) Upgradations	-
(ii) Recoveries (excluding recoveries made from upgraded accounts)	-
(iii) Technical / Prudential Write-offs	-
(iv) Write-offs other than those under (iii) above	-
<b>Sub-total (B)</b>	<b>-</b>
<b>Gross NPAs as on 31 March (closing balance) (A-B)</b>	<b>7.85</b>
iii. Movement of Net NPAs	
a. Opening balance as on 10 March, 2017*	7.80
b. Additions during the year period/on amalgamation business transfer	0.05
c. Reductions during the year period	-
d. Closing balance	7.85
iv. Movement of provisions for NPAs (excluding provisions on standard assets)	

Particulars	31 March, 2017 (₹)
a.Opening balance as on 10 March, 2017#	4.25
b.Provisions made during the year period/on amalgamation business transfer	-
c. Write-off / write-back of excess provisions	-
d. Closing balance	4.25

\* Includes NPA of ₹ 7.80 crs on Asset Transfer as per BTA (Refer Note 1 of schedule 17) # Includes Provision of 4.25 crs on Asset Transfer as per BTA (Refer Note 1 of schedule 17)

#### b. Particulars of Accounts Restructured

The Bank does not have any restructured account as on and for the period ended 31 March, 2017.

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

The Bank did not sell any financial assets to Securitization/Reconstruction for reconstruction during the period ended 31 March, 2017.

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

The Bank did not sell/purchase any non financial asset during the period ended 31 March, 2017.

#### e. Provisions on Standard (₹ in Crores)

Provisions towards Standard Assets	10.52
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#### 8. Business ratios / information:

Interest income as a percentage of working funds*	11.90%
Non interest income as a percentage of working funds*	1.6%
Operating profit as a percentage of working funds*	(2.5%)
Return on assets (average)*	0.3%
Business (deposit plus advance) per employee (Rupees in crores)	3.84
Profit per employee (Rupees in crores)	0.0001

\* The Bank has reported only one form X to the RBI during the period ended 31 March, 2017 and accordingly, the working funds are the total assets for one month.

#### 9. Asset Liability Management

Maturity Pattern of certain items of assets and liabilities as at 31st March, 2017:

Particulars	Day 1	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months & upto 6 months	Over 6 months & upto 12 months	Over 1 year & upto 3 years	Over 3 years & upto 5 years	Over 5 years	Total
Advances	-	44.31	36.55	74.54	225.15	288.22	391.39	390.95	0.25	30.36	1481.72
Investments*	-	79.90	-	255.00	66.39	4.00	27.17	28.71	0	440.00	901.17

Particulars	Day 1	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months & upto 6 months	Over 6 months & upto 12 months	Over 1 year & upto 3 years	Over 3 years & upto 5 years	Over 5 years	Total
Deposits	2.49	2.59	2.57	0.24	5.38	28.09	15.06	261.92	49.65	41.35	<b>409.34</b>
Borrowings	-	11.24	13.01	25.10	111.74	534.81	398.35	864.22	77.98	16.40	<b>2052.85</b>
Foreign Cur- rency Assets	-	-	-	-	-	-	-	-	-	-	-
Foreign Cur- rency Liabili- ties	-	-	-	-	-	-	-	-	-	-	-

In computing the above information, certain estimates and assumptions have been made by the Bank's Management which has been relied upon by the auditors.

\*Investments includes Fixed Deposits

## 10. Exposure

a) Exposure to Real Estate Sector: The Bank does not have exposure to Real Estate Sector for period ended 31 March, 2017:

Particulars	31 March, 2017 (₹)
a) 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;	-
ii) Commercial Real Estate - Lending secured by mortgages on commercial real estate's (office build-ings, retail space, multi-purpose commercial premises, multi-family residen-tial buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure also includes non-fund based (NFB) limits	-
iii) Investments in Mortgage Backed Securities (MBS) and other securitized exposures	-
- Residential	-
- Commercial Real Estate	-
b) Indirect Exposure	
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	-
<b>Total Exposure to Real Estate Sector</b>	<b>-</b>

b) Exposure to Capital Market: The Bank does not have exposure to Capital Market:

Particulars	31 March, 2017 (₹)
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;	-
ii. Advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	-
iii. Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	-
iv. Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances;	-
v. Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	-
vi. Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	-
vii. Bridge loans to companies against expected equity flows / issues;	-
viii. Underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	-
ix. Financing to stockbrokers for margin trading;	-
x. All exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect)	-
xi. Others (Financial Guarantees)	-
<b>Total Exposure to Capital Market</b>	-

c) Risk category wise country exposure

Since the country exposure is nil, no provision is required to be maintained on country exposure for the period ended 31 March, 2017. (₹ in Crores)

Risk Category	Exposure (net) as at 31 March, 2017	Provision held as at 31 March, 2017
Insignificant	-	-
Low	-	-
Moderate	-	-
High	-	-
Very High	-	-
Restricted	-	-
Off-credit	-	-
<b>Total</b>	-	-

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

During the period ended 31 March, 2017 the Bank has not exceeded the prudential exposure limits as laid down by RBI guidelines for the Single Borrower Limit (SBL)/ Group Borrower Limit (GBL).

e. Unsecured Advances

There are no unsecured advances for which intangible security such as charge over the rights, licenses; authority, etc. are accepted as collateral by the Bank during the period ended 31 March, 2017.

### 11. Disclosure of penalties imposed by RBI

During the period ended 31 March, 2017 no penalty had been imposed by Reserve Bank of India in terms of the Section 47 A (1) read with Section 46(4)(i) of the Banking Regulation Act, 1949 for non-compliance of certain RBI instructions.

### 12. Provisions and Contingencies

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

Particulars	31 March, 2017 (₹)
Provisions for Depreciation on Investments	-
Loss on valuation of securities on transfer between categories	-
Provision towards NPA	-
Provision towards Unhedged Foreign Currency Exposure	-
Provision towards Standard Assets	4.64
Provision made towards income tax	
Income Tax expense	1.99
Deferred Tax asset	(0.56)
Other Provision and Contingencies	1.85
<b>Total Provisions and Contingencies</b>	<b>7.92</b>

### 13. Floating Provisions

The bank does not have any floating provisions for the period ended 31 March, 2017. (₹ in crores)

Opening balance in the floating provisions account	-
The quantum of floating provisions made in the accounting period	-
Amount of draw down made during the accounting period	-
Closing Balance in floating provisions account	-

### 14. Drawdown from Reserves

The Bank has not drawn down from reserves during the period ended 31 March 2017.

### 15. Disclosure of Complaints

a. Customer Complaints

	31 March, 2017
a) No. of complaints pending at the beginning of the period	-
b) No. of complaints received during the period	-
c) No. of complaints redressed during the period	-
d) No. of complaints pending at the end of the period	-

b. Awards passed by the Banking Ombudsman:

	31 March, 2017
a) No. of unimplemented Awards at the beginning of the period	-
b) No. of Awards passed by the Banking Ombudsman during the period	-
c) No. of Awards implemented during the period	-
d) No. of unimplemented Awards at the end of the period	-

c. Details of Shareholder Complaints

a) No. of complaints pending at the beginning of the period	-
b) No. of complaints received during the period	-
c) No. of complaints redressed during the period	-
d) No. of complaints pending at the end of the period.	-

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

The Bank has not issued any LOC during the period ended 31 March, 2017.

#### 17. Provisioning Coverage Ratio

The Provision Coverage Ratio (PCR) of the Bank is 54.14% as on 31 March, 2017.

#### 18. Bancassurance Business

The Bank has not commenced the Bancassurance Business as at 31st March 2017.

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

a. Concentration of deposits: (₹ in crores)

Particulars	31 March, 2017 (₹)
Total deposits of twenty largest depositors	323.73
Percentage of deposits of twenty largest depositors to total deposits of the Bank	79.09%

b. Concentration of advances: (₹ in crores)

Total advances to twenty largest borrowers	6.76
Percentage of advances to twenty largest borrowers to total advances of the bank	0.45%

"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."

c. Concentration of exposures: (₹ in crores)

Total exposure to twenty largest borrowers/customers	6.76
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	0.45%

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

d. Concentration of NPAs: (₹ in crores)

Total Exposure to top four NPA accounts to Gross NPA	0.47%
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20. RBI vide its circular dated 18th April 2017, has directed banks to make suitable disclosures, wherever either (a) the additional provisioning requirements assessed by RBI exceed 15 percent of the published net profits after tax for the reference period or (b) the additional Gross NPAs identified by RBI exceed 15 percent of the published incremental Gross NPAs for the reference period, or both. Given that the Bank started its operations during the financial year ended March 31, 2017, this disclosure is not applicable.



**21. Sector-wise Advances** (₹ in crores)

Sl. No	Sector	31 March, 2017		
		Outstanding Total Advances*	Gross NPAs	Percentage of Gross NPAs to Total Advances in that Sector
<b>A</b>	<b>Priority Sector</b>			
1	Agricultural and Allied Activities	1,021.15	5.59	0.55%
2	Advances to Industries Sector eligible as Priority sector lending	19.79	0.09	0.49%
3	Services	175.20	0.34	0.19%
4	Personal Loans and others	227.98	1.83	0.69%
	<b>Sub-Total (A)</b>	<b>1,444.12</b>	<b>7.85</b>	<b>0.54%</b>
<b>B</b>	<b>Non Priority Sector</b>			
1	Agricultural and Allied Activities			
2	Industry			
3	Services			
4	Personal loans and others	37.60	0	0
	<b>Sub-Total (B)</b>	<b>37.60</b>	<b>0</b>	<b>0</b>
	<b>Total (A+B)</b>	<b>1,481.72</b>	<b>7.85</b>	<b>0.52%</b>

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

**22. Movement of Technical Write-offs and Recoveries:**

The Bank did not have any technical write offs during the period ended 31 March, 2017.

**23. Overseas Assets, NPAs and Revenue:**

The Bank does not have any overseas Assets during the period ended 31 March, 2017.

**24. Off Balance Sheet SPVs sponsored**

There are no Off-Balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms).

**25. Disclosures on Remuneration****A. Qualitative Disclosures:****a) Information relating to the composition and mandate of the Remuneration Committee:**

The Nomination & Remuneration committee comprises of independent directors of the Bank. Key mandate of the Nomination & Remuneration committee is to oversee the overall design and operation of the compensation policy of the Bank and work in coordination with the Risk Management Committee to achieve alignment between risks and remuneration.

**b) Information relating to the design and structure of remuneration processes and the key features and objectives of remuneration policy:**

Objective of Banks' Compensation Policy is:

- The objective of the compensation & benefits policy is to establish guidelines for the fair and equitable administration of salary and benefits in accordance with the Bank policies
- 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, a significant portion of senior and middle management compensation is variable.

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) payouts are capped at 70% of the fixed pay for top management and at 60% for the rest of the levels. The Head of Control functions will be evaluated independent of business results by the Chairman of the respective Board Committee and their compensation and rewards will be approved by the Board Nomination & Remuneration Committee. The Bank will not have any guaranteed bonus as part of any contract with employees or any severance pay other than what is stipulated by Law; however, any bonus at the time of joining/ sign on bonus will be limited only to the first year and would need to be approved by the Board Nomination and Remuneration Committee

e) A discussion of the banks' policy on deferral and vesting of variable remuneration and a discussion of the bank's policy and criteria for adjusting deferred remuneration before vesting and after vesting:

Nil

f) Description of the different forms of variable remuneration (i.e. cash, shares, ESOPs and other forms) that the bank utilizes and the rationale for using these different forms:

The main forms of such variable remuneration include:

- Cash – this may be at intervals ranging from Monthly, Quarterly, Annual.

The form of variable remuneration depends on the job level of individual, risk involved, the time horizon for review of quality and longevity of the assignments performed.

#### B. Quantitative Disclosures:

a) Number of meetings held by the Remuneration Committee during the financial year and remuneration paid to its members. 3 meetings i.e. on 13 December 2016, 23 December 2016 and 10 March 2017.

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

Nil

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

Nil

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

Nil

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

Nil

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

Nil

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

Nil

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

Total fixed salary for the year ended 31 March, 2017 Rupees 0.07 crores.

Deferred Variable Pay - Nil

Non Deferred variable pay - Nil

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

Nil

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

Nil

## 26. Disclosures relating to Securitization (₹ in crores)

SI. No	Particulars	31 March, 2017
1.	No. of SPVs sponsored by the bank for securitization transactions	14
2.	Total amount of Securitized assets as per books of the SPVs sponsored by the bank	396.14
3.	Total amount of exposures retained by the bank to comply with MRR as on date of balance sheet	
	a) Off Balance Sheet exposures	
	First Loss	-
	Others	-
	b) On Balance Sheet exposures	
	First Loss (Cash Collateral)	45.43
	Others (Credit Enhancement)	22.18
4.	Amount of exposures to securitization transactions other than MRR as on the date of balance sheet	
	<b>a) Off Balance Sheet Exposures</b>	
	<b>Exposure to own Securitization</b>	
	First Loss (Subordination of Interest Strip)	24.70
	Others	-
	<b>Exposure to Third Party Securitization</b>	
	First Loss	-
	Others	-
	<b>b) On Balance Sheet Exposures</b>	
	<b>Exposure to own securitizations</b>	
	First Loss	-
	Others	-
	<b>Exposure to third party securitization</b>	
	First Loss	-
	Others	-

## 27. Credit Default Swaps

The Bank has not entered into any Credit Default Swap transactions during the period ended 31 March, 2017.

## 28. Intra Group Exposures

The Bank does not have any intra group exposures for the period ended 31 March, 2017.

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

Opening balance of amounts transferred to DEAF	-
Add: Amounts transferred to DEAF during the period ended 31st March 2017	-
Less: Amounts reimbursed by DEAF towards claim	-
Closing balance of amounts transferred to DEAF	-

## 30. Unhedged foreign currency exposure

The Bank does not have any unhedged foreign currency exposure.

## 31. Priority sector lending certificates

The Bank has not sold or purchased any Priority Sector Lending Certificates during the period ended 31 March, 2017.

### 32. Net Book Value of Investments in Security Receipts:

The Bank has not invested any amounts in security receipts during the period ended 31 March, 2017.

### 33. Frauds

The Bank has not reported any frauds during the period ended 31 March 2017.

### 34. Disclosure of Specified Bank Notes (SBNs)

Since the Bank began its banking operations from 10 March, 2017, the disclosure pertaining to SBNs is not applicable to the Bank.

### 35. A. Liquidity Coverage Ratio (₹ in crores)

	Unweighted (₹)	Weighted (₹)
<b>High Quality Liquid Assets</b>		
1. Total High Quality Liquid Assets (HQLA)	316.32	316.32
<b>Cash Outflows</b>		
2. Retail deposits and deposits from small business customers, of which:		
i) Stable deposits	74	3.7
ii) Less stable deposits	16	1.6
3. Unsecured wholesale funding, of which	-	-
i) Operational deposits (all counterparties)	0.43	.02
ii) Non-operational deposits (all counterparties)		
iii) Unsecured debt	43.95	43.95
4. Secured wholesale funding	57.50	57.50
5. Additional requirements, of which		
i) Outflows related to derivative exposures and other collateral requirements	-	-
ii) Outflows related to loss of funding on debt products	-	-
iii) Liabilities from maturing ABCP, SIV's, SPV's etc assignments	93.23	93.23
6. Other contractual funding obligations	14	14
7. Other contingent funding obligations		
<b>8. Total Cash Outflows</b>	<b>299.11</b>	<b>214.00</b>
<b>Cash Inflows</b>		
9. Secured lending (e.g. reverse repos)	-	-
10. Inflows from fully performing exposures	205.14	102.57
11. Other cash inflows	255	255
<b>12. Total Cash Inflows</b>	<b>460.14</b>	<b>357.57</b>
13. Total HQLA	316.32	316.32
14. Total Net Cash Outflows (a)		-143.57
15. 25% of Total Cash Flow (b)		53.50
<b>16. Liquidity Coverage Ratio (%) (a/b)</b>		<b>591.30%</b>

## B. Qualitative disclosure around LCR

The Reserve Bank of India has prescribed monitoring of sufficiency of Bank's liquid assets using Basel III – Liquidity Coverage Ratio (LCR). The LCR is aimed at measuring and promoting short-term resilience of Banks to potential liquidity disruptions by ensuring maintenance of sufficient high quality liquid assets (HQLAs) to survive an acute stress scenario lasting for 30 days.

The LCR requirement has been introduced in a phased manner with banks required to maintain minimum LCR of 60% till Dec 2017 and the 70% from Jan 2018 onwards. The requirement will be increasing by 10% annually to 100% by Jan 2021. LCR requirement is currently at 60% effective Jan 2017.

The ratio comprises of high quality liquid assets (HQLAs) as numerator and net cash outflows in 30 days as denominator. HQLA has been divided into two parts i.e. Level 1 HQLA which comprises of primarily cash, excess CRR, SLR securities in excess of minimum SLR requirement and a portion of mandatory SLR as permitted by RBI (under MSF ) and Level 2 HQLA which comprises of investments in highly rated non-financial corporate bonds and listed equity investments considered at prescribed haircuts. Cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities by the outflow run-off rates and cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in.

The bank has implemented the LCR and has maintained LCR well above the regulatory threshold. AS on 31 March 2017, the LCR stood at 591.3%

Asset Liability Committee (ALCO) of the Bank is the primary governing body for Liquidity Risk Management, Risk Management Department (RMD), Finance and Treasury. Treasury is the central repository of funds within the Bank and is vested with the responsibility of managing liquidity risk within the risk appetite of the Bank. Bank has incorporated Basel Liquidity Standards - LCR for liquidity risk.

## Schedule 18 – Notes to the Accounts forming a part of the financial statements for the year ended March 31, 2017

### B. OTHER DISCLOSURES:

#### 1. Earnings per Equity Share:

Particulars	31 March, 2017 (₹)
Weighted average number of equity shares used in computation of basic earnings per share	104,178,872
Weighted average number of equity shares used in computation of diluted earnings per share	104,178,872
Following is the reconciliation between basic and diluted earnings per share	
Nominal value per share	10
Basic earnings per share	0.07
Diluted earnings per share	0.07
Earnings used in the computation of basic and diluted earnings per share (₹ in crore)	0.76

#### 2. Segment Reporting: (₹ in Crores)

	Treasury (₹)	Retail Banking (₹)	Total (₹)
<b>Segment Revenue</b>			
Gross Interest Income	2.39	27.00	29.39
Other Income	0.37	18.45	18.82
<b>Total Income as per Profit and Loss Account</b>	2.76	45.45	48.21
Less- Interest Expense	1.94	14.17	16.11
Less- Operating Expense	0.07	29.83	29.90
<b>Operating Profit</b>	<b>0.75</b>	<b>1.45</b>	<b>2.20</b>
Segment Results	0.75	1.45	2.20
Less- provision for tax	-	-	1.44
<b>Net Profit</b>	0.75	1.45	0.76
<b>Other Information</b>			
<b>Segment Assets</b>	939.82	1998.65	2938.47
Unallocated Assets	-	-	-
<b>Total Assets</b>	939.82	1998.65	2,938.47
<b>Segment Liabilities</b>	306.36	2,326.35	2,632.71
Share Capital, Reserves and Surplus	-	-	305.76
Unallocated Liabilities	-	-	-
<b>Total Liabilities</b>	306.36	2,326.29	2,938.47
Capital Expenditure	-	33.35	33.35
Less Depreciation	-	0.44	0.44

#### 3. Lease Disclosures:

The Bank has taken on rent branch premises for periods ranging from 11 months to 120 months. The rental arrangements are cancellable after given one month notice and the agreement provides for annual increase of 5% to 10% on an yearly basis. For the reporting year the rental expense amounts to Rupees 0.82 crores.



#### 4. Deferred Taxes: (₹ in Crores)

Particulars of Asset/ (Liability) (₹)	31 March, 2017 (₹)
Depreciation	5.77
ROC fee - pre commencement expense (1/5th allowed as per Sec.35D of Income Tax Act 1961)	(0.67)
Provision for Gratuity	(0.29)
Provision for Standard assets	(4.64)
Provision for Income Accrued on Deferment of NPA	(1.79)
<b>Total of the Timing Differences</b>	<b>(1.62)</b>
<b>Net Deferred Tax assets</b>	<b>0.56</b>

#### 5. Credit card reward points:

The Bank does not have credit card products hence reward points are not applicable.

#### 6. Fixed Assets as per Schedule 10 include intangible assets relating to purchased software and system development expenditure which are as follows (₹ in Crores)

Particulars	31 March, 2017 (₹)
<b>Gross Block</b>	
At cost on 31st March of the preceding year	-
Additions during the period	<b>10.61</b>
Deductions during the period	-
<b>Total</b>	<b>10.61</b>
<b>Depreciation / Amortization</b>	<b>-</b>
As at 31st March of the preceding year	-
Charge for the period	0.21
Deductions during the period	-
<b>Depreciation to date</b>	<b>0.21</b>
<b>Net Block</b>	<b>10.40</b>

#### 7. Related Party Disclosures:

Related Party	Nature of Relationship
ESAF Microfinance and Investments Pvt. Ltd.	Holding Company
ESAF Retail Pvt. Ltd.	Entities in which Key managerial person (KMP) is a member (shareholder)
ESAF Homes and Infrastructure Pvt. Ltd.	Entities in which Key managerial person (KMP) is a member (shareholder)
Kadambelil Paul Thomas	Key Managerial Person ( MD and CEO)
ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	Enterprises over which KMP has significant influence

**Transactions with the Related Party (₹ in Crores)**

Nature of Transaction	Related Party	31 March-2017 (₹)
<b>Liabilities</b>		
Fixed Deposit placed with bank	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	50.00
	ESAF Microfinance and Investments (P) Ltd.	280.00
Fixed Deposit Matured	ESAF Microfinance and Investments (P) Ltd.	50.00
Deposit Transfer	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	87.76
	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	0.31
Demand Deposit	ESAF Microfinance and Investments (P) Ltd.	0.21
Savings Deposit (Rupees in INR)	Kadambelil Paul Thomas	11,041.00
	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	0.34
Interest accrued and due on Deposits	ESAF Microfinance and Investments (P) Ltd.	2.26
Payable towards Business Services agreement	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	7.01
	ESAF Microfinance and Investments (P) Ltd.	280.75
Issue of Equity Shares	Kadambelil Paul Thomas	20.80
	ESAF Microfinance and Investments (P) Ltd.	3.15
Securities Premium	Kadambelil Paul Thomas	0.30
Payment of Collections as per Agency agreement	ESAF Retail Pvt. Ltd.	0.45
<b>Assets</b>		
Assignment of Loans	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	30.99
	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	0.40
Receivables	ESAF Microfinance and Investments (P) Ltd.	208.36
Rent Deposit	ESAF Homes and Infrastructure Pvt. Ltd.	1.52
Consideration for slump sale- Issue of Equity Shares	ESAF Microfinance and Investments (P) Ltd.	4.90
Consideration for slump sale- Securities Premium	ESAF Microfinance and Investments (P) Ltd.	0.10
Consideration for slump sale- Cash/ Bank	ESAF Microfinance and Investments (P) Ltd.	2.00

<b>Expenses</b>		
Rent Paid	ESAF Homes and Infrastructure Pvt. Ltd.	0.15
Interest	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	0.34
	ESAF Microfinance and Investments (P) Ltd.	2.26
BC Servicer Fee	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	6.37
Commission for client acquisition	ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as Esaf Swasraya Multi State Co-operative Credit Society Ltd)	5.26
Remuneration and Sitting Fees	Kadambelil Paul Thomas	0.07

#### Maximum Balance outstanding during the year

Items/Related Party	Holding Company	Enterprise over which KMP/Relative of KMP have control / significant influence
<b>Liabilities</b>		
Deposits	232.26	50.34
Demand Deposit	0.21	0.31
Equity Shares	283.90	-
Other Liabilities		7.46
<b>Assets</b>		
Advances	208.36	
Others	-	1.92

#### 8. Employee Shared Based Payments:

The Bank has not made any share based payments.

#### 9. Advances securitized by the Bank: (₹ in Crores)

Particulars	31 March, 2017 (₹)
Book value of advances securitized	1037.07
Number of accounts	679619
Sale consideration received for the accounts securitized	982.30
Gain on securitization amortized during the year	1.31
Credit enhancement, liquidity support provided	67.61
Provision on securitized assets	0
Number of accounts as on date	359047
Outstanding as on date	396.14
Nature of post securitization support	

The Bank has not entered into any securitization transaction during the FY 2017. As per the BTA entered with ESAF Microfinance and Investments (P) Ltd. the Bank has taken over the obligations/liabilities of the securitized/assigned advances by ESAF Microfinance and Investments (P) Ltd. The details are given in the table above.

## 10. Employee Benefits

i. The Bank has recognized the following amounts in the Profit and Loss Account towards contributions to Provident Fund and Other Funds: (₹ in Crores)

Particulars	31 March, 2017 (₹)
Provident Fund	0.04
Superannuation Fund	-
New Pension Fund	-

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. There is no ceiling on gratuity payable to directors and certain categories of employees subject to service regulations and service awards.

Reconciliation of opening and closing balance of present value of defined benefit obligation for gratuity benefits is given below. (₹ in Crores)

<b>Present value of DBO at start of year</b>	-
Transfer In/(Out)*	0.94
Current Service Cost	0.02
Interest Cost	0.01
Benefits Paid	-
Past Service Cost	0.16
Actuarial Gain/Loss	0.11
<b>Present value of DBO at end of year</b>	<b>1.24</b>

\*Represents gratuity liability of employees, transferred from Esaf Microfinance and Investments (P) Ltd to the Bank

### Expense recognized in the Profit and Loss account (₹ in Crores)

Current Service Cost	0.02
Interest Cost	0.01
Past Service Cost	0.15
Actuarial (Gain)/Loss	0.11
<b>Employer Expense/( Income)</b>	<b>0.29</b>

### Net Liability/(Asset) recognized in the Balance Sheet (₹ in Crores)

Present value of DBO	1.24
Fair value of plan assets	-
Net liability/(Asset)	1.24
Less: Unrecognized Past Service Cost	-
<b>Liability/(Asset) recognized in the Balance sheet</b>	<b>1.24</b>
<b>Of which short term provision</b>	<b>0.14</b>

## Actuarial assumptions used

Salary Growth Rate	5% p.a
Discount Rate	7% p.a
Withdrawal/Attrition Rate	10% p.a
Mortality Rate	IALM 2006-08 (Ult)
Expected average remaining working lives of employees	8 years

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.

The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.

## Experience adjustments

Amounts for the current period are as follows: (₹ in Crores)

Defined benefit obligation	0.12
Fair value of Plan assets	
Surplus / (Deficit)	(0.12)
Experience adjustments on plan liabilities (Gain)/Loss	—*
Experience adjustments on plan assets: Gain/(Loss)	NA

## Leave Encashment

The employees of the Bank are entitled to compensated absence. The employees can carry forward a portion of the unutilized accrued compensated absence and utilize it in future periods or receive cash compensation at retirement or termination of employment for the unutilized accrued compensated absence for a maximum of 30 days. The Bank records an obligation for compensated absences in the period in which the employee renders the services that increase this entitlement. The Bank measures the expected cost of compensated absence as the additional amount that the Bank expects to pay as a result of the unused entitlement that has accumulated at the balance sheet date based on actuarial valuations.

The Actuarial liability of compensated absences of accumulated privilege leave of the employees of the Bank is given below: (₹ in Crores)

Assumptions	31 March, 2017 (₹)
Privilege leave	30 days
Discount rate	7%
Salary escalation rate	5%
Attrition Rate	10%
Actuarial liability	0.13
Charged in Profit and Loss account (Rupees in INR)	29,000
<b>Actuarial liability*</b>	0.13

\*Includes ₹ 0.12 crores of provision of compensated absences of the employees transferred, from Esaf Microfinance and Investments (P) Ltd to Bank.

The discount rate is based on the prevailing market yields of Government of India securities as at the Balance Sheet date for the estimated term of the obligations.

The estimate of future salary increases considered, takes into account the inflation, seniority, promotion, increments and other relevant factors. The above information is as certified by the actuary and relied upon by the auditors.

### 11. Corporate Social Responsibility (CSR)

As per the provisions of the Section 135 of the Companies Act, 2013 the Bank is not required to contribute towards CSR expenditure.

### 12. Subordinated Debt

a The Bank has an outstanding subordinated debt of Rs 65 crores which has been taken over by the Bank as per the BTA entered into with ESAF Microfinance and Investments Pvt. Ltd. This has been considered as part of Tier 2 for Capital adequacy computation after discounting as applicable.

b Interest Expended-Others includes interest of ₹ 0.64 crores accrued on Subordinate Debt.

### 13. Details of payments of audit fees (₹ in Crores)

Particulars	31 March, 2017 (₹)
Statutory Audit fees	0.11
Out of pocket expenses	0.02
<b>Total</b>	<b>0.13</b>

### 14. Description of Contingent Liabilities:

The Bank has contingent liability of ₹ 67.61 crores for securitization transactions transferred as per Business Transfer Agreement(BTA) (Refer Note 1 of schedule 17).

15. The Bank has a process whereby periodically all long term contracts are assessed for material foreseeable losses. At the year end, the Bank has reviewed and recorded adequate provision as required under any law /accounting standards for material foreseeable losses on such long term contracts in the books of account and disclosed the same under the relevant notes in the financial statements

16. The Bank has received few intimations from “suppliers” regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and there is no outstanding against those suppliers as on 31st March, 2017, hence disclosures, if any, relating to amounts unpaid as at the yearend together with interest paid / payable as required under the said Act have not been given. The above is based on information available with the Bank and relied upon by the Auditors.

### 17. Previous Year

The Bank was incorporated on 05 May, 2016, thus there are no corresponding comparative numbers disclosed.

As per our report of even date attached

For and on behalf of the Board of Directors

For **S.R. Batliboi & Associates LLP**,  
Chartered Accountants  
Firm Registration No. 101049W/E300004

**Prabha Raveendranathan**  
Chairman

**Kadambelil Paul Thomas**  
Managing Director & CEO

**per Sarvesh Warty**  
Partner  
Membership No. 121411

**Asha Morley**  
Director

**Padmakumar K.**  
Chief Financial Officer

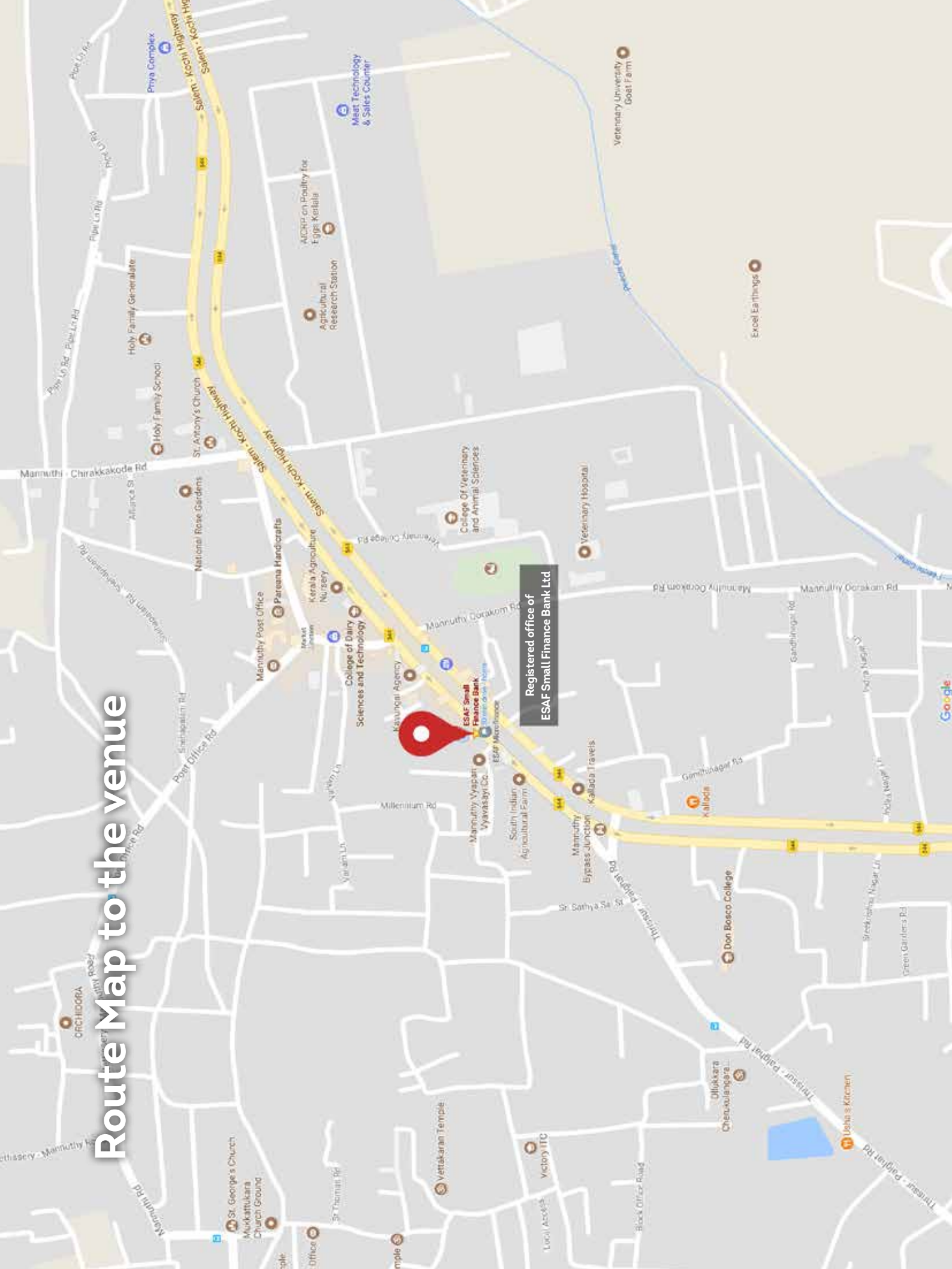
**Ranjith Raj P.**  
Company Secretary

Place : Mumbai  
Date : 27 June 2017

Place : Mannuthy  
Date : 27 June 2017



# Route Map to the venue



**PROXY FORM**

(Pursuant to Section 105(6) of the Companies Act, 2013 and Rule 19(3)  
of the Companies (Management and Administration Rules, 2014)

CIN : U65990KL2016PLC045669  
Name of the Company : ESAF Small Finance Bank Ltd  
Registered Office Address : Hepzibah Complex, Second Floor, No.x/109/M4, Mannuthy P.O.,  
Thrissur, Kerala - 680 651

Name of the member (s) :

Registered Address :

E-mail ID :

Folio No. :

I/We, being the member (s) of ..... shares of the above named company, hereby appoint

1. Name : .....  
Address : .....  
E-mail ID : .....  
Signature : .....  
or failing him,

2. Name : .....  
Address : .....  
E-mail ID : .....  
Signature : .....  
or failing him,

3. Name : .....  
Address : .....  
E-mail ID : .....  
Signature : .....

as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the 1<sup>st</sup> Annual general meeting of the company, to be held on 27th September 2017 at 11.00 AM at the Registered Office of the Company and at any adjournment thereof in respect of such resolutions as are indicated below:

- |    |    |
|----|----|
| 1. | 6. |
| 2. | 7. |
| 3. | 8. |
| 4. | 9. |
| 5. |    |

Signed this..... day of.....2017

Signature of shareholder

Affix  
Revenue  
Stamp

Signature of Proxy holder(s)

Note: This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the Meeting.



# JOY OF BANK ING

 24x7 Toll-free  
**1-800-103-3723**  
[www.esafbank.com](http://www.esafbank.com)



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