

# JOY OF BANKING COMPLETES ONE YEAR



ANNUAL REPORT 2017-18



Prof. P. J. Kurien, Hon'ble Deputy Chairman of Rajya Sabha inaugurating the 1st Anniversary Celebrations of ESAF Small Finance Bank at Lulu International Convention Centre, Thrissur on 11 March 2018.

Photo: From left, Shri. A.G.Varughese and Shri. George Thomas, Executive Vice Presidents, ESAF Small Finance Bank, Adv. K. Rajan MLA, Smt. Mereena Paul, Chairman and Sri. Jacob Samuel, Director, ESAF Co-Operative, Shri. K. Paul Thomas, MD & CEO, ESAF Small Finance Bank, Shri. Alok Thomas Paul, Director, ESAF Retail, Shri. A. Akbar, Shri. Alex George, Dr. V. A. Joseph, Shri. George Joseph and Shri. Saneesh Singh, Directors, ESAF Small Finance Bank.



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



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any other information please log on to [www.esafbank.com](http://www.esafbank.com)  
Download: <http://bit.ly/ESAFSFBAnnualReport2018>



Registered Office

: Hepzibah Complex, Second Floor, No. X/109/M4,  
Mannuthy P.O., Thrissur, Kerala - 680651

Corporate Office

: ESAF Bhavan, Mannuthy P.O., Thrissur, Kerala - 680 651

CIN

: U65990KL2016PLC045669

RBI Registration Number

: MUM 124

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## Board of Directors

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



**Mr. K. Paul Thomas**  
Managing Director &  
Chief Executive Officer\*



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



**Mr. George Joseph**  
Independent Director



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



**Mr. Saneesh Singh**  
Non Executive Director



**Mrs. Asha Morley**  
Independent Director



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



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## Agencies, Auditors & Consultants

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### System Integrator



### Statutory Auditors



### Secretarial Auditors



### Consultants - Branding & Communications



### Consultant - PR



### Consultant



### RTA



### Advisers - IFC



### Advisers - Capital Raising



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## Business Correspondents

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## Executive Vice Presidents

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**Mr. A. G. Varughese**



**Mr. George Thomas\***



**Mr. Ajit K. Choudhary**



**Mr. George K. John^**

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## Senior Management Team

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**Mr. Murali N. A.**

Head-Treasury



**Mr. Mohanachandran K. R.**

Chief Risk Officer



**Mr. Padmakumar K.**

Chief Financial Officer



**Mr. Swaminathan K.**

Head-Retail Liability



**Mr. Bosco Joseph**

Head-Administration, Infrastructure & Procurement



**Mr. Sabu Thomas**

Head-Marketing



**Mr. Paul Joy Palocaren**

Head-Retail Assets



**Mr. Raju Antony**

Head-IT



**Mr. Mathews M.**

Chief Compliance Officer



**Mr. Dominic Joseph**

Head-Vigilance



**Dr. Jose A. V.**

Head-HR & Training



**Mr. Narayanan Kutty M.**

Head-Internal Audit



**Mr. Reji Daniel**

Head-Sustainable Banking



**Mr. Jaleesh Peter**

Head-Corporate Communications



**Mr. Abiesh Jose**

Head-Customer Service Quality



**Mr. Ranjith Raj P.**

Company Secretary



## The Joy of Transformation



“

Our long term strategy is to build the Bank as 'a one stop' financial supermarket for the masses.

**Shri. Prabha Raveendranathan**

Chairman



Dear Shareholders,

On behalf of the Board of Directors, I have great pleasure in placing before you the second Annual Report of the Bank, which gives highlights of your bank's performance during the first full year of working. Last year I had shared with you my optimism about the Bank. The results stated in the Annual Report vindicates my stand and give you a graphic account of the Bank's performance.

It has been an exhilarating journey for the Bank. On many occasions we had to find our own way as there were no beaten tracks to follow. The Bank's working results for the year is spectacular in every sense, coming at a time when banking industry in the country is facing serious and extra ordinary challenges on multiple fronts. For the fine results, I would like to thank the committed employees of ESAF SFB, under the visionary Leader and Managing Director, Mr. K. Paul Thomas and his Senior Management Team. I also place on record my appreciation and thanks for the guidance and help provided by the Reserve Bank of India, Other Regulators, the Central and State Governments and the Local Self Governments. I acknowledge and thank the Customers and our Shareholders for their co-operation, support and above all their understanding and expect their continued patronage.

The Bank is still in a transformative stage. The strategic initiatives it has taken to introduce door step banking with the support of technology will help the Bank to emerge as a common man's bank. The emphasis on customer acquisition and various initiatives in financial inclusion space it proposes for 2018-'19, would place the Bank as one among the top among all the Small Finance Banks in the country. Our long term strategy is to build the Bank as 'a one stop' financial supermarket for the masses. We believe there are enough opportunities at the bottom of the pyramid for the Bank to excel.

I am privileged to preside over an enlightened Board, which believes in creating a transparent, ethical and a compliant Organization. The policies it framed have helped the Bank to steer a righteous course. The focus on governance enabled the Bank to adopt global best practices. This should eventually enable the Bank to join the group of best governed Banks in the country.

The Bank today is in the threshold of a great leap forward. I trust and hope that the Bank's future is quite bright as millions of its customers rely on it to turn around their life. In our fascinating journey forward, I seek active support from one and all.

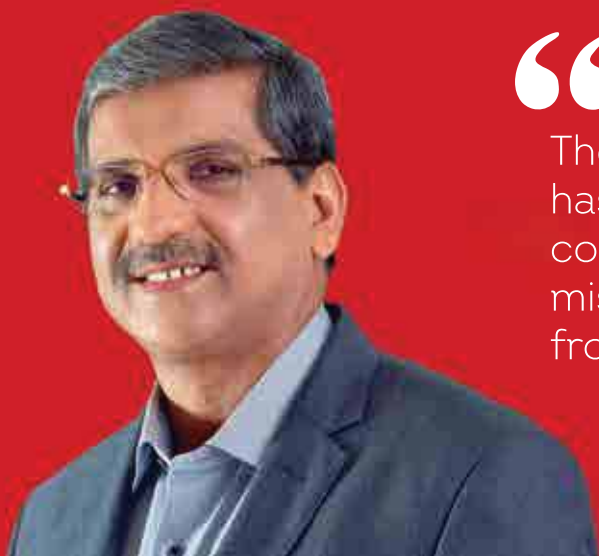
**Prabha Raveendranathan**

Chairman





The joy of fighting the  
partiality of prosperity



“

The journey of building a bank  
has just begun and we will  
continue to pursue our  
mission by building the nation  
from its roots.

**Shri. K. Paul Thomas**

Promoter & Non-Executive Director

Dear Shareholders,

As we complete first year of full fledged operations as a bank, it gives me immense satisfaction to present before you some outstanding achievements, attained through sheer hard work and commitment. Primarily I have to thank upfront the employees who have delivered, what was expected of them. Also, I would like to thank all the shareholders for the trust, support, and patronage extended to the organization, which is now regarded as a force to reckon with, in the banking space.

While the Global economy hardly returned to normalcy in FY 2017-18, the Indian economy consolidated the gains achieved. Also, it is applaudable that the Government of India has continued its reform agenda with focused initiatives like Digital India and improving the ease of doing business. GST implemented in 2017 has been one of the biggest structural economic reforms. Along with demonetization and digitization efforts, GST may help in the formalization of the economy. Hopefully, these policy measures will reiterate India's position in leading the global economy.

The banking landscape in India has evolved enormously over the last few years, although the fiscal year 2018 gave a mixed response in terms of growth. The introduction of Small Finance Banks and Payment Banks in addition to private, public and co-operative banks have made positive impact on the society and the economy. To priority sectors like MSMEs and Agriculture, Small Value Credits, Small Finance Banks proved to be the core facilitator apart from Co-operative Banks. The recent Government policy initiatives like 'Skill India' and 'Make in India' have also been aimed at strengthening the SME sector. Further, SFBs have also played a key role in extending the Government's social benefit schemes and driving the financial inclusion agenda.

From 60,000 in 1991, the branch network of all Scheduled Commercial Banks in India has more than doubled to 138,000 in 2017. Also total bank credit and deposits have grown nearly 70 times and 55 times, respectively, despite asset quality problems and issues of incidence of frauds. However, the RBI has issued guidelines at the appropriate time, ensuring that the systems, business practices, operational processes and risk management for the sector are robust and safe and is making sure that the inclusive agenda is taking forward to the next level.

I am very proud to say that we could transform more than 20 lakh families and businesses so far and our contributions have resulted in a deeper impact beyond the economic growth of the nation. What I am referring to is the impact we have created through the unquantifiable soft sides of our contributions, rooted in the value of servant leadership. I always believe that the right to lead has to be earned everyday by exemplifying the values we uphold. Fighting the partiality of

Fighting the partiality of prosperity and bringing in the financial peace is a passion and discipline for us.



prosperity and bringing in the financial peace is a passion and discipline for us. The journey of building a bank has just begun and we will continue to pursue our mission by building the nation from its roots.

When it comes to the financial performance of ESAF Small Finance Bank, I would say that we had a challenging but satisfying year. Our focus on SME and micro loans and the bank at the doorstep approach proved to be the crucial differentiators. We have strengthened our Risk Management practices and are all set to launch the corporate banking vertical, which will surely increase the volume of transactions.

We have registered a CASA ratio of 10% and have strengthened our distribution by opening 104 branches as on March 31, 2018. In total, we have mobilised deposits worth ₹ 25230 mn as on March 31, 2018. As employee productivity can be improved through automation, we have relied on smaller branch formats. We will continue to invest in branch network as we rely on branches for deposit mobilisation, customer acquisition and rendering localised services. Although our retail loan book doesn't have significant diversification in portfolio mix, it is growing by targeting niche segments. We still believe that there is considerable growth potential in the secured loan segment. With a significant micro banking client base, we don't expect a big challenge in the growth of the unsecured loan segment.

Thanks to the 'Digital India' initiatives of the Government, we have registered online transactions, covering both internet and mobile banking, worth ₹ 348 mn.

With significant growth in small value loans and low cost deposits, the bank registered revenue of ₹ 6987 mn as on March 31, 2018. With lack of pressure on asset quality front, the bank displays a strong balance sheet with capital adequacy ratio of 16.92%. On the lending side, we have registered total lending of ₹ 46189 mn during the last year.

Digital payments and online consumption of our services are also growing, thanks to the 'Digital India' initiatives of the Government. We are well aware that we need to ride on the digital infrastructure, in order to aid sustainable and inclusive growth. In the year 2017-18, we have registered online transactions, covering both internet and mobile banking, worth ₹ 348 mn. We have already developed plans to launch our PoS network, which will help in meaningfully execute the idea of less cash economy, perceived by the Government.

The success of ESAF SFB lies in the progress of the communities and going forward this approach will never be diluted. We have been relentlessly working to help provide sustainable livelihoods and create value for the communities through educational and integrated skill development programs.

I am really fortunate to be promoter of this great Organization. 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.

At this hour, I would once again like to thank all the esteemed shareholders, directors, employees, consultants, sangam members and other stakeholders for actively contributing to the future of ESAF Small Finance Bank. I have given it my best and will continue to do so. I have been rewarded by the support and association of all our internal and external associates. I look forward to your continued support and guidance, as we march ahead to fulfil our vision. Let's excel in the joy of fighting the partiality of prosperity.

Thanking you,

**K. Paul Thomas**

Promoter & Non-Executive Director





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Delivering the joy  
of banking



In the rapidly changing scenario of banking, we are attuned to understand the environment so that we can respond effectively. We are a differentiated bank who understands both the worlds of micro banking and retail banking by travelling seamlessly and striving to deliver our brand promise joy of banking.

**Regulatory guidelines:** ESAF SFB has always been highly compliant and is following the path shown by the Regulator at all times. The strength and stability comes from adopting the regulatory guidelines in letter and spirit. We have a policy of zero tolerance to non-compliances.

**Digitalisation:** In the world of micro banking, transaction cost can be lowered if and only if digitalization is adopted. Ease of doing business is achieved by digitizing the process to a major extent.

**Sustainable business:** We live in a world wherein society is increasingly committed to the values of sustainable development. It is just not profit for us but we are planet and people centric. We have the sense of behaving responsibly in the areas of human rights, development of employees, customers, renewable energy, paper-less etc.

**Customer service:** The pinnacle of customer service can be achieved by better understanding of the customer. Loyal customers cost less to the bank and in the world of data analytics, customer service can be delivered through the most favourite channels of customer's choice.

## The Strategy of ESAF SFB

The bank can make a meaningful contribution to the unserved and underserved strata of the society through its existing relationships, products and services and ESAF SFB wants to be a leader in social banking with an eye on the economic viability of providing a whole host of banking services, serving the entire spectrum of bankable and to be banked population.

The co-existence of brick and mortar outlets, business correspondents, ATM and alternate digital channels will make all product and services available for the whole segment of customers, irrespective of their income strata. We will invest in technology by making banking services available for all, safeguarding the interests of the gullible first time customers.

ESAF Small Finance Bank will aim to grow secured lending portfolio while we continue to keep the unsecured lending portfolio ticking by making products available for all segments. Sectors like MSME, Education and Housing will be the top priorities of the bank. Agricultural lending,

small ticket loans and priority loans and advances will enjoy the lion's share of the portfolio.

A strategic five-year plan has been worked out, which will cover all the various strategy pointers for socio economic success of the bank. Retail banking and micro banking are the basic pillars under which the products and services are offered to engage with the customers.

New roads are laid in the banking industry where we just not promise new generation or old generation banking but an alternate banking where socio economic goals are achieved and yet sustainable in all the metrics that are normally taken for measurement. The bank will strongly put forth the triple bottom-line agenda of Profit, Planet and People in all its functions with utmost sincerity for making a meaningful contribution to the society. We mean sustainable and responsible banking under triple bottom-line approach now and in all the days to come.

## 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 2018
Total Assets (₹)	4,724.13
Total Advances (₹)	3,155.09
Total Deposits (₹)	2,523.09
CRAR	16.92%

## Products

Accounts	Deposits	Loans
Regular Savings Account	Regular Fixed Deposit	Income Generation Loan
Premium Savings Account	NRE/NRO Fixed Deposit	Micro Housing Loan
Pradhan Mantri Jan Dhan Yojana	Hrudaya Deposit	Consumption Loan
Senior Citizen Savings Account	Regular Recurring Deposit	Green Energy Loan
Mahila Savings Account	Flexy Recurring Deposit	Business Loan
Student Savings Account		Loan Against Property
Current Account		Personal Loan
NRE/NRO Account	Micro RD	Gold Loan
		Vehicle Loan
		Housing Loan



## 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) that act as customer touch points:

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

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

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

**Ultra Small Branches:** Bank will continue to leverage its existing MFI branches (now termed as 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 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 healthy 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 2018, ESAF has 104 Retail Branches, 297

Ultra Small Branches in 93 districts across ten states in India viz. Chhattisgarh, Jharkhand, Karnataka, Kerala, Madhya Pradesh, West Bengal, Maharashtra, Bihar, Tamil Nadu and Puducherry and Administrative office of ESAF SFB. 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 Hyderabad, Ahmedabad, Vijayawada, Chennai, Kolkata 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, etc.

Your bank will focus on leveraging technology to deliver best-in-class services to our retail customers across categories. Through personalised, accessible, safer and spontaneous services, we want to deliver our brand promise – joy of banking. For that to be possible, Your Company will be ready with products and services that meet the 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 Bank 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 2018, we have 993 employees for the banking activities.

## The Joy of Sustainable Banking

“Development that meets the needs of the present without compromising the ability of future generations to meet their own needs”

The World Commission on Environment and Development (Bruntland Commission)

Over the last 26 years, the legacy of ESAF has been enriched through hand-holding the communities and transforming them from poverty to prosperity.

The Sustainable Banking Department at ESAF is the custodian of the triple bottom line approach propounded by the Organization. The department integrates its focus on People, Planet and Profit as products and services are designed and developed against measureable outcomes for social, environmental and financial returns, without compromising one over the other.

### 1. Joyfully Growing- Hrudaya Deposits

As the name suggests, Hrudaya deposits innovated by ESAF stand for a cause, the cause of fighting the partiality of prosperity. Through this, we invite socially responsible citizens to join us in initiating social transformation. During 2017-18, we have opened 104 branches and have raised a total of Rupees 135 mn as Hrudaya Deposits. In total, 3956 low income customers enjoyed the benefits, so far.



Beyond serving our customers with excellent banking products, it is a joy for us to see their lives transforming



**3956**

No of Hrudaya beneficiaries



**1.3**

₹1.3 Billion disbursed under Hrudaya Scheme



**2367**

Vidya Jyoti - Educational loans



**1387**

Microenterprises Supported



**172**

Home Improvement Loans



**30**

Nirmal Jeevadhara - Toilet Construction Loans

to better standards. It was possible through various asset products likes Income Generation Loan, Education Loan, Clean Energy Loan, Water and Sanitation Loan, Home Improvement Loan etc.



*A Beneficiary of Vidya Jyothi Loan*

**The joy that grows Little by little.**

**MICRO RDs-MEGA ASSETS**

**The Micro Recurring Deposits for Low income families**



*A Beneficiary of Micro Enterprises Loan*

The Micro Recurring Deposits is innovated to inculcate saving habits among the much vulnerable low income families. The Micro RD product is providing an opportunity for low income families to save little by little (weekly



recurring pattern) so that the money gets accumulated over a period of time.

## 2. Joyfully presenting ESAF SFB Environmental Policy

The ESAF SFB Board has adopted the Environmental Policy in August 2017, re affirming the group commitment to a positive environmental impact and climate change.

ESAF SFB is committed to improve the environment and lower the carbon emission by developing and offering Banking products that contribute to Sustainable Development. This would substantially help the clients of ESAF SFB as well as the community at large as it protects them from illness, environmental degradation, climate change, poverty, social exclusion and marginalisation.

### ESAF SFB ENVIRONMENTAL POLICY

**ESAF SMALL FINANCE BANK is committed to:**

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

### The joy of growing with Green Assets- Our Clean Energy Loans

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

Our focus will be on handholding MSMEs in the areas of Renewable Energy, Agri, Food Processing, Eco-friendly Products etc.

Our customers have opted for micro banking loans to buy solar and green products that will equip them to progress with rural electrification and contribute to environmental safety.

As we uphold the triple bottom line approach, we would continue our journey of making the bank a hub for those seeking financial services for green businesses that

promote environmental stewardship.

### World Environment Day 2017

As an awareness campaign, the World Environmental Day 2017 was observed enthusiastically by our banking outlets on 5th June 2017 promoting the United Nations theme 'Connecting People to Nature'.



*As part of World Environment Day, Prof. Muhammed Yunus, Nobel laureate planting a tree sapling near Head Office, Thrissur*

### 3. The joy of promoting Sustainable Livelihoods

The bank is committed to promote MSMEs that come up with solutions related to sustainable livelihoods for low income families.



*Mr. Mukesh Kumar, Deputy Commissioner, Dumka along with Mr. K. Paul Thomas during a production centre visit*

Focus on Agri Sector- and nurturing of FPCs. The bank has facilitated a number of initiatives to boost the Agri Sector.

Focus on Livelihood Sector Development: Livelihood development is being stimulated by promoting local economic eco-systems. This is possible through skill development for producing products developed using locally available raw materials.

### 4. Joyfully enhancing Social Performance

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





### The Senior Citizen's Week

The week was observed by most of our banking outlets as several hundreds of our senior citizens got an opportunity to get together and socialize. The opportunity was utilized to educate the participants on latest financial products and caution them on the importance of precautions and protections needed in financial dealings.



*Senior citizens along with the branch staff posing for a photograph in Thrissur*

### The Balajyothi- Children's Week

Under the Balajyothi initiative, lectures were conducted at schools around selected branches. The program titled 'Money, Me and my Bank', extended financial education to



*A scene from a Balajyothi lecture*

more than 24,000 children. 2,516 children participated in Essay competition while 7,444 children participated in the Drawing Competition.

**Balajyothi Accounts:** Several hundreds of children opened Balajyothi Accounts and they were given 'Savings Box' inscribed with the words ESAF SFB- My First Bank.

### Nightingale Accounts: Reaching out to the Nurses

In appreciation to their self-less service, ESAF SFB has innovated a special product for Nurses - ESAF SFB NIGHTIGALE Accounts

**Social Performance Dash Board:** The quarterly matrix for 2017-18 Dash Board shows a gradual positive upward movement and transformation when it comes to reaching



*K. Paul Thomas releasing the Nightingale Debit Card*

out to meeting the social targets.

### 5. The joy of committing to Corporate Social Responsibility

The ESAF-SFB Board has adopted the CSR Policy, in March 2017, paving way for further deeper focus on Triple Bottom Line.

#### ESAF SFB CSR POLICY

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

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





Joyful stories of  
transformation

**Hinganghat, Maharashtra**

## A stitch in time saves Charulata

Charulata Rajesh (40) is a long-time ESAF member and is a shining example of an entrepreneur who has succeeded through hard work & business instinct. Also she had managed to gain access to capital, when it mattered. She lives in a simple home in the village of Hinganghat, Maharashtra.



Untimely demise of her husband in 2011, left her with the burden of looking after her two children, including a three-year old son. Until her husband's death, the whole family was dependent on the meager income earned by him. After his death, a jobless Charulatha was literally left in the lurch. "I could not even pay for my child's fees or meal. On many occasions, we had gone to bed with empty stomachs", said the mother of two.

After ten days of her husband's death she had decided to do something of her own. In the beginning she made the mistake of approaching local money lenders for capital to start a bag stitching unit. "I had no other option than to approach the money lenders, as I wanted to buy sewing machine and other raw materials. Also as a mother, it was

tough for me to send my kid to my elder sister's house, as I didn't have money to meet his needs" she added.

During this time, she happened to know about ESAF through her friends and became a member of CHARU – Self Help Group. Soon after joining ESAF, she took an Income Generation Loan of ₹35000/-, to buy raw materials for bag stitching and fancy wallet making. "The support from ESAF was critical, as it came at the right time" she continued.

The decision to start Mohini Bag House at her home with two sewing machines proved to be a hit as there was high demand for quality products. She adopted Door to Door marketing strategy and word-of-mouth from neighbors and friends helped her found market for her products. No wonder, her income growth accelerated to ₹7000 – ₹9000 monthly and on peak season she earned up to ₹1500 – ₹2000 per day. To remain socially relevant, she works as a trainer with a local NGO.

She has now learnt to save profit and has plans to set up a registered business unit. She dreams of becoming a job provider to other women from the village, within a couple of years. "I want to bring changes in the lives of others and I wish to make them independent". "she said.

Her smiling children, Ashutosh, now in Jr. College, and daughter Mohini, studying in 10th std., support all her business endeavors. "I want my children to study and win a job but also I want to see them as entrepreneurs at a later stage" she says.

"Earlier, it was not easy for me to pay the school fees of children and run the family. Today they wear fashionable attires, eat healthy food, and study in reputed schools. My life has changed a lot because of ESAF" she concluded.

Charulata is hopeful that with the support of ESAF, she will be able to expand her business further.



**Thrissur, Kerala**

## Joy of building young entrepreneurs

Shyju hails from the village of Mailippadam, Thrissur. He owns a retail shop, inherited from his father, which sells grocery, bakery, vegetables and stationery items. The shop named "Rohini Stores" was started by his father in the mid-1980s. Shyju has been running the business for

the last five years, but two years back he started thinking seriously on expanding his business.

The business was slowly picking up as it started adding more loyal customers. He realized that the inventory and SKUs available were not enough to meet the rising demand. Soon he has decided to take a loan from external sources. He was initially reluctant to go for loans, but the success of his friends made him think different. He realized that achieving his business dreams could be



possible only through funding from a trustworthy source.

At first he approached Public Sector Banks and later New Generation Banks and was invariably caught up in innumerable documentation and follow-ups. For Shyju, the process was extremely time consuming. He later approached ESAF Small Finance Bank as referred by one of his friends.



"With ESAF the process was hassle free, thanks to the customer centric approach of the Organization" he says. "The help from ESAF came at the nick of time", he added.

The entire process lasted only two weeks and he received the loan soon after.

In order to expand his business, Shyju availed a loan of ₹8,00,000 in the beginning. He has ably utilized the fund to multiply his inventory and is able to attract more new customers. He also used the money to purchase supplies from wholesalers to save costs. He then finished the floor and terrace works and built rooms (to be given for rent) on top of the shop for workers.

His business is now growing steadily and is becoming more profitable. Shyju's wide assortment of high-quality products at affordable prices has helped him establish steady and loyal customer base, who are willing to recommend his shops to others.

Today he earns an average amount of ₹3000 per day from his grocery cum bakery apart from an additional rental income of ₹25,000. "With ESAF the turnaround time for loans are very less and I look forward to associate with them for a longer period".



## Nagpur, Maharashtra

# Joy to the earth and joy to the homes

### Journey from pedal rickshaw to e-auto

Sunanda (45) lives in a small house in Nagpur, Maharashtra, with her husband and three children. Being a rickshaw puller her husband used to carry heavy loads for a meager income of ₹300 - ₹400 per day. "For a family having five members that kind of income could barely meet the needs" said Sunanda in a hushed tone.



As rickshaw pulling is a physically demanding job, her husband has the propensity to fall ill very often. He is forced to skip some days due to physical ailments and this badly affected their income. After a long tiring day, he is literally bereft of strength. No wonder, Sunanda and her two sons supported him by going for daily labor jobs.

"Fortunately for us, ESAF Small Finance Bank has launched Kinetic E- Auto (E-rickshaw) in our area in March 2018". She continued. After knowing about the product, Sunanda and her husband didn't take much time to purchase the E-rickshaw. In a weekly re-payment pattern, ESAF team has helped her complete the loan procedures for an amount of ₹2 lakh. The change that Kinetic's Electric -Auto brought to her life was quite evident. The family now earns ₹800 - ₹900 per day. "I am no longer worried about the health of my husband and increase in fuel prices will not affect us. Hence we are planning to finish construction of our house soon" she said confidently.

"I learnt from ESAF that E-autos are good for environment. Glad to contribute to make the world a better planet and my husband no more complaints about body pain" she concluded.





# KEY INDICATORS

₹ in Million

Net Worth

3,433.48



PAT

269.95



Total Deposits

25,230.92



Capital Adequacy Ratio (%)

16.87



Interest Income

5,968.39



Total Income

6,986.99



# GEOGRAPHICAL REACH





The Joy of  
Compliance

The formation of Small Finance Banks gave an immense boost to the financial inclusion agenda of the Central and State Governments. Being a Small Finance Bank, which is expected to deliver differentiated banking, we are trying to find a niche market to succeed in our endeavour to serve the unserved and the underserved population at affordable cost by providing technology enabled services at their door steps.

The Board of Directors of your Bank has approved a Compliance Policy, with an objective to embed compliance in every office of the Bank and to develop a corporate culture that emphasizes on honesty, integrity and Corporate Governance. Compliance is viewed as an integral part of the business and we ensure that all the members of our team give due importance to the rules, regulations, codes and fair practices while doing business. The Board of Directors oversees the management of Compliance in the Bank and implementation of the Compliance framework across the Bank. The Bank has appointed a Chief Compliance Officer, a former banker, for supervising the Compliance function in the Bank. He is assisted by the Compliance team including compliance representatives at the branches. The Compliance Department acts as a nodal point of contact between the Bank and the RBI/other regulators.

To ensure the independence of the Compliance unit, Chief Compliance Officer reports to the Audit Committee of the Board so that he may report/ disclose/interact directly with the Board and Senior Management. Monthly reports on Compliance are placed before the MD & CEO and quarterly reports are submitted to the Audit Committee of the Board.

Compliance is a regular topic in every training program conducted for our Employees at the time of induction. We also conduct regular training programs to our Officials on Compliance, with the support of external/internal faculties. The intention is to emphasize and reiterate the importance of complying with rules and regulations. Regular interactions and discourses by the Supervisory officials from HO emphasize the need of cultivating compliance as a culture in the Bank.

ESAF Small Finance Bank recognises compliance as an enabler rather than an impediment in achieving our goals. As an institution which upholds values and ethics in our business, ESAF Small Finance Bank maintains the stand that we will have zero tolerance on non-compliance.



Joyfully Building  
Risk Management  
Architecture

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

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

1. Assessment of risks in business: Identification and recognition of various risks, relating to risk-origination and continuance of business, are carried out by the respective business functions, to ensure that adequate processes are implemented to identify, measure, monitor, report and mitigate the financial and non-financial risks.
2. Empowerment of the Risk Management function: Risk Managers have the requisite levels of expertise and independence, and it is ensured that the functional members are empowered to take required decisions for managing risks. An escalation matrix is laid down and referred to, when need arises.
3. Accountability: The framework ensures that the responsibilities of the business units in terms of the processes handled are clearly defined; this in turn ensures proper accountability and responsibility.

**Risk Management architecture in the Bank**

The three levels of Risk Management structure that are in place are –

- (1) The Business Units themselves managing the risks emanating from various business activities of the Bank, on the presumption that risk management is embedded in the business systems, plans and activities.
- (2) The Risk Management Department identifying, measuring, monitoring and managing the risks with the active involvement and participation of all the business units and other controlling functions.
- (3) The Internal Audit functions cross verifying the risk management activities and results thereof through various systems of audits and inspections, pointing out deficiencies and shortfalls, if any, for rectification and management.

Risk Management Department is headed by the Chief Risk Officer, who is independent of all business and other functions, and reporting directly to the Managing Director & CEO, with parallel reporting to the Board of Directors

through the Risk Management Committee of the Board. The Risk Management Department has Five Divisions attached to it – Credit Risk, Market Risk, Operational Risk, AML and Transaction Monitoring and Information Security Risk divisions for undertaking risk management functions. Heads of the Credit Risk, Market Risk, Operational Risk and AML and Transaction Monitoring Divisions report to the Chief Risk Officer (CRO). The Chief Information Security Officer, who heads the Information Security Division also reports to the Chief Risk Officer.

While the Board of Directors is responsible for overall governance and oversight of core risk management activities, execution responsibility is entrusted to the Risk Management Committee of the Board (RMCB) and further sub-delegated to the executive level Credit Risk Management Committee (CRMC) for managing credit risk, Operational Risk Management Committee (ORMC) for managing operational risk and the Asset Liability Management Committee (ALCO) for managing market risk.

The RMCB approves and recommends to the Board the policies, strategies and associated frameworks for management of risk, for its review and approval. The Board has delegated authority to the RMCB for oversight and review of the processes and practices of risk management in the Bank. It ensures appropriate risk organisation structure with adequate staffing, authority & responsibility clearly defined and by protecting the independence of Risk Management function.

The RMCB is supported by the executive level Risk Management Committees, CRMC, ORMC, and ALCO in managing risks in their respective areas.

**Credit Risk Management**

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

Credit Risk Management is the direct responsibility of the Credit Risk Management Committee (CRMC). The CRMC manages implementation of credit risk management framework across the Bank and provides recommendations to the RMCB and the Board. It ensures implementation of credit risk policy and procedures, as approved by RMCB and the Board, across the Bank and recommend changes thereto, considering any changes in the regulatory instructions, business or economic conditions. It also monitors quality of loan portfolio at periodic intervals, identifies problem areas and instructs



business units with directions to rectify the deficiencies.

The Credit Risk Division of Risk Management Department, which is supported by all the business units, is entrusted with the responsibility of implementing processes for credit risk identification, assessment, measurement, monitoring and control. Credit risk appetite statements are drawn up with inputs from the business units and the credit risk parameters and credit exposure / concentration limits set by the Bank's Board of Directors / RMCB and RBI. The Division constructs credit risk identification systems, monitors quality of the bank's loan portfolio, identifies problem credits and undertakes asset quality reviews with support from the business units. The Division captures early warning signals in the loan portfolio for identification of weak exposures, suggests remedial measures and monitors the actions taken.

### Market Risk Management

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

The major components of market risk include:

1. Interest rate risk: The potential loss due to movements in interest rates.
2. Liquidity risk: The potential loss due to the bank's inability to meet obligations as they fall due, or to fund increases in assets, without incurring unacceptable cost or losses.
3. Equity risk: The potential loss due to an adverse change in the stock price.
4. Foreign exchange risk: The potential loss due to change in value of the bank's assets and liabilities resulting from exchange rate fluctuations.
5. Commodity risk: The potential loss due to an adverse change in commodity prices.

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

Office prepares and analyses daily reports on various activities of the Bank's Treasury. The Mid Office, which is responsible for the critical functions of independent market risk monitoring, measurement and analysis, reports to the Bank's Chief Risk Officer through the Head of Market Risk Division.

The market risk management/ALM function of the Bank is handled by the Asset Liability Management Committee (ALCO), the executive level committee, headed by the Managing Director & CEO.

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

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

### Operational Risk Management

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

While Operational Risk Management is the responsibility of various functions and business units handling operational activities, it is overseen by the Operational Risk Management Committee (ORMC).

The principal objective of the ORMC is mitigation of operational risk within the institution by creation and maintenance of an explicit operational risk management process. It conducts detailed reviews of operational risk exposures across the Bank and focuses on all operational risk issues.

The ORMC reviews the risk profile to take into cognizance future changes and threats, and concurs on areas of highest priority and related mitigation strategy with the different departments and business units. The committee ensures that adequate resources are being assigned





to mitigate risks as needed, and communicates to business areas and staff, the importance of operational risk management to ensure adequate participation and cooperation.

The Operational Risk Management Committee also functions as the Business Continuity Management (BCM) Committee, which is responsible for implementation of the Business Continuity Management process and procedures across the Bank.

Operational Risk management, Business Continuity Management and coordination of relevant activities are the responsibility of the Operational Risk Division. The Division is responsible for coordinating all the Operational Risk Management and Business Continuity planning activities of the Bank, to facilitate achievement of the stated goals and objectives. Activities include building up an understanding of the risk profile, implementing tools related to Operational Risk Management, and working towards the goals of improved controls and lower risk.

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

### **Information Security Risk Management**

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

Oversight of Information Security Governance for the Bank is the responsibility of the Information Security Governance Committee (ISGC). The ISGC is a management level committee headed by the Managing Director & CEO. ISGC is the central representative body of senior management from different business functions to provide clear direction and support for Information Security Risk Management initiatives in the Bank.

The ISGC monitors, reviews, directs and manages the

Bank's Information Security Risk Management System by establishing a robust Information Security Risk Management framework within the Bank. This Committee acts as apex committee for handling Information Security risk related initiatives in the Bank, and reports to the Board of Directors through the IT Strategy Committee of the Board and keeps the Board apprised of relevant risks that needs attention.

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

Anti-Money Laundering (AML) initiatives have evolved to be one of the major focus areas for financial institutions, with the widespread prevalence of financial crimes and malpractices. The regulatory controls and compliance requirements in place and the objective of ensuring that the Bank's customer base excludes persons attempting money laundering and other financial crimes, have placed prime importance on the AML programme of the Bank. In view of the increasing importance of this function, the Bank has attached its AML and Transaction Monitoring Division to Risk Management Department.

The AML and Transaction Monitoring division of the Risk Management Department functions with focus on the following aspects:

- Risk categorisation of customers at the time of account opening, and transaction monitoring measures that commensurate with the risk categorisation of the customers.
- Maintenance of a compliance culture across the organization ensuring that all employees starting from branch staff, understand money laundering risks and the consequences of breaches of the AML norms.
- Effective implementation of the KYC/AML Policy of the Bank ensuring that the Bank is not put to use for money laundering or terrorist financing activities
- Development and maintenance of a comprehensive AML/ Combating Financing of Terrorism (CFT) programme in line with the regulatory requirements covering systems and controls, training of staff and management oversight and ensure its effective implementation.
- Reporting on cash transactions above the limits specified, transaction involving receipts by non-profit organizations and transactions involving the use of forged or counterfeit currency notes, to the Director, Financial Intelligence Unit- India.



- Monitoring of transactions with the intention of identifying and preventing frauds and malpractices, using fraud monitoring systems.

### **Business Continuity Planning**

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

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

The Bank addresses the need through Business Continuity Management Systems that include the

Business Continuity and Disaster Management Plans and Processes.

A Central Crisis Management Team (CCMT) that functions for the Bank as a whole, manages the occurrence of business disruptions. The CCMT has the responsibility and authority for swift remedial action in case of any breakdown/ failure of critical systems, occurrence of natural disasters/ accidents or any other events affecting business continuity.

### **Risk Management for protecting interests of stakeholders**

The ESAF SFB articulates its business strategy and conducts operations within a structured Risk Management framework. The focus is on active management of all financial and nonfinancial risks faced by the Bank. The Bank endeavours to establish itself as a professional organisation in management of risks, with an ultimate goal of protecting the interests of all its stakeholders, including the shareholders, customers, investors, employees and all others who directly and indirectly deal with the Bank.

The focus and efforts of the Bank in identifying, measuring, monitoring, managing and mitigating risks, and in exercising control on the business and socio-economic environment in which it operates, to the required extent, ensure that all its stakeholders are protected from any undesirable events, outcomes, sufferings and losses, in the best manner possible. The Bank uses an Enterprise-wide Risk Management software solution for management of Credit, Market and Operational Risks.



# PFRDA PICKS ESAF FOR ATAL PENSION YOJANA

Atal  
Pension  
Yojana



Shri. P. J. Kurien, Hon'ble Deputy Chairman, Rajyasabha launching the Scheme. Also seen is Shri. K. Paul Thomas, MD & CEO, ESAF Small Finance Bank

# ESAF SFB LAUNCHES AGENT BANKING PROGRAMME



Shri. P. J. Kurien, Hon'ble Deputy Chairman, Rajyasabha launching Agent Banking Programme. Also seen is Shri. K. Paul Thomas, MD & CEO, ESAF Small Finance Bank



Disseminating  
Joy through  
Customer Service

As a socially committed and customer centric organization, ESAF Small Finance Bank always give emphasis on customer delight through unique and excellent customer service. The customer service department is committed to meet customer requirements before and after executing their needs.

**The pillars upon which we built the principles of Customer Service are:**

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

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

**Customer Grievance Redressal Framework:**

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

We have a 24x7 dedicated Contact Centre that immediately attends queries of the customer. All the calls are recorded and being monitored to ensure that Quality Service is delivered to the customers. Constant trainings are provided to the team who handle the queries and complaints efficiently. Also, the Customer Service Quality Department has a dedicated team at Central Office to check and reply to all the emails received at [customercare@esafbank.com](mailto:customercare@esafbank.com). All the contact details of customer service are displayed in our website and in the notice

boards at the branches for the customers to take note. The CSQ department reviews the TAT and quality of the grievance redressal happening through various channels and provides necessary support and guidance for faster resolution of complaints.

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

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

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

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

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





## Notice of Annual General Meeting



Notice is hereby given that the Second Annual General Meeting of Shareholders of ESAF Small Finance Bank Ltd (the Bank) will be held on 28th September 2018 at the Corporate Office of the Bank at ESAF Bhavan, Mannuthy, Thrissur, Kerala at 10.00 AM to transact the following businesses.

### ORDINARY BUSINESS

1. To receive, consider and adopt the audited Balance Sheet as on 31<sup>st</sup> March 2018, the Profit and Loss account and Cash Flow for the year ended on that date together with the schedules and annexures thereto, the Reports of the Auditors' and Directors' thereon.

2. To re-appoint Mr. Saneesh Singh, Non Executive Director who retires by rotation this year, and being eligible, offered himself for re-appointment

3. To appoint statutory auditors and fix their remuneration.

"RESOLVED THAT pursuant to the applicable provisions of the Banking Regulation Act, 1949 and applicable provisions of the Companies Act 2013 read with the Companies (Audit and Auditors) Rules, 2014 including any statu-

tory modifications or enactments made there under, consent of the shareholders of the Bank be and is hereby accorded to appoint M/s. S R Batliboi & Associates, LLP, Chartered Accountants with Firm Registration number 101049W/E300004 as recommended by the Audit Committee as the Statutory Auditors of the Bank to hold office from the conclusion of this Annual General Meeting till the conclusion of 3rd Annual General Meeting.

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

By the order of the Board

Thrissur  
31.07.2018

Ranjith Raj P.  
Company Secretary

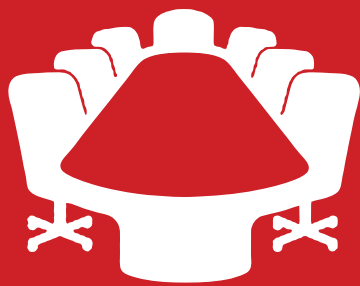
### NOTES

- A Member entitled to attend the meeting is entitled to appoint a proxy to attend and vote instead of himself and such proxy need not be a member of the Bank. The Proxy Form, to be effective shall be deposited at the Registered Office of the Bank 48 hours prior to the time fixed for the meeting.
- A person can act as proxy on behalf of members not exceeding fifty (50) and holding in the aggregate not more than ten percent of the total share capital of the Bank.
- Explanatory statement pursuant to section 102 of the Companies Act 2013 is attached herewith.
- All documents referred to in the Notice and the Explanatory Statement, and requiring Members' approval, and such statutory records and registers, as are required to be kept open for

inspection under the Companies Act, 2013, shall be available for inspection by the Members at the Registered Office of the Bank during business hours and shall be accessible to the person attending the meeting.

- Corporate members intending to send their authorized representatives to attend the meeting are requested to send to the Bank a certified copy of the Board resolution authorizing their representative to attend and vote on their behalf at the meeting.
- Route Map of the Bank as per Secretarial Standards-2 is annexed.
- Proxy form is enclosed herewith.





# Directors' Report

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

The Directors present their Second Annual Report together with the audited financial statements of your Bank for the year ended 31st March 2018.

## 1. Financial Highlights

(` in Crores)

Particulars	For the Year ended 31st March 2018 (`)	For the Year ended 31st March 2017* (`)
Deposits	<b>2,523.09</b>	<b>409.34</b>
Borrowings	<b>1,674.65</b>	<b>2052.84</b>
Loans & Advances	<b>3,155.08</b>	<b>1481.72</b>
Total Income	<b>698.69</b>	<b>48.20</b>
Total Expenditures	<b>671.70</b>	<b>47.44</b>
Net Profits	<b>27.00</b>	<b>0.75</b>
Appropriations	<b>27.56</b>	<b>-</b>
Statutory Reserve under Section 17 of the Banking Regulation Act, 1949	<b>6.74</b>	<b>0.19</b>
Surplus carried to Balance Sheet	<b>20.81</b>	<b>0.57</b>

\*The business operations was commenced on 10th March 2017

## 2. Dividend

During the year your Directors decided to retain the profits earned to serve the working capital requirements of the bank.

## 3. Capital Adequacy

The Capital Adequacy ratio stood at 16.92% as on March 31, 2018 as against the minimum requirement of 15.00% stipulated by the RBI.

## 4. Material changes after the Balance Sheet Date as on March 31, 2018

There have been no material changes and commitments between the end of FY 2017-18 and the date of this report, affecting the financial position of the Bank.

## 5. Share Capital

During the year the Bank has allotted Equity shares to Mr. Kadambelil Paul Thomas. The details of the aforementioned allotment are detailed in the table below:

Date of Allotment	No. of Equity Shares	Face Value Per Share	Premium on each Equity Share	Name of the Allottee
31.01.2018	1,03,82,352	`10/-	0.20	Mr. Kadambelil Paul Thomas

The Company during the year has also raised capital by way of issuance of the Tier II Basel III Compliant bonds. The details of the issuance of Tier II bonds are detailed in the table below:

Date of Allotment	No. of Shares/ Debentures Allotted	Face Value of each share	Coupon Rate	Tenure (in Years)	Nature of Allotment	Debenture Holder
29.09.2017	250	10,00,000	11% (Semi-Annual)	7	Private Placement	ESAF Swasraya Multi State Agro Co-operative Society Ltd
30.11.2017	200	10,00,000	11% (Quarterly)	7	Private Placement	ESAF Swasraya Multi State Agro Co-operative Society Ltd
30.12.2017	200	10,00,000	10.5% (Semi Annual)	7	Private Placement	The Federal Bank Ltd
28.03.2018	200	10,00,000	11.5% (Semi Annual)	7	Private Placement	The Federal Bank Ltd

The Company also raised funds through perpetual debentures in the form of Non-Convertible Debentures which are eligible for inclusion in Tier I Capital of the Bank. The details of the issue are as under:

27.06.2017	480	10,00,000	13% (Annual)	-	Private Placement	ESAF Swasraya Multi State Agro Co-operative Society Ltd
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## 6. 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.

## 7. Deposits

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

## 8. Meetings of the Board

The Board of Directors have met 10 times during the financial year 2017-18 on 26.05.2017, 27.06.2017, 17.08.2017, 27.09.2017, 01.11.2017, 29.11.2017, 30.12.2017, 06.02.2018, 27.03.2018 and 28.03.2018. The gap between any two Board Meetings did not exceed 120 days and the requisite quorum was present for all the Board Meetings during the year.

## 9. Directors

a) During the year Dr. Joseph Vadakkekara Antony (Dr. V. A. Joseph) was appointed as the Independent Director for a period of 3 years on the Board of Directors of the Bank with effect from 17.08.2017.

b) Mr. Saneesh Singh, Non-Executive Director of the Bank, will retire at the ensuing Annual General Meeting and being eligible, is proposed to be reappointed at the Meeting.

c) Mr. Kadambelil Paul Thomas was appointed as the Managing Director and CEO of the Bank on 10th March 2017 based on the approval from the Reserve Bank of India on 09th March 2017, subject to the condition that he shall divest his substantial interest in the holding company of the Bank within a period of one year. Since majority of shares constituting the substantial interest in the holding company is on account of sweat equity shares allotted to him in September 2015, which is under a lock in of three years from the allotment date, as per the Companies Act 2013, an application for extension of time for divestment of substantial interest, was submitted to RBI. Further, since RBI has informed that the extension was not available, he submitted resignation from the office of MD&CEO with effect from 02nd June 2018. He is continuing on the Board of Directors as a Non-Executive Director. Further, the Board has put in place an interim arrangement, a Committee of Directors named as 'Executive Committee of Directors' to oversee the operations and administration of the Bank in the absence of the MD and CEO with the following Directors

as members and the arrangement has been approved by the RBI.

a) Mr. Prabha Raveendranathan – Independent Director

b) Dr. VA Joseph – Independent Director

c) Mr. Assan Khan Akbar – Non-Executive Director

Mr. AG Varughese, Executive Vice President, of the Bank, who is the senior most Executive of the Bank is entrusted to look after the day-to-day affairs of the bank.

## 10. Declaration from Independent Directors

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

## 11. Evaluation of Board Performance

Your Board of Directors have framed a Performance Evaluation Policy for the evaluation of individual Directors, Committees and the Board of Directors as a whole. On the basis of the same, the performance evaluation was conducted on 22nd May 2018.

## 12. Key Managerial Personnel (KMP)

The KMPs of the Bank as at March 31, 2018 are as follows:

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

## 13. Overall Remuneration

Details of all elements of remuneration of all the Directors are given in the Corporate Governance Report. The Non-Executive 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.	The ratio of remuneration of each Director to median employee remuneration is as below: 55 times Other directors are not paid any remuneration other than sitting fee
MD & CEO	
Other Directors	

ii) The percentage increase in remuneration of each Director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year;	NIL
iii) The percentage increase in the median remuneration of employees in the financial year;	No increase during the year at the Bank
iv) The number of permanent employees on the rolls of the Company as on 31st March 2018	993
v) Average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial Remuneration	NIL
vi) Affirmation that the remuneration is as per the remuneration policy of the Company	The remuneration is as per the Remuneration Policy of the Bank.
<b>Statement showing</b>	
i) The name of every employee, other than MD and CEO, 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;	NIL
ii) If employed for a part of the financial year, was in receipt of remuneration for any part of that year, at a rate which, in the aggregate, was not less than eight lakh and fifty thousand rupees per month;	NIL
iii) If employed throughout the financial year or part thereof, was in receipt of remuneration in that year which, in the aggregate, or as the case may be, at a rate which, in the aggregate, is in excess of that drawn by the Managing Director or WholeTime Director or manager and holds by himself or along with his spouse and dependent children, not less than two percent of the equity shares of the Company	NIL

#### Details of Remuneration of Top Ten Employees

Sl. No.	Name of the Employee	Designation	CTC
1.	<b>Kadambelil Paul Thomas</b>	Managing Director & CEO	1,32,00,000
2.	<b>Ajit K Choudhary</b>	Executive Vice President	95,64,996
3.	<b>George Thomas</b>	Executive Vice President	69,40,416
4.	<b>A G Varughese</b>	Executive Vice President	49,99,992
5.	<b>Murali N A</b>	Head (Treasury)	47,00,004
6.	<b>George.K.John</b>	Executive Vice President	40,14,372
7.	<b>Paul Joy Palocaren</b>	Head (Retail Assets)	35,55,636
8.	<b>K Swaminathan</b>	Head (Retail Liabilities)	29,27,436
9.	<b>Bosco Joseph</b>	Head (Administration, Infrastructure and Procurement)	28,47,612
10.	<b>Padmakumar K.</b>	Chief Financial Officer	28,47,600

#### 14. Directors' Responsibility Statement

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

- In the preparation of the annual accounts for the year ended March 31, 2018, the applicable accounting standards had been followed along with proper explanation relating to material departures,
- 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 at March 31, 2018 and of the profit of the Bank for the year ended on that date,
- 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,
- Annual accounts have been prepared on a going concern basis,
- 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.

## 15. Statutory Auditors

In terms of Section 139 of Companies Act, 2013 M/s Batliboi and Co. LLP, Chartered Accountants were re-appointed as Statutory Auditors of the Company at the ensuing Annual General Meeting of the Company from the conclusion of the said meeting until the conclusion of the next Annual General Meeting of the Company.

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

No frauds were reported by the Auditors during the year.

## 17. 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. The Secretarial Audit report for the Financial Year 2017-18 is enclosed herewith.

## 18. 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.

## 19. Internal Financial Controls

The Board in its meeting dated 22nd May 2018, approved the Annual review of Internal Financial Controls laid down by the Management of the Bank, based upon the report presented by KPMG and upon the recommendations of the Audit Committee and confirmed that the internal financial controls are adequate and operating effectively.

## 20. Whistle Blower Policy/ Vigil Mechanism

The Bank has adopted a Whistle Blower Policy and Vigil Mechanism in compliance with the relevant provisions of the 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.

## 21. 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.

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

The details of transactions to be reported under Section 188 (1) of the Act in Form AOC-2 are appended in this report.

## 23. 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.

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

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

## 25. 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. The certificate by Company Secretary in Practice in form no. MGT-8 is enclosed separately.

## 26. Corporate Social Responsibility Activities

Your Bank has formulated a good Corporate Social Responsibility Policy.

As per Section 135 of Companies Act, 2013 every Company having net worth of `500 Crore or more, or turnover of `1000 Crore or more or a net profit of `5 Crore or more shall initiate Corporate Social Responsibility activities. The bank during the financial year has not initiated any CSR activities as it didn't cross the prescribed limit during the previous financial year.





**27.** The bank has taken necessary steps for implementing IND - AS in line with the regulatory directions

**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.

### **Acknowledgement**

The Directors are grateful to 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/-

Prabha Raveendranathan  
Chairman

31 July 2018  
Thrissur



**EXTRACT OF ANNUAL RETURN**

as on the financial year ended on 31st March 2018  
*[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 P.O., Thrissur, Kerala – 680651 PH: 048402373813
<b>Whether listed company</b>	No. However debt securities are listed with BSE
<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

**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
Finance and Insurance Service	K1	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	U65910T-NI1996PTC036650	holding	90.002%	2(87)

**IV. SHARE HOLDING PATTERN**

(Equity Share Capital Breakup as percentage of Total Equity) i) Category-wise Share Holding

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	
A. Promoters									
(1) Indian									
a. Individual/ HUF	-	2,08,04,433	2,08,04,433	6.90%	-	3,11,86,790	3,11,86,790	9.998%	3.08%
b. Central Govt	-	-	-	-	-	-	-	-	-
c. State Govt (s)	-	-	-	-	-	-	-	-	-
d. Bodies Corp.	-	28,07,58,396	28,07,58,396	93.10%	-	28,07,58,391	28,07,58,391	90.002%	-
e. Banks / FI	-	-	-	-	-	-	-	-	-
f. Any Other....	-	-	-	-	-	-	-	-	-
Sub-total (A) (1):-	-	30,15,62,829	30,15,62,829	100.00%		31,19,45,181	31,19,45,181	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)	-	30,15,62,829	30,15,62,829	100%	-	31,19,45,181	31,19,45,181	100	
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 shareholders holding nominal share capital upto ` 1 lakh	-	-	-	-	-	-	-	-	-
c) Others (Specify)	-	-	-	-	-	-	-	-	-



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	
Sub-total (B)(1):-	-	-	-	-	-	-	-	-	-
Total Public Shareholding (B)=(B)(1)+(B)(2)	-	-	-	-	-	-	-	-	-
<b>C. Shares held by Custodian for GDRs &amp; ADRs - NIL</b>									
Grand Total (A+B+C)	-	30,15,62,829	30,15,62,829	100%	-	31,19,45,181	31,19,45,181	100	

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	
ESAF Microfinance and Investments Pvt Ltd	280758396	93.10	-	280758396	90.002	-	(3.098)
Kadambelil Paul Thomas	20804433	6.90	-	31186785	9.998%	-	3.898

iii) Change in Promoters' Shareholding (please specify, if there is no change)

Shareholder's Name	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>20804433</b>	<b>6.90%</b>	<b>20804433</b>	<b>6.90%</b>
Date wise Increase /Decrease in Shareholding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus / sweat equity etc):				
Allotment on 31.01.2018	1,03,82,352		31186785	9.998%
<b>At the end of the year</b>	<b>31186785</b>	<b>9.998%</b>	<b>31186785</b>	<b>9.998%</b>

Shareholder's Name	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.</b>				
<b>At the beginning of the year</b>	<b>28,07,58,396</b>	<b>93.10</b>	<b>28,07,58,396</b>	<b>93.10</b>
Date wise Increase /Decrease in Shareholding during the year specifying the reasons for increase / decrease (e.g. allotment / transfer / bonus / sweat equity etc):	0	-	-	-
<b>At the end of the year</b>	<b>28,07,58,396</b>	<b>90.002</b>	<b>28,07,58,396</b>	<b>90.002</b>



iv) Shareholding 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	280758396	93.10%	280758396	90.002%
Kadambelil Paul Thomas	20804433	6.90%	3,11,86,785	9.998%

v) Shareholding of Directors and Key Managerial Personnel

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
Kadambelil Paul Thomas	20804433	6.90%	3,11,86,785	9.998%

## V. INDEBTEDNESS

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

Particulars	Secured Loans (₹)	Unsecured Loans (₹)	Deposits (₹)	Total indebtedness (₹)
<b>Indebtedness at the beginning of the Financial Year</b>				
Principal amount	19,87,84,86,524.00	65,00,00,000.00	4,09,34,12,290.21	24,62,18,98,814.21
Interest due but not paid	Nil	Nil	16372.00	16,372.00
Interest accrued but not paid	14,22,28,726.36	-	1,14,722.30	14,23,43,448.66
Total	20,02,07,15,250.36	65,00,00,000.00	4,09,35,43,384.51	24,76,42,58,634.87
<b>Changes in indebtedness during the period</b>				
Additions	5,50,00,00,000.00	1,33,00,00,000.00	21,84,00,32,141.00	28,67,00,32,141.00
Reductions	10,61,19,83,888	-	70,25,19,907.00	11,31,45,03,795.18
Net change	-5,11,19,83,888	1,33,00,00,000.00	21,13,75,12,234.00	17,35,55,28,345.82
<b>Indebtedness at the end of the Financial Year</b>				
Principal amount	14,76,65,02,635	1,98,00,00,000.00	25,23,09,24,525.00	41,97,74,27,160.04
Interest due but not paid	Nil	Nil	4,14,46,268.47	4,14,46,268.47
Interest accrued but not paid	17,89,10,593.25	9,08,09,093.40	23,04,217.87	27,20,23,904.52
Total	14,94,54,13,228	2,07,08,09,093.40	25,27,46,75,011.34	42,29,08,97,333.03





## V. 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 FY 2017-18	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	1,19,58,000 21600	1,19,58,000 21600
2.	Stock Option		
3.	Sweat Equity		
4.	Commission - as % of profit - others, specify...		
5.	Others, please specify (Sitting Fee)	1,20,000	1,20,000
	<b>Total (A)</b>	<b>1,20,99,600</b>	<b>1,20,99,600</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	8,00,000	7,70,000	6,20,000	6,40,000	28,30,000
Commission	NIL	NIL	NIL	NIL	NIL
Others, please specify	NIL	NIL	NIL	NIL	NIL
<b>Total (1)</b>	<b>8,00,000</b>	<b>7,70,000</b>	<b>6,20,000</b>	<b>6,40,000</b>	<b>28,30,000</b>
<b>Other Non Execu-tive Directors</b>	<b>Assan Khan Akbar</b>	<b>Saneesh Singh</b>	<b>V A Joseph</b>		
Fee for attending board committee meetings	9,20,000	6,20,000	6,80,000		22,20,000
Commission	NIL	NIL	NIL		NIL
Others, please specify	NIL	NIL	NIL		NIL
<b>Total (2)</b>	<b>9,20,000</b>	<b>6,20,000</b>	<b>6,80,000</b>		<b>22,20,000</b>
<b>Total (1+2)</b>					<b>50,50,000</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)	19,23,276	9,19,509	28,42,785
b) Value of perquisites u/s 17(2) Income-tax Act, 1961	21600	NIL	NIL
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>19,44,876</b>	<b>9,19,509</b>	<b>28,64,385</b>

**VI. 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



## 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 Swasraya Multi State Agro Co-operative Society Ltd

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship:	ESAF Swasraya Multi State Agro Co-operative Society Ltd (Entity in which relatives of directors are directors)
2.	Nature of contracts/arrangements/transactions:	Corporate Facility Management Services
3.	Duration of the contracts / arrangements/ transactions:	Continuing Contract
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	Provision of the Facility Management Services to the Bank
5.	Date(s) of approval by the Board	26.05.2017
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

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

#### b) Contracts with Kadambelil Paul Thomas

Sl. No.	Particulars	Details
1.	Name(s) of the related party and nature of relationship:	Mr. Kadambelil Paul Thomas (Managing Director and CEO of the Bank)
2.	Nature of contracts/arrangements/transactions:	Rent Agreement
3.	Duration of the contracts / arrangements/ transactions:	1 Year
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	The bank entered into a lease agreement with Mr. Kadambelil Paul Thomas, MD and CEO of the Bank for taking on lease a residential property for use of the Bank. The Monetary value is `20,000 per month.
5.	Date(s) of approval by the Board	01.11.2017
6.	Amount paid as advances, if any:	`1,20,000 as interest free deposit
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:	Mr.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 Mr. 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

#### c) Contracts with Evangelical Social Action Forum

1.	Name(s) of the related party and nature of relationship:	Evangelical Social Action Forum (Entity in which Directors and Relatives of Directors are members)
2.	Nature of contracts/arrangements/transactions:	Rent Agreement
3.	Duration of the contracts / arrangements/ transactions:	5 Years
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	A building owned by Evangelical Social Action Forum located at Marayur, Thrissur admeasuring 800 Sq.Ft/` 20 per Sq Ft has been taken on lease by the Bank.



Sl. No.	Particulars	Details
5.	Date(s) of approval by the Board	06.02.2018
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

**d) Contracts with 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

**e) 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 Stationery, gifts, Goods for Office Consumption
3.	Duration of the contracts / arrangements/ transactions:	Continuing Transaction
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 Company
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 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 Transaction
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	The Bank has taken on lease a property held by ESAF Homes and Infrastructure Private Limited, for functioning as the Corporate Office of the Bank based on the valuation report obtained from an independent valuer.



5.	Date(s) of approval by the Board	30.03.2017
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

**g) Contracts with ESAF Microfinance and Investments Pvt Ltd**

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:	Rent 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:	A building owned by ESAF Microfinance and Investments Private Limited located at Pattikkad, Thrissur admeasuring 1250 Sq.Ft/^ 30 per Sq Ft has been taken on lease by the Bank.
5.	Date(s) of approval by the Board	06.02.2018
6.	Amount paid as advances, if any:	`2,25,000/- as interest fee deposit
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

**h) Contracts with Mrs. Sussha Benny (Relative of Mrs. Asha Morley)**

1.	Name(s) of the related party and nature of relationship:	Mrs. Sussha Benny (Relative of the Director of the Company)
2.	Nature of contracts/arrangements/transactions:	Appointment as Relationship Officer
3.	Duration of the contracts / arrangements/ transactions:	1 year
4.	Salient terms of the contracts or arrangements or transactions including the value, if any:	Mrs.Sussha Benny appointed as Relationship Officer – HN1 and Institutional Investments for 1 year on Contract basis.
5.	Date(s) of approval by the Board	27.03.2018
6.	Amount paid as advances, if any:	NIL
7.	Date on which the special resolution was passed in general meeting as required under first proviso to section 188	Not Required

**2. Details of contracts or arrangements or transactions not in Arm's length basis:**

NIL





# Form No. MR-3

## SECRETARIAL AUDIT REPORT

### FOR THE FINANCIAL YEAR ENDED 31ST MARCH 2018

[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, 2018 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, 2018 according to the provisions of:

- (i) The Companies Act, 2013 (the Act) and the rules made there under;
- (ii) The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there under;
- (iii) The Depositories Act, 1996 and the Regulations and Bye-laws framed there under;
- (iv) The Foreign Exchange Management Act, 1999 and the Rules and Regulations made there under to the extent of Foreign Direct Investment (FDI), Overseas Direct Investment (ODI) and External Commercial Borrowings (ECB); (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, 2015 (not applicable to the company during the audit period);

(c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;

(d) The Securities and Exchange Board of India (Share based Employee benefits) Regulation 2014 (not applicable to the company during the audit period);

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

(f) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993;

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

(h) The Securities and Exchange Board of India (Buyback of Securities) Regulation 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,

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 subject to our supplementary report.

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 issued there under subject to our supplementary report:

- (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.	26.05.2017	Issue of 500 Unsecured, Subordinated, Fully Paid-Up, Non-Convertible, Basel III compliant, Perpetual Debt Instruments in the nature of debentures of the face value of ` 10 Lakhs each aggregating to INR 50,00,00,000 (Rupees Fifty crore only), on preferential basis to M/s ESAF Swasraya Multi State Agro Co-operative Society	Board of Directors
2.	27.06.2017	Issue of 12745098 equity shares (ranking in pari-passu with the existing equity shares in all respect) having face value of ` 10/- at a price of ` 10.20/- to Mr Kadambelil Paul Thomas	Board of Directors
3.	27.09.2017	Issue of 250 Non-convertible, Redeemable, Unsecured, Basel II compliant Tier 2 Bonds in the nature of debentures with face value of ` 10,00,000 each to M/s to ESAF Swasraya Multi State Agro Co-operative Society	Board of Directors
4.	29.11.2017	Issue of 200 Non-convertible, Redeemable, Unsecured, Basel III compliant Tier 2 debentures with face value of ` 10,00,000 each to M/s to ESAF Swasraya Multi State Agro Co-operative Society	Board of Directors
5.	30.12.2017	Issue of Rated, Listed, Unsecured, Redeemable, Transferable, Basel III compliant Tier II Bonds in the nature of non-convertible debentures bearing a face value of ` 10,00,000/- to M/s Federal Bank Ltd	Board of Directors

Place: Trivandrum  
Date: 31.07.2018

Sd-:  
Krishna Prasad R. S.  
FCS No.: 7080  
C P No. 7379





# Basel III Disclosures

## Basel III Disclosures as of 31 March, 2018

ESAF Small Finance Bank Limited ("the Bank") is a public limited company incorporated in India on 05th May, 2016 under the provisions of Companies Act, 2013. The Bank received license from Reserve Bank of India (RBI) on November 18, 2016 to carry on the business of Small Finance Bank (SFB) in India and commenced its banking operations on March 10, 2017. The Bank is headquartered at Thrissur, Kerala, and provides services in urban, semi-urban and rural areas of the country, through its inclusive banking initiatives. The Bank does not have any foreign operations.

Basel III Disclosures on the capital adequacy and risk management framework are detailed in the following sections:

### 1. Capital Adequacy

#### 1.1 Capital norms

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

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

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

#### 1.2 Capital Structure

Breakup of capital funds is as follows:

Particulars	in Crores
<b>Tier I capital - I</b>	390.85
Paid Up Capital	311.95
Reserves	31.40

Particulars	in Crores
Perpetual Debt Instrument	47.50
<b>Deductions - II</b>	<b>0.72</b>
Intangible Assets (Prepaid expenses)	0.72
First loss credit enhancement provided for securitized assets	Nil
Second loss credit enhancement provided for securitized assets	Nil
Any Other Deductions	Nil
<b>Tier I Capital Total (I-II) A</b>	<b>390.13</b>
<b>Tier II Capital - I</b>	<b>142.28</b>
General provisions	12.28
Investment Reserve	Nil
Sub Ordinated term Debt	130.00
<b>Deductions - II</b>	
First loss credit enhancement provided for securitized assets	Nil
Second loss credit enhancement provided for securitized assets	Nil
<b>Total Tier II Capital (I-II) B</b>	<b>142.28</b>
<b>Total Capital (A+B)</b>	<b>532.41</b>

#### 1.3 Capital Adequacy

a) Qualitative disclosures:

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

Policy on Internal Capital Adequacy Assessment Process (ICAAP) has been put in place and the assessment of capital commensurate to the risk profile is reviewed on a quarterly basis.

Capital requirement for current business levels and estimated future business levels is assessed on a periodic basis.

As per RBI guidelines for SFBs, minimum capital required to be maintained by the Bank for the period ended 31<sup>st</sup> March 2018 is 15%. The Bank's CRAR is above the regulatory minimum level.

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



b) Quantitative Disclosures:

Sl. No.	Particulars	in Crores
<b>A</b>	<b>Capital Requirements for Credit Risk</b>	<b>472.08</b>
A.1	Portfolio Subject to Standardized approach	423.52
A.2	For Securitized Portfolio	48.56
<b>B</b>	<b>Capital Requirements for Market Risk</b>	<b>Nil</b>
B.1	For Interest Rate Risk	Nil
B.2	For Equity Risk	Nil
B.3	For Forex Risk (including gold)	Nil
B.4	For Commodities Risk	Nil
B.5	For Options risk	Nil
<b>C</b>	<b>Capital Requirements for Operational Risk</b>	<b>Nil</b>
	<b>Total Capital Requirement ( A+B+C)</b>	<b>472.08</b>
	<b>Total Risk Weighted Assets ( RWA for all types of assets, including credit )</b>	<b>3147.18</b>
	<b>Total Capital Funds</b>	<b>532.41</b>
	<b>CRAR (%)</b>	<b>16.92%</b>
	Tier – 1 Capital Adequacy Ratio (%)	12.40%
	Tier – 2 Capital Adequacy Ratio (%)	4.52%

## 2. Risk Management

The Risk Management Committee of the Board oversees and periodically reviews the processes and practices of risk management in the Bank. Credit Risk Management Committee (CRMC), Operational Risk Management Committee (ORMC), Asset Liability Management Committee (ALCO) and Information Security Governance Committee (ISGC) support RMCB to facilitate effective execution of the above responsibilities. The Risk Management Department (RMD) through its Credit Risk, Operational Risk, Market Risk and Information Security Divisions assist the above committees in effectively managing the risks. The RMD is headed by the Chief Risk Officer (CRO) who reports directly to MD & CEO and on a dotted line to the RMCB and the Board of Directors.

The CRO is responsible for formulating and implementing enterprise wide integrated risk management systems for identification and management of risks in the Bank.

## 3. Credit Risk

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

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

The objective of credit risk management is to maximize a bank's risk-adjusted rate of return while maintaining credit risk exposure within acceptable limits.

### 3.1 Credit risk governance:

The Bank has put in place the Credit Policy and Credit Risk Management Policy, approved by the Board of Directors. While the Credit Policy covers the rules and regulations for processing and sanction of credit, Bank's approach to monitoring of credit, etc., the Credit Risk Management Policy describes credit risk identification process, procedure for measurement of credit risk and risk mitigation strategies.

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

The Bank has put in place comprehensive Board approved Credit Risk Management Policy. The Policy sets out the guidelines, principles and approach to manage credit risk for the Bank and puts in place a framework to identify, assess, measure, monitor and control credit risks in a timely and effective manner.

The credit risk governance framework establishes the responsibility and approach through which the Board of Directors and the management of the Bank manage credit risk. Risk Management Committee of the Board (RMCB) oversees bank wide risk management. The senior executive level Credit Risk Management Committee (CRMC) manages implementation of credit risk management framework across the Bank and provides recommendations to the RMCB and the Board.

CRMC ensures implementation of credit risk policy and procedures, as approved by the RMCB and the Board, across the Bank and recommend changes thereto, considering any changes in the regulatory instructions,



business or economic conditions. It also monitors quality of loan portfolio at periodic intervals, identifies problem areas and instructs business units with directions to rectify the deficiencies.

The Credit Risk Division of Risk Management Department, which is supported by all the business units, is entrusted with the responsibility of implementing processes for credit risk identification, assessment, measurement, monitoring and control. Credit risk appetite statements are drawn up with inputs from the business units and the credit risk parameters and credit exposure / concentration limits set by the Bank's Board of Directors / RMCB and RBI. The Division constructs credit risk identification systems, monitors quality of the bank's loan portfolio, identifies problem credits and undertakes asset quality reviews with support from the business units. The Division captures early warning signals in the loan portfolio for identification of weak exposures, suggests remedial measures and monitors the actions taken.

CRMC of the Bank meets once in two months to take stock of Bank's credit risk profile, based on the reports placed by Credit Risk Division.

Further, the Bank has put in place a detailed Credit Policy, spelling out various aspects of credit dispensation and credit administration. An effective governance framework to ensure the independence of the credit risk unit from the business units is being implemented. Through an effective, Board-approved credit risk governance framework, the Bank seeks to ensure adequate risk oversight, monitoring, and control of credit risks.

### 3.3 Credit Process

The Credit Policy of the Bank details the credit norms to be adhered to for each customer segment. An empowerment matrix is prescribed to ensure that a competent authority takes an informed decision on credit proposals and on any deviations to the norms. There are separate credit origination and appraisal processes for Joint Liability Groups (JLG) and Retail segments including agriculture. The Agriculture and Retail loan applications are evaluated by using statistical credit scoring model that serves as a single point indicator of diverse risk factors of the counter party, enabling the sanctioning authority to take decisions in a consistent manner. The score card is expected to evolve and get fine-tuned when more and more cases are sanctioned based on detailed credit appraisal.

#### 3.3.1 Risk Weights

The Bank adheres to RBI guidelines defined under the RBI Master Circular – Prudential Guidelines on Capital

Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF), for application of risk weights for credit risk measurement and capital computation purposes.

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

- Eligible financial collateral
- Guarantees
- On-balance sheet netting

### 3.4 Concentration Risk

The Bank manages concentration risk by means of prudential limits as directed by RBI, as well as internal limits. Credit concentration in the Bank's portfolios is monitored for the following:

- Single party /Group exposure: The Bank has set exposure limits individual borrower-wise and borrower group-wise which are continuously tracked and monitored.
- Geography-wise exposure: The Bank continuously monitors the geographical concentration of the business and factors the inputs into strategic business planning. The Bank is aware of its credit concentration in southern states and is taking steps to reduce the same by growing the retail book in other geographies.
- Industry exposure: The Bank's exposure to any single industry is currently not significant. Going forward, the Bank intends to track the exposure to specific industries and also to sensitive sectors, which would contribute to formulating the growth strategy of the Bank.

### 3.5 Credit Exposures & Risk Summary

a) Exposure – Facility Type

Sl. No.	Exposure Type	in Crores
1.	Fund Based*	3,249.25
2.	Non Fund Based	3.12
	<b>Total</b>	<b>3,252.37</b>

\*Fund based exposure includes Non SLR investments of ₹ 57.92 Cr.





b) Geographic distribution of credit portfolio

Sl. No.	Exposure Type	₹ in Crores	Percentage
1.	Domestic	3,191.33	100%
2.	Foreign	Nil	0%
	<b>Total</b>	<b>3,191.33</b>	<b>100%</b>

@ Non-SLR investments (₹ 57.92 Cr) and Non Fund based exposure (corporate guarantee given for securitisation) of ₹ 3.12 Cr excluded.

b - 1) State-wise distribution of loan portfolio

Sl. No.	Exposure Type	₹ in Crores	% of Total Portfolio
1	Kerala	1,842.75	57.74
2	Tamil Nadu	708.08	22.19
3	Maharashtra	224.20	7.03
4	Madhya Pradesh	160.25	5.02
5	Chhattisgarh	95.47	2.99
6	Karnataka	71.32	2.24
7	Jharkhand	35.86	1.12
8	Pondicherry	26.31	0.82
9	Bihar	22.03	0.69
10	West Bengal	5.06	0.16
	<b>Total</b>	<b>3,191.33</b>	<b>100.00</b>

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

c) Distribution of portfolio between secured and unsecured business

Sl. No.	Exposure Type	₹ in Crores
1.	Secured	18.32
2.	Unsecured	3,173.01
	<b>Total</b>	<b>3,191.33</b>

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

d) Sector wise distribution

Sl. No.	Exposure Type	₹ in Crores	% of Total Exposure
1	Agriculture and Allied Activities	1833.29	57.44%
2	Advances to Industries Sector eligible as Priority sector lending	456.85	14.31%
3	Services	272.98	8.56%
4	Personal Loans and others	628.21	19.69%
	<b>Total</b>	<b>3191.33</b>	<b>100%</b>

d) Maturity pattern of Assets

Maturity Bucket	Cash, Balances with RBI	Balances with Banks, Money at Call & Short Notice, Term Deposits and other placements	Investments	Loans & advances *	Fixed assets	Other assets	Total
Day - 1	31760.83	10478.61	6.08	739.19	0.00	0.00	42984.71
2-7 Days	0.00	10000.00	5114.46	4435.12	0.00	0.00	19549.59
8-14 Days	0.00	0.00	130.25	5174.31	0.00	0.00	5304.56
15-30 Days	236.96	0.00	190.51	11827.00	0.00	0.00	12254.47
31 Days and upto 2 months	757.49	172.51	608.98	14082.61	0.00	0.00	15621.59
Over 2 Months and upto 3 months	453.31	441.34	364.44	14082.61	0.00	0.00	15341.70

Maturity Bucket	Cash, Balances with RBI	Balances with Banks, Money at Call & Short Notice, Term Deposits and other placements	Investments	Loans & advances *	Fixed assets	Other assets	Total
Over 3 Months and upto 6 months	1676.82	593.00	1348.08	62378.63	0.00	0.00	65996.53
Over 6 Months and upto 1 year	2700.57	3592.22	2171.13	107724.59	0.00	0.00	116188.51
Over 1 Year and upto 3 years	4148.76	622.67	4135.59	83861.65	0.00	0.00	92768.67
Over 3 Years and upto 5 years	801.68	0.00	644.52	1363.77	0.00	0.00	2809.97
Over 5 years and upto 7 years	359.09	20.00	288.69	1358.47	6870.25	7070.00	15966.50
Over 7 years and up to 10 years	0.81	12.50	18442.56	0.00	0.00	0.00	18455.87
Over 10 year and up to 15 years	0.00	0.00	12616.31	0.00	0.00	0.00	12616.31
Over 15 years	949.56	0.00	27124.74	0.00	0.00	0.00	28074.30
<b>Total</b>	<b>43845.88</b>	<b>25932.85</b>	<b>73186.34</b>	<b>307027.95</b>	<b>6870.25</b>	<b>7070.00</b>	<b>463933.28</b>

e) Credit Exposure by Risk Weights (` in Crores)

Sl. No.	Risk Weight	Gross Out-standing Credit	Risk Weighted Exposure for Credit
1	Below 100% risk weight	2252.50	1683.29
2	100% Risk weight	918.00	918.00
3	More than 100% risk weight	20.83	26.04
	<b>Total</b>	<b>3191.33</b>	<b>2627.33</b>

f) Credit Risk Mitigation (` in Crores)

Particulars	Exposure	Credit Risk Mitigant	Net Exposure
Gold Loan	0.20	0.20	Nil
Loan against FD	5.24	5.24	Nil

### 3.6 Classification of Non-Performing Assets

#### 3.6.1. Non-performing Assets

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

a) Interest and/or instalment of principal remain overdue

for a period of more than 90 days in respect of a term loan

b) The account remains 'out of order' as indicated in paragraph (i) below in respect of an Overdraft/Cash Credit (OD/CC).

c) The bill remains overdue for a period of more than 90 days, in case of bills purchased and discounted.

d) The instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops

e) The instalment of principal or interest thereon remains overdue for one crop season for long duration crops

(i) 'Out of Order' status:

An account is treated as 'out of order' if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days, as on the date of balance sheet or the credits are not enough to cover the interest debited during the same period, these accounts are treated as 'out of order'.

(ii) Overdue:

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



fixed by the Bank.

(iii) Special Mention Accounts:

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

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

### 3.6.2. Relief for MSME Borrowers registered under Goods and Services Tax (GST)

RBI, vide notification dated 7th February 2018 (RBI/2017-18/129), has provided temporary relief on the NPA classification norms for MSME borrowers registered under Goods and Services Tax (GST) whose cash flows have been adversely impacted during the formalisation of business through registration under GST and consequently faced difficulties in meeting their repayment obligations.

As a measure of support to such smaller entities whose cash flows got affected, RBI has notified that exposures of borrowers classified as micro, small and medium enterprises under the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, shall continue to be classified as standard asset in the books of banks and NBFCs, subject to the following conditions:

- The borrower is registered under the GST regime as on January 31, 2018.
- The aggregate exposure, including non-fund based facilities, of banks and NBFCs, to the borrower does not exceed INR 250 million as on January 31, 2018.
- The borrower's account was standard as on August 31, 2017.
- The amount from the borrower overdue as on September 1, 2017 and payments from the borrower due between September 1, 2017 and January 31, 2018 are paid not later than 180 days from their respective original due dates.
- A provision of 5% shall be made against the

exposures not classified as NPA. The provision in respect of the account may be reversed as and when no amount is overdue beyond the 90-day norm.

- The additional time provided is for the purpose of asset classification only, and not for income recognition, i.e., if the interest from the borrower is overdue for more than 90 days, the same shall not be recognised on accrual basis.

Loans & Advances are classified in the books of the Bank, as Performing Assets (Standard) and Non-Performing Assets (NPAs,) in accordance with RBI guidelines on Income Recognition and Asset Classification (IRAC) and the relief for MSME borrowers as mentioned above. NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. The advances are stated net of specific provisions made towards NPAs, and unrealized interest on NPAs, if any. Interest on NPAs is transferred to an interest suspense account and not recognized in the Profit and Loss Account until realized.

### 3.6.3. Provisioning

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

(i) Amount of NPA as on 31 March 2018

Sl. No.	Category	in Crores
<b>A</b>	<b>Amount of NPA (Gross)</b>	<b>121.05</b>
A.1	Substandard	113.07
A.2	Doubtful 1	7.98
A.3	Doubtful 2	0
A.4	Doubtful 3	0
A.5	Loss	0
<b>B</b>	<b>Net NPAs</b>	<b>84.81</b>
<b>C</b>	<b>Advances</b>	
C.1	Gross Advances	3191.33
C.2	Provision	36.24
C.3	Net Advances	3155.09
<b>D</b>	<b>NPA Ratios</b>	
D.1	Gross NPAs to gross advances (%)	3.79%
D.2	Net NPAs to net advances (%)	2.69%

(ii) Movement of NPA for the year ending 31 March 2018  
(` in crores)

Particulars	Gross NPA	Net NPA
Opening balance at April 1, 2017	7.85	3.59
Addition during the period	114.68	82.25
Reduction/write-off during the period	1.48	1.03
Closing balance at March 2018	121.05	84.81

(iii) Movement of Provision for the year ending 31 March 2018

Particulars	` in Crores
Opening balance at April 1, 2017	4.25
Provision made during the period	32.43
Write off/ write back excess provision	0.44
Closing balance at March 2018	36.24

## 4. Securitization Exposure:

### 4.1. Qualitative Disclosures

The Bank undertakes Securitization / Loan Assignment transactions with the objective of maximizing return on capital employed, managing liquidity and maximizing yield on assets. The revised securitisation guidelines issued by RBI on May 07, 2012 define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. The Bank undertakes sale transactions through both securitization and loan assignment routes in the following roles.

**Originator / Seller:** The Bank originates assets in its books and subsequently down sells them through the securitization or assignment route.

**Servicing and collection agent for sold assets:** The Bank undertakes the activity of collections and other servicing activities including preparation of monthly pay out reports.

**Credit Enhancement Provider:** The Bank may provide credit enhancement on securitisation (sale) transactions

undertaken by the Bank for meeting shortfall arising out of delinquencies and prepayment losses in the underlying pool sold.

### 4.2 Risks involved

#### 4.2.1 Regulatory & Legal Risks

The risks that arise as an originator of securitisation transactions, are mainly on account of non-compliance of transaction structures with the extant regulatory guidelines. In case the assets transferred do not meet the true sale criteria defined by RBI, the assets would be deemed to be on the balance sheet of the originator itself and the originator will be required to hold capital against the full value of securitised assets. Further, if the regulatory guidelines in respect of giving representations and warranties concerning the assets sold are not complied with or in case of non-compliance of regulatory guidelines on credit enhancement facility provided, the originator would require to maintain capital against the full value of securitised assets.

The Legal Risks arise when there is conflict between the provisions of the transaction document and those of the underlying financial facility agreement.

### 4.3 Accounting Transfer and servicing of assets:

The Bank transfer loans through securitisation transactions. The transferred loans are derecognized and gains / losses are accounted for, fully complying with the regulatory guidelines in this regard.

In accordance with RBI guidelines for securitization of standard assets, the profit / premium arising from sell down / securitization is amortised over the life of the transaction based on the method prescribed in the guidelines. Losses, if any, arising in the sell down / securitisation transaction, to be recognised upfront in the statement of profit or loss.

### 4.4 Quantitative details

#### 4.4.1. Quantitative details of securitization transactions originated. (` in Crores)

Particulars	FY 2016-2017 (`)	FY 2017-2018 (`)
Total number of loan assets securitised	Not Applicable	329090 Numbers
Book value of loan assets securitized	Not Applicable	553.03
Sale consideration received for the securitized assets	Not Applicable	539.73
Gain / (Loss) on sale on account of securitization	1.31	40.97



Particulars	FY 2016-2017 (₹)	FY 2017-2018 (₹)
Form of services provided *	Credit enhancement & post securitisation asset servicing	Credit enhancement & post securitisation asset servicing
Quantum (outstanding value) of services provided:		
Cash Collateral	45.43	41.11
Over Collateral	22.18	26.66
Exposure to own securitization	0	8.00

# ESAF SFB did not originate securitisation transactions during 2016-17. Securitisation transactions originated by ESAF Microfinance and taken over by ESAF SFB appears in FY 2016-17.

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

Particulars	FY 2016-2017	FY 2017-2018
Total number of loan assets assigned	Not Applicable	Not Applicable
Book value of loan assets assigned	Not Applicable	Not Applicable
Sale consideration received for the assigned assets	Not Applicable	Not Applicable
Gain / (Loss) on sale on account of assignment	0.95 Cr	14.36 Cr
Form of services provided *	Post transaction asset servicing	Post transaction asset servicing
Quantum (outstanding value) of services provided	Not Applicable	Not Applicable

# ESAF SFB did not originate any assignment transactions. Assignments originated by ESAF Microfinance and taken over by ESAF SFB appears in FY2016-17 and FY 2017-18.

## 5. Leverage Ratio

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

$$\text{Leverage Ratio} = \frac{\text{Capital Measure (Tier I Capital)}}{\text{Exposure Measure}}$$

Sl. No.	Particulars	₹ in Crores
<b>On Balance Sheet Exposure</b>		
1	On-balance sheet items (excluding derivatives and Securities Financing Transactions (SFT), but including collateral)	4724.13
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	
3	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (1 + 2)</b>	<b>4724.13</b>
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	0
5	Add-on amounts for Potential Future Exposure (PFE) associated with all derivatives transactions	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	0
8	(Exempted Central Counter Party (CCP) leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	<b>0</b>
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty Credit Risk (CCR) exposure for SFT assets	0
15	Agent transaction exposures	0
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	<b>0</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amount	897.41
18	(Adjustments for conversion to credit equivalent amounts)	
19	Off-balance sheet items (sum of lines 17 and 18)	897.41
<b>Capital and total exposures</b>		

Sl. No.	Particulars	in Crores
20	Tier 1 capital	390.13
21	Total exposures (sum of lines 3, 11, 16 and 19)	5621.54
<b>Leverage ratio</b>		
22	Basel III leverage ratio	6.94%

<b>Summary comparison of accounting assets vs. leverage ratio exposure measure</b>		
1	Total consolidated assets as per published financial statements	4724.13
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	0
3	Adjustment for fiduciary assets recognized on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	0
4	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	897.41
5	Other adjustments	0
6	<b>Leverage ratio exposure</b>	<b>5621.54</b>

## 6. Liquidity Risk

Liquidity refers to the Bank's ability to fund decreases in liabilities and / or increase in assets and meet both cash and collateral obligations at reasonable cost without adversely affecting its financial status. Liquidity risk arises if the Bank is unable to meet such obligations. The Bank's Asset Liability Management Committee (ALCO) is responsible for overseeing the management and governance of liquidity risk.

Liquidity risk management in the Bank is governed by the Board approved Asset Liability Management and Market Risk Management Policy, which covers the broad liquidity risk, Interest rate risk (Banking and Trading book) and Market Risk framework in accordance with RBI guidelines and as permitted under the rules applicable to Small Finance Banks.

## 7. Market Risk

The Basel Committee on Banking Supervision defines Market Risk as the risk of losses in on- or off-balance

sheet positions that arise from movement in market prices.

### The major components of market risk include:

1. Interest rate risk: The potential loss due to movements in interest rates. This risk arises because a bank's assets usually have a significantly longer maturity than its liabilities.
2. Equity risk: The potential loss due to an adverse change in the stock price.
3. Foreign exchange risk: The potential loss due to change in value of the bank's assets or liabilities resulting from exchange rate fluctuations.
4. Commodity risk: The potential loss due to an adverse change in commodity prices.

### 7.1 Structure and organization of market risk management function

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

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

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

The Market Risk Division of the Risk Management Department is responsible for the design and implementation of the Bank's market risk management/





ALM system. The Division is independent from business and trading units, and provides an independent risk assessment, which is critical to the ALCO's key function of controlling and managing market risks in accordance with the mandate established by the Board and Risk Management Committee. Mid Office of the Bank's Treasury function is attached to the Market Risk Division of Risk Management Department. Mid Office prepares and analyses daily reports on various activities of the Bank's Treasury. The Mid Office, which is responsible for the critical functions of independent market risk monitoring, measurement and analysis, reports to the Bank's Chief Risk Officer through the Head of Market Risk Division.

## 7.2. Interest Rate Risk in the Banking Book

### 7.2.1 Qualitative Disclosures:

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

The Asset-Liability Management Committee (ALCO) is responsible for evolving appropriate systems and procedures for on-going identification and analysis of Balance Sheet Risks and laying down parameters for efficient management of these risks through Asset-Liability Management Policy of the Bank. ALCO, therefore, periodically monitors and controls the risks and returns, funding and deployment, setting Bank's lending and deposit rates, and directing the investment activities of the Bank. ALCO also develops the market risk strategy by clearly articulating the acceptable levels of exposure to specific risk types (i.e. Interest rate, liquidity etc.)

RBI has stipulated monitoring of interest rate risk through a statement of Interest Rate Sensitivity (Re-pricing Gaps) to be prepared on a monthly basis. Accordingly, ALCO reviews interest rate sensitivity statement on monthly basis and monitors the Earnings at Risk (EaR) which measures the change in Net Interest Income of the Bank due to parallel change in interest rate on both assets and liabilities.

RBI has also stipulated to estimate the impact of change in interest rates on economic value of Bank's assets and

liabilities through interest rate sensitivity under Duration Gap Analysis (IRS - DGA). Bank also carries out Duration Gap Analysis on a monthly basis as stipulated by RBI. The impact of interest rate changes on the market value of equity is monitored through Duration Gap Analysis by recognizing the changes in value of assets and liabilities by a given change in the market interest rate. The change in value of equity (including reserves) with 2% parallel shift in interest rates for both assets and liabilities is estimated.

### 7.2.2. Quantitative Disclosures:

#### Earnings at Risk (EaR)

Particulars	Impact on NII (in Crores)
Impact of 100 bps parallel shift in interest rate on both assets & liabilities on Net Interest Income (NII)	1.52

#### Market Value of Equity (MVE)

Particulars	Impact on MVE (in Crores)
Impact of 200 bps parallel shift in interest rate on both assets & liabilities on Market Value of Equity	26.23
Impact of 100 bps parallel shift in interest rate on both assets & liabilities on Market Value of Equity	13.12

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

## 8. Operational Risk

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

Operational risk is primarily managed by prescribing adequate controls and mitigation measures which are being reviewed and updated on a regular basis to suit the changes in business practices, structure and risk profile.

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

Risk Management Committee of the Board oversees the bank-wide Operational Risk Management. Bank has put in place a detailed framework for Operational Risk Management under a Board approved ORM Policy.

While Operational Risk Management is the responsibility of all functions and business units handling operational activities, the Operational Risk Management Committee (ORMC) at the executive level oversees bank-wide implementation of the Board approved policies and processes. The principal objective of the ORMC is mitigation of operational risk in the institution by creation and maintenance of an explicit operational risk management process.

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

## 8.2. Business Continuity Management

The Operational Risk Management Committee also functions as the Business Continuity Management (BCM) Committee, which is responsible for implementation of the Business Continuity Management process and procedures across the Bank. A comprehensive, Board approved, bank-wide Business Continuity Plan has been put in place to ensure continuity of critical operations of the Bank covering all identified disasters.

Operational Risk management, Business Continuity Management and coordination of relevant activities are the responsibilities of the Operational Risk Division of Risk Management Department. The Division is responsible for coordinating all the operational risk management and business continuity planning activities of the Bank, to facilitate achievement of the stated goals and objectives. Activities include building up an understanding of the risk profile, implementing tools related to operational risk management, and working towards the goals of improved controls and lower risk.

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

The Bank has an internal framework for reporting and capturing Operational Risk incidents. The incidents reported are investigated to assess weaknesses in controls and identify areas for improvement.

The Bank uses an enterprise-wide Risk Management software solution, SAS Enterprise GRC, for management of Credit, Market and Operational Risks. The application automates the management of governance, risk, and compliance (GRC) data, and facilitates the entry, collection, transfer, storage, tracking, and reporting of operational losses, gains, recoveries, and key risk indicators (KRIs) that are drawn from multiple locations across the organization.

It facilitates conducting of Risk and Control Self Assessments, scenario assessments, controls testing, investigation of incidents, issues tracking and development of action plans. Each of these activities can be linked to the other activities in the system, thereby providing an integrated and centralized framework for collecting, managing, and storing GRC information.

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

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

## 8.3. AML monitoring as a Risk Management activity

Anti-Money Laundering (AML) initiatives have evolved to be one of the major focus areas for financial institutions, with the widespread prevalence of financial crimes and malpractices. The regulatory controls and compliance requirements in place and the objective of ensuring that the Bank's customer base excludes persons attempting money laundering and other financial crimes, have placed prime importance on the AML programme of the Bank. In view of the increasing importance of this function, the Bank has attached its AML Cell to Risk Management Department.

The AML Cell of the Risk Management Department functions with focus on the following aspects:

- Risk categorisation of customers at the time of account opening, and transaction monitoring along the lines of the risk categorisation of the customers.
- Maintenance of a compliance culture across the organization ensuring that all employees starting from branch staff, understand money laundering risks and the consequences of breaches of the AML norms.
- Effective implementation of the KYC/AML Policy of the Bank ensuring that the Bank is not used for money laundering or terrorist financing activities



- Development and maintenance of a comprehensive AML/ Combating Financing of Terrorism (CFT) programme in line with the regulatory requirements covering systems and controls, training of staff and management oversight and ensure its effective implementation.
- Reporting on cash transactions above the limits specified, transaction involving receipts by non-profit organizations and transactions involving the use of forged or counterfeit currency notes, to the Director, Financial Intelligence Unit- India.

## 9. Information Security Risk Management:

- Robust information and cyber security frameworks are established for securing the IT infrastructure and systems of the Bank. Oversight of Information Security Governance for the Bank is the responsibility of the Information Security Governance Committee (ISGC). The ISGC is a management level committee headed by the Managing Director & CEO. ISGC is the central representative body of senior management from different business functions to provide clear direction and support for Information Security Risk Management initiatives in the Bank.
- The ISGC monitors, reviews, directs and manages the Bank's Information Security Risk Management System within the Bank. This Committee acts as apex committee for handling Information Security risk related initiatives in the Bank, and reports to the Board of Directors through the IT Strategy Committee of the Board and keeps the Board apprised of relevant risks that needs attention.
- The Information Security Division of Risk Management Department is headed by the Chief Information Security Officer, who reports to the Chief Risk Officer directly.

## 10. Risk Management for protecting interests of stake holders

- The ESAF SFB articulates its business strategy and conducts operations within a structured risk management framework, with focus on active management of all financial and non-financial risks faced by the Bank. The Bank endeavours to establish itself as a professionally serious organisation in management of risks, with an ultimate goal of protecting the interests of all its stakeholders, including the shareholders, customers, investors, employees and all others who directly and indirectly

deal with the Bank in various areas and geographies of its operations.

- An apex committee of senior executives vets all new products and processes and changes thereto before they are implemented in the Bank for managing the financial and non-financial risks in a manner consistent with its risk appetite.
- The focus and efforts of the Bank in identifying, measuring, monitoring, managing and mitigating risks, and on exercising control on the business and socio-economic environment in which it operates, to the required extent, ensure that all of its valuable stakeholders are protected from any undesirable events, outcomes, sufferings and losses, in the best manner possible.

## 11. Conclusion

The transformation from a Microfinance institution to a Small Finance Bank has brought with it a plethora of opportunities and challenges relating to funding sources, credit delivery and administration, putting in place the required infrastructure, policies and processes, recruitment and training manpower etc. Within one year of commencing operations, the Bank has been successful in diversifying its funding sources and credit delivery as well as putting in place the required systems, policies and procedures. Additional infrastructure facilities are also being put in place and recruitment and training of staff to meet the challenges ahead are progressing. The policies, systems and processes are being regularly improved upon fully complying with the directions and guidelines issued to Small Finance Banks by RBI from time to time.



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# Report on corporate governance

## Our corporate governance philosophy - “Serving the Underserved”

We ESAFIANS feel more privileged than our peers as we are bestowed with the responsibility of serving the impoverished section of the society. As we are carrying forward such a responsible task, we are now more resolute and committed in implementing and practicing corporate social responsibility in the best possible manner.

Over the past One and a half years as we have evolved as a bank keeping the following values abreast:

### 1. Customer-centric

### 2. Transparency

### 3. Accountability

### 4. Commitment

### 5. Servant leadership

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

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

## Composition, meeting and attendance of the Board of Directors

The Composition of the Board of Directors of the Bank is governed by the Banking Regulation Act, 1949 and Regulation 17 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. As on 31st March, 2018, the Board of Directors, comprising a combination of Executive and Non-Executive directors, consisted of Eight members, of whom Seven were Non-Executive Directors. The responsibilities of the Board inter alia include the formulation of overall strategy for the Bank, taking new initiatives, formulating policies, performance review, monitoring of plans, pursuing of policies and procedures.

Brief Profile of the Directors as on 31.03.2018 is furnished hereunder:

## Mr. Prabha Raveendranathan

### Chairman and Non-Executive Independent Director



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

\*He has resigned from the position of Managing Director and CEO with effect from 2nd June 2018 and he is continuing as a Non-Executive Director





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## Mr. Assan Khan Akbar

### **Non Executive Director**



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

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## Mr. George Joseph

### **Non-Executive Independent Director**



He was the Chairman & Managing Director of Syndicate Bank. Before joining Syndicate Bank he had worked with Canara Bank for 36 years. He joined Canara Bank as a Probationary Officer in 1969 and had worked in its different centers viz, Bangalore, Chennai, Kerala, Srinagar, Mumbai, Delhi etc., Also while with Canara Bank, he was the Chief Executive of the Exchange Company at Bahrain under Canara Bank management. He is a first rank commerce graduate from Kerala University. He also ranked 1st among the Indian candidates and 11th in the AIB Examination (London) of the Institute of Bankers, London. He is also a Certified Associate of Indian Institute of Banking & Finance.

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## Mr. Saneesh Singh

### **Non-Executive Director**



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

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## Mrs. Asha Morley

### **Non-Executive Independent Director**



Mrs. Asha Morley is a Fellow Member of the Institute of Chartered Accountants of India (F.C.A.) holding a D.I.S.A. (Diploma Information Systems Audit) certification. She has 35 years of post qualification experience as a Chartered Accountant / Consultant across India and the Middle East. She was associated for 9 years with Indian Companies including leaders in the private sector. She has dealt with various Financial Institutions and consortiums. Mrs. Morley has been in Practice / Consultancy for more than 26 years and has rich experience in Statutory, Tax and Internal Audits of Banks, Companies, Finance, and Investment Firms. She is also involved in various capacities in organisations for social causes.

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## Mr. Alex Parackal George

### **Non-Executive Independent Director**



Mr. Alex Parackal George holds a B.tech degree in Chemical Engineering from Indian Institute of Technology, Madras and a Post Graduate Diploma in Management (PGDM) from the Indian Institute of Management, Calcutta; with 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. 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 was an Adjunct Professor at IIM, Kozhikode for a few years for Entrepreneurship and new ventures and continues to be on their advisory panel.

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## Dr. Joseph Vadakkekara Antony

### **Non-Executive Independent Director**



Dr. V.A Joseph, former Chairman, Managing Director & CEO of South Indian Bank, has over 4 decades of experience in the banking and financial sector. Dr. Joseph joined as Trainee Officer in Syndicate Bank during June 1972 and worked as the Branch Manager at Trivandrum, Ernakulam and Pune for 15 years. He held the post of Principal of Staff Training College, Udupi, Karnataka for two years and was also the Head of Human Resource Development, Head Office (Manipal). Before joining South Indian Bank, he was the General Manager of Syndicate Bank, Mumbai Zone, overseeing the operations of the bank in the states of Maharashtra, Gujarat, Goa and Chattisgarh. In the year 2005, he was appointed as the Chairman & CEO of South Indian Bank and then, as the Managing Director & CEO during 2008. He retired from the service of the Bank on 30th September 2014. Dr. Joseph is a post graduate in Commerce and Personnel Management. Besides being a certified associate of the Indian Institute of Bankers, he also possesses Ph D and LLB from Pune University.



## Board Meetings

The Board Meetings are convened by giving appropriate notice after obtaining the approval of the Chairman and the Managing Director & CEO. The agenda of the board meetings is co-ordinated by the Company Secretary along with the explanatory notes and these are distributed in advance to the directors.

The Board of Directors during the financial year 2017-18 met 10 times on 26.05.2017, 27.06.2017, 17.08.2017, 27.09.2017, 01.11.2017, 29.11.2017, 30.12.2017, 06.02.2018, 27.03. 2018 and 28.03.2018. The Board of Directors thus ensured the stipulations laid in the Companies Act, 2013 with respect to the conduct of Board meetings during the financial year.

Name	No. of Board meetings held	Attendance of Board Meetings	Attendance of Last AGM
Prabha Raveendranathan	10	9	Yes
Kadambelil Paul Thomas	10	10	Yes
Asha Morley	10	10	Yes
Alex Parackal George	10	10	Yes
Assan Khan Akbar	10	10	Yes
Saneesh Singh	10	10	Yes
George Joseph	10	10	Yes
Joseph Vadakkekara Antony	8	8	Yes

## Committees of the Board

The Board has constituted several committees to deal with specific matters and delegated powers for different functional areas. These committees monitor the activities falling within their terms of reference. The Board of Directors have formed Seven (7) Committees as on 31.03.2018.

The details of the Committees are enlisted in the table below:

Sl. No.	Name of the Committee
1.	<b>Audit Committee</b>
2.	<b>Nomination and Remuneration Committee</b>

Sl. No.	Name of the Committee
3.	<b>Risk Management Committee</b>
4.	<b>Management Committee</b>
5.	<b>IT Strategy Committee</b>
6.	<b>Customer Service Committee</b>
7.	<b>CSR Committee</b>

### 1. Audit Committee of the Board

The Audit Committee of the Bank was formed on December 13th 2016. The Committee was reconstituted on August 17th 2017. Currently, the Committee has Four members. The Company Secretary acts as the Secretary to the Committee.

The meetings of the Committee were held on 26th May 2017, 17th August 2017, 27th September 2017, 01st November 2017, 06th February 2018 and 01st March 2018. The composition of the reconstituted Audit Committee along with the attendance recorded in the meetings held during the period 2017-18 are mentioned below:

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

\* Mr. George Joseph was appointed as a member of the Committee on 17th August 2017.

### 2. Nomination & Remuneration Committee

The Committee was constituted on 13th December 2016. The Constitution of the Nomination and Remuneration Committee was reconstituted on 17th August 2017. Currently the Committee is having 5 members. The meetings of the Committee were held on 27th June 2017, 27th September 2017, 15th December 2017, 06th February 2018 and 26th March 2018. The details of the Committee meetings held during the FY 2017-18 along with the attendance recorded therein are mentioned below:

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

\* Dr. V A Joseph, Mrs. Asha Morley and Mr. Assan Khan Akbar were appointed as members of the Committee on 17th August 2017.

\*\* Mr. Prabha Raveendranathan ceased to be a member of the Committee on 17th August 2017.

### 3. Risk Management Committee of the Board

The Risk Management Committee of the Board of Directors was formed on December 13th, 2016. The Committee was reconstituted on August 17th, 2017 and 01st November 2017. The Risk Management Committee of the Board was convened 4 times during the Financial Year 2017-18:

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

Sl. No.	Name of the Members of the Committee	Designation	Attendance	
			Total No. of Meetings held	Total No. of Meetings attended
1.	<b>Alex Parackal George</b>	Chairman	4	4
2.	<b>Prabha Raveendranathan</b>	Member	4	3
3.	<b>Assan Khan Akbar**</b>	Member	2	2
4.	<b>Asha Morley**</b>	Member	2	2
5.	<b>Dr. V A Joseph*</b>	Member	2	2
6.	<b>Kadambelil Paul Thomas***</b>	Member	1	1

\* Dr. V A Joseph was appointed as member of the Committee

on 17th August 2017.

\*\* Mr. Assan Khan Akbar and Mrs. Asha Morley ceased to be the members of the Committee on 17th August 2017.

\*\*\* Mr. Kadambelil Paul Thomas was appointed as a member of the Committee on 17th August 2017 and ceased to be a member on 01st November 2017.

### 4. Management Committee of the Board

The Management Committee of the Board of Directors of the Bank was formed on 17th August 2017. The Management Committee meeting was convened Four (4) times during the financial year 2017-18 on 15th December 2017, 30th December 2017, 17th January 2018 and 06th March 2018.

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

### 5. Corporate Social Responsibility Committee of the Board

The Bank has constituted a Corporate Social Responsibility Committee pursuant to the provisions of the Companies Act, 2013. The Corporate Social Responsibility Committee of the Bank was formed on 17th August 2018. The Committee has been constituted to:

- 1) Formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the Bank, as laid down in Schedule VII to the Act.
- 2) Recommend the amount of Expenditure to be incurred on the CSR Activities.
- 3) Monitor Bank's CSR Policy and Implementation of CSR Projects undertaken from time to time.

After the constitution of the Committee, the Committee has convened their meeting once on 27th March 2018. The details pertaining to the constitution of the CSR Committee, the details of meetings convened during the FY 2017-18 and the attendance recorded therein are enlisted in the table below:



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

## 6. IT Strategy Committee of the Board

The Bank had constituted an IT Strategy Committee pursuant to the guidelines of the Reserve Bank of India. The IT Strategy Committee of the Bank was formed on 26th May 2017 and the same was reconstituted on 17th August 2017. An organization having a robust IT Policy will definitely enjoy more confidentiality, security and independence while implementing its managerial decisions. The formulation of the IT Strategy Committee will ensure the following benefits to the organization:

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

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

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

## 7. Customer Service Committee of the Board

The Bank has pursuant to the Directives issued by the Reserve Bank of India had constituted a Customer Service Committee to bring about improvements in the quality of Customer Services provided by the Bank. The Customer Service Committee of the Bank was constituted on 17th August 2017. The Customer Service Committee comprises of members who have adequate skills and rich experience dealing with the Customers

belonging to different strata in the society.

The constitution of the Customer Service Committee are as detailed in the table below:

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

## 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 displayed at all Branches of the Bank.

## Disclosures

- The particulars of transactions between the Bank and its Related Parties, as defined under Section 2(76) of the Act and in Accounting Standard 18, are set out in the financial statements. The Bank has a record of unqualified financial statements since inception.
- During the last three years, there were no penalties or strictures imposed on the Bank by the Stock Exchange(s) and/or SEBI and/or any other statutory authorities on matters relating to capital market.
- None of the Directors are related to any other director.

## Share holder information

### a. Date time and venue of 2nd AGM

The 2nd AGM of the Bank will be held on 28th September 2018 at The Corporate Office of the Bank at ESAF Bhavan, Mannuthy, Thrissur, Kerala at 10.00 AM.

### b. Financial Calendar

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



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## Management discussion and analysis



Global economic environment accelerated during fiscal 2018, thanks to a synchronized recovery in US, the Europe and Japan; even China seemed to be stabilizing. A prevalent sense of investor confidence led to unusually low financial markets volatility, resulting in aggressive pricing of risk assets. Global Inflation, however, has remained persistently below central bank's targets. However, global central banks are becoming more hawkish.

India's macro fundamentals have remained broadly stable, but with oil prices no longer falling, the tailwinds from falling inflation and a low current account deficit are fading. At the same time, the government has extended the fiscal consolidation programme, raising deficit targets for both FY18 and FY19. Domestic growth appears to be recovering cyclically, and high frequency indicators showing a recovery more pronounced in manufacturing than in services. Both remain drivers of a stronger GDP print, with the CSO estimating FY18 growth at 6.6%, and the RBI forecasting FY19 growth at 7.4%. Corporate credit growth is better than the troughs following the demonetization exercise, but this currently appears to be partially due to working capital financing.

The IMF projects Global growth prospects to remain firm in the coming year, with lower taxes and fiscal expansion in the US, as well as potential Eurozone reforms amid accommodative financing conditions. China's able stewardship of the shift to a lower and sustainable growth trajectory has led to some easing in investor uncertainty. However, fresh risks are asserting themselves. Higher oil and commodity prices might once again lead to larger trade imbalances, increasing future potential volatility.

The bank can make a meaningful contribution to the unserved and underserved strata of the society through its existing relationships, products and services and business operations on an Omni-channel. ESAF SFB want to be a leader in social banking with an eye on the economic viability of providing whole host of banking services serving the entire spectrum of bankable and to be banked population.

ESAF believes in the triple bottom line approach towards its business. Apart from financial bottom line, which is imperative for the progress of the business, ESAF Small Finance Bank also focuses on social and environmental bottom lines. The Organization has set social targets for each of its branch network on indicators such as reaching the marginalised, reaching the poor, reaching the most vulnerable communities affected by natural disasters, geographic outreach to backward areas and access to

water & sanitation and access to social security. In case of environment, the Organization believes that pollution reduction measures should not be limited to industries but also should be applied to vehicle emissions and agricultural discharges. Triple bottom line approach is the underlying theme around which the larger vision of ESAF revolves. We believe in the depth and the breadth of development and this approach proves to be the right catalyst for the holistic change that we aspire. On par with the financial bottom line, we give emphasis to social and environmental bottom lines.

The co-existence of brick and mortar, business correspondent, ATM, digital alternate channels will make all product and services available for the whole host of customer irrespective of the income strata of the consumer. We will invest in the futuristic trends making banking services available for all including the safeguarding the gullible first time banking customers.

Bank will aim to grow secured lending portfolio while continue to keep the unsecured lending portfolio ticking making products available for all segments of the industry. MSME, Education and housing will be the top priorities of the bank. Agricultural lending, small ticket loans and priority loans and advances will have the lion's share of the portfolio.

A strategic five-year plan has been worked out which will cover all the various strategy pointers for socio economic success of the bank. Retail banking and micro banking are the basic pillars under which the products and services are offered to well engaged customers.

New roads are laid in the banking industry where we just not promise new generation or old generation banking but an alternate banking where socio economic goals are achieved and yet sustainable in all the metrics that are normally taken for measurement. The bank will strongly put forth the triple bottom-line agenda of Profit, planet and people in all its functions with utmost sincerity for making a meaningful contribution to the society. We mean sustainable and responsible banking under triple bottom-line approach now and in all the days to come.

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

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



## Disseminating Joy through Information Technology

Technology is the lynchpin for modern banking. When it comes to expanding geographies or innovation in products and services or efficiency in enhancing delivery of services, you cannot do away with technology.

On the compliance / regulatory fronts the banking business has become more complex mainly due to the stringent regulations by the apex bank and other regulatory bodies. The peer pressure has also played a pivotal role in the adoption of technology not only to make the operations competitive; but also to mitigate the risks involved in the business.

For ESAF Small Finance Bank, proven models were available with respect to IT. We have opted for an outsourced System Integrator Model; which we considered the most suitable for us, considering various aspects like optimum cost, minimal human resources and lesser gestation period.

The performance of the bank vindicated the decision, so far. We could build our IT infrastructure, which includes more than 25 applications, 400 brick and mortar branches, and more than 180 ATMs along with DC and DR within the shortest possible time. For a conventional bank this would take a turn-around time of two to four years; but we could complete the task within a timeframe of 15 months.

As an organisation which transitioned to a Bank from Microbanking arena, we are committed to the marginalised and the poor community mostly women. To provide hassle free banking services to such customers we have taken a conscious decision to invest heavily in technology not only to maintain a competitive edge but also to contribute to the development of this community at large and to demonstrate their added value to the society.

### Digitalization

The digitalization over the past few years in India has affected almost every sphere of our lives and banking is not an exception. Considering this aspect, we have also built huge digitalized environment to support process related to both internal and external customers. Most important initiative among this is our E-KYC Project where the KYC verification is taking place onsite using biometric (IRIS/BFT) authentication. This will also avoid any manual intervention with respect to data capture as the data flows automatically to the system, thus mitigating the related risk/errors.

To the legacy customers of the bank, we were able to disperse loan in a record time of less than two days through the mobile application we developed. We have automated credit bureau checks, name check, dedupe check etc., which are embedded in the mobile app, so as to reduce the turnaround time.

We could support online account creation of both SB/ FD/RD accounts along with the PGK provision to make the funds available to the customers immediately. Further the availability of debit card in PG Kit made provisions for online / POS / ATM transactions for the customers.

The process automation software is being used for customer and account on-boarding in the retail branches too. This application is also with an integrated -E-KYC module so as to avoid the difficulty of bringing KYC documents for the customers. The process flow is completely automated and the accounts are opened within record timelines.

Our internet banking and mobile banking applications are versatile and customer friendly. The feature rich applications allow customers to use it for fund transfer within / outside the bank. We have also implemented various applications like ALM / AML / Credit, Market & Operational risks to comply with regulatory framework.

Our ATM network of 180+ ATMS cater to 18 lakh live customers and 1 crore plus transactions from 14 lakhs plus cards. Our CBS solution supports all standard banking products & services and is scalable to take any number of transactions.

### Strategy for the Future

IT Strategy is always driven by business strategy and accordingly the various plans are on the anvil. This inter alia includes implementation of various electronic / payment channels and applications like UPI / AEPS / BPES / Corporate internet banking / E-valets etc., to support the large scale migration of transactions from brick and mortar bank branches to digital channels.

We also plan to enhance the reach by appointing agents across the country to support the banking channels at the door step or near doorstep augmenting the operations of our existing Microbanking work force. The services offered by these agents include all types of fund transfers bit inter / intra bank along with bill / utility payments.

Our technology infrastructure, which is scalable, secure and pervasive have provided the business verticals, the necessary impetus for all-round growth and expansion.



Our feature rich and user friendly applications have provided our customers to execute the banking transactions at ease and at their door steps. Our streamlined process provided our internal staff peace of mind by delivering the services efficiently in compliance with the laid down process and procedures.

#### Key Indicators (` in crores)

Parameters	FY 2017-2018	FY 2016-2017
Share Capital	311.94	301.56
Reserves & Surplus	31.40	4.20
Net worth	343.34	305.76
Deposits	2523.09	409.34
Borrowings	1674.65	2052.84
Total Debt	4197.74	2462.18
Advances	3155.08	1481.72
Investments	731.86	579.19
Net Fixed Assets	68.70	32.90
Interest Income	596.83	29.39
Interest Expense	314.82	16.11
Total Income	698.69	48.20
Total Expenditure (interest expenses + operating expenses)	671.70	47.44
Operating Profit	79.39	8.68
Provisioning & Write-offs	52.40	7.92
Profit After Taxation ("PAT")	26.99	0.76
Gross NPA to Gross Advances (%)	3.79%	0.52%
Net NPA to Net Advances (%)	2.69%	0.25%
Capital Adequacy Ratio (%)*	16.87%	16.27%
Tier I Capital Adequacy Ratio (%)	12.36%	13.39%
Tier II Capital Adequacy Ratio (%)	4.51%	2.88%

Parameters	FY 2017-2018	FY 2016-2017
Return on Assets (%) (average)	0.72%	0.30%
Earnings Per Share (Basic) (in `)	0.89	0.07
Non-Current Assets	68.70	32.90
Cash & Cash Equivalents	697.79	556.18
Current Investments	731.86	579.19
Current Assets	70.69	344.46
Current Liabilities	183.04	226.51
Assets under Management	4088.74	2137.02
Off Balance Sheet Assets	897.41	651.03





# 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, 2018, 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 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 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 Companies (Accounting Standards) Rules, 2006 (as amended) specified under section 133 of the Act, read with the Companies (Accounts) Rules, 2014 in so far as they apply to the Bank and 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 India, 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 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 together with the notes thereon 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, 2018, 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 the Companies (Accounting Standards) Rules, 2006 (as amended) specified under section 133 of the Act, read with 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 June 22, 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 27 branches for the purpose of our audit.

8. Further, as required by section 143(3) of the Companies Act, 2013, 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 Companies (Accounting Standards) Rules, 2006 (as amended) specified under section 133 of the Act, read with 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, 2018 taken on record by the Board of Directors, none of the directors is disqualified as on March 31, 2018 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 1" to this report; and

(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, 2018;

ii. The Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts - Refer Schedule 17-Note 4.11 and Schedule 18A - Note 12 to the financial statements; and

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

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

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

Place of Signature: Thrissur  
Date: 22 May, 2018

## **Annexure 1 to the Independent Auditor's Report of even date on the Financial Statements of ESAF Small Finance Bank Limited**

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

### **To the Members of ESAF Small Finance Bank Limited**

We have audited the internal financial controls over financial reporting of ESAF Small Finance Bank Limited (the "Bank") as of March 31, 2018 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, 2018, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

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

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

Place of Signature: Thrissur  
Date: 22 May, 2018

## Balance Sheet as at 31 March 2018

	Sched- ule No.	As at 31 March, 2018 (`)	As at 31 March, 2017 (`)
<b>CAPITAL AND LIABILITIES</b>			
Capital	1	3,11,94,51,810	3,01,56,28,290
Reserves and Surplus	2	31,40,26,385	4,20,01,267
Deposits	3	25,23,09,24,525	4,09,34,12,290
Borrowings	4	16,74,65,02,635	20,52,84,86,524
Other Liabilities and Provisions	5	1,83,04,41,362	2,26,51,30,139
<b>Total</b>		<b>47,24,13,46,717</b>	<b>29,94,46,58,510</b>
<b>ASSETS</b>			
Cash and Balances with Reserve Bank of India	6	4,38,45,79,564	1,06,86,02,353
Balances with Banks and Money at Call and Short Notice	7	2,59,32,85,253	4,49,31,74,136
Investments	8	7,31,86,34,155	5,79,19,51,894
Advances	9	31,55,08,58,495	14,81,72,60,695
Fixed Assets	10	68,70,25,180	32,90,38,080
Other Assets	11	70,69,64,070	3,44,46,31,352
<b>Total</b>		<b>47,24,13,46,717</b>	<b>29,94,46,58,510</b>
Contingent Liabilities	12	61,71,98,285	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  
Sd/-

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

Place : Thrissur  
Date : 22 May 2018

For and on behalf of the Board of Directors  
Sd/-  
**Prabha Raveendranathan**  
Chairman  
Sd/-

**Asha Morley**  
Director  
Sd/-  
**Padmakumar K.**  
Chief Financial Officer

Place : Thrissur  
Date : 22 May 2018

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

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



## Profit and loss account for the period ended on 31 march 2018

	Sched- ule No.	For the period ended 31 March, 2018 (`)	For the period 5 May 2016 to 31 march 2017(`)
<b>I. INCOME</b>			
Interest Earned	13	5,96,83,96,300	29,39,29,264
Other Income	14	1,01,86,02,352	18,81,68,597
<b>Total</b>		<b>6,98,69,98,652</b>	<b>48,20,97,861</b>
<b>II. EXPENDITURE</b>			
Interest expended	15	3,14,82,01,457	16,11,05,331
Operating Expenses	16	3,04,47,81,123	23,40,96,119
Provisions and Contingencies		52,40,67,424	7,92,66,854
<b>Total</b>		<b>6,71,70,50,004</b>	<b>47,44,68,304</b>
<b>III. PROFIT</b>			
<b>Net Profit for the year (I - II)</b>		<b>26,99,48,648</b>	<b>76,29,557</b>
Add: Balance in Profit and Loss account brought forward from Previous Year		57,22,168	-
Add: Amount transferred from Special Reserve			-
		<b>27,56,70,816</b>	<b>76,29,557</b>
<b>IV. APPROPRIATIONS</b>			
Transfer to Statutory Reserve		6,74,87,162	19,07,389
Transfer to Capital Reserve		-	-
Transfer to/(from) Investment Reserve Account		-	-
Balance carried over to Balance Sheet		20,81,83,654	57,22,168
<b>Total</b>		<b>27,56,70,816</b>	<b>76,29,557</b>
Earnings per Share (Face value of ` 10/- each) (Note 1 of Schedule 18)			
Basic		0.89	0.07
Diluted		0.89	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 Financial statements

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

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

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

For and on behalf of the Board of Directors

Sd/-  
**Prabha Raveendranathan**  
Chairman

Sd/-  
**Asha Morley**  
Director  
Sd/-  
**Padmakumar K.**  
Chief Financial Officer

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

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

Place : Thrissur  
Date : 22 May 2018

Place : Thrissur  
Date : 22 May 2018

## Cash flow statement for the period ended 31 March 2018

	For the period ended 31 March, 2018 ( ` )	For the period ended 31 March, 2017 ( ` )
<b>Cash Flow from Operating Activities</b>		
<b>Net Profit before tax</b>	43,84,19,270	2,19,57,308
<b>Adjustments for:</b>		
Depreciation on Bank's Property	9,42,63,974	44,18,275
Amortisation of Premium on HTM Investments	2,04,02,452	12,38,102
Profit on sale of investments (net)	(4,82,55,587)	-
Provision for Non Performing Assets, Standard Assets and Other Provisions	35,55,96,802	(7,89,24,987)
Reversal of excess provision for standard asset	-	
Provision for Other Contingencies	-	
	<b>86,04,26,911</b>	<b>(5,13,11,301)</b>
<b>Adjustments for :-</b>		
(Increase)/ Decrease in Investments (other than HTM Investments)	(13,62,49,783)	(1,39,21,73,206)
(Increase)/ Decrease in Advances	(17,07,15,56,733)	(14,81,72,44,452)
(Increase)/ Decrease in Fixed Deposit with Bank (Original Maturity greater than 3 months)	9,78,95,723	(64,33,19,750)
(Increase)/ Decrease in Other Assets	2,83,08,02,439	(2,87,90,66,520)
Increase/ (Decrease) in Deposits	21,13,75,12,235	4,09,34,12,290
Increase/ (Decrease) in Other liabilities and provisions	(44,53,06,472)	1,76,41,46,299
Direct taxes paid	(26,86,25,953)	-
<b>Net Cash Flow from Operating Activities (A)</b>	<b>7,00,48,98,367</b>	<b>(13,92,55,56,640)</b>
<b>Cash Flow from/(Used in) Investing Activities</b>		
Purchase of Fixed Assets	(45,22,51,074)	(33,34,56,355)
(Increase)/ Decrease in Held to Maturity Investments	(1,36,25,79,343)	(4,40,10,16,790)
<b>Net Cash Used in Investing Activities (B)</b>	<b>(1,81,48,30,417)</b>	<b>(4,73,44,73,145)</b>
<b>Cash Flow from/(Used in) Financing Activities</b>		
Proceeds from Issue of Share Capital	10,58,99,990	3,05,00,00,000
Increase/(Decrease) in Borrowings	(3,78,19,83,889)	20,52,84,86,524
<b>Net Cash generated from financing Activities (C)</b>	<b>(3,67,60,83,899)</b>	<b>23,57,84,86,524</b>
<b>Net Increase in Cash and Cash Equivalents (A+B+C)</b>	<b>1,51,39,84,051</b>	<b>4,91,84,56,739</b>
<b>Cash and Cash Equivalents at the beginning of year</b>	4,91,84,56,739	-



	For the period ended 31 March, 2018 (₹)	For the period ended 31 March, 2017 (₹)
<b>Cash and Cash Equivalents at the end of year (refer note below)</b>	<b>6,43,24,40,790</b>	<b>4,91,84,56,739</b>
<b>Note:</b>		
Cash in Hand (Schedule 6 I)	11,30,41,794	1,23,12,785
Balance with RBI in Current Account (Schedule 6 II (i))	4,27,15,37,770	1,05,62,89,568
Balance with Banks in India in Current Account (Schedule 7 I (i) a)	1,04,78,61,226	1,27,33,34,386
Balance with banks in India in Fixed Deposit	-	2,57,65,20,000
Money at Call and Short Notice	1,00,00,00,000	
Cash and cash equivalents at the end of the year	<b>6,43,24,40,790</b>	<b>4,91,84,56,739</b>

As per our report of even date attached

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

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

Place : Thrissur  
Date : 22 May 2018

For and on behalf of the Board of Directors

Sd/-  
**Prabha Raveendranathan**  
Chairman

Sd/-  
**Asha Morley**  
Director  
Sd/-  
**Padmakumar K.**  
Chief Financial Officer

Place : Thrissur  
Date : 22 May 2018

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

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

## Schedules forming part of the Balance Sheet

	As at 31 March 2018 (₹)	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	3,50,00,00,000
<b>Issued, Subscribed and Paid up Capital</b>		
(31,19,45,181 Equity Shares of ₹ 10/- each)*	3,11,94,51,810	3,01,56,28,290
<b>Total</b>	<b>3,11,94,51,810</b>	<b>3,01,56,28,290</b>
<b>Schedule 2 - Reserves And Surplus</b>		
<b>I. Statutory Reserve</b>	19,07,389	-
Opening balance	6,74,87,162	19,07,389
Additions during the year	<b>6,93,94,551</b>	<b>19,07,389</b>
<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	3,43,71,710	-
Additions during the year	20,76,470	3,43,71,710
	<b>3,64,48,180</b>	<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	-	-



	As at 31 March, 2018 (₹)	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>	<b>20,81,83,654</b>	<b>57,22,168</b>
<b>Total (I to VII)</b>	<b>31,40,26,385</b>	<b>4,20,01,267</b>
<b>Schedule 3 - Deposits</b>		
<b>A. I. Demand Deposits</b>		
i. From Banks	2,16,33,713	-
ii. From Others	45,01,58,557	41,45,344
	<b>47,17,92,270</b>	<b>41,45,344</b>
II. Savings Bank Deposits	<b>2,05,25,99,637</b>	<b>73,97,12,618</b>
III. Term Deposits		
i. From Banks	8,98,34,70,917	37,00,00,000
ii. From Others	13,72,30,61,701	2,97,95,54,328
	<b>22,70,65,32,618</b>	<b>3,34,95,54,328</b>
<b>Total (I to III)</b>	<b>25,23,09,24,525</b>	<b>4,09,34,12,290</b>
B. I. Deposits of branches in India	25,23,09,24,525	4,09,34,12,290
II. Deposits of branches outside India	-	-
<b>Total (I to II)</b>	<b>25,23,09,24,525</b>	<b>4,09,34,12,290</b>
<b>Schedule 4 - Borrowings</b>		
I. Borrowings in India		
i. Reserve Bank of India	-	-
ii. Other Banks *	4,68,61,59,785	11,81,17,82,783
iii. Other institutions and agencies **	10,08,03,42,850	8,06,67,03,741
iv. Subordinated Debt ***	1,50,00,00,000	65,00,00,000
v. Perpetual Debt Instrument	48,00,00,000	-
	<b>16,74,65,02,635</b>	<b>20,52,84,86,524</b>
II. Borrowings outside India	-	-
<b>Total (I to II)</b>	<b>16,74,65,02,635</b>	<b>20,52,84,86,524</b>
* Includes Commercial Paper of ₹ Nil (31 March 2017 ₹ 2129,991,971.78) ** Includes Commercial Paper of ₹ Nil (31 March 2017 ₹ 933,634,160) *** Includes Non Convertible Debentures and Unsecured Termloan included in Tier - II capital		





	As at 31 March, 2018 (₹)	As at 31 March, 2017 (₹)
<b>Schedule 5 - Other Liabilities and Provisions</b>		
I. Bills Payable	-	-
II. Inter - office adjustments (Net)	-	-
III. Interest accrued	26,97,19,687	14,22,28,726
IV. Provision for Standard Assets	12,28,11,180	10,51,73,311
V. Proposed Dividend	-	-
VI. Others (including Provisions)	1,43,79,10,495	2,01,77,28,102
<b>Total (I to VI)</b>	<b>1,83,04,41,362</b>	<b>2,26,51,30,139</b>
<b>Schedule 6 - Cash and Balances with Reserve Bank of India</b>		
I. Cash in hand	11,30,41,794	1,23,12,785
II. Balance with Reserve Bank of India		
i. in Current Accounts	4,27,15,37,770	1,05,62,89,568
ii. in Other Accounts	-	-
<b>Total (I to II)</b>	<b>4,38,45,79,564</b>	<b>1,06,86,02,353</b>
<b>Schedule 7 - Balances with Banks and at Call and Short Notice</b>		
I. In India		
i. Balances with Banks		
a. in Current Accounts	1,04,78,61,226	1,27,33,34,386
b. in Other Deposit Accounts	54,54,24,027	3,21,98,39,750
<b>Total</b>	<b>1,59,32,85,253</b>	<b>4,49,31,74,136</b>
ii. Money at Call and Short Notice		
a. With Banks	1,00,00,00,000	-
b. With Other Institutions	-	-
<b>Total</b>	<b>1,00,00,00,000</b>	<b>-</b>
<b>Total (I)</b>	<b>2,59,32,85,253</b>	<b>4,49,31,74,136</b>
II. Outside India		
i. in Current Accounts	-	-
ii. in Other Deposit Accounts	-	-
iii. Money at call and short notice	-	-
<b>Total (II)</b>	<b>-</b>	<b>-</b>
<b>Total (I to II)</b>	<b>2,59,32,85,253</b>	<b>4,49,31,74,136</b>



	As at 31 March, 2018 (₹)	As at 31 March, 2017 (₹)
<b>Schedule 8 - Investments</b>		
I. Investments in India in :		
i. Government Securities	6,73,94,36,163	5,79,19,51,894
ii. Other approved Securities	-	-
iii. Shares	-	-
iv. Debentures and Bonds	-	-
v. Subsidiaries/ Joint Ventures	-	-
vi. Others [Certificate of Deposits (CDs), Pass Through Certificates (PTCs), Security Receipts etc.]	57,91,97,992	-
<b>Total (I)</b>	<b>7,31,86,34,155</b>	<b>5,79,19,51,894</b>
II. Investments outside India	-	-
<b>Total (II)</b>	<b>-</b>	<b>-</b>
<b>Total (I to II)</b>	<b>7,31,86,34,155</b>	<b>5,79,19,51,894</b>
Gross Investments	7,31,86,34,155	5,79,19,51,894
Less: Depreciation/ Provision for Investments	-	-
Net Investments	<b>7,31,86,34,155</b>	<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	31,55,08,58,495	14,81,72,60,695
<b>Total</b>	<b>31,55,08,58,495</b>	<b>14,81,72,60,695</b>
B. i. Secured by tangible assets	18,24,54,727	40,41,659
ii. Covered by Bank/Government guarantees	-	-
iii. Unsecured	31,36,84,03,768	14,81,32,19,036
<b>Total</b>	<b>31,55,08,58,495</b>	<b>14,81,72,60,695</b>
C. I. Advances in India		
i. Priority Sectors	31,36,84,03,768	14,81,32,19,036
ii. Public Sector	-	-
iii. Banks	-	-
iv. Others	18,24,54,727	40,41,659
<b>Total (I)</b>	<b>31,55,08,58,495</b>	<b>14,81,72,60,695</b>
II. Advances outside India		
i. Due from Banks	-	-
ii. Due from Others	-	-
a) Bills purchased and discounted	-	-
b) Syndicated Loans	-	-



	As at 31 March, 2018 (₹)	As at 31 March, 2017 (₹)
c) Others	-	-
<b>Total (II)</b>	-	-
<b>Total (I to II)</b>	<b>31,55,08,58,495</b>	<b>14,81,72,60,695</b>
<b>Schedule 10 - Fixed Assets</b>		
<b>I OWNED ASSETS</b>		
<b>a.Premises</b>		
<b>Gross Block</b>		
At the beginning of the year	-	-
Additions during the year	-	-
Deductions during the year	-	-
Closing Balance	-	-
<b>Depreciation</b>		
As at the beginning of the year	-	-
Charge for the Year	-	-
Deductions during the year	-	-
Depreciation to date	-	-
<b>Net Block</b>	-	-
<b>b.Other fixed assets</b>		
(including furniture and fixtures)		
<b>Gross Block</b>		
At the beginning of the year	31,30,25,559	-
Additions during the year #	38,86,32,065	31,30,25,559
Deductions during the year	-	-
Closing Balance	<b>70,16,57,624</b>	<b>31,30,25,559</b>
<b>Depreciation</b>		
As at the beginning of the year	44,18,275	-
Charge for the year	9,42,63,974	44,18,275
Deductions during the year	-	-
Depreciation to date	9,86,82,249	44,18,275
<b>Net Block</b>	<b>60,29,75,375</b>	<b>30,86,07,284</b>
<b>II ASSETS GIVEN ON LEASE</b>		
<b>Gross Block</b>		
At the beginning of the year	-	-
Additions during the year	-	-
Deductions during the year	-	-
Closing Balance	-	-



	As at 31 March, 2018 (₹)	As at 31 March, 2017 (₹)
<b>Depreciation</b>		
As at the beginning of the year	-	-
Charge for the year	-	-
Deductions during the year	-	-
Depreciation to date	-	-
<b>Net Block</b>	-	-
<b>II. Capital Work in progress (Including Capital Advances)</b>	8,40,49,805	2,04,30,796
# Includes assets acquired from ESAF Microfinance and Investments Private Ltd ` Nil (31 March 2017: ` 128,298,786) and ESAF Swasraya Multi-state Agro Cooperative Society ` Nil (31 March 2017: ` 2,497,476) as per the Business Transfer Agreement (BTA).		
<b>Total (I &amp; II)</b>	<b>68,70,25,180</b>	<b>32,90,38,080</b>
<b>Schedule 11 - Other Assets</b>		
I. Inter - office adjustments (net)	-	-
II. Interest accrued	26,90,07,692	13,05,01,217
III. Tax paid in advance/Tax Deducted at source (Net of provision)	-	-
IV. Stationery and Stamps	61,960	-
V. Non-banking assets acquired in satisfaction of claims	-	-
VI. Others	33,91,16,550	3,30,84,87,424
VII. Deferred tax asset	9,87,77,868	56,42,711
<b>Total (I to VII)</b>	<b>70,69,64,070</b>	<b>3,44,46,31,352</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	61,71,98,285	67,60,57,892
<b>Total (I to V)</b>	<b>61,71,98,285</b>	<b>67,60,57,892</b>
<b>Schedules forming part of the Profit and Loss account</b>		
Particulars	For the Period Ended 31 March 2018 (₹)	For the Period 5 May 2016 to 31 March 2017 (₹)
<b>Schedule 13 - Interest Earned</b>		
I. Interest/discount on advances/bills	5,36,70,00,532	21,34,45,453
II. Income on investments	49,33,74,504	2,14,02,084
III. Interest on balances with Reserve Bank of India and other inter-bank funds	10,80,21,264	5,90,81,727
IV. Others		
<b>Total (I to IV)</b>	<b>5,96,83,96,300</b>	<b>29,39,29,264</b>



	For the Period Ended 31 March 2018 (₹)	For the Period 5 May 2016 to 31 March 2017 (₹)
<b>Schedule 14 - Other Income</b>		
I. Commission, exchange and brokerage	41,08,30,428	1,28,24,922
II. Profit on sale of investments (Net)	4,82,55,587	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	55,95,16,337	17,16,86,704
<b>Total (I to VII)</b>	<b>1,01,86,02,352</b>	<b>18,81,68,597</b>
<b>Schedule 15 - Interest Expended</b>		
I. Interest on deposits	1,06,75,13,749	2,97,45,854
II. Interest on Reserve Bank of India/Inter bank borrowings	89,14,67,729	7,14,11,213
III. Others	1,18,92,19,979	5,99,48,264
<b>Total (I to III)</b>	<b>3,14,82,01,457</b>	<b>16,11,05,331</b>
<b>Schedule 16 - Operating Expenses</b>		
I. Payments to and provisions for employees	39,51,56,387	1,81,50,769
II. Rent, taxes and lighting	20,89,61,340	3,18,29,555
III. Printing and stationery	5,10,20,806	7,04,790
IV. Advertisement and publicity	12,42,19,593	2,91,22,951
V. Depreciation	9,42,63,974	44,18,275
VI. Directors' fees, allowances and expenses	63,19,534	30,84,485
VII. Auditors' fees and expenses	53,54,644	13,00,000
VIII. Law charges	56,88,258	2,000
IX. Postage, Telegrams, Telephones etc	3,17,09,750	18,32,142
X. Repairs and maintenance	1,09,39,382	6,32,945
XI. Insurance	42,43,588	27,90,814
XII. Other expenditure	2,10,69,03,867	14,02,27,393
<b>Total (I to XII)</b>	<b>3,04,47,81,123</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, 2018**

### **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

During the year ended March 31, 2017, 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. 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 ₹0.20 per share amounting to ₹5 crores and ₹2 crores was discharged in the form of cash.

## 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 conforms with Generally Accepted Accounting Principles in India ("Indian GAAP"), the Accounting Standards specified under Section 133 of the Companies Act, 2013, read with the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules 2016 and other relevant provisions of the Companies Act, 2013 ("Act") in so far as they apply to the Bank and the guidelines issued by the Reserve Bank of India

## 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 non performing 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 into 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, or price declared on fixed income Money Market and Derivatives Association of India ("FIMMDA") website by Financials Benchmark India Private Limited (FBIL) as at the year end.

The market/ fair value of other than quoted SLR securities for the purpose of periodical valuation of investments included in the AFS and HFT categories 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/FBIL. 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 '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 (Property, Plant & Equipment and Intangible) and Depreciation / Amortization

Property, Plant & Equipment and Intangible 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 Property, Plant & Equipment and Intangible 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.

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

Intangible assets are amortized straight line basis over the estimated useful economic life

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

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 Fixed 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. The Bank makes contribution to gratuity funds administered by trustees and managed by life insurance companies.

**Compensated Absences:** The Bank accrues the liability for compensated absences based on the actuarial valuation as at the Balance Sheet date conducted by an independent actuary which includes assumptions about demographics, early retirement, salary increases, interest rates and leave utilisation. The net present value of the Banks' obligation is 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 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.

#### 4.8 Cash and Cash equivalent

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

#### 4.9 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, 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.

#### 4.10 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.

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

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.

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.

Contingent assets are not recognized in the financial statements.

#### **4.12 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.

#### **4.13 Transaction involving Foreign Exchange**

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

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

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

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

#### **4.14 Securitisation Transaction and direct assignments**

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

The Securitisation transactions are without recourse to the Bank. The transferred loans and such securitised receivables are de-recognised as and when these are sold (true sale criteria being fully met) and the consideration has been received by the Bank. Gains/losses are recognised only if the Bank surrenders the rights to the benefits specified in the loan contracts.

Profit / premium arising at the time of securitisation / assignment of loan portfolio is amortised over the life of the underlying loan portfolio / securities and any loss arising therefrom is accounted for immediately. Income from interest strip (excess interest spread) is recognised in the statement of profit and loss net of any losses when redeemed in cash. Interest retained under assignment of loan receivables is recognised on realisation basis over the life of the underlying loan portfolio.

**Schedules Forming part of the Balance Sheet and Profit and Loss Account**  
**Schedule 18 – Notes to the Accounts**

**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, 2018 (`)	31 March, 2017 (`)
<b>Capital Ratios:</b>		
(i) Common Equity Tier I Capital (%)	10.86%	13.39%
(ii) Tier I Capital (%)	12.36%	13.39%
(iii) Tier II Capital (%)	4.51%	2.88%
(iv) Total CRAR %	16.87%	16.27%
(v) Percentage of the shareholding of the Government of India in Public Sector Banks	NA	NA
(vi) Amount raised by issue of Equity Shares	311.95	305.00
(vii) Amount of Additional Tier I capital raised of which Perpetual Non Cumulative Preference Shares (PNCPS)	-	-
Perpetual debt instruments (PDI)	47.50	-
(viii) Amount of Tier II Capital raised of which Debt capital instruments*	150.00	65.00
Preference share capital instruments	-	-

\* Represents Subordinate debt acquired from ESAF Microfinance and Investments (P) Ltd. as part of Business Transfer Agreement (BTA) ` Nil (Previous year ` 65 Crore).

**2. Investments**

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

(` in Crores)

Sl. No.	Particulars	31 March, 2018 (`)				31 March, 2017 (`)			
		HTM	AFS	HFT	Total	HTM	AFS	HFT	Total
(i)	Government securities	574.20	99.74	-	673.94	439.98	139.21	-	579.19
(ii)	Other approved securities	-	-	-	-	-	-	-	-
(iii)	Shares	-	-	-	-	-	-	-	-
(iv)	Debentures and bonds	-	-	-	-	-	-	-	-
(v)	Others	-	57.92	-	57.92	-	-	-	-
	<b>Total</b>	<b>574.20</b>	<b>157.66</b>	<b>-</b>	<b>731.86</b>	<b>439.98</b>	<b>139.21</b>	<b>-</b>	<b>579.19</b>



Particulars	31 March, 2018 (`)	31 March, 2017 (`)
<b>1. Value of Investments</b>		
i. Gross value of Investments		
a. In India	731.86	579.19
b. Outside India	-	-
ii. Provision for Depreciation		
a. In India	-	-
b. Outside India	-	-
iii. Net value of Investments		
a. In India	731.86	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):**

The bank did not buy/sell any securities under repo/reverse repo during the current and previous year.

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

(i) Issuer Composition of Non SLR Investments as at 31 March 2018

Sl. No.	Issuer	Amount	Extent of Private placement	Extent of 'Below Investment grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
1	PSUs	-	-	-	-	-
2	FIs	-	-	-	-	-
3	Banks	49.92	-	-	-	49.92
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	8.00	8.00	-	-	-
7	Provision held towards depreciation	-	-	-	-	-
	<b>Total</b>	<b>57.92</b>	<b>8.00</b>	<b>-</b>	<b>-</b>	<b>49.92</b>

The Bank did not have 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 2018 and 31 March 2017.

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

During the year ended 31 March 2018 and year ended 31 March 2017, the value of sale/transfer of securities to/from

HTM category, (excluding one-time transfer of securities from HTM and sale on account of Open Market Operations) has not exceeded 5% of the book value of investments held in HTM category at the beginning of the year.

## 6. Derivatives:

The Bank did not have any transactions in derivative instruments during the current and previous years.

## 7. Asset Quality

### a. Non Performing Assets:

(` in Crores)

Particulars	31 March, 2018 (`)	31 March, 2017 (`)
(i) Net NPAs to Net Advances (%)	2.69%	0.25%
(ii) Movement of Gross NPAs		
(a) Opening balance *	7.85	7.80
(b) Additions during the year	114.68	0.05
(c) Recoveries	1.48	-
(d) Technical / Prudential Write-offs	-	-
(e) Write-offs other than those under (d) above	-	-
(f) Closing balance	121.05	7.85
(iii) Movement of Net NPAs		
(a) Opening balance	3.59	3.55
(b) Additions during the year	82.25	0.04
(c) Recoveries	1.03	-
(d) Closing balance	84.81	3.59
(iv) Movement of provision for NPAs (excluding provisions on standard assets)		
(a) Opening balance #	4.25	4.24
(b) Additions during the year	32.43	0.01
(c) Recoveries	0.44	-
(d) Closing balance	36.24	4.25

\* The opening balance as at 31 March 2017 includes NPA of `7.80 crore transferred as part of Business Transfer Agreement (BTA)

# The opening balances as at 31 March 2017 includes Provision of `4.24 crore transferred as part of Business Transfer Agreement (BTA)

### b. Particulars of Accounts Restructured

The Bank does not have any restructured account as on and for the year ended 31 March 2018 and period ended 31 March 2017.

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

During the year ended 31 March 2018 and period ended 31 March 2017, there was no sale of non-performing financial assets to Securitisation Company/ Reconstruction company for asset reconstruction.

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

The Bank did not sell/purchase any non-performing asset during the year ended 31 March 2018 and period ended 31 March 2017.

### e. Provisions on Standard Asset

(` in Crores)

Particulars	31 March 2018	31 March 2017
Provisions towards Standard Asset	12.28	10.52

Provision for the year ended March 31, 2018 is made in accordance with RBI guidelines for Banking Companies as described in Accounting policy of the Bank.



During the current year the Bank has changed its estimate on provisioning for standard assets from earlier 1 % to 0.40 %. Had the Bank continued with its earlier standard asset provision of 1% of its standard advances the profits of the Bank would have been lower by ₹ 18.14 crores.

## 8. Business ratios / information:

Particulars	31 March, 2018 (%)	31 March, 2017 (%)
Interest income as a percentage of working funds*	15.85%	11.90%
Non interest income as a percentage of working funds*	2.71%	1.60%
Operating profit as a percentage of working funds*	2.11%	(2.50%)
Return on assets (average)	0.72%	0.30%
Business (deposit plus advance) per employee (Rupees in crores)	5.72	3.84
Profit per employee (Rupees in crores)	0.03	0.00

\* 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.

Working funds represent monthly average of the total assets as reported to RBI in Form X under Section 27 of the Banking Regulation Act, 1949.

Operating Profit = (Interest Income + Other Income - Interest Expenses - Operating Expenses).

Business is monthly average of net advances and deposits as reported to the RBI under section 27 of the Banking Regulation Act, 1949.

## 9. Asset Liability Management

Maturity Pattern of certain items of assets and liabilities as at 31st March, 2018:

(₹ in Crores)

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	7.39	44.35	51.74	118.27	281.66	623.79	1,077.25	838.61	98.45	13.58	3,155.09
Investments*	0.06	151.15	1.31	1.92	15.88	19.41	57.67	47.52	6.45	585.03	886.41
Deposits	2.53	29.10	32.35	13.79	341.10	383.58	635.53	1,042.16	42.64	0.31	2,523.09
Borrowings	0.02	1.42	22.31	10.94	126.69	255.76	332.95	527.22	264.34	133.00	1,674.65
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-



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	1,481.72
Investments*	-	79.90	-	255.00	66.39	4.00	27.17	28.71	-	440.00	901.17
Deposits	2.49	2.59	2.57	0.24	5.38	28.09	15.06	261.92	49.65	41.35	409.34
Borrowings	-	11.24	13.01	25.10	111.74	534.81	398.35	864.22	77.98	16.40	2,052.85
Foreign Cur- rency Assets	-	-	-	-	-	-	-	-	-	-	-
Foreign Cur- rency Liabi- 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 and Money at call and short notice.

## 10. Exposure

### a) Exposure to Real Estate Sector:

(₹ in Crores)

Particulars	31 March, 2018 (₹)	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;	2.94	-
ii) Commercial Real Estate - Lending secured by mortgages on commercial real estate's (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure also includes non-fund based (NFB) limits		-



Particulars	31 March, 2018 (₹)	31 March, 2017 (₹)
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>2.94</b>	<b>-</b>

**b) Exposure to Capital Market:**

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>		<b>-</b>

**c) Risk category wise country exposure**

The Bank does not have any country exposure other than "home country" exposures and accordingly, no provision is maintained with regard to country risk exposure. (Previous year Nil)

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

During the year, the Bank has not exceeded the prudential credit exposure limit as prescribed by the Reserve Bank of India in respect of Single Borrower and Group Borrower (Previous year Nil).

#### e) Unsecured Advances

There are no unsecured advances for which intangible security such as charge over rights, licenses, authorization etc. are accepted as collateral by the Bank (Previous year Nil).

#### 11. Disclosure of penalties imposed by RBI

During the year ended 31 March 2018 and for the period ended 31 March 2017; no penalty had been imposed by Reserve Bank of India in terms of the Section 47 A read with Section 46(4) 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, 2018 (₹)	31 March, 2017 (₹)
Provisions for Depreciation on Investments	-	-
Loss on valuation of securities on transfer between categories	-	-
Provision towards NPA	31.99	-
Provision towards Unhedged Foreign Currency Exposure	-	-
Provision towards Standard Assets	1.76	4.64
Provision made towards income tax	-	-
Income Tax expense	26.16	1.99
Deferred Tax asset	(9.31)	(0.56)
Other Provision and Contingencies	1.81	1.85
<b>Total Provisions and Contingencies</b>	<b>52.41</b>	<b>7.92</b>

#### 13. Floating Provisions

The bank does not have any floating provisions for the period ended 31 March, 2018 and for the period ended 31 March 2017.

#### 14. Drawdown from Reserves

The Bank has not drawn down from reserves during the period ended 31 March 2018 and for the period ended 31 March 2017.

#### 15. Disclosure of Complaints

##### a. Customer Complaints

a) No. of complaints pending at the beginning of the period	-	-
b) No. of complaints received during the period	48	-
c) No. of complaints redressed during the period	48	-
d) No. of complaints pending at the end of the period	-	-

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

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**

Particulars	31 March, 2018 (`)	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.	-	-

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

The Bank has not issued any LOC during the year ended 31 March 2018 and for the period ended 31 March 2017.

**17. Provisioning Coverage Ratio**

The Provision Coverage Ratio (PCR) of the Bank is 29.94% as on 31 March 2018. (Previous year 54.14%)

**18. Bancassurance Business**

The Bank has not commenced the Bancassurance Business as at 31 March 2018 (Previous year Nil)

**19. Concentration of deposits, advances, exposures and NPAs****a. Concentration of deposits:**

(` in crores)

Particulars	31 March, 2018	31 March, 2017
Total deposits of twenty largest depositors (`)	1,168.80	323.73
Percentage of deposits of twenty largest depositors to total deposits of the Bank	46.32%	79.09%

**b. Concentration of advances:**

(` in crores)

Total advances to twenty largest borrowers (`)	6.09	6.76
Percentage of advances to twenty largest borrowers to total advances of the bank	0.19%	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 (`)	63.83	6.76
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	1.96%	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 (`)	0.14	0.04
Total Exposure to top four NPA accounts to Gross NPA	0.12%	0.47%

**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.

## 21. Sector-wise Advances

(` in crores)

Sl. No	Sector	31 March, 2018		
		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	1,833.29	50.21	2.74%
2	Advances to Industries Sector eligible as Priority sector lending	456.85	25.22	5.52%
3	Services	272.98	7.59	2.78%
4	Personal Loans and others	586.65	35.45	6.04%
	<b>Sub-Total (A)</b>	<b>3,149.77</b>	<b>118.47</b>	<b>3.76%</b>
<b>B</b>	<b>Non Priority Sector</b>			
1	Agricultural and Allied Activities			
2	Industry			
3	Services			
4	Personal loans and others	41.56	2.58	6.21%
	<b>Sub-Total (B)</b>	<b>41.56</b>	<b>2.58</b>	<b>6.21%</b>
	<b>Total (A+B)</b>	<b>3,191.33</b>	<b>121.05</b>	<b>3.79%</b>

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 year ended 31 March, 2018 and for the period ended 31 March 2017.

## 23. Overseas Assets, NPAs and Revenue:

The Bank does not have any overseas Assets during the year ended 31 March 2018 and for 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).  
(Previous year Nil)

## 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 and Annual.

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

### B. Quantitative Disclosures:

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

5 meetings i.e. on 27 June 2017, 27 September 2017, 15 December 2017, 6 February 2018 and 26 March 2018.

#### 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, 2018 ` 1.40 crores (Previous year ` 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)

Sl. No	Particulars	31 March, 2018	31 March, 2017
1.	No. of SPVs sponsored by the bank for securitization transactions	8	14
2.	Total amount of Securitized assets as per books of the SPVs sponsored by the bank	438.49	396.14
3.	Total amount of exposures retained by the bank to comply with MRR as on date of balance sheet		
	<b>a) Off Balance Sheet exposures</b>		
	First Loss	3.12	-
	Others		-
	<b>b) On Balance Sheet exposures</b>		
	First Loss (Cash Collateral)	41.11	45.43
	Others (Credit Enhancement)	17.29	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	-	-





Sl. No	Particulars	31 March, 2018	31 March, 2017
	<b>b) On Balance Sheet Exposures</b>		
	<b>Exposure to own securitizations</b>		
	First Loss	8.00	-
	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 year ended 31 March 2018 and period ended 31 March 2017.

## 28. Intra Group Exposures

The Bank does not have any intra group exposures for the period ended 31 March, 2018 and period ended 31 March 2017.

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

Particulars	31 March, 2018	31 March, 2017
Opening balance of amounts transferred to DEAF	-	-
Add: Amounts transferred to DEAF during the period ended 31st March 2018	-	-
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 as on 31 March 2018 and period ended 31 March 2017.

## 31. Priority sector lending certificates

The Bank has not sold or purchased any Priority Sector Lending Certificates during the year ended 31 March 2018 and 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, 2018 and period ended 31 March 2017.

## 33. A. Liquidity Coverage Ratio

(` in crores)

Sl. No.	High Quality Liquid Assets	Q1 2017-18 (`)		Q2 2017-18 (`)		Q3 2017-18 (`)		Q4 2017-18 (`)	
		Unwei-ghted	Wei-ghted	Unwei-ghted	Wei-ghted	Unwei-ghted	Wei-ghted	Unwei-ghted	Wei-ghted
1.	Total High Quality Liquid Assets (HQLA)	454.22	454.22	602.18	602.18	467.30	467.30	669.76	669.76
<b>Cash Outflows</b>									
2.	Retail deposits and deposits from small business customers, of which:								
	i. Stable deposits	215.74	10.79	268.15	13.41	534.25	26.71	846.62	42.33
	ii. Less stable deposits	18.99	1.90	61.88	6.19	77.19	7.72	58.30	5.83
3.	Unsecured wholesale funding, of which:								

Sl. No.	High Quality Liquid Assets	Q1 2017-18 (₹)		Q2 2017-18 (₹)		Q3 2017-18 (₹)		Q4 2017-18 (₹)	
		Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted	Unweighted	Weighted
	i. Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	ii. Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	iii. Unsecured debt	370.76	55.94	538.26	179.16	774.95	321.71	1,311.48	786.43
4.	Secured wholesale funding	97.87	97.87	46.86	46.86	64.31	64.31	46.76	46.76
5.	Additional requirements, of which								
	i. Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
	ii. Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
	iii. Liabilities from maturing ABCP, SIV's, SPV's etc assignments	77.29	77.29	62.44	62.44	25.62	25.62	69.98	69.98
6.	Other contractual funding obligations	63.65	63.65	109.53	109.53	94.18	94.18	133.71	133.71
7.	Other contingent funding obligations	-	-	-	-	-	-	-	-
8.	<b>Total Cash Outflows</b>	<b>844.30</b>	<b>307.44</b>	<b>1,087.12</b>	<b>417.59</b>	<b>1,570.50</b>	<b>540.25</b>	<b>2,466.85</b>	<b>1,085.04</b>
<b>Cash inflows</b>									
9	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	113.60	113.60	-	-	-	-	-	-
11	Other cash inflows	260.90	198.28	376.95	276.47	354.33	213.83	368.50	213.92
12	<b>Total Cash Inflows</b>	<b>374.50</b>	<b>311.88</b>	<b>376.95</b>	<b>276.47</b>	<b>354.33</b>	<b>213.83</b>	<b>368.50</b>	<b>213.92</b>
13	Total HQLA (a)	454.22	454.22	602.18	602.18	467.30	467.30	669.76	669.76
14	Total Net Cash Outflows		(4.44)		141.12		326.42		871.12
15	25% of Total Cash Flow (b)		76.86		141.12		326.42		871.12
16	<b>Liquidity Coverage Ratio (%) (a/b)</b>		<b>590.97%</b>		<b>426.71%</b>		<b>143.16%</b>		<b>76.88%</b>

Sl. No.	High Quality Liquid Assets	Q4 2016-17 (₹)	
		Unweighted	Weighted
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	74.00	3.70
	ii. Less stable deposits	16.00	1.60
3.	Unsecured wholesale funding, of which:		
	i. Operational deposits (all counterparties)	0.43	0.02



Sl. No.	High Quality Liquid Assets	Q4 2016-17 ( ` )	
		Unweighted	Weighted
	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	14.00	14.00
7.	Other contingent funding obligations		
<b>8.</b>	<b>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	255.00	255.00
<b>12</b>	<b>Total Cash Inflows</b>	<b>460.14</b>	<b>357.57</b>
13	Total HQLA (a)	316.32	316.32
14	Total Net Cash Outflows	-	(143.57)
15	25% of Total Cash outFlow (b)	-	53.50
<b>16</b>	<b>Liquidity Coverage Ratio (%) (a/b)</b>		<b>591.25%</b>

\* Since the Bank commenced its operations from 10 March 2017, the LCR for the period ended 31 March 2017 is computed as on 31 March 2017 only.

## 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 70% effective Jan 2018.

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 2018, the LCR stood at 76.88%. (Previous year : 591.25%)

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

## B. OTHER DISCLOSURES

### 1. Earnings per Equity Share:

Particulars	31 March, 2018	31 March, 2017
Net Profit attributable to equity Share holders (Rupees in crore)	26.99	0.76
Weighted average number of equity shares used in computation of basic and diluted earnings per share	30,32,69,517	10,41,78,872
Nominal value per share	10	10
Basic and diluted earnings per share	0.89	0.07

### 2. Segment Reporting:

(` in Crores)

Particulars	31 March, 2018		
	Treasury (`)	Retail Banking (`)	Total (`)
Segment Revenue	55.82	541.02	596.84
Other Income	4.83	97.03	101.86
<b>Total Income as per Profit and Loss Account</b>	<b>60.65</b>	<b>638.05</b>	<b>698.70</b>
Less- Interest Expense	23.64	291.18	314.82
Less- Operating Expense	0.84	339.20	340.04
<b>Operating Profit</b>	<b>36.17</b>	<b>7.67</b>	<b>43.84</b>
Segment Results	36.17	7.67	43.84
Less- provision for tax	-	-	16.85
<b>Net Profit</b>	<b>36.17</b>	<b>7.67</b>	<b>26.99</b>
<b>Other Information</b>			
Segment Assets	1,363.80	3,350.45	4,714.25
Unallocated Assets	-	-	9.88
<b>Total Assets</b>	<b>1,363.80</b>	<b>3,350.45</b>	<b>4,724.13</b>
Segment Liabilities	-	4,380.78	4,380.78
Unallocated Liabilities	-	-	343.35
<b>Total Liabilities</b>	<b>-</b>	<b>4,380.78</b>	<b>4,724.13</b>
Capital Expenditure	-	78.57	78.57
Less Depreciation	-	9.87	9.87

Segmental Information is provided as per the MIS available for internal reporting purposes, which includes certain estimates and assumptions.



Particulars	31 March, 2017		
	Treasury (₹)	Retail Banking (₹)	Total (₹)
Segment Revenue	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>	0.75	1.45	2.20
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>			
Segment Assets	939.82	2,054.09	2,993.91
Unallocated Assets	-	-	0.56
<b>Total Assets</b>	939.82	2,054.09	2,994.47
Segment Liabilities	306.36	2,382.35	2,688.71
Unallocated Liabilities			305.76
<b>Total Liabilities</b>	306.36	2,382.35	2,994.47
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 lease payments recognised in the profit and loss account is ₹ 15.41. (Previous year ₹ 0.82 crores).

The future minimum lease payments under non cancellable operating lease-not later than one year is ₹ 15.10 crore (Previous year ₹ 9.61 crore), later than one year but not later than five years is ₹ 81.25 crore (Previous year ₹ 50.34 crore) and later than five years is ₹ 2.27 crore (Previous year ₹ 10.90 crore).

### 4. Deferred Taxes:

(₹ in Crores)

Particulars of Asset/ (Liability)	31 March, 2018 (₹)	31 March, 2017 (₹)
Depreciation	2.87	5.77
ROC fee - pre commencement expense (1/5th allowed as per Sec.35D of Income Tax Act 1961)	-	(0.67)
Provision for Bonus, Gratuity & Leaves	(2.98)	(0.29)
Provision for Standard assets	(26.51)	(4.64)
Provision for Income Accrued on Deferment of NPA	-	(1.79)
Provision for Lease equalisation reserve	(1.91)	
<b>Total of the Timing Differences</b>	<b>(28.53)</b>	<b>(1.62)</b>
<b>Net Deferred Tax assets</b>	<b>9.88</b>	<b>0.56</b>

## 5. Credit card reward points:

The Bank does not have credit card products hence reward points are not applicable. (Previous year Nil)

## 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, 2018 (`)	31 March, 2017 (`)
<b>Gross Block</b>		
At cost on 31st March of the preceding year	10.61	-
Additions during the period	0.75	10.61
Deductions during the period	-	-
<b>Total</b>	<b>11.36</b>	<b>10.61</b>
<b>Depreciation / Amortization</b>		
As at 31st March of the preceding year	0.21	-
Charge for the period	2.70	0.21
Deductions during the period	-	-
<b>Depreciation to date</b>	<b>2.91</b>	<b>0.21</b>
<b>Net Block</b>	<b>8.45</b>	<b>10.40</b>

## 7. Related Party Disclosures:

Related Party	Nature of Relationship
ESAF Microfinance and Investments Private Ltd. ("ESAF - MFI")	Holding Company
ESAF Retail Private Ltd. ("ESAF Retail")	Entities in which Key managerial person (KMP) is a member (shareholder)
ESAF Homes and Infrastructure Private Ltd. ("ESAF Homes & Infrastructure")	Entities in which Key managerial person (KMP) is a member (shareholder)
ESAF Swasraya Producers Company Ltd. ("ESAF Producer Company")	Entities in which Key managerial person (KMP) is a member (shareholder)
K. Paul Thomas	Key Managerial Person (MD and CEO)
Mareena Paul	Spouse of Key Managerial Person
Emy Acha Paul	Daughter of Key Managerial Person
Alok Paul Thomas	Son of Key Managerial Person
ESAF Swasraya Multi State Agro Co operative Society Ltd. (formerly known as ESAF Swasraya Multi State Co-operative Credit Society Ltd) ("ESCO")	Enterprises over which KMP has significant influence



**Transactions with the Related Party**

(₹ in Crores)

Nature of Transaction	Related Party	31 March 2018 (₹)	31 March 2017 (₹)
<b>Liabilities</b>			
Term Deposit placed	ESCO	-	50.00
	ESAF - MFI	-	280.00
Term Deposit Matured	ESAF - MFI	61.63	50.00
Deposit Transfer	ESCO	-	87.76
	ESCO	37.74	-
Demand Deposit	ESAF Retail	1.94	-
	ESAF - MFI	2.67	0.21
Savings Deposit	K. Paul Thomas	0.24	_*
	ESCO	10.13	0.31
Interest accrued and due on Deposits	ESCO	8.30	0.34
	ESAF - MFI	26.69	2.26
Payable towards Business Services agreement	ESCO	8.05	7.01
Subordinate Debt	ESCO	45.00	-
Perpetual Debt	ESCO	48.00	-
Interest Accrued & Payable on PDI	ESCO	4.74	-
Interest Accrued & Payable on Sub Debt	ESCO	2.12	-
	ESAF - MFI	-	280.75
Issue of Equity Shares	K. Paul Thomas	10.38	20.80
	ESAF - MFI	-	3.15
Securities Premium	K. Paul Thomas	0.21	0.30
	ESAF Retail	1.57	0.45
Collections as per Agency agreement	ESAF Retail	1.70	-
<b>Assets</b>			
Assignment of Loans	ESCO	-	30.99
Receivables	ESCO	-	0.40
	ESAF - MFI	-	208.36
Loan against Fixed Deposit	ESAF - MFI	8.50	-
Loan against Fixed Deposit - Repaid	ESAF - MFI	8.50	-
	ESAF Homes and Infrastructure	-	1.52
Rent Deposit	ESAF - MFI	0.02	-
	K. Paul Thomas	0.07	-



Nature of Transaction	Related Party	31 March 2018 ( ` )	31 March 2017 ( ` )
Consideration for slump sale- Issue of Equity Shares	ESAF - MFI	-	4.90
Consideration for slump sale- Securities Premium	ESAF - MFI	-	0.10
Consideration for slump sale- Cash/Bank	ESAF - MFI	-	2.00
<b>Expenses</b>			
Rent Paid	ESAF Homes and Infrastructure	1.82	0.15
	ESAF - MFI	0.01	-
	K. Paul Thomas	0.13	-
	ESCO	8.30	0.34
	ESAF - MFI	26.69	2.26
	K. Paul Thomas	0.01	-*
Interest paid on deposits	Mareena Paul	_*	
	Emy Acha Paul	_*	
	Alok Paul Thomas	_*	
Interest paid on PDI	ESCO	4.74	-
Interest paid on Sub Debt	ESCO	2.12	-
Office stationery	ESAF Retail	0.15	
Gifts & Conference kit	ESAF Producer Company	0.03	-
BC Servicer Fee	ESCO	158.54	6.37
Corporate Facility Management service charges	ESCO	2.92	-
Commission for client acquisition	ESCO	-	5.26
Remuneration and Sitting Fees	K. Paul Thomas	1.40	0.07
<b>Income</b>			
Interest received on Loan against Fixed Deposit	ESAF - MFI	0.61	-



**Balance outstanding during the year**

(` in Crores)

Items/Related Party	Holding Company		KMP and Enterprise over which KMP/Relative of KMP have control / significant influence	
	31 March 2018 (`)	31 March 2017 (`)	31 March 2018 (`)	31 March 2017 (`)
<b>Liabilities</b>				
Deposits	168.37	232.26	50.00	50.34
Demand Deposit	2.88	0.21	50.37	0.31
Equity Shares	283.90	283.89	-	-
Borrowings	-	-	93.00	-
Other Liabilities	0.38	-	15.22	7.46
<b>Assets</b>				
Advances	-	-	-	-
Others	0.02	208.36	1.59	1.92

**Maximum Balance outstanding during the year**

(` in Crores)

<b>Liabilities</b>				
Deposits	232.01	232.01	50.00	50.34
Demand Deposit	45.47	0.25	50.37	0.31
Equity Shares	283.90	283.90	-	-
Borrowings	-	-	93.00	-
Other Liabilities	0.38	-	20.76	7.46
<b>Assets</b>				
Advances	8.50	-	-	-
Others	208.36	208.36	1.92	1.92

\* Amounts are below the rounding off limits adopted by the bank.

**8. Employee Shared Based Payments:**

The Bank has not made any share based payments during the year ended 31 March 2018 and period ended 31 March 2017.

**9. Advances securitized by the Bank:**

(` in Crores)

Particulars	31 March, 2018 (`)	31 March, 2017 (`)
Book value of advances securitized	821.50	1,037.07
Number of accounts	5,01,256	6,79,619
Sale consideration received for the accounts securitized	539.73	982.30
Gain on securitization amortized during the year	40.96	1.31
Credit enhancement, liquidity support provided	61.52	67.61
Provision on securitized assets	3.20	-
Number of accounts as on date	3,72,072	3,59,047

Particulars	31 March, 2018 (₹)	31 March, 2017 (₹)
Outstanding as on date	411.82	396.14
Nature of post securitization support	-	-

## 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)

Provident Fund	1.01	0.04
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ii. Gratuity

The gratuity plan provides a lump sum payment to vested employees at retirement or on termination of employment based on respective employee's salary and years of employment with the Bank subject to maximum of ₹ 0.20 crore.

Reconciliation of opening and closing balance of present value of defined benefit obligation for gratuity benefits is given below.

Reconciliation of Defined Benefit Obligation (DBO):

(₹ in Crores)

<b>Present value of DBO at start of year</b>	1.24	-
Transfer In/(Out)*	-	0.94
Current Service Cost	0.42	0.02
Interest Cost	0.09	0.01
Benefits Paid	-	-
Past Service Cost	0.25	0.16
Actuarial Gain/Loss	0.06	0.11
<b>Present value of DBO at end of year</b>	<b>2.06</b>	<b>1.24</b>

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

Reconciliation of Fair Value of Plan Assets:

(₹ in Crores)

<b>Fair value of Plan assets at start of year</b>	-	-
Contributions by employer	1.24	-
Benefits Paid	-	-
Expected return on plan assets	0.01	-
Actuarial Gain/Loss	0.00	-
<b>Fair value of Plan assets at end of year</b>	<b>1.25</b>	<b>-</b>

**Expense recognized in the Profit and Loss account**

(₹ in Crores)

Current Service Cost	0.42	0.02
Interest Cost	0.09	0.01
Past Service Cost	0.25	0.15
Expected return on plan assets	(0.01)	-
Actuarial (Gain)/Loss	0.06	0.11
<b>Employer Expense/( Income)</b>	<b>0.81</b>	<b>0.29</b>



**Net Liability/(Asset) recognized in the Balance Sheet**

(` in Crores)

Particulars	31 March, 2018 (`)	31 March, 2017 (`)
Present value of DBO	2.06	1.24
Fair value of plan assets	1.25	-
<b>Net liability/(Asset)</b>	0.81	1.24
Less: Unrecognized Past Service Cost	-	-
<b>Liability/(Asset) recognized in the Balance sheet</b>	0.81	1.24
<b>Of which short term provision</b>	-	0.14

**Category of Plan Assets (%)**

Insurer managed fund (traditional)	100%	0%
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**Actuarial assumptions used**

Salary Growth Rate	7.5% p.a	5% p.a
Discount Rate	7.4% p.a	7% p.a
Withdrawal/Attrition Rate	10% p.a	10% p.a
Expected return on plan assets	7%	NA
Mortality Rate	IALM 2006-08 (Ult)	IALM 2006-08 (Ult)
Expected average remaining working lives of employees	6 years	8 years

**Experience adjustments**

(` in Crores)

Defined benefit obligation	2.06	1.24
Fair value of Plan assets	1.25	-
Surplus / (Deficit)	(0.81)	(1.24)
Experience adjustments on plan liabilities (Gain)/Loss	(0.20)	-
Experience adjustments on plan assets: Gain/(Loss)	-	-

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.

**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, 2018 (`)	31 March, 2017 (`)
Privilege leave	30 days	30 days
Discount rate	7.4%	7%
Salary escalation rate	7.5%	5%
Attrition Rate	10%	10%
<b>Actuarial liability</b>	0.44	0.13
Charged in Profit and Loss account (Rupees in INR)	0.31	0.00
Actuarial liability	0.44	0.13

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 for the year ended 31 March 2018 and period ended 31 March 2017.

## 12. Subordinated Debt

- The Bank has an outstanding subordinated debt of ` 150 crores (Previous year : ` 65 Crore). Out of the above, ` 65 crores 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.
- Interest Expended-Others includes interest of ` 13.28 crores (Previous year : ` 0.64crores) accrued on Subordinate Debt.

## 13. Details of payments of audit fees

(` in Crores)

Particulars	31 March, 2018 (`)	31 March, 2017 (`)
Statutory Audit fees	0.45	0.11
Out of pocket expenses	0.08	0.02
<b>Total</b>	<b>0.53</b>	<b>0.13</b>

14. Other expenses includes ` 158.54 crore (Previous year - 6.37 crore) paid to ESCO as Business Correspondent Service Fee.

## 15. Description of Contingent Liabilities:

The Bank has contingent liability of ` 61.72 crores (Previous year ` 67.61 crores) for securitization transactions and guarantee given to Pension Fund Regulatory Development Authority (PFRDA).

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

17. The Bank has received few intimations from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006 and there is no outstanding against those suppliers as on 31st March, 2018,



(Previous year Nil) hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid / payable as required under the said Act have not been given. The above is based on information available with the Bank and relied upon by the Auditors.

## 18. Previous Year Figures

Previous year's figures have been regrouped/reclassified wherever necessary to correspond with the current year's classification/disclosure.

As per our report of even date attached

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

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

Place : Thrissur  
Date : 22 May 2018

For and on behalf of the Board of Directors

Sd/-  
**Prabha Raveendranathan**  
Chairman

Sd/-  
**Asha Morley**  
Director

Sd/-  
**Padmakumar K.**  
Chief Financial Officer

Place : Thrissur  
Date : 22 May 2018

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

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



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# Route Map to the venue

The map displays the route to the venue, which is the Registered Office of ESAF Small Finance Bank, located in POPE JOHN PAUL NAGAR. The route starts from the bottom left and passes through VEDYANAGAR, MYTHRI NAGAR, PANANCHAKAM COLONY, and ends at POPE JOHN PAUL NAGAR. The map includes various landmarks such as temples, churches, schools, and hospitals. A scale bar indicates 10 km.

**Venue: Registered Office,**  
ESAF Small Finance Bank

## ATTENDANCE SLIP

CIN : U65990KL2016PLC045669  
Name of the Company : ESAF Small Finance Bank Limited  
Registered Office Address : Hepzibah Complex, Second Floor, No. X/109/M4,  
Mannuthy P.O., Thrissur, Kerala - 680651

Regd. Folio No.	No. of Shares Held	Name & Address of the Registered Shareholders

I being the registered Shareholder/proxy for the registered Shareholder of the Bank hereby record my presence at the 2nd ANNUAL GENERAL MEETING of the Company on Friday, September 28, 2018 at the Corporate Office of the Bank at ESAF Bhavan, Mannuthy, Thrissur, Kerala at 10.00 AM and at any adjournment(s) thereof.

Signature of Shareholder/proxy

### Form MGT - 11

## PROXY FORM

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

CIN : U65990KL2016PLC045669  
Name of the Company : ESAF Small Finance Bank Limited  
Registered Office Address : Hepzibah Complex, Second Floor, No. X/109/M4,  
Mannuthy P.O., Thrissur, Kerala - 680651

Name of the member (s) :  
Registered Address :  
E-mail ID :  
Folio No. :

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

1. Name : ..... Address : .....

E-mail ID : .....Signature: .....or failing him,

2. Name : ..... Address : .....

E-mail ID : .....Signature: .....or failing him,

3. Name : ..... Address : .....

E-mail ID : .....Signature: .....



as my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the 2nd ANNUAL GENERAL MEETING of the Company on Friday, September 28, 2018 at the Corporate Office of the Bank at ESAF Bhavan, Mannuthy, Thrissur, Kerala at 10.00 AM and at any adjournment thereof in respect of such resolutions as are indicated below.

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

Signed this..... day of.....2018

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.





Reg. Office: Hepzibah Complex, Mannuthy P.O., Thrissur - 680 651, Kerala.  
Corp. Office: ESAF Bhavan, Mannuthy P.O., Thrissur - 680 651, Kerala.  
Email: [info@esafbank.com](mailto:info@esafbank.com) Ph.: 04877 123456