

# DIRECTORS' REPORT

To,  
**The Members of**  
**ESAF Small Finance Bank Ltd.**

On behalf of the Board of Directors (the "Board") of ESAF Small Finance Bank Ltd. (the "Bank"), it is our immense pleasure to present the Eighth Annual Report of the Bank along with the Audited Financial Statements and Auditor's Report thereon for the Financial Year 2023-24.

## 1. Financial Performance and State of the Bank's Affairs

The highlights of the standalone financial performance of the Bank for the Financial Year 2023-24, are presented below:

(₹ in millions)

Particulars	For the year ended on March 31, 2024	For the year ended on March 31, 2023
Deposits	1,98,678	1,46,656
Advances	1,82,931	1,39,243
Total Income	42,602	31,416
Total Expenditures excluding Tax	36,898	27,355
Profit Before Tax	5,704	4,060
Provision for Tax	1,448	1,037
Net Profit	4,256	3,023
Profit brought forward	5,420	3,215
Total Profit available for appropriation	9,676	6,238
Appropriation		
Transfer to Statutory Reserve	1,064	756
Transfer to Capital Reserve	10	3
Transfer to Investment Fluctuation Reserve	29	59
Balance carried to Balance Sheet	8,573	5,420
Earnings per Share		
Basic (₹)	8.96	6.73
Diluted (₹)	8.94	6.71

### Key Performance Highlights

On a standalone basis, Profit After Tax of the Bank was ₹ 4,256 million in Financial Year 2023-24 compared to ₹ 3,023 million in Financial Year 2022-23. Interest Income of the Bank for the Financial Year 2023-24 was ₹ 38,184 million as against ₹ 28,536 million in Financial Year 2022-23 marking a growth of around 33.81%. Further, the Bank had Capital and Reserves of ₹ 24,861 million as on March 31, 2024 (₹ 17,091 million as on March 31, 2023). The book value per Equity Share was at ₹ 48.22 as on March 31, 2024 (₹ 38.03 as on March 31, 2023). Analysis of Bank's performance is covered in detail in the Management Discussion and Analysis section of the Annual Report.

### 2. Divergence in Asset Classification and Provisioning for NPAs

In terms of RBI guidelines, banks are required to disclose the divergences in asset classification and provisioning consequent to RBI's annual supervisory process in their notes to accounts to the financial statements. The disclosure is required if either or both of the following conditions are satisfied: (a) the additional provisioning for NPAs assessed by RBI exceeds 5% of the reported profit before provisions and contingencies for the reference period; and (b) the additional gross NPAs identified by RBI exceed 5% of the published incremental gross NPAs for the reference period. Based on the above, no disclosure

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on divergence in asset classification and provisioning for NPAs is required with respect to RBI's annual supervisory process for fiscal 2024.

### 3. Our Business Segments

The Bank has identified its business segments, segregating them into Treasury, Wholesale Banking, Retail Banking and Other Banking Segments after considering the internal business reporting system and guidelines issued by the Reserve Bank of India through its notification DBOD.No.BP.BC.81/ 21.01.018/ 2006-07 dated April 18, 2007 and Accounting Standard 17 (AS 17) – 'Segment Reporting'.

### 4. Business Overview

#### Micro Banking

The Micro Banking vertical of the Bank is set up with the objective of providing quality banking services to the unbanked and under-banked through door-step banking services. In order to provide high touch customer service, the Micro Banking business of the Bank is delivered through dedicated Business Correspondents (BCs). Under Micro Banking, loans are given to individuals of group or to individuals without group to set up and expand their own or of family member's micro or small business, to start any income generation activity or to meet any other household needs towards improving the quality of life. Micro Banking group loan products are classified as Microfinance Loans and Other Micro Loans based on the annual household income of the customers. Accordingly, customers whose annual household income is up to 3 Lakhs can avail microfinance loans and customers whose annual household income is above 3 Lakhs can avail other micro loans. The product classification is as given below:

Purpose	Microfinance Loans	Other Micro Loans
Income generation activities	ESAF Income Generation Loan	ESAF Nano Loan
Consumption/ general purpose including consumer durables, green energy purposes	ESAF General Loan	ESAF Asha Loan
Sanitation purpose	ESAF Nirmal Loan	ESAF Nirmal Loan Plus

Purpose	Microfinance Loans	Other Micro Loans
Water Connection purpose	ESAF Jeevadhara Loan	ESAF Jeevadhara Loan Plus
Education purpose	ESAF Vidyajyoti	ESAF Vidyajyoti Plus

Apart from the group loan products, below individual loan products are also extended under micro banking for meeting the capital requirements of small entrepreneurs and traders.

- **Micro Enterprise Loan (MEL)** is a secured loan extended to graduated customers of microfinance segment to help them to meet their capital requirement to scale up the existing business activity. The loan is provided to existing micro banking customers of the Bank or any other SFB/ MFI having at least 3 years' vintage with satisfactory repayment and having business vintage of minimum 1 year in the same location. The customer should fall under the age group of 21 to 64 years and can avail loan amount ranging from ₹ 75,000 to ₹ 3,00,000 for a tenure of 35 months.
- **Vyapar Vikas Yojana (VVY)** loan is provided to customers of Micro and Small Trade segment having shop/ business with minimum business vintage of three months in the same location. The loan is given for meeting working capital requirements or for purchase of stocks. The customer should be between the age group of 18 to 64 years and can avail loan ranging from ₹ 5,000 to ₹ 1,50,000 for a tenure from 6 months to 24 months based on the loan amount.

As on March 31, 2024, the Bank has 35,34,992 micro banking borrowers with loan outstanding of ₹ 1,40,464 million. We disbursed loans to the extent of ₹ 1,02,204 million during the Financial Year 2023-24. As a part of disbursing loan to customers in faster manner, we simplified the loan process by implementing e-sign using bio-metric authentication, for disbursement of loans, which resulted in extending more loans to customers during the financial year, and also enhanced the customer experience. The innovative e-onboarding approach to micro banking loans, made the Bank eligible to win Special Jury Award of Kerala State Productivity Council, recognising as a commendable KAIZEN initiative. During the financial year, the Bank disbursed 14,33,157 number of loans to the extent of ₹ 78,435 million through e-sign

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documentation. The Bank also disbursed 1,702 number of water and sanitation loans with loan amount of ₹ 43 million in view of creating a positive change and hygiene behaviour in the lives of the customers by providing access to clean drinking water and hygienic sanitation. The Bank also disbursed 466 numbers of Micro Enterprise Loan (MEL) to the extent of ₹ 55 million for the graduated customers of microfinance for meeting higher financial needs for developing their micro business and disbursed 4200 Vyapar Vikas Yojana (VY) loans to micro traders with a volume of ₹ 272 million during this financial year. Micro banking business has expanded to new geographies in the existing operational states and also to new states – Andhra Pradesh, Telangana and Sikkim by adding more Business Correspondents.

### Retail Banking

Retail Liability book of the Bank as on March 31, 2024 stands at ₹ 1,98,676 million with a net addition of ₹ 52,022 million total deposits during the Financial Year 2023-24. YoY growth in liability book is 35%. CASA ratio improved from 21.39% in Financial Year 2023 to 22.66% in Financial Year 2024 with CASA book of ₹ 45,018 million as on March 31, 2024. Total Non-Resident deposit book stands at ₹ 40,956 million. The aggregate number of Banking Outlets (BOs) as on March 31, 2024, stands at 753 numbers which includes 198 banking outlets opened in Unbanked Rural Centres (URC). In Financial Year 2023-24, Bank opened 53 new branches and out of total 753 Banking Outlets, 198 Banking Outlets are in URC, 77 Banking Outlets in Metro, 152 Banking Outlets in Urban, 305 Banking Outlets in Semi Urban and remaining 21 Banking Outlets servicing in Rural Centres. 26% of our Banking Outlets are opened in URCs which is in line with RBI mandated guidelines to have minimum 25% of Banking Outlets in unbanked rural centres. Total number of ATMs stands at 614 as on March 31, 2024 and net addition in Financial Year 2023-24 was 14.

### Treasury

The Treasury Department is responsible for maintaining the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) of the Bank, as well as handling its investments in securities under different market segments. Treasury also manages the balance sheet liquidity and ensures compliance with statutory requirements. It manages the treasury needs of customers for a fee.

The Bank maintains a portfolio of Government Securities in line with the regulatory norms governing the Statutory Liquidity Ratio (SLR). A significant portion of these SLR securities are in 'Held-to-Maturity' (HTM) category, while some are in 'Available for Sale' (AFS) and "Held for Trading" (HFT) category.

As on March 31, 2023, the total investment in securities was ₹ 49,905 million, which increased by 12.67% to ₹ 56,229 million as on March 31, 2024. The Bank has generated income from investment of ₹ 3,529 million and ₹ 972 million from AD-II foreign exchange activities for the Financial Year ended March 31, 2024. The Bank was granted AD-1 License for operating in foreign exchange markets vide license FE.KOC.01/2023 dated April 20, 2023, and as per the approval received from Reserve Bank of India, the Bank has started AD-1 operations from April 01, 2024.

## 5. IT Initiatives

### Technology driven business model with a myriad basket of IT centric products and customer friendly digital technology platform

The Bank offers its customers a multitude of digital products, including the internet banking portal, an uncomplicated but effective mobile banking interface for retail customers, SMS alerts, bill payments and RuPay branded ATM cum debit cards. All banking and payment transactions, such as remittances and utility payments, can be completed through these platforms. The Bank's customers are also able to register to Savings Accounts on a unified payment interface based mobile applications. The Bank's account opening, and loan underwriting processes have been digitalised by using tablets, which brought down the turnaround time and offers better service to customers. CASA accounts can be opened through tablets, which enable doorstep services to customers.

By leveraging technology solutions, the Bank provides customers with pre-generated kits immediately upon account opening, enabling them to use the ATM-cum debit card provided with the pre-generated kits without having to wait for the ATM-cum-debit card to be activated across channels, thereby resulting in increased customer satisfaction. The Bank has crossed a milestone in technology with the successful adoption of e-signatures for Micro Loan disbursements.

The Bank has a digitalised central credit-processing unit for its micro loans and have implemented all Micro Banking Loan Documents in Vernacular Languages. The Bank has enabled a Digital Receipt

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Printing facility right after Collection is completed in the field. The customer onboarding process has been predominantly digitalised for its micro loans. The Bank leverages technology for underwriting and credit sanctioning for its loan products based on inputs from credit bureaus and/or the customer data analytics. The Bank has implemented technology solutions that enable it to ensure cashless disbursement of loans and implemented electronic signing for micro loans, both of which have reduced paperwork hence committing to the sustainability commitments.

The Bank's collections mechanism has also been digitalised with mobile applications and a payment gateway through which the borrowers can repay their loans. The Bank is continuously working towards improving its customers' experience using technology and has implemented a Customer Relationship Management solution to better handle requests from customer. The Bank believes that such initiatives have helped us improve our customer service and enable delivery of services in a more cost-effective manner.

**WhatsApp Banking:** a simple platform to avail a host of basic banking services, which is a faster, convenient, and secure platform at the comfort and safety from anywhere. Customers can also get information on various products/ interest rates/ branch locations etc.

The Bank has enabled Customer facing channel features like Electronic Payment Advice through Branches, Additional Mobile Banking registration facility for international customers, Offline Account statement feature in Corporate Internet Banking (CIB), additional SMS and e-mail notifications on both successful and failed login attempts in CIB.

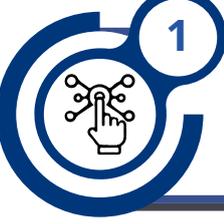
### IT and Digital Transformation

IT and Digital Transformation (**StratoNeXt**) department plays a pivotal role in modernising the Bank's technological infrastructure and driving digital innovation. With a dedicated team of experts, the Bank focuses on leveraging cutting-edge technologies to enhance operational efficiency and deliver superior customer experiences. As the banking sector continues to evolve in the digital age, the role of the IT and Digital Transformation department becomes increasingly critical in ensuring the Bank remains competitive and responsive to changing market dynamics.

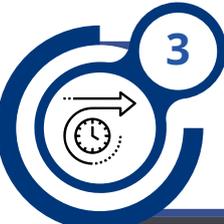
As part of its commitment to keeping pace with the Bank's growth and evolving customer preferences, the Bank initiated a comprehensive review of its existing IT and digital processes, designs, and architectures.

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## KEY FOCUS AREAS FROM THE ASSESSMENT

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**1 DIGITAL-FIRST APPROACH**  
Implement a digital-first approach for products and services to improve the bank's interaction with customers and the overall ecosystem.
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**2 TECHNOLOGY STACK TRANSFORMATION**  
Overhaul the current technology stack and establish new capabilities by embracing open and interoperable systems and adopting a Cloud-first architecture.
- 

**3 FUTURE-READY CAPABILITIES**  
Develop future-ready capabilities, including data engineering, integrated data for risk analysis, a skilled workforce, and a culture of continuous innovation.

## STRATEGIC APPROACH FOR DIGITAL TRANSFORMATION

**Developing Bank's internal IT & Digital capability**

Establish a comprehensive IT practice internally, aimed at empowering its IT team with the necessary skills and competencies to operate efficiently within the bank's ecosystem. By fostering subject matter expertise in domains such as IT service management, governance, and relevant technologies, the bank seeks to lay a strong foundation for sustainable growth and innovation.

**Reducing Single Vendor Dependency**

Transitioning from the Bank-in-a-Box model aims to reduce reliance on single vendors, providing the bank with greater control over its IT systems and aligning with contemporary regulatory mandates. This shift enhances operational flexibility and resilience while mitigating risks associated with vendor dependencies.

**Process Reengineering**

Reengineering or upgrading business processes focuses on leveraging the latest technology to enhance customer delight and improve business outcomes through streamlined processes and technological advancements. This initiatives seeks to optimize efficiency and agility across the organization's operational workflows.

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**Better regulatory compliance**

Prioritizing regulatory compliance, particularly in area such as data security, cybersecurity, and information security, underscores the bank's commitment to upholding regulatory standards from the outset. This agile approach ensures proactive adherence to evolving compliance requirements, safeguarding the bank's reputation and integrity.



**Simplified & seamless customer journeys**

Designing end-to-end customer journeys that are simple and intuitive enhance the overall customer experience, fostering loyalty and satisfaction. Seamless integration of applications minimizes friction points and enhance operational efficiency while ensuring compliance with regulatory framework.



**Operational efficiency**

Driving enhanced level of automation using existing and new application optimizes processes and resources effectively, improving operational efficiency and cost-effectiveness. Robust governance mechanism ensure accountability and transparency, facilitating continuous improvement and operational excellence.



**Digital first**

Emphasizing digital provisioning of product and service serves as a key acquisition tool and enhances servicing for existing customers. This digital-first approach aligns with evolving customer preferences and positions the bank as a leader in the digital banking landscape



**Customer experience**

Exploring new ways to build strong relationships with customers and improve engagement and experience is paramount. Leveraging data-driven products and services foster long-term relationships and enhances overall customer experience, driving loyalty and retention



**Component outsourcing**

Outsource IT & digital components to capable and competent third party, thereby retaining the ownership with bank and at the same time enjoying dedicated/expert service from the third party

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Looking ahead, StratoNeXt remains steadfast in its commitment to driving innovation, enhancing customer experiences, and fostering operational excellence through its IT and Digital transformation initiatives. In the coming years, StratoNeXt will continue to prioritise the execution of its Programme, focusing on completing key IT and digital projects outlined in the strategic roadmap. This includes seamlessly integrating cutting-edge technologies, optimising operational processes, and enhancing digital capabilities to meet evolving customer expectations.

As StratoNeXt moves forward, collaboration and stakeholder engagement will remain central to its approach. StratoNeXt will continue to work closely with internal teams, technology partners, and key stakeholders to drive alignment, foster innovation, and deliver tangible results.

In conclusion, StratoNeXt is well-positioned to navigate the challenges and opportunities presented by the rapidly evolving digital landscape. By staying agile, customer-centric, and innovative, the Bank is confident in its ability to achieve strategic objectives and deliver sustainable value to all stakeholders. The Bank looks forward to the exciting journey ahead as it continues to drive positive change and shape the future of banking through IT and Digital transformation initiatives.

### 6. Customer Service Quality

The Bank is working towards being one of the best Social Bank in India for providing the best customer experience. The Bank has a Grievance Redressal Mechanism and Policy in line with guidelines of Reserve Bank of India which aims at resolution of queries and complaints with customer satisfaction. The Customer Service Quality department apprises the Board for review periodically about grievance handling and other initiatives undertaken for the improvement of overall quality in Customer Service.

The Bank has enabled different channels for its customers to get connected for communication like Toll free 24-hour Call Centre with multi language and interactive voice recognition facility, Website communication link for grievances, Branches and Escalation matrix with phone numbers, Customer care emails, Complaint box, Complaint registers etc. Customer feedbacks in the form of surveys are conducted periodically to review the satisfaction levels of customers across the geography.

Branch level Customer Service Committee, Standing Committee on Customer Service, Customer Service Committee of the Board etc. are few areas for review of the effectiveness of Customer Service of the Bank at different hierarchy levels.

ISO 9001:2015 recertification for Customer Service Quality functions, NIL awards from the Banking Ombudsman, bagging Best Customer Experience Bank of the Year award at India CX Summit and Awards, engaging branches for internal contest on customer service quality – Customer Service Excellence awards, Workplace transformation in branches through Five-S to improve service quality and increase productivity, Staff motivation e-mail series on customer experience etc., were some of the initiatives undertaken by the Customer Service Quality department of the Bank during the Financial Year 2023-2024.

### 7. Compliance Functions

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

### 8. Risk Management

The Bank follows a risk management approach that involves identifying, assessing, and continually monitoring different types of risks. The Bank's Board of Directors oversees risk management governance, approving policies updated in accordance with regulatory guidelines and internal directives. Pursuant

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to Regulation 21 of the SEBI Listing Regulations and the applicable guidelines of the Reserve Bank of India, the Board of the Bank has constituted a Risk Management Committee of the Board which establishes and reviews processes and standards for risk management functions. The Risk Management Department coordinates bank-wide risk management efforts, implementing approved policies and procedures. It comprises five divisions managing major risk streams: Credit risk, Operational risk, Market risk, Information and Cybersecurity risk and Anti-Money Laundering and Transactional risks.

The Bank's executive-level risk management committees, such as the Credit Risk Management Committee, Operational Risk and Business Continuity Management Committee, Market Risk and Asset Liability Management Committee, Information Security Governance Committee, and Outsourcing and Vendor Assessment Committee, consistently evaluate their respective risks and take preventive and corrective actions as needed. The Committees report significant risk events, risk levels and trends to the Risk Management Committee of the Board. The Chief Risk Officer, who directly reports to the Managing Director and CEO, oversees all risk management functions. The Bank has developed a robust Internal Capital Adequacy Assessment Process to identify, assess, and monitor material risks, ensuring capital adequacy commensurate with the Bank's risk profile and growth strategy and satisfying the regulatory norms. Periodic stress testing is conducted to ensure that the Bank can effectively manage and mitigate both existing and emerging risks.

### 9. Human Resources Initiatives

As on March 31, 2024, the total number of employees of the Bank was 5,967. The Bank believes its employees are one of the most important assets and that a content and happy workforce will deliver the joy of banking to our customers and drive our performance.

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

Each employee onboarded has to mandatorily undergo a minimum of two weeks' training, which includes on-the-job training in Microfinance at the

Banking Outlets. After the on-the-job training at the Banking Outlets, they are given one week's residential induction training and also another week's training on Core Banking Solutions software.

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

The Bank is committed in attracting and retaining the right human talents and developing their capabilities and culture to meet the market demands that are continually changing. The human resource department of the Bank is committed to:

- Ensuring a work environment that attracts, retains and trains potential and performing employees.
- Fostering a work environment that promotes employees to be:
  - o Competent
  - o Committed
  - o Contributing
  - o Customer Centric
  - o Collaborative
  - o Content
  - o Continuous Learners
- Facilitating the continuous performance of employees through objectives which are monitored, reviewed and improved.
- Satisfying all relevant customer, statutory and regulatory requirements.

Human Resource Department of the Bank has been assessed and found to conform to the requirements of ISO 9001:2015 to provide quality service to all employees and support and motivate them to continually improve their performance.

### 10. Information Security and Cyber Security Risk Management

The Bank has a specialised Information Security Division within its Risk Management Department,

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which is supervised by the Chief Information Security Officer, who reports directly to the Chief Risk Officer. The approval of the Information Security Policy and Cyber Security Policy by the Board of Directors establishes the framework for managing information technology risks and supervising security administration. Oversight of Information Security is led by the Board of Directors, with support from the Information Technology Strategy Committee and the Executive Level Information Security Governance Committee.

The Bank maintains a Security Operation Centre (SOC) and ensures 24/7 surveillance and stays consistently updated on the latest cyber threats. It utilises multiple monitoring tools to identify, track, record and analyse security events or incidents in real-time within IT environment.

The Bank's established plan for increasing information security awareness covers all stakeholders including customers, employees, vendors, and business channel partners. The Bank is disseminating alert message through different platforms including social media. Regular trainings are conducted through its learning platform as well as direct training sessions. The activities ensure the fostering of a culture of cyber security vigilance among all the stakeholders of the Bank.

The Bank is committed to ensuring data privacy of its customers, employees, and stakeholders. It is actively pursuing initiatives to strengthen and enhance its data privacy practices.

Utilising industry-leading practices, the Bank upholds the safety and security of customer transactions, data privacy, and information integrity across all data states: at rest, in use, and in transit. Additionally, it engages in partnerships with regulatory bodies like CSITE, RBI, CERT-In, IDRBT, and others to stay abreast of security incidents, protocols, and regulatory requirements.

### 11. Business Continuity Management

The Bank has a Business Continuity Management Policy, approved by the Board of Directors and reviewed on an annual basis. The Bank conducts Business Impact Analysis (BIA) annually and prepares a Business Continuity Plan (BCP) Document, which deals with the measures to manage any unplanned disruption in services. The document identifies and prioritises processes and systems and evaluates the potential effects of natural and man-made events or disasters on the IT and other services that support

business. It also analyses the potential loss in transactions to the Bank in case of disruption, Critical and Non-Critical applications, their Recovery Point Objective (RPO) and Recovery Time Objective (RTO). The BCP contains the details of Key outsourcing arrangements and BC arrangements, how to deal with different business scenarios, certain situations like power failure, Cyber-attacks, Hardware and Software failures, Network failures, Natural disasters, etc.

The Bank has an executive level Crisis Management and Quick Response Team (CMQRT) which are responsible for initiating immediate actions in the event of the occurrence of a crisis and to guide Business Units/ Departments on steps to be taken to protect the assets and to ensure continuity of the business. The CMQRT initiates remedial actions in case of any breakdown or failure of critical systems, occurrence of natural disasters or accidents or any other events affecting business continuity.

The Bank also has an executive level Cyber Crisis Management Team (CCMT). The CCMT would be activated in case of a Cyber Security Crisis situation, wherein security characters of information are compromised as a result of failure of an IT system or network of IT systems, due to technical reasons, intentional acts or negligence, leading to consequences that may threaten lives, financial position, the trust, national security and public confidence.

### 12. Implementation of Ind-AS

The Ministry of Finance, Government of India ("GOI"), had vide its press release dated January 18, 2016, outlined the roadmap for implementation of International Financial Reporting Standards ("IFRS") converged Indian Accounting Standards ("Ind AS") for Scheduled Commercial Bank (excluding RRBs), NBFC and Insurance companies. The RBI vide its circular dated March 22, 2019, deferred the implementation of Ind AS for Scheduled Commercial Banks ("SCB") till further notice, pending the consideration of some recommended legislative amendments by GOI. The RBI has not issued any further notification on implementation of Ind AS for SCBs.

The Bank submits its Proforma Ind-AS financials on half yearly basis to the RBI based on the GAP assessment carried out by the Bank. The Bank is in the process of implementing necessary changes in its IT systems, wherever required and other processes in a phased manner.

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### 13. Transfer to Reserves

As per the requirement of the regulations of Reserve Bank of India, the Bank has transferred the following amount to various reserves during the Financial Year 2023-24:

Amount Transferred to	₹ in million.
Statutory Reserve	1,064
Capital Reserve	10
Investment Fluctuation Reserve	29

### 14. Dividend

In accordance with Regulation 43A of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the "SEBI Listing Regulations"), the Board of the Bank has formulated and adopted a Policy on Dividend Distribution, which is available on the website of the Bank at [https://www.esafbank.com/wp-content/uploads/2024/05/Policy\\_for\\_Dividend\\_Distribution.pdf](https://www.esafbank.com/wp-content/uploads/2024/05/Policy_for_Dividend_Distribution.pdf). In view of the overall performance the Board of Directors of the Bank in their meeting held on May 08, 2024, recommended a final dividend of ₹ 0.7 per equity share for the Financial Year 2023-24. The dividend, if approved by the members, in the ensuing Eighth Annual General Meeting of the Bank would entail a payout of approximately ₹ 360 million based on the capital as of March 31, 2024. The dividend would be paid to all the equity shareholders, whose names would appear in the Register of Members/ list of Beneficial Owners on the Record Date fixed for this purpose i.e. August 07, 2024.

### 15. Change in the Nature of Business

There was no change in the nature of business of the Bank during the Financial Year 2023-24.

### 16. Listing of Equity Shares of the Bank

In the Financial Year 2023-24, the Bank successfully completed its Initial Public Offer (IPO) of 7,73,56,059 Equity Shares of face value of ₹ 10 each for cash at a price of ₹ 60 per equity share (including a share premium of ₹ 50 per equity share) aggregating to ₹ 4,630 million comprising a fresh issue of 6,53,06,060 equity shares aggregating to ₹ 3,907 million and an offer for sale of 1,20,49,999 equity shares aggregating to ₹ 723 million, comprising 82,10,000 equity shares aggregating to ₹ 492.60 million by M/s. ESAF Financial Holdings Private Limited, the Promoter Selling Shareholder, and 21,11,666 equity shares aggregating to ₹ 126.70 million by PNB Metlife India

Insurance Company Limited and 17,28,333 equity shares aggregating to ₹ 103.70 million by Bajaj Allianz Life Insurance Company Limited. The offer included a reservation of 22,72,727 equity shares, aggregating to ₹ 125 million, for subscription by eligible employees ("employee reservation portion"). The offer was opened on November 03, 2023 and closed on November 07, 2023. The issue was oversubscribed by 77 times. The equity shares of the Bank were listed and admitted for dealings with BSE Limited (BSE) and National Stock Exchange of India Limited (NSE) on November 10, 2023. The shares were listed at ₹ 71.90 on BSE Limited and at ₹ 71 on National Stock Exchange of India Limited, at a premium of 19.83% and 18.33% respectively.

### 17. Capital and Debt Structure

#### a. Share Capital

There were no changes in the Authorised Capital of the Bank during the Financial Year 2023-24.

As on March 31, 2024, Authorised Capital of the Bank was ₹ 6,00,00,00,000 (Rupees Six Hundred crore) divided into 60,00,00,000 (Sixty crore) Equity Shares of ₹ 10 (Rupees Ten) each.

During the year, the Bank had allotted 6,53,06,060 equity shares of ₹ 10 each at an issue price of ₹ 60 per equity share (including premium of ₹ 50 per equity share) by way of Initial Public Offer made by the Bank (employees were given a discount of ₹ 5 per share). After the allotment of the aforesaid equity shares, the total issued, subscribed and paid-up share capital of the Bank as at March 31, 2024, stands at ₹ 5,14,77,98,580/- (Rupees Five Hundred and Fourteen Crore Seventy-Seven Lakhs Ninety-Eight Thousand Five Hundred and Eighty only) divided into 51,47,79,858 (Fifty-One Crore Forty-Seven Lakhs Seventy-Nine Thousand Eight Hundred and Fifty-Eight) Equity Shares of ₹ 10 (Rupees Ten) each.

#### b. Debt Capital

Based on the shareholders' approval dated December 13, 2022 to raise funds through private placement of Unsecured, Rated, Redeemable Non-Convertible Debentures (NCDs), the Bank made the following allotment of Non-Convertible Debentures having a face value of ₹ 1,00,000 (Rupees One Lakh) during the Financial Year 2023-24:

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Sl. No.	Date of Allotment	Aggregate amount (₹ in million)
1.	September 04, 2023	850 million
<b>TOTAL</b>		<b>850 million</b>

Further, the Bank, pursuant to a resolution passed by the Board of Directors in the meeting held on August 11, 2023, considered and approved the proposal to raise funds by way of issue of Unsecured, Rated, Redeemable Tier II bonds (in the form of Non-Convertible Debentures), aggregating up to ₹ 5000 million (Rupees Five Thousand Million Only) on a private placement basis, in one or more tranches, in compliance with all applicable directions and regulations of the Reserve Bank of India, SEBI, other governmental authorities, and any other person, as may be required/ applicable. The Bank through notice dated December 04, 2023 sought the shareholders' approval for the aforesaid issue and the resolution was approved on December 29, 2023.

Pursuant to the aforesaid approval, the Bank made following allotments of Non-Convertible Debentures (NCDs) having a face value of ₹ 1,00,000 (Rupees One Lakhs), during the Financial Year 2023-24:

Sl. No.	Date of Allotment	Aggregate amount (in ₹)
1.	February 29, 2024	600 million
2.	March 20, 2024	1,350 million
<b>TOTAL</b>		<b>1,950 million</b>

### 18. Capital Adequacy

The Bank is subject to the Basel II Capital Adequacy guidelines stipulated by the Reserve Bank of India. The Capital Adequacy Ratio of the Bank is calculated as per the standardised approach for credit risk. The Capital Adequacy ratio of the Bank as on March 31, 2024 is 23.27%, as against the minimum requirement of 15.00% stipulated by the Reserve Bank of India.

### 19. Subsidiary, Joint Ventures and Associate Companies

The Bank does not have any subsidiary, joint ventures and associate companies. Hence, the details of this clause are not applicable to the Bank. Accordingly, the Bank is also not required to formulate a specific policy on dealing with material subsidiaries.

### 20. Share Based Employee Benefits

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

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

- 1) Loyalty Grant to reward eligible employees for their contributions in the past tenure and continued employment in the Bank, which is a one-time grant and;
- 2) Performance Grant on the basis of employee's annual appraisals for their future performance and continuity of services.

The Nomination, Remuneration and Compensation Committee has been entrusted with the responsibility of administering the ESAF ESOP 2019 Scheme. As of March 31, 2024, the Nomination Remuneration and Compensation Committee of the Board granted 11,25,590 options as the first instalment of loyalty grant under the ESAF ESOP 2019 Scheme, to the employees identified under the implementation guidelines for ESAF ESOP 2019 as per the terms of granting. However, no ESOP was granted or exercised during the Financial Year 2023-24.

In accordance with SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, the shareholders in the seventh Annual General Meeting of the Bank held on December 29, 2023, ratified the ESAF ESOP 2019.

## DIRECTORS' REPORT (CONTD.)

### 21. Credit Rating

Credit ratings assigned to various debt instruments of the Bank during the Financial Year ended March 31, 2024 are as follows:

Sl. No.	Instrument Name	Name of the Credit Rating Agency	Amount (₹ in million)	Rating	Date of Re-affirmation
1.	Tier-II Bonds	CARE Ratings Limited	3,800	CARE A; Stable (Single A; Outlook: Stable)	February 22, 2024
2.	Tier-II Bonds	Brickwork Ratings India Private Limited	200	BWR A / Negative	December 28, 2022

### 22. Selection, Appointment and Remuneration of Directors

In compliance with the provisions of the Banking Regulation Act, 1949, the guidelines issued by the Reserve Bank of India, Section 178 of the Companies Act, 2013 and SEBI Listing Regulations, the Bank has formulated and adopted a Nomination Policy for selection and appointment/ re-appointment/ removal of Directors, which is disclosed on the Bank's website ([https://www.esafbank.com/wp-content/uploads/2024/05/Nomination\\_Policy.pdf](https://www.esafbank.com/wp-content/uploads/2024/05/Nomination_Policy.pdf)). Through the said policy, the Bank has formulated criteria for the appointment of directors, and based on the said criteria, Nomination, Remuneration and Compensation Committee of the Board (NRCCB) shall conduct a due diligence process to determine the suitability of every person who is being considered for being appointed or re-appointed as a Director of the Bank, based on the range of skills, experience, expertise, qualifications, specialised knowledge etc. of the candidate, and recommend his/ her appointment to the Board. The Nomination, Remuneration and Compensation Committee identifies potential candidates from diverse backgrounds including but, not limited to Accountancy, Agriculture and Rural Economy, Banking, Co-operation, Finance, Law, Small Scale Industry, Economics, Human Resources, Payment and Settlement Systems, Business Management, Risk Management and Information Technology, thus providing the Board with members who have diverse knowledge, practical experience and skills to serve the business interests of the Bank. Every such person shall meet the 'fit and proper' criteria the Reserve Bank of India may stipulate from time to time, and accordingly, any appointment or re-appointment of a Director shall be subject to prior approval by the NRCCB of the Bank.

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

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

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

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

The Bank has accordingly obtained prescribed declarations/ undertakings from the Directors as per the guidelines of the Reserve Bank of India and the same are placed before the Board of Directors for its review and noting. An assessment on whether the

## DIRECTORS' REPORT (CONTD.)

Directors fulfill the prescribed criteria is carried out by the Nomination Remuneration and Compensation Committee of the Board on an annual basis and also at the time of their appointment or re-appointment.

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

The RBI, vide its circular no. DOR. Appt. BC.No.23/29.67.001/2019-20 dated 04th November 2019, has issued the Guidelines on Compensation of Whole Time Directors / Chief Executive Officers / Material Risk Takers and Control Function Staff of Private Sector Banks on Compensation Policy. In accordance with the aforesaid RBI Circular, the Board of the Bank has adopted a revised Compensation Policy for its Whole-time Directors, Chief Executive Officer of the Bank and other employees. The salient feature of the Compensation Policy is to provide a fair and transparent structure that helps the Bank to retain and acquire the talent pool critical to building competitive advantage and brand equity as a Social Bank focused on social transformation and community development.

### 23. Board of Directors

The composition of the Board of Directors of the Bank is in conformity with the Companies Act, 2013, the Banking Regulation Act, 1949 and SEBI Listing Regulations. As of March 31, 2024, the Board of Directors comprised a combination of ten directors out of which there were six Independent Directors including a Woman Independent Director, two Non-Executive Nominee Directors, one Non-Executive Director and one Executive Director. The size of the Board commensurate with the size and business of the Bank. The Board mix provides a combination of professionalism, knowledge and experience required in the banking industry and also meets the criteria prescribed under the Nomination Policy adopted by the Board.

#### Retirement of Director by Rotation

Pursuant to Section 152 of the Act and Articles of Association of the Bank, two-thirds of the total number of directors are liable to retire by rotation out of which one-third shall retire from office at every Annual General Meeting. The provisions of retirement

of Directors by rotation shall not be applicable to Independent Directors and Executive Directors.

Accordingly, Shri. Ajayan Mangalath Gopalakrishnan Nair (DIN:09782416), Non-Executive Nominee Director of the Bank, who retires by rotation as Director, at the conclusion of this Annual General Meeting and who has offered himself for re-appointment, is proposed to be re-appointed.

#### Change in Directors during the Financial Year 2023-24

- **Appointment of Prof. Biju Varkkey as Non-Executive Independent Director of the Bank**

The Board of Directors in their meeting held on August 11, 2023, had appointed Prof. Biju Varkkey (DIN: 01298281) as Additional Director (Independent Director) of the Bank in terms of Section 149 and 161 of the Companies Act, 2013, with effect from August 17, 2023, considering his vast knowledge and experience in the field of Banking and Human Resources.

The Shareholders in the 07<sup>th</sup> Annual General Meeting of the Bank held on December 29, 2023, approved the appointment of Prof. Biju Varkkey as the Non-Executive Independent Director of the Bank, for a period of three consecutive years with effect from August 17, 2023 up to August 16, 2026.

- **Retirement of Dr. Joseph Vadakkekara Antony as the Non-Executive Independent Director of the Bank**

Dr. Joseph Vadakkekara Antony (DIN: 00181554), Non-Executive Independent Director of the Bank, retired from his directorship on completion of two terms as Independent Director on August 16, 2023. The Board of Directors of the Bank placed on record their appreciation for the invaluable contributions during his tenure as Director of the Bank.

- **Appointment of Dr. Joseph Vadakkekara Antony as Non-Executive Director of the Bank**

The Board of Directors in their meeting held on November 18, 2023, had appointed Dr. Joseph Vadakkekara Antony (DIN: 00181554) as Additional Director (Non-Executive Director) of the Bank in terms of Section 161 of the Companies Act, 2013, with effect from November 18, 2023, considering his vast knowledge and experience

## DIRECTORS' REPORT (CONTD.)

in the field of Banking, Human Resources, Law and Economics.

The Shareholders in the 07<sup>th</sup> Annual General Meeting of the Bank held on December 29, 2023, approved the appointment of Dr. Joseph Vadakkekara Antony as the Non-Executive Director of the Bank, for a period of two consecutive years with effect from November 18, 2023 up to November 17, 2025.

### Familiarisation Programme

Complying with SEBI Listing Regulations, provisions of the Companies Act, 2013 and the RBI guidelines, Familiarisation Programmes were conducted during the Financial Year 2023-24 to give an overview and introduction to the Independent Directors about the Bank's business and operations.

Under this programme, newly appointed directors are appraised with the organisation structure, operational overview, financial overview, board matters and procedures, key risk issues and its mitigation strategy, among others.

Further, all the newly appointed Directors undergo a face to face induction schedule where the Bank's Management Team provides insights about the affairs of their function and of the Bank as a whole. The details of the familiarisation programme imparted to Independent Directors are available on the website of the Bank at <https://www.esafbank.com/pdf/corporate-governance/Familiarisation%20Programme%20for%20Independent%20Directors.pdf>

### 24. Evaluation of Performance of the Board of Directors

In accordance with the provisions of Section 149(8) read with Schedule IV, Section 178(2) of the Companies Act, 2013, Regulation 17 and other applicable regulations of SEBI Listing Regulations, and in consonance with Guidance Note on Board Evaluation issued by the SEBI, the Board has formulated a Performance Evaluation Policy including a questionnaire for performance evaluation of the Individual Directors including Chairman and Managing Director and CEO, Committees of the Board, and the Board as a whole. The questionnaire designed for the performance evaluation covering various aspects of performance, including structure of the board, meetings of the board, functions of the board, role and responsibilities of the board, governance and compliance, evaluation of risks, grievance redressal

for investors, conflict of interest, stakeholder value and responsibility, relationship among directors, director competency, board procedures, processes, functioning and effectiveness, was circulated to all the directors of the Bank for the annual performance evaluation. The appraisal of each of the Directors of the Bank is done based on the evaluation conducted with a set of pre-determined evaluation factors:

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

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

### 25. Code of Conduct for Directors and Senior Management Personnel

In accordance with Regulation 17(5) of SEBI LODR Regulations, the Bank has adopted the Code of Conduct for Directors and Senior Management Personnel. The code of conduct sets forth the guiding principles for orderly and fair conduct by Directors and SMPs. All Directors and SMPs have affirmed the compliance of the code for the Financial Year 2023-24 and a declaration to this effect signed by the Managing Director and CEO forms part of Report on Corporate Governance. The Bank's Code of Conduct for Directors and SMPs is disclosed on the website of the Bank. (<https://www.esafbank.com/pdf/policies/other->

## DIRECTORS' REPORT (CONTD.)

disclosures/Code%20of%20Conduct%20for%20Directors%20and%20Senior%20Management%20v1.pdf)

### 26. Declaration from Independent Directors

The Board has received declarations from the Independent Directors as required under Section 149(7) of the Companies Act, 2013, and the Board is satisfied that the Independent Directors meet the criteria of independence as mentioned in Section 149(6) of the Companies Act, 2013 and Regulation 16(1)(b) of SEBI Listing Regulations and that they have complied with the code of conduct for independent directors as prescribed under Schedule IV of the Companies Act, 2013.

In the opinion of the Board, all the Independent Directors meet the criteria with regards to integrity, expertise and experience as required under applicable laws.

All Independent Directors of the Bank have registered themselves in the data bank as specified under Section 150 of the Companies Act, 2013, read with Rule 6 of Companies (Appointment and Qualifications of Directors) Rules, 2014 and have qualified the prescribed proficiency test. The Independent Directors (not exempted under the Companies (Appointment and Qualification of Directors) Fifth Amendment Rules, 2020 as notified on December 18, 2020) have qualified the online proficiency self-assessment as required under aforesaid rule within the prescribed timeline.

The terms and conditions of appointment of Independent Directors are available on the website of the Bank. (<https://www.esafbank.com/pdf/policies/other-disclosures/Terms%20and%20conditions%20of%20appointment%20of%20Independent-Directors.pdf>)

### 27. Directors and Officers Liability Insurance Policy

The Bank has a Directors and Officers Liability Insurance Policy which protects Directors and Officers of the Bank from any breach of fiduciary duty.

### 28. Corporate Governance

The Bank is committed to achieving and adhering to the highest standards of Corporate Governance and it consistently benchmarks itself with the best practices in this regard. A report on Corporate Governance for the Financial Year 2023-24 has been annexed to the Annual Report.

Shri. M. Vasudevan, Secretarial Auditor of the Bank, has issued a certificate confirming compliance with the provisions of Corporate Governance by the Bank for Financial Year as stipulated in Regulations 17 to 27 and clauses (b) to (i) of Regulation 46(2) and paragraphs C, D and E of Schedule V to the SEBI Listing Regulations, and the same is attached along with the Report on Corporate Governance.

### 29. Management's Discussion and Analysis Report

The Management's Discussion and Analysis Report as stipulated under Regulation 34(2)(e) of the SEBI Listing Regulations, forms part of this Annual Report.

### 30. Meetings of the Board

The Board of Directors met Sixteen (16) times during the Financial Year 2023-24.

The meetings of the Board of Directors were convened in accordance with applicable laws and standards and the intervening gap between the said meetings was not exceeding 120 days. The details of Board Meetings and details of attendance of each director have been disclosed in the Corporate Governance Report which forms part of the Annual Report of the Bank for the Financial Year 2023-24. During the year, Shri. Ravimohan Periyakavil Ramakrishnan, Dr. Vinod Vijayalekshmi Vasudevan and Prof. Biju Varkkey had sought leave of absence from one (1) meeting each, of the Board of Directors.

As on March 31, 2024, the Bank had Ten (10) Board Committees:

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

## DIRECTORS' REPORT (CONTD.)

**Note:** IPO Steering Committee of the Board (IPOSCB) was dissolved upon successful completion of listing of equity shares of the Bank on November 10, 2023.

The details of composition, number of meetings held and date thereof and terms of reference of the above Committees are available in the Corporate Governance Report which forms part of the Annual Report of the Bank for the Financial Year 2023-24.

### 31. Meeting of Independent Directors

In terms of the Section 149(8) read with Schedule IV of Act and Regulation 25 of SEBI Listing Regulations, a meeting of the Independent Directors of the Bank is required to be held at least once a year in absence of Non-Independent Directors.

During the Financial Year 2023-24, the Independent Directors of the Bank met on March 26, 2024, chaired by Shri. Ravimohan Periyakavil Ramakrishnan and attended by all the Independent Directors of the Bank.

### 32. Key Managerial Personnel

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

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

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

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

Following changes took place in the list of Key Managerial Personnel during the Financial Year 2023-24:

Sl. No.	Name of the Key Managerial Person	Nature of Change
1.	Shri. Antoo P.K.	Shri. Antoo P. K., Head of Internal Audit Department of the Bank, ceased to be the Key Managerial Person of the Bank with effect from the close of business hours on March 31, 2023, due to completion of his employment contract. The Board placed on record its appreciation for the invaluable contribution rendered by him during his tenure as Head of Internal Audit.
2.	Shri. Sivakumar P.	Shri. Shivakumar P. was appointed as the Head of Internal Audit Department of the Bank with effect from April 01, 2023, for a period of three years and was designated as a Key Managerial Person of the Bank pursuant to Section 2(51) and other applicable provisions of the Companies Act, 2013.

### 33. Internal Financial Controls

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

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

## DIRECTORS' REPORT (CONTD.)

- The existence and adequacy of IFCs is demonstrated to various internal and external stakeholders.

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

### 34. 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, 2024, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- Such accounting policies as specified in Schedule III to the Financial Statements have been selected and applied consistently and judgements and estimates have been made that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank as at March 31, 2024 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
- Proper system to ensure compliance with the provisions of all applicable laws was in place and the same was adequate and operating effectively.

### 35. Environment Social and Governance Practices and Corporate Social Responsibility

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

### Environment Social and Governance Practices

In the financial and banking industry, ESG has become a critical area of focus and the Bank Endeavours to continually improve its ESG performance. There is a robust ESG policy framework which articulates ESG focus areas and provides guidance for ESG practices such as corporate governance, environmental and employee related initiatives, policy revisions and other ESG related projects undertaken. There is a Sustainability Council in the Bank, comprising representatives from relevant functions for the implementation of the framework. This council plays a critical role in providing data on various ESG parameters which is subsequently collated, analysed and reported to the Head of Sustainable Banking. The progress is also reported to the CSRSCB and the Board periodically.

The Bank follows a social business strategy seeking a Triple Bottom Line impact: People, Planet and Prosperity and believe that the social, environmental, and economic outcomes of the Bank's business create synergies that have an amplified impact on our stakeholders of the Bank. The legacy of a mission, fighting the partiality of prosperity (i.e., the drive for inclusion of marginalised sections of society and the equity of opportunities) led to the formation of the Bank. With a vision to become India's leading Social Bank that offers equal opportunities for the whole society, the Bank has adopted various policies to implement the Bank's triple bottom line approach, including an Environmental, Social and Governance ("ESG") policy. Pursuant to the ESG policy, the Bank is committed to (i) the protection of the environment and ensuring sustainable development, (ii) promoting financial inclusion and gender equality through specialised financial services; and (iii) establishing a governance framework to ensure accountability, transparency and compliance with internal and external ESG standards. The Bank won the "Global Sustainability Award 2020" for outstanding achievements in sustainability management by the Energy and Environment Foundation. The Bank's ESG Grading scores from CARE Advisory Research & Training Limited in its report titled "ESG Grading Report of ESAF Small Finance Bank" published in June, 2023 were: (i) 62% for the Environmental pillar, with remarks including The Bank's commitment to green finance and environment conscious operations; (ii) 68% for the Social pillar, with remarks including that, the Bank has demonstrated healthy labour management practices, including the implementation

## DIRECTORS' REPORT (CONTD.)

of various policies that embody international and national Human Rights standards; and (iii) 76% for the Governance pillar, with remarks including that, the Bank has aligned with leading governance practices, such as adequate independence of the Board (66% independent members on the Board) and committee levels. The Bank received a rating of CareEdge ESG 3 (good), with an overall score of 71 compared with the industry average overall score of 59.8. CARE Advisory Research & Training Limited's ESG specialist team undertook the ESG Grading of the Bank during May, 2023. The Bank has adopted a four-year ESG Roadmap for 2023-27 as follows:

- Impacting 10 Million (One Crore) Direct Customers with any of many SDGs.
- Fostering Local Sustainable Economic Growth through 1 Million Joint Liability Groups.
- Fostering Food Security through financial services to 5 Million Farmers
- Fostering Energy Security through 2,00,000 Renewable Energy Installations (1GW)
- Energy conservation and greater reliance to renewable energy in operations in line with government's net zero plan.

The Bank has received ISO 26000:2010 certification during the Financial Year 2023-24. It is a recognition for the Bank's range of inclusive financial services for social and environmental resilience and returns to individuals, professionals and businesses through ethical practices and global standards. It is a comprehensive certification on the Social Responsibility covering seven core subjects:

- Community Engagement and Development
- Environmental Stewardship
- Human Rights
- Labour Practices
- Consumer Protection
- Fair Operating Practices
- Organisational Governance

### Corporate Social Responsibility

The Bank has adopted a CSR policy in compliance with the requirements of the Companies Act, 2013 and the Companies (Corporate Social Responsibility) Rules, 2014. The Bank's CSR focus areas are education, healthcare, sanitation and livelihood development and other priority segments aligning its focus to the 17 Sustainable Development Goals (SDGs) as adopted by the United Nations, by setting targets linking to SDGs

and monitoring the same for a significant participation to the achievement of SDGs. The Bank has engaged ESAF Foundation (formerly known as Evangelical Social Action Forum) and Prachodhan Development Services for implementing the CSR projects approved by the Board.

The Bank's CSR Projects and CSR Project Expenditure for Fiscal Year 2023-24 are in accordance with the CSR mandate as specified in Sections 134 and 135 of the Act read with Schedule VII to the Act and the Companies (Corporate Social Responsibility Policy) Rules, 2014, as amended from time to time, and in accordance with notifications issued by the Government of India from time to time.

Every year, the Bank allocates 5% of its average net profits, computed in accordance with the manner as prescribed in the Section 135 of the Companies Act, 2013, as against the requirement of 2%. During the Financial Year 2023-24, the Bank has allocated ₹ 12,25,00,000 towards CSR expenditures, as against the allocation of ₹ 8,26,00,000 for the Financial Year 2022-23. The CSR projects and programmes were implemented directly and/ or through implementing partner organisations with a proven track record of implementing process efficient CSR projects and/ or programmes that were scalable, sustainable, outcome driven, and committed to making a positive societal impact in Fiscal Year 2023-24. Based on the CSRSCB's review and recommendation, the Board reviewed and approved all CSR Projects, CSR Project Expenditure Payments and CSR Administration Overhead Expenses, including the Unspent CSR Project Expenditure Funds of Financial Year 2023-24, which were transferred to the Unspent CSR Account Financial Year 2023-24 on March 31, 2024. The Annual Report on CSR Activities, which is annexed to this report as Annexure – I, contains a brief summary of the CSR Policy, including an overview of the programmes implemented, the makeup of the CSR Committee, and CSR expenditure for the fiscal year under review. This year, the Bank has innovated a new CSR initiative of industry academia integration by a new CSR project – ESAF Chair for Business on Values at IRMA (Institute of Rural Management Anand). This synergy to promote value-based businesses will show forth long term impact. Similarly, another CSR innovation was the establishment of Centre of Excellence in collective enterprises that will nurture collective enterprises starting from small JLGs to big FPOs. The CSR Policy of the Bank is available on the Bank's website. (<https://www.esafbank.com/pdf/policies/CSR%20Policy.pdf>)

## DIRECTORS' REPORT (CONTD.)

### 36. Business Responsibility and Sustainability Report

In May 2021, the SEBI made an amendment to Regulation 34(2)(f) of the SEBI Listing Regulations, by introducing enhanced disclosure requirements regarding ESG parameters through a revised format called the Business Responsibility and Sustainability Report ("BRSR"). The Business Responsibility Report has been replaced by BRSR, which is a more comprehensive disclosure that can showcase ESG performance with enhanced transparency, shifting the focus to quantifiable metrics by providing essential and voluntary indicators rather than qualitative and subjective metrics. The Bank has published the BRSR for the Financial Year 2023-24.

BRSR for Financial Year 2023-24 is a part of the Annual Report of the Bank and is also available on the Bank's website.

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

The Bank continues with the belief of zero tolerance towards sexual harassment in workplace and

continues to uphold and maintain itself as a safe and non-discriminatory organisation. To achieve the same, the Bank reinforces the understanding and awareness of The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 ("POSH"). The Bank has in place, a policy in line with the requirements of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and an Internal Complaints Committee has been set up for redressal of complaints. Any complaint pertaining to sexual harassment is diligently reviewed and investigated, and treated with great sensitivity. The Internal Committee members have been trained in handling and resolving complaints and have also designed an online e-learning POSH Awareness module, which covers the larger employee base. During the Financial Year 2023-24, two (2) complaints were received and the same was disposed of.

### 38. Overall Remuneration

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

i) Ratio of Remuneration of Each Director to Median Employee Remuneration;	<p>The ratio of remuneration of each Director to median employee remuneration is as below:</p> <table border="1" data-bbox="893 1321 1461 1512"> <tbody> <tr> <td data-bbox="893 1321 1077 1366">MD &amp; CEO</td> <td data-bbox="1077 1321 1461 1366">53 times</td> </tr> <tr> <td data-bbox="893 1366 1077 1512">Other Directors</td> <td data-bbox="1077 1366 1461 1512">Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees.</td> </tr> </tbody> </table>	MD & CEO	53 times	Other Directors	Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees.
MD & CEO	53 times				
Other Directors	Other directors are not paid any remuneration other than sitting fee for attending meetings of the Board and Committees.				
ii) The percentage increase in remuneration of each Director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the Financial Year;	<ul style="list-style-type: none"> <li>• Managing Director and CEO – 12.08%</li> <li>• Chief Financial Officer – 13.59%</li> <li>• Company Secretary – 35.78%</li> </ul>				
iii) The percentage increase in the median remuneration of employees in the financial year;	7.23%				
iv) The number of permanent employees on the rolls of the Bank as on March 31, 2024;	5,967				
v) Average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration;	Average increase of 16% was made to the salaries of employees other than the managerial personnel and 12% increase was made in the managerial remuneration in the last financial year.				
vii) Affirmation that the remuneration is as per the remuneration policy of the Company.	The remuneration is as per the Compensation Policy of the Bank.				

## DIRECTORS' REPORT (CONTD.)

### Statement showing

i) The name of every employee, who if employed throughout the financial year, was in receipt of remuneration for that year which, in the aggregate, was not less than One Crore and Two Lakhs rupees;	Shri. Kadambelil Paul Thomas, Managing Director and CEO of the Bank, was paid an aggregate remuneration of ₹ 3,30,08,986/- (including perquisites) during the year.
ii) The name of every employee, who, 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 Lakhs and Fifty Thousand rupees per month;	NIL
iii) The name of every employee, who, if employed throughout the financial year or part thereof, was in receipt of remuneration in that year which, in the aggregate, or as the case may be, at a rate which, in the aggregate, is in excess of that drawn by the Managing Director or Whole Time Director or Manager and holds by himself or along with his spouse and dependent children, not less than two per cent of the equity shares of the Bank.	NIL

### 39. Whistle Blower Policy/ Vigil Mechanism

The Bank has implemented a vigil mechanism through the adoption of a Whistle Blower and Protected Disclosure Policy in compliance with the relevant provisions of the Companies Act, 2013 and rules thereunder. The Bank provides an opportunity to raise concerns of employees, vendors and directors relating to fraud, malpractice or any other activity or event which is against the interest of the Bank or society as a whole. The details of Whistle Blower complaints received and subsequent action taken and the functioning of the Whistle Blower mechanism are reviewed periodically by the Audit Committee of the Board. During the Financial Year 2023-24, five (5) complaints were received under the Whistle Blower Mechanism. The functioning of the mechanism is reviewed by the Audit Committee from time to time. No employee of the Bank has been denied access to the Audit Committee for raising a whistle blower complaint.

The policy is available on the official website of the Bank. (<https://www.esafbank.com/pdf/policies/Whistle%20Blower%20Policy.pdf>)

### 40. Code of Conduct to Regulate, Monitor and Report Insider Trading

The Bank has in place, a Policy for Monitoring Insider Trading which inter alia acts as the Code of Conduct

to Regulate, Monitor and Report ("Code") insider trading in the securities of the Bank and the Code of Practices and Procedures for Fair Disclosure of Unpublished Price Sensitive Information ("UPSI"). The Code, inter alia, prohibits dealing in securities by insiders while in possession of UPSI. The said Code has been amended, from time to time, to give effect to the various notifications/circulars of the Securities and Exchange Board of India ("SEBI") with respect to the SEBI (Prohibition of Insider Trading) Regulations, 2015. The Policy for Monitoring of Insider Trading is available on the Bank's website. ([https://www.esafbank.com/wp-content/uploads/2024/05/Policy\\_for\\_Monitoring\\_of\\_Insider\\_Trading.pdf](https://www.esafbank.com/wp-content/uploads/2024/05/Policy_for_Monitoring_of_Insider_Trading.pdf))

### 41. Statutory Auditors

In accordance with the 'Guidelines for Appointment of Statutory Central Auditors (SCAs)/Statutory Auditors (SAs) of Commercial Banks (excluding RRBs), UCBS and NBFCs (including HFCs) dated April 27, 2021 ("RBI Guidelines") issued by RBI, the Bank is required to appoint Joint Statutory Auditors for a continuous period of three (3) years, subject to the firms satisfying the eligibility norms each year and the approval of RBI on an annual basis.

Accordingly, the shareholders of the Bank in the sixth Annual General Meeting held on December 13, 2022, and seventh Annual General Meeting held on

## DIRECTORS' REPORT (CONTD.)

December 29, 2023, had appointed M/s. Abarna and Ananthan, Chartered Accountants (Firm Registration Number: 000003S) and M/s. Kirtane and Pandit, Chartered Accountants (Firm Registration Number: 105215W/ W100057) respectively, as Joint Statutory Auditors of the Bank for a period of three Financial Years. The appointment is subject to approval of the Reserve Bank of India every year.

The Statutory Auditors have confirmed their eligibility under Section 141 of the Act and as per the guidelines issued by RBI from time to time. Further, as required under the relevant provisions of SEBI Listing Regulations, the Statutory Auditors had also confirmed that they had subjected themselves to the peer review process of the Institute of Chartered Accountants of India ("ICAI") and they hold a valid certificate issued by the Peer Review Board of ICAI.

The Shareholders in the 7<sup>th</sup> Annual General Meeting held on December 29, 2023 had approved an aggregate professional fee of ₹ 8 million plus GST and reimbursement of reasonable out of pocket expenses per Financial Year, to be allocated by the Bank between M/s. Abarna and Ananthan and M/s. Kirtane and Pandit, Chartered Accountants, depending on roles and responsibilities and the scope of work undertaken by each of them during the course of audit.

### 42. 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 and Regulation 24A of SEBI LODR Regulations, 2015, the Board of Directors of the Bank in the meeting held on December 26, 2023 has appointed Shri. M. Vasudevan, FCS, Practising Company Secretary (COP: 2437), Thrissur, holding Membership No: F 4177 for a fourth term to conduct a Secretarial Audit of the Bank for the Financial Year 2023-24 and to hold the office till the conclusion of eighth Annual General Meeting of the Bank. The Secretarial Audit Report does not contain any qualification, reservation or adverse remark and the report for the Financial Year 2023-24 is enclosed herewith as Annexure – II. The Bank has complied with the Secretarial Standards specified by the Institute of Company Secretaries of India and notified by the Ministry of Corporate Affairs under Section 118(10) of the Companies Act, 2013.

### 43. Particulars of contract or arrangements with Related Parties

During Financial Year 2023-2024, all the related party transactions were entered in the ordinary course of the business of the Bank and on an arm's length basis. Accordingly, there were no transactions entered during the fiscal year that fall under the scope of Section 188(1) of the Companies Act, 2013, hence, form AOC-2 is not applicable to the Bank.

### 44. Annual Return

Pursuant to the provisions of Section 134(3)(a) and Section 92(3) of the Act read with Rule 12(1) of the Companies (Management and Administration) Rules, 2014, the Annual Return of the Bank for the Financial Year 2023-24 will be hosted on the Bank's website at [www.esafbank.com/investor-relations-info/](http://www.esafbank.com/investor-relations-info/).

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

During the Financial Year 2023-24, no instances of fraud committed by its officers or employees were reported by the Joint Statutory Auditors or the Secretarial Auditors of the Bank.

### 46. Statutory Disclosures

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

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

- i) As part of the ESG initiatives of the Bank, the Bank has taken various steps for conservation of energy and technologically driven business. The details of the same are provided in the Business Responsibility and Sustainability Report forming part of the Annual Report.
- ii) During the Financial Year 2023-24, the Bank had foreign currency expenditure of ₹ 86,52,450.94/- and there were no foreign currency earnings during the period.

## DIRECTORS' REPORT (CONTD.)

### 48. Material changes and commitments affecting financial position of the Bank

There have been no material changes and commitments between the end of the Financial Year 2023-24 and the date of this report, affecting the financial position of the Bank.

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

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

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

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

### 51. Deposits

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

### 52. Loans / Guarantees / Investments

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

### 53. Cost Records

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

### 54. Significant and Material Orders

In accordance with Rule 8(5)(vii) of the Companies (Accounts) Rules, 2014, there have been no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and the future operations of the Bank.

### 56. Despatch of Annual Report

The MCA has issued General Circular No. 20/2020 dated May 05, 2020 read with other relevant circulars, including General Circular No. 10/2022 dated December 28, 2022 and applicable circulars/ notifications issued by SEBI relaxing the requirement of dispatching physical copies of the Annual Report and the Notice convening the AGM to Shareholders. Members who wish to have a physical copy may write to the Company Secretary of the Bank at investor.relations@esafbank.com or submit a written request to the Registered Office of the Bank. In accordance with the aforesaid circulars, the web link of the Annual Report and the Notice convening the AGM of the Bank is being sent in electronic mode only to members whose e-mail address is registered with the Bank or the Depository Participant(s). Those members, whose email address is not registered with the Bank or with their respective Depository Participant(s) and who wish to receive the Notice of the AGM and the Annual Report for the Financial Year ended March 31, 2024, can get their email address registered by following the steps as detailed in the Notice convening the AGM. The Annual Reports of the Bank are available on the Bank's website viz., URL: <https://www.esafbank.com/report/esaf-small-finance-bank-annual-reports/>.

### 55. Strictures and Penalties

The penalties or strictures imposed by the regulators on the Bank is as follows:

Sl. No.	Name of the regulatory/ enforcement agencies/ judicial institutions	Amount (In ₹)	Brief of the case
1.	Reserve Bank of India	29,55,000	The Reserve Bank of India (RBI), by order dated January 05, 2024 and press release dated January 12, 2024, has imposed a monetary penalty of ₹ 29.55 lakhs (Rupees Twenty Nine Lakhs and Fifty Five Thousand only) on ESAF Small Finance Bank Ltd. (the Bank) for non-compliance with the directions issued by RBI on 'Customer Service in Banks'.
2.	BSE Limited	17,700	BSE Limited has imposed a monetary penalty of ₹ 17,700 for delayed submission of financial results for the quarter and half year ended on September 30, 2023 under Regulation 52 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

### Acknowledgement

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

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

**Sd/-**

**Ravimohan Periyakavil Ramakrishnan**

**DIN: 08534931**

**Part-Time Chairman**

**Sd/-**

**Kadambelil Paul Thomas**

**DIN: 00199925**

**Managing Director & CEO**

Date: May 08, 2024

Place: Thrissur

# ANNEXURE – I

## ANNUAL REPORT ON CSR ACTIVITIES FOR THE FINANCIAL YEAR 2023-24

### 1. Brief outline on CSR Policy of the Company

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

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

### 2. Composition of CSR Committee

Sl. No.	Name of Director	Designation/ Nature of Directorship	Number of Meetings of CSR Committee held during the year	Number of Meetings of CSR Committee attended during the year
1.	Shri. Gabriel John Samuel	Chairman (Non-Executive Nominee Director)	2	2
2.	Shri. Kadambelil Paul Thomas	Member (Managing Director and CEO)	2	2
3.	Ms. Kolasseril Chandramohan Ranjani	Member (Non-Executive Independent Director)	2	2
4.	Dr. Joseph Vadakkekara Antony	Member (Non-Executive Director)	1*	1

\*Dr. Joseph Vadakkekara Antony was included as a member of the Committee with effect from November 18, 2023.

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

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

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

Not applicable, since none of the projects undertaken by the Bank in the past that has completed one year, has a project outlay of ₹10 million or more.

However, the Bank has undertaken an Impact Assessment through an Independent Agency for all the projects in the Financial Years up to 2021-22 voluntarily. CSR impact assessment works for FY 2022-23 are in progress. Furthermore, the Bank plans to undertake the same activity for the Financial Year

2023-24, depending on the completion of the project. Impact Assessment Reports and Sustainability Reports are available in Bank's website at [www.esafbank.com](http://www.esafbank.com).

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

₹ 2,44,93,94,033

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

₹ 4,89,87,881

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

NIL

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

NIL

## ANNEXURE - I (CONTD.)

**(e) Total CSR obligation for the Financial Year**

As per the provisions of the Companies Act, 2013, the CSR obligation of the Bank is ₹ 4,89,87,881

The Bank has decided to allocate 5% of the average net profits every Financial Year, as against the statutory obligation of 2%. In accordance with the same, the Bank has allocated ₹12,25,00,000 towards CSR expenditures for the Financial Year 2023-24.

**6. Amount spent on CSR Projects (both ongoing and other than ongoing projects)**

₹ 11,38,38,250

**(b) Amount spent in Administrative Overheads**

₹ 49,77,943.15

Sl. No.	Years	Indirect Cost
1	2022-23	₹25,55,178.15
2	2023-24	₹ 24,22,765
<b>Total</b>		<b>₹ 49,77,943.15</b>

**(c) Amount spent on Impact Assessment, if applicable**

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

**(d) Total amount spent for the Financial Year**

During the Financial Year 2023-24, a total amount of ₹ ₹ 11,38,38,250/- was spent on CSR projects as given below:

Particulars	Amount
Amount spent on ongoing projects pertaining to Financial Year 2022-23	₹ 6,06,40,295
Amount spent on ongoing projects pertaining to Financial Year 2023-24	₹ 5,31,97,955
<b>Total</b>	<b>₹ 11,38,38,250</b>

**(e) CSR amount spent or unspent for the Financial Year**

Total Amount Spent for the Financial Year	Amount Unspent				
	Total Amount transferred to Unspent CSR Account as per Section 135(6)		Amount transferred to any fund specified under Schedule VII as per second proviso to section 135(5)		
	Amount	Date of Transfer	Name of the Fund	Amount	Date of Transfer
₹5,31,97,955	₹5,12,50,000	March 30, 2024	NIL	NIL	NA

**(g) Excess amount for set off, if any**

Sl. No.	Particulars	Amount (in ₹)
(i)	Two percent of Average Net Profit of the Company as per Section 135(5)	₹4,89,87,881
(ii)	Total amount spent for the Financial Year	₹11,38,38,250
(iii)	Excess amount spent for the Financial Year [(ii) - (i)]	₹6,48,50,369
(iv)	Surplus arising out of the CSR projects or programmes or activities of the previous Financial Years, if any	NIL
(v)	Amount available for set off in succeeding Financial Years [(iii)-(iv)]	₹6,48,50,369

**ANNEXURE - I (CONTD.)**
**7. (a) Details of unspent CSR amount for the preceding three Financial Years**

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Sl. No.	Preceding Financial Year	Amount transferred to Unspent CSR Account under sub-section (6) of section 135 (in ₹)	Balance Amount in Unspent CSR Account under subsection (6) of section 135 (In ₹)	Amount Spent in the Financial Year (in Rs)	Amount transferred to a Fund as specified under Schedule VII as per second proviso to subsection (5) of section 135, if any	Amount remaining to be spent in succeeding Financial Years (in ₹)	Deficiency, if any
1	2021-22	NIL	NIL	NIL	NIL	NIL	NIL
2	2022-23	₹5,80,45,000	NIL	₹6,06,40,295	NIL	NIL	NIL
3	2023-24	₹5,12,50,000	₹5,12,50,000	₹5,31,97,955	NIL	NIL	NIL

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

Sl. No.	Short particulars of the property or asset(s) [including complete address and location of the property]	Pincode of the property or asset(s)	Date of creation	CSR amount spent	Details of entity/ authority/ beneficiary of the registered owner		
(1)	(2)	(3)	(4)	(5)	(6)		
					CSR Registration Number, if applicable	Name	Registered Address
1.	Toilet Construction at St. Marys LP School, Edakulam, Thrissur, Kerala (CSR 2022-23)	680688	October 26, 2023	₹2,50,000	Implemented by the Bank directly	NA	NA
2	5KW On- Grid Solar installation at HCC GUPS Cherlayam, Thrissur, Kerala (CSR 2022-23)	680503	June 05, 2023	₹3,16,000	Implemented by the Bank directly	NA	NA
3	5KW On- Grid Solar installation at CNN Boys High School, Cherpu, Thrissur, Kerala (CSR 2022-23)	680561	June 05, 2023	₹3,16,000	Implemented by the Bank directly	NA	NA
4	5KW On- Grid Solar installation at VPM SNDP HSS, Kazhimbram, Thrissur, Kerala (CSR 2022-23)	680568	June 05, 2023	₹3,16,000	Implemented by the Bank directly	NA	NA
5	Dental OPG X-Ray Installation at St. John's Hospital, Bangalore, Karnataka (CSR 2022-23)	560034	August 25, 2023	₹14,00,000	Implemented by the Bank directly	NA	NA
6	5KW On- Grid Solar installation at Vivekodayam BHSS, Thrissur, Kerala (CSR 2022-23)	680001	June 05, 2023	₹3,16,000	Implemented by the Bank directly	NA	NA

## ANNEXURE - I (CONTD.)

Sl. No.	Short particulars of the property or asset(s) [including complete address and location of the property]	Pincode of the property or asset(s)	Date of creation	CSR amount spent	Details of entity/ authority/ beneficiary of the registered owner		
					(1)	(2)	(3)
(1)	(2)	(3)	(4)	(5)	(6)		
					CSR Registration Number, if applicable	Name	Registered Address
7	5KW On- Grid Solar installation at AUPS Marottichal, Thrissur, Kerala (CSR 2022-23)	680014	June 05, 2023	₹3,16,000	Implemented by the Bank directly	NA	NA
8	5KW On- Grid Solar installation at UPS Thrithallur, Thrissur, Kerala (CSR 2022-23)	680619	June 05, 2023	₹3,16,000	Implemented by the Bank directly	NA	NA
9	5KW On- Grid Solar installation at Vanivilasam UPS, Padoor, Thrissur, Kerala (CSR 2022-23)	680524	June 05, 2023	₹3,16,000	Implemented by the Bank directly	NA	NA
10	Purchasing of Eeco Ambulance for Snehalayam, Mundathicode, Thrissur, Kerala (CSR 2022-23)	680601	August 01, 2023	₹7,20,312	Implemented by the Bank directly	NA	NA
11	Purchasing of Eeco Ambulance for Perpetual Succour Charitable Trust, Maradu, Ernakulam, Kerala (CSR 2022-23)	682304	November 21, 2023	₹7,67,300.50	Implemented by the Bank directly	NA	NA
12	Extension of mezzanine floor (Reading Room) at Janodhayam Grandhalayam, Valkulambu, Palakkad, Kerala (CSR 2022-23)	678684	August 05, 2023	₹4,50,233	Implemented by the Bank directly	NA	NA
13	Health Service vehicle (Bolero Neo) for Family Health Centre, Kizhakkencheri, Palakkad, Kerala (CSR 2022-23)	678684	October 04, 2023	₹11,89,791	Implemented by the Bank directly	NA	NA
14	Water Purifier and Cooler for St. Thomas School, Dhurwa, Ranchi, Jharkhand (CSR 2022-23)	834004	November 30, 2023	₹72,800	Implemented by the Bank directly	NA	NA
15	Advanced nursing and wound care mannequin for training at Kancare Foundation, Kakkanad, Ernakulam, Kerala (CSR 2022-23)	682037	August 18, 2023	₹1,22,332	Implemented by the Bank directly	NA	NA

**ANNEXURE - I (CONTD.)**

Sl. No.	Short particulars of the property or asset(s) [including complete address and location of the property]	Pincode of the property or asset(s)	Date of creation	CSR amount spent	Details of entity/ authority/ beneficiary of the registered owner		
					(1)	(2)	(3)
(1)	(2)	(3)	(4)	(5)	(6)		
					CSR Registration Number, if applicable	Name	Registered Address
16	5KW On- Grid Solar and UPS installation at CAHSS, Ayakkad, Palakkad, Kerala (CSR 2022-23)	678683	September 05, 2023	₹5,57,464	Implemented by the Bank directly	NA	NA
17	5KW On- Grid Solar installation at CSI Karunalayam, Ernakulam, Kerala (CSR 2022-23)	683101	December 19, 2023	₹3,24,663.80	Implemented by the Bank directly	NA	NA
18	Water Purifier Installation at Bharata Mata College, Thrikkakara, Ernakulam, Kerala (CSR 2022-23)	682021	November 07, 2023	₹1,00,000	Implemented by the Bank directly	NA	NA
19	5KW On- Grid Solar installation at CMS HSS Arapetta, Wayanad, Kerala (CSR 2022-23)	673577	December 22, 2023	₹3,22,866	Implemented by the Bank directly	NA	NA
20	Water Purifier Installation at CMS LP School, Mannuthy, Thrissur, Kerala (CSR 2022-23)	680651	October 27, 2023	₹50,708.80	Implemented by the Bank directly	NA	NA
21	5KW On- Grid Solar installation at CAHSS, Kuzhalmannam, Palakkad, Kerala (CSR 2022-23)	678702	December 08, 2023	₹3,22,586	Implemented by the Bank directly	NA	NA
22	5KW On- Grid Solar installation at SCGHSS, Kottakkal, Mala, Thrissur, Kerala (CSR 2022-23)	680732	November 30, 2023	₹3,24,902	Implemented by the Bank directly	NA	NA
23	Support to Mother & Child Foundation Purchase of Equipment's for Livelihood / Rehabilitation Project (Refrigerator, Oven, Grinder, Mixi & Cooktop stove - for a centre for Unemployed Young Adults and Destitute Mothers for their livelihoods) Idukki, Kerala (CSR 2022-23)	685608	January 17, 2024	₹52,300	Implemented by the Bank directly	NA	NA
24	Water Purifier Installation at Govt. High School, Thekkekkara, Alappuzha, Kerala (CSR 2022-23)	688503	January 17, 2024	₹41,800	Implemented by the Bank directly	NA	NA

## ANNEXURE - I (CONTD.)

Sl. No.	Short particulars of the property or asset(s) [including complete address and location of the property]	Pincode of the property or asset(s)	Date of creation	CSR amount spent	Details of entity/ authority/ beneficiary of the registered owner		
(1)	(2)	(3)	(4)	(5)	(6)		
					CSR Registration Number, if applicable	Name	Registered Address
25	Three-seater waiting chair (Airport Chair) and Hot & Cold-water purifier Installation at Community Health Centre, Kadayiruppu, Ernakulam, Kerala (CSR 2022-23)	682311	February 16, 2024	₹1,74,060.90	Implemented by the Bank directly	NA	NA
26	ESAF Hospital and Research Centre, Palakkad - Mannarkkad, Main Road, Thachampara, Palakkad (CSR 2022-23)	678593	December 21, 2022	₹16,10,884	CSR000020189	ESAF Foundation	Viswas Bhavan, Mannuthy
27	CAHSS, Vadakkanchery, Padur Rd, Ayakkad (CSR 2022-23)	678683	September 05, 2023	₹36,24,753	CSR00001633	PDS	Shanti Nagar, Mannuthy
28	Lahanti Public School, Bhaturiya, Nonihat, Dumka (CSR 2022-23)	814145	March 30, 2024	₹11,51,308	CSR00001633	PDS	Shanti Nagar, Mannuthy
29	ESAF Hospital and Research Centre, Palakkad- Mannarkkad Main Road, Thachampara, Palakkad (2023-24)	678593	March 30, 2024	₹17,58,163	CSR000020189	ESAF Foundation	Viswas Bhavan, Mannuthy
30	CAHSS, Vadakkanchery, Padur Rd, Ayakkad (2023-24)	678683	March 30, 2024	₹2,21,11,903	CSR00001633	PDS	Shanti Nagar, Mannuthy

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

**Not applicable as the CSR spending of the Bank for the Financial Year 2023-24 relates to ongoing projects.**

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

**DIN: 00199925**

**Sd/-**  
**Gabriel John Samuel**  
**Chairman of the CSR and Sustainability Committee of the Board**

**DIN: 07725212**

## ANNEXURE – I (CONTD.)

### SUMMARY OF IMPACT ASSESSMENT STUDY

During the Financial Year 2021-22, ESAF Small Finance Bank Ltd. (the Bank), as per its Corporate Social Responsibility (CSR) Policy, has allocated 5% of its profits for the CSR Projects. The CSR projects are implemented by its two partner organisations – M/s. ESAF Foundation (previously known as Evangelical Social Action Forum) and M/s. Prachodhan Development Services (PDS).

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

1. Holistic development of children and youth
2. Social entrepreneurship and marketing
3. Agriculture and farmer collectives
4. Emergency relief and community intervention
5. Rural education
6. Rural health

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

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

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

#### Relevance and coherence

- **Balajyothi project:** Highly relevant for holistic development of children and youth, with a focus on academic support, personality and leadership development, and sports coaching.
- **Social entrepreneurship and mentoring:** Highly relevant in under developed areas, as they empower individuals to start their own enterprises, alleviate poverty, create job opportunities, and address social and environmental issues.
- **Agriculture and farmer collectives:** Highly relevant in rural areas where agriculture and allied activities are vital for the majority of the population. Projects leverage existing institutional infrastructure to improve farm income and productivity, particularly through farmer collectives.
- **Emergency relief and community intervention:** Highly relevant in areas prone to natural disasters

and other emergencies, providing immediate relief and support to affected communities in complement to government efforts.

- **School infrastructure support:** Highly relevant in improving education profile of underprivileged segments of society through enhancing school infrastructure, providing educational content, and encouraging student enrolment and attendance.
- **Rural health:** Highly relevant in providing essential healthcare services to local communities, particularly in rural areas. Also, addressing mental health issues that are often overlooked in India.

#### Effectiveness

During the year, the project reached out to over 99,000 direct beneficiaries in different parts of the country. During the year, the implementing partner has been able to achieve 106% of the beneficiary targets.

#### Impact

Nature of impact of different projects have been varied. The following are the most important impacts.

#### Holistic development of children and youth

- The Balajyothi and Study Centre Programmes aim to develop academic and extracurricular skills of school children, and parents express satisfaction with the resources provided.
- Interactions with parents indicate improved academic performance, manners, and discipline among children, and various competitions organised for children have been motivating.
- Financial literacy training is appreciated by parents, but some suggest providing computer exposure and refreshments for participants and enhancing Study Centre infrastructure.
- Children seem more enthusiastic about extracurricular activities offered and are more confident about their academic performance.
- Some notable achievements have been made by the students in local tournaments who received football coaching, and social entrepreneurship and mentoring.
- Approximately 3,000 women members of self-help groups were provided with skill development training across several sessions, focusing on various areas such as food processing, tailoring, beauty and wellness, and agriculture-related activities.
- The training programmes conducted by the implementation partners have proven to be beneficial

## ANNEXURE – I (CONTD.)

in equipping the participants with the necessary skills and in many cases, have helped them to add a new source of income and significantly increased their overall income.

- The Urjabandhu project has resulted in installation of over 2 Mega Watts of solar system installations.
- The Micro-entrepreneurship Development Programme aims to promote entrepreneurship in various domains by providing necessary mentoring and training support to Urjabandhus, Pashumithras, Aarogyamithras and Krushakmithras.
- 88% of the interviewed beneficiaries of the training programme stated that their association with the programme helped them acquire new skills, and 51% of them reported that the programme helped them add an additional source of income.
- Majority of the participants expressed the need for more training programmes, as well as additional support such as hand-holding and access to loans to aid in setting up a business.

### Emergency relief and community intervention

- ESAF took proactive measures to support communities during the COVID-19 pandemic by organising health camps in vulnerable areas with low vaccination rates and providing mobile phones to students for remote learning.
- The flood-related emergency relief project in Majuli, Assam, provides relief support to those impacted by floods, and helps to reduce soil erosion by providing support to rebuild homes and fields in a more resilient way. Additionally, relief was provided to people in extreme winters to help them deal with extreme cold. Food kits were also distributed to pregnant women in Odisha and Maharashtra.
- The stakeholders appreciated the Bank's efforts, and beneficiaries expressed high satisfaction with the benefits provided in these projects.
- Some beneficiaries suggested that the mobile phones provided to students should have been available even after school reopened, and a few participants noted that the quantity of items provided in the flood-related emergency relief programme could have been increased.
- ESAF Garshom facilitated access to healthcare services via a Mobile Medical Unit, specifically targeting migrant laborers at their workplaces. Additionally, the ESAF Foundation organised three events aimed at fostering

a sense of belonging among these beneficiaries. Some of the beneficiaries, however, complained of not getting adequate support from the project.

### Rural health

- The Bank's Rural Health Programme has improved infrastructure in rural hospitals, providing better healthcare facilities and equipment.
- Hospital officials and government officials have recognised and appreciated the Bank's contributions to improving rural healthcare.
- The Manomithras project has received positive reviews from the stakeholders, with 85% of community counsellors on mental health reporting high satisfaction and suggesting a need for a Focused Programme for adolescents.

### Rural education

- Infrastructure support provided to schools has enabled them to improve the quality of education and expand their reach.
- Teachers have reported an increase in enrolments and student attendance due to the improved learning environment facilitated by the infrastructure support.

### Efficiency

It can be observed that all the projects have completed their budget utilisation targets. It is to be noted that for a few projects the budgets were revised during the year. Overall intervention cost per beneficiary has been assessed to be ₹ 881. It is to be noted that the intervention cost per beneficiary has ranged between ₹ 146 (for agriculture and farmer collectives projects) to approximately ₹ 15,000 (for rural education projects). This is on account of the nature of interventions and the intensity of support provided.

### Sustainability

Following are the important observations with respect to sustainability.

- The sustainability of Balajyothi clubs and study centres varies, with some having potential to become sustainable while others need continued support from implementing partners. Interviews with the parents indicate that they are willing to pay a nominal fee for services.
- The micro-entrepreneur training project is highly sustainable as the training costs are covered by grants and beneficiaries are expected to implement learnings in their businesses for long-term benefits.

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- Agriculture and allied projects are evaluated as highly sustainable due to their focus on developing strong linkages and involvement from members of Farmer Producer Organisations and other institutions.
- Flood relief infrastructure and volunteer training programmes have been assessed to be highly sustainable. COVID-19 relief projects are considered low on sustainability on account of their reliance on the grants.
- Infrastructure support projects for rural schools are highly sustainable, with expected revenue models to meet costs and commitments to maintain the infrastructure created.
- Rural health projects solely funded by grants are considered low on sustainability.

### Learnings and recommendations

Following are the important learnings and recommendations from this project.

- ESAF Foundation has demonstrated expertise in implementation of projects involving farmer collectives, micro-entrepreneurship development, disaster relief, healthcare, and infrastructure support to schools.
- The Organisation tailors its projects to meet the specific needs of each community, which has helped it establish itself as a reliable and effective organisation.
- Most projects offer entire ecosystem of support to the beneficiaries.
- Utilising existing institutional infrastructure has led to better implementation and sustainability of various projects, resulting in better project outcomes and increased sustainability.
- Some projects involve supporting local institutions, such as farmer collectives and Balajyothi Clubs,

which have the potential to establish sustainable community-level institutions that can bring significant social and economic benefits to the community.

- Some projects have faced implementation challenges and need modifications to ensure desired outcomes are achieved.
- A formal system for project conceptualisation and needs assessment is needed for better efficiency and effectiveness.
- Establishing a Theory of Change for each project will lead to better monitoring and evaluation of outcomes and impacts.
- A protocol for collecting feedback from stakeholders is necessary to improve project implementation and make necessary improvements
- A more comprehensive monitoring process will help track progress and make informed decisions to improve outcomes for all stakeholders involved.
- Some projects require a long-term Impact Assessment framework to evaluate impact dimensions 2-5 years after the project activities have ended.
- A framework for data collection using electronic means needs to be established to streamline data collection processes and ensure data accessibility for analysis and reporting.
- For certain projects, dedicated Social Return on Investment (SROI) exercises can be carried out to measure and account for social and environmental values created by organisations.
- It is important to establish quality parameters and benchmarks for each unit in the different project components and periodically monitor and track them.

Link to the Impact Assessment reports on the Bank's website: [www.esafbank.com](http://www.esafbank.com)

## ANNEXURE – II

### SECRETARIAL AUDIT REPORT

For the Financial Year ended March 31, 2024

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

**To,  
The Members,  
ESAF Small Finance Bank Ltd.  
ESAF Bhavan, Thrissur-Palakkad National Highway,  
Thrissur, Kerala, India, 680651**

I have conducted the Secretarial Audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by ESAF Small Finance Bank Ltd. (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 authorised 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 March 31, 2024 complied with the statutory provisions listed hereunder and also that the company has proper Board processes and compliance mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the company for the Financial Year ended on March 31, 2024 according to the provisions of:

- i. The Companies Act, 2013 (the Act) and the rules made there under;
- ii. The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there under;
- iii. The Depositories Act, 1996 and the Regulations and Bye-laws framed there under;
- iv. Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- v. The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-
  - a) The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; **(Not applicable to the company during the audit period)**
  - b) The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 2015;
  - c) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018;
  - d) The Securities and Exchange Board of India (Issue and Listing of Non-Convertible Securities) Regulations, 2021;
  - e) The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
  - f) The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2021; **(Not applicable to the company during the audit period)**
  - g) The Securities and Exchange Board of India (Buy-back of Securities) Regulations, 2018; **(Not applicable to the company during the audit period)**
  - h) Securities and Exchange Board of India (Share Based Employee Benefits and Sweat Equity) Regulations, 2021
  - i) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015;
- vi. The other laws applicable specifically to the company are as follows:
  - a) The Reserve Bank of India Act, 1934;
  - b) The Banking Regulation Act, 1949;
  - c) The Banking Companies Regulation (Companies Rules), 1949
  - d) The Banking Companies (Period of preservation of Records) Rules, 1985.
  - e) Prevention of Money Laundering Act, 2002
  - f) Credit Information Companies (Regulation) Act, 2005
  - g) The Deposit Insurance and Credit Guarantee Corporation Act, 1961

## ANNEXURE - II (CONTD.)

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

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

- i. Secretarial Standards issued by the Institute of Company Secretaries of India.
- ii. The Listing Agreement entered into by the company with BSE Limited and National Stock Exchange of India Limited;

During the period under review the company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. mentioned above except the signing of annual return by the whole-time Company Secretary. As stated by the management, the annual return for the Financial Year 2022-23 was signed by the practicing Company Secretary, as the whole-time company secretary of the company was on leave.

### **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, 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.

**Place: Thrissur**

**Date: May 08, 2024**

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

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

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

- i. The company has issued equity shares through an Initial Public Offering (IPO), and these shares have been listed on both BSE and NSE as of November 10, 2023. Further, the company's paid-up share capital has increased from ₹ 4,49,47,37,980 to ₹ 5,14,77,98,580 through this IPO.
- ii. The company had obtained approval from the Registrar of Companies, Kerala, for extension of the 07<sup>th</sup> Annual General Meeting for a period of three months.
- iii. Members have accorded consent at the 07<sup>th</sup> Annual General Meeting of the company held on December 29, 2023 to the Board of Directors of the Bank for borrowing or raising funds in Indian or any other permitted Foreign Currency by issue of non-convertible debt securities until the conclusion of the Eighth Annual General Meeting, on a private placement basis, for an amount not exceeding in aggregate ₹ 500,00,00,000/- (Rupees Five Hundred Crore Only), within the overall borrowing limits of the Bank.

**Sd/-**

**Name of Company Secretary in practice: M Vasudevan**

**(FCS No.: 4177, C P No.: 2437)**

**Peer Review Number : 2935/2023**

**UDIN: F004177F000333627**

**ANNEXURE - II (CONTD.)****ANNEXURE TO SECRETARIAL AUDIT REPORT ISSUED BY COMPANY SECRETARY IN PRACTICE**

To,

The Members,

ESAF Small Finance Bank Ltd.

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

1. Maintenance of Secretarial record is the responsibility of the management of the company. My responsibility is to express an opinion on these Secretarial records based on my audit.
2. I have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the Secretarial records. The verification was done on test basis to ensure that correct facts are reflected in Secretarial records. I believe that the processes and practices I followed provide a reasonable basis for my opinion.
3. I have not verified the correctness and appropriateness of financial records and Books of Accounts of the company.
4. Where ever required, I have obtained the Management representation about the compliance of laws, rules and regulations and happening of events etc.
5. The compliance of the provisions of Corporate and other applicable laws, rules, regulations, standards is the responsibility of management. My examination was limited to the verification of procedures on test basis.
6. The Secretarial Audit report is neither an assurance as to the future viability of the company nor of the efficacy or effectiveness with which the management has conducted the affairs of the company.

**Place: Thrissur**  
**Date: May 08, 2024**

**Sd/-**

**Name of Company Secretary in practice: M Vasudevan**

**FCS No.: 4177 / C P No.: 2437**

**Peer Review Number : 2935/2023**

**UDIN: F004177F000333627**