

MANAGEMENT DISCUSSION AND ANALYSIS

Reflecting on the macroeconomic landscape of 2023-24, it is evident that the Indian economy has demonstrated resilience and agility in navigating uncharted waters. Notably, it is rebounding strongly and emerging as one of the fastest-growing economies. The conducive economic climate fostered by India has attracted investments from across the globe, underscoring the nation's appeal as an investment destination. Ignited by this 'India Positive' story, the banking industry in India is experiencing a profound transformation, rapidly evolving into a critical pillar of the nation's economic landscape.

As India strides towards global economic prominence, the banking sector plays a pivotal role in facilitating this growth by providing essential financial services and driving financial inclusion. Additionally, the industry's growth is fuelled by the emergence of new-age banking models, such as neo-banks and fintech companies, revolutionising the landscape of financial services delivery and consumption.

Small Finance Banks (SFBs) have emerged as a crucial component of India's banking landscape, addressing the financial needs of underserved and unbanked segments of society. These banks prioritise financial inclusion and microfinance, bridging gaps in areas where traditional banks have struggled to operate profitably. Among SFBs, ESAF Small Finance Bank stands out for its commitment to financial inclusion and innovative banking services. With a mission to serve the underserved and promote inclusive growth, we have established a strong presence in rural and urban areas, meeting diverse financial needs and extending financial inclusion to every corner.

Overview

In 1992, our Managing Director & CEO, Shri. Kadambelil Paul Thomas, founded the ESAF Foundation in collaboration with a few like-minded people. Dedicated to advancing microenterprises, fostering community development, and enhancing community health, the ESAF Foundation embarked on its microloan initiatives in 1995. In 2006, Shri. Kadambelil Paul Thomas and associates acquired our Bank's Corporate Promoter. Subsequently, in 2008, the ESAF Foundation transferred its Micro Loan operations to our Corporate Promoter through a business transfer agreement dated March 31, 2008. The Corporate Promoter obtained NBFC-MFI status in 2014. The Corporate Promoter transferred its lending and financing operations to our Bank on March 10, 2017, as per a business transfer agreement dated February 22,

2017. This marked the inception of our journey as a small finance bank.

Building on our esteemed promoter legacy spanning over 3 decades, we extend our offerings to the unserved and underserved segments of the population, aligning ourselves with the nation's objective of financial inclusion. As a small finance bank, we are mandated to allocate a minimum of 75.00% of our adjusted net bank credit to priority sectors. Additionally, at ESAF, our operational framework is guided by responsible banking principles, enabling us to deliver customer-centric products and services through innovative technology applications.

Our primary emphasis lies in extending loans to customers residing in rural and semi-urban regions. As of March 31, 2024, our Bank's gross advances to customers in these areas collectively accounted for 56.8%, with 43.3% of our banking outlets strategically located in these regions.

At ESAF Small Finance Bank, we are deeply committed to fostering positive impact across three key pillars: People, Planet, and Prosperity. Our dedication to People is evident in our inclusive approach to banking, ensuring access to financial services for all segments of society, particularly those underserved or marginalised. We prioritise environmental stewardship through sustainable practices that minimise our ecological footprint, contributing to the well-being of our planet. Additionally, we strive for Prosperity by empowering individuals and communities through responsible financial solutions, fostering economic growth, and promoting financial literacy. By embedding these principles into our operations, we aim to create enduring value for our customers, employees, communities, and the world at large.

In line with our Bank's Triple Bottom Line approach, we have implemented a robust ESG policy. In accordance with this policy, we pledge to (i) safeguard the environment and foster sustainable development, (ii) advance financial inclusion and gender equality through tailored financial services, and (iii) establish a governance framework to uphold accountability, transparency, and adherence to both internal and external ESG standards.

Our asset products encompass: (a) Micro Loans, which comprise microfinance loans and other microloans; (b) Retail Loans, covering gold loans, mortgages, personal loans, and vehicle loans; (c) MSME Loans; (d) loans to Financial Institutions; and (e) Agricultural Loans. The table below outlines our Total Loan Book by product type and as a percentage of Total Loan Book as of the dates indicated:

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Total Loan Book	As of March 31, 2024		As of March 31, 2023	
	Amount (₹ in million)	% of Total Loan Book	Amount (₹ in million)	% of Total Loan Book
Micro Loans	1,37,663.20	70.02	122,548.83	75.04
Retail Loans	37,001.17	18.82	26,147.54	16.01
MSME Loans	2,265.49	1.15	1600.61	0.98
Loans to Financial Institutions	9,211.40	4.69	6,137.43	3.76
Agricultural Loans	10,452.30	5.32	6,878.24	4.21
Total Loan Book	196,593.56	100.00	163,312.65	100.00

Our Bank's liability products comprise current accounts, savings accounts, term deposits and recurring deposits. As of March 31, 2024, we had 8.37 million deposit customers. Our Bank's total deposits were ₹ 1,98,678.04 million and ₹ 1,46,656.24 million as of March 31, 2024 and March 31, 2023, respectively. We believe that our focus on growing this business has helped us to quickly build a significant base of deposits. Particularly, retail deposits constituted 92.45% of our total deposits as of March 31, 2024.

At ESAF Small Finance Bank, we maintain an extensive network comprising 753 Banking Outlets (including 60 Banking Outlets operated by Banking Correspondents, 930 Customer Service Centres (operated by Banking Correspondents, 35 Business Correspondent, 5,024 Banking Agents, 772 Banking Facilitators, and 614 ATMs. This network spans 23 states and 2 union territories, serving a customer base of 8.37 million as of March 31, 2024. Our Bank's utilisation of Business Correspondent entities extends to both sourcing and servicing customers for microloans. Furthermore, at ESAF Small Finance Bank, our Business Correspondent are involved in customer acquisition for mortgage loans, vehicle loans, MSME loans, agricultural loans, and specific deposit products.

We are deeply committed to harnessing technology to enhance the delivery of our products and services, continually striving to elevate our customers' experiences through technological innovations. Having achieved a significant technological milestone, our Bank has successfully implemented e-signatures for microloan disbursements. By March 31, 2024, we had disbursed over 1.43 million loans utilising e-signatures, underscoring our dedication to digital progress. Our customers benefit from a range of digital platforms, comprising an internet banking

portal, a mobile banking platform, etc., apart from services like SMS alerts, bill payments, and RuPay-branded ATM and debit cards. Additionally, customers have the convenience of registering for ESAF savings accounts through Unified Payment Interface-based mobile applications.

Our account opening and loan underwriting processes have been digitalised using tablets. Our Bank has a digitalised central credit-processing unit for our microloans. Additionally, our customer onboarding process for microloans has been predominantly digitalised.

In addition, technological advancements have enabled us to derive operational efficiency across several domains. Our Bank has successfully streamlined the account opening and loan underwriting processes. We have integrated technological solutions to facilitate cashless loan disbursements and electronic signing for microloans, significantly reducing paperwork. Furthermore, our Bank's collection process has been digitalised via mobile applications and a payment gateway, allowing borrowers to conveniently repay their loans. Additionally, at ESAF Small Finance Bank, we have adopted a customer relationship management solution to enhance our handling of customer requests.

Significant Factors Affecting Our Financial Condition, Results of Operation, and Cash Flows

Our Bank's financial status, operational outcomes, and cash flow are influenced by various factors. Among these, the following are of notable significance:

Expansion of Business

The table below outlines our Total Loan Book, deposits, and certain metrics of our business over the recent years:

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Particulars	As of March 31, 2024		As of March 31, 2023	
	Amount	% Increase	Amount	% Increase
Total Loan Book (₹ in Million)	196,593.56	20.39	163,312.65	32.34
Deposits (₹ in Million)	198,678.04	35.47	146,656.25	14.44
States and Union Territories Combined where Our Products are Offered (Number)	25	4.35	23	-
Banking Outlets (Number)	753	7.57	700	21.74
Business Correspondents (Number)	35	75.00	20	42.86
Customer Service Centres (Number)	930	25.17	743	52.57
Banking Agents (Number)	5024	148.34	2,023	249.40
Business Facilitators (Number)	772	60.50	481	53.67
ATMs (Number)	614	16.29	528	36.79

Note: Total Loan Book is defined as Gross advances plus advances originated and transferred under securitisation, assignment and interbank participation certificates for which a bank continues to hold collection responsibilities.

Net Interest Income

At ESAF Small Finance Bank, our operational performance is significantly reliant on our net interest income, calculated as the difference between interest earned and interest expended. Our Bank's net interest income increased by 29.05% from ₹ 18,363.40 million in 2022-23 to ₹ 23,696.93 million in 2023-24. The table below illustrates the Bank's net interest income for the specified periods.

(₹ in million)

Particulars	2023-24	2022-23
Interest Earned [A]	38,184.27	28,536.59
Interest Expended [B]	14,487.34	10,173.19
Net Interest Income [C] = [A] - [B]	23,696.93	18,363.40

Our interest income is dependent on:

- Our average interest-earning advances and the yield thereon.

- Our average interest-earning investments and the yield thereon.
- Our average interest-earning balances with the RBI and other inter-bank funds and the yield thereon.

Our interest expenditure is dependent on:

- Our average total deposits and the cost thereon.
- Our average borrowings and the costs thereon.

Average Interest-Earning Advances and Yield on Average Interest-Earning Advances

The following table displays the average balances of advances (net of provisions) for: (a) microloans, which include microfinance loans and other microloans, (b) retail loans, MSME loans, loans to Financial Institutions, and agricultural loans combined, referred to as 'other loans,' and (c) total advances. It also includes the corresponding interest earned, providing the yield for the fiscal years covered.

(₹ in million, except percentages)

Advances (Net of Provisions)	2023-24			2022-23		
	Average Balance	Interest Earned	Yield (%) [C=B/A]	Average Balance	Interest Earned	Yield (%) [C=B/A]
Microloans ⁽²⁾⁽³⁾	1,08,699.17	27,809.02	25.58%	91,048.36	21,386.82	23.49
Other Loans ⁽⁴⁾	47,799.16	6,804.22	14.24%	30,286.97	3,933.63	12.99
Total Advances	1,56,498.33	34,613.23	22.12%	121,335.33	25,320.45	20.87

Notes:

- Average balances are calculated as the average of the opening balance at the start of the relevant fiscal year and the closing balance at the quarter-end for all quarters in the relevant fiscal year.
- Our Microloans comprise Microfinance Loans and Other Microloans. Our Microfinance Loans and Other Microloans are provided to individuals without being secured by collateral. In order to be given a loan, an individual must be

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part of a sub-group, which usually comprises two to 10 people. One to five sub-groups combine to form a 'Sangam'. The Sangam facilitates the repayment process and other activities among the individuals by holding meetings at regular intervals with Sangam members. Until the introduction of the RBI Regulatory Framework for Microfinance Loans Direction, 2022, we considered all of our loans to individuals who were members of a subgroup to be Microloans. Effective 17th October 2022, we segregated our Microloans into Microfinance Loans and Other Microloans.

3. Average Microloans are gross Microloans net of provisions for NPAs for Microloans calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at the quarter end for all quarters in the relevant fiscal year (Average Interest-Earning Microloans).
4. Average Other Loans (comprising (a) Retail Loans, (b) MSME Loans, (c) Loans to Financial Institutions and (d) Agricultural Loans) are gross Other Loans net of provisions for NPAs for Other Loans calculated on the basis of the average of the opening balance at the start of the relevant fiscal year and the closing balance as at the quarter end for all quarters in the relevant fiscal year (Average Interest-Earning Other Loans).

ESAF Small Finance Bank's average interest-earning advances rose by 28.98% from ₹ 121,335.33 million in 2022-23 to ₹ 1,56,498.33 million in 2023-24. Average interest-earning microloans increased by 19.39 % from ₹ 91,048.36 million in 2022-23 to ₹ 1,08,699.17 Million in 2023-24. Moreover, our Bank's average interest-earning other loans increased by 57.82 % from ₹ 30,286.97 million in 2022-23 to ₹ 47,799.16; Million in 2023-24.

In terms of yield, the yield on average interest-earning advances stood at 22.12% for 2023-24 and 20.87% for 2022-23. The yield on average interest-earning microloans was 25.58% in 2023-24, compared to 23.49% in 2022-23. Furthermore, yield on average interest-earning other loans was 14.24% in 2023-24, an increase from 12.99% in 2022-23.

Average Interest-Earning Investments and Yield on Average Interest-Earning Investments

ESAF Small Finance Bank's average interest-earning investments experienced notable growth, rising by 10.46% from ₹ 48,137.45 million in 2022-23 to ₹ 53,173.94 million in 2023-24.

The yield on average interest-earning investments stood at 6.64% for 2023-24, compared to 6.48% recorded in 2022-23.

Average Interest-Earning Balances with the Reserve Bank of India and Other Inter-Bank Funds, and the Yield on Average Interest-Earning Balances with the Reserve Bank of India and Other Inter-Bank Funds

Our average interest-earning balances with the Reserve Bank of India and other Inter-Bank Funds experienced a notable decline of 86.58 %, dropping from ₹ 2,620.25 million in FY 2023 to ₹ 351.75 million in FY 2024.

The yield on average interest-earning balances with the Reserve Bank of India and other Inter-Bank Funds was 11.82 % for FY 2024, as against 3.65 % recorded in 2022-23.

Average Deposits and Cost of Average Deposits and Average Borrowings and Cost of Average Borrowings

Our interest-bearing liabilities comprise savings bank deposits, term deposits, and borrowings, excluding interest on Demand Deposits (Current Accounts). The cost associated with these liabilities is influenced by external factors like competitive dynamics and developments in Indian credit markets, particularly interest rate fluctuations and liquidity availability in inter-bank markets. Internally, changes in our credit ratings, accessible credit limits, and capacity to attract low-cost deposits—especially from retail customers—and no-cost deposits through Current Accounts can impact our Cost of Funds.

At ESAF Small Finance Bank, primary funding source stems from our cost-effective deposit base, primarily drawn from retail depositors across India. This is achieved through targeted expansion of our Bank's branch network and tailored product offerings. Our target depositor demographic includes individuals, encompassing women, senior citizens, NRIs, HNIs, trust associations, societies, clubs, children over 10 years, our staff, salaried employees of corporations, farmers, and MSMEs. Leveraging our Bank's distribution network has various components. These include branches, Business Correspondent-Owned Banking Outlets, Customer Service Centres managed by Business Correspondents, and alternative delivery channels. Through these channels, we gain access to these depositors, enabling us to maintain a low-cost funding structure through customer deposits.

The table below presents our average balances for deposits together with the related interest expended by category of deposits, resulting in the presentation of the cost for each fiscal year. The average balance is calculated as the average of the opening balance at the start of the relevant year and the closing balance at the quarter end for all quarters in the relevant year.

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(₹ in million, except percentages)

Particulars	2023-24			2022-23		
	Average Balance ⁽¹⁾ [A]	Interest Expended [B]	Cost (%) [C=B/A]	Average Balance ⁽¹⁾ [A]	Interest Expended [B]	Cost (%) [C=B/A]
Demand Deposits [A]	2,738.50	-		2,082.64	-	-
Savings Bank Deposits [B]	31,654.07	1,622.12	5.12	28,712.97	1,499.88	5.22
CASA [C = A + B]	34,392.57	1,622.12	4.72	30,795.61	1,499.88	4.87
Term Deposits	1,38,537.81	10,776.46	7.78	104,944.42	6,877.30	6.55
Total Deposits	1,72,930.38	12,398.59	7.17	135,740.03	8,377.18	6.17

Notes:

1. Average balances are calculated as the average of the opening balance at the start of the relevant fiscal year and the closing balance at the quarter-end for all quarters in the relevant fiscal year.

Our Average Total Deposits expanded by 27.40% from ₹ 135,740.03 million in 2022-23 to ₹ 1,72,930.38 million in 2023-24. Among these, our Average Demand Deposits increased by 31.49% from ₹ 2,082.64 million to ₹ 2,738.50 million, while our Average Savings Deposits rose by 10.24% from ₹ 28,712.97 million to ₹ 31,654.07 million. Similarly, Average CASA experienced a growth of 11.68 %, climbing from ₹ 30,795.61 million in 2022-23 to ₹ 34,392.57 million in 2023-24. Furthermore, Average Term Deposits saw a rise of 32.01 % from ₹ 104,994.42 million to ₹ 1,38,537.81 million during the same period.

The Cost of Average Total Deposits stood at 7.17 % for 2023-24 and 6.17% for 2022-23. We do not pay interest on Demand Deposits (Current Accounts). The Cost of Average Savings Bank Deposits was 5.12% for FY 2024 and 5.22% for 2022-23. Meanwhile, the Cost of Average Term Deposits was 7.78% for 2023-24 and 6.55% for 2022-23. Similarly, the Cost of Average CASA amounted to 4.72 % for 2023-2024 and 4.87% for 2022-23.

While the Cost of Average Total Deposits was primarily influenced by interest rate movements, it remained lower than anticipated due to the rising proportion of our Average CASA compared to our Average Total Deposits. The subsequent table illustrates the ratio of our Average CASA to Average Total Deposits for the respective years.

(₹ in million, except percentages)

Particulars	2023-24	2022-23
Average CASA [A]	34,392.57	30,795.61
Average Total Deposits [B]	1,72,930.38	135,740.03
Average CASA to Average Total Deposits [C=A/B] (%)	19.88	22.69

In order to maintain a steady source of low-cost funding through CASA, at ESAF, we must ensure that our

banking services are convenient for customers, offering compensatory benefits for no returns on demand deposits and reduced returns on savings bank deposits. Nevertheless, factors such as evolving customer expectations, heightened competition for funding, fluctuations in interest rates, and alterations to the RBI's liquidity and reserve requirements might necessitate adjustments to the rates our Bank offers on our Savings Bank Deposits.

Our borrowings encompassed funds acquired from various sources, including the Reserve Bank of India, institutional agencies, subordinated debt, borrowings from other banks, and perpetual debt instruments. The cost of average borrowings amounted to 7.38% for 2023-24 and 6.27% for 2022-23. Notably, interest rate fluctuations have predominantly influenced the cost of average borrowings.

Non-Performing Advances and Provisioning Policies

ESAF Small Finance Bank's operational outcomes are significantly influenced by our ability to effectively manage the credit quality of our loans, which we evaluate in part through Non-Performing Assets (NPAs). The RBI mandates the classification of loans into NPAs, with provisions required based on the duration of non-payment, besides necessitating provisions on standard assets. NPAs are further categorised as sub-standard, doubtful, and loss assets.

The increasing number of loans classified as NPAs correlates with a decline in the credit quality of our loan portfolio. To bolster our credit quality, we have established well-documented procedures for credit approval and loan disbursement, along with implementing ongoing monitoring mechanisms. Additionally, we have integrated advanced analytics and automated credit scoring solutions for enhanced credit evaluation.

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Certain segments of our portfolio, such as microloans and some retail loans, are unsecured, which poses higher credit risks compared to secured loans due to the absence of collateral. In instances of default by these customers, our ability to recover amounts due is limited to initiating legal proceedings for recovery.

Indian Economy

In 2023-24, the Indian economy maintained its growth trajectory, propelled by advancements in technology, high-end manufacturing capacity, and enhanced competitiveness. According to the RBI, the Indian economy achieved a growth rate of 7.2% in 2023-24. The nation's aspirations necessitate a resilient financial sector. With the

Reserve Bank of India (RBI) maintaining a vigilant stance on inflation, credit growth outpaced deposit growth over the year. The surge in retail credit is driving heightened demand for personal loans. Consumer credit now constitutes one-third of all loans, marking a substantial increase from less than one-fifth a decade ago. Personal credit is poised to outpace the growth of the industry and service sectors. Several positive factors are propelling the Indian economy forward. These include stable macroeconomics and escalating domestic demand. Additionally, the robust underpinnings of the Indian economy have instilled a sense of optimism, with the nation poised to achieve significant milestones in the years ahead.

Results of Operations

2023-24 Compared to 2022-23

The following table sets forth a summary of our Bank's restated profit and loss account for 2023-24 and 2022-23

Particulars	2023-24		2022-23	
	Amount (₹ in million)	% of Total Income	Amount (₹ in million)	% of Total Income
Income				
Interest Earned	38,184.27	89.63	28,536.59	90.84
Other Income	4,418.25	10.37	2,879.13	9.16
Total Income	42,602.52	100.00	31,415.72	100.00
Expenditure				
Interest Expended	14,487.34	34.01	10,173.19	32.38
Operating Expenses	16,488.30	38.70	12,305.41	39.17
Provisions and Contingencies	7,371.20	17.30	5,913.79	18.82
Total Expenditure	38,346.84	90.01	28,392.39	90.37
Net Profit for the Year	4255.68	9.99	3,023.33	9.63

Total Income

ESAF Small Finance Bank's total income increased by ₹ 11,186.80 million or 35.61%, to ₹ 42,602.52 million for 2023-24 up from ₹ 31,415.72 million in 2022-23 as a result of (i) ₹ 9,467.68 million or 33.81 %, increase in interest earned to ₹ 38,184.27 million for 2023-24 from ₹ 28,536.59 million in 2022-23; and (ii) ₹ 1,539.12 million or 53.46%, increase in other income to ₹ 4,418.25 million for 2023-24 from ₹ 2,879.13 million in 2022-23.

Interest Earned

The table set forth below shows details in relation to the Bank's interest earned for 2023-24 and 2022-23.

Particulars	2023-24	2022-23	Percentage increase/ decrease (%)
	(₹ in million)		
Interest/Discount on Advances/Bills	34,613.23	25,320.45	36.70
Income on Investments	3,529.48	3,120.44	13.11
Interest on Balances with the Reserve Bank of India and Other Inter-Bank Funds	41.56	95.70	(56.58)
Total	38,184.27	28,536.59	33.81

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The Bank's interest earned increased by ₹ 11,186.80 million, or 35.61 %, to ₹ 38,184.27 million for 2023-24 from ₹ 28,536.59 million in 2022-23. The primary reasons for this increase are discussed below:

- Interest/discount on advances/bills increased by ₹ 9,292.78 million, or 36.70 %, to ₹ 34,613.23 million for 2023-24 from ₹ 25,320.45 million in 2022-23. The increase in interest/discount on advances/bills was primarily due to:
 - o A ₹ 43,441.09 million or 28.98%, increase in average interest-earning advances to ₹ 1,56,498.33 million for 2023-24 up from ₹ 1,21,335.33 million in 2022-23. This increase was primarily due to a ₹17,650.81 million, or 19.39%, increase in Average Interest-Earning Micro Loans to 1,08,699.17 million for 2023-24 from ₹91,048.36 million for 2022-23 and a ₹17,512.19 million, or 57.82%, increase in Average Interest-Earning Other Loans to ₹47,799.16 million for 2023-24 from ₹30,286.97 million for 2022-23.
 - o An increase in the yield on average interest-earning advances to 22.12% for 2023-24 up from 20.87% in 2022-23. The Yield on Average Interest-Earning Advances increased primarily due to increase due to an increase in interest rates during the year as a result of the increase in repo rates.
 - Income on investments increased by ₹ 409.04 million or 13.11%, to ₹ 3,529.48 million for 2023-24 up from ₹ 3,120.44 million in 2022-23.
 - This increase was primarily due to the increase in our Average Interest-Earning Investments by ₹5,036.49 million, or 10.46%, to ₹53,173.94 million for 2023-24 from ₹48,137.45 million for 2022-23, and an increase in the Yield on Average Interest-Earning Investments to 6.64% for 2023-24 from 6.48% for 2022-23 in line with the rise in interest rates during the year.
- Interest on balances with the RBI and other interbank funds decreased by 54.14% to ₹ 41.56 million for 2023-24, down from ₹ 95.70 million for 2022-23.

Other Income

The table set forth below shows details in relation to the Bank's other income for 2023-24 and 2022-23.

Particulars	2023-24	2022-23	Percentage increase (₹ in million) / (decrease) (%)
	₹ in million		
Commission, Exchange, and Brokerage	2,915.04	1,994.83	46.13
Profit on Sale of Investments (Net)	206.52	156.35	32.09
Profit/(Loss) on Revaluation of Investments (Net)	201.65	(913.88)	(122.07)
Profit/(Loss) on Sale of Land, Buildings and Other Assets (Net)	0.90	(3.38)	(126.50)
Profit on Foreign Exchange Transactions (Net)	10.27	11.12	(7.60)
Income Earned by Way of Dividends, among others, from Companies	1.16	2.04	(143.03)
Miscellaneous Income	1,082.71	1,632.66	(33.68)
Total	4,418.25	2,879.74	53.43

ESAF Small Finance Bank's other income increased by ₹ 1,538.51 million, or 53.43%, to ₹ 4,418.25 million for 2023-24 from ₹ 2,879.74 million in 2022-23. The primary reasons for this increase are as follows:

- The increase in commission, exchange and brokerage by a ₹920.21 million, or 46,13%, to ₹2,915.04 million for 2023-24 from ₹1,994.83 million for 2022-23, which was primarily due to a ₹587.22 million, or 304.59%, increase in the Banc assurance commission on Insurance products to ₹780.01 million for 2023-24 from ₹192.79 million 22-23; ₹185.26 million, or 13.04%, increase in the processing fees on loans to ₹1,606.44 million for 2023-24 from ₹1,421.19 million 22-23;
- The increase in profit on sale of investments (Net) by a ₹50.17 million, or 32.09%, to ₹206.52 million for 2023-24 from ₹156.35 million for 2022-23 mainly on the account reduction in yields on Government securities.

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Total Expenditure

Our Bank's total expenditure increased by ₹ 9,954.45 million, or 35.06 %, to ₹ 38,346.84 million for 2023-24 from ₹ 28,392.39 million in 2022-23. The primary reasons for this increase are discussed below:

Interest Expended

Our interest expended increased by ₹4,314.15 million, or 42.41%, to ₹14,487.34 million for 2023-24 from ₹10,173.19 million for 2022-23. The primary reasons for this increase are discussed below.

- Interest on deposits increased by ₹4,020.88 million, or 48.00%, to ₹12,398.06 million for 2023-24 from ₹8,377.18 million for 2022-23. Our Average Total Deposits expanded by 27.40% from ₹ 135,740.03 million in 2022-23 to ₹ 1,72,930.38 million in 2023-24 and also on account of increase in the Cost of Average Deposit to 7.17% for 2023-24 from 6.17% for 2022-23.

Operating Expenses

Our operating expenses increased by ₹4,182.89 million, or 33.99%, to ₹16,488.30 million for 2023-24 from ₹12,305.41

million for 2022-23. The primary reasons for this increase are discussed below.

- ₹2,235.27 million, or 41.07%, increase in our Business Correspondent expense to ₹7,677.72 million for 2023-24 from ₹5,442.36 million for Fiscal 2022-23, which was primarily due to an increase in the amount collected on loans sourced through Business Correspondents.
- Payments to and provisions for employees increased by ₹849.76 million, or 30.57%, to ₹3,629.74 million for 2023-24 from ₹2,779.98 million for 2022-23, which was primarily due to a 18.53% increase in our number of employees to 5,967 as at March 31, 2024 from 5,034 as at March 31, 2023 and salary increments given to employees including promotions during the year.
- Rent, taxes and lighting increased by ₹95.17 million, or 12.72%, to ₹843.18 million for 2023-24 from ₹748.01 million for 2022-23, which was primarily due to a 7.57% increase in our number of Branches to 753 as at March 31, 2024 from 700 as at March 31, 2023 and increments paid to existing branches which comes after 3 years and also on account of additional space taken for existing branches to renovate the buildings.

Provisions and Contingencies

The table set forth below shows details in relation to the Bank's provisions and contingencies for 2023-24 and 2022-23.

Particulars	2023-24	2022-23	Percentage increase (₹ in million) / (decrease) (%)
	₹ in million		
Provision towards NPA/Write - offs [A]	5,792.49	6,108.13	(5.17)
Provision towards/(Write-Back of Provision towards) Standard Assets [B]	204.30	(1,281.08)	(115.95)
Provision made towards Income Tax:			
Current Tax Expense [C]	1,530.00	771.17	98.40
Deferred Tax Charge (Credit) [D]	(81.55)	265.94	(130.67)
Total Provision Made towards Income Tax [E] = [C] + [D]	1,448.45	1,037.11	39.66
Other Provision and Contingencies [F]	(74.04)	49.63	(249.19)
Total Provisions and Contingencies [G] = [A] + [B] + [E] + [F]	7,371.20	5,913.79	24.64

ESAF Small Finance Bank's provisions and contingencies increased by ₹ 1,457.41 million or 24.64%, to ₹ 7,371.20 million for 2023-24 from ₹ 5,913.79 million in 2022-23.

Net Profit for the Year

As a result of the above, our Bank's net profit for the year increased by ₹ 1,232.35 million or 40.76%, to ₹ 4,255.68 million for 2023-24 from ₹ 3,023.33 million in 2022-23.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTD.)

Financial Condition

Statement of Assets and Liabilities

ESAF Small Finance Bank's assets as of the period/year-end are set out below:

Particulars	As of March 31	
	2024	2023
	₹ in million	
Cash and Balances with the Reserve Bank of India	13,646.45	7,395.48
Balance with Banks and Money at Call and Short Notice	582.80	275.01
Investments	55,410.22	48,885.28
Advances	1,82,931.12	139,243.31
Fixed Assets	2,075.53	1,879.27
Other Assets	6,222.70	4,558.22
Total Assets	2,60,868.82	202,236.57

Cash and Balances with the Reserve Bank of India

Cash and balances with the RBI increased to ₹13,646.45 million as on March 31, 2024 from ₹7,395.48 million as at March 31, 2023 primarily due to a increases in balances

with the RBI in Current Accounts from ₹5,851.02 million as at March 31, 2023 to ₹12,141.83 as at March 31, 2024.

Balances with Banks and Money at Call and Short Notice

Balances with banks and money at call and short notice increased to ₹582.80 million as at March 31, 2024 from ₹ 275.01 million as on March 31, 2023 primarily due to a increase in balance with other Banks Current Account from ₹268.76 million as at March 31, 2023 to ₹552.74 million as at March 31, 2024.

Investments

Our investments further increased to ₹ 55,410.22 million as on March 31, 2024 from ₹48,885.28 million as at March 31, 2023 primarily due to an increase in Government securities to ₹54,098.66 million as at March 31, 2024 from ₹47,421.02 million as at March 31, 2023.

Advances

The table below sets forth the Bank's advances (net of provisions) by microloans, comprising our microfinance loans and other microloans. It also includes other loans, comprising retail loans, MSME loans, loans to Financial Institutions, and agricultural loans, collectively referred to as 'other loans'), as of the dates indicated.

Advances (Net of Provisions)	As of March 31, 2024 (₹ in million)	% increase/(decrease) from March 31, 2023	As of March 31, 2023 (₹ in million)
Microloans (1)	1,24,404.03	25.98	98,751.17
Other Loans	58,527.09	44.54	40,492.14
Total	1,82,931.12	31.38	139,243.31

Note:

(1) Our microloans comprise our microfinance loans and other microloans. Microfinance loans and other microloans are provided to individuals without being secured by collateral. To be given a loan, an individual must be part of a sub-group, which usually comprises two to ten people. One to five sub-groups combine to form a 'Sangam.' The Sangam facilitates the repayment process and other activities among the individuals by holding regular meetings with its members. Until the introduction of the RBI Regulatory Framework for Microfinance Loans Direction, 2022, we considered all our loans to individuals who were members of a subgroup as microloans. Effective October 17, 2022, at ESAF, we have segregated our microloans into microfinance loans and other microloans.

Fixed Assets

The Bank's fixed assets, which primarily comprise office equipment, computers, furniture & fixtures, motor vehicles, and servers, increased/decreased from ₹ 1,879.27 million to ₹ 2,075.53.

Other Assets

The Bank's other assets primarily comprise interest accrued and tax paid in advance/tax deducted at source (net of provision). Additionally, deferred tax assets (net), and others like GST input credits, security deposits, NEFT/RTGS settlement receivable, and prepaid expenses are included.

Our Bank's other assets increased to ₹ 6,222.71 million as of March 31, 2024, from ₹ 4,558.22 million as of March 31, 2023

MANAGEMENT DISCUSSION AND ANALYSIS (CONTD.)

Capital and Liabilities

The table below sets forth our capital and liabilities as of the dates indicated:

Particulars	As of March 31	
	2024	2023
	₹ in million	
Capital	5,147.80	4,494.74
Employee Stock Options Outstanding	56.79	58.75
Reserves and Surplus	19,713.34	12,596.55
Deposits	1,98,678.04	146,656.25
Borrowings	32,225.30	33,541.95
Other Liabilities and Provisions	5,047.55	4,888.33
Total	2,60,868.82	202,236.57

Reserves and Surplus

ESAF Small Finance Bank's reserves and surplus are influenced by changes in our share premium due to the issuance or concealment of equity shares. Changes in our balance in the profit and loss account are also a factor, stemming from the net profit or loss recorded for the applicable fiscal year.

The Bank's reserves and surplus increased/decreased further to ₹ 17,713.34.

Deposits

At ESAF Small Finance Bank, we have been able to leverage the strength of the 'ESAF' brand, which has been built over 3 decades. This has enabled us to rapidly grow our deposit portfolio since we commenced operations. As an NBFC-MFI, our Bank's corporate promoter was unable to accept deposits as per applicable laws in India. After acquiring the business of our corporate promoter on March 10, 2017, we placed a strong emphasis on increasing our retail deposits. This is because they offer lower rates of interest compared to bulk deposits. Moreover, our retail deposits have increased/decreased to ₹ 1,83,681.04.

Borrowings

The following table sets forth details of the Bank's borrowings as of the dates indicated:

Particulars	As of March 31	
	2024	2023
	₹ in million	
Borrowings in India:		
Reserve Bank of India	6,500.00	6,740.00
Other Banks	-	-

Particulars	As of March 31	
	2024	2023
	₹ in million	
Other Institutions and Agencies	20,995.30	24,871.95
Subordinated Debt	4,250.00	1,450.00
Perpetual Debt Instrument	480.00	480.00
Borrowings Outside India	-	-
Total	32,225.30	33,541.95

The Bank's borrowings increased/decreased from ₹ 33,541.95 million as of March 31, 2023, to ₹ 32,225.30 million as of March 31, 2024,

Other Liabilities and Provisions

The table below sets forth details of the Bank's other liabilities and provisions as of the dates indicated:

Particulars	As of March 31	
	2024	2023
	₹ in million	
Bills Payable	73.97	49.67
Inter-Office Adjustments (Net)	-	-
Interest Accrued	654.86	556.44
Provision for Standard Assets	1,100.87	896.57
Others (including Provisions)	3,217.85	3,385.65
Total	5,047.55	4,888.33

Our Business Segments

ESAF Small Finance Bank's business can be categorised into four business segments – Treasury, Wholesale Banking, Retail Banking, and Other Banking segments. Details of the operations associated with each business segment have been outlined below:

- **Treasury:** The Treasury segment mainly encompasses interest income generated from our investment portfolio, along with gains or losses from investment operations. It also includes profits from our foreign exchange activities. The primary expenditures within this segment comprise interest expenses assigned to borrowed funds/deposits received and other associated costs. Additionally, the segment involves the allocation of customer deposits received.
- **Wholesale Banking:** The Wholesale Banking segment extends loans to corporate clients identified in accordance with RBI guidelines. Revenue generated within this segment comprises interest accrued on loans provided to corporate customers and fees

MANAGEMENT DISCUSSION AND ANALYSIS (CONTD.)

earned from various banking services. Primary expenses within the segment include interest payments assigned to borrowed funds/deposits received and other associated costs.

- **Retail Banking:** The Retail Banking segment extends loans to non-corporate customers in accordance with RBI guidelines and encompasses customer deposits. Revenue within this segment is derived from interest accrued on loans provided to non-corporate customers and fees earned from additional banking services. Primary expenses include interest payments assigned to borrowed funds/deposits received and other associated costs.
- **Other Banking Operations:** The Other Banking Operations segment includes income from para-banking activities. These activities include debit cards, third-party product distribution, and associated costs.

ESAF Small Finance Bank's segment results and segment revenue for each of our business segments are detailed in the table below for the indicated year-end:

(₹ in million)

		2023-24	2022-23
Treasury	Segment Revenue	3,990.60	2,471.94
	Segment Results	529.80	(276.84)
Wholesale Banking	Segment Revenue	942.90	576.71
	Segment Results	547.00	283.10
Retail Banking	Segment Revenue	36,426.10	27,870.56
	Segment Results	3,446.00	3,591.59
Other Banking Operations	Segment Revenue	1,242.90	496.51
	Segment Results	1,181.30	462.24
Total	Segment Revenue	42,602.50	31,415.72
	Segment Results	5,704.10	4,060.45

Treasury

2023-24 Compared to 2022-23

In 2023-24, the treasury segment results experienced an increase of ₹ 806.64 million, amounting to a 291.37 % increase, reaching ₹ 529.80 million, up from ₹ 276.48 million in 2022-23.

Wholesale Banking Operations

2023-24 Compared to 2022-23

In 2023-24, the wholesale segment results saw a rise of ₹ 263.90 million or 93.22%, reaching ₹ 547 million, up from ₹ 283.10 million in 2022-23. This upturn can be attributed

mainly to a ₹ 366.19 million or 63.50% increase in segment revenue, reaching ₹ 942.90 million in 2023-24 compared to ₹ 576.71 million in 2022-23.

Retail Banking

2023-24 Compared to 2022-23

In 2023-24, the Retail Banking segment results declined by ₹ 145.59 million or 4.05%, reaching ₹ 3,446.0 million, down from ₹ 3,591.59 million achieved in 2022-23. This decrease was primarily driven by a ₹ 8,555.54 rise in segment revenue, reaching ₹ 36,426.10 million in 2023-24 compared to ₹ 27,870.56 million recorded in 2022-23.

Other Banking Operations

2023-24 Compared to 2022-23

The other banking operations segment results increased by ₹ 719.06 million or 155.56 %, to ₹ 1,181.30 million for 2023-24 from ₹ 462.24 million in 2022-23. This increase was primarily due to a ₹ 746.39 million or 150.33%, increase in segment revenue to ₹ 1,242.90 million for 2023-24 from ₹ 496.51 million in 2022-23.

Liquidity and Capital Resources

In the past, the Bank has primarily funded our liquidity and capital needs through shareholder capital, deposits, and borrowings from institutions. Additionally, our Bank has utilised subordinated debt, loans from other banks, and perpetual debt instruments.

Cash Flows

Particulars	Year ended March 31	
	2024	2023
₹ in million		
Net Cash Flow from/(used in) Operating Activities	10,009.28	(5,707.04)
Net Cash Flow From/(used in) Investing Activities	(5,825.35)	(5,732.18)
Net Cash Flow From/(used in) Financing Activities	2,351.03	3,990.66
Net Increase/(Decrease) in Cash and Cash Equivalents	6,534.96	(7,448.56)

Financial Instruments and Off-Balance Sheet Arrangements

Inter-Bank Participation Certificates

A bank can fulfil its priority sector lending target by purchasing Inter-Bank Participation Certificates (IBPCs) from other banks that have exceeded their regulatory targets. As per RBI guidelines, when participating with risk, the amount of participation issued by our Bank is deducted

MANAGEMENT DISCUSSION AND ANALYSIS (CONTD.)

from our advances. However, at ESAF Small Finance Bank, we include these advances in our Total Loan Book. IBPCs with risk-sharing can be issued for 91-180 days and only for advances classified as standard. During the term of an IBPC, we recognise the interest spread. This spread represents the difference between the interest earned on such advances and the interest payable to the Bank to which we transferred the IBPC. At the end of the term, the advances transferred via the IBPC are recognised in our Bank's accounting records. The table below shows the outstanding number of IBPCs as of the indicated dates.

Particulars	As of and for the Year Ended March 31	
	2024	2023
	₹ in million	
Outstanding Amount of IBPCs	-	12,000

Sale of NPAs to Asset Reconstruction Companies

We have sold Non-Performing Assets (NPAs) to Asset Reconstruction Companies (ARCs) in 2022-23. The advances sold to ARCs are deducted from our advances. However, at ESAF Small Finance Bank, we receive fees from the ARCs for acting as the collection agent for these advances. Therefore, our Bank includes the number of advances for which we are the collection agent in Total Loan Book. The table below shows the number of advances outstanding as of the date of the sale to ARCs. It also indicates the advances outstanding for which the Bank is acting as a collection agent with respect to the transfer of the portfolio to ARCs.

Particulars	As of and for the Year Ended March 31	
	2024	2023
	₹ in million	
Amount of NPAs Sold to ARCs Outstanding	8,844.81	10,086.21

Direct Assignments

At ESAF Small Finance Bank, we have undertaken direct assignment transactions in the past and act as a collection agent for them. These transactions are included in our

Bank's Total Loan Book. The table below shows the outstanding amount of direct assignment transactions as of the indicated dates.

Particulars	As of and for the Year Ended March 31	
	2024	2023
	₹ in million	
Outstanding Amount of Direct Assignments	25.18	45.17

Securitised Advances

As of March 31, 2024, and 2023, the Bank had no securitised advances.

Contingent Liabilities

The components of our Bank's contingent liabilities as per AS 29 – 'Provisions, Contingent Liabilities and Contingent Assets' are outlined below. This information is as of the year-end/period end indicated:

Particulars	As of and for the Year Ended March 31	
	2024	2023
	₹ in million	
Claims against the Bank Not Acknowledged as Debts	1.18	-
Liability on Account of Outstanding Forward Exchange Contracts	-	-
Guarantees given on Behalf of Constituents – in India	15.17	13.98
Acceptances, Endorsements and Other Obligations	-	-
Other Items for which the Bank is Contingently Liable	5.60	5.00
Contingent Liabilities	21.95	18.98

Capital Expenditures

At ESAF Small Finance Bank, our capital expenditures are principally for fixed assets, including furniture and fixtures. Our Bank incurred capital expenditures (additions to fixed assets, including furniture and fixtures) of ₹ 690.41 million and ₹ 714.86 million in 2023-24 and 2022-23, respectively.