DRAFT RED HERRING PROSPECTUS
Dated: July 24, 2021
(This Draft Red Herring Prospectus will be updated upon filing with the RoC)
Please read Section 32 of the Companies Act, 2013
Book Built Offer

ESAF SMALL FINANCE BANK LIMITED

Our Bank was incorporated as 'ESAF Small Finance Bank Limited' on May 5, 2016 at Thrissur, Kerala, as a public limited company under the Companies Act, 2013, and was granted the certificate of incorporation by the Registrar of Companies, Kerala at Ernakulam ("**RoC**"). Our Corporate Promoter, ESAF Financial Holdings Private Limited was granted in-principle approval to establish a small finance bank ("**SFB**"), by the RBI, pursuant to its letter dated October 7, 2015. Subsequently, our Bank received the final approval to carry on the SFB business in India, pursuant to a letter dated November 18, 2016 issued by the RBI. Our Bank commenced its business with effect from March 10, 2017 and was included in the second schedule to the RBI Act pursuant to a notification dated November 12, 2018 issued by the RBI. For further details, see "*History and Certain Corporate Matters*" on page 183.

Registered and Corporate Office: Building No.VII/83/8, ESAF Bhavan, Thrissur-Palakkad National Highway, Mannuthy, Thrissur 680 651, Kerala, India;
Tel: +91 487 7123 907; **Website**: www.esafbank.com; **Contact Person**: Ranjith Raj P, Company Secretary and Compliance Officer; **E-mail**: investor.relations@esafbank.com;
Corporate Identity Number: U65990KL2016PLC045669

OUR PROMOTERS: KADAMBELIL PAUL THOMAS AND ESAF FINANCIAL HOLDINGS PRIVATE LIMITED

INITIAL PUBLIC OFFER OF UP TO [●] EQUITY SHARES OF FACE VALUE OF ₹10 EACH ("EQUITY SHARES") OF ESAF SMALL FINANCE BANK LIMITED ("BANK" OR "ISSUER") FOR CASH AT A PRICE OF ₹[●] PER EQUITY SHARE (INCLUDING A SHARE PREMIUM OF ₹[●] PER EQUITY SHARE) AGGREGATING UP TO ₹9,977.80 MILLION (THE "OFFER") COMPRISING A FRESH ISSUE OF UP TO [●] EQUITY SHARES AGGREGATING UP TO ₹8,000.00 MILLION (THE "FRESH ISSUE") AND AN OFFER FOR SALE OF UP TO [●] EQUITY SHARES AGGREGATING UP TO ₹1,977.80 MILLION ("THE OFFER FOR SALE"), COMPRISING UP TO [●] EQUITY SHARES AGGREGATING UP TO ₹1,500.00 MILLION BY THE PROMOTER SELLING SHAREHOLDER (AS DEFINED HEREUNDER), AND UP TO [●] EQUITY SHARES AGGREGATING UP TO ₹213.30 MILLION BY PNB METLIFE INDIA INSURANCE COMPANY LIMITED, UP TO [●] EQUITY SHARES AGGREGATING UP TO ₹174.60 MILLION BY BAJAJ ALLIANZ LIFE INSURANCE COMPANY LIMITED, UP TO [●] EQUITY SHARES AGGREGATING UP TO ₹87.30 MILLION BY PI VENTURES LLP AND UP TO [●] EQUITY SHARES AGGREGATING UP TO ₹2.60 MILLION BY JOHN CHAKOLA (COLLECTIVELY REFERRED TO AS THE "SELLING SHAREHOLDERS", AND SUCH EQUITY SHARES THE "OFFERED SHARES").

THE OFFER INCLUDES A RESERVATION OF UP TO [●] EQUITY SHARES, AGGREGATING UP TO ₹[●] MILLION (CONSTITUTING UP TO [●]% OF THE POST-OFFER PAID-UP EQUITY SHARE CAPITAL), FOR SUBSCRIPTION BY ELIGIBLE EMPLOYEES ("EMPLOYEE RESERVATION PORTION"). THE OFFER LESS THE EMPLOYEE RESERVATION PORTION IS HEREINAFTER REFERRED TO AS THE "NET OFFER". OUR BANK AND THE PROMOTER SELLING SHAREHOLDER MAY, IN CONSULTATION WITH THE BOOK RUNNING LEAD MANAGERS, OFFER A DISCOUNT OF UP TO ₹[●] OF THE OFFER PRICE TO ELIGIBLE EMPLOYEES BIDDING IN THE EMPLOYEE RESERVATION PORTION ("EMPLOYEE DISCOUNT"). THE OFFER AND THE NET OFFER SHALL CONSTITUTE [●]% AND [●]%, RESPECTIVELY, OF THE POST-OFFER PAID-UP EQUITY SHARE CAPITAL OF OUR BANK"). THE EMPLOYEE RESERVATION PORTION SHALL NOT EXCEED 5.00% OF OUR POST-OFFER PAID-UP EQUITY SHARE CAPITAL.

OUR BANK MAY, IN CONSULTATION WITH THE BOOK RUNNING LEAD MANAGERS ("BRLMS"), CONSIDER A PRE-OFFER PLACEMENT OF AN AGGREGATE AMOUNT UP TO ₹3,000 MILLION (THE "PRE-IPO PLACEMENT"). THE PRE-IPO PLACEMENT WILL BE AT A PRICE TO BE DECIDED BY OUR BANK, IN CONSULTATION WITH THE BRLMS AND THE PRE-IPO PLACEMENT WILL BE UNDERTAKEN PRIOR TO FILING OF THE RED HERRING PROSPECTUS WITH THE ROC. IF THE PRE-IPO PLACEMENT IS UNDERTAKEN, AMOUNT RAISED PURSUANT TO THE PRE-IPO PLACEMENT WILL BE REDUCED FROM THE FRESH ISSUE, SUBJECT TO THE MINIMUM OFFER SIZE CONSTITUTING AT LEAST 10% OF THE POST-OFFER PAID-UP EQUITY SHARE CAPITAL OF OUR BANK.

THE FACE VALUE OF EQUITY SHARES IS ₹10 EACH. THE PRICE BAND, EMPLOYEE DISCOUNT AND THE MINIMUM BID LOT SHALL BE DECIDED BY OUR BANK AND THE PROMOTER SELLING SHAREHOLDER, IN CONSULTATION WITH THE BRLMS AND WILL BE ADVERTISED IN [●] EDITIONS OF [●], AN ENGLISH NATIONAL DAILY NEWSPAPER, [●] EDITIONS OF [●], A HINDI NATIONAL DAILY NEWSPAPER AND [●] EDITION OF [●], A MALAYALAM DAILY NEWSPAPER WITH WIDE CIRCULATION (MALAYALAM BEING THE REGIONAL LANGUAGE OF KERALA, WHERE OUR REGISTERED AND CORPORATE OFFICE IS LOCATED) AT LEAST TWO WORKING DAYS PRIOR TO THE BID/ OFFER OPENING DATE AND SHALL BE MADE AVAILABLE TO THE BSE LIMITED ("BSE") AND THE NATIONAL STOCK EXCHANGE OF INDIA LIMITED ("NSE", AND TOGETHER WITH BSE, THE "STOCK EXCHANGES") FOR THE PURPOSE OF UPLOADING ON THEIR RESPECTIVE WEBSITES IN ACCORDANCE WITH SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE OF CAPITAL AND DISCLOSURE REQUIREMENTS) REGULATIONS, 2018, AS AMENDED (THE "SEBI ICDR REGULATIONS").

In case of any revision in the Price Band, the Bid/ Offer Period will be extended by at least three additional Working Days after such revision in the Price Band, subject to the Bid/ Offer Period not exceeding 10 Working Days. In cases of force majeure, banking strike or similar circumstances, our Bank and the Promoter Selling Shareholder may, for reasons to be recorded in writing, extend the Bid/Offer Period for a minimum of three Working Days, subject to the Bid/ Offer Period not exceeding 10 Working Days. Any revision in the Price Band and the revised Bid/ Offer Period, if applicable, shall be widely disseminated by notification to the Stock Exchanges, by issuing a public notice, and also by indicating the change on the respective websites of the BRLMs and at the terminals of the Syndicate Members and by intimation to Designated Intermediaries and the Sponsor Bank.

The Offer is being made through the Book Building Process, in terms of Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957, as amended ("**SCRR**") read with Regulation 31 of the SEBI ICDR Regulations and in compliance with Regulation 6(1) of the SEBI ICDR Regulations, wherein not more than 50% of the Net Offer shall be available for allocation on a proportionate basis to Qualified Institutional Buyers ("**QIBs**") ("**QIB Portion**"), provided that our Bank and the Promoter Selling Shareholder may, in consultation with the BRLMs, allocate up to 60% of the QIB Portion to Anchor Investors on a discretionary basis in accordance with the SEBI ICDR Regulations ("**Anchor Investor Portion**"), of which one-third shall be reserved for domestic Mutual Funds, subject to valid Bids being received from domestic Mutual Funds at or above the Anchor Investor Allocation Price. In the event of under-subscription, or non-allocation in the Anchor Investor Portion, the balance Equity Shares shall be added to the Net QIB Portion. Further, 5% of the Net QIB Portion (excluding the Anchor Investor Portion) shall be available for allocation on a proportionate basis only to Mutual Funds, and the remainder of the Net QIB Portion shall be available for allocation on a proportionate basis to all QIBs, including Mutual Funds, subject to valid Bids being received at or above the Offer Price. Further, not less than 15% of the Net Offer shall be available for allocation on a proportionate basis to Non-Institutional Bidders and not less than 35% of the Net Offer shall be available for allocation to Retail Individual Bidders in accordance with the SEBI ICDR Regulations, subject to valid Bids being received at or above the Offer Price. Further, up to [●] Equity Shares aggregating up to ₹ [●] million will be available for allocation to Eligible Employees, subject to valid Bids being received at or above the Offer Price. All potential Bidders (except Anchor Investors) are required to mandatorily utilise the Application Supported by Blocked Amount ("**ASBA**") process providing details of their respective ASBA accounts, and UPI ID in case of RIBs, if applicable, in which the corresponding Bid Amounts will be blocked by the SCSBs or under the UPI Mechanism, as applicable. Anchor Investors are not permitted to participate in the Offer through the ASBA process. For details, see "*Offer Procedure*" on page 364.

RISKS IN RELATION TO THE FIRST OFFER

This being the first public issue of our Bank, there has been no formal market for the Equity Shares of our Bank. The face value of the Equity Shares is ₹10. The Floor Price and the Cap Price as determined and justified by our Bank and Promoter Selling Shareholder, in consultation with the BRLMs and the Offer Price as determined and justified by our Bank and the Selling Shareholders, in consultation with the BRLMs, in accordance with the SEBI ICDR Regulations, as stated under "*Basis for Offer Price*" on page 84 should not be considered to be indicative of the market price of the Equity Shares after the Equity Shares are listed. No assurance can be given regarding an active and/or sustained trading in the Equity Shares nor regarding the price at which the Equity Shares will be traded after listing.

GENERAL RISK

Investments in equity and equity-related securities involve a degree of risk and investors should not invest any funds in the Offer unless they can afford to take the risk of losing their entire investment. Investors are advised to read the risk factors carefully before taking an investment decision in the Offer. For taking an investment decision, investors must rely on their own examination of our Bank and the Offer, including the risks involved. The Equity Shares in the Offer have not been recommended or approved by the Securities and Exchange Board of India ("**SEBI**"), nor does SEBI guarantee the accuracy or adequacy of the contents of this Draft Red Herring Prospectus. Specific attention of the investors is invited to "*Risk Factors*" on page 24.

ISSUER'S AND THE SELLING SHAREHOLDERS' ABSOLUTE RESPONSIBILITY

Our Bank, having made all reasonable inquiries, accepts responsibility for and confirms that this Draft Red Herring Prospectus contains all information with regard to our Bank and the Offer, which is material in the context of the Offer, that the information contained in this Draft Red Herring Prospectus is true and correct in all material aspects and is not misleading in any material respect, that opinions and intentions expressed herein are honestly held and that there are no other facts, the omission of which makes this Draft Red Herring Prospectus as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. Each of the Selling Shareholders, severally and not jointly, accepts responsibility for and confirms only such statements specifically made or confirmed by such Selling Shareholders in this Draft Red Herring Prospectus to the extent of information specifically pertaining to itself and its respective portion of the Offered Shares in the Offer for Sale and assumes responsibility that such statements are true and correct in all material respects and not misleading in any material respect.

LISTING

The Equity Shares offered through the Red Herring Prospectus are proposed to be listed on the Stock Exchanges. Our Bank has received 'in-principle' approvals from BSE and NSE for the listing of the Equity Shares pursuant to letters dated [●] and [●], respectively. For the purposes of the Offer, the Designated Stock Exchange shall be [●]. A signed copy of the Red Herring Prospectus and the Prospectus shall be delivered to the RoC in accordance with Section 26(4) of the Companies Act 2013. For details of the material contracts and documents available for inspection from the date of the Red Herring Prospectus up to the Bid/ Offer Closing Date, see "*Material Contracts and Documents for Inspection*" on page 387.

BOOK RUNNING LEAD MANAGERS				REGISTRAR TO THE OFFER
Axis Capital Limited Axis House, 1st floor C-2 Wadia International Centre P.B. Marg, Worli Mumbai - 400 025 Maharashtra, India **Tel**: +91 22 4325 2183 **E-mail**: esaf.ipo@axiscap.in **Website**: www.axiscapital.co.in **Investor Grievance ID:** complaints@axiscap.in **Contact Person**: Mayuri Arya **SEBI Registration Number**: INM000012029	**Edelweiss Financial Services Limited** 6h Floor, Edelweiss House Off C.S.T Road Kalina Mumbai - 400 098 Maharashtra, India **Tel:** +91 22 4009 4400 **E-mail:** esaf.ipo@edelweissfin.com **Website**: www.edelweissfin.com **Investor Grievance ID:** customerservice.mb@edelweissfin.com **Contact Person:** Dhruv Bhavsar **SEBI Registration Number**: INM0000010650	**ICICI Securities Limited** ICICI Centre H. T. Parekh Marg Churchgate Mumbai - 400 020 Maharashtra, India **Tel:** +91 22 2288 2460 **E-mail** : esafsfb.ipo@icicisecurities.com **Website:** www.icicisecurities.com **Investor Grievance ID**: customercare@icicisecurities.com **Contact Person:** Sameer Purohit/ Monank Mehta **SEBI Registration No.:** INM000011179	**IIFL Securities Limited** 10th Floor, IIFL Centre Kamala City, Senapati Bapat Marg Lower Parel (West) Mumbai - 400 013 Maharashtra, India **Tel**: +91 22 4646 4600 **E-mail:** esaf.ipo@iiflcap.com Website: www.iiflcap.com **Investor Grievance ID**: ig.ib@iiflcap.com **Contact Person**: Vishal Bangard/ Aditya Agarwal **SEBI Registration Number.:** INM000010940	**Link Intime India Private Limited** C-101, 1st Floor 247 Park Lal Bahadur Shastri Marg Vikhroli (West) Mumbai - 400 083 Maharashtra, India **Tel:** +91 022 4918 6200 **E-mail**: esaf.ipo@linkintime.co.in **Website**: www.linkintime.co.in **Investor Grievance ID:** esaf.ipo@linkintime.co.in **Contact Person:** Shanti Gopalkrishnan **SEBI Registration Number:** INR000004058

BID/ OFFER SCHEDULE

BID/ OFFER OPENS ON	[●][(1)]	**BID/ OFFER CLOSES ON**	[●][(2)]

(1) *Our Bank and the Promoter Selling Shareholder may, in consultation with the BRLMs, consider participation by Anchor Investors in accordance with the SEBI ICDR Regulations. The Anchor Investor Bid shall be one Working Day prior to the Bid/ Offer Opening Date*

(2) *Our Bank and the Promoter Selling Shareholder may, in consultation with the BRLMs, consider closing the Bid/ Offer Period for QIBs one Working Day prior to the Bid/ Offer Closing Date in accordance with the SEBI ICDR Regulations*

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SECTION I: GENERAL

DEFINITIONS AND ABBREVIATIONS

This Draft Red Herring Prospectus uses certain definitions and abbreviations which, unless the context otherwise indicates or implies, shall have the meaning as provided below. References to any legislation, act, regulation, rules, guidelines or policies shall be to such legislation, act, regulation, rules, guidelines or policies as amended, supplemented or re-enacted from time to time, and any reference to a statutory provision shall include any subordinate legislation made from time to time under that provision.

The words and expressions used in this Draft Red Herring Prospectus but not defined herein shall have, to the extent applicable, the same meaning ascribed to such terms under the SEBI ICDR Regulations, the Companies Act, the SCRA, the Depositories Act and the rules and regulations made thereunder. Notwithstanding the foregoing, the terms used in "Industry Overview", "Key Regulations and Policies", "Statement of Special Tax Benefits", "Financial Statements", "Basis for Offer Price", "History and Certain Corporate Matters", "Selected Statistical Information", "Financial Indebtedness", "Other Regulatory and Statutory Disclosures", "Outstanding Litigation and Material Developments" and "Description of Equity Shares and Terms of Articles of Association" on pages 92, 169, 87, 240, 84, 183, 221, 326, 340, 328 and 381 respectively shall have the meaning ascribed to them in the relevant section.

General Terms

Term	Description
"our Bank", "the Bank", "the Issuer"	ESAF Small Finance Bank Limited, a company incorporated under the Companies Act, 2013 and registered as a small finance bank with the RBI, having its Registered and Corporate Office at Building No.VII/83/8, ESAF Bhavan, Thrissur-Palakkad National Highway, Mannuthy, Thrissur 680 651, Kerala, India
"we", "us" or "our"	Unless the context otherwise indicates or implies, refers to our Bank

Bank and Selling Shareholders Related Terms

Term	Description
"Articles of Association" or "AoA"	Articles of association of our Bank, as amended
Audit Committee	Audit committee of the Board of our Bank, constituted in accordance with the applicable provisions of the Companies Act, 2013, the Listing Regulations, guidelines issued by the RBI from time to time, and as described in "*Our Management*" on page 190
"Auditors" or "Statutory Auditors"	Deloitte Haskins & Sells, Chartered Accountants, the current statutory auditors of our Bank
Bajaj Allianz Life	Bajaj Allianz Life Insurance Company Limited
Bank SHA	Shareholders agreement dated July 27, 2018 entered into by and amongst PNB MetLife India Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited, Muthoot Finance Limited, PI Ventures LLP, our Promoters and our Bank, read along with the deeds of adherence, each dated September 27, 2018, executed by and amongst ESMACO, ICICI Lombard General Insurance Company Limited, Yusuffali Musaliam Veettil Abdul Kader and George Ittan Maramkandathil, as amended by the waiver cum amendment agreement dated July 9, 2021
"Board" or "Board of Directors"	Board of directors of our Bank
CFO or Chief Financial Officer	Chief Financial Officer of our Bank, being Gireesh C.P. For details, see "*Our Management*" on page 190
Company Secretary and Compliance Officer	Company Secretary and Compliance Officer of our Bank, being Ranjith Raj P. For details, see "*Our Management*" on page 190
Business Transfer Agreement	Agreement to sell business undertaking dated February 22, 2017 entered into between our Corporate Promoter and our Bank for the transfer of the business undertaking of our Corporate Promoter, comprising its lending and financing business
CEDAR Retail or ESAF Retail	CEDAR Retail Private Limited, previously known as ESAF Retail Private Limited
"Corporate Promoter" or "EFHPL" or "Promoter Selling Shareholder"	The corporate promoter of our Bank, namely ESAF Financial Holdings Private Limited
Corporate Promoter SHA	Shareholders agreement dated December 23, 2019 entered into amongst our Corporate Promoter, Kadambelil Paul Thomas, ESAF Staff Welfare Trust, ESMACO, SIDBI Trustee Company Limited and, Dia Vikas Capital Private Limited, as amended by the first amendment agreement dated March 29, 2021 and the letter amendment agreement dated July 13, 2021
Corporate Social Responsibility and Sustainability Committee	Corporate social responsibility and sustainability committee of the Board of our Bank constituted in accordance with the applicable provisions of the Companies Act, 2013 and as described in "*Our Management*" on page 190
CRISIL Research Report	Report titled "*Small Finance Banks in India*" dated July 2021, issued by CRISIL Limited
Director(s)	The directors on the Board of our Bank
Equity Shares	Equity shares of face value of ₹10 each of our Bank
ESAF ESOP Plan 2019	ESAF Small Finance Bank Employee Stock Option Plan 2019
ESAF Society	Evangelical Social Action Forum

Term	Description
ESAF Swasraya Producers or ESAF Producer Company	ESAF Swasraya Producers Company Limited
ESMACO or ESCO	ESAF Swasraya Multi-State Agro Co-operative Society Limited
Group Entities	Our group entities as defined and disclosed in *"Our Group Entities"* on page 215
ICICI Lombard	ICICI Lombard General Insurance Company Limited
Individual Promoter	The individual promoter of our Bank, namely, Kadambelil Paul Thomas
IPO Steering Committee	The IPO steering committee of the Board of our Bank as described in "*Our Management*" on page 190
"Key Managerial Personnel" or "KMP"	Key Managerial Personnel of our Bank shall have the meaning as set out under Regulation 2(1)(bb) of the SEBI ICDR Regulations as described in "*Our Management*" on page 190, other than in the Restated Financial Information, where Key Managerial Personnel shall refer to only such persons required to be identified as Key Managerial Personnel as per Accounting Standard 18 - Related Party Disclosures
Lahanti or LLMS	Lahanti Lastmile Services Private Limited
Lahanti Homes	Lahanti Homes and Infrastructure Private Limited (*Formerly ESAF Homes & Infrastructure Private Limited*)
Managing Director and Chief Executive Officer	Kadambelil Paul Thomas
"Memorandum of Association" or "MoA"	Memorandum of association of our Bank, as amended
Nomination, Remuneration and Compensation Committee	Nomination, remuneration and compensation committee of the Board of our Bank, constituted in accordance with the applicable provisions of the Companies Act, 2013, the Listing Regulations and guidelines issued by the RBI from time to time and as described in "*Our Management*" on page 190
Non-Executive Independent Directors	Non-executive independent directors on the Board, as described in "*Our Management*" on page 190
Part-Time Chairman	Ravimohan Periyakavil Ramakrishnan
PI Ventures	PI Ventures LLP
PNB MetLife	PNB MetLife India Insurance Company Limited
Previous Statutory Auditors	The previous statutory auditor of the Bank, namely, S. R. Batliboi & Associates LLP, Chartered Accountants
Promoter Group	Persons and entities constituting the promoter group of our Bank in terms of Regulation 2(1)(pp) of the SEBI ICDR Regulations, as disclosed in "*Our Promoters and Promoter Group*" on page 211
Promoters	The Individual Promoter of our Bank, namely Kadambelil Paul Thomas, and the Corporate Promoter of our Bank, namely ESAF Financial Holdings Private Limited
RBI Final Approval	RBI letter dated November 18, 2016 bearing no. DBR.NBD(SFB-ESAF) No. 5654/16.13.216/2016-17, pursuant to which the RBI granted license no. MUM:124 to our Bank to carry on the SFB business in terms of Section 22 of the Banking Regulation Act
RBI In-Principle Approval	RBI letter dated October 7, 2015 bearing no. DBR.PSBD.NBC(SFB-ESAF). No. 4917/16.13.216/2015-16, pursuant to which the RBI granted our Corporate Promoter an in-principal approval to establish an SFB in the private sector under Section 22 of the Banking Regulation Act
Registered and Corporate Office	Building No.VII/83/8, ESAF Bhavan, Thrissur-Palakkad National Highway, Mannuthy, Thrissur 680 651, Kerala, India
"Registrar of Companies" or "RoC"	Registrar of Companies, Kerala at Ernakulam
Restated Financial Information	The restated financial information of the Bank comprising of the restated statement of assets and liabilities as at March 31, 2021, March 31, 2020 and March 31, 2019, the restated profit and loss account and restated statement of cash flows for each of the years ended March 31, 2021, March 31, 2020 and March 31, 2019 and the summary statement of significant accounting policies, and other explanatory notes prepared by the Bank in terms of the requirements of Section 26 of Part I of Chapter III of the Companies Act, 2013, as amended, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended and the Guidance Note on Reports on Company Prospectuses (Revised 2019) issued by the Institute of Chartered Accountants of India, as amended from time to time.
Selling Shareholders	Collectively, the Promoter Selling Shareholder, PNB MetLife, Bajaj Allianz Life, PI Ventures and John Chakola
Shareholders	Holders of Equity Shares of our Bank from time to time
SIDBI	Small Industries Development Bank of India
Stakeholders' Relationship Committee	Stakeholders' relationship committee of the Board of our Bank, constituted in accordance with the applicable provisions of the Companies Act, 2013 and the Listing Regulations and as described in "*Our Management*" on page 190

Offer Related Terms

Term	Description
Abridged Prospectus	Abridged prospectus means a memorandum containing such salient features of a prospectus as may be specified by the SEBI in this behalf
Acknowledgement Slip	The slip or document issued by a Designated Intermediary(ies) to a Bidder as proof of registration of the Bid cum Application Form
"Allot" or "Allotment" or "Allotted"	Unless the context otherwise requires, allotment of the Equity Shares pursuant to the Fresh Issue and transfer of Offered Shares pursuant to the Offer for Sale to the successful Bidders

Term	Description
Allotment Advice	Note or advice or intimation of Allotment sent to the successful Bidders who have been or are to be Allotted the Equity Shares after the Basis of Allotment has been approved by the Designated Stock Exchange
Allottee	A successful Bidder to whom the Equity Shares are Allotted
Anchor Investor	A Qualified Institutional Buyer, applying under the Anchor Investor Portion in accordance with the requirements specified in the SEBI ICDR Regulations and the Red Herring Prospectus and who has Bid for an amount of at least ₹100 million. For further details, see "*Offer Procedure*" on page 364
Anchor Investor Allocation Price	Price at which Equity Shares will be allocated to Anchor Investors in terms of the Red Herring Prospectus and the Prospectus, which will be decided by our Bank and the Selling Shareholders, in consultation with the BRLMs, during the Anchor Investor Bid/Offer Period
Anchor Investor Application Form	Application form used by an Anchor Investor to make a Bid in the Anchor Investor Portion and which will be considered as an application for Allotment in terms of the Red Herring Prospectus and Prospectus
Anchor Investor Bid/Offer Period	The day being one Working Day prior to the Bid/ Offer Opening Date, on which Bids by Anchor Investors shall be submitted and allocation to Anchor Investors shall be completed
Anchor Investor Offer Price	Final price at which the Equity Shares will be Allotted to Anchor Investors in terms of the Red Herring Prospectus and the Prospectus, which price will be equal to or higher than the Offer Price but not higher than the Cap Price. The Anchor Investor Offer Price will be decided by our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs
Anchor Investor Portion	Up to 60% of the QIB Portion which may be allocated by our Bank and Promoter Selling Shareholder, in consultation with the BRLMs, to Anchor Investors on a discretionary basis in accordance with the SEBI ICDR Regulations. One-third of the Anchor Investor Portion shall be reserved for domestic Mutual Funds, subject to valid Bids being received from domestic Mutual Funds at or above the Anchor Investor Allocation Price, in accordance with the SEBI ICDR Regulations
"Application Supported by Blocked Amount" or "ASBA"	Application, whether physical or electronic, used by ASBA Bidders to make a Bid and authorizing an SCSB to block the Bid Amount in the ASBA Account and will include applications made by RIBs using the UPI Mechanism where the Bid Amount will be blocked upon acceptance of UPI Mandate Request by RIBs using the UPI Mechanism
ASBA Account	Bank account maintained with an SCSB by an ASBA Bidder, as specified in the ASBA Form submitted by ASBA Bidders for blocking the Bid Amount mentioned in the relevant ASBA Form and includes the account of an RIB which is blocked upon acceptance of a UPI Mandate Request made by the RIBs using the UPI Mechanism
ASBA Bid	A Bid made by an ASBA Bidder
ASBA Bidder(s)	All Bidders except Anchor Investors
ASBA Form	Application form, whether physical or electronic, used by ASBA Bidders to submit Bids, which will be considered as the application for Allotment in terms of the Red Herring Prospectus and the Prospectus
Axis	Axis Capital Limited
Bankers to the Offer	Collectively, Escrow Collection Bank(s), Public Offer Account Bank(s), Sponsor Bank(s) and Refund Bank(s), as the case may be
Basis of Allotment	Basis on which Equity Shares will be Allotted to successful Bidders under the Offer and which is described in "*Offer Structure*" beginning on page 360
Bid	Indication to make an offer during the Bid/ Offer Period by an ASBA Bidder pursuant to submission of the ASBA Form, or during the Anchor Investor Bid/ Offer Period by an Anchor Investor, pursuant to submission of the Anchor Investor Application Form, to subscribe to or purchase the Equity Shares at a price within the Price Band, including all revisions and modifications thereto as permitted under the SEBI ICDR Regulations and in terms of the Red Herring Prospectus and the Bid cum Application Form. The term "Bidding" shall be construed accordingly
Bid Amount	The highest value of optional Bids indicated in the Bid cum Application Form and, in the case of RIBs Bidding at the Cut off Price, the Cap Price multiplied by the number of Equity Shares Bid for by such Retail Individual Bidder and mentioned in the Bid cum Application Form and payable by the Bidder or blocked in the ASBA Account of the Bidder, as the case may be, upon submission of the Bid Eligible Employees applying in the Employee Reservation Portion can apply at the Cut Off Price and the Bid Amount shall be Cap Price, net of Employee Discount, if any, multiplied by the number of Equity Shares Bid for such Eligible Employee and mentioned in the Bid cum Application Form The maximum Bid Amount under the Employee Reservation Portion by an Eligible Employee shall not exceed ₹500,000 (net of Employee Discount). However, the initial Allotment to an Eligible Employee in the Employee Reservation Portion shall not exceed ₹ 200,000 (net of Employee Discount). Only in the event of under-subscription in the Employee Reservation Portion, the unsubscribed portion will be available for allocation and Allotment, proportionately to all Eligible Employees who have Bid in excess of ₹200,000 (net of Employee Discount), subject to the maximum value of Allotment made to such Eligible Employee not exceeding ₹500,000 (net of Employee Discount).
Bid cum Application Form	Anchor Investor Application Form or the ASBA Form, as the context requires
Bid Lot	[●] Equity Shares and in multiples of [●] Equity Shares thereafter
Bid/ Offer Closing Date	Except in relation to any Bids received from the Anchor Investors, the date after which the Designated Intermediaries will not accept any Bids, which shall be notified in [●] editions of [●], an English national daily newspaper and [●] editions of [●], a Hindi national daily newspaper and [●] editions of [●], a Malayalam daily newspaper (Malayalam being the regional language of Kerala, where our Registered

Term	Description
	and Corporate Office is located), each with wide circulation, and in case of any such extension, the extended Bid/Offer Closing Date shall also be notified on the website and terminals of the Members of the Syndicate and communicated to the intermediaries Designated Intermediaries and the Sponsor Bank, as required under the SEBI ICDR Regulations. Our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs may, consider closing the Bid/Offer Period for QIBs one Working Day prior to the Bid/Offer Closing Date in accordance with the SEBI ICDR Regulations. In case of any revision, the extended Bid/ Offer Closing Date shall be widely disseminated by notification to the Stock Exchanges, and also be notified on the websites of the BRLMs and at the terminals of the Syndicate Members, which shall also be notified in an advertisement in same newspapers in which the Bid/Offer Opening Date was published, as required under the SEBI ICDR Regulations
Bid/ Offer Opening Date	Except in relation to any Bids received from the Anchor Investors, the date on which the Designated Intermediaries shall start accepting Bids, which shall be notified in [●] editions of [●], an English national daily newspaper and [●] editions of [●], a Hindi national daily newspaper and [●] editions of [●], a Malayalam daily newspaper (Malayalam being the regional language of Kerala, where our Registered and Corporate Office is located), each with wide circulation
Bid/ Offer Period	Except in relation to Anchor Investors, the period between the Bid/ Offer Opening Date and the Bid/ Offer Closing Date, inclusive of both days, during which prospective Bidders can submit their Bids, including any revisions thereof, in accordance with the SEBI ICDR Regulations. Provided that the Bidding shall be kept open for a minimum of three Working Days for all categories of Bidders, other than Anchor Investors Our Bank and the Promoter Selling Shareholder may, in consultation with the BRLMs, consider closing the Bid/ Offer Period for the QIB Portion one Working Day prior to the Bid/ Offer Closing Date in accordance with the SEBI ICDR Regulations
Bidder	Any prospective investor who makes a Bid pursuant to the terms of the Red Herring Prospectus and the Bid cum Application Form and unless otherwise stated or implied, includes an Anchor Investor
Bidding Centres	Centres at which the Designated Intermediaries shall accept the ASBA Forms, i.e., Designated Branches for SCSBs, Specified Locations for the Syndicate, Broker Centres for Registered Brokers, Designated RTA Locations for RTAs and Designated CDP Locations for CDPs
Book Building Process	Book building process, as provided in Schedule XIII of the SEBI ICDR Regulations, in terms of which the Offer is being made
"Book Running Lead Managers" or "BRLMs"	The book running lead managers to the Offer, namely, Axis Capital Limited, Edelweiss Financial Services Limited, ICICI Securities Limited and IIFL Securities Limited
Broker Centres	Centres notified by the Stock Exchanges where ASBA Bidders can submit the ASBA Forms to a Registered Broker. The details of such Broker Centres, along with the names and contact details of the Registered Brokers are available on the respective websites of the Stock Exchanges (www.bseindia.com and www.nseindia.com)
"CAN" or Confirmation of Allocation Note	Notice or intimation of allocation of the Equity Shares sent to Anchor Investors, who have been allocated the Equity Shares, on or after the Anchor Investor Bid/ Offer Period
Cap Price	Higher end of the Price Band, above which the Offer Price and the Anchor Investor Offer Price will not be finalised and above which no Bids will be accepted
Cash Escrow and Sponsor Bank Agreement	Agreement to be entered amongst our Bank, the Selling Shareholders, the BRLMs, Syndicate Members, the Registrar to the Offer, the Sponsor Bank, the Escrow Collection Bank, the Public Offer Bank and the Refund Bank in respect of for collection of the Bid Amounts and where applicable, remitting refunds(if any) on the terms and conditions thereof and the appointment of Sponsor Bank in accordance with the UPI Circulars
Client ID	Client identification number maintained with one of the Depositories in relation to demat account
"Collecting Depository Participant" or "CDP"	A depository participant as defined under the Depositories Act, 1996 registered with SEBI and who is eligible to procure Bids at the Designated CDP Locations in terms of circular no. CIR/CFD/POLICYCELL/11/2015 dated November 10, 2015 issued by SEBI as per the list available on the websites of the Stock Exchanges
Cut-off Price	Offer Price, finalised by our Bank and the Selling Shareholders, in consultation with the BRLMs, which shall be any price within the Price Band. Only Retail Individual Bidders Bidding in the Retail Portion and Eligible Employees Bidding in the Employee Reservation Portion are entitled to Bid at the Cut-off Price (net of the Employee Discount, as applicable). QIBs (including the Anchor Investors) and Non-Institutional Bidders are not entitled to Bid at the Cut-off Price
Demographic Details	The demographic details of the Bidders including the Bidders' address, name of the Bidders' father/husband, investor status, occupation, bank account details and UPI ID, wherever applicable
Designated SCSB Branches	Such branches of the SCSBs which shall collect the ASBA Forms, a list of which is available on the website of SEBI at https://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognised=yes or at such other website as may be prescribed by SEBI from time to time
Designated CDP Locations	Such locations of the CDPs where Bidders can submit the ASBA Forms. The details of such Designated CDP Locations, along with names and contact details of the Collecting Depository Participants eligible to accept ASBA Forms are available on the respective websites of the Stock Exchanges (www.bseindia.com and www.nseindia.com), as updated from time to time

Term	Description
Designated Date	The date on which the Escrow Collection Bank(s) transfer funds from the Escrow Account to the Public Offer Account or the Refund Account, as the case may be, and the instructions are issued to the SCSBs (in case of RIBs using UPI Mechanism, instruction issued through the Sponsor Bank) for the transfer of amounts blocked by the SCSBs in the ASBA Accounts to the Public Offer Account or the Refund Account, as the case may be, after finalisation of the Basis of Allotment in terms of the Red Herring Prospectus following which Equity Shares will be Allotted in the Offer
Designated Intermediary(ies)	In relation to ASBA Forms submitted by RIBs and Eligible Employees Bidding in the Employee Reservation Portion by authorising an SCSB to block the Bid Amount in the ASBA Account, Designated Intermediaries shall mean SCSBs. In relation to ASBA Forms submitted by RIBs where the Bid Amount will be blocked upon acceptance of UPI Mandate Request by such RIB using the UPI Mechanism, Designated Intermediaries shall mean Syndicate, sub-syndicate/agents, Registered Brokers, CDPs and RTAs. In relation to ASBA Forms submitted by QIBs and Non-Institutional Bidders, Designated Intermediaries shall mean Syndicate, Sub-Syndicate/ agents, SCSBs, Registered Brokers, the CDPs and RTAs
Designated RTA Locations	Such locations of the RTAs where Bidders can submit the ASBA Forms to RTAs. The details of such Designated RTA Locations, along with names and contact details of the RTAs eligible to accept ASBA Forms are available on the respective websites of the Stock Exchanges (www.bseindia.com and www.nseindia.com)
Designated Stock Exchange	[●]
"Draft Red Herring Prospectus" or "DRHP"	This draft red herring prospectus dated July 24, 2021 issued in accordance with the SEBI ICDR Regulations, which does not contain complete particulars of the price at which the Equity Shares will be Allotted and the size of the Offer, including any addenda or corrigenda thereto
Edelweiss	Edelweiss Financial Services Limited
Eligible Employees	Permanent employees, working in India or outside India (excluding such employees who are not eligible to invest in the Offer under applicable laws), of our Bank; or a Director of our Bank, whether whole-time or not, as on the date of the filing of the Red Herring Prospectus with the RoC and who continues to be a permanent employee of our Bank until the date of submission of the Bid cum Application Form, but not including (i) Promoters; (ii) persons belonging to the Promoter Group; or (iii) Directors who either themselves or through their relatives or through any body corporate, directly or indirectly, hold more than 10% of the outstanding Equity Shares of our Bank
Eligible FPIs	FPIs from such jurisdictions outside India where it is not unlawful to make an offer / invitation under the Offer and in relation to whom the Bid cum Application Form and the Red Herring Prospectus constitute an invitation to subscribe to the Equity Shares
Eligible NRI(s)	NRI(s) from jurisdictions outside India where it is not unlawful to make an Offer or invitation under the Offer and in relation to whom the ASBA Form and the Red Herring Prospectus will constitute an invitation to subscribe to or to purchase the Equity Shares
Employee Discount	A discount of up to [●]% to the Offer Price (equivalent of ₹[●] per Equity Share) as may be offered by our Bank and the Promoter Selling Shareholder, in consultation with the Book Running Lead Managers, to Eligible Employees and which shall be announced at least two Working Days prior to the Bid/Offer Opening Date
Employee Reservation Portion	The portion of the Offer being up to [●] Equity Shares aggregating ₹[●] million which shall not exceed 5% of the post-Offer Equity Share capital of our Bank, available for allocation to Eligible Employees, on a proportionate basis
Escrow Account	Accounts to be opened with the Escrow Collection Bank(s) and in whose favour the Anchor Investors will transfer money through NACH/direct credit/NEFT/RTGS in respect of the Bid Amount when submitting a Bid
Escrow Collection Bank(s)	Bank(s) which are a clearing members and registered with SEBI as banker(s) to an offer under the Securities and Exchange Board of India (Bankers to an Issue) Regulations, 1994 and with whom the Escrow Account in relation to the Offer for Bids by Anchor Investors, will be opened, in this case being [●]
First or sole Bidder	Bidder whose name shall be mentioned in the Bid cum Application Form or the Revision Form and in case of joint Bids, whose name shall also appear as the first holder of the beneficiary account held in joint names
Floor Price	Lower end of the Price Band, subject to any revision(s) thereto, not being less than the face value of Equity Shares, at or above which the Offer Price and the Anchor Investor Offer Price will be finalised and below which no Bids will be accepted
Fresh Issue	Fresh issue of up to [●] Equity Shares aggregating up to ₹8,000 million by our Bank
General Information Document	The General Information Document for investing in public issues prepared and issued in accordance with the SEBI circular no. SEBI/HO/CFD/DIL1/CIR/P/2020/37 dated March 17, 2020 and the UPI Circulars, as amended from time to time. The General Information Document shall be available on the websites of the Stock Exchanges and the BRLMs
ICICI	ICICI Securities Limited
IIFL	IIFL Securities Limited
Maximum RIB Allottees	Maximum number of RIBs who can be allotted the minimum Bid Lot. This is computed by dividing the total number of Equity Shares available for Allotment to RIBs by the minimum Bid Lot, subject to valid Bids being received at or above the Offer Price
Mutual Fund Portion	5% of the Net QIB Portion, or [●] Equity Shares which shall be available for allocation to Mutual Funds only, subject to valid Bids being received at or above the Offer Price
Net Offer	The Offer less the Employee Reservation Portion

Term	Description
NBFC	Non-banking financial company
Net Proceeds	Proceeds of the Fresh Issue less our Bank's share of the Offer expenses. For further details regarding the use of the Net Proceeds and the Offer expenses, see "*Objects of the Offer*" on page 81
Net QIB Portion	The QIB Portion less the number of Equity Shares allocated to the Anchor Investors
Non-Institutional Bidders	All Bidders that are not QIBs or Retail Individual Bidders or Eligible Employees and who have Bid for Equity Shares for an amount of more than ₹200,000 (but not including NRIs other than Eligible NRIs)
Non-Institutional Portion	Portion of the Offer being not less than 15% of the Net Offer consisting of [●] Equity Shares which shall be available for allocation on a proportionate basis to Non-Institutional Bidders, subject to valid Bids being received at or above the Offer Price
Non-Resident	Person resident outside India, as defined under FEMA
Offer	The initial public offer of Equity Shares comprising the Fresh Issue and the Offer for Sale. Our Bank in consultation with the BRLMs, may consider a Pre-IPO Placement for an aggregate amount up to ₹3,000 million. The Pre-IPO Placement will be at a price to be decided by our Bank, in consultation with the BRLMs, and the Pre-IPO Placement will be completed prior to filing of the Red Herring Prospectus with the RoC. If the Pre-IPO Placement is undertaken, the number of Equity Shares issued pursuant to the Pre-IPO Placement will be reduced from the Fresh Issue, subject to the minimum Offer size constituting at least 10% of the post-Offer paid-up Equity Share capital of our Bank.
Offer Agreement	Agreement dated July 24, 2021 entered amongst our Bank, the Selling Shareholders and the BRLMs, pursuant to which certain arrangements have been agreed to in relation to the Offer
Offer for Sale	The offer for sale of up to [●] Equity Shares aggregating up to ₹1,977.80 million, comprising up to [●] Equity Shares aggregating up to ₹1,500.00 million by the Promoter Selling Shareholder, up to [●] Equity Shares aggregating up to ₹213.30 million by PNB MetLife, up to [●] Equity Shares aggregating up to ₹174.60 million by Bajaj Allianz Life, up to [●] Equity Shares aggregating up to ₹87.30 million by PI Ventures and up to [●] Equity Shares aggregating up to ₹2.60 million by John Chakola in the Offer
Offer Price	The final price (within the Price Band) at which Equity Shares will be Allotted to ASBA Bidders in terms of the Red Herring Prospectus and the Prospectus. Equity Shares will be Allotted to Anchor Investors at the Anchor Investor Offer Price, which will be decided by our Bank and the Selling Shareholders, in consultation with the BRLMs in terms of the Red Herring Prospectus and the Prospectus. The Offer Price will be decided by our Bank and each of the Selling Shareholders, in consultation with the BRLMs, on the Pricing Date in accordance with the Book Building Process and the Red Herring Prospectus A discount of up to [●]% on the Offer Price (equivalent of ₹[●] per Equity Share) may be offered to Eligible Employees bidding in the Employee Reservation Portion. This Employee Discount, if any, will be decided by our Bank and the Promoter Selling Shareholder, in consultation with the Book Running Lead Managers
Offer Proceeds	The proceeds of the Fresh Issue which shall be available to our Bank and the proceeds of the Offer for Sale which shall be available to the Selling Shareholders. For further information about use of the Offer Proceeds, see "*Objects of the Offer*" beginning on page 81
Offered Shares	Up to [●] Equity Shares aggregating up to ₹1,977.80 million being offered by the Selling Shareholders in the Offer for Sale, comprising up to [●] Equity Shares aggregating up to ₹1,500.00 million being offered by the Promoter Selling Shareholder, up to [●] Equity Shares aggregating up to ₹213.30 million by PNB MetLife, up to [●] Equity Shares aggregating up to ₹174.60 million being offered by Bajaj Allianz Life, up to [●] Equity Shares aggregating up to ₹87.30 million by PI Ventures and up to [●] Equity Shares aggregating up to ₹2.60 million by John Chakola
Pre-IPO Placement	A pre-Offer placement of Equity Shares by our Bank in consultation with the BRLMs, for an aggregate amount up to ₹3,000 million. The Pre-IPO Placement, if undertaken, will be at a price to be decided by our Bank, in consultation with the BRLMs and the Pre-IPO Placement will be completed prior to filing of the Red Herring Prospectus with the RoC. If the Pre-IPO Placement is undertaken, the amount raised from the Pre-IPO Placement will be reduced from the Offer, subject to the minimum Offer Size constituting at least 10% of the post- Offer paid-up Equity Share capital of our Bank
Price Band	Price band of a minimum price of ₹[●] per Equity Share (Floor Price) and the maximum price of ₹[●] per Equity Share (Cap Price) including any revisions thereof. The Price Band, Employee Discount and the minimum Bid Lot size for the Offer will be decided by our Bank and Promoter Selling Shareholder, in consultation with the BRLMs, and will be advertised, at least two Working Days prior to the Bid/ Offer Opening Date, in [●] editions of [●], an English national daily newspaper and [●] editions of [●], a Hindi national daily newspaper and [●] editions of [●], a Malayalam daily newspaper, (Malayalam being the regional language of Kerala, where our Registered and Corporate Office is located), each with wide circulation and shall be made available to the Stock Exchanges for the purpose of uploading on their respective websites
Pricing Date	Date on which our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, will finalise the Offer Price
Prospectus	Prospectus to be filed with the RoC on or after the Pricing Date in accordance with Section 26 of the Companies Act, 2013, and the SEBI ICDR Regulations containing, *inter alia*, the Offer Price, the size of the Offer and certain other information, including any addenda or corrigenda thereto

Term	Description
Public Offer Account	No lien and non-interest bearing account to be opened with the Public Offer Account Bank, under Section 40(3) of the Companies Act, 2013 to receive monies from the Escrow Account and ASBA Accounts on the Designated Date
Public Offer Account Bank(s)	A bank which is a clearing member and registered with SEBI as a banker to an issue and with which the Public Offer Account will be opened, in this case being [●]
QIB Portion	The portion of the Offer (including the Anchor Investor Portion) being not more than 50% of the Net Offer consisting of [●] Equity Shares which shall be available for allocation to QIBs (including Anchor Investors), subject to valid Bids being received at or above the Offer Price or Anchor Investor Offer Price
Qualified Institutional Buyers or QIBs or QIB Bidders	Qualified institutional buyers as defined under Regulation 2(1)(ss) of the SEBI ICDR Regulations
Red Herring Prospectus or RHP	Red Herring Prospectus to be issued in accordance with Section 32 of the Companies Act, 2013 and the provisions of the SEBI ICDR Regulations, which will not have complete particulars of the Offer Price and the size of the Offer, including any addenda or corrigenda thereto. The Red Herring Prospectus will be filed with the RoC at least three Working Days before the Bid/Offer Opening Date and will become the Prospectus upon filing with the RoC after the Pricing Date
Refund Account(s)	No lien and non-interest bearing account to be opened with the Refund Bank(s), from which refunds, if any, of the whole or part of the Bid Amount to the Bidders shall be made
Refund Bank(s)	Banker(s) to the Offer and with whom the Refund Account will be opened, in this case being [●]
Registered Brokers	Stock brokers registered under SEBI (Stock Brokers) Regulations, 1992, as amended with the Stock Exchanges having nationwide terminals, other than the BRLMs and the Syndicate Members and eligible to procure Bids in terms of Circular No. CIR/ CFD/ 14/ 2012 dated October 4, 2012 issued by SEBI
Registrar Agreement	Agreement dated July 22, 2021 entered by and amongst our Bank, the Selling Shareholders and the Registrar to the Offer, in relation to the responsibilities and obligations of the Registrar to the Offer pertaining to the Offer
"Registrar and Share Transfer Agents" or "RTAs"	Registrar and share transfer agents registered with SEBI and eligible to procure Bids at the Designated RTA Locations as per the list available on the websites of the Stock Exchanges, and the UPI Circulars
"Registrar to the Offer" or "Registrar"	Link Intime India Private Limited
"Retail Individual Bidder(s)" or "RIB(s)"	Individual Bidders, who have Bid for the Equity Shares for an amount not more than ₹200,000 in any of the bidding options in the Offer (including HUFs applying through their Karta and Eligible NRIs)
Retail Portion	Portion of the Offer being not less than 35% of the Net Offer consisting of [●] Equity Shares which shall be available for allocation to Retail Individual Bidders (subject to valid Bids being received at or above the Offer Price)
Revision Form	Form used by the Bidders to modify the quantity of the Equity Shares or the Bid Amount in any of their ASBA Form(s) or any previous Revision Form(s), as applicable. QIB Bidders and Non-Institutional Bidders are not allowed to withdraw or lower their Bids (in terms of quantity of Equity Shares or the Bid Amount) at any stage. Retail Individual Bidders and Eligible Employees Bidding in the Employee Reservation Portion can revise their Bids during the Bid/ Offer Period and withdraw their Bids until Bid/Offer Closing Date
Self-Certified Syndicate Bank(s) or SCSB(s)	The banks registered with SEBI, which offer the facility of ASBA services, (i) in relation to ASBA, where the Bid Amount will be blocked by authorising an SCSB, a list of which is available on the website of SEBI at www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=34 and updated from time to time and at such other websites as may be prescribed by SEBI from time to time, (ii) in relation to RIBs using the UPI Mechanism, a list of which is available on the website of SEBI at https://sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=40 or such other website as may be prescribed by SEBI and updated from time to time. Applications through UPI in the Offer can be made only through the SCSBs mobile applications (apps) whose name appears on the SEBI website. A list of SCSBs and mobile application, which, are live for applying in public issues using UPI mechanism is available on the website of SEBI at www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=43. The said list shall be updated on the SEBI website
Share Escrow Agent	Escrow agent to be appointed pursuant to the Share Escrow Agreement, namely, [●]
Share Escrow Agreement	Agreement to be entered into amongst our Bank, the Selling Shareholders and the Share Escrow Agent in connection with the transfer of the Offered Shares by the Selling Shareholders and credit of such Equity Shares to the demat account of the Allottees
Specified Locations	Bidding Centres where the Syndicate shall accept ASBA Forms from Bidders, a list of which is available on the website of SEBI (www.sebi.gov.in) and updated from time to time
Sponsor Bank	[●], being a Banker to the Offer, appointed by our Bank to act as a conduit between the Stock Exchanges and NPCI in order to push the mandate collect requests and / or payment instructions of the RIBs using the UPI Mechanism and carry out other responsibilities, in terms of the UPI Circulars
"Syndicate" or "Members of the Syndicate"	Together, the BRLMs and the Syndicate Members
Syndicate Agreement	Agreement to be entered amongst our Bank, the Selling Shareholders, the BRLMs, the Registrar and the Syndicate Members, in relation to collection of Bids by the Syndicate
Syndicate Members	Intermediaries (other than the BRLMs) registered with SEBI who are permitted to accept bids, applications and place order with respect to the Offer and carry out activities as an underwriter, namely, [●]
Systemically Important Non-Banking Financial Company	Systemically important non-banking financial company as defined under Regulation 2(1)(iii) of the SEBI ICDR Regulations
Underwriters	[●]

Term	Description
Underwriting Agreement	Agreement to be entered amongst our Bank and the Underwriters to be entered into on or after the Pricing Date but prior to filing of the Prospectus with the RoC
UPI	Unified payments interface which is an instant payment mechanism, developed by NPCI
UPI Circulars	The SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2018/138 dated November 1, 2018, SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2019/50 dated April 3, 2019, SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2019/76 dated June 28, 2019, SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2019/85 dated July 26, 2019, SEBI circular no. SEBI/HO/CFD/DCR2/CIR/P/2019/133 dated November 8, 2019, SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2020/50 dated March 30, 2020, SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2021/2480/1/M dated March 16, 2021, SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2021/47 dated March 31, 2021, SEBI circular no. SEBI/HO/CFD/DIL2/P/CIR/2021/570 dated June 2, 2021 and any subsequent circulars or notifications issued by SEBI in this regard
UPI ID	ID created on the UPI for single-window mobile payment system developed by the NPCI
UPI Mandate Request	A request (intimating the RIB by way of a notification on the UPI linked mobile application as disclosed by SCSBs on the website of SEBI and by way of an SMS on directing the RIB to such UPI linked mobile application) to the RIB initiated by the Sponsor Bank to authorise blocking of funds on the UPI application equivalent to Bid Amount and subsequent debit of funds in case of Allotment
UPI Mechanism	The bidding mechanism that may be used by an RIB submitted with intermediaries with UPI as a mode of payment in accordance with the UPI Circulars to make an ASBA Bid in the Offer
UPI PIN	Password to authenticate a UPI transaction
Wilful Defaulter	An entity or person categorised as a wilful defaulter by any bank or financial institution or consortium thereof, in terms of regulation 2(1)(lll) of the SEBI ICDR Regulations
Working Day	All days on which commercial banks in Mumbai are open for business. In respect of announcement of Price Band and Bid/Offer Period, Working Day shall mean all days, excluding Saturdays, Sundays and public holidays, on which commercial banks in Mumbai are open for business. In respect of the time period between the Bid/ Offer Closing Date and the listing of the Equity Shares on the Stock Exchanges, Working Day shall mean all trading days of the Stock Exchanges, excluding Sundays and bank holidays in India, as per circulars issued by SEBI, including the UPI Circulars

Technical/Industry Related Terms/Abbreviations

Term	Description
AFS	Available for Sale
ALCO	Assets Liability Committee
AML	Anti-money laundering
ANBC	Adjusted net bank credit
ATM	Automated teller machine
Assets Under Management/ AUM	Assets under management, which is equal to gross advances plus off-balance sheet advances (i.e., securitisation/ assignment and inter-bank participation certificate)
Average Borrowings	Borrowings 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 quarter end for all quarters in the relevant fiscal year
Average CASA	CASA 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 quarter end for all quarters in the relevant fiscal year
Average Interest-Bearing Deposits	Interest-bearing deposits 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 quarter end for all quarters in the relevant fiscal year
Average Interest-Earning Advances	Interest-Earning Advances 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 quarter end for all quarters in the relevant fiscal year
Average Interest-Earning Advances of the Retail Banking Segment	Interest-earning advances of the Retail Banking segment 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 quarter end for all quarters in the relevant fiscal year
Average Interest-Earning Balance with Reserve Bank of India and other Inter-Bank Funds	Balances with banks in other deposits accounts and money at call and short notice 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 quarter end for all quarters in the relevant fiscal year
Average Interest-Earning Investments	Interest-earning investments 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 quarter end for all quarters in the relevant fiscal year
Average Interest-Earning Micro Loans	Gross micro loans net of provisions for NPAs for micro 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 quarter end for all quarters in the relevant fiscal year
Average Interest-Earning Other Loans	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 quarter end for all quarters in the relevant fiscal year
Average Investments in Government Securities	Investments in government securities 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 quarter end for all quarters in the relevant fiscal year
Average Savings Bank Deposits	Savings bank deposits 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 quarter end for all quarters in the relevant fiscal year

Term	Description
Average Term Deposits	Term deposits 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 quarter end for all quarters in the relevant fiscal year
Average Total Assets	Total assets 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 quarter end for all quarters in the relevant fiscal year
Average Total Deposits	Total deposits 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 quarter end for all quarters in the relevant fiscal year
Average Total Interest-Bearing Liabilities	Total interest-bearing liabilities 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 quarter end for all quarters in the relevant fiscal year
Average Total Interest-Earning Assets	Total interest-earning assets 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 quarter end for all quarters in the relevant fiscal year
BC	Business Correspondent
BCBS	Basel Committee on Banking Supervision
Branches	Our branches that make loans and accept deposits
BTI	BTI Payments Private Limited
CAR	Capital adequacy ratio
CASA	Demand deposits and savings bank deposits
CBS	Core banking solution
CFT	Combatting financing of terrorism
Cost of Average Borrowings	The ratio of interest expended on borrowings to Average Borrowings
Cost of Average CASA	The ratio of interest expended on CASA to Average CASA
Cost of Average Interest-Bearing Deposits	The ratio of interest expended on deposits to Average Interet-Earning Deposits
Cost of Average Savings Bank Deposits	The ratio of interest expended on savings deposits to Average Savings Bank Deposits
Cost of Average Term Deposits	The ratio of interest expended on term deposits to Average Term Deposits
Cost of Average Total Deposits	The ratio of interest expended on deposits to Average Total Deposits
Cost of funds	The ratio of interest expended to Average Total Interest-Bearing Liabilities
CRAR	Capital to risk (weighted) assets ratio
CRR	Cash reserve ratio
ESAF Society	Evangelical Social Action Forum
ESG	Environmental, Social and Governance
FBIL	Financials Benchmark India Private Limited
FFI	Foreign financial institution
FIMMDA	Fixed Income Money Market and Derivatives Association
FIS	FIS Payment Solutions and Services India Private Limited
GDP	Gross domestic product
GLP	Gross loan portfolio
HFT	Held for Trading
HNIs	High net worth individuals
HTM	Held to Maturity
IBA	Indian Banks Association
IBPC	Inter Bank Participation Certificates
ICAAP	Internal Capital Adequacy Assessment Process
IGA	Intergovernmental agreement
IMPS	Immediate Payment System
Interest Earning Advances	Advances net of provisions for NPAs
KMLA	Kerala Money Lenders Act, 1958
KYC	Know your Customer
MCLR	Marginal cost of funds based lending rate
MIS	Management Information System
MLI	Multilateral instrument
MR-ALCO	Market Risk and Asset Liability Management Committee
MSMEs	Micro, Small, and Medium Enterprises
NABARD	National Bank for Agriculture and Rural Development
NBFC-MFIs	Non-banking finance company-microfinance institutions
Net Interest Income	Interest earned minus interest expended
Net Interest Margin	Difference of interest earned and interest expended divided by the Average Total Interest Earning Assets
Net Profit Before Tax	Net profit plus provisions made towards income tax
Net Worth	The aggregate of Capital and Reserves and Surplus
NPAs	Non–performing asset
NRI	Non-resident Indian
Other Loans	Retail loans, MSME and corporate loans, and agricultural loans
Other Loans, excluding Gold Loans and Loans Against Deposit	Retail loans, MSME and corporate loans, and agricultural loans, excluding gold loans and loans against deposit
PAR	Portfolio at risk

Term	Description
PMLA	Prevention of Money Laundering Act, 2002
PMLR	Prevention of Money-laundering Rules
POS	Point of sale
PSL	Priority sector lending requirements
RWAs	Risk weighted assets
SHA	Shareholder agreement
SHG	Self-help group
SLR	Statutory liquidity ratio
SMS	Short message service
Ultra-Small Branches	Our erstwhile micro-loan branches from when our business was owned by our Corporate Promoter. They catered primarily to our microfinance loan customers. They offered limited banking services, such as client on boarding, loan sourcing, customer service and small value withdrawal services and do not take deposits
Yield on Average Interest-Earning Advances	The ratio of interest earned on advances to Average Interest-Earning Advances
Yield on Average Interest-Earning Investments	The ratio of interest earned on investments to Average Interest-Earning Investments
Yield on Average Interest-Earning Balances with Reserve Bank of India and other Inter-Bank Funds	The ratio of interest earned on Interest-Earning Balances with Reserve Bank of India and other Inter-Bank Funds to Average Interest-Earning Balances with Reserve Bank of India and other Inter-Bank Funds
Yield on Average Interest-Earning Micro Loans	The ratio of interest earned on micro loans to Average Interest-Earning Micro Loans
Yield on Average Interest-Earning Other Loans	The ratio of interest earned on Other Loans to Average Interest-Earning Other Loans
YTM	Yield to maturity

Conventional and General Terms or Abbreviations

Term	Description
₹/Rs./Rupees/INR	Indian Rupees
AIFs	Alternative Investments Funds
Basel Master Circular	Master Circular – Basel III Capital Regulations, RBI/2015-16/58, DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015
BSE	BSE Limited
CAGR	Compound annual growth rate (as a %): (End Year Value/Base Year Value)^ (1/No. of years between Base year and end year) – 1 (^ denotes 'raised to')
CSR	Corporate Social Responsibility
Calendar Year	A calendar year is a one-year period that begins on January 1 and ends on December 31, based on the commonly-used Gregorian calendar
Category I AIF	AIFs who are registered as "Category I Alternative Investment Funds" under the SEBI AIF Regulations
Category I FPIs	FPIs who are registered as "Category I Foreign Portfolio Investors" under the SEBI FPI Regulations
Category II AIF	AIFs who are registered as "Category II Alternative Investment Funds" under the SEBI AIF Regulations
Category II FPIs	FPIs who are registered as "Category II Foreign Portfolio Investors" under the SEBI FPI Regulations
Category III AIF	AIFs who are registered as "Category III Alternative Investment Funds" under the SEBI AIF Regulations
CCIL	Clearing Corporation of India Limited
CDSL	Central Depository Services (India) Limited
CERSAI	Central Registry of Securitization Asset Reconstruction and Security Interest of India
CFO	Chief Financial Officer
CIN	Corporate Identity Number
Civil Code	The Code of Civil Procedure, 1908
Companies Act or Companies Act, 2013	Companies Act, 2013, along with the relevant rules made thereunder
Companies Act, 1956	Companies Act, 1956, along with the relevant rules made thereunder
Depositories	NSDL and CDSL
Depositories Act	The Depositories Act, 1996
DIN	Director Identification Number
DPIIT	Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, Government of India (*earlier known as the Department of Industrial Policy and Promotion*)
DP ID	Depository Participant Identification
DP/ Depository Participant	Depository participant as defined under the Depositories Act
EBITDA	Earnings before interest (net), taxes, depreciation and amortisation
EGM	Extraordinary General Meeting
EPS	Earnings Per Share
FDI	Foreign direct investment
FDI Policy	Consolidated Foreign Direct Investment Policy notified by the DPIIT through notification dated August 28, 2017 effective from August 28, 2017
FEMA	Foreign Exchange Management Act, 1999, read with rules and regulations there under

Term	Description
FEMA Non-debt Instruments Rules	Foreign Exchange Management (Non-debt Instruments) Rules, 2019
FEMA Regulations	The Foreign Exchange Management (Non Debt Instruments) Rules, 2019, the Foreign Exchange Management (Mode of Payment and Reporting of Non Debt Instruments) Regulations, 2019 and the Foreign Exchange Management (Debt Instruments) Regulations, 2019, as applicable
FIMMDA	Fixed Income Money Market & Derivates Association of India
Financial Year/ Fiscal/ FY	Unless stated otherwise, the period of 12 months ending March 31 of that particular year.
FIR	First information report
FPI(s)	Foreign portfolio investors as defined under the SEBI FPI Regulations
FVCI(s)	Foreign venture capital investors as defined and registered under the SEBI FVCI Regulations
GAAR	General Anti-Avoidance Rules
Gazette	Gazette of India
GoI or Government or Central Government	Government of India
GST	Goods and Services Tax
HUF	Hindu Undivided Family
IFRS	International Financial Reporting Standards
IFSC	Indian Financial System Code
Ind AS/ Indian Accounting Standards	Indian Accounting Standards notified under Section 133 of the Companies Act, 2013 read with the Companies (Indian Accounting Standards) Rules, 2015, as amended
India	Republic of India
Indian GAAP/ IGAAP	Accounting principles generally accepted in India including Accounting Standards prescribed under Section 133 of the Companies Act, 2013, read with the Companies (Accounts) Rules, 2014 to the extent applicable and other relevant provisions of the Companies Act, 2013 ("Act") and current practices prevailing within the Banking industry in India and the requirements prescribed under the Banking Regulation Act, 1949, the circulars and guidelines issued by RBI from time to time
IPC	The Indian Penal Code, 1860
IPO	Initial public offering
IRDAI	Insurance Regulatory and Development Authority of India
IST	Indian Standard Time
IT	Information Technology
IT Act	The Income Tax Act, 1961
KYC	Know your customer
Listing Regulations	Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015
MCA	Ministry of Corporate Affairs
MICR	Magnetic Ink Character Recognition
Mutual Fund (s)	Mutual Fund(s) means mutual funds registered under the SEBI (Mutual Funds) Regulations, 1996
N/A	Not applicable
NACH	National Automated Clearing House
NAV	Net Asset Value
NEFT	National Electronic Funds Transfer
NPCI	National Payments Corporation of India
NRI	Person resident outside India, who is a citizen of India or a person of Indian origin, and shall have the meaning ascribed to such term in the Foreign Exchange Management (Deposit) Regulations, 2016 or an overseas citizen of India cardholder within the meaning of section 7(A) of the Citizenship Act, 1955
NRE Account	Non-resident external rupee account
NRO Account	Non-resident ordinary account
NSDL	National Securities Depository Limited
NSE	National Stock Exchange of India Limited
OCB/Overseas Corporate Body	A company, partnership, society or other corporate body owned directly or indirectly to the extent of at least 60% by NRIs including overseas trusts, in which not less than 60% of beneficial interest is irrevocably held by NRIs directly or indirectly and which was in existence on the date of commencement of the Foreign Exchange Management (Withdrawal of General Permission to Overseas Corporate Bodies (OCBs) Regulations, 2003 i.e October 3, 2003 and immediately before such date had taken benefits under the general permission granted to OCBs under FEMA. OCBs are not allowed to invest in the Offer
p.a.	Per annum
P/E	Price/earnings
P/E Ratio	Price/earnings ratio
PAN	Permanent account number
PAT	Profit after tax
PFRDA	Pension Fund Regulatory and Development Authority
RBI	The Reserve Bank of India
RBI Act	The Reserve Bank of India Act, 1934
Regulation S	Regulation S under the U.S. Securities Act
RTGS	Real Time Gross Settlement
Rule 144A	Rule 144A under the U.S. Securities Act
SCRA	Securities Contracts (Regulation) Act, 1956
SCRR	Securities Contracts (Regulation) Rules, 1957

Term	Description
SEBI	Securities and Exchange Board of India constituted under the SEBI Act
SEBI Act	Securities and Exchange Board of India Act, 1992
SEBI AIF Regulations	Securities and Exchange Board of India (Alternative Investments Funds) Regulations, 2012
SEBI FPI Regulations	Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019
SEBI FVCI Regulations	Securities and Exchange Board of India (Foreign Venture Capital Investors) Regulations, 2000
SEBI ICDR Regulations	Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended
SEBI Merchant Bankers Regulations	SEBI (Merchant Bankers) Regulations, 1992
SEBI SBEB Regulations	Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014
SEBI VCF Regulations	Securities and Exchange Board of India (Venture Capital Fund) Regulations, 1996 as repealed pursuant to the SEBI AIF Regulations
SFB	Small Finance Bank within the meaning of the SFB Licensing Guidelines
State Government	The government of a state in India
Stock Exchanges	BSE and NSE
STT	Securities transaction tax
Takeover Regulations	Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011
U.S. GAAP	Generally Accepted Accounting Principles in the United States
U.S. Holder	A beneficial owner of Equity Shares that is for United States federal income tax purposes: (a) an individual who is a citizen or resident of the United States; (b) a corporation organised under the laws of the United States, any state thereof or the District of Columbia; (c) an estate whose income is subject to United States federal income taxation regardless of its source; or (d) a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions of the trust, or (2) has a valid election in effect under the applicable U.S. Treasury regulations to be treated as a U.S. person
U.S. Securities Act	U.S. Securities Act of 1933, as amended
U.S./USA/United States	United States of America
USD/US$	United States Dollars
VCFs	Venture Capital Funds as defined in and registered with SEBI under the SEBI VCF Regulations
Wilful Defaulter	An entity or person categorised as a wilful defaulter by any bank or financial institution or consortium thereof, in terms of regulation 2(1)(lll) of the SEBI ICDR Regulations

OFFER DOCUMENT SUMMARY

The following is a general summary of the terms of the Offer and is neither exhaustive, nor purports to contain a summary of all the disclosures in this Draft Red Herring Prospectus, Red Herring Prospectus or Prospectus, or all details relevant to prospective investors. This summary should be read in conjunction with, and is qualified in its entirety by, the more detailed information appearing elsewhere in this Draft Red Herring Prospectus, including "Risk Factors", "Objects of the Offer", "Our Business", "Industry Overview", "Capital Structure", "The Offer", "Financial Statements", "Outstanding Litigation and Material Developments", "Offer Procedure" and "Description of Equity Shares and Terms of Articles of Association" on pages 24, 81, 143, 92, 69, 56, 240, 328, 364 and 381, respectively.

<table>
<tr><td>Summary of the primary business of the Bank</td><td>We are one of the leading small finance banks in India in terms of client base size, yield on advances, Net Interest Margin, assets under management CAGR, total deposit CAGR, loan portfolio concentration in rural and semi-urban areas and ratio of micro loan advances to gross advances. (Source: CRISIL Research Report). Along with our Promoters, we have a history of more than 25 years of primarily serving the unserved and underserved, with a focus on financial inclusion. As at May 31, 2021, we had over 4.68 million customers in 21 states and two union territories.</td></tr>
<tr><td>Summary of the industry</td><td>On November 27, 2014, the RBI released guidelines for a new class of banking entity called "Small Finance Banks" that will cater to the diverse needs of low income groups. The objective of SFBs is to extend banking services to the underserved and unserved population of India through savings instruments, and supplying credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sector/lending through informal channels. SFBs take deposits, which provide them with a lower cost of funds compared with NBFCs. The RBI has awarded SFB licenses to 11 players. (Source: CRISIL Research Report).</td></tr>
<tr><td>Name of Promoters</td><td>Kadambelil Paul Thomas and ESAF Financial Holdings Private Limited</td></tr>
<tr><td>Offer size</td><td>Offer of up to [●] Equity Shares for cash at price of ₹[●] per Equity Share (including a premium of ₹[●] per Equity Share) aggregating up to ₹9,977.80 million comprising a Fresh Issue of up to [●] Equity Shares aggregating up to ₹8,000.00 million by our Bank and an Offer for Sale of up to [●] Equity Shares aggregating up to ₹1,977.80 million, comprising up to [●] Equity Shares aggregating up to ₹1,500.00 million by the Promoter Selling Shareholder, up to [●] Equity Shares aggregating up to ₹213.30 million by PNB MetLife, up to [●] Equity Shares aggregating up to ₹174.60 million by Bajaj Allianz Life, up to [●] Equity Shares aggregating up to ₹87.30 million by PI Ventures and up to [●] Equity Shares aggregating up to ₹2.60 million by John Chakola in the Offer Details of Offered Shares offered in the Offer for Sale are as follows:
<table>
<tr><th>Sr. No.</th><th>Name of the Selling Shareholder</th><th>No. of Offered Shares</th><th>Date of consent letter</th><th>Date of corporate action/board resolution/power of attorney</th></tr>
<tr><td colspan="5">Promoter Selling Shareholder</td></tr>
<tr><td>1.</td><td>ESAF Financial Holdings Private Limited</td><td>[●] Equity Shares aggregating up to ₹1,500.00 million</td><td>July 24, 2021</td><td>June 26, 2021</td></tr>
<tr><td colspan="5">Other Selling Shareholders</td></tr>
<tr><td>2.</td><td>PNB MetLife</td><td>[●] Equity Shares aggregating up to ₹213.30 million</td><td>July 24, 2021</td><td>November 9, 2020</td></tr>
<tr><td>3.</td><td>Bajaj Allianz Life</td><td>[●] Equity Shares aggregating up to ₹174.60 million</td><td>July 22, 2021</td><td>December 6, 2011</td></tr>
<tr><td>4.</td><td>PI Ventures</td><td>[●] Equity Shares aggregating up to ₹87.30 million</td><td>July 22, 2021</td><td>June 25, 2021 and July 20, 2021</td></tr>
<tr><td>5.</td><td>John Chakola</td><td>[●] Equity Shares aggregating up to ₹2.60 million</td><td>June 28, 2021</td><td>NA</td></tr>
</table>
Each Selling Shareholder severally and not jointly confirms that the Offered Shares have been held by such Selling Shareholder for a period of at least one year prior to filing of this Draft Red Herring Prospectus in accordance with Regulation 8 of the SEBI ICDR Regulations and accordingly, are eligible for the Offer in accordance with the provisions of the SEBI ICDR Regulations.
The Offer includes a reservation of up to [●] Equity Shares, aggregating up to ₹[●] million, for subscription by Eligible Employees. Our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, may offer a discount of up to [●]% (equivalent of ₹ [●] per Equity Share) to the Offer Price to Eligible Employees and which shall be announced at least two Working Days prior to the Bid/ Offer Opening Date.
The Offer less the Employee Reservation Portion is the Net Offer. The Offer and Net Offer shall constitute [●] % and [●] % of the post-Offer paid-up equity share capital of our Bank. </td></tr>
<tr><td>Objects of the Offer</td><td>The objects for which the Net Proceeds shall be utilised are as follows:
(₹ in million)</td></tr>
</table>

Particulars	Amount to be funded from the Net Proceeds[(2)]
For augmentation of our Bank's Tier – 1 capital base[(1)]	[●]

(1) *To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC*

(2) *Includes the proceeds, if any, received pursuant to the Pre-IPO Placement. Upon allotment of Equity Shares issued pursuant to the Pre-IPO Placement, we may utilise the proceeds from such Pre-IPO Placement towards the Objects of the Offer prior to completion of the Offer*

Aggregate pre-Offer shareholding of our Promoters and Promoter Group, and Selling Shareholders as a percentage of our paid-up Equity Share capital

The aggregate pre-Offer shareholding of our Promoters and Promoter Group as a percentage of the pre-Offer paid-up Equity Share capital of the Bank is set out below:

Name	No. of Equity Shares	Percentage of the pre-Offer Equity Share Capital (%)
Promoters		
Corporate Promoter	280,758,396*	62.46
Kadambelil Paul Thomas	31,186,785	6.94
Total (A)	**311,945,181**	**69.40**
Promoter Group		
ESMACO	22,413,659	4.99
Beena George	40,000	Negligible
Bosco Joseph	40,000	Negligible
Mereena Paul	33,333	Negligible
Leo Joseph	33,333	Negligible
Savio Joseph	13,333	Negligible
Alok Thomas Paul	13,333	Negligible
Emy Acha Paul	13,333	Negligible
Total (B)	**22,600,324**	**5.03**
Total (A+B)	**334,545,505**	**74.43**

* *280,758,391 Equity Shares are held by our Corporate Promoter and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares. Mereena Paul, Alok Thomas Paul, Emy Acha Paul and Beena George are also members of the Promoter Group of our Bank. Further, Mereena Paul is also a director of our Corporate Promoter.*

The aggregate pre-Offer shareholding of our Selling Shareholders as a percentage of the pre-Offer paid-up Equity Share capital of the Bank is set out below:

Selling Shareholders	Number of Equity Shares held	Percentage of the pre-Offer Equity Share Capital (%)
Promoter Selling Shareholder	280,758,396*	62.46
PNB MetLife	21,346,993	4.75
Bajaj Allianz Life	17,469,428	3.89
PI Ventures	8,734,714	1.94
John Chakola	249,563	0.06
Total	**328,559,094**	**73.10**

* *280,758,391 Equity Shares are held by the Promoter Selling Shareholder and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of the Promoter Selling Shareholder, who is the beneficial owner of such Equity Shares*

Summary of Selected Financial Information

The following details of our capital, net worth, the net asset value per Equity Share and total borrowings as at March 31, 2021, 2020 and 2019 are derived from the Restated Financial Information:

(₹ in million, except per share data)

Particulars	As at March 31,		
	2021	2020	2019
Capital	4,494.74	4,277.96	4,277.96
Net worth	13,520.64	10,840.81	8,936.91
Net asset value per Equity Share	30.08	25.34	20.89
Total borrowings	16,940.00	12,033.17	17,023.60

The following details of our total income, net profit and earnings per Equity Share (basic and diluted) for the Fiscals 2021, 2020 and 2019 are as per the Restated Financial Information:

(₹ in million, except per share data)

Particulars	March 31, 2021	March 31, 2020	March 31, 2019
Total income	17,672.77	15,464.35	11,407.89
Net profit	1,053.96	1,903.90	902.84
Earnings per Equity Share			
- Basic	2.46	4.45	2.37

	- Diluted	2.46	4.45	2.37

Auditor qualifications which have not been given effect to in the Restated Financial Information	Nil
Summary table of outstanding litigations	A summary of outstanding litigation proceedings involving our Bank, Promoters, Directors and Group Entities (having a material impact on our Bank) as of the date of this Draft Red Herring Prospectus is provided below:

Litigation against our Bank

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	2	11.49
Outstanding actions by regulatory and statutory authorities	1	Not quantifiable

Litigation by our Bank

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	113	9.77*
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil

**Includes two cases amounting to ₹0.24 million where the police complaint has not been acknowledged.*

Litigation against our Corporate Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	6	130.00
Outstanding actions by regulatory and statutory authorities	2	2.21
Disciplinary actions in the last five Fiscals	Nil	Nil

Litigation by our Corporate Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil

Litigation against our Individual Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	1	Not quantifiable
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil
Outstanding actions by regulatory and statutory authorities	Nil	Nil
Disciplinary actions in the last five Fiscals	Nil	Nil

(1) Excludes directions issued by the RBI to our Bank in respect of the office of Kadambelil Paul Thomas.

Litigation by our Individual Promoter

	Type of proceeding	**Number of cases**	**Amount, to the extent quantifiable (₹ in million)**
	Criminal cases	Nil	Nil
	Material civil cases	Nil	Nil
	Taxation matters	Nil	Nil

Litigation against our Directors excluding our Individual Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil
Outstanding actions by regulatory and statutory authorities	Nil	Nil

Litigation by our Directors

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil

Material litigation involving our Group Entities

As of the date of this Draft Red Herring Prospectus, there are no outstanding litigation involving our Group Entities which has a material impact on our Bank.

For further details, see "*Outstanding Litigation and Material Developments*" on page 328

Risk Factors

For details of the risks applicable to us, see "*Risk Factors*" on page 24

Summary table of contingent liabilities

The following is a summary table of our contingent liabilities as at March 31, 2021, as per AS 29 – Provisions, Contingent Liabilities and Contingent Assets:

(₹ in million)

Contingent Liabilities	As at March 31, 2021
Guarantees given on behalf of constituents - in India	13.04
Other items for which the Bank is contingently liable	2.00
Total	15.04

For details of the contingent liabilities of our Bank as per AS 29 – Provisions, Contingent Liabilities and Contingent Assets, see "*Restated Financial Information – Note 19(14)*" on page 261.

Summary of related party transactions

The details of related party transactions of our Bank for the fiscal years March 31, 2021, 2020 and 2019 as per AS 18 – Related Party Disclosures read with SEBI ICDR Regulations, are set forth in the table below:

(₹ in million)

Nature of Transaction	Related Party	Year ended March 31, 2021	Year ended March 31, 2020	Year ended March 31, 2019
Liabilities				
Term Deposit placed	Cedar Retail	80.00	85.50	439.14
	ESCO	90.00	452.00	-
	ESAF Society	-	5.00	6.00
	LLMS	22.00	26.00	-
	Kadambelil Paul Thomas	4.00	2.50	-
	Emy Acha Paul	-	0.70	-
	Beena George	0.10	0.32	-
Term Deposit Matured	EFHL	-	-	1,333.70
	ESCO	-	416.00	500.00
	Cedar Retail	117.50	71.00	416.14
	Beena George	0.20	*	-

	LLMS	5.00	1.00	-
Transactions in Demand Deposit [Net]	ESCO	1.05	(6.45)	(368.05)
	Cedar Retail	(10.14)	(31.95)	23.51
	EFHL	(12.60)	12.93	(24.65)
	LLMS	22.65	(20.43)	22.50
	ESAF Society	(0.86)	1.23	0.03
	Lahanti Homes	1.91	-	-
	Prachodhan	0.40	-	-
Transactions in Savings Deposit (Net)	Kadambelil Paul Thomas	(3.67)	*	3.25
	Mereena Paul	(1.70)	1.66	0.60
	ESCO	(130.30)	(603.69)	1,027.62
	Emy Acha Paul	0.13	*	*
	Alok Paul Thomas	*	*	0.02
	Abhishek Joe Paul	*	-	-
	Ashish Chris Paul	*	-	-
	ESAF Society	8.52	5.43	17.37
	Beena George	0.25	0.12	-
	ESAF Producer Company	0.22	-	-
	Prachodhan	9.78	-	-
Interest accrued and due on Deposits (Gross of TDS)	ESCO	27.53	46.00	37.77
	EFHL	52.13	52.34	150.03
	Cedar Retail	0.51	2.55	1.95
	ESAF Society	3.19	3.05	0.81
	Kadambelil Paul Thomas	0.69	0.39	0.08
	LLMS	2.41	0.68	-
	Mereena Paul	0.09	0.08	-
	Emy Acha Paul	0.06	*	-
	Alok Paul Thomas	*	*	-
	Beena George	0.05	*	-
	Prachodhan	0.62	-	-
	Abhishek Joe Paul	*	-	-
	Ashish Chris Paul	*	-	-
Subordinate Debt	ESCO	-	-	400.00
Interest Accrued & Payable on PDI	ESCO	62.40	62.40	87.69
Interest Accrued & Payable on Subordinate Debt	ESCO	95.45	95.76	62.40
Issue of Equity Shares	ESCO	-	-	213.47
	Mereena Paul	0.33	-	-
	Emy Acha Paul	0.13	-	-
	Alok Paul Thomas	0.13	-	-
	Beena George	0.40	-	-
Share Premium	ESCO	-	-	641.90
	Mereena Paul	2.17		
	Emy Acha Paul	0.87		
	Alok Paul Thomas	0.87		
	Beena George	2.60		
Collections as per Agency agreement	Cedar Retail	-	0.10	0.43
Payment of Collections as per Agency agreement	Cedar Retail	-	5.00	3.34
Contingent Liability				
Bank Guarantee Given	ESAF Society	-	5.00	5.90
Assets				
Advance	EFHL	11.04	44.41	35.00
	Cedar Retail	-	16.80	30.00
	Beena George	1.41	7.50	-
Advances – Repaid	Cedar Retail	10.25	6.80	30.00
	Beena George	6.24	0.50	-
Vehicle Purchased	EFHL	-	-	3.54
Rent Deposit Repaid	Kadambelil Paul Thomas	0.72	-	-
	EFHL	-	-	0.23
Expenses				

Rent paid	Lahanti Homes	20.98	20.98	18.24
	EFHL	-	-	0.41
	Kadambelil Paul Thomas	-	1.46	1.44
	ESAF Society	0.21	0.20	0.19
Interest paid on deposits	ESCO	27.53	46.00	37.77
	EFHL	52.13	52.34	150.03
	LLMS	2.41	0.68	-
	Cedar Retail	0.51	2.55	1.95
	Kadambelil Paul Thomas	0.69	0.39	0.08
	Mereena Paul	0.09	0.08	*
	Emy Acha Paul	0.06	*	*
	ESAF Society	3.19	3.05	0.81
	Alok Paul Thomas	*	*	*
	Abhishek Joe Paul	*		
	Ashish Chris Paul	*		
	Beena George	0.05	*	-
	Prachodhan	0.62	-	-
Interest paid on PDI	ESCO	62.40	62.40	62.40
Interest paid on Sub Debt	ESCO	95.45	95.76	70.24
Office stationery	Cedar Retail	-	0.18	0.44
Gifts & Conference kit	ESAF Producer Company	-	*	0.26
Business Correspondent expenses (Refer Note A. 7(h) of Note 19)	ESCO	1,950.31	2,415.45	2,349.43
	LLMS	184.75	204.77	-
Corporate Facility Management service charges	ESCO	124.64	97.68	69.22
Remuneration and Sitting Fees	Kadambelil Paul Thomas	14.05	13.20	12.89
Reimbursement of expenses	Kadambelil Paul Thomas	1.23	-	-
Corporate Social Responsibility Expenses	ESAF Society	32.55	22.70	11.50
	Prachodhan	39.00	6.20	-
Project cost for rebuilding of houses in relation to flood relief	ESAF Society	-	-	4.95
Royalty Expense	ESAF Society	26.85	-	-
Income				
Interest on Advances	Cedar Retail	*	0.10	0.09
	Beena George	0.64	0.20	-
	EFHL	14.38	7.30	-

Figures in brackets indicate net outflow
**Amounts are below the rounding off limits adopted by the bank*

For details of the related party transactions, see "*Other Financial Information – Related Party Transactions*" on page 296.

Details of all financing arrangements whereby the Promoters, members of the Promoter Group, the directors of our Corporate Promoter, our Directors and their relatives have financed the purchase by any other person of securities of the Bank other than in the normal course of the business of the financing entity during the period of six months immediately preceding the date of this Draft Red Herring Prospectus	Our Promoters, members of our Promoter Group, the directors of our Corporate Promoter, our Directors and their relatives have not financed the purchase by any person of securities of our Bank other than in the normal course of the business of the financing entity during the period of six months immediately preceding the date of the Draft Red Herring Prospectus.

Weighted average price at which the Equity Shares were acquired by our Promoters or Selling Shareholders, in the last one year	Our Promoters and Selling Shareholders have not acquired any Equity Shares in the last one year.
Average cost of acquisition of Equity Shares of our Promoters and the Selling Shareholders	The average cost of acquisition of Equity Shares of our Promoters is as follows: (see table below)

The average cost of acquisition of Equity Shares of our Promoters is as follows:

Name of the Promoter	Number of Equity Shares	Average cost of acquisition per Equity Share# (in ₹)
Corporate Promoter	280,758,396*	10.11
Kadambelil Paul Thomas	31,186,785	10.16

* *280,758,391 Equity Shares are held by our Corporate Promoter and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares.*

\# *As certified by A. John Moris & Co., Chartered Accountants pursuant to their certificate dated July 24, 2021*

The average cost of acquisition of Equity Shares of the Other Selling Shareholders is as follows:

Name of the Other Selling Shareholder	Number of Equity Shares	Average cost of acquisition per Equity Share* (in ₹)
PNB MetLife	21,346,993	40.07
Bajaj Allianz Life	17,469,428	40.07
PI Ventures	8,734,714	40.07
John Chakola	249,563	40.07

**As certified by A. John Moris & Co., Chartered Accountants pursuant to their certificate dated July 24, 2021*

Size of the pre-IPO placement and allottees, upon completion of the placement	A Pre-IPO Placement of Equity Shares by our Bank in consultation with the BRLMs, for an aggregate amount up to ₹3,000 million. The Pre-IPO Placement, if undertaken, will be at a price to be decided by our Bank, in consultation with the BRLMs and the Pre-IPO Placement will be completed prior to filing of the Red Herring Prospectus with the RoC. If the Pre-IPO Placement is undertaken, the amount raised from Pre-IPO Placement will be reduced from the Fresh Issue, subject to the minimum Offer Size constituting at least 10% of the post-Offer paid-up Equity Share capital of our Bank.
Any issuance of Equity Shares in the last one year for consideration other than cash	Our Bank has not issued any Equity Shares in the last one year from the date of this Draft Red Herring Prospectus, for consideration other than cash.
Any split/consolidation of Equity Shares in the last one year	Our Bank has not split or consolidated the face value of the Equity Shares in the last one year.

CERTAIN CONVENTIONS, PRESENTATION OF FINANCIAL, INDUSTRY AND MARKET DATA AND CURRENCY OF PRESENTATION

Certain Conventions

All references in this Draft Red Herring Prospectus to "India" are to the Republic of India. All references to the "Government", "Indian Government", "GOI", "Central Government" or the "State Government" are to the Government of India, central or state, as applicable.

All references to the "US", "U.S." "USA" or "United States" are to the United States of America and its territories and possession.

Unless stated otherwise, all references to page numbers in this Draft Red Herring Prospectus are to the page numbers of this Draft Red Herring Prospectus.

Financial Data

Unless stated otherwise or the context otherwise requires, the financial data in this Draft Red Herring Prospectus is derived from the restated statement of assets and liabilities as at March 31, 2021, March 31, 2020 and March 31, 2019, the restated profit and loss account and restated statement of cash flows for each of the years ended March 31, 2021, March 31, 2020 and March 31, 2019 and the summary statement of significant accounting policies, and other explanatory notes prepared by the Bank in terms of the requirements of Section 26 of Part I of Chapter III of the Companies Act, 2013, as amended, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended and the Guidance Note on Reports on Company Prospectuses (Revised 2019) issued by the Institute of Chartered Accountants of India, as amended from time to time. For further information on the Bank's financial information, see "*Financial Statements*" on page 240. Certain other financial information in relation to our Corporate Promoter and Group Entities are derived from their respective audited financial statements.

Our Bank's Financial Year commences on April 1 and ends on March 31 of the next year. Accordingly, all references to a particular Financial Year, unless stated otherwise, are to the 12-month period ended on March 31 of that year.

There are significant differences between Indian GAAP, Ind AS, U.S. GAAP and IFRS. The Restated Financial Information included in this DRHP have been compiled by the management from the audited financial statements as at and for the year ended March 31, 2021, 2020 and 2019, prepared by the Bank in accordance with the provisions of Section 29 of the Banking Regulation Act 1949, accounting principles generally accepted in India including accounting standards prescribed under Section 133 of the Companies Act, 2013, read with the Companies (Accounts) Rules, 2014 to the extent applicable and other relevant provisions of the Companies Act, 2013 ("Act") and current practices prevailing within the Banking industry in India and the requirements prescribed under the Banking Regulation Act, 1949, the circulars and guidelines issued by RBI from time to time. Our Bank has not attempted to explain those differences or quantify their impact on the financial data included in this Draft Red Herring Prospectus and it is urged that you consult your own advisors regarding such differences and their impact on our Bank's financial data. For risks in this regard, see "*Risk Factors – Banking companies in India, including us, may be required to report financial statements as per Ind AS in the future. Differences exist between Ind AS and Indian GAAP. In the future, if we are required to prepare our financial statements in accordance with Ind AS, there is a possibility that our financial condition, results of operations and cash flows could be worse than if we prepared our financial statements in accordance with Indian GAAP*" and "*Risk Factor – Significant differences exist between Indian GAAP and other accounting principles, such as U.S. GAAP and IFRS, which investors outside India may be more familiar with and may consider material to their assessment of our financial condition, results of operations and cash flows*" on pages 41 and 48. Accordingly, the degree to which the financial information included in this Draft Red Herring Prospectus will provide meaningful information is entirely dependent on the reader's level of familiarity with Indian accounting policies and practices, the Companies Act and the SEBI ICDR Regulations. Any reliance by persons not familiar with Indian accounting policies and practices on the financial disclosures presented in this Draft Red Herring Prospectus should accordingly be limited. Our Bank does not provide reconciliation of its financial information to IFRS or U.S. GAAP. Unless the context otherwise indicates, any percentage or amounts, with respect to financial information of our Bank in this Draft Red Herring Prospectus have been derived from the Restated Financial Information.

In this Draft Red Herring Prospectus, any discrepancies in any table between the total and the sums of the amounts listed are due to rounding off. All figures in decimals have been rounded off to the second decimal and all the percentage figures have been rounded off to two decimal places.

Non-GAAP Financial Measures

Certain non-GAAP financial measures and certain other statistical and operational information relating to our operations and financial performance have been included in this section and elsewhere in this Draft Red Herring Prospectus. We compute and disclose such non-GAAP financial measures and such other statistical information relating to our operations and financial performance as we consider such information to be useful measures of our business and financial performance, and because such measures are frequently used by securities analysts, investors and others to evaluate the operational performance of financial services businesses, many of which provide such non-GAAP financial measures and other statistical and operational information when reporting their financial results. Such non-GAAP measures and other statistical and operational information are not measures of operating performance or liquidity defined by generally accepted accounting principles. These non-GAAP financial measures and other statistical and other information relating to our operations and financial performance may not be computed on the basis of any standard methodology that is applicable across the industry and therefore may not be comparable to financial measures and statistical information of similar nomenclature that may be computed and presented by other banks in India or elsewhere. These non-GAAP financial measures and other statistical and operational information have been reconciled to their nearest GAAP measure in "*Our Business*", "*Selected Statistical Information*", "*Other Financial Information*" and "*Capitalisation Statement*" on pages 143, 221, 295 and 325 respectively.

Currency and Units of Presentation

All references to:

- "Rupees" or "₹" or "INR" or "Rs." are to Indian Rupee, the official currency of the Republic of India; and

- "USD" or "US$" or "$" are to United States Dollar, the official currency of the United States of America.

Our Bank has presented certain numerical information in this Draft Red Herring Prospectus in "lakh", "million" and "crores" units or in whole numbers where the numbers have been too small to represent in such units. One million represents 1,000,000, one billion represents 1,000,000,000 and one trillion represents 1,000,000,000,000. One lakh represents 100,000 and one crore represents 10,000,000.

Figures sourced from third-party industry sources may be expressed in denominations other than millions or may be rounded off to other than two decimal points in the respective sources, and such figures have been expressed in this Draft Red Herring Prospectus in such denominations or rounded-off to such number of decimal points as provided in such respective sources.

Exchange Rates

This Draft Red Herring Prospectus contains conversion of certain other currency amounts into Indian Rupees that have been presented solely to comply with the SEBI ICDR Regulations. These conversions should not be construed as a representation that these currency amounts could have been, or can be converted into Indian Rupees, at any particular rate or at all.

The following table sets forth, for the periods indicated, information with respect to the exchange rate between the Rupee and USD (in Rupees per USD):

Currency	**As at***		
	March 31, 2021	**March 31, 2020**	**March 31, 2019**
1 USD	73.50	75.39	69.17

Source: RBI reference rate and www.fbil.org.in
Note: Exchange rate is rounded off to two decimal places
** In case March 31 of any of the respective years is a public holiday, the previous working day, not being a public holiday, has been considered.*

Industry and Market Data

Unless otherwise indicated, industry and market data used throughout this Draft Red Herring Prospectus has been obtained or derived from various industry publications and sources, including the report titled "*Small Finance Banks in India*" dated July 2021, issued by CRISIL Limited which has been commissioned and paid for by our Bank, and which is subject to the following disclaimer:

"CRISIL Research, a division of CRISIL Limited (CRISIL) has taken due care and caution in preparing this report (Report) based on the Information obtained by CRISIL from sources which it considers reliable (Data). However, CRISIL does not guarantee the accuracy, adequacy or completeness of the Data / Report and is not responsible for any errors or omissions or for the results obtained from the use of Data / Report. This Report is not a recommendation to invest / disinvest in any entity covered in the Report and no part of this Report should be construed as an expert advice or investment advice or any form of investment banking within the meaning of any law or regulation. CRISIL especially states that it has no liability whatsoever to the subscribers / users / transmitters/distributors of this Report. Without limiting the generality of the foregoing, nothing in the Report is to be construed as CRISIL providing or intending to provide any services in jurisdictions where CRISIL does not have the necessary permission and/or registration to carry out its business activities in this regard. ESAF Small Finance Bank Limited will be responsible for ensuring compliances and consequences of non-compliances for use of the Report or part thereof outside India. CRISIL Research operates independently of and does not have access to information obtained by CRISIL Ratings Limited / CRISIL Risk and Infrastructure Solutions Ltd (CRIS), which may, in their regular operations, obtain information of a confidential nature. The views expressed in this Report are that of CRISIL Research and not of CRISIL Ratings Limited / CRIS. No part of this Report may be published/reproduced in any form without CRISIL's prior written approval."

For risks in this regard, see "*Risk Factors – Statistical and industry data in this Draft Red Herring Prospectus is derived from the CRISIL Research Report commissioned and paid for by us for such purpose. The CRISIL Research Report is not exhaustive and is based on certain assumptions and parameters/conditions. The data and statistics in the CRISIL Research Report may be inaccurate, incomplete or unreliable*" on page 54.

The extent to which the market and industry data used in this Draft Red Herring Prospectus is meaningful depends on the reader's familiarity with and understanding of the methodologies used in compiling such data. There are no standard data gathering methodologies in the industry in which the business of our Bank is conducted, and methodologies and assumptions may vary widely among different industry sources. Industry publications generally state that the information contained in such publications has been obtained from publicly available documents from various sources believed to be reliable but their accuracy and completeness are not guaranteed and their reliability cannot be assured. Although we believe the industry and market data used in this Draft Red Herring Prospectus is reliable, such data has not been independently verified by us, the respective Selling Shareholders, the BRLMs or any of their affiliates or advisors. The data used in these sources may have been reclassified by us for the purposes of presentation. Data from these sources may also not be comparable.

Accordingly, no investment decision should be made solely on the basis of such information. Such data involves risks, uncertainties and numerous assumptions and is subject to change based on various factors, including those disclosed in "*Risk Factors*" on page 24.

In accordance with the SEBI ICDR Regulations, "*Basis for the Offer Price*" on page 84 includes information relating to our peer group companies. Such information has been derived from publicly available sources, and neither we, the Selling Shareholders, nor the BRLMs or any of their affiliates have independently verified such information. Accordingly, no investment decision should be made solely on the basis of such information.

FORWARD-LOOKING STATEMENTS

This Draft Red Herring Prospectus contains certain "forward-looking statements". All statements contained in this Draft Red Herring Prospectus that are not statements of historical fact constitute "forward-looking statements". All statements regarding our expected financial condition and results of operations, business, plans and prospects are "forward-looking statements". These forward-looking statements generally can be identified by words or phrases such as "aim", "anticipate", "believe", "expect", "estimate", "intend", "likely to", "seek to", "shall", "objective", "plan", "project", "will", "will continue", "will pursue" or other words or phrases of similar import. Similarly, statements that describe our strategies, objectives, plans or goals are also forward-looking statements. All forward-looking statements whether made by us or any third parties in this Draft Red Herring Prospectus are based on our current plans, estimates, presumptions and expectations and are subject to risks, uncertainties and assumptions about us that could cause actual results to differ materially from those contemplated by the relevant forward-looking statement, including but not limited to, regulatory changes pertaining to the banking industry and our ability to respond to them, our ability to successfully implement our strategy, our growth and expansion, technological changes, our exposure to market risks, general economic and political conditions which have an impact on our business activities or investments, the monetary and fiscal policies of India, inflation, deflation, unanticipated turbulence in interest rates, foreign exchange rates, equity prices or other rates or prices, the performance of the financial markets in India and globally, changes in domestic laws, regulations and taxes and changes in competition in the banking/ microfinance industry. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, the following:

- Uncertainty in relation to the continuing effects of the COVID-19 pandemic on our business;
- Any adverse developments in the microfinance sector;
- Our ability to recover unsecured advances in a timely manner or at all;
- Increase in operating expenses without a corresponding increase in income;
- Our dependency on ESMACO which is our business correspondent and agreement with other business correspondents which are on a non-exclusive basis;
- Our ability to comply with stringent regulatory requirements and prudential norms which we are subject to; and
- Our ability to control the level of NPAs in our portfolio

Certain information in "*Industry Overview*", "*Our Business*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations* on pages 92, 143 and 297, respectively of this Draft Red Herring Prospectus has been obtained from the report titled "*Small Finance Banks in India*" dated July 2021, issued by CRISIL Limited.

For further discussion of factors that could cause the actual results to differ from the expectations, see "*Risk Factors*", "*Our Business*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" on pages 24, 143 and 297, respectively. By their nature, certain market risk disclosures are only estimates and could be materially different from what actually occurs in the future. As a result, actual future gains or losses could materially differ from those that have been estimated and are not a guarantee of future performance.

Forward-looking statements reflect current views as of the date of this Draft Red Herring Prospectus and are not a guarantee of future performance. There can be no assurance to investors that the expectations reflected in these forward-looking statements will prove to be correct. Given these uncertainties, investors are cautioned not to place undue reliance on such forward-looking statements and not to regard such statements to be a guarantee of our future performance.

These statements are based on our management's belief and assumptions, which in turn are based on currently available information. Although we believe the assumptions upon which these forward looking statements are based on are reasonable, any of these assumptions could prove to be inaccurate and the forward looking statements based on these assumptions could be incorrect. Given these uncertainties, investors are cautioned not to place undue reliance on such forward-looking statements and not to regard such statements as a guarantee of future performance. Neither our Bank, our Promoters, our Directors, the Selling Shareholders, the BRLMs nor any of their respective affiliates have any obligation to update or otherwise revise any statements reflecting circumstances arising after the date hereof or to reflect the occurrence of underlying events, even if the underlying assumptions do not come to fruition. In accordance with the requirements of SEBI, our Bank and the BRLMs shall ensure that investors in India are informed of material developments until the time of the grant of listing and trading permission by the Stock Exchanges for this Offer. Each of the Selling Shareholders shall ensure that they will keep our Bank and BRLMs informed of all material developments pertaining to their respective portion of the Offered Shares and itself, as a Selling Shareholder from the date of the Red Herring Prospectus until receipt of final listing and trading approvals by the Stock Exchanges for this Offer, that may be material from the context of the Offer.

SECTION II: RISK FACTORS

An investment in the Equity Shares involves a high degree of risk. Prospective investors should carefully consider all the information in this Draft Red Herring Prospectus, including the risks and uncertainties described below, before evaluating our business and making an investment in the Equity Shares. This section should be read in conjunction with "Industry Overview", "Our Business", "Selected Statistical Information", "Financial Statements", and "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 92, 143, 221, 240 and 297, respectively, before making an investment decision in relation to the Equity Shares.

The risks and uncertainties described in this section are not the only risks that are relevant to us or the Equity Shares or the industry and segment in which we operate. Additional risks and uncertainties not currently known to us or that we currently believe to be immaterial may also have an adverse effect on our business, financial condition, results of operations and cash flows. If any of the following risks or other risks that are not currently known or are now deemed immaterial actually occur, our business, financial condition, results of operations and cash flows could be adversely affected and the trading price of the Equity Shares could decline and you may lose all or part of your investment. The financial and other related implications of risks concerned, wherever quantifiable, have been disclosed in the risk factors described below. However, there are certain risk factors where such implications are not quantifiable, and hence any quantification of the underlying risks has not been disclosed in such risk factors.

In making an investment decision, prospective investors must rely on their own examination of our Bank and the terms of the Offer, including the merits and risks involved. You should consult your tax, financial and legal advisors about the particular consequences to you of an investment in the Equity Shares.

Unless otherwise indicated, industry and market data used in this section has been derived from the CRISIL Research Report prepared and released by CRISIL Research and commissioned and paid for by us in connection with the Offer. None of our Bank, the Selling Shareholders, the BRLMs or any other person connected with the Offer has independently verified such information. Unless otherwise indicated, all financial, operational, industry and other related information derived from the CRISIL Research Report and included herein with respect to any particular year refers to such information for the relevant fiscal year.

Our Bank's fiscal year commences on April 1 and ends on March 31 of the subsequent year, and references to a particular Fiscal are to the 12 months ended March 31 of that year. Unless otherwise indicated or the context otherwise requires, the financial information included herein is derived from our Restated Financial Information included in this Draft Red Herring Prospectus.

This Draft Red Herring Prospectus also contains forward-looking statements that involve risks and uncertainties. Our results could differ materially from such forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Draft Red Herring Prospectus. See "Forward-Looking Statements" on page 23.

RISKS RELATING TO OUR BUSINESS

1. ***COVID-19 has had and could continue to have an adverse effect on our business, financial condition, results of operations and cash flows.***

The World Health Organization (WHO) declared the outbreak of COVID-19 a global pandemic on March 11, 2020. The Government of India initiated a nation-wide lockdown from March 25, 2020 for three weeks on all services except for essential services (which included bank branches and ATMs), which was extended to May 31, 2020. Although the nation-wide lockdown was lifted on June 1, 2020, restrictions on non-essential activities and travel were imposed until August 31, 2020 in multiple states across specific districts that were witnessing increases in COVID-19 cases. On September 1, 2020, the Government's notification dated August 29, 2020 that all states to allow economic activities to function normally while continuing with restrictions only in containment zones came into effect.

India has been witnessing a second wave of COVID-19 since the end of February 2021, leading to state governments imposing curfews and lockdowns in an attempt to control the spread of COVID-19. Since March 25, 2020, we have closed down our Branches at different points of time in order to comply with state and local COVID-19-related regulations. In particular, on May 6, 2021, the Government of Kerala notified a state-wide lockdown from May 8, 2021 to May 16, 2021, which was extended until July 15, 2021, during which banks were permitted to remain open for a limited number of hours per day, on alternate days (i.e., Monday, Wednesday and Friday), with minimal staff. Our Branches in Kerala were permitted to operate on all five weekdays from July 15, 2021 onwards. As at May 31, 2021, 277, or 50.36% of our 550 Branches were located in Kerala. The medical impact of the second wave of the pandemic has been much worse than the first wave, and the impact has been seen across rural and urban areas, unlike the first wave's impact, which was largely urban centric. (*Source: CRISIL Research Report*).

The effects of COVID-19, including lockdowns and restrictions, led to significant disruptions for individuals and businesses, including us, and adversely affected our operations and our business correspondents' operations, including lending, collection of loan repayments and the acceptance of deposits, thereby adversely affecting our financial condition, results of operations and cash flows.

CRISIL Research estimates that India's GDP contracted by 7.3% in Fiscal 2021. (*Source: CRISIL Research Report*).

Pursuant to the RBI's circulars, we granted a full or partial moratorium on the payment of all loan instalments falling due between March 1, 2020 and August 31, 2020 to all eligible borrowers who requested the moratorium. As per the RBI's directions, loans that benefited from the moratorium were not classified as non-performing assets ("**NPAs**") if the accounts had any instalments that fell overdue during the moratorium period. The respective amounts in SMA/overdue categories where the moratorium/deferment was extended as at March 31, 2020 was ₹ 881.60 million. The RBI circulars in relation to the moratorium required us to make provisions of up to 10.00% on loans that are subject to moratorium and that were overdue but standard as at February 29, 2020. Considering the prevailing uncertainty over our business due to the COVID-19 pandemic, we had provisions of ₹ 44.08 million as at March 31, 2020 and ₹ 404.00 million as at March 31, 2021 against the potential impact of COVID-19 as additional provisions on standard assets (other than provisions held for restructuring under COVID-19 norms). The provisions as at March 31, 2021 was in excess of the RBI prescribed norms.

The Supreme Court of India in *Gajendra Sharma v. Union of India & Anr.*, vide its interim order dated September 3, 2020 directed banks that accounts that were not declared as NPAs at August 31, 2020 shall not be declared as NPAs until further orders. On March 23, 2021, in *Small Scale Industrial Manufactures Association v. Union of India and others*, the Supreme Court directed that the interim order granted on September 3, 2020 to not declare the accounts of borrowers as NPAs stands vacated. As per the RBI's notification dated April 7, 2021, for the period commencing September 1, 2020, asset classification for all such accounts shall be as per the applicable RBI asset classification norms.

On August 6, 2020, the RBI issued a circular that permitted lenders to implement a resolution plan, along with asset classification benefits, for eligible corporate and individual borrower segments. Lenders had to ensure that the resolution facility was provided only to borrowers impacted by COVID-19. The resolution facility was applicable for accounts classified as standard and not in default for more than 30 days as at March 1, 2020. The resolution plans had to be finalized by December 31, 2020, and implemented within 180 days from the date of invocation. Restructuring of loans has also been allowed for micro, small and medium enterprises ("**MSMEs**"). As at March 31, 2021, out of a total of ₹ 84,150.05 million of our gross advances, ₹ 171.22 million, or 0.20%, was subject to a resolution plan. In May 2021, the RBI announced several measures to protect MSMEs from the adverse impact of the second wave. The restructuring framework 2.0 was announced wherein individuals and MSMEs having an aggregate loan exposure of up to ₹ 250 million who have not availed restructuring under any of the earlier restructuring frameworks and who were classified as 'Standard' as on March 31, 2021 were allowed to restructure their loans. Restructuring under the proposed framework may be invoked up to September 30, 2021 and must be implemented within 90 days after invocation. (*Source: CRISIL Research Report*).

On October 23, 2020, the Department of Financial Services, Ministry of Finance, Government of India announced the scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts, which mandates lending institutions, including our Bank, to make ex-gratia payments to borrowers with less than ₹ 20.00 million in total borrowings at all lending institutions by crediting, on or before November 5, 2020, the difference between simple interest and compound interest for the period between March 1, 2020 and August 31, 2020. Lending institutions could then make claims for reimbursement from the GoI on or before December 15, 2020, which we did. Our claim for such reimbursement is ₹ 165.74 million for Fiscal 2021, which had not been paid as at March 31, 2021.

On March 23, 2021, in *Small Scale Industrial Manufactures Association v. Union of India and others*, the Supreme Court directed that there shall not be any charge of interest on interest/compound interest/penal interest for the period during the moratorium and any amount already recovered under the same head, namely, interest on interest/penal interest/compound interest shall be refunded to the concerned borrowers and to be given credit/adjusted in the next instalment of the loan account. In accordance with the instructions in the RBI notification dated April 7, 2021, we shall refund / adjust 'interest on interest' to all borrowers, including those who had availed of working capital facilities, during the moratorium period, irrespective of whether the moratorium had been fully or partially availed, or not availed. Pursuant to these instructions, the methodology for calculation of the amount of such 'interest on interest' was finalised by the Indian Banks Association (the "**IBA**") in consultation with other industry participants/ bodies on April 19, 2021. As at March 31, 2021, we held a provision of ₹ 80.00 million, which was created by debiting interest income, to meet our obligation towards refunding interest on interest to eligible borrowers as prescribed by the RBI.

The COVID-19 pandemic resulted in our provision towards NPA/write offs increasing by ₹ 1,395.89 million, or 284.00%, to ₹ 1,887.40 million for Fiscal 2021 from ₹ 491.51 million for Fiscal 2020.

The COVID-19 pandemic resulted in a decrease in our disbursements by ₹ 11,407.78 million, or 15.36%, to ₹ 62,863.74 million for Fiscal 2021 from ₹ 74,271.52 million for Fiscal 2020.

The COVID-19 pandemic resulted in a decrease in the percentage increase of our Average Total Deposits. Our Average Total Deposits increased by 81.09% from ₹ 32,196.81 million for Fiscal 2019 to ₹ 58,303.97 million for Fiscal 2020 and increased by 38.77% to ₹ 80,911.38 million for Fiscal 2021.

As a result of the second wave of the pandemic, our collection efficiency was adversely affected in April 2021 compared to the previous three months, and was materially and adversely affected in May 2021. For further details, see "*Our Business – Recent Developments-Effects of the COVID-19 Pandemic on our Business and Operations – Advances – Collection Efficiency – Post the Moratorium*" on page 167. Pressure on asset quality is higher as a result of the second wave as compared to the first wave, as borrowers do not have a blanket moratorium this time while their cash flows have been impacted by the second wave. (*Source: CRISIL Research Report*).

For more information on the effects of COVID-19, including the lockdowns and restrictions, on our business and on our financial condition, results of operations and cash flows as at and for March 31, 2021 and 2020, see "*Our Business – Recent Developments–Effects of the COVID-19 Pandemic on our Business and Operations*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Material Developments after March 31, 2021 – Second Wave of the COVID-19 Pandemic*" on pages 164 and 324, respectively.

The Statutory Auditors have included an emphasis of matters in their audit report on our audited financial statements for Fiscal 2021, noting that the extent to which the COVID-19 pandemic will impact our operations and asset quality will depend on future developments, which are highly uncertain. Further, the Previous Statutory Auditors have included an emphasis of matters in their audit report on our audited financial statements for Fiscal 2020, noting that the extent to which the COVID-19 pandemic will impact our operations and asset quality will depend on future developments, which are highly uncertain.

The extent to which the COVID-19 pandemic and the related economic crisis continues to adversely affect our businesses, results of operations, financial condition and cash flows will depend on future developments that cannot be predicted, including the scope and duration of the pandemic, future actions taken by governmental authorities, central banks and other third parties in response to the pandemic, and the effects on our customers, counterparties, employees and third-party service providers. In addition to the risks discussed above, the COVID-19 pandemic exposes us to the following risks, the occurrence of any of which could have an adverse effect on our business, financial condition, results of operations and cash flows:

- A decrease in cash flows and income of borrowers and the value of savings of borrowers could cause borrowers to default on repayments of advances, thereby increasing our NPAs and our provisions, and result in a decrease of eligible potential borrowers for new loans, thereby adversely affecting new loans.
- There could be a decrease in demand for our products due to lockdowns or other travel restrictions, an economic downturn or illness.
- We may be unable to maintain sufficient liquidity given the uncertain scope and duration of the COVID-19 pandemic.
- Our operations and the operations of our business correspondents and other third-party service providers could be disrupted by social distancing, split-team, work from home and quarantine measures. Our business correspondents are responsible for, among other things, sourcing and servicing of customers for micro loans and if their operations are disrupted, they may be unable to collect the cash from borrowers for the repayment of micro loans or source new borrowers for micro loans. In addition, due to the foregoing, our business correspondents may be unable to maintain sufficient liquidity and we may choose to provide support to them or terminate their services if they are unable to continue servicing our customers adequately. We terminated the services of our former business correspondent Margdarshak Financial Services Limited because they were not adequately managing their loan portfolio and were undergoing liquidity issues due to COVID-19.
- We could incur increased costs to ensure that we comply with any health and safety rules or regulations adopted by the Government or state governments in response to the COVID-19 pandemic.
- The effects of the COVID-19 pandemic could heighten the other risks described in this "*Risk Factors*" section.

2. ***Our business is currently significantly dependent on micro loans and any adverse developments in the microfinance sector could adversely affect our business, financial condition, results of operations and cash flows.***

As at March 31, 2021, March 31, 2020 and March 31, 2019, gross micro advances were ₹ 71,343.54 million, ₹ 61,389.57 million and ₹ 44,177.87 million, respectively, which accounted for 84.78%, 92.92% and 96.31%, respectively, of our total gross advances, which were ₹ 84,150.05 million, ₹ 66,065.11 million and ₹ 45,870.63 million, respectively. For details on our micro loans, see "*Our Business-Asset Products-Micro Loans*" on page 149. Demand for our micro loans is affected by a number of factors, including changes in regulations and policies, any adverse publicity or litigation relating to the microfinance sector and public criticism of the microfinance sector in general. Any decline in the demand for our micro loans would adversely affect our business, financial condition, results of operations and cash flows.

As at March 31, 2021, March 31, 2020 and March 31, 2019, the percentage of our gross micro loan non–performing assets ("**NPAs**") to the total gross micro advances was 7.47%, 1.52% and 1.50%, respectively. Our borrowers' ability to repay their loans depends on various factors, including, the results of operations of our borrowers' businesses, the occurrence of event-based risks and natural calamities, such as floods and cyclones, This could lead to an increase in our gross NPAs and adversely affect our business, financial condition, results of operations and cash flows.

3. ***A majority of our advances are unsecured. If we are unable to recover such advances in a timely manner or at all, our financial condition, results of operations and cash flows may be adversely affected.***

As at March 31, 2021, March 31, 2020 and March 31, 2019, our unsecured advances (net of provisions) were ₹ 69,836.01 million, ₹ 61,272.67 million and ₹ 43,986.33 million, respectively, which accounted for 85.50%, 93.58% and 96.71%, respectively, of our advances (net of provisions), which were ₹ 81,675.86 million, ₹ 65,478.22 million and ₹ 45,482.54 million, respectively. Our micro loans and certain of our retail loans are unsecured and, as such, are at a higher credit risk than secured loans because they are not supported by collateral. Since these advances are unsecured, in the event of defaults by such customers, our ability to realise the amounts due to us would be restricted to initiating legal proceedings for recovery. There can be no guarantee as to the amount of our resources that would be utilised and the length of time it could take to conclude such legal proceedings or for the legal proceedings to result in a favourable decision to us. For details, see "*Outstanding Litigation and Material Developments*" on page 328. Any failure to recover the full amount of principal and interest on unsecured advances given to our customers could adversely affect our financial condition, results of operations and cash flows.

4. ***We incur significant operating expenses and any increase in these operating expenses without a corresponding increase in income will adversely affect our financial condition, results of operations and cash flows.***

For Fiscals 2021, 2020 and 2019, our operating expenses as a percentage of our net interest income, which represents interest earned minus interest expended ("**Net Interest Income**") was 68.56%, 75.83% and 79.08%, respectively. Our material fixed operating expenses are: (i) payments to and provisions for employees, which represented 20.38%, 18.19% and 13.45% of our Net Interest Income for Fiscals 2021, 2020 and 2019, respectively; (ii) rent, taxes and lighting, which represented 4.56%, 4.28% and 4.67% of our Net Interest Income for Fiscals 2021, 2020 and 2019, respectively; and (iii) depreciation on Bank's property, which represented 3.10%, 2.92% and 2.95% of our Net Interest Income for Fiscals 2021, 2020 and 2019, respectively. Our business correspondent expenses are primarily variable in nature as we pay our business correspondents a variable fee based on collections, which is the largest part of their compensation, and a fixed fee for the acquisition and maintenance of each customer. Our business correspondent expenses represented 25.26%, 35.07% and 41.55% of Net Interest Income for Fiscals 2021, 2020 and 2019, respectively. Any increase in our operating expenses without a corresponding increase in Net Interest Income will adversely affect our financial condition, results of operations and cash flows.

5. ***ESMACO has been acting as a business correspondent for us on a non-exclusive basis since we began our operations and it has sourced a majority of our advances. If ESMACO prefers to promote our competitors' micro loans over our micro loans or the agreement between us and ESMACO is terminated or not renewed, it would adversely affect our business, financial condition, results of operations and cash flows.***

ESMACO has been acting as a business correspondent for us on a non-exclusive basis since we began our operations. We have an agreement with ESMACO that is valid until December 31, 2028, pursuant to which ESMACO, among other things, sources and services customers for our micro, retail and MSME and corporate loans. As at March 31, 2021, 2020 and 2019, ESMACO was responsible for sourcing and/or servicing customers for 75.12%, 85.55% and 94.02% of our gross advances, respectively. In the event that ESMACO prefers to promote our competitors' loans over our loans or the agreement between us and ESMACO is terminated or not renewed, it would have an adverse effect on our business, financial condition, results of operations and cash flows. ESMACO owns 63.49% of the equity shares in our Corporate Promoter, which owns 62.46% of the Equity Shares prior to the Offer.

6. ***Our business correspondents are responsible for, among other things, sourcing and servicing of customers for micro loans on a non-exclusive basis. If these business correspondents prefer to promote our competitors' loans or our agreements with them are terminated or not renewed it would adversely affect our business, financial condition, results of operations and cash flows.***

Our business correspondents are responsible for, among other things, sourcing and servicing of customers for our micro loans. As at March 31, 2021, 2020 and 2019 our business correspondents were responsible for sourcing and/or servicing customers for 84.59%, 93.97% and 96.31% of our gross advances, respectively. Under the terms of the agreements with our business correspondents, our business correspondents act for us on a non-exclusive basis. For further details on our business correspondents and collections, see "*Our Business – Delivery Channels – Business Correspondents*" and "*Our Business – Recent Developments-Effects of the COVID-19 Pandemic on our Business and Operations – Advances – Collection Efficiency – Post the Moratorium*" on pages 156 and 167, respectively.

We terminated our agreement with Sambandh Finserve Pvt Ltd ("**Sambandh**"), pursuant to which it acted for us as a business correspondent, on October 24, 2020 following revelations of alleged fraud committed on the part of Sambandh against other parties. We notified the RBI vide a letter dated October 21, 2020 that Sambandh had not committed any fraudulent acts against us. As at March 31, 2021, 2020 and 2019, Sambandh sourced and/or serviced customers for 0.13%, 0.14% and 0.02% of our gross advances, respectively. The loan portfolio managed by Sambandh was subsequently taken over by Lahanti Last Mile Services Pvt Ltd, one of our existing business correspondents, effective November 1, 2020. We also terminated our agreement with Margdarshak Financial Services Ltd, pursuant to which it acted for us as a business correspondent, effective May 31, 2021, in accordance with a termination letter dated May 11, 2021 we sent to Margdarshak, because they were undergoing liquidity issues due to the pandemic and were unable to adequately manage their loan portfolio for us, which was transferred to Lahanti Last Mile Services Pvt Ltd on June 1, 2021. As at March 31, 2021, 2020 and 2019, Margdarshak Financial Services Ltd sourced and/or serviced customers for 0.30%, 0.28% and nil of our gross advances, respectively. In the event that our business correspondents prefer to promote our competitors' loans over our loans or our agreements with them are terminated or not renewed, it would have an adverse effect on our business, financial condition, results of operations and cash flows.

7. ***We are subject to stringent regulatory requirements and prudential norms. If we are unable to comply with such laws, regulations and norms it may have an adverse effect on our business, financial condition, results of operations and cash flows.***

We are regulated under the Banking Regulation Act and have to comply with circulars and directives issued by the RBI that apply to small finance banks. The Banking Regulation Act limits the flexibility of shareholders and management of a small finance bank in many ways, including by way of specifying certain matters for which a banking company would require RBI approval. The RBI In-Principle Approval, RBI Final Approval, SFB Licensing Guidelines and SFB Operating Guidelines require us to comply with certain conditions in order to operate our business. For further details on these regulatory requirements and prudential norms, see "*Key Regulations and Policies*" on page 169. In case we fail to comply with the applicable directives and reporting requirements or meet the prescribed prudential norms, the RBI may charge penalties, restrict our banking activities or otherwise enforce increased scrutiny and control over our banking operations, including by way of withholding approvals, or issuing conditional approvals, in respect of any proposed actions for which we may seek RBI approval in the future, or even cancel our banking license. If we are unable to comply with laws and regulations applicable to a small finance bank, it may have an adverse effect on our business, financial condition, results of operations and cash flows.

We have highlighted below some of the more material rules and regulations that we need to comply with as a small finance bank.

<u>Restrictions relating to advances</u>

The maximum loan size and investment limit exposure to a single and group obligor is restricted to 10.00% and 15.00% of our capital funds, respectively. In addition, at least 50.00% of our loan portfolio is required to constitute advances of up to ₹ 2.50 million.

We are also prohibited from exposure in terms of advances to our Directors, companies in which our Directors are interested, our Promoters, major shareholders (holding 10.00% or more of our paid-up equity share capital), and entities in which our Promoters and major shareholders have significant influence or control (as defined under applicable accounting standards).

<u>Maintenance of cash reserve ratio ("CRR") and statutory liquidity ratio ("SLR")</u>

We are currently required to maintain a CRR of a minimum of 4.00% of our demand and time liabilities with the RBI, on which no interest is paid. Further, we are also currently required to maintain SLR equivalent to 18.00% of our net demand and time liabilities in cash and invested in Government and other RBI-approved securities. As at March 31, 2021, 2020 and 2019, our CRR was 3.39%, 3.17% and 5.17%, respectively. As at March 31, 2021 and 2020, our CRR was above the reduced rate of 3.00% prescribed by the RBI on account of the COVID-19 pandemic. As at March 31, 2021, 2020 and 2019 our SLR was 35.23%, 23.97% and 21.87% of our net demand and time liabilities, respectively.

As a small finance bank, our net interest margin, which is the difference of interest earned and interest expended divided by the average interest-earning assets calculated on the basis of a quarterly average ("**Net Interest Margin**") and return on net worth may be adversely affected, as we are required to set aside resources to meet the RBI's CRR and SLR requirements. Maintaining the CRR and SLR may impose liquidity constraints on us by reducing the amount of cash available with us for lending. In the event that the CRR or SLR requirements applicable to us are increased in the future, our ability to make advances would be correspondingly further reduced, which may adversely affect our business, financial condition, results of operations and cash flows.

<u>Maintenance of capital to risk (weighted) assets ratio ("CRAR")</u>

As per the SFB Operating Guidelines and the Master Circular – Basel II Capital Regulations, we are required under applicable laws and regulations to maintain a minimum CRAR**,** which is currently 15.00% of the risk weighted assets ("**RWAs**"), on a continuous basis subject to any higher percentage as may be prescribed by the RBI from time to time, with Tier I capital of at least 7.50% of the RWAs and Tier II capital of not more than 100.00% of the Tier I capital. As at March 31, 2021, 2020 and 2019 our CRAR was 24.23% (Tier 1 Capital of 21.54%), 24.03% (Tier 1 Capital of

20.99%) and 27.59% (Tier 1 Capital of 23.30%), respectively. Currently, the RBI does not require small finance banks to provide any capital charge for operational risk or market risk. However, there can be no assurance that the RBI will not require small finance banks, including us, to provide capital charge for such risk in future and to migrate to Basel III approach for credit risk.

As we continue to grow our loan portfolio and asset base, we may be required to raise additional capital in order to continue to meet applicable CRARs with respect to our business. We cannot assure you that we will be able to raise adequate additional capital in the future on terms favourable to us, or at all, which may adversely affect the growth of our business.

Maintenance of priority sector lending ("PSL") requirements

As a small finance bank, we are required to extend 75.00% of our adjusted net bank credit ("**ANBC**") to the sectors eligible for classification as PSL by RBI, such as agriculture, MSMEs, export credit, education, housing, social infrastructure and renewable energy. Furthermore, 40.00% of our ANBC is required to be allocated to different sub-sectors under PSL as per the PSL requirements. We can allocate the remaining 35.00% to any one or more sub-sectors under the PSL requirements. Vide its Governor's Statement dated May 5, 2021, the RBI announced that, until March 31, 2022, small finance banks are permitted to lend to registered micro-finance institutions with asset sizes up to ₹ 5.00 billion for on-lending to individual borrowers as PSL, whereas previously, lending by small finance banks to micro-finance institutions for on-lending was not reckoned for PSL classification. The PSL requirements applicable to a small finance bank are significantly higher than the PSL limits applicable to other scheduled commercial banks, which could subject us to higher delinquency rates and may limit our funding from securitizations and assignments to comply with such requirements. In case of any shortfall by us in meeting the PSL requirements, we would subsequently be required to place the allocated amount by RBI in an account with the NABARD under the Rural Infrastructure Development Fund Scheme, or with other institutions specified by the RBI, which may earn lower rates of interest, compared to other interest-bearing securities. Any failure to comply with PSL requirements, may have an adverse effect on our business, financial condition, results of operations and cash flows.

Branches in unbanked rural centres

At least 25.00% of our total Branches are required to be located in unbanked rural centres. As at May 31, 2021, 31.27% of our total Branches were in unbanked rural centres.

Restrictions relating to the Equity Shares

The RBI In-Principle Approval, RBI Final Approval, SFB Licensing Guidelines and SFB Operating Guidelines require us to comply with certain restrictions relating to the Equity Shares, including, among others:

- We are required to be owned and controlled by residents of India in accordance with FEMA at all times from the date of commencement of our business;
- Our Promoters are required to reduce their shareholding to 40.00% of our paid-up Equity Share capital within a period of five years from the date of commencement of our business operation, which was on March 10, 2017, and thereafter required to reduce their shareholding to 30.00% and 26.00% of our paid-up Equity Share capital within a period of 10 years and 12 years, respectively, from the date of commencement of our business operations. Our Promoters hold 69.40% of our Pre-Offer paid-up Equity Share capital and following the Offer (assuming all of the Equity Shares offered in the Offer are sold, our Promoters will hold [●]% of our Post-Offer paid-up Equity Share capital);
- We are required to maintain a minimum paid-up Equity Share capital and a minimum net worth of ₹ 1.00 billion;
- No Shareholder will be entitled to exercise voting rights in excess of 26.00% of the total voting rights of all Shareholders; and
- An investor proposing to acquire shares in our Bank (directly or indirectly) where the aggregate holding of such investor, their relatives, associate enterprise or PAC, entitles the investor to hold 5.00% or more of the paid-up share capital of our Bank or 5.00% or more of the voting rights in our Bank will need to apply for the RBI's approval.
- The Equity Shares are required to be listed on a stock exchange in India before July 31, 2021, which we will be unable to comply with. For more details, see "*-We could be subject to various sanctions and penalties by the RBI for failing to comply with the requirement to list the Equity Shares on a stock exchange in India before July 31, 2021*" on page 34.

In addition to the above, we have been non-compliant with certain other rules and regulations, including requirements under the Service Area Approach, 1989. For details, see "*– We and our Promoters are involved in certain legal* *proceedings, any adverse developments related to which could adversely affect our reputation, business and cash flows*" and "*–We are required to comply with requirements for implementing government sponsored schemes under the Service Area Approach*" on pages 31 and 44, respectively.

8. ***If we are unable to control the level of NPAs in our portfolio effectively or if we are unable to improve our provisioning coverage as a percentage of gross NPAs, our business, financial condition, results of operations and cash flows could be adversely affected.***

As at March 31, 2021, 2020 and 2019, our net NPAs to net advances were 3.88%, 0.64% and 0.77%, respectively. Our NPAs may increase in the future, due to several factors, including adverse effects on our borrowers' businesses, a rise in unemployment, slow business growth, changes in customer behaviour and demographic patterns and central and state government policies and regulations (including agricultural loan waivers that may affect our agricultural portfolio in the short-term). While we believe that we have appropriate internal controls, our credit monitoring and risk management policies and procedures may not be accurate, properly designed, or appropriately implemented or complied with by our customers, and we could suffer material credit losses. We employ and monitor third party collection agencies and non-performance by them may lead to further delinquencies and an increase in NPAs. In addition, even if our policies and procedures are accurate and appropriate, we may be unable to anticipate future economic or financial developments or downturns, which could lead to an increase in our NPAs. Any significant increase in NPAs may have an adverse effect on our financial condition, results of operations and cash flows.

Provisions for NPAs are created by a charge to our profit and loss account and are currently subject to minimum provisioning requirements, linked to the ageing of NPAs and other matters as specified in RBI circulars. In addition to the relevant regulatory minimum provisioning, we also consider our internal estimate for loan losses and risks inherent in the credit portfolio when deciding on the appropriate level of provisions. The determination of a suitable level of loan losses and provisions involves a degree of subjectivity and requires that we make estimates of current credit risks and future trends, all of which may be subject to material changes. Any incorrect estimation of risk may result in our provisions not being adequate to cover any further increase in the amount of NPAs or any further deterioration in our NPA portfolio. For Fiscals 2021, 2020 and 2019, our provision coverage ratio was 52.77%, 79.93% and 78.45%, respectively. There can be no assurance that our provision coverage ratio will not decline in the future. We may need to make further provisions if there is dilution/ deterioration in the quality of our security or down-grading of the account or recoveries with respect to such NPAs do not materialize in time or at all. Accordingly, if we are unable to control the level of our NPAs, it would have an adverse effect on our financial condition, results of operations and cash flows.

9. ***Our non-convertible debentures are listed on the BSE and we are subject to rules and regulations with respect to such listed non-convertible debentures. If we fail to comply with such rules and regulations, we may be subject to certain penal actions, which may have an adverse effect on our business, results of operations, financial condition and cash flows.***

Our non-convertible debentures are listed on the debt segment of the BSE. We are required to comply with various applicable rules and regulations, including the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008 and Listing Regulations, in terms of our listed non-convertible debentures. In the past, there have been delays in complying with certain provisions of the Listing Regulations. For instance, in January 2020, the Department of Debt and Hybrid Securities of SEBI observed, among other things, that there was a delay in the submission of compliance certificate to the stock exchange as required under Regulation 7(3) of the Listing Regulation for the half year ended September 30, 2018 and for the year ended March 31, 2019, and a delay in the submission of specified line items along with the half yearly financial results for the half year ended September 30, 2018 as required to be submitted under Regulation 52(4) of the Listing Regulations, along with the signed certificate from the debenture trustee as required under Regulation 52(5) of the Listing Regulations. Additionally, the Bank submitted an undertaking to BSE as required under Regulation 52(7) of the Listing Regulations for the financial year ended March 31, 2018 on March 10, 2020. There was an inadvertent delay in submitting such undertaking. While no actions were taken against us in relation to the foregoing, we cannot assure you that SEBI or any other regulatory authority will not take any actions against us or make similar observations in the future. If we fail to comply with such rules and regulations, we may be subject to certain penal actions, including, without limitation, restrictions on the further issuance of securities and the freezing of transfers of securities, which may have an adverse effect on our business, results of operations, financial condition and cash flows.

10. ***We may be impacted by volatility in interest rates, which could cause our Net Interest Margin to decline and adversely affect our results of operations and cash flows.***

Our results of operations are substantially dependent upon the amount of our Net Interest Income. Our Net Interest Income was ₹9,215.91 million, ₹7,921.88 million and ₹ 5,733.57 million for Fiscals 2021, 2020 and 2019, respectively. Our Net Interest Income is significantly dependent on our average performing advances for a particular period and our Net Interest Margin. Our interest earning assets are our advances and investments. Our interest-bearing liabilities are our deposits and our borrowings. As at March 31, 2021, 86.57% of our advances and 100.00% of our investments were on fixed interest rates and 13.43% of our advances were on floating interest rates. As at March 31, 2021, 100.00% of our deposits and 100.00% of our borrowings were on fixed interest rates.

Interest rates are highly sensitive and volatility in interest rates could be a result of many factors, including the RBI's monetary policies, deregulation of the financial services sector in India, domestic and international economic and political conditions, inflation and economic policies in India.

In a rising interest rate environment, if the yield on our interest-earning assets does not increase simultaneously with or to the same extent as our cost of funds, and conversely, in a declining interest rate environment, if our cost of funds does not decline simultaneously or to the same extent as the yield on our interest-earning assets, our Net Interest Income and Net Interest Margin would be adversely impacted. While any reduction in the interest rates we pay on our deposits and borrowings may be passed on to customers for our loans, we are unable to pass on any increase in interest rates at which we lend to our customers who have existing loans on fixed interest rates. Competitive pressure may also require us to reduce the interest rates at which we lend to our customers without a proportionate reduction in interest rates at which we raise funds. Our customers may also prepay their loans to take advantage of a declining interest rate environment. An increase in the interest rates charged by us on our advances could result in our customers, particularly those with variable interest rate loans, prepaying their loans if less expensive loans are available from other sources.

In addition, as a result of the RBI-mandated reserve requirements, we are also more structurally exposed to interest rate risks than banks in many other countries. Under the RBI regulations, our liabilities are subject to the SLR requirement such that a minimum specified percentage, currently 18.00%, of a bank's net demand and time liabilities must be invested in cash, Government securities and other RBI approved securities. These securities generally carry fixed coupons and, in an environment of rising interest rates, the value of Government securities and other fixed income securities decline. Fixed rate bonds represented 100.00% of our SLR portfolio as at March 31, 2021.

There can be no assurance that we will be able to adequately manage our interest rate risk in the future, which could have an adverse effect on our Net Interest Income and Net Interest Margin and could, in turn, have an adverse effect on our financial condition, results of operations and cash flows.

11. ***We and our Promoters are involved in certain legal proceedings, any adverse developments related to which could adversely affect our reputation, business and cash flows.***

There are outstanding legal proceedings involving our Bank and our Promoters. These proceedings are pending at different levels of adjudication before various courts, tribunals and appellate tribunals. We cannot assure you that these proceedings will be decided in our favour. Brief details of material outstanding litigation that have been initiated by and against our Bank and our Promoters, as applicable, are set forth below.

Litigation against our Bank

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	2	11.49
Outstanding actions by regulatory and statutory authorities	1	Not quantifiable

Litigation by our Bank

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	113	9.77*
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil

**Includes two cases amounting to ₹0.24 million where the police complaint has not been acknowledged.*

Litigation against our Corporate Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	6	130.00
Outstanding actions by regulatory and statutory authorities	2	2.21
Disciplinary actions in the last five Fiscals	Nil	Nil

Litigation by our Corporate Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil

Material civil cases	Nil	Nil
Taxation matters	Nil	Nil

Litigation against our Individual Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	1	Not quantifiable
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil
Outstanding actions by regulatory and statutory authorities	Nil	Nil
Disciplinary actions in the last five Fiscals	Nil	Nil

(1) Excludes directions issued by the RBI to our Bank in respect of the office of Kadambelil Paul Thomas.

Litigation by our Individual Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil

Litigation against our Directors excluding our Individual Promoter

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil
Outstanding actions by regulatory and statutory authorities	Nil	Nil

Litigation by our Directors

Type of proceeding	Number of cases	Amount, to the extent quantifiable (₹ in million)
Criminal cases	Nil	Nil
Material civil cases	Nil	Nil
Taxation matters	Nil	Nil

The amounts claimed in these proceedings have been disclosed to the extent ascertainable and include amounts claimed jointly and severally. As at March 31, 2021, our provisions and contingent liabilities for the litigation as set forth above were nil and nil, respectively. If any new developments arise, such as a change in Indian law or rulings against us by appellate courts or tribunals, we may need to make provisions in our financial statements, which would increase our expenses and current liabilities. Further, such legal proceedings could divert our management's time and attention and cause us to incur expenses. Any adverse decision in any of these proceedings may have an adverse effect on our business, results of operations and financial condition.

For further information, see "*Outstanding Litigation and Material Developments*" on page 328.

12. ***There is an ongoing criminal proceeding involving our Individual Promoter and if these proceedings are determined against him, it could have a material adverse effect on our reputation.***

An FIR has been filed against our Individual Promoter Kadambelil Paul Thomas, in his capacity as the then managing director of our Corporate Promoter, and others, under Sections 406 and 420 of the Indian Penal Code, Section 17 of the Kerala Money Lenders Act, 1958 (the "**KMLA**") and provisions of the Kerala Prohibition of Charging Exorbitant Interest Act, 2012 alleging that our Individual Promoter, among other things, engaged in illegal money lending and charging high interest rates. A charge sheet has been filed against our Individual Promoter before the Judicial First Class Magistrate Court-1, Aluva, Kerala. The Individual Promoter has approached the High Court of Kerala to quash the proceedings, which is pending disposal. In the event that these proceedings are not quashed, our Individual Promoter may be liable for, among other things, penalties or imprisonment, which could have a material adverse effect on our reputation. For more details, see "*Outstanding Litigation and Material Developments - Litigation involving our Promoters - Litigation against Kadambelil Paul Thomas*" on page 332. The primary charge mentioned in the FIR was that the Corporate Promoter had not been registered under the KMLA, which stipulates that all financial institutions have to be registered under the KMLA. The applicability of the KMLA to NBFCs and other RBI-licensed financial institutions was challenged before the High Court of Kerala by the NBFC Welfare Association in 2007. A Single Bench of the High Court of Kerala ordered that RBI-licensed NBFCs and MFIs need not obtain registration under the KMLA. A Division Bench of the same court overruled this decision and held that the registration under the KMLA is required. On appeal to the Supreme Court of India, the Supreme Court of India has passed an interim order directing maintenance of *status quo* of registration under the KMLA not being applicable to NBFCs and MFIs that are registered with the RBI, including the Corporate Promoter, until the disposal of the matter by the Supreme Court of India. In the event that this matter is decided against us, our Bank would need to obtain registration under the provisions of the KMLA. This could also have a bearing on the outcome of the criminal proceedings initiated against our Individual Promoter.

13. ***The RBI has in the past sought clarifications on acquisition of shares by certain members of our Promoter Group (who are also our Group Entities). We cannot assure you that our holding structure will not be subject to additional scrutiny by the RBI in the future.***

Pursuant to the preferential allotment made by our Bank on September 28, 2018, certain members of our Promoter Group and Group Entities, namely, ESMACO and Lahanti, acquired 21,346,993 Equity Shares and 149,738 Equity Shares, respectively, representing 4.75% and 0.03% of the issued and paid-up share capital of our Bank as at the date of this Draft Red Herring Prospectus, respectively. For further details, see "*Capital Structure*" on page 69. The RBI has pursuant to its letter dated May 13, 2019 sought clarifications on why the Equity Shares acquired by these Promoter Group entities should not be considered as Equity Shares acquired by them as persons acting in concert with our individual Promoter, Kadambelil Paul Thomas as per the provisions of Section 12B of the Banking Regulation Act read with Section 2(77) of the Companies Act, 2013. Our Bank has pursuant to its letter dated May 29, 2019 responded to this stating that Kadambelil Paul Thomas is not a person acting in concert with ESMACO, among other things, on the basis that (i) there is no significant voting power or shareholding either with Kadambelil Paul Thomas or his wife in ESMACO, as they hold only one equity share each and have one vote each in ESMACO, and (ii) Kadambelil Paul Thomas and his relatives do not hold any managerial position in ESMACO. It has further been clarified that while his wife is the honorary chairperson of ESMACO, she is not entitled to any substantial powers of management over ESMACO and is not involved in the day-to-day affairs of ESMACO. Further, in respect of the Individual Promoter's relationship with Lahanti, our Bank has stated that Kadambelil Paul Thomas is a person acting in concert with Lahanti and since Kadambelil Paul Thomas has received approval of the RBI to hold up to 10.00% of the total issued and paid-up share capital of our Bank, the aggregate shareholding of Lahanti and Kadambelil Paul Thomas in our Bank was within such cap on shareholding. Further, the RBI, pursuant to its inspection report dated September 7, 2020, for Fiscal 2019, observed that arm's length relationship of our Bank and our group entities could not be established as our Bank had entered into agreement with ESMACO and Lahanti where relatives of Kadambelil Paul Thomas were directors and had substantial interest, respectively, which is also against the terms of agreement entered into with business correspondents. In order to adhere to the "Principles of Good Corporate Governance", our Bank has requested the relatives of Kadambelil Paul Thomas to relinquish their directorship on the board of directors, and divest their substantial interest in ESMACO and Lahanti in view of RBI circular on "Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Banks" dated November 3, 2006, pursuant to which, the relatives of Kadambelil Paul Thomas relinquished their directorship from the respective boards of ESMACO and Lahanti as at March 13, 2021 and March 15, 2021, respectively, and have also divested substantial interest in Lahanti. While there has been no further correspondence with the RBI in this regard, we cannot assure you that the RBI will not seek additional clarifications or question other aspects of our holding structure in the future. Any adverse finding by the RBI with respect to our holding structure or allotments made by our Bank could adversely affect our financial condition and reputation.

14. ***We depend on our brand recognition. Negative publicity about our brand, third parties who use the "ESAF" brand, including our Corporate Promoter, and third parties whose products we distribute could damage our reputation and, in turn, our business, financial condition, results of operation and cash flows.***

The "ESAF" brand is owned by Evangelical Social Action Forum ("**ESAF Society**"). We have a licence from ESAF Society to use the "ESAF" brand and certain logos. For details, see "*Business – Intellectual Property*" on page 163 and "*– If we fail to successfully enforce our intellectual property rights or are unable to renew our trademark licencing agreement, our business, results of operations and cash flows would be adversely affected*" on page 33. We have invested in promoting the "ESAF" brand for our Bank, and we expect to continue to invest in increasing our brand awareness. With the market becoming increasingly competitive, we believe that maintaining and enhancing our brand will become more important for our business. Reputational risk, or the risk to our business, earnings and capital from negative publicity, is inherent in our business. If we experience any negative publicity, it could adversely affect our brand and ability to attract and retain customers. In addition, the brand "ESAF" is used by other entities, including our Corporate Promoter. We have no control over the operations of these entities and our Corporate Promoter and in case any of these entities do something that adversely affects their reputation it could have an adverse impact on our reputation, and in turn on our business, financial condition, results of operations and cash flows.

Furthermore, we distribute several third-party products, including life insurance, general insurance and the National Pension System. We have no control over the actions of such third parties. Any regulatory action taken against such third parties or any adverse publicity relating to such party could, in turn, result in negative publicity about us and adversely impact our reputation.

15. ***If we fail to successfully enforce our intellectual property rights or are unable to renew our trademark licencing agreement, our business, results of operations and cash flows would be adversely affected.***

We have entered into a trademark licencing agreement dated January 5, 2020 with ESAF Society (the "**Trademark Agreement**"), pursuant to which ESAF Society has granted our Bank an exclusive, irrevocable license and right to use the trademarks , , , , "CREATING OPPORTUNITIES" and "FIGHTING THE PARTIALITY OF PROSPERITY", which are registered trademarks of the ESAF Society under certain classes, and "ESAF" (word mark), of which the application status is 'opposed' (collectively, the "**Trademarks**"), exclusively in relation to the banking, financial services and insurance business subject to the rights already enjoyed and granted to our Corporate Promoter and ESMACO to use the mark and name "ESAF" in respect of their current business activities. Further, pursuant to the Trademark Agreement, our Bank has agreed to hold the trademark "ESAF SMALL FINANCE BANK", which is a registered trademark of the Bank, and any other mark registered by us containing "ESAF" in trust for the ESAF Society for so long as the Trademark Agreement is in force. The exclusive license is valid for a period of 15 years from January 5, 2020 ("**Term**") or until such time that it is terminated as per the Trademark Agreement. The consideration for the grant of the license for the Trademarks is 0.30% of the total income (calculated as the sum of interest earned and other income) or 2.50% of the net profit of our Bank, whichever is less (exclusive of applicable indirect taxes), as recorded in the audited financial statements of the respective financial year, payment of which will commence from April 1, 2020, and shall be annually payable on September 30 of the subsequent financial year. For further details, see "*History and Certain Corporate Matters - Key terms of other subsisting material agreements*" on page 187.

The Trademark Agreement shall stand automatically terminated: (a) in the event that our Bank goes into liquidation (other than voluntary liquidation for the purpose of reconstruction or amalgamation); or (b) upon revocation of our banking license by the RBI. Upon expiry of the Term or termination of the Trademark Agreement, our Bank shall be required to immediately, among other things: (i) cancel its registered trademark "ESAF SMALL FINANCE BANK" and any other application/registration for trademarks in its name containing "ESAF"; (ii) discontinue the use of the Trademarks, and dispose any material bearing or using the Trademarks; and (iii) change or procure to change its corporate name and/or trading style in such a manner so as to delete "ESAF" therefrom. If we change our corporate name, trading name, trademarks and logos, this may cause a loss of goodwill and result in increased costs, which would adversely affect our business, results of operations and cash flows.

At present, we do not have any trademark protection for our corporate logos, i.e., and . In the past, our application for registration of was opposed by the Trademark Registry. Further, our application for the registration of the wordmark "Joy of Banking" has been refused by the Trademark Registry. Our Bank has subsequently made an application for trademark registration for our corporate logos, and under class 36 of the Trade Marks Act, 1999. The applications have been assigned the status 'objected' due to the existence of identical or similar marks of Evangelical Social Action Forum, for which a no objection certificate has been filed by the Evangelical Social Action Forum. Further, the application status of "ESAF" (word mark) was opposed by ESAB AB, Goteborg, Sweden under certain classes on July 16, 2018, and on July 14, 2021, Evangelical Social Action Forum filed an application to withdraw from the classes that have been objected to. The Bank is using the "ESAF" (word mark) under class 36, which has not been opposed. There can be no assurances that these applications will be successful or that we will be able to gain trademark protection over our corporate logo and other key business names. Further, if a dispute arises with respect to any of our intellectual property rights or proprietary information, we will be required to produce evidence to defend or enforce our claims, and we may become party to litigation, which may strain our resources and divert the attention of our management. We cannot assure you that any infringement claims that are material will not arise in the future or that we will be successful in defending any such claims when they arise. Unauthorized use of our intellectual property rights by third parties could adversely affect our reputation. Any adverse outcome in such legal proceedings or our failure to successfully enforce our intellectual property rights may impact our ability to use intellectual property, which could have an adverse effect on our business, results of operations and cash flows. For further details on our intellectual property, see "*Government and Other Approvals – Intellectual Property*" on page 339.

16. ***We could be subject to various sanctions and penalties by the RBI for failing to comply with the requirement to list the Equity Shares on a stock exchange in India before July 31, 2021.***

Under the provisions of the SFB Licensing Guidelines, the RBI In-Principle Approval and the RBI Final Approval, the Equity Shares are required to be mandatorily listed on a stock exchange in India within three years from the date our Bank reached a net worth of ₹ 5.00 billion, which we reached on July 31, 2018. Therefore, the Equity Shares are required to listed on a stock exchange in India before July 31, 2021. However, we will be unable to complete our initial public offering within the timeline prescribed under the SFB Licensing Guidelines, RBI In-Principle Approval and the RBI Final Approval. In the event we fail to comply with the requirement, the RBI may take regulatory action against us, and we are not in a position to determine the nature of such regulatory action. Any such action by the RBI could adversely affect our business, financial condition, results of operations and cash flows.

17. ***Our business is concentrated in South India, particularly in the states of Kerala and Tamil Nadu, and any adverse change in the economy of South India could have an adverse effect on our financial condition, results of operations and cash flows.***

Our business is concentrated in South India, particularly in the states of Kerala and Tamil Nadu. While our operations are spread out across India, a significant number of our Branches are located in South India and a majority of our advances and deposits are from customers in the South Indian states. Out of our 550 Branches as at May 31, 2021, 394, or 71.64%, were located in South India, including 277, or 50.36%, in Kerala and 91, or 16.55%, in Tamil Nadu. As at March 31, 2021, 2020 and 2019, 80.09%, 84.40% and 84.59%, respectively, of our gross advances were from South India and 91.51%, 95.67% and 96.04%, respectively, of our total deposits were from South India. As at March 31, 2021, 2020 and 2019, 55.97%, 57.28% and 52.47%, respectively, of our gross advances were from Kerala and 86.51%, 95.67% and 93.79%, respectively, of our total deposits were from Kerala. As at March 31, 2021, 2020 and 2019, 19.84%, 23.43% and 28.59%, respectively, of our gross advances were from Tamil Nadu and 2.76%, 1.91% and 1.06%, respectively, of our total deposits were from Tamil Nadu. Any disruption, disturbance or sustained downtum in the economy of, or any adverse geological, ecological or political circumstances in South India, in particular in the states of Kerala and Tamil Nadu, could adversely affect our business, financial condition, results of operations and cash flows. For instance, in Fiscal 2019 we made ₹ 34.62 million of additional provisions on loans made to customers affected by widespread flooding in Kerala during the six months ended September 30, 2018. As per RBI guidelines, Master Direction – Reserve Bank of India (Relief Measures by Banks in areas affected by Natural Calamities) Directions 2018, we were required to make a higher standard provisioning of 5.00% on these loans as compared to a standard provisioning of 0.40% on other loans.

18. ***If we are unable to secure funding on acceptable terms and at competitive rates when needed, it could have a material adverse effect on our business, financial condition, results of operations and cash flows.***

Our funding requirements historically have been met from a combination of shareholder capital a nd funds generated from, deposits, borrowings from other institutions, subordinated debt, borrowings from other banks and perpetual debt instruments. Unless we are able to access the necessary amounts of additional capital, any incremental capital requirement may adversely impact our ability to grow our business and may even require us to curtail or withdraw from some of our current business operations. There can also be no assurance that we will be able to raise adequate additional funding in the future on terms favourable to us, or at all, and this may hamper our growth plans, apart from those that can be funded by internal accruals.

Furthermore, CARE Ratings Limited has rated Tier II bonds (Basel III) issued by us in the form of a subordinated debt instrument as "CARE A; Stable". Our proposed certificate of deposits are rated by CARE Ratings India Limited as "CARE A1+".

Any downgrade in our debt ratings may increase interest rates for refinancing our outstanding debt, which would increase our financing costs, and adversely affect our future issuances of debt and our ability to raise new capital on a competitive basis, which may adversely affect our business, financial condition, results of operations and cash flows.

19. ***The Indian finance industry is intensely competitive and if we are unable to compete effectively it would adversely affect our business, financial condition, results of operations and cash flows.***

The Indian finance industry is intensely competitive. We face intense competition in all our principal products and services.

Loans in the microfinance sector are provided by banks, small finance banks, non-banking finance company-microfinance institutions ("**NBFC-MFIs**"), other non-banking finance companies, and non-profit organisations. Banks provide loans under the self-help group model. However, they also give micro loans directly or through business correspondents to meet their priority-sector lending targets. NBFC-MFIs and non-profit MFIs are the only two players with loan portfolios exclusively focused towards microfinance. The eight small finance banks that are former MFIs, including our Bank, cumulatively accounted for approximately 14% of the gross loan portfolio of the microfinance sector as at March 31, 2021. (*Source: CRISIL Research Report*). Our Bank's gross micro loans were ₹ 71,343.54 million as at March 31, 2021, which represented 2.81% of the microfinance sector's gross loan portfolio of approximately ₹ 2.54 trillion as at March 31, 2021 as per the CRISIL Research Report. For more details, see "*Our Business – Competition*" on page 163.

Our competitors in the organized sector may have a better brand recognition, greater business experience, more diversified operations, a greater customer and depositor base, a larger branch network and better access to funding and at lower costs than we do. Furthermore, certain requirements that are applicable to small finance banks in terms of the SFB Operating Guidelines and other banking laws and regulations are significantly more stringent in comparison to scheduled commercial banks and NBFCs. Ensuring compliance with these laws and regulations has and will continue to limit our revenue, thereby making it more difficult to compete with other players in the organized sector. For further details, see "– *We are subject to stringent regulatory requirements and prudential norms. If we are unable to comply with such laws, regulations and norms it may have an adverse effect on our business, financial condition, results of* *operations and cash flows*" on page 28. In addition, we compete with informal sources of lending for micro loans, including moneylenders, landlords, local shopkeepers and traders.

On December 5, 2019, the RBI issued guidelines for on-tap licensing of small finance banks, which allows applicants to apply for a small finance bank license at any time, subject to the fulfilment of certain eligibility criteria and other conditions. We expect this to increase competition for us. Further, consolidation in the industry driven by the merger of other banks is likely to further increase competition by creating larger, more homogeneous and potentially stronger competitors in the market. Increases in operations of existing competitors or the entry of additional banks offering a similar or wider range of products and services could also increase competition. Further, with the advent of technology-based initiatives and alternative modes of banking, we may face increased competition in this sector, which may in turn impact our results of operations. We also face competition from specialised fintech companies who could disrupt our origination, sales and distribution process.

If we are unable to compete effectively, it would adversely affect our business, financial condition, results of operations and cash flows.

20. ***There have been instances of delays and defaults in payment of statutory dues by our Bank in the past.***

The table below sets forth details of delays and defaults in payment of statutory dues by our Bank in the past. While we have discharged all such payments as of the date of this Draft Red Herring Prospectus, we cannot assure you that there will be no further delays or defaults in payment of statutory dues in future.

(₹ in million)

Nature of statutory due	Period	Amount Delayed	Interest/ Delay Charges	Total
Provident Fund	Fiscal 2018	6.94	0.34	7.27
Provident Fund	Fiscal 2019	0.33	0.01	0.34
Provident Fund	Fiscal 2020	*	*	*
Tax Deducted at Source	Fiscal 2018	7.04	0.33	7.37
Tax Deducted at Source	Fiscal 2019	0.08	*	0.09

Note*:*

**Amount is below the rounding off limits adopted by our Bank.*

21. ***If we fail to effectively manage our growth, our business may be adversely affected.***

We have witnessed growth in our business. Our total gross advances were ₹ 84,150.50 million, ₹ 66,065.11 million and ₹ 45,870.63 million as at March 31, 2021, 2020 and 2019, respectively. Our total deposits were ₹ 89,994.26 million, ₹ 70,283.82 million and ₹ 43,170.08 million as at March 31, 2021, 2020 and 2019, respectively.

We have also witnessed growth in our Branches and Ultra-Small Branches (combined). As at March 31, 2021, 2020 and 2019 we had 550 Branches, 454 Branches and 423 Branches and Ultra-Small Branches (combined), respectively, representing a CAGR of 14.03%. Our Ultra-Small Branches were the erstwhile micro loan branches from when our business was owned by our Corporate Promoter. They catered primarily to our micro loan customers. As per the RBI's guidelines, all our Ultra-Small Branches were converted to Branches or merged with a Branch before March 10, 2020.

We intend to deepen our distribution within the states and territories we operate in by, among other things, opening additional Branches. Our newly opened Branches may not be profitable immediately upon their opening or may take time to break even. We also intend to deepen our distribution within the states and territories we operate in by having business correspondents open more customer service centres, entering into relationships with new business correspondent entities and banking agents and adding ATMs. For details, see "*Our Business-Our Strategies-Penetrate deeper into our existing geographies*" on page 147. As we plan to deepen our distribution within the states and territories we operate in, our business may be exposed to additional challenges, including obtaining additional governmental or regulatory approvals, identifying and collaborating with local business partners with whom we may have no existing relationship, successfully marketing our products in markets in which we have no familiarity, attracting customers in a market in which we do not have significant experience or visibility, maintaining standardized systems and procedures, adapting our marketing strategy and operations to new markets in India in which different languages are spoken, higher technology costs, upgrading, expanding and securing our technology platform in new Branches, operational risks, including integration of internal controls and procedures, compliance with KYC, AML, CFT and other regulatory norms, ensuring customer satisfaction, recruiting, training and retaining skilled personnel, failure to manage third-party service providers in relation to any outsourced services and difficulties in the integration of new Branches with our network of existing Branches. To address these challenges, we may have to make significant investments that may not yield desired results or incur costs that we may not be able to recover. If we are unable to implement such growth strategies, our business, financial condition, results of operations and cash flows will be adversely affected.

22. ***If we fail to increase our CASA Ratio, we may have a higher cost of funds than our primary competitors, which could adversely affect our ability to compete for market share for loans unless we decrease our Net Interest Margin.***

As an NBFC-MFI, we were unable to accept deposits as per applicable laws in India. Since becoming a Small Finance Bank on March 10, 2017, we have placed a strong emphasis on increasing our demand (current accounts) and savings accounts (together referred to as "**CASA**"), as they tend to provide a stable and low-cost source of deposits compared to term deposits. We pay no interest on demand (current accounts) and we pay a lower average rate of interest on savings accounts compared to term deposits. Our Cost of Average CASA was 4.67%, 4.90% and 4.43% for Fiscals 2021, 2020 and 2019 and our Cost of Average Term Deposits 8.00%, 8.82% and 8.76% for Fiscals 2021, 2020 and 2019. We have been able to leverage the strength of the "ESAF" brand to rapidly grow our CASA since we commenced operations as a Small Finance Bank. Our CASA increased from ₹ 5,850.24 million as at March 31, 2019 to ₹ 17,476.45 million as at March 31, 2021, representing a CAGR of 72.72%. One of our strategies is to increase our CASA Ratio in order to reduce our Cost of Funds. For details, see "*Our Business – Our Strategies - Increase our deposits and in particular our NRI deposits and CASA*" on page 147. We have made significant progress in this by increasing our CASA Ratio from 13.55% as at March 31, 2019 to 19.42% as at March 31, 2021, while our Cost of Funds decreased from 8.95% for Fiscal 2019 to 7.56% for Fiscal 2021. If we are unable to increase our CASA Ratio to the desired extent, we may have a higher cost of funds than our competitors, which could adversely affect our ability to compete for market share for loans unless we decrease our Net Interest Margin. While we believe that the interest rate a borrower will be charged on a loan is not the only consideration a borrower takes into account when deciding between competing offers, we believe it is an important consideration. Therefore, if we are unable to increase our CASA Ratio to the desired extent, it could adversely affect our business, financial condition, results of operations and cash flows.

23. ***Weaknesses, disruptions or failures in IT systems could adversely impact our business.***

We are heavily reliant on IT systems in connection with, but not limited to, financial controls, risk management and transaction processing. Our critical IT systems are managed by FIS Payment Solutions and Services India Private Limited ("**FIS**"). FIS provides us with an end-to-end banking solution, which encompasses core banking systems, risk management, domestic treasury, switching solutions, debit card issuance services and internet banking solutions. Any failure by FIS to perform any of these functions could adversely affect our business, financial condition and results of operations. In addition, we use another software service provider for managing our micro loan business. If this software fails to perform, it could adversely affect our business, financial condition and results of operations.

Our on-line delivery channels are subject to various risks, such as network connectivity failure, information security issues and browser compatibility issues. We may also be subject to disruptions of our IT systems arising from events that are wholly or partially beyond FIS' control (including, for example, damage or incapacitation by human error, natural disasters, electrical or telecommunication outages, sabotage, computer viruses, hacking, cyber-attacks or similar events, or loss of support services from other third parties, such as internet backbone providers). We have experienced failures in our IT systems in the past that have resulted in all or some of our banking services and payment systems being unavailable for short periods of time (the maximum time was 325 minutes, which occurred in February 2019), and our Android mobile banking app did not work for 663 minutes in November 2018, 5,000 minutes in December 2018, and 55 minutes in November 2020. However, these IT failures did not have a material adverse effect on our business, financial condition, results of operations and cash flows. The RBI carried out an examination of our Bank's IT systems and processes in June 2019 and identified certain deficiencies. We have responded to such observations and have complied with, or are in the process of complying with them. See also, "*-We are subject to inspections by various regulatory authorities, including by the RBI. Non-compliance with the observations of such regulators could adversely affect our business, financial condition, results of operations and cash flows*" on page 40. In the event we experience material interruptions in our IT systems in the future, this could give rise to deterioration in customer service and to loss or liability to us and it could adversely affect our business, financial condition, results of operations and cash flows.

We have a master service agreement with FIS dated June 10, 2016, which expires on December 31, 2021, pursuant to which FIS maintains a data centre in Mumbai and a comprehensive disaster recovery centre in Hyderabad for us as part of our business continuity measures. However, if for any reason the switch over to the back-up system does not take place or if a calamity occurs in both Mumbai and Hyderabad such that our data is compromised at both places, it would have an adverse effect on our business, financial condition, results of operations and cash flows.

24. ***We may face cyber threats attempting to exploit our network to disrupt services to customers and/or theft of sensitive internal data or customer information, which may cause damage to our reputation and adversely affect our financial condition, results of operations and cash flows.***

We offer online banking services to our customers. Our online banking channel includes multiple services, such as electronic funds transfer, bill payment services, usage of credit cards on-line, requesting account statements, and requesting cheque books. We are therefore exposed to various cyber threats, including (a) phishing and Trojans targeting our customers, wherein fraudsters send unsolicited mails to our customers seeking account sensitive information or to infect customer machines to search and attempt exfiltration of account sensitive information; and (b) hacking, wherein attackers seek to hack into our website with the primary intention of causing reputational damage to us by disrupting services; and (c) data theft, wherein cyber criminals may attempt to enter our network with the intention of stealing our data or information. In addition, we also face the risk of our customers incorrectly blaming us and terminating their accounts with us for any cyber security breaches that may have occurred on their own system or with that of an unrelated third party. Cyber security breaches could lead to the loss of trade secrets or other intellectual property, or could lead to the public exposure of personal information (including sensitive financial and personal information) of our customers and employees. Although we intend to continue to implement security technology and establish operational procedures to prevent break-ins, damage and failures, there can be no assurance that instances of IT infringements and security breaches will not take place in the future or that our security measures will be adequate or successful. Any cyber security breach could also subject us to additional regulatory scrutiny and expose us to civil litigation and related financial liability.

25. ***We have introduced several new products and services since April 1, 2018 and we cannot assure you that such products and services will be profitable in the future. Further, we may be unable to successfully diversify our product portfolio or enter into new lines of business, which may adversely affect our business, financial condition, results of operations and cash flows.***

Prior to Fiscal 2018, all of our loans were micro loans. Since then, we have introduced retail advances, MSME and corporate advances and agricultural advances. We began distributing third party products in Fiscal 2019 when we started distributing the National Pension System, Atal Pension Yojna and third-party general insurance products. In Fiscal 2020, we began distributing third-party life insurance products. In Fiscal 2020, we began offering platinum debit cards. For a table showing the income from these products and services and such income as a percentage of our total income for Fiscals 2021, 2020 and 2019, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations – Significant Factors Affecting our Results of Operation and Financial Condition – Increase in Product Offerings*" on page 303.

We cannot assure you that such products and services will be successful, whether due to factors within or outside of our control, such as general economic conditions, a failure to understand customer demand and market requirements or management focus on these new products. In the event that we fail to develop and launch new products or services successfully, we may lose any or all of the investments that we have made in promoting them and training our employees, and our reputation would be harmed. Further, we require approval from regulatory authorities before we commence offering certain products and services, such as mutual fund distribution and any additional foreign exchange services. If we fail to obtain such approvals, or to develop and launch such products and services successfully, we may lose a part or all of the costs incurred in the development of such offerings, or we may discontinue these offerings. If we are unable to effectively manage any of these issues it could adversely affect our business, financial condition, results of operations and cash flows.

26. ***We may be unable to maintain or renew our statutory and regulatory permits, licences and approvals required to operate our business.***

We require certain statutory and regulatory permits and approvals to operate our business. These include approvals from the RBI for various aspects of our banking operations (including for services such as NEFT, RTGS and foreign exchange dealing), approvals to commence and operate mobile banking services and registrations from other regulatory authorities, such as the IRDAI for acting as a Category Corporate Agent (Composite) and PFRDA to transact in pension schemes. We may not, at all points of time, have all approvals required for our business. Further, in relation to our Branches, certain approvals may have lapsed in their normal course and our Bank has either made an application to the appropriate authorities for renewal of such registration or in the process of making such application. Our RBI In-Principle approval and RBI Final Approval also require us to comply with certain terms and conditions. In the event that we are unable to comply with any or all of these terms and conditions, or seek waivers or extensions of time for complying with these terms and conditions, it is possible that the RBI may revoke this licence or may place stringent restrictions on our operations. This may result in the interruption of all or some of our operations. If we fail to obtain, renew or maintain the required permits, licences or approvals, including those set out above, we could be subjected to penalties by the relevant regulatory authorities, which may result in the interruption of our operations or delay or prevent our expansion plans and may have an adverse effect on our business, financial condition, results of operations and cash flows.

See also, "-*We could be subject to various sanctions and penalties by the RBI for failing to comply with the requirement to list the Equity Shares on a stock exchange in India before July 31, 2021*" on page 34.

27. ***We may face asset liability mismatches, which could affect our liquidity and consequently may adversely affect our financial condition, results of operations and cash flows.***

We face liquidity risks due to mismatches in the maturity of our assets and liabilities. For details on the maturity profile of our liabilities and assets as at March 31, 2021, see "*Selected Statistical Information – Asset Liability Gap*" on page 228. We may rely on funding options with a short-term maturity period for extending long-term loans, which may lead to an asset liability mismatch for certain periods. Mismatches between our assets and liabilities are compounded in case of pre-payments of the advances we grant to our customers. Further, asset liability mismatches create liquidity surplus or liquidity crunch situations and depending upon the interest rate movement, such situations may adversely affect our Net Interest Income. If we are unable to obtain additional borrowings or renew our existing credit facilities for matching tenures of our loan portfolio in a timely and cost-effective manner or at all, it may lead to mismatches between our assets and liabilities, which could adversely affect our financial condition, results of operations and cash flows.

28. ***Deterioration in the performance of any industry sector in which we have significant exposure may adversely affect our financial condition, results of operations and cash flows.***

The following table presents our sector-wise outstanding gross advances and the proportion of these advances to our outstanding domestic advances as at the dates indicated.

	As at March 31,					
	2021		**2020**		**2019**	
	Advances (₹ in million)	**% of Total**	**Advances (₹ in million)**	**% of Total**	**Advances (₹ in million)**	**% of Total**
Agricultural and Allied Activities	37,485.27	44.54%	33,528.24	50.75%	25,906.58	56.48%
Advances to Industry Sector	9,474.44	11.26%	11,210.46	16.97%	5,775.19	12.59%
Advances to Services Sector	14,657.95	17.42%	11,607.53	17.57%	7,762.51	16.92%
Personal Loan and Others	22,532.39	26.78%	9,718.88	14.71%	6,426.35	14.01%
Total Gross Advances	**84,150.05**	**100.00%**	**66,065.11**	**100.00%**	**45,870.63**	**100.00%**

Note: *The above categorization is based on the sectoral classification as reported under RBI DSB Risk Based Supervision Returns. The above figures reported are the same as reported under RBI DSB Risk Based Supervision Returns.*

Despite monitoring our level of exposure to sectors and borrowers, any significant deterioration in the performance of a particular sector in which we may have significant exposure driven by events not within our control, such as natural calamities, regulatory action or policy announcements by central or state government authorities, would adversely impact the ability of borrowers within that sector to service their debt obligations to us. As a result, we would experience increased delinquency risk, which may adversely affect our financial condition, results of operations and cash flows.

We cannot assure you that we will be able to diversify our exposure over different industry sectors in the future. Failure to maintain diverse exposure resulting in industry sector concentration may adversely impact our financial condition, results of operations and cash flows, in case of any significant deterioration in the performance of any such industry sector.

29. ***If our risk management policies are ineffective, it could adversely affect our business, financial condition, results of operations and cash flows.***

We have devoted significant resources to develop our risk management policies and procedures and plan to continue to do so in the future. For details on our risk management policies, see "*Our Business – Risk Management*" on page 158. Despite this, our policies and procedures to identify, monitor and manage risks may not be fully effective. Some of our risk management systems are not automated and are subject to human error. Some of our methods of managing risks are based on the use of observed historical market behaviour. As a result, these methods may not accurately predict future risk exposures, which could be significantly greater than those indicated by the historical measures.

To the extent any of the instruments and strategies we use to hedge or otherwise manage our exposure to market or credit risk are not effective, we may be unable to effectively mitigate our risk exposures in particular market environments or against particular types of risk. Further, some of our risk management strategies may not be effective in a difficult or less liquid market environment, where other market participants may be attempting to use the same or similar strategies to deal with the difficult market conditions. In such circumstances, it may be difficult for us to reduce our risk positions due to the activity of such other market participants. Other risk management methods depend upon an evaluation of information regarding markets, clients or other matters. This information may not in all cases be accurate, complete, up-to-date or properly evaluated.

Our investment and interest rate risk are dependent upon our ability to properly identify, and mark-to-market changes in the value of financial instruments caused by changes in market prices or rates. Our earnings are dependent upon the effectiveness of our management of changes in credit quality and risk concentrations, the accuracy of our valuation models and our critical accounting estimates and the adequacy of our allowances for loan losses. To the extent our assessments, assumptions or estimates prove inaccurate or not predictive of actual results, we could suffer higher than anticipated losses.

Management of operations, legal and regulatory risks requires, among other things, policies and procedures to properly record and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Further, as we seek to expand the scope of our operations, we also face the risk that we may not be able to develop risk management policies and procedures for new business areas or manage the risks associated with the growth of our existing business effectively. If we are unable to develop and implement effective risk management policies, it could adversely affect our business, financial condition, results of operations and cash flows.

30. ***We could be subject to volatility in income from our treasury operations, which could have an adverse effect on our results of operations and cash flows.***

Our income from treasury operations comprises interest and dividend income from investments, profit from sale of investments and income from our foreign exchange operations. Our treasury segment revenue contributed 10.83%, 11.74% and 10.35% of our total income during Fiscals 2021, 2020 and 2019, respectively. Our treasury operations are vulnerable to changes in interest rates, exchange rates, equity prices and other factors beyond our control, including the domestic and international economic and political scenario, inflationary expectations and the RBI's monetary policies. In particular, if interest rates rise, the valuation of our fixed income securities portfolio, such as Government securities and corporate bonds, would decline. Although we have operational controls and procedures in place for our treasury operations, such as counterparty limits, position limits, stop loss limits and exposure limits, that are designed to mitigate the extent of such losses, there can be no assurance that we will not incur losses in the course of our proprietary trading on our fixed income book held in the available for sale and held for trading portfolios. Any such losses could adversely affect our financial condition, results of operations and cash flows.

31. ***We are exposed to operational risks, including employee negligence, petty theft, burglary and embezzlement and fraud by employees, agents, customers or third parties, which could harm our reputation, business, financial condition, results of operations and cash flows.***

We are exposed to many types of operational risks, including employee negligence, petty theft, burglary and embezzlement and fraud by employees, agents, customers or third parties. Operational risks can result from a variety of factors, including failure to obtain proper internal authorisations, improperly documented transactions, failure of operational and information security procedures, computer systems, software or equipment, fraud, inadequate training and employee errors. We attempt to mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions. For details, see "*Our Business – Risk Management – Operational Risk*" on page 160. Although we intend to continue to implement technology-based security measures and establish operational procedures to prevent fraud, break-ins, damage and failures, there can be no assurance that these security measures will be adequate. Any failure to mitigate such risks may adversely affect our financial condition, results of operations and cash flows.

In addition, some of our transactions expose us to the risk of theft or unauthorized transactions by our employees and fraud by our employees, agents, customers or third parties. In the past, we have been subject to acts of fraud and theft of a non-material nature. For details in relation to criminal cases filed by us, see "*Outstanding Litigation and Material Developments – Litigation by our Bank – Criminal Litigation*" on page 329. Our security systems and measures undertaken to detect and prevent the occurrence of these risks may be insufficient to prevent or deter such activities in all cases. Furthermore, we may be subject to regulatory or other proceedings in connection with any unauthorized transaction, fraud or misappropriation by our representatives and employees, which could adversely affect our reputation, business, financial condition, results of operations and cash flows.

32. ***We are in non-compliance with certain Risk Based Supervision ("RBS") Tranche III requirements and if the RBI imposes penalties on us for this non-compliance, it could adversely affect our reputation, business, financial condition, results of operations and cash flows.***

We were in non-compliance with 18 out of the 209 requirements under RBS Tranche III during Fiscal 2020 and are currently in non-compliance with five requirements, namely: (i) not having in place a half-yearly or quarterly system for tracking the financial position of issuers for non-SLR instruments as required by the RBI's circular DBR No BP.BC.6/21.04.141/2015-16 dated July 1, 2015; (ii) not having Aadhaar Enabled Payment System enabled on all ATMs as required by the RBI's circular DPSS.CO.PD.No.892/02.14.003/2016-17 dated September 29, 2016; (iii) not having a review mechanism on a T+1 basis for backend database activities performed by third parties given backend access to a database of a critical system and/or payment system, as per the RBI's advisory dated February 6, 2020; (iv) not having our velocity check system interconnected to geographical zones as per the RBI's advisory dated April 2, 2019; and (v) not having One Time Combination locks implemented in all ATMs as required by the RBI's circular DCM (Plg.)No.2968/10.25.007/2018-19 dated June 14, 2019. The RBI could impose penalties on us for our non-compliance with the RBS Tranche III requirements, which could adversely affect our reputation, business, financial condition, results of operations and cash flows.

33. ***We are subject to inspections by various regulatory authorities, including by the RBI. Inspection by the RBI is a regular exercise for all banks and financial institutions. We may be subject to inspections from PFRDA and IRDA in the future. Non-compliance with the observations of such regulators could adversely affect our business, financial condition, results of operations and cash flows.***

We are subject to inspections by various regulatory authorities, including the RBI. Inspection by the RBI is a regular exercise for all banks and financial institutions. We may be subject to inspections from PFRDA and IRDA in the future.

The RBI has carried out three inspections of our Bank and one examination of our Bank's IT systems and processes. The first inspection was in October 2017 in relation to our application for the inclusion of our name in the second schedule of the RBI Act and we received observations from the RBI as a result of that inspection with respect to, among other things, (i) risk control self-assessment frameworks not being operationalized; (ii) a credit scoring framework for assessment of loan application credit approval not being in place; and (iii) the absence of assigning internal risk ratings to borrowers. All these points were complied with, after which our Bank was included into the second schedule of the RBI Act on December 18, 2018. The second inspection was in August 2019 in relation to a process audit of our KYC/AML process, system identification of NPAs and priority sector norms and the RBI identified certain process deficiencies, such as (i) the non-automation of management of bank guarantees sanctioned; and (ii) systems to monitor breach of limits fixed for small accounts had not been put in place. All the aforesaid observations were reviewed as part of the RBI annual financial inspection for Fiscal 2019 and all the pending points have been included in the RBI inspection report.

RBI's third inspection of our Bank was conducted between January 9, 2020 and February 7, 2020 for Fiscal 2019. Based on the RBI inspection, the RBI issued its final inspection report and our Bank was required to take the actions specified therein to the RBI's satisfaction with respect to, among others, (i) non-establishment of arm's length relationship with group entities; (ii) non-availability of historic data related to NPA classification from the front-end of the system and deficiencies in process for asset classification and provisioning of NPAs; (iii) deficiencies in credit appraisal and monitoring NBFC accounts; (iv) delays in detection and reporting of frauds; (v) deficiencies in MIS/CBS for classification of PSL advances; (vi) deficiencies in the grievances redressal mechanism, AML and KYC framework, IT systems and outsourcing arrangements; and (vii) gaps in oversight of the board, board level committees, management level committees and the audit mechanism. While we have responded to such observations and have been submitting our compliance status to the RBI regularly, we cannot assure you that the RBI will not make similar or other observations in the future. The observations that we are in the process of complying with, include one monitorable action point on implementation of trade finance module, which had to be complied with before December 31, 2020. Our Bank submitted a representation to the RBI vide letter dated December 18, 2020 requesting time till December 31, 2021 for implementation. Other pending items are (i) automation of asset liability management solution, automation of CRAR solution and closure of observations in the CSITE IT examination report. While our Bank is working to ensure compliance with the foregoing, no specific timelines have been stipulated for these points. Any significant deficiencies identified by the RBI in a final inspection report that we are unable to rectify to the RBI's satisfaction could lead to sanctions (such as restrictions being applied on carrying out certain business activities or our ability to obtain the regulatory permits and approvals required to expand our business) and penalties being imposed by the RBI on our Bank, which could materially and adversely affect our reputation, business, financial condition, results of operations and cash flows.

The RBI carried out an examination of our Bank's IT systems and processes in June 2019 and identified certain deficiencies, such as (i) the non-constitution of an internal information security audit team and the information security audit being conducted only through third party vendors; (ii) the non-implementation of risk-based transaction monitoring; (iii) the non-implementation of a centralized authentication and provisioning of web user accounts; (iv) mobile personal identification number, telephone personal identification number and net-banking password being stored using a weak format in the CBS database; and (v) the clear text debit card number and personal identification number was transmitted from the CBS database to FIS' hardware security module via the secured application integration channel and the application which controls the switch. We responded to such observations and submitted the compliance status to RBI.

We received a letter dated March 23, 2020 from the RBI highlighting various non-compliances with the RBI's instructions for strengthening our IT/cyber security systems, which we were instructed to resolve by December 2020. We received a second letter dated February 3, 2021 from the RBI notifying us that we had yet to comply with certain directions specified in the RBI's letter dated March 23, 2020, namely, that: (i) we were using the fraud risk monitoring tool of National Payments Corporation of India and a fraud navigation tool of FIS for fraud monitoring on a non-real time basis; (ii) we were non-compliant with the RBI's circular DBS.CO/CSITE/BC.11/33.01.001/2015-16 entitled "Cyber Security Framework in Banks" dated June 2, 2016; (iii) we were non-compliant with advisories issued by the Cyber Security and Information Technology Examination Cell of Department of Banking Supervision ("**CSITE Cell**"), RBI, regarding, among others, lacking a robust incident response mechanism to mitigate fraud loss and lacking a mechanism to monitor breaches, if any, on a twenty-four hours per day, seven days per week basis including weekends and long holidays, given that the potential for cyber-attacks are more probable on weekends and long holidays; and (iv) our implementation of risk based transaction monitoring or surveillance process as part of fraud risk management was non-compliant. We were instructed to comply with all such directions by June 30, 2021. The latest compliance status submitted to the CSITE Cell, RBI on April 5, 2021 had six observations not complied with by us out of 47, all of which are related to the Enterprise Fraud Risk Management Solution. We have implemented the Enterprise Fraud Risk Management Solution, which went live on June 30, 2021, and reported the same to the RBI.

34. ***Banking companies in India, including us, may be required to report financial statements as per Ind AS in the future. Differences exist between Ind AS and Indian GAAP. In the future, if we are required to prepare our financial statements in accordance with Ind AS, there is a possibility that our financial condition, results of operations and cash flows could be worse than if we prepared our financial statements in accordance with Indian GAAP.***

We currently prepare our financial statements under Indian GAAP. However, the Ministry of Corporate Affairs, in its press release dated January 18, 2016, issued a roadmap for the implementation of Ind AS for scheduled commercial banks, insurance companies and NBFCs, which are also applicable to our Bank. Such roadmap provided that these institutions were required to prepare Ind AS financial statements for accounting periods commencing April 1, 2018 (including comparative financial statements for the corresponding periods in the previous year). The RBI, by its circular dated February 11, 2016, required all scheduled commercial banks to comply with Ind AS for financial statements commencing April 1, 2018 and also required such entities to prepare and submit proforma Ind AS financial statements to the RBI since the six months ended September 30, 2016. As we became a scheduled bank on November 12, 2018, we were only required to submit such proforma Ind AS financial statements from November 12, 2018 onwards. Furthermore, the RBI granted us an exemption for the quarter ended December 31, 2018. In compliance of such regulatory requirements, we have submitted proforma Ind AS financial statements for the quarter ended March 31, 2019. We are required to continue to submit such proforma Ind AS financial statements every quarter to the RBI. However, the RBI, through its notification dated March 22, 2019, decided to defer the implementation of Ind AS until further notice for all scheduled commercial banks (except regional rural banks). Under applicable regulations, scheduled commercial banks, including our Bank, are not permitted to adopt Ind AS financial statements until permitted by the RBI. Accordingly, we continue to prepare and present our financial statements under Indian GAAP, while still submitting proforma Ind AS financial statements to the RBI.

Ind AS is different in many respects from Indian GAAP. There can be no assurance that the transition to Ind AS will not further increase our provisioning requirements in the future. Furthermore, if we are required to prepare our financial statements in accordance with Ind AS, there is a possibility that our financial condition, results of operations and cash flows could be worse than if we prepared our financial statements in accordance with Indian GAAP. Although we have procured a software solution for Ind AS from a third party vendor and implementation of the same is in progress, if the RBI decides to implement the adoption of Ind AS for scheduled commercial banks, in our transition to Ind AS reporting, we may encounter difficulties in the on-going process of implementing and enhancing our management information systems. Our management may also have to divert significant time and additional resources in order to implement Ind AS on a timely and successful basis. Therefore, our transition to Ind AS reporting could have an adverse effect on our business, financial condition, results of operations and cash flows.

35. ***We may breach third-party intellectual property rights.***

While we take care to ensure that we comply with the intellectual property rights of others, we cannot determine with certainty as to whether we are infringing on any existing third-party intellectual property rights, which may force us to alter our technologies, obtain licenses or cease some of our operations. We may be subject to claims by third parties, both inside and outside India, if we breach their intellectual property rights by using slogans, names, designs, software or other such rights that are of a similar nature to the intellectual property these third parties may have registered or are using. We might also be in breach of such third-party intellectual property rights due to accidental or purposeful actions by our employees where we may also be subjected to claims by such third parties.

Any legal proceedings that result in a finding that we have breached third parties' intellectual property rights, or any settlements concerning such claims, may require us to provide financial compensation to such third parties or stop using the relevant intellectual property (including by way of temporary or permanent injunction) or make changes to our marketing strategies or to the brand names of our products, any of which may have a material adverse effect on our reputation, business, financial condition, results of operations and cash flows.

36. ***If we fail to adapt to technological advancements in the financial services sector it could affect the performance and features of our products and services and reduce our attractiveness to customers.***

Our continued success will depend, in part, on our ability to respond to technological advancement in the way customers prefer to execute their financial services. Technological innovation in digital wallets, mobile operator banking, advancements in blockchain technology payment banks, internet banking through smart phones, could disrupt the banking industry as a whole. If we fail to adapt to such technological advancements quickly and effectively it could affect the performance and features of our products and services and reduce our attractiveness to existing and potential customers hereby adversely affecting our business, financial condition, results of operations, and cash flows.

37. ***We lease or licence all of our business premises and any failure to renew such leases or licences or their renewal on terms unfavourable to us may adversely affect our business, financial condition and results of operations and cash flows.***

Our Corporate Office and Registered Office are located on leased premises. As at May 31, 2021, we had 550 Branches, all of which were located on leased premises. As at May 31, 2021, we had 327 brown label ATMs, all of which are on leased/licensed premises. Brown label ATMs are branded as our ATMs but the brown label ATM operator provides machine maintenance, cash balancing, reconciliation, cash collection and replenishment services and provides daily MIS on the basis of which the balances are compared and reconciled as per the balances with our core banking systems. A failure to renew lease or licence agreements would require us to relocate operations. We may also face the risk of being evicted in the event that our landlords allege a breach on our part of any terms under these lease or licence agreements or the landlord does not have the title of the property and the actual owner of the property evicts us. If we are required to relocate a significant number of our Branches or brown label ATMs, this may cause a disruption to our operations or result in increased costs, or both, which may adversely affect our business, financial condition and results of operations. In addition, we may not be able to renew our leases or licences on terms that are favourable to us, which would lead to an increase in costs, thereby affecting our business, financial condition, results of operations and cash flows.

38. ***Some of our lease/ license agreements have not been registered.***

Some of our lease/ license agreements have not been registered in terms of the Registration Act, 1908. Accordingly, registration charges, and consequent penalties will have to be paid on such documents. Accordingly, such documents may not be produced for enforcement before a court of law until the applicable registration charges, and consequent penalties are paid on such documents. Further, this may affect our ability to renew such agreements or result in us being required to enter into a new agreement and consequently, we may experience business disruption. This may affect our business, financial condition and result of operations.

39. ***Certain of our Directors are on the board of directors of companies engaged in a line of business similar to that of ours. Any conflict of interest that may occur as a result could adversely affect our business, financial condition, results of operations and cash flows.***

Certain of our Directors are on the board of directors of companies engaged in a line of business similar to that of our Bank. Saneesh Singh, our Non-Executive Nominee Director, is a director on the board of Cashpor Micro Credit, Growing Opportunity Finance (India) Private Limited and Satya Microcapital Limited. Chandanathil Pappachan Mohan is a director on the board of directors of Satya Microcapital Limited. These entities may provide comparable services, expand their presence, solicit our employees or acquire interests in competing ventures in the locations or segments in which we operate. A conflict of interest may occur between our business and the business of such entities, which could have an adverse effect on our business, financial condition, results of operations and cash flows.

40. ***Any non-compliance with mandatory AML, KYC and CFT laws and regulations could expose us to liability and harm our business and reputation.***

In accordance with the requirements applicable to banks in India, we are mandated to comply with applicable anti-money laundering ("**AML**"), know your client ("**KYC**") and combatting financing of terrorism ("**CFT**") regulations. These laws and regulations require us, among other things, to adopt and enforce AML, KYC and CFT policies and procedures. Our reputation and business could suffer if any such parties use or attempt to use us for money-laundering or illegal or improper purposes and such attempts are not detected or reported to the appropriate authorities in compliance with applicable regulatory requirements.

Although we believe that we have adequate internal policies, processes and controls in place to prevent and detect AML and CFT activity and ensure KYC compliance, there may be significant inconsistencies in the manner in which specific operational and KYC, AML, CFT policies are actually interpreted and implemented at an operational level in each of our Branches. If we fail to comply with such laws and regulations, we may be subject to regulatory actions, including imposition of fines and other penalties by the relevant government agencies to whom we report.

41. ***We are required to comply with certain restrictive covenants under our financing agreements. Any non-compliance may lead to, amongst others, accelerated repayment schedule, securitization of assets charged and suspension of further drawdowns, which may adversely affect our business, financial condition, results of operations and cash flows.***

Some of the financing arrangements entered into by us include conditions that require us to obtain respective lenders' consent prior to carrying out certain activities and entering into certain transactions and it also provides the lender the right to appoint a nominee on the board of directors of our Bank or to send an observer, in the absence of the nominee to attend meetings of the board of directors of our Bank. Failure to meet these conditions or obtain these consents could have significant consequences on our business and operations. These covenants vary depending on the requirements of the financial institution extending such loan and the conditions negotiated under each financing agreement. Some of the corporate actions that require prior consents from certain lenders include, among others, altering our capital structure, changing our current ownership/ control, formulating a scheme of amalgamation, compromise or reconstruction, material change in management, implementing a scheme of expansion, declaration or payment of dividend, and amending constitutional documents. Further, under certain financing agreements, we are required to maintain specific credit ratings and if we fail to do so, it would result in an event of default. We are also required to maintain certain financial ratios and ensure compliance with regulatory requirements, such as maintenance of CAR, qualifying asset norms and ensure positive net worth. Failure to comply with such covenants may restrict or delay certain actions or initiatives that we may propose to take from time to time.

In addition, our lenders may recall all or part of such unsecured amounts borrowed by us on short or no notice. Such recalls on borrowed amounts may be contingent upon happening of an event beyond our control and there can be no assurance that we will be able to persuade our lenders to give us extensions or to refrain from exercising such recalls, which may adversely affect our results of operations and cash flows.

Further, pursuant to clauses in certain financing agreements, any defaults under such facilities may also trigger cross default or cross acceleration provisions under our other financing agreements. If the obligations under any of our financing documents are accelerated, we may have to dedicate a portion of our cash flow from operations to make payments under such financing documents, thereby reducing the availability of cash for our working capital requirements and other general corporate purposes. In addition, during any period in which we are in default, we may be unable to raise, or face difficulties raising, further financing.

42. ***The RBI has in the past sought clarifications on our non-compliance with requirements for implementing government sponsored schemes under the Service Area Approach.***

Under the Service Area Approach, 1989, each of our Branches located in rural or semi-urban areas is required to meet the bank credit needs of its service area, particularly in respect of government sponsored schemes. Pursuant to its letter dated November 30, 2020, the RBI instructed us to explain, by December 7, 2020, why we had not sanctioned any loans under government sponsored schemes in our service area in the district of Alappuzha, Kerala, as notified to the RBI by a complaint placed by the Lead District Manager, Alappuzha. We submitted a response to the RBI vide a letter dated December 5, 2020 stating that we may not be equipped to disburse all types of government sponsored schemes, given that we finished converting our micro lending outlets into Branches very recently, our core banking solution had started with liability products and most of our asset products were still under development. In response, the RBI instructed us to ensure, by March 31, 2021, that (i) all our Branches comply with the Service Area Approach and (ii) our core banking solution disburses loans under government sponsored schemes. We complied with the RBI's instructions by March 31, 2021. If we fail to comply with the requirements under the Service Area Approach, 1989, in the future the RBI could levy penalties against us, which could have an adverse effect on our business, financial condition results of operations and cash flows.

43. ***We had negative cash flow generated from operating activities for Fiscal 2019 and we may experience negative cash flows from operating activities in the future.***

Our net cash used in operating activities was ₹ 2,391.34 million for Fiscal 2019. For further details, see "*Financial Statements – Restated Statement of Cash Flows*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources–Cash Flows*" on pages 248 and 320, respectively. We may experience negative cash flows from operating activities in the future.

44. ***We may face labour disruptions that would interfere with our operations and have an adverse effect on our business, financial condition, results of operations and cash flows.***

Although none of our employees are in a trade union, we are exposed to the risk of labour disruptions. While our relations have been good with our employees, we cannot guarantee that our employees will not participate in work stoppages or other industrial action in the future. Our Bank is involved in two labour disputes, which are non-quantifiable in nature. These proceedings are pending at District Labour Offices at different jurisdictions. We cannot assure you that these proceedings will be decided in our favour. Any other such event could disrupt our operations, possibly for a significant period of time, and result in increased wages and other benefits, which could have an adverse effect on our business, financial condition, results of operations and cash flows.

45. ***We depend on the accuracy and completeness of information about customers and counterparties and any misrepresentation, errors or incompleteness of such information could cause our business to suffer.***

In deciding whether to extend credit or enter into other transactions with customers and counterparties, we may rely on information furnished to us by or on behalf of customers and/or counterparties. We may also rely on certain representations as to the accuracy and completeness of that information. To further verify the information provided by potential customers, we conduct searches through credit bureaus for creditworthiness of our customers who have a credit history.

Our business involves lending money to smaller, relatively low-income entrepreneurs and individuals who may not have any credit history. A significant majority of our customers belong to the low-income group and may not have any credit history supported by tax returns, credit card statements, statements of previous loan exposures or other related documents. They may also have limited formal education, and are generally able to furnish very limited information for us to be able to assess their creditworthiness accurately. In addition, we may not receive updated information regarding any change in the financial condition of our customers or may receive inaccurate or incomplete information. It is therefore difficult to carry out a formal credit risk analyses on our customers based on financial information.

Difficulties in assessing credit risks associated with our day-to-day lending operations may lead to an increase in the level of our NPAs, which could adversely affect our business, financial condition, results of operations and cash flows.

46. ***We are dependent on our senior management and other key personnel, and the loss of, or our inability to attract or retain, such persons could adversely affect our business, financial condition, results of operations and cash flows.***

Our performance depends largely on the efforts and abilities of our senior management and other key personnel, including our operational, credit managers and branch managers. We believe that the inputs and experience of our senior management, in particular, and other key personnel are valuable for the development of our business and operations and the strategic directions taken by us. For details in relation to the experience of our Key Management Personnel, see "*Our Management*" on page 190. Further, terms of employment of certain of our Key Managerial Personnel, namely, George Thomas, M.G. Ajayan and Antoo P.K. are on a contractual basis, and renewable subject to the terms and conditions of their respective appointments. Further, the term of employment of Dominic Joseph and Mohanachandran K.R. are valid up to September 30, 2021 and November 30, 2021, respectively, and are not subject to renewal on account of each of them crossing 65 years of age, as per the Bank's internal policy. The attrition of our Key Management Personnel was one out of 10 in Fiscal 2021, three out of 10 in Fiscal 2020 and one out of three in Fiscal 2019. We cannot assure you that we will be renewing the terms of employment of our Key Managerial Personnel or that these individuals or any other member of our senior management team will not leave us or join a competitor or that we will be able to retain such personnel or find adequate replacements in a timely manner, or at all. We may require a long period of time to hire and train replacement personnel when qualified personnel terminate their employment with us. Further, the RBI is required to approve candidates proposed to be appointed as chairman, managing director and executive director. Additionally, the RBI has the power and the authority to remove any employee or managerial person under certain circumstances. For instance, in the past, the RBI has directed our Individual Promoter, Kadambelil Paul Thomas, to step down from his position of Managing Director and Chief Executive Officer of our Bank on account of his holding substantial interest in our Corporate Promoter and not being able to divest his shareholding in our Corporate Promoter in accordance with the Banking Regulation Act. As a result, Kadambelil Paul Thomas resigned from his position of Managing Director and Chief Executive Officer on June 2, 2018, and re-joined on October 1, 2018 with the approval of the RBI dated October 1, 2018, post divesture of his shareholding in the Corporate Promoter in compliance with the directions of the RBI. For further details, see "*Outstanding Litigation and Material Developments*" on page 328.

Further, we may also be required to increase our levels of employee compensation more rapidly than in the past to remain competitive in attracting employees that our business requires. Failure to train and motivate our employees properly may result in an increase in employee attrition rates, require additional hiring, erode the quality of customer service, divert management resources, increase our exposure to high-risk credit and impose significant costs on us, thereby adversely affecting our business, financial condition, results of operations, and cash flows.

47. ***If we were to incur a serious uninsured loss or a loss that significantly exceeds the limits of our insurance policies, it could have an adverse effect on our financial condition, results of operations and cash flows.***

We have insurance policies covering 100% of our tangible fixed assets as at March 31, 2021. We also have a Bankers indemnity insurance policy covering cash in hand, coverage for which is based on a certain average amount based on industry practice. As at March 31, 2021, this insurance policy covered 30.29% of our cash in hand. We do not have insurance policies covering any of our other assets. For details on the insurance policies that we hold, see "*Our Business – Insurance*" on page 163. While we are covered by a range of insurance policies that we believe is consistent with industry practice in India and in accordance with the guidelines provided by RBI to cover risks associated with our business, we cannot assure you that our current insurance policies will insure us fully against all risks and losses that may arise in the future. Even if such losses are insured, we may be required to pay a significant deductible on any claim for recovery of such a loss, or the amount of the loss may exceed our coverage for the loss. In addition, our insurance policies are subject to annual review, and we cannot assure you that we will be able to renew these policies on similar or otherwise acceptable terms, or at all. If we were to incur a serious uninsured loss or a loss that significantly exceeds the limits of our insurance policies, it could have an adverse effect on our financial condition, results of operations and cash flows.

48. ***Any non-compliance with law or unsatisfactory service by the third-party service providers engaged by us for certain services could have an adverse impact on our business, results of operations and cash flows.***

We enter into outsourcing arrangements with third party vendors and independent contractors, in compliance with the RBI guidelines on outsourcing. These vendors and contractors provide services that include, among others, ATM/ card related services, business correspondents, facility management services related to information technology, software services and call centre services. We are also dependent on various vendors for certain elements of our operations including branch roll-outs, networking, managing our data centre, and back-up support for disaster recovery. As a result of outsourcing such services, we are exposed to various risks including strategic, compliance, operational, fraud, theft, embezzlement, legal and contractual risks. Any failure by a service provider to provide a specified service or a breach in security/ confidentiality or non-compliance with legal and regulatory requirements, may result in financial loss or loss of reputation. We cannot assure you that there will be no disruptions in the provision of such services or that these third parties will adhere to their contractual obligations. If there is a disruption in the third-party services, or if the third-party service providers discontinue their service agreement with us, our business, financial condition and results of operations may be adversely affected. We cannot assure you that the terms of such agreements will not be breached, and in case of any dispute, it may result in litigation costs. Such additional cost, in addition to the cost of entering into agreements with third parties in the same industry, may adversely affect our business, financial condition and results of operations.

The "Guidelines on Managing Risks and Code of Conduct in Outsourcing of Financial Services by Bank" issued by the RBI on March 11, 2015 places obligations on banks, its directors and senior management for ultimate responsibility for the outsourced activity. We have an outsourcing and vendor risk management policy. Banks are required to ensure outsourced service providers obtain prior approval for the use of subcontractors. The RBI has also directed banks to review the subcontracting arrangements and ensure that such arrangements are compliant with aforementioned RBI guidelines. Legal risks, including actions being undertaken by the RBI, if our third-party service providers act unethically or unlawfully, could adversely affect our business, financial condition, results of operations and cash flows.

49. ***Our Promoters will continue to exercise significant influence over our Bank after the completion of the Offer.***

As at the date of this Draft Red Herring Prospectus, our Promoters hold 69.40% of the issued, subscribed and paid-up Equity Share capital of our Bank. Upon completion of the Offer, our Promoters will hold [•]% of our Equity Share capital, continuing to hold minimum capital as prescribed by the RBI. As per applicable law, our Promoters' voting rights in our Bank are capped to 26.00% of the total voting rights of our Bank (i.e., the maximum voting rights permitted to be exercised by any shareholder in a banking company). As long as our Promoters continue to hold a significant ownership stake in us, our Promoters have the ability to significantly influence the outcome of any matter submitted to shareholders for approval, including matters relating to sale of all or part of our business, mergers, or acquisitions; and changes to our capital structure or financing. Pursuant to the terms of the Corporate Promoter SHA, our Corporate Promoter has agreed to (upon successful completion of the Offer) to: (i) undertake a buy-back of its shares in accordance with applicable law from the amount received from the Offer for Sale of its Equity Shares and such buy-back shall be computed in the manner set out in the Corporate Promoter SHA; and (ii) file an application for cancellation and reduction of a certain portion of the share capital of the Corporate Promoter, in consideration for which the Corporate Promoter has agreed to transfer Equity Shares that the Corporate Promoter holds in the Bank to the Investors in the Corporate Promoter in such proportion as agreed to under the Corporate Promoter SHA as per the formula set out therein. This could result in significant dilution in our Corporate Promoter's shareholding in our Bank. For further details see "*History and Corporate Matters – Shareholders' Agreements and Other Agreements*" and "*- Any future issuance of Equity Shares by us or sales of Equity Shares by the Promoters could adversely affect the trading price of the Equity Shares and in the case of the issuance of Equity Shares by us result in the dilution of our then current shareholders*" on pages 186 and 51. The trading price of the Equity Shares could be adversely affected if potential new investors are disinclined to invest in us because they perceive there to be disadvantages in our Promoters holding a large percentage of the Equity Shares. Further, subject to the receipt of Shareholders' approval, in the first general meeting of our Bank held after the successful completion of the Offer, our Articles of Association provides our Corporate Promoter and our Individual Promoter with the right to (i) appoint a maximum of three Directors and two Directors on the Board of our Bank, respectively; and (ii) nominate the Chairman and Managing Director and Chief Executive Officer of the Bank, both subject to applicable laws and the RBI's consent.

50. ***Our Promoters, certain of our Directors and Key Managerial Personnel have interests in us other than reimbursement of expenses incurred and normal remuneration or benefits.***

Our Promoters, certain of our Directors and Key Managerial Personnel may be regarded as having an interest in our Bank other than reimbursement of expenses incurred and normal remuneration or benefits. Our Promoters, certain Directors and Key Managerial Personnel may be deemed to be interested to the extent of Equity Shares held by them as well as to the extent of any dividends, bonuses, or other distributions on such Equity Shares and to the extent of employee stock options granted to them. Further, Mr. Kadambelil Paul Thomas may be deemed to be interested to the extent of the lease rentals received from our Bank until March 31, 2020. For further details, see "*Capital Structure*", "*Our Management – Interests of our Directors*" and "*Our Promoter and Promoter Group – Interests of our Promoters*" on pages 69, 195 and 213, respectively.

51. ***We have in the past entered into related party transactions and may continue to do so in the future, which may potentially involve conflicts of interest with the equity shareholders.***

We have entered into various transactions with related parties, including for payment of salaries and wages of key management persons, payment of consideration for business correspondents agreements entered into with related parties, facility management fees and payment of lease rentals. While we believe that all such transactions have been conducted on an arm's length basis in compliance with the Companies Act, 2013 and contain commercially reasonable terms, we cannot assure you that we could not have achieved more favourable terms had such transactions been entered into with unrelated parties. It is likely that we may enter into related party transactions in the future. Although going forward, all related party transactions that we may enter into, will be subject to board or shareholder approval, as necessary under the Companies Act, 2013 and the SEBI Listing Regulations, we cannot assure you that such transactions, individually or in the aggregate, will not have an adverse effect on our financial condition and results of operations or that we could not have achieved more favourable terms if such transactions had not been entered into with related parties. Such related party transactions may potentially involve conflicts of interest. Related party transactions (being absolute arithmetic aggregate of gross values of items having an impact on the Statement of Profit and Loss) entered into by our Bank for Fiscals 2021, 2020 and 2019 represented 15.02%, 19.75% and 24.48% of our total income, respectively. For a summary of the related party transactions into by our Bank for Fiscals 2021, 2020 and 2019, see "*Offer Document Summary- Summary of related party transactions*" on page 16. For further details, see "*Other Financial Information – Related Party Transactions*" on page 296. We cannot assure you that such transactions, individually or in the aggregate, will always be in the best interests of public shareholders and will not have an adverse effect on our business, financial condition, results of operations and cash flows.

52. ***We have in this Draft Red Herring Prospectus included certain non-GAAP financial measures and certain other selected statistical information related to our operations and financial condition. These non-GAAP measures and statistical information may vary from any standard methodology that is applicable across the financial services industry, and therefore may not be comparable with financial or statistical information of similar nomenclature computed and presented by other financial services companies.***

Certain non-GAAP financial measures and certain other statistical information relating to our operations and financial performance have been included in this section and elsewhere in this Draft Red Herring Prospectus. For information on the non-GAAP financial measures, see "*Selected Statistical Information- Certain Non-GAAP Financial Measures*" on page 237. We compute and disclose such non-GAAP financial measures and such other statistical information relating to our operations and financial performance as we consider such information to be useful measures of our business and financial performance, and because such measures are frequently used by securities analysts, investors and others to evaluate the operational performance of financial services businesses, many of which provide such non-GAAP financial measures and other statistical and operational information when reporting their financial results. Such non-GAAP measures and other statistical and operational information are not measures of operating performance or liquidity defined by generally accepted accounting principles. These non-GAAP financial measures and other statistical and other information relating to our operations and financial performance may not be computed on the basis of any standard methodology that is applicable across the industry and therefore may not be comparable to financial measures and statistical information of similar nomenclature that may be computed and presented by other banks in India or elsewhere.

EXTERNAL RISKS

53. ***Any downturn in the macroeconomic environment in India could adversely affect our business, financial condition, results of operations and cash flows.***

Our performance and the growth of our business are necessarily dependent on the health of the overall Indian economy. Therefore, any downturn in the macroeconomic environment in India could adversely affect our business, financial condition, results of operations and cash flows. The Indian economy could be adversely affected by various factors, such as the impact of COVID-19 or other pandemics, epidemics, political and regulatory changes, including adverse changes in the Government's liberalisation policies, social disturbances, religious or communal tensions, terrorist attacks and other acts of violence or war, natural calamities, volatility in interest rates, volatility in commodity and energy prices, a loss of investor confidence in other emerging market economies and any worldwide financial instability. In addition, an increase in India's trade deficit, a downgrading in India's sovereign debt rating or a decline in India's foreign exchange reserves could increase interest rates and adversely affect liquidity, which could adversely affect the Indian economy and thereby adversely affect our business, financial condition, results of operations and cash flows.

Also see " – *COVID-19 has had and could continue to have an adverse effect on our business, financial condition, results of operations and cash flows*" on page 24.

54. ***The occurrence of natural disasters and man-made disasters could adversely affect our business, financial condition results of operations and cash flows. In addition, terrorist attacks and other acts of violence or war as well as civil unrest or rioting in India could create a perception that investment in Indian companies involves a higher degree of risk, thereby adversely affecting the market price of the Equity Shares.***

The occurrence of natural disasters, including cyclones, storms, floods, earthquakes, tsunamis, fires, explosions, pandemics (such as COVID-19) and epidemics, and man-made disasters, including acts of terrorism, other acts of violence and war, could adversely affect our business, financial condition, results of operations and cash flows. In addition, terrorist attacks and other acts of violence or war as well as civil unrest or rioting in India could create a perception that investment in Indian companies involves a higher degree of risk, thereby adversely affecting the market price of the Equity Shares.

55. ***Changing laws, rules and regulations and legal uncertainties, including adverse application of tax laws and regulations, across the multiple states we operate in, may have a material adverse effect on our business, financial condition, results of operations and cash flows.***

Our business and financial condition could be materially adversely affected by changes in the laws, rules, regulations or directions applicable to us and our general and micro loan businesses, or the interpretations of such existing laws, rules and regulations, or the promulgation of new laws, rules and regulations.

The governmental and regulatory bodies may notify new regulations and/ or policies, which may require us to obtain approvals and licenses from the government and other regulatory bodies, impose onerous requirements and conditions on our operations, in addition to those which we are undertaking currently, or change the manner in which we conduct

KYC or authenticate our customers. Any such changes and the related uncertainties with respect to the implementation of new regulations may have a material adverse effect on our business, financial condition, results of operations and cash flows.

In addition, unfavourable changes in or interpretations of existing, or the promulgation of new, laws, rules and regulations including foreign investment laws governing our business, operations and investments in our Bank by non-residents, could result in us being deemed to be in contravention of such laws and/ or may require us to apply for additional approvals.

Tax and other levies imposed by the central and state governments in India that affect our tax liability include central and state taxes and other levies, income tax, turnover tax, goods and service tax, stamp duty and other special taxes and surcharges which are introduced on a temporary or permanent basis from time to time. The final determination of our tax liabilities involves the interpretation of local tax laws and related regulations in each jurisdiction as well as the significant use of estimates and assumptions regarding the scope of future operations and results achieved and the timing and nature of income earned and expenditures incurred. Moreover, the central and state tax scheme in India is extensive and subject to change from time to time. Any future increases or amendments may affect the overall tax efficiency of companies operating in India and may result in significant additional taxes becoming payable. If the tax costs associated with certain transactions because of a particular tax risk materializing are greater than anticipated, it could affect the profitability of such transactions.

In addition, unfavourable changes in or interpretations of existing, or the promulgation of new laws, rules and regulations including foreign investment laws governing our business, operations and group structure could result in us being deemed to be in contravention of such laws or may require us to apply for additional approvals. We may incur increased costs and other burdens relating to compliance with such new requirements, which may also require significant management time and other resources, and any failure to comply may adversely affect our business, results of operations and prospects. Uncertainty in the applicability, interpretation or implementation of any amendment to, or change in, governing law, regulation or policy, including by reason of an absence, or a limited body, of administrative or judicial precedent may be time consuming as well as costly for us to resolve and may affect the viability of our current business or restrict our ability to grow our business in the future.

56. ***Financial difficulties and other problems in certain long-term lending institutions and investment institutions in India could have a negative effect on our business, financial condition, results of operation and, cash flows and the trading price of the Equity Shares could decrease.***

As an Indian small finance bank, we are exposed to the risks of the Indian financial system, which may be affected by the financial difficulties faced by certain Indian financial institutions because the commercial soundness of many financial institutions may be closely related as a result of credit, trading, clearing or other relationships. This risk, which is referred to as "systemic risk," may adversely affect financial intermediaries, such as clearing agencies, banks, securities firms and exchanges with whom we interact. Our transactions with these financial institutions expose us to credit risk in the event of default by the counterparty, which can be exacerbated during periods of market illiquidity. As the Indian financial system operates within an emerging market, we face risks of a nature and extent not typically faced in more developed economies, including the risk of deposit runs notwithstanding the existence of a national deposit insurance scheme. The problems faced by individual Indian financial institutions and any instability in, or difficulties faced by, the Indian financial system generally could create adverse market perception about Indian financial institutions and banks. This in turn could adversely affect our business, financial condition, results of operations, cash flows and the trading price of the Equity Shares.

57. ***Our ability to borrow in foreign currencies is restricted by Indian law.***

Indian banks and companies are subject to foreign exchange regulations that regulate borrowing in foreign currencies, including those specified under FEMA. Such regulatory restrictions limit our ability to borrow in foreign currencies and, therefore, could negatively affect our ability to obtain financing on competitive terms. In addition, we cannot assure you that any required approvals for borrowing in foreign currency will be granted to us without onerous conditions, or at all. Such, and other, limitations on raising foreign capital may adversely affect our business results of operations, financial condition and cash flows.

58. ***Significant differences exist between Indian GAAP and other accounting principles, such as U.S. GAAP and IFRS, which investors outside India may be more familiar with and may consider material to their assessment of our financial condition, results of operations and cash flows.***

The Restated Financial Information has been compiled by the management from the audited financial statements as at and for Fiscals 2021, 2020 and 2019. The above mentioned audited financial statements have been prepared in accordance with the requirements prescribed under the Banking Regulation Act. The accounting and reporting policies used in the preparation of these financial statements conform in all material aspects with Indian GAAP, the circulars and guidelines issued by the RBI from time to time and the Accounting Standards prescribed under Section 133 of the Companies Act (as amended), read with the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016 to the extent applicable and other relevant provisions of the Companies Act and current practices prevailing within the Banking industry in India. The Restated Financial Information have been prepared in accordance with the requirements of section 26 of Part 1 of Chapter III of the Companies Act, the SEBI ICDR Regulations and the Guidance Note on Reports in Company Prospectuses (Revised 2019). Indian GAAP differs in certain significant respects from IFRS, U.S. GAAP and other accounting principles with which prospective investors outside India may be familiar. If the Restated Financial Information were to be prepared in accordance with such other accounting principles, our results of operations, financial condition and cash flows may be substantially different. Prospective investors should review the accounting policies applied in the preparation of the Restated Financial Information, and consult their own professional advisers for an understanding of the differences between these accounting principles and those with which they may be more familiar. Any reliance by persons unfamiliar with Indian GAAP on the financial information presented in the Draft Red Herring Prospectus should accordingly be limited.

RISKS RELATING TO THE EQUITY SHARES AND THE OFFER

59. ***The determination of the Price Band is based on various factors and assumptions and the Offer Price of the Equity Shares may not be indicative of the market price of the Equity Shares upon listing on the Stock Exchanges. Investors bear the risk of fluctuations in the price of Equity Shares and there can be no assurance that a liquid market for the Equity Shares will develop following the listing of the Equity Shares on the Stock Exchanges.***

There has been no public market for the Equity Shares prior to the Offer. The determination of the Price Band is based on various factors and assumptions and will be determined by us and the Corporate Promoter in consultation with the BRLMs. Furthermore, the Offer Price of the Equity Shares will be determined by us and the Selling Shareholders, in consultation with the BRLMs, through the Book Building Process. This price will be based on numerous factors, as described under in "*Basis for Offer Price*" on page 84. This price may not necessarily be indicative of the market price of the Equity Shares after the Offer is completed. You may not be able to re-sell your Equity Shares at or above the Offer price and may as a result lose all or part of your investment.

The price at which the Equity Shares will trade at after the Offer will be determined by the marketplace and may be influenced by many factors, including:

- our financial condition, results of operations and cash flows;
- the history of and prospects for our business;
- an assessment of our management, our past and present operations and the prospects for as well as timing of our future revenues and cost structures;
- the valuation of publicly traded companies that are engaged in business activities similar to ours;
- quarterly variations in our results of operations;
- results of operations that vary from the expectations of securities analysts and investors;
- results of operations that vary from those of our competitors;
- changes in expectations as to our future financial condition, including financial estimates by research analysts and investors;
- a change in research analysts' recommendations;
- announcements by us or our competitors of significant acquisitions, strategic alliances, joint operations or capital commitments;
- announcements of significant claims or proceedings against us;
- new laws and government regulations that directly or indirectly affect our business;
- additions or departures of Key Management Personnel;
- changes in the interest rates;
- fluctuations in stock market prices and volume; and
- general economic conditions.

The Indian stock markets have, from time to time, experienced significant price and volume fluctuations that have affected market prices for the securities of Indian companies. As a result, investors in the Equity Shares may experience a decrease in the value of the Equity Shares regardless of our financial condition, results of operations and cash flows.

The Equity Shares are expected to trade on NSE and BSE after the Offer, but there can be no assurance that active trading in the Equity Shares will develop after the Offer, or if such trading develops that it will continue. Investors may not be able to sell the Equity Shares at the quoted price if there is no active trading in the Equity Shares.

60. ***Investors will not be able to sell immediately on an Indian stock exchange any of the Equity Shares they purchase in the Offer.***

The Equity Shares will be listed on the Stock Exchanges. Pursuant to applicable Indian laws, certain actions must be completed before the Equity Shares can be listed and trading in the Equity Shares may commence. The Allotment of Equity Shares in this Offer and the credit of such Equity Shares to the applicant's demat account with depository participant could take approximately six Working Days from the Bid/ Offer Closing Date and trading in the Equity Shares upon receipt of final listing and trading approvals from the Stock Exchanges is expected to commence within six Working Days of the Bid/ Offer Closing Date. There could be a failure or delay in listing of the Equity Shares on the Stock Exchanges. Any failure or delay in obtaining the approval or otherwise any delay in commencing trading in the Equity Shares would restrict investors' ability to dispose their Equity Shares. There can be no assurance that the Equity Shares will be credited to investors' demat accounts, or that trading in the Equity Shares will commence, within the time periods specified in this risk factor. We could also be required to pay interest at the applicable rates if allotment is not made, refund orders are not dispatched or demat credits are not made to investors within the prescribed time periods.

61. ***We have issued Equity Shares at a price that may be lower than the Offer Price in the last 12 months.***

Except as disclosed below, our Bank has not issued any Equity Shares in the last 12 months immediately preceding the date of this Draft Red Herring Prospectus at a price that may be lower than the Offer Price.

Date of allotment	Number of Equity Shares allotted	Face value per Equity Share (₹)	Issue price per Equity Share (₹)	Nature of consideration	Reason for allotment
March 31, 2021	21,678,308	10	75	Cash	Preferential allotment

For further information, see *"Capital Structure"* on page 69. The price at which Equity Shares have been issued by us in the preceding one year is not necessarily indicative of the Offer Price.

62. ***Our funding requirements and the proposed deployment of Net Proceeds have not been appraised and our management will have broad discretion over the use of the Net Proceeds.***

We intend to utilize the Net Proceeds to augment our Bank's Tier - I capital base to meet our Bank's future capital requirements, which are expected to arise out of growth in our Bank's assets, primarily our Bank's advances and investment portfolio, and to ensure compliance with applicable RBI regulations and guidelines. For further details, see "*Objects of the Offer - Net Proceeds*" on page 81. As stipulated in Regulation 41 of the ICDR Regulations, we are not required to appoint a monitoring agency for the use of the Net Proceeds and we do not intend to do so. Our proposed deployment of the Net Proceeds has not been appraised and it is based on management estimates. Under the SEBI ICDR Regulations, our Bank is not required to appoint a monitoring agency for the Offer and deployment of the Fresh Issue proceeds will be entirely at the discretion of our Bank. Our management will therefore have broad discretion to use the Net Proceeds. Various risks and uncertainties, including those set forth in this section, may limit or delay our efforts to use of the Net Proceeds to achieve profitable growth in our business. Accordingly, the use of the Net Proceeds may not result in the growth of our business or increased profitability.

63. ***We will not receive any proceeds from the Offer for Sale.***

The Offer consists of a Fresh Issue and an Offer for Sale. Each of the Selling Shareholders will be entitled to their respective portion of the proceeds from the Offer for Sale in proportion of the Equity Shares offered by the respective Selling Shareholders as part of the Offer for Sale. Our Bank will not receive any proceeds from the Offer for Sale. See "*Objects of the Offer*" on page 81.

64. ***We have never declared or paid any cash dividends on the Equity Shares. Our ability to pay dividends in the future will depend on our financial condition, results of operations, cash flows, capital requirements, capital expenditures and restrictive covenants of our financing arrangements, as well as compliance with applicable RBI regulations.***

We have never declared or paid any cash dividends on the Equity Shares and have not adopted a formal dividend policy. Any future determination as to the declaration and payment of dividends will be, subject to relevant RBI regulations, at the discretion of our Board and subsequent approval of shareholders and lenders and will depend on factors that our Board and shareholders deem relevant, including among others, our future financial condition, results of operations, cash flows, capital requirements, capital expenditures, business prospects and restrictive covenants under our financing arrangements. We may decide to retain all of our earnings to finance the development and expansion of our business and, therefore, may not declare dividends on the Equity Shares. In addition, the declaration and payment of dividends is subject to relevant RBI regulations (including RBI circular DBOD.NO.BP.BC. 88 /

21.02.067 / 2004-05 dated May 4, 2005, as amended) The RBI vide its circular dated April 17, 2020 has decided that banks shall not make any further dividend pay-outs from profits pertaining to the financial year ended March 31, 2020 until further instructions, with a view that banks must conserve capital in an environment of heightened uncertainty caused by COVID-19. Accordingly, the Board did not propose any dividend for the year ended March 31, 2020. In its circular dated April 22, 2021, the RBI permitted banks, including our Bank, to pay dividends on equity shares from profits for Fiscal 2021, subject to the quantum of dividend not exceeding more than 50.00% of the amount determined by the dividend payout ratio specified in in the RBI circular dated May 4, 2005. We cannot assure you that we will be able to pay dividends at any point in the future.

65. ***Any future issuance of Equity Shares or securities convertible into Equity Shares by us or sales of Equity Shares by the Promoters could adversely affect the trading price of the Equity Shares, and in the case of the issuance of Equity Shares by us, result in the dilution of our then current Shareholders.***

As disclosed in "*Capital Structure*" on page 69, an aggregate of 20.00% of our fully diluted post-Offer capital held by our Promoters shall be considered as minimum Promoters' contribution and locked in for a period of three years and the balance Equity Shares held by the Promoters and the other pre-Offer Shareholders following the Offer will be locked-in for one year from the date of Allotment. There can be no assurance that we will not issue additional Equity Shares or that the Promoters will not sell, pledge or encumber their Equity Shares during the lock-in period. Furthermore, our Promoters are required to reduce their aggregate shareholding to 40.00% of our paid-up Equity Share capital within a period of five years from the date of commencement of our business operation, which was on March 10, 2017, and thereafter required to reduce their aggregate shareholding to 30.00% and 26.00% of our paid-up Equity Share capital within a period of 10 years and 12 years, respectively, from the date of commencement of our business operations. Further pursuant to the terms of the Corporate Promoter SHA, our Corporate Promoter has agreed to (upon successful completion of the Offer) (i) undertake a buy-back of its shares in accordance with applicable law from the amount received from the Offer for Sale of its Equity Shares and such buy-back shall be computed in the manner set out in the Corporate Promoter SHA; and (ii) to file an application for cancellation and reduction of a certain portion of share capital of the Corporate Promoter, in consideration for which the Corporate Promoter has agreed to transfer Equity Shares that the Corporate Promoter holds in the Bank to the Investors in the Corporate Promoter in such proportion as agreed to under the Corporate Promoter SHA as per the formula set out therein. For further details, see "*History and Corporate Matters – Shareholders' Agreements and Other Agreements*" and "*– Our Promoters will continue to exercise significant influence over our Bank after the completion of the Offer*" on pages 186 and 46, respectively. Further, any future issuances of Equity Shares or convertible securities could dilute the holdings of our Shareholders and adversely affect the trading price of the Equity Shares. Such securities may also be issued at prices below the Offer Price. Sales of Equity Shares by the Promoters could also adversely affect the trading price of the Equity Shares. Such securities may also be issued at prices below the Offer Price. Sales of Equity Shares by the Promoters could also adversely affect the trading price of the Equity Shares.

66. ***Investors may be subject to Indian taxes arising out of the sale of the Equity Shares.***

Under current Indian tax laws, unless specifically exempted, capital gains arising from the sale of equity shares held as investments in an Indian company are generally taxable in India. Any capital gain realised on the sale of listed equity shares on a Stock Exchange held for more than 12 months immediately preceding the date of transfer will be subject to long term capital gains in India at the specified rates depending on certain factors, such as whether the sale is undertaken on or off the Stock Exchanges, the quantum of gains and any available treaty relief. Accordingly, you may be subject to payment of long-term capital gains tax in India, in addition to payment of Securities Transaction Tax ("**STT**"), on the sale of any Equity Shares held for more than 12 months immediately preceding the date of transfer. STT will be levied on the seller and/or the purchaser of the Equity Shares and collected by the domestic stock exchange on which the Equity Shares are sold. Further, any capital gains realised on the sale of listed equity shares held for a period of 12 months or less immediately preceding the date of transfer will be subject to short term capital gains tax in India as well as STT.

Capital gains arising from the sale of the Equity Shares will not be chargeable to tax in India in cases where relief from such taxation in India is provided under a treaty between India and the country of which the seller is resident read with the Multilateral Instrument ("**MLI**"), if and to the extent applicable, and the seller is entitled to avail benefits thereunder. Generally, Indian tax treaties do not limit India's ability to impose tax on capital gains. As a result, residents of other countries may be liable for tax in India as well as in their own jurisdiction on a gain upon the sale of the Equity Shares.

No dividend distribution tax is required to be paid in respect of dividends declared, distributed or paid by a domestic company after March 31, 2020 and, accordingly, such dividends would not be exempt in the hands of the shareholders, both for residents as well as non-residents. The Company may or may not grant the benefit of a tax treaty (where applicable) to a non-resident shareholder for the purposes of deducting tax at source pursuant to any corporate action, including dividends.

Similarly, any business income realised from the transfer of equity shares held as trading assets is taxable at the applicable tax rates subject to any treaty relief, if applicable, to a non-resident seller. Additionally, in terms of the Finance Act, 2018, which has been notified on March 29, 2018 with effect from April 1, 2018, taxes payable by an assessee on the capital gains arising from transfer of long-term capital assets (introduced as section 112A of the Income-Tax Act, 1961) shall be calculated on such long-term capital gains at the rate of 10.00%, where the long-term capital gains exceed ₹ 100,000, subject to certain exceptions in case of resident individuals and Hindu Undivided Families.

Further, the Finance Act, 2019 has made various amendments in the taxation laws and clarified that, in the absence of a specific provision under an agreement, the buyer will be liable to pay stamp duty in case of sale of securities through stock exchanges, while in other cases of transfer for consideration through a depository, the onus will be on the transferor. The stamp duty for transfer of securities other than debentures, on a delivery basis, is specified at 0.015% and on a non-delivery basis is specified at 0.003% of the consideration amount. These amendments were notified on December 10, 2019 and have come into effect from July 1, 2020.

67. ***QIBs and Non-Institutional Bidders are not permitted to withdraw or lower their Bids (in terms of quantity of Equity Shares or the Bid Amount) at any stage after submitting a Bid.***

Pursuant to the SEBI ICDR Regulations, QIBs and Non-Institutional Bidders are required to pay the Bid Amount on submission of the Bid and are not permitted to withdraw or lower their Bids (in terms of quantity of Equity Shares or the Bid Amount) at any stage after submitting a Bid. QIBs can revise their Bids during the Bid/ Offer Period and withdraw their Bids until the Bid/ Offer Closing Date. Therefore, QIBs and Non-Institutional Bidders would not be able to withdraw or lower their Bids, notwithstanding adverse changes in international or national monetary policy, financial, political or economic conditions, our business, results of operations or financial condition, or otherwise, between the dates of the submission of their Bids and the Allotment.

While our Bank is required to complete all necessary formalities for listing and commencement of trading of the Equity Shares on all Stock Exchanges where such Equity Shares are proposed to be listed, including Allotment, within six Working Days from the Bid/ Offer Closing Date or such other period as may be prescribed by the SEBI, events affecting the Bidders' decision to invest in the Equity Shares, including adverse changes in international or national monetary policy, financial, political or economic conditions, our business, results of operation or financial condition may arise between the date of submission of the Bid and Allotment. Our Bank may complete the Allotment of the Equity Shares even if such events occur, and such events may limit the Bidders' ability to sell the Equity Shares Allotted pursuant to the Offer or cause the trading price of the Equity Shares to decline on listing.

68. ***Fluctuations in the exchange rate between the Rupee and other currencies could have an adverse effect on the value of the Equity Shares in those currencies, independent of our results of operations.***

The Equity Shares will be quoted in Rupees on the Stock Exchanges. Any dividends in respect of the Equity Shares will be paid in Rupees. Any adverse movement in currency exchange rates during the time it takes to undertake such conversion may reduce the net dividend received by investors. In addition, any adverse movement in currency exchange rates during a delay in repatriating the proceeds from a sale of Equity Shares outside India, for example, because of a delay in regulatory approvals that may be required for the sale of Equity Shares, may reduce the net proceeds received by investors. The exchange rate between the Rupee and other currencies (such as the U.S. dollar, the Euro, the pound sterling, the Hong Kong dollar and the Singapore dollar) has changed substantially in the past and could fluctuate substantially in the future, which may have an adverse effect on the value of the Equity Shares and returns from the Equity Shares in foreign currency terms, independent of our operating results.

69. ***Investors will not, without the RBI's prior approval, be able to acquire Equity Shares if such acquisition would result in an individual or group holding 5.00% or more of our share capital or voting rights directly or indirectly. Further, no Shareholder will be permitted to exercise voting rights in excess of 26.00% of the total voting rights of our Bank.***

The Banking Regulation Act, read with the SFB Licensing Guidelines and RBI (Prior Approval for acquisition of shares or voting rights in private sector banks) Directions, 2015, requires any person to seek prior approval of the RBI, to acquire or agree to acquire shares or voting rights of a bank, either directly or indirectly, beneficial or otherwise, by himself or acting in concert with other persons, wherein such acquisition (taken together with shares or voting rights held by him or his relative or associate enterprise or persons acting in concert with him) results in the aggregate shareholding of such persons to be 5.00% or more of the paid-up share capital of a bank or entitles them to exercise 5.00% or more of the voting rights in a bank. Such approval may be granted by the RBI if it is satisfied that the applicant meets certain fitness and propriety tests. The RBI may require the proposed acquirer to seek further RBI approval for subsequent acquisitions. Further, the RBI may, by passing an order, restrict any person holding more than 5.00% of our total voting rights from exercising voting rights in excess of 5.00% if such person is deemed not to be fit and proper by the RBI. Further, as per the Banking Regulations Act read with gazette notification dated DBR.PSBD.No.1084/16.13.100/2016-17 dated July 21, 2016, no shareholder in a bank can exercise voting rights on poll in excess of 26.00% of total voting rights of all the shareholders of the bank. For details, see "*Key Regulations and Policies*" on page 169. Consequently, even if a potential takeover of our Bank would result in the purchase of Equity Shares at a premium to their market price or would otherwise be beneficial to our Shareholders, such a takeover may not be attempted or consummated because of the regulatory framework applicable to us.

70. ***The individual foreign investment limit of registered FPIs in our Bank is 10.00% of the total paid-up equity share capital of our Bank and the aggregate foreign investment limit for registered FPIs in our Bank is 49.00% of the total paid-up equity share capital of our Bank under the automatic route and 74.00% of the total paid-up equity share capital of our Bank under the Government approval.***

Foreign investment in India is governed by the provisions of FEMA along with the rules, regulations and notifications made by the RBI thereunder, and the Consolidated FDI Policy issued by the Department of Industrial Policy and Promotion, Ministry of Commerce and Industry, Government of India from time to time. Under the current FDI Policy (effective October 15, 2020), up to 49.00% foreign direct investment in our Bank is permitted under the automatic route and up to 74.00% foreign direct investment in our Bank is permitted under the Government approval route.

In terms of the SEBI (Foreign Portfolio Investors) Regulations, 2019, the issue of Equity Shares to a single FPI including its investor group (which means the same multiple entities registered as foreign portfolio investors having common ownership directly or indirectly of more than 50.00% or common control) must be below 10.00% of our Bank's post-Offer paid-up equity share capital on a fully diluted basis. Further, in terms of the FEMA Regulations, the total holding by each FPI, or an investor group, shall be below 10.00% of the total paid-up equity share capital, on a fully diluted basis, of our Bank and the total holdings of all FPIs put together can be up to 74.00% of the paid-up equity share capital of our Bank, being the sectoral cap applicable to our Bank. For calculating the aggregate holding of FPIs in our Bank, the holdings of all registered FPIs shall be included. Further, under the FDI Policy, at least 26.00% of the paid-up capital of our Bank is required to be held by residents. Also see "*Investors will not, without the RBI's prior approval, be able to acquire Equity Shares if such acquisition would result in an individual or group holding 5.00% or more of our share capital or voting rights directly or indirectly. Further, no Shareholder will be permitted to exercise voting rights in excess of 26.00% of the total voting rights of our Bank*" on page 52.

As per the circular issued by SEBI on November 24, 2014, the above investment restrictions shall also apply to subscribers of P-Notes. Two or more subscribers of P-Notes having a common beneficial owner shall be considered together as a single subscriber of the P-Notes. In the event an investor has investments as a FPI and as a subscriber of P-Notes, these investment restrictions shall apply on the aggregate of the FPI and P-Notes investments in our Bank.

71. ***Foreign investors are subject to investment restrictions under Indian law that limit our ability to attract foreign investors, which may adversely affect the trading price of the Equity Shares.***

Under foreign exchange regulations currently in force in India, transfers of shares between non-residents and residents are freely permitted (subject to certain restrictions), if they comply with the valuation and reporting requirements specified under applicable law. If a transfer of shares is not in compliance with such requirements and does not fall under any of the exceptions, then prior approval of the relevant regulatory authority is required. Additionally, shareholders who seek to convert Rupee proceeds from a sale of shares in India into foreign currency and repatriate that foreign currency from India require a no-objection or a tax clearance certificate from the Indian income tax authorities. Further, this conversion is subject to the shares having been held on a repatriation basis and, either the security having been sold in compliance with the pricing guidelines or, the relevant regulatory approval having been obtained for the sale of shares and corresponding remittance of the sale proceeds. We cannot assure you that any required approval from the RBI or any other governmental agency can be obtained with or without any particular terms or conditions. Further, in accordance with Press Note No. 3 (2020 Series), dated April 17, 2020, issued by the Department for Promotion of Industry and Internal Trade, Government of India, and the Foreign Exchange Management (Non-debt Instruments) Amendment Rules, 2020, which came into effect from April 22, 2020, investments where the beneficial owner of the Equity Shares is situated in or is a citizen of a country which shares land border with India, can only be made through the Government approval route, as prescribed in the FDI Policy. These investment restrictions shall also apply to subscribers of offshore derivative instruments. We cannot assure you that any required approval from the RBI or any other governmental agency can be obtained on any particular terms or at all. For further information, see "*Restrictions on Foreign Ownership of Indian Securities*" on page 380. Our ability to raise foreign capital under the FDI route is therefore constrained by Indian law, which may adversely affect our business, financial condition, results of operations and cash flows.

72. ***A third party could be prevented from acquiring control over our Bank because of anti-takeover provisions under Indian law and the provisions of the Banking Regulation Act.***

There are provisions in Indian law that may delay, deter or prevent a future takeover or change in control of our Bank. These provisions may discourage or prevent certain types of transactions involving actual or threatened change in control of us. Under the Takeover Regulations, an acquirer has been defined as any person who, directly or indirectly, acquires or agrees to acquire shares or voting rights or control over a company, whether individually or acting in concert with others. Although these provisions have been formulated to ensure that interests of investors/shareholders are protected, these provisions may also discourage a third party from attempting to take control of our Bank. Further, given that our Bank is governed by the RBI, any significant change in shareholding would require the RBI's prior approval. Consequently, even if a potential takeover of our Bank would result in the purchase of the Equity Shares at a premium to their market price or would otherwise be beneficial to our Shareholders, such a takeover may not be attempted or consummated because of the regulatory framework applicable to us.

73. ***Holders of Equity Shares could be restricted in their ability to exercise pre-emptive rights under Indian law and could thereby suffer future dilution of their ownership position.***

Under the Companies Act, 2013, a company incorporated in India must offer holders of its equity shares pre-emptive rights to subscribe and pay for a proportionate number of shares to maintain their existing ownership percentages prior to the issuance of any new equity shares, unless the pre-emptive rights have been waived by the adoption of a special resolution by holders of three-fourths of the equity shares who have voted on such resolution. However, if the law of the jurisdiction that you are in does not permit the exercise of such pre-emptive rights without our Bank filing an offering document or registration statement with the applicable authority in such jurisdiction, you will be unable to exercise such pre-emptive rights unless our Bank makes such a filing. Our Bank may elect not to file a registration statement in relation to pre-emptive rights otherwise available by Indian law to you. To the extent that you are unable to exercise pre-emptive rights granted in respect of the Equity Shares, you may suffer future dilution of your ownership position and your proportional interests in our Bank would be reduced.

74. ***Statistical and industry data in this Draft Red Herring Prospectus is derived from the CRISIL Research Report commissioned and paid for by us for such purpose. The CRISIL Research Report is not exhaustive and is based on certain assumptions and parameters/conditions. The data and statistics in the CRISIL Research Report may be inaccurate, incomplete or unreliable.***

This Draft Red Herring Prospectus includes information that is derived from the CRISIL Research Report, which was prepared by CRISIL Research pursuant to an engagement with us. CRISIL Research is not in any manner related to us, our Directors or our Promoters. The CRISIL Research Report is subject to various limitations and based upon certain assumptions that are subjective in nature. While we have taken reasonable care in the reproduction of the information from the CRISIL Research Report, none of our Bank or the BRLMs or any of our or their respective affiliates or advisors or any other person connected with the Offer has independently verified data and statistics obtained from the CRISIL Research Report. While we have no reason to believe the data and statistics in the CRISIL Research Report are incorrect, we cannot assure you that they are accurate, complete or reliable and, therefore, we make no representation or warranty, express or implied, as to the accuracy, completeness or reliability of such data or statistics. Therefore, discussions of matters relating to India, its economy and the industry in which we currently operate are subject to the caveat that data and statistics upon which such discussions are based may be inaccurate, incomplete or unreliable. Further, there can be no assurance that such data and statistics are stated or compiled on the same basis or with the same degree of accuracy as may be the case in other reports. Statements from third parties that involve estimates are subject to change, and actual amounts may differ materially from those included in this Draft Red Herring Prospectus.

75. ***Withholding may be imposed on payments on the Equity Shares under the U.S. Foreign Account Tax Compliance Act.***

Certain U.S. tax provisions in the U.S. Foreign Account Tax Compliance Act, which is commonly referred to as FATCA, may impose 30.00% withholding on "foreign passthru payments" made by a "foreign financial institution" (an "**FFI**"). Under current guidance, the term "foreign passthru payment" is not defined and it is therefore not clear whether or to what extent payments on the Equity Shares would be considered foreign passthru payments. Withholding on foreign passthru payments would not be required with respect to payments made before the date that is two years after the date of publication in the Federal Register of final regulations defining the term "foreign passthru payment." The United States has entered into an intergovernmental agreement with India (the "**IGA**"), which potentially modifies the FATCA withholding regime described above. We have registered as an FFI with the U.S. Internal Revenue Service and we believe that we may be subject to diligence, reporting and withholding obligations under the FATCA rules and the IGA. It is not yet clear how the IGA will address foreign passthru payments. Prospective investors in the Equity Shares should consult their tax advisors regarding the potential impact of FATCA, the IGA and any non-U.S. legislation implementing FATCA on their investment in the Equity Shares. For more details, see "*Certain United States Federal Income Tax Considerations*" on page 351.

76. ***Our Bank may be classified as a passive foreign investment company ("PFIC") for U.S. federal income tax purposes, which could result in adverse U.S. federal income tax consequences to U.S. holders of Equity Shares.***

Our Bank will be classified as a PFIC for any taxable year if either: (a) at least 75.00% of its gross income is "passive income" for purposes of the PFIC rules or (b) at least 50.00% of the value of its assets (determined on the basis of a quarterly average) is attributable to assets that produce or are held for the production of passive income. Passive income for this purpose generally includes, among other things, dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income; however, under final and proposed U.S. Treasury Regulations and a notice from the U.S. Internal Revenue Service, special rules apply to income derived in the active conduct of a banking business. Based on the current and anticipated composition of the income, assets (including their expected values) and operations of our Bank and the application to our Bank of the relevant PFIC rules governing banks referred to above, our Bank does not expect to be treated as a PFIC for the current taxable year or in the foreseeable future. Whether our Bank is treated as a PFIC is a factual determination that must be made annually after the close of each taxable year. This determination will depend on, among other things, the composition of the income and assets, as well as the value of the assets (which may fluctuate with our Bank's market capitalization) of our Bank from time to time. In addition, the manner in which the PFIC rules governing banks apply to our Bank is unclear in some respects. Some of the administrative guidance governing the application of the PFIC rules to banks is in the form of proposed U.S. Treasury Regulations and may change significantly when finalized, and new or revised regulations or pronouncements interpreting or clarifying the PFIC bank provisions may be forthcoming. Therefore, there can be no assurance that our Bank will not be classified as a PFIC in any taxable year. If our Bank were treated as a PFIC for any taxable year during which a U.S. Holder held Equity Shares, certain adverse U.S. federal income tax consequences would apply to such U.S. Holder. For more details, see "*Certain United States Federal Income Tax Considerations*" on page 351.

SECTION III: INTRODUCTION

THE OFFER

The following table sets forth details of the Offer:

Equity Shares Offered	
Offer of Equity Shares[#*]	Up to [●] Equity Shares, aggregating up to ₹9,977.80 million
of which	
Fresh Issue[(1)]	Up to [●] Equity Shares, aggregating up to ₹8,000.00 million
Offer for Sale[(2)]	Up to [●] Equity Shares, aggregating up to ₹1,977.80 million by the Selling Shareholders
of which	
Employee Reservation Portion[(3)]	Up to [●] Equity Shares, aggregating up to ₹[●] million
Net Offer	Up to [●] Equity Shares, aggregating up to ₹[●] million
The Net Offer consists of:	
A) QIB Portion[(4)(5)]	Not more than [●] Equity Shares
of which:	
Anchor Investor Portion	Up to [●] Equity Shares
Net QIB Portion (assuming the Anchor Investor Portion is fully subscribed)	[●] Equity Shares
of which:	
Mutual Fund Portion	[●] Equity Shares
Balance for all QIBs including Mutual Funds	[●] Equity Shares
B) Non-Institutional Portion	Not less than [●] Equity Shares
C) Retail Portion	Not less than [●] Equity Shares
Pre and post-Offer Equity Shares	
Equity Shares outstanding prior to the Offer	449,473,798 Equity Shares
Equity Shares outstanding after the Offer	[●] Equity Shares
Use of Net Proceeds	See "*Objects of the Offer*" on page 81 for information about the use of the proceeds from the Fresh Issue. Our Bank will not receive any proceeds from the Offer for Sale

 # A Pre-IPO Placement is proposed to be undertaken by our Bank in consultation with the BRLMs. The Pre-IPO Placement will be at a price to be decided by our Bank, in consultation with the BRLMs and will be completed prior to filing of the Red Herring Prospectus with the RoC. If the Pre-IPO Placement is undertaken, the number of Equity Shares issued pursuant to the Pre-IPO Placement will be reduced from the Fresh Issue, subject to the minimum Offer size constituting at least 10% of the post-Offer paid-up Equity Share capital of our Bank

** Except with the prior approval from the RBI, and in terms of the Banking Regulation Act and circulars issued thereunder, no person can acquire or agree to acquire, directly or indirectly, by himself or acting in concert with any other person, Equity Shares or voting rights of our Bank, if such acquisition, taken together with Equity Shares and voting rights of our Bank held by such person or his relative or associate enterprise or person acting in concert with him, results in such person holding or exercising, five percent or more of the paid-up Equity Share capital or voting rights, respectively, of our Bank*

(1) The Fresh Issue has been authorised by our Board and our Shareholders pursuant to the resolutions passed at their respective meetings dated June 29, 2021 and July 12, 2021, respectively

(2) Each of the Selling Shareholders has authorised and consented to participate in the Offer for Sale. Each Selling Shareholder severally and not jointly confirms that the Offered Shares have been held by such Selling Shareholder for a period of at least one year prior to filing of this Draft Red Herring Prospectus in accordance with Regulation 8 of the SEBI ICDR Regulations and accordingly, are eligible for the Offer in accordance with the provisions of the SEBI ICDR Regulations.

Sr. No.	Name of the Selling Shareholder	No. of Offered Shares	Date of consent letter	Date of corporate action/board resolution/ power of attorney
Promoter Selling Shareholder				
a.	ESAF Financial Holdings Private Limited	[●] Equity Shares aggregating up to ₹1,500.00 million	July 24, 2021	June 26, 2021
Other Selling Shareholders				
b.	PNB MetLife	[●] Equity Shares aggregating up to ₹213.30 million	July 24, 2021	November 9, 2020
c.	Bajaj Allianz Life	[●] Equity Shares aggregating up to ₹174.60 million	July 22, 2021	December 6, 2011
d.	PI Ventures	[●] Equity Shares aggregating up to ₹87.30 million	July 22, 2021	June 25, 2021 and July 20, 2021
e.	John Chakola	[●] Equity Shares aggregating up to ₹2.60 million	June 28, 2021	NA

(3) The Employee Reservation Portion shall not exceed 5.00% of our post-Offer paid-up Equity Share capital. Any unsubscribed portion remaining in the Employee Reservation Portion shall be added to the Net Offer. For further details, see "Offer Structure" on page 360. Our Bank and the Promoter Selling Shareholder may, in consultation with the BRLMs, offer an Employee Discount of up to [●]% to the Offer Price (equivalent of ₹ [●] per Equity Share), which shall be announced two Working Days prior to the Bid/Offer Opening Date.

(4) Our Bank and the Promoter Selling Shareholder may, in consultation with the BRLMs, allocate up to 60% of the QIB Portion to Anchor Investors on a discretionary basis. One-third of the Anchor Investor Portion shall be reserved for domestic Mutual Funds, subject to valid Bids being received from

domestic Mutual Funds at or above the Anchor Investor Allocation Price. In the event of under-subscription or non-Allotment in the Anchor Investor Portion, the remaining Equity Shares shall be added to the Net QIB Portion. For details, see "Offer Procedure" on page 364

(5) *Subject to valid Bids being received at or above the Offer Price, under-subscription, if any, in the Non-Institutional Portion or the Retail Portion, would be allowed to be met with spill over from any other category or combination of categories at the discretion of our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs and the Designated Stock Exchange. Under-subscription, if any, in the Net QIB Portion would not be allowed to be met with spill-over from other categories or a combination of categories. Further, an Eligible Employee Bidding in the Employee Reservation Portion can also Bid under the Net Offer and such Bids will not be treated as multiple Bids. Any undersubscription in the Employee Reservation Portion shall be added to the Net Offer. In the event of an undersubscription in the Offer, Equity Shares offered pursuant to the Fresh Issue shall be allocated in the Fresh Issue prior to the Equity Shares offered pursuant to the Offer for Sale. However, after receipt of minimum-subscription of 90% of the Fresh Issue, the Offered Shares shall be allocated proportionately prior to the Equity Shares offered pursuant to the Fresh Issue*

Allocation to all categories, except the Anchor Investor Portion and the Retail Portion, shall be made on a proportionate basis subject to valid Bids received at or above the Offer Price, as applicable. The allocation to each Retail Individual Bidder shall not be less than the minimum Bid Lot, subject to availability of Equity Shares in the Retail Portion and the remaining available Equity Shares, if any, shall be allocated on a proportionate basis. For further details, see "*Offer Structure – Basis of Allotment*" on page 360. For details of the terms of the Offer, see "*Terms of the Offer*" beginning on page 355.

SUMMARY OF FINANCIAL INFORMATION

The summary financial information presented below should be read in conjunction with "*Financial Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" beginning on pages 240 and 297.

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SUMMARY RESTATED STATEMENT OF ASSETS AND LIABILITIES

₹ in million

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
CAPITAL AND LIABILITIES			
Capital	4,494.74	4,277.96	4,277.96
Reserves and Surplus	9,025.90	6,562.85	4,658.95
Deposits	89,994.26	70,283.82	43,170.08
Borrowings	16,940.00	12,033.17	17,023.60
Other Liabilities and Provisions	2,931.62	1,541.92	1,453.54
Total	**123,386.52**	**94,699.72**	**70,584.13**
ASSETS			
Cash and Balances with Reserve Bank of India	4,280.72	3,047.72	2,467.41
Balances with Banks and Money at Call and Short Notice	13,910.54	5,980.19	5,347.15
Investments	19,320.69	17,336.25	15,307.50
Advances	81,675.86	65,478.22	45,482.54
Fixed Assets	1,385.12	1,201.07	899.41
Other Assets	2,813.59	1,656.27	1,080.12
Total	**123,386.52**	**94,699.72**	**70,584.13**
Contingent Liabilities	15.04	15.04	583.26
Bills for collection	-	-	-

SUMMARY RESTATED PROFIT AND LOSS ACCOUNT

₹ in million

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
I. INCOME			
Interest Earned	16,411.73	14,132.45	10,316.39
Other Income	1,261.04	1,331.90	1,091.50
Total	**17,672.77**	**15,464.35**	**11,407.89**
II. EXPENDITURE			
Interest Expended	7,195.82	6,210.57	4,582.82
Operating Expenses	6,318.55	6,006.77	4,533.94
Provisions and Contingencies	3,104.44	1,343.11	1,388.29
Total	**16,618.81**	**13,560.45**	**10,505.05**
III. PROFIT			
Net Profit for the year (I - II)	**1,053.96**	**1,903.90**	**902.84**
Add: Balance in Restated Profit and Loss Account brought forward from Previous Year	2,271.96	879.96	208.17
	3,325.92	**2,783.86**	**1,111.01**
IV. APPROPRIATIONS			
Transfer to Statutory Reserve	263.49	475.97	225.71
Transfer to Capital Reserve	-	-	-
Transfer to/(from) Investment Fluctuation Reserve Account	-	35.93	5.34
Balance carried over to Restated Statement of Assets and Liabilities	3,062.43	2,271.96	879.96
Total	**3,325.92**	**2,783.86**	**1,111.01**
Earnings per share (Face Value of ₹10/- each) (₹)			
Basic	2.46	4.45	2.37
Diluted	2.46	4.45	2.37

SUMMARY RESTATED STATEMENT OF CASH FLOWS

₹ in million

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Cash Flows from Operating Activities			
Net Profit before tax	1,413.73	2,562.56	1,271.82
Adjustments for:			
Depreciation on Fixed Assets	285.73	231.67	169.06
Amortisation of Premium on HTM Investments	68.46	35.25	21.99
Profit on sale of investments (net)	(230.40)	(64.02)	(10.04)
Profit/(Loss) on sale of Fixed Assets	23.34	(0.39)	(0.26)
Provision for Non Performing Advances	1,887.27	491.51	919.38
Provision/ (Reversal) for Standard Advances	925.52	100.76	92.33
Provision for Depreciation on investments	(11.44)	18.32	-
Provision/ (Reversal) for Other Contingencies	(57.07)	73.86	7.61
	4,305.14	**3,449.52**	**2,471.89**
Adjustments for :-			
(Increase)/ Decrease in Investments (other than HTM Investments)	4,075.38	3,796.59	(6,673.03)
(Increase)/ Decrease in Advances	(18,084.91)	(20,487.18)	(14,851.06)
(Increase)/ Decrease in Fixed Deposit with Bank (Original Maturity greater than 3 months)	2,264.25	(1,662.83)	(59.31)
(Increase)/ Decrease in Other Assets	(424.03)	(498.78)	(323.34)
Increase/ (Decrease) in Deposits	19,710.44	27,113.74	17,939.16
Increase/ (Decrease) in Other liabilities and provisions	521.25	(86.24)	(489.39)
Direct taxes paid	(1,093.07)	(736.04)	(406.26)
Net Cash Flows from/(used in) Operating Activities (A)	**11,274.45**	**10,888.78**	**(2,391.34)**
Cash Flows from/(Used in) Investing Activities			
Purchase of Fixed Assets	(495.01)	(533.93)	(381.46)
Proceeds from Sale of Fixed Assets	1.89	0.99	0.28
(Increase)/ Decrease in Held to Maturity Investments	(5,886.43)	(5,814.89)	(1,327.78)
Net Cash Used in Investing Activities (B)	**(6,379.55)**	**(6,347.83)**	**(1,708.96)**
Cash Flows from/(Used in) Financing Activities			
Proceeds from Issue of Share Capital (including Share Premium)	1,625.87	-	4,642.13
Share Issue Expenses	-	-	(41.53)
Increase/(Decrease) in Borrowings	4,906.83	(4,990.43)	277.09
Cash Flows from/(Used in) Financing Activities (C)	**6,532.70**	**(4,990.43)**	**4,877.69**
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	**11,427.60**	**(449.48)**	**777.39**
Cash and Cash Equivalents at the beginning of year	**6,760.35**	**7,209.83**	**6,432.44**
Cash and Cash Equivalents at the end of year (Refer note below)	**18,187.95**	**6,760.35**	**7,209.83**
Note:			
Cash in Hand	1,155.33	761.28	202.04
Balance with RBI in Current Account	3,125.39	2,286.44	2,265.37
Balance with Banks in India in Current Account	2,007.23	362.63	892.42
Balance with Banks in India in Fixed Deposit	-	250.00	850.00
Money at Call and Short Notice	-	-	2,200.00
Lending Under Reverse Repo	11,900.00	3,100.00	800.00
Cash and cash equivalents at the end of the year	**18,187.95**	**6,760.35**	**7,209.83**

GENERAL INFORMATION

Our Corporate Promoter, was granted the RBI In-Principle Approval to establish an SFB, on October 7, 2015. Our Bank was incorporated as 'ESAF Small Finance Bank Limited' on May 5, 2016 at Thrissur, Kerala, as a public limited company under the Companies Act, 2013, and was granted a certificate of incorporation by the RoC. Our Bank was thereafter granted the RBI Final Approval vide license no. MUM:124, to carry on business as an SFB, on November 18, 2016. For further details, see "*History and Certain Corporate Matters*" on page 183.

Registered and Corporate Office

ESAF Small Finance Bank Limited
Building No.VII/83/8
ESAF Bhavan, Thrissur-Palakkad National Highway
Mannuthy, Thrissur 680 651
Kerala, India
Registration Number: 045669
CIN: U65990KL2016PLC045669
RBI Registration Number: MUM:124

Address of the RoC

Our Bank is registered with the RoC situated at the following address:

Registrar of Companies, Kerala at Ernakulam
Company Law Bhawan
BMC Road, Thrikkakara
Kochi 682 021
Kerala, India

Company Secretary and Compliance Officer

Ranjith Raj P

ESAF Small Finance Bank Limited
Building No.VII/83/8
ESAF Bhavan, Thrissur-Palakkad National Highway
Mannuthy, Thrissur 680 651
Kerala, India
Tel: +91 487 7123 907
Email: investor.relations@esafbank.com

Board of Directors

As on the date of this Draft Red Herring Prospectus, the Board of Directors of our Bank comprises the following:

Name	Designation	DIN	Address
Ravimohan Periyakavil Ramakrishnan	Part-Time Chairman and Non-Executive Independent Director	08534931	Flat No. N 074, DLF New Town Heights, Seaport Airport Road, Opposite Doordarshan Kendra, Kakkanad P.O., Ernakulam 682 030, Kerala
Kadambelil Paul Thomas	Managing Director and Chief Executive Officer	00199925	Kadambelil House, Mannuthy P.O., Nettissery, Thrissur 680 651, Kerala
Joseph Vadakkekara Antony	Non-Executive Independent Director	00181554	A-1, Chakolas Marine Apartments, Pandit Karuppan Road, Opposite Chakolas Habitat, Thevara, Ernakulam 682 013, Kerala
Thomas Jacob Kalappila	Non-Executive Independent Director	00812892	Kalappilayil TC 5/2548(2), Krishna Gardens, Golf Links Road, Kowdiar P O, Trivandrum 695 003, Kerala
Asha Morley	Non-Executive Independent Director	02012799	154, Avon Classic, Opposite Tata SSL, Borivali East, Mumbai 400 066, Maharashtra
Alex Parackal George	Non-Executive Independent Director	07491420	78, Greenpark, Thiruvambadi P.O., Thrissur 680 022, Kerala
Saneesh Singh	Non-Executive Nominee Director	02254868	Flat no. F-224, DLF Park Place, DLF City Phase-5, Section 56, Gurgaon 122 011, Haryana
Chandanathil Pappachan Mohan	Non-Executive Nominee Director	02661757	65/1928 A, Chandanathil House, Manakaparampil Lane, Azad Road, Near Renewal Centre, Kaloor, Ernakulam 682 017, Kerala

For further details of our Directors, see "*Our Management*" on page 190.

Filing

A copy of this Draft Red Herring Prospectus has been filed electronically on the SEBI Intermediary Portal, and emailed at cfddil@sebi.gov.in. in accordance with the instructions issued by the SEBI on March 27, 2020, in relation to "Easing of Operational Procedure – Division of Issues and Listing – CFD."

A copy of the Red Herring Prospectus, along with the material contracts and documents required to be filed under Section 32 of the Companies Act, 2013 would be filed with the RoC and a copy of the Prospectus to be filed under Section 26 of the Companies Act, 2013 would be filed with the RoC at its office.

Book Running Lead Managers

Axis Capital Limited
Axis House, 1st floor
C-2 Wadia International Centre
P.B. Marg, Worli
Mumbai – 400 025
Maharashtra, India
Tel: +91 22 4325 2183
E-mail: esaf.ipo@axiscap.in
Investor grievance e-mail: complaints@axiscap.in
Website: www.axiscapital.co.in
Contact Person: Mayuri Arya
SEBI Registration No.: INM000012029

Edelweiss Financial Services Limited
6th Floor, Edelweiss House
Off C.S.T Road, Kalina
Mumbai – 400 098
Maharashtra, India
Tel: +91 22 4009 4400
E-mail: esaf.ipo@edelweissfin.com
Investor grievance e-mail: customerservice.mb@edelweissfin.com
Website: www.edelweissfin.com
Contact Person: Dhruv Bhavsar
SEBI Registration No.: INM0000010650

ICICI Securities Limited
ICICI Centre
H. T. Parekh Marg
Churchgate
Mumbai – 400 020
Maharashtra, India
Tel: +91 22 2288 2460
E-mail: esafsfb.ipo@icicisecurities.com
Investor grievance e-mail: customercare@icicisecurities.com
Website: www.icicisecurities.com
Contact Person: Sameer Purohit/ Monank Mehta
SEBI Registration No.: INM000011179

IIFL Securities Limited
10th Floor, IIFL Centre
Kamala City, Senapati Bapat Marg
Lower Parel (West)
Mumbai – 400 013
Maharashtra, India
Tel: +91 22 4646 4600
E-mail: esaf.ipo@iiflcap.com
Investor grievance e-mail: ig.ib@iiflcap.com
Website: www.iiflcap.com
Contact Person: Vishal Bangard/ Aditya Agarwal
SEBI Registration No.: INM000010940

Syndicate Members

[●]

Legal Advisors to the Offer

Legal Counsel to our Bank as to Indian Law and the Promoter Selling Shareholder and PNB MetLife

Cyril Amarchand Mangaldas
Prestige Falcon Tower
3rd Floor, Brunton Road
Craig Park Layout, Victoria Layout
Bengaluru 560 025
Karnataka, India
Tel: +91 80 6792 2000

Legal Counsel to the BRLMs as to Indian Law

Khaitan & Co
Embassy Quest
3rd Floor
45/1 Magrath Road
Bengaluru 560 025
Karnataka, India
Tel: +91 80 4339 7000

Legal Counsel to the BRLMs as to International Law

Duane Morris & Selvam LLP
16 Collyer Quay #17-00
Singapore 049318
Tel: +65 6311 0030

Statutory Auditors to our Bank

Deloitte Haskins & Sells, Chartered Accountants
19th Floor, Shapath-V, S.G. Highway
Ahmedabad 380 015
Gujarat, India
Tel: +91 79 6682 7300
Email: sgk@deloitte.com
Firm Registration Number: 117365W
Peer Review Certificate Number: 012965

There has been no change in our auditors in the last three years, except as disclosed below:

Particulars	Date of change	Reason for change
Deloitte Haskins & Sells, Chartered Accountants 19th Floor, Shapath-V, S.G. Highway Ahmedabad 380 015 Gujarat, India Tel: +91 79 6682 7300 Email: sgk@deloitte.com Firm Registration Number: 117365W Peer Review Certificate Number: 012965	August 10, 2020	Appointment as Statutory Auditors of the Bank*
S. R. Batliboi & Associates LLP, Chartered Accountants 12th Floor, The Ruby 29 Senapati Bapat Marg Dadar (West) Mumbai – 400 028 Maharashtra, India Tel: +91 22 6819 8000 Email: SRBA@srb.in Firm Registration Number: 101049W/E300004 Peer Review Certificate Number: 011169	August 10, 2020	Completion of term

**Deloitte Haskins & Sells, Chartered Accountants were appointed as the Statutory Auditors at the AGM held on August 10, 2020. Subsequently subject to shareholders' approval the Board in its resolution dated June 29, 2021, appointed Deloitte Haskins & Sells, Chartered Accountants as the Statutory Auditors for Fiscal years 2022 and 2023.*

Registrar to the Offer

Link Intime India Private Limited
C-101, 1st Floor, 247 Park

Lal Bahadur Shastri Marg
Vikhroli (West)
Mumbai – 400 083
Maharashtra, India
Tel: +91 022 4918 6200
E-mail: esaf.ipo@linkintime.co.in
Investor grievance e-mail: esaf.ipo@linkintime.co.in
Website: www.linkintime.co.in
Contact Person: Shanti Gopalkrishnan
SEBI Registration No.: INR000004058

Bankers to the Offer

Escrow Collection Bank(s)

[●]

Refund Bank(s)

[●]

Public Offer Account Bank(s)

[●]

Sponsor Bank

[●]

Designated Intermediaries

Self-Certified Syndicate Banks

The banks registered with SEBI, which offer the facility of ASBA services, (i) in relation to ASBA, where the Bid Amount will be blocked by authorising an SCSB, a list of which is available on the website of SEBI at www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=34 and updated from time to time and at such other websites as may be prescribed by SEBI from time to time, (ii) in relation to RIBs using the UPI Mechanism, a list of which is available on the website of SEBI at https://sebi.gov.in/sebiweb/other/OtherAction.do?doRecognisedFpi=yes&intmId=40 or such other website as updated from time to time.

Applications through UPI in the Offer can be made only through the SCSBs mobile applications (apps) whose name appears on the SEBI website. A list of SCSBs and mobile applications, which, are live for applying in public issues using UPI mechanism is provided as Annexure 'A' to the SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2019/85 dated July 26, 2019. The said list shall be updated on SEBI website.

Syndicate SCSB Branches

In relation to Bids (other than Bids by Anchor Investor) submitted to a member of the Syndicate, the list of branches of the SCSBs at the Specified Locations named by the respective SCSBs to receive deposits of Bid cum Application Forms from the members of the Syndicate is available on the website of the SEBI (http://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognised=yes) and updated from time to time. For more information on such branches collecting Bid cum Application Forms from the Syndicate at Specified Locations, see the website of the SEBI http://www.sebi.gov.in/sebiweb/other/OtherAction.do?doRecognised=yes as updated from time to time.

Registered Brokers

The list of the Registered Brokers eligible to accept ASBA forms, including details such as postal address, telephone number and e-mail address, is provided on the websites of the BSE and the NSE at www.bseindia.com/Markets/PublicIssues/brokercentres_new.aspx? and www.nseindia.com/products/content/equities/ipos/ipo_mem_terminal.htm, respectively, as updated from time to time.

Registrar and Share Transfer Agents

The list of the RTAs eligible to accept ASBA Forms at the Designated RTA Locations, including details such as address, telephone number and e-mail address, is provided on the websites of Stock Exchanges at www.bseindia.com/Static/Markets/PublicIssues/RtaDp.aspx? and www.nseindia.com/products/content/equities/ipos/asba_procedures.htm, respectively, as updated from time to time.

Collecting Depository Participants

The list of the CDPs eligible to accept ASBA Forms at the Designated CDP Locations, including details such as name and contact details, is provided on the websites of BSE at www.bseindia.com/Static/Markets/PublicIssues/RtaDp.aspx? and on the website of NSE at www.nseindia.com/products/content/equities/ipos/asba_procedures.htm, as updated from time to time.

Expert

Except as stated below, our Bank has not obtained any expert opinions:

Our Bank has received written consent dated July 24, 2021 from our Statutory Auditors namely, Deloitte Haskins & Sells, Chartered Accountants, to include their name in this Draft Red Herring Prospectus, as required under section 26 of the Companies Act, 2013, read with SEBI ICDR Regulations, and as an "Expert" as defined under section 2(38) of the Companies Act, 2013, to the extent and in their capacity as an auditor, in respect of the examination report dated June 30, 2021 issued by it on our Restated Financial Information, and the statement of special tax benefits dated July 23, 2021 included in this Draft Red Herring Prospectus and such consent has not been withdrawn as on the date of this Draft Red Herring Prospectus. However, the term "expert" and the consent thereof shall not be construed to mean an "expert" or consent within the meaning as defined under the U.S. Securities Act.

Monitoring Agency

In terms of the proviso to Regulation 41(1) of the SEBI ICDR Regulations, our Bank is not required to appoint a monitoring agency for this Offer.

Appraising Entity

None of the objects for which the Net Proceeds will be utilised have been appraised by any agency.

Credit Rating

As this is an offering of Equity Shares, there is no credit rating required for the Offer.

IPO Grading

No credit agency registered with SEBI has been appointed in respect of obtaining grading for the Offer.

Trustees

As this is an offering of Equity Shares, the appointment of trustees is not required.

Green Shoe Option

No green shoe option is contemplated under the Offer.

Inter-se allocation of responsibilities

The following table sets forth the inter-se allocation of responsibilities for various activities among the Book Running Lead Managers:

Sr. No	Activity	Responsibility	Co-ordinator
1.	Capital structuring, positioning strategy and due diligence of the Bank including its operations/management/business plans/legal etc. Drafting and design of the Draft Red Herring Prospectus, Red Herring Prospectus, Prospectus, abridged prospectus and of statutory advertisements including a memorandum containing salient features of the Prospectus. The BRLMs shall ensure compliance with stipulated requirements and completion of prescribed formalities with the Stock Exchanges, RoC and SEBI including finalisation of Prospectus and RoC filing.	Axis, Edelweiss, I-Sec, IIFL	Axis
2.	Drafting and approval of all statutory advertisements	Axis, Edelweiss, I-Sec, IIFL	Axis
3.	Drafting and approval of all publicity material other than statutory advertisement as mentioned above including corporate advertising, brochure, etc. and filing of media compliance report.	Axis, Edelweiss, I-Sec, IIFL	I-Sec

Sr. No	Activity	Responsibility	Co-ordinator
4.	Appointment of Intermediaries – Registrar to the Offer, Bankers to the Offer, advertising agency, printers to the Offer including co-ordination for agreements.	Axis, Edelweiss, I-Sec, IIFL	IIFL
5.	Preparation of road show presentation and frequently asked questions for the road show team	Axis, Edelweiss, I-Sec, IIFL	IIFL
6.	International institutional marketing of the Offer, which will cover, *inter alia*: • Institutional marketing strategy; • Finalizing the list and division of international investors for one-to-one meetings • Finalizing international road show and investor meeting schedules	Axis, Edelweiss, I-Sec, IIFL	Edelweiss
7.	Domestic institutional marketing of the Offer, which will cover, *inter alia*: • Institutional marketing strategy; • Finalizing the list and division of domestic investors for one-to-one meetings • Finalizing domestic road show and investor meeting schedules	Axis, Edelweiss, I-Sec, IIFL	IIFL
8.	Conduct non-institutional marketing of the Offer, which will cover, *inter-alia*: • Finalising media, marketing and public relations strategy; • Formulating strategies for marketing to Non-Institutional Investors	Axis, Edelweiss, I-Sec, IIFL	Axis
9.	Conduct retail marketing of the Offer, which will cover, *inter-alia*: • Finalising media, marketing, public relations strategy and publicity budget including list of frequently asked questions at retail road shows • Finalising collection centres • Finalising centres for holding conferences for brokers etc. • Follow-up on distribution of publicity and Offer material including form, Red Herring Prospectus/Prospectus and deciding on the quantum of the Offer material	Axis, Edelweiss, I-Sec, IIFL	I-Sec
10.	Coordination with Stock-Exchanges for anchor intimation, book building software, bidding terminals and mock trading, payment of 1% security deposit to the designated stock exchange.	Axis, Edelweiss, I-Sec, IIFL	I-Sec
11.	Managing the book and finalization of pricing in consultation with the Bank.	Axis, Edelweiss, I-Sec, IIFL	Edelweiss
12.	Post-Offer activities, which shall involve essential follow-up steps including allocation to Anchor Investors, follow-up with Bankers to the Offer and SCSBs to get quick estimates of collection and advising the Bank about the closure of the Offer, based on correct figures, finalisation of the basis of allotment or weeding out of multiple applications, listing of instruments, dispatch of certificates or demat credit and refunds, payment of the applicable STT and coordination with various agencies connected with the post-Offer activity such as registrar to the Offer, Bankers to the Offer, Sponsor Bank, SCSBs including responsibility for underwriting arrangements, as applicable. Co-ordination with SEBI and Stock Exchanges for refund of 1% security deposit and submission of all post Offer reports including the initial and final post Offer report to SEBI	Axis, Edelweiss, I-Sec, IIFL	Edelweiss

Book Building Process

Book Building Process, in the context of the Offer, refers to the process of collection of Bids from investors on the basis of the Red Herring Prospectus, the Bid cum Application Forms and the Revision Forms within the Price Band. The Price Band, Employee Discount and minimum Bid Lot size will be decided by our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, and advertised in [●] editions of [●], an English national daily newspaper and [●] editions of [●], a Hindi national daily newspaper and [●] editions of [●], a Malayalam daily newspaper (Malayalam being the regional language of Kerala, where our Registered and Corporate Office is located) at least two Working Days prior to the Bid/ Offer Opening Date and shall be made available to the Stock Exchanges for the purpose of uploading on their respective websites. The Offer Price shall be determined by our Bank and the Selling Shareholders, in consultation with the BRLMs after the Bid/ Offer Closing Date.

All Bidders, except Anchor Investors, are mandatorily required to use the ASBA process for participating in the Offer by providing details of their respective ASBA Account in which the corresponding Bid Amount will be blocked by SCSBs. In addition to this, the RIBs may participate through the ASBA process by either (a) providing the details of

their respective ASBA Account in which the corresponding Bid Amount will be blocked by the SCSBs; or (b) through the UPI Mechanism. Anchor Investors are not permitted to participate in the Offer through the ASBA process.

In accordance with the SEBI ICDR Regulations, QIBs and Non-Institutional Bidders are not allowed to withdraw or lower the size of their Bids (in terms of the quantity of the Equity Shares or the Bid Amount) at any stage. Retail Individual Bidders (subject to the Bid Amount being up to ₹200,000) and Eligible Employees Bidding in the Employee Reservation Portion (subject to the Bid Amount being up ₹500,000, net of Employee Discount, if any) can revise their Bids during the Bid/Offer Period and withdraw their Bids on or before the Bid/Offer Closing Date. Further, Anchor Investors cannot withdraw their Bids after the Anchor Investor Bid/Offer Period. Allocation to the Anchor Investors will be on a discretionary basis.

For further details on the method and procedure for Bidding, see "*Offer Structure*" and "*Offer Procedure*" on pages 360 and 364, respectively.

Illustration of Book Building and Price Discovery Process

For an illustration of the Book Building Process and the price discovery process, see "*Offer Procedure"* on page 364.

Underwriting Agreement

After the determination of the Offer Price and allocation of Equity Shares, but prior to the filing of the Prospectus with the RoC, our Bank and each of the Selling Shareholders intend to enter into an Underwriting Agreement with the Underwriters for the Equity Shares proposed to be issued and offered in the Offer. The Underwriting Agreement is dated [●]. Pursuant to the terms of the Underwriting Agreement, the obligations of each of the Underwriters will be several and will be subject to certain conditions specified therein.

The Underwriters have indicated their intention to underwrite the following number of Equity Shares:

(This portion has been intentionally left blank and will be filled in before filing of the Prospectus with the RoC.)

Name, Address, Telephone Number and Email Address of the Underwriters	Indicative Number of Equity Shares to be Underwritten	Amount Underwritten (₹ in million)
[●]	[●]	[●]

The abovementioned underwriting commitments are indicative and will be finalised after pricing of the Offer, the Basis of Allotment and actual allocation in accordance with provisions of the SEBI ICDR Regulations.

In the opinion of our Board, the resources of the abovementioned Underwriters are sufficient to enable them to discharge their respective underwriting obligations in full. The abovementioned Underwriters are registered with the SEBI under Section 12(1) of the SEBI Act or registered as brokers with the Stock Exchanges. Our Board/ IPO Steering Committee, at its meeting held on [●], has accepted and entered into the Underwriting Agreement mentioned above on behalf of our Bank.

Allocation among the Underwriters may not necessarily be in proportion to their underwriting commitment set forth in the table above.

Notwithstanding the above table, the Underwriters shall be severally responsible for ensuring payment with respect to the Equity Shares allocated to investors respectively procured by them in accordance with the Underwriting Agreement. In the event of any default in payment, the respective Underwriter, in addition to other obligations defined in the Underwriting Agreement, will also be required to procure subscribers for or subscribe to the Equity Shares to the extent of the defaulted amount in accordance with the Underwriting Agreement. The Underwriting Agreement has not been executed as on the date of this Draft Red Herring Prospectus and will be executed after determination of the Offer Price and allocation of Equity Shares, but prior to the filing of the Prospectus with the RoC. The extent of underwriting obligations and the Bids to be underwritten in the Offer shall be as per the Underwriting Agreement.

CAPITAL STRUCTURE

The Equity Share capital of our Bank, as on the date of this Draft Red Herring Prospectus, is set forth below:

(in ₹, except share data)

Sr. No.	Particulars	Aggregate value at face value (₹)	Aggregate value at Offer Price*
A.	**AUTHORIZED SHARE CAPITAL**(1)		
	600,000,000 Equity Shares	6,000,000,000	-
	Total	**6,000,000,000**	-
B.	**ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL BEFORE THE OFFER**		
	449,473,798 Equity Shares#	4,494,737,980	-
C.	**PRESENT OFFER**		
	Offer of up to [●] Equity Shares aggregating up to ₹9,977.80 million(2)(3)#	[●]	[●]
	of which		
	Fresh Issue of up to [●] Equity Shares aggregating up to ₹8,000.00 million(2)	[●]	[●]
	Offer for Sale of up to [●] Equity Shares aggregating up to ₹1,977.80 million(3)	[●]	[●]
	Which includes		
	Employee Reservation Portion of up to [●] Equity Shares(4)	[●]	[●]
	Net Offer of up to [●] Equity Shares	[●]	[●]
D.	**ISSUED, SUBSCRIBED AND PAID-UP CAPITAL AFTER THE OFFER**		
	[●] Equity Shares of face value of ₹10 each (assuming full subscription in the Offer)	[●]	[●]
E.	**SECURITIES PREMIUM ACCOUNT**		
	Before the Offer		4,887,627,991.95
	After the Offer		[●]

* *To be updated upon finalisation of the Offer Price*

\# *Our Bank in consultation with the BRLMs, is considering, subject to the approval of our Shareholders, a Pre-IPO Placement of Equity Shares for an aggregate amount up to ₹3,000 million. The Pre-IPO Placement, if undertaken, will be at a price to be decided by our Bank, in consultation with the BRLM and the Pre-IPO Placement will be completed prior to filing of the Red Herring Prospectus with the RoC. If the Pre-IPO Placement is undertaken, the number of Equity Shares issued pursuant to the Pre-IPO Placement will be reduced from the Fresh Issue, subject to the minimum Offer Size constituting at least 10% of the post-Offer paid-up Equity Share capital of our Bank.*

(1) *For details in relation to the changes in the authorised share capital of our Bank, see "History and Certain Corporate Matters – Amendments to the Memorandum of Association" on page 184*

(2) *The Offer has been authorized by our Board of Directors pursuant to a resolution passed on June 29, 2021 and the Fresh Issue has been authorized by our Shareholders pursuant to a special resolution passed on July 12, 2021*

(3) *Each Selling Shareholder severally and not jointly confirms that the Offered Shares have been held by such Selling Shareholder for a period of at least one year prior to filing of this Draft Red Herring Prospectus in accordance with Regulation 8 of the SEBI ICDR Regulations and accordingly, are eligible for the Offer in accordance with the provisions of the SEBI ICDR Regulations. For details on the authorization of each of the Selling Shareholders in relation to the Offered Shares, see "The Offer" on page 56*

(4) *Eligible Employees bidding in the Employee Reservation Portion must ensure that the maximum Bid Amount does not exceed ₹500,000 (net of Employee Discount). However, the initial Allotment to an Eligible Employee in the Employee Reservation Portion shall not exceed ₹200,000 (net of Employee Discount). Only in the event of an under-subscription in the Employee Reservation Portion post the initial Allotment, such unsubscribed portion may be Allotted on a proportionate basis to Eligible Employees Bidding in the Employee Reservation Portion, for a value in excess of ₹200,000 (net of Employee Discount), subject to the total Allotment to an Eligible Employee not exceeding ₹500,000 (net of Employee Discount)*

Notes to the Capital Structure

1. **Share Capital History of our Bank**

(a) ***Equity Share capital***

The history of the Equity Share capital of our Bank is set forth in the table below:

Date of allotment	Number of Equity Shares allotted	Face value per Equity Share (₹)	Offer price per Equity Share (₹)	Nature of consideration	Nature of allotment	Cumulative number of Equity Shares	Cumulative paid-up Equity Share capital
May 5, 2016	100,000	10	10	Cash	Initial subscription to the Memorandum of Association(1)	100,000	1,000,000
May 20, 2016	109,900,000	10	10	Cash	Preferential allotment(2)	110,000,000	1,100,000,000
March 9, 2017	78,817,733	10	10.15	Cash	Preferential allotment(3)	188,817,733	1,888,177,330
March 10, 2017	58,823,529	10	10.20	Cash	Preferential allotment(4)	247,641,262	2,476,412,620
March 29, 2017	49,019,607	10	10.20	Cash	Preferential allotment(5)	296,660,869	2,966,608,690
March 30, 2017	4,901,960	10	10.20	Other than cash	Preferential allotment pursuant to the Business Transfer Agreement(6)	301,562,829	3,015,628,290
January 31, 2018	10,382,352	10	10.20	Cash	Preferential allotment(7)	311,945,181	3,119,451,810
July 31, 2018	63,638,630	10	40.07	Cash	Preferential allotment(8)	375,583,811	3,755,838,110
September 28, 2018	52,211,679	10	40.07	Cash	Preferential allotment(9)	427,795,490	4,277,954,900
March 31, 2021	21,678,308	10	75	Cash	Preferential allotment(10)	449,473,798	4,494,737,980
Total	**449,473,798**					**449,473,798**	**4,494,737,980**

(1) *Allotment of 94,995 Equity Shares to our Corporate Promoter, and one Equity Share each to Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, who hold such Equity Shares as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares, and 5,000 Equity Shares to Kadambelil Paul Thomas*

(2) *Allotment of 108,805,000 Equity Shares to our Corporate Promoter and 1,095,000 Equity Shares to Kadambelil Paul Thomas*

(3) *Allotment of 59,113,300 Equity Shares to our Corporate Promoter and 19,704,433 Equity Shares to Kadambelil Paul Thomas*

(4) *Allotment of 58,823,529 Equity Shares to our Corporate Promoter*

(5) *Allotment of 49,019,607 Equity Shares to our Corporate Promoter*

(6) *Allotment of 4,901,960 Equity Shares to our Corporate Promoter pursuant to the Business Transfer Agreement. For further details, see "History and Certain Corporate Matters" on page 183*

(7) *Allotment of 10,382,352 Equity Shares to Kadambelil Paul Thomas*

(8) *Allotment of 18,717,244 Equity Shares to PNB MetLife India Insurance Company Limited, 18,717,244 Equity Shares to Muthoot Finance Limited, 17,469,428 Equity Shares to Bajaj Allianz Life Insurance Company Limited, and 8,734,714 Equity Shares to PI Ventures LLP*

(9) *Allotment of 2,629,749 Equity Shares to PNB MetLife India Insurance Company Limited, 21,346,993 Equity Shares to ESMACO, 21,346,993 Equity Shares to Yusuffali Musaliam Veettil Abdul Kader, 6,239,081 Equity Shares to ICICI Lombard General Insurance Company Limited, 149,738 Equity Shares to Lahanti, 124,781 Equity Shares to Abraham K John, 249,563 Equity Shares to John Chakola and 124,781 Equity Shares to Assan Khan Akbar*

(10) *Allotment of 13,333,333 Equity Shares to George lttan Maramkandathil, 1,000,000 Equity Shares to George Mammoottil Thomas, 1,066,666 Equity Shares to ESMACO, 1,066,666 Equity Shares to Yusuffali Musaliam Veettil Abdul Kader, 1,000,000 Equity Shares to George Thomas (in the capacity as Chairman of M/s. ESAF Staff Welfare Trust), 666,666 Equity Shares to Mohan V. Mathew, 200,000 Equity Shares to Balu P. Mani, 200,000 Equity Shares to Sobha Balu Mani, 33,333 Equity Shares to KR Raju, 33,333 Equity Shares to Sobha Raju, 33,333 Equity Shares to Vinod Jacob Cherian, 66,666 Equity Shares to Mathew T. Thomas, 33,333 Equity Shares to Susan Mathew, 60,000 Equity Shares to Elizabeth Sabu, 66,666 Equity Shares to Mary Abraham, 40,000 Equity Shares to Lucy Sabu, 33,333 Equity Shares to Mereena Paul, 33,333 Equity Shares to Annie Varghese, 13,333 Equity Shares to Anand Menon, 13,333 Equity Shares to Radha Anand Menon, 13,333 Equity Shares to Abhijit Anand Menon, 26,666 Equity Shares to VM Xaviour, 33,333 Equity Shares to Sheena Kurian, 30,000 Equity Shares to Renny Varghese, 33,333 Equity Shares to Jameson Jacob, 33,333 Equity Shares to Sajo Jacob, 33,333 Equity Shares to Abraham Vinu Sam, 33,333 Equity Shares to Leo Joseph, 13,333 Equity Shares to Sarun Jobi Paul, 33,333 Equity Shares to Gigi Kesavan, 66,666 Equity Shares to Johnson Tharayilliathu Abraham, 13,333 Equity Shares to Joji Joshua Philipose, 13,333 Equity Shares to V. Venugopalan, 33,333 Equity Shares to Sisilamma George, 26,666 Equity Shares to TS Anantharaman, 13,333 Equity Shares to Saji P A, 33,333 Equity Shares to Hari Velloor, 40,000 Equity Shares to Mathews Markose, 33,333 Equity Shares to Soney Jose, 1,333,333 Equity Shares to Arakkanatil Oommen lype, 66,666 Equity Shares to KT Mathew, 86,666 Equity Shares to Jancy Mathew, 60.000 Equity Shares to Saju Abraham, 40,000 Equity Shares to Beena George, 13,333 Equity Shares to Nandakumar C. P, 13,333 Equity Shares to Gireesan C, 13,333 Equity Shares to Paul Valiyanirappel Joseph, 13,333 Equity Shares to Prema Rajan MV, 13,333 Equity Shares to Sajeev J, 40,000 Equity Shares to Bosco Joseph, 13,333 Equity Shares to Pratap Varkey, 15,000 Equity Shares to Vinod Manjila,*

26,666 Equity Shares to Jins Antony, 26,666 Equity Shares to Rajesh Sreedharan Pillai, 13,333 Equity Shares to M Rajan, 40,000 Equity Shares to Christo George, 26,666 Equity Shares to Catherine Christo, 13,333 Equity Shares to Sunil G. Nampoothiri, 13,333 Equity Shares to James V. Cheeran, 13,333 Equity Shares to Sidharth Ram, 13,333 Equity Shares to Uday Kumar Gopinathan, 26,666 Equity Shares to Dr. MA Joy, 20,000 Equity Shares to Girish Bhaskaran Nair, 13,333 Equity Shares to Joseph Varghese, 26,666 Equity Shares to Santhosh KR, 26,666 Equity Shares to Manoj V George, 20,000 Equity Shares to Rajan Varughese, 26,666 Equity Shares to Seejo PJ, 13,333 Equity Shares to Savio Joseph, 13,333 Equity Shares to Ajo Varghese, 13,333 Equity Shares to Arun Joseph, 13,333 Equity Shares to Shruthi V, 13,333 Equity Shares to Alok Thomas Paul and 13,333 Equity Shares to Emy Acha Paul

(b) ***Preference Share capital***

Our Bank has not issued any preference shares since its incorporation.

2. **Issue of Equity Shares at a price lower than the Offer Price in the last year**

Except as stated below, our Bank has not issued any Equity Shares during a period of one year preceding the date of this Draft Red Herring Prospectus:

Date of allotment	Number of equity shares allotted	Face value per equity share (₹)	Issue price per equity share (₹)	Nature of consideration	Reason for allotment
March 31, 2021	21,678,308	10	75	Cash	Preferential allotment[(1)]

[(1)]*For details of the list of allottees, see* *"- Notes to the Capital Structure – Share Capital History of our Bank – Equity Shares capital" on page 69.*

3. **Issue of Equity Shares for consideration other than cash or out of revaluation of reserves**

(a) Our Bank has not issued any Equity Shares out of revaluation of reserves since its incorporation.

(b) Except as stated below, our Bank has not issued any Equity Shares for consideration other than cash or by way of bonus issue as on the date of this Draft Red Herring Prospectus:

Date of allotment	No. of Equity Shares allotted	Face Value per Equity Share (₹)	Offer price (₹)	Reason for allotment	Benefits accrued to our Bank	Allottee
March 30, 2017	4,901,960	10	10.20	Preferential allotment pursuant to the Business Transfer Agreement	The business undertaking comprising the lending and financing business of our Corporate Promoter was transferred to our Bank pursuant to the Business Transfer Agreement. For further details, see "*History and Certain Corporate Matters*" on page 183	Corporate Promoter

4. **Issue of Equity Shares pursuant to schemes of arrangement**

Our Bank has not allotted any Equity Shares pursuant to a scheme of amalgamation approved under Sections 230 to 234 of the Companies Act, 2013.

5. **History of the Equity Share capital held by our Promoters**

As on the date of this Draft Red Herring Prospectus, our Promoters namely ESAF Financial Holdings Private Limited and Kadambelil Paul Thomas collectively hold 311,945,181 Equity Shares equivalent to 69.40% of the issued, subscribed and paid-up Equity Share capital of our Bank. Our Corporate Promoter holds 280,758,396 Equity Shares (which includes five Equity Shares held by individuals beneficially on behalf of our Corporate Promoter) equivalent to 62.46% of the issued, subscribed and paid-up Equity Share capital of our Bank. Our Individual Promoter, Kadambelil Paul Thomas holds 31,186,785 Equity Shares equivalent to 6.94% of the issued, subscribed and paid-up Equity Share capital of our Bank.

(a) **Build-up of the shareholding of our Promoters in our Bank**

The details regarding the Equity Shareholding of our Promoters since incorporation of our Bank is set forth in the table below:

Date of allotment and date on which Equity Shares were made fully paid-up	Nature of transaction	No. of Equity Shares	Nature of consideration	Face Value per Equity Share (₹)	Offer Price per Equity Share (₹)	Percentage of the pre-Offer capital (%)	Percentage of the post-Offer capital (%)
Kadambelil Paul Thomas							
May 5, 2016	Initial subscription to the Memorandum of Association	5,000	Cash	10	10	0.00	[●]
May 20, 2016	Preferential allotment	1,095,000	Cash	10	10	0.24	[●]
March 9, 2017	Preferential allotment	19,704,433	Cash	10	10.15	4.39	[●]
January 31, 2018	Preferential allotment	10,382,352	Cash	10	10.20	2.31	[●]
Total (A)		**31,186,785**				**6.94**	**[●]**
ESAF Financial Holdings Private Limited							
May 5, 2016	Initial subscription to the Memorandum of Association	95,000*	Cash	10	10	0.02	[●]
May 20, 2016	Preferential allotment	108,805,000	Cash	10	10	24.20	[●]
March 9, 2017	Preferential allotment	59,113,300	Cash	10	10.15	13.15	[●]
March 10, 2017	Preferential allotment	58,823,529	Cash	10	10.20	13.09	[●]
March 29, 2017	Preferential allotment	49,019,607	Cash	10	10.20	10.91	[●]
March 30, 2017	Preferential allotment pursuant to the Business Transfer Agreement	4,901,960	Other than cash	10	10.20**	1.09	[●]
Total (B)		**280,758,396**				**62.46**	**[●]**
Total (A+B)		**311,945,181**				**69.40**	**[●]**

* *One Equity Share each held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares*

** *The Equity Shares were allotted to our Corporate Promoter towards the discharge of purchase consideration for the business undertaking transferred to our Bank, pursuant to the Business Transfer Agreement. For further details, see "History and Certain Corporate Matters" on page 183*

All the Equity Shares held by our Promoters were fully paid-up on the respective dates of allotment of such Equity Shares.

As of the date of this Draft Red Herring Prospectus, none of the Equity Shares held by our Promoters are pledged.

Our Promoters do not hold any preference shares as of the date of this Draft Red Herring Prospectus.

(b) **Details of Promoter's contribution and lock-in**

(i) Pursuant to Regulations 14 and 16 of the SEBI ICDR Regulations, an aggregate of 20% of the fully diluted post-Offer Equity Share capital of our Bank held by our Promoters (assuming full conversion of vested options, if any, under the ESAF ESOP Plan 2019), shall be locked in for a period of three years as minimum Promoters' contribution from the date of Allotment and the shareholding of the Promoters in excess of 20% of the fully diluted post-Offer Equity Share capital shall be locked in for a period of one year from the date of Allotment.

(ii) Details of the Equity Shares to be locked-in for three years from the date of Allotment as minimum Promoters' contribution are set forth in the table below:

Name of Promoter	Number of Equity Shares locked-in	Date of allotment of Equity Shares and when made fully paid-up*	Nature of allotment	Face Value per Equity Share (₹)	Offer/ Acquisition price per Equity Share (₹)	Percentage of the pre-Offer paid-up capital (%)	Percentage of the post-Offer paid-up capital (%)
Kadambelil Paul Thomas	[●]	[●]	[●]	[●]	[●]	[●]	[●]
Corporate Promoter	[●]	[●]	[●]	[●]	[●]	[●]	[●]
Total	[●]	[●]		[●]	[●]	[●]	[●]

* *All Equity Shares allotted to our Promoter were fully paid-up at the time of allotment*

(iii) Our Bank undertakes that the Equity Shares that are being locked-in are not ineligible for computation of Promoters' contribution in terms of Regulation 15 of the SEBI ICDR Regulations.

(iv) Our Promoters have given consent to include such number of Equity Shares held by it as may constitute 20% of the fully diluted post-Offer Equity Share capital of our Bank as Promoter's Contribution (assuming exercise of all vested employee stock options, if any, under the ESAF ESOP Plan 2019).

(iv) In this connection, our Bank confirms the following:

(a) The Equity Shares offered for Promoters' contribution do not include (i) Equity Shares acquired in the three immediately preceding years for consideration other than cash and revaluation of assets or capitalisation of intangible assets was involved in such transaction, or (ii) Equity Shares resulting from bonus issue by utilization of revaluation reserves or unrealised profits of our Bank or bonus shares issued against Equity Shares, which are otherwise ineligible for computation of minimum Promoters' contribution.

(b) The minimum Promoters' contribution does not include any Equity Shares acquired during the immediately preceding one year at a price lower than the price at which the Equity Shares are being offered to the public in the Offer.

(c) Our Bank has not been formed by the conversion of one or more partnership firms or a limited liability partnership firm.

(d) The Equity Shares forming part of the Promoters' contribution are not subject to any pledge.

(e) All the Equity Shares held by our Promoter are in dematerialised form.

(d) **Other lock-in requirements:**

(i) In addition to the 20% of the fully diluted post-Offer shareholding of our Bank held by the Promoters locked in for three years as specified above, the entire pre-Offer Equity Share capital of our Bank, will be locked-in for a period of one year from the date of Allotment, except for (i) the Equity Shares offered pursuant to the Offer for Sale; and (ii) any Equity Shares held by the eligible employees (whether currently employees or not, and including the legal heirs or nominees of any deceased employees or past employees) of our Bank which have been or will be allotted to them under the ESAF ESOP Plan 2019, prior to the Offer, except as required under applicable law. Any unsubscribed portion of the Equity Shares offered pursuant to the Offer for Sale will be locked-in as required under the SEBI ICDR Regulations. For details, see "*Offer Procedure*" on page 364.

(ii) Our Promoters have agreed not to sell, transfer, charge, pledge or otherwise encumber in any manner, the Promoters' contribution from the date of filing the Draft Red Herring Prospectus, until the expiry of the lock-in specified above, or for such other time as required under SEBI ICDR Regulations, except as may be permitted, in accordance with the SEBI ICDR Regulations.

(iii) Further, pursuant to the SFB Licensing Guidelines, our Promoters' minimum initial contribution to the paid-up Equity Share capital of our Bank is required to be at least 40% which is required to be held for a period of five years from the date of commencement of business. Our Promoters' contribution is required to be diluted thereafter, in accordance with the SFB Licensing Guidelines as described in "*Key Regulations and Policies"* on page 169.

(iv) Any Equity Shares Allotted to Anchor Investors under the Anchor Investor Portion shall be locked-in for a period of 30 days from the date of Allotment.

(v) The Equity Shares held by persons other than the Promoters and locked-in for a period of one year from the date of Allotment in the Offer may be transferred to any other person holding the Equity Shares which are locked-in, subject to continuation of the lock-in in the hands of transferees for the remaining period and compliance with the SEBI Takeover Regulations.

(iv) As required under Regulation 20 of the SEBI ICDR Regulations, our Bank shall ensure that details of the Equity Shares locked-in are recorded by the relevant Depository.

(v) The Equity Shares held by the Promoters that are locked-in may be pledged only with scheduled commercial banks or public financial institutions or Systemically Important NBFCs or housing finance companies, as collateral security for loans granted by such banks or public financial institutions or Systemically Important NBFCs or housing finance companies in terms of Regulation 21 of the SEBI ICDR Regulations.

6. **Shareholding Pattern of our Bank**

The table below presents the equity shareholding pattern of our Bank as on the date of this Draft Red Herring Prospectus.

Category (I)	Category of shareholder (II)	Number of shareholders (III)	Number of fully paid-up Equity Shares held (IV)	Number of Partly paid-up Equity Shares held (V)	Number of shares underlying Depository Receipts (VI)	Total number of shares held (VII) =(IV)+(V)+ (VI)	Shareholding as a % of total number of shares (calculated as per SCRR, 1957) (VIII) As a % of (A+B+C2)	Number of Voting Rights held in each class of securities (IX)			Number of shares Underlying Outstanding convertible securities (including Warrants) (X)	Shareholding , as a % assuming full conversion of convertible securities (as a percentage of diluted share capital) (XI)= (VII)+(X) As a % of (A+B+C2)	Number of Locked in shares (XII)		Number of Shares pledged or otherwise encumbered (XIII)		Number of Equity Shares held in dematerialized form (XIV)
								Number of Voting Rights		Total as a % of (A+B+C)			Number (a)	As a % of total Shares held (b)	Number (a)	As a % of total Shares held (b)	
								Class: Equity Shares	Total								
(A)	**Promoter and Promoter Group**	10*	334,545,505**	-	-	334,545,505	74.43	334,545,505	334,545,505	74.43#	-	-	-		-		334,545,505
(B)	**Public**	75	114,928,293			114,928,293	25.57	114,928,293	114,928,293	25.57	-	-	-		-		114,928,293
(C)	**Non Promoter- Non Public**	-	-	-	-	-	-	-	-	-	-	-	-		-		-
(C1)	**Shares underlying depository receipts**	-	-	-	-	-	-	-	-	-	-	-	-		-		-
(C2)	**Shares held by employee trusts**	-	-	-	-	-	-	-	-	-	-	-	-		-		-
	Total (A+B+C)	**85**	449,473,798			449,473,798	**100.00**	449,473,798	449,473,798	**100.00**	-	-	-		-		449,473,798

* *Includes Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, who hold shares as nominees of the Corporate Promoter who is the beneficial owner of such shares. Mereena Paul, Alok Thomas Paul, Emy Acha Paul and Beena George are also members of the Promoter Group of our Bank*

*** 280,758,391 Equity Shares are held by our Corporate Promoter and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares, of which Mereena Paul, Alok Thomas Paul, Emy Acha Paul and Beena George are also members of the Promoter Group of our Bank. For details of the Equity Shares held by our Promoters and Promoter Group, see "Offer Document Summary" and "Capital Structure" on pages 13 and 69, respectively.*

As per the Banking Regulations Act read with gazette notification dated DBR.PSBD.No.1084/16.13.100/2016-17 dated July 21, 2016, no shareholder in a banking company can exercise voting rights on poll in excess of 26% of total voting rights of all the shareholders of the bank

7. **Details of Equity Shareholding of the major Shareholders of our Bank**

(i) The major Equity Shareholders holding 1% or more of the paid-up Equity Share capital of the Bank and the number of Equity Shares held by them as on the date of this Draft Red Herring Prospectus are set forth in the table below:

Sr. No.	Name of the Shareholder	Number of Equity Shares	Percentage of the pre-Offer Equity Share capital (%)
1.	Corporate Promoter	280,758,396*	62.46
2.	Kadambelil Paul Thomas	31,186,785	6.94
3.	ESMACO	22,413,659	4.99
4.	Yusuffali Musaliam Veettil Abdul Kader	22,413,659	4.99
5.	PNB MetLife India Insurance Company Limited	21,346,993	4.75
6.	Muthoot Finance Limited	18,717,244	4.16
7.	Bajaj Allianz Life Insurance Company Limited	17,469,428	3.89
8.	George Ittan Maramkandathil	13,333,333	2.97
9.	PI Ventures LLP	8,734,714	1.94
10.	ICICI Lombard General Insurance Company Limited	6,239,081	1.39
	Total	**442,613,292**	**98.48**

**280,758,391 Equity Shares are held by our Corporate Promoter and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares*

(ii) The major Equity Shareholders who held 1% or more of the paid-up Equity Share capital of the Bank and the number of Equity Shares held by them 10 days prior to the date of this Draft Red Herring Prospectus are set forth in the table below:

Sr. No.	Name of the Shareholder	Number of Equity Shares	Percentage of the pre-Offer Equity Share capital (%)
1.	Corporate Promoter	280,758,396*	62.46
2.	Kadambelil Paul Thomas	31,186,785	6.94
3.	ESMACO	22,413,659	4.99
4.	Yusuffali Musaliam Veettil Abdul Kader	22,413,659	4.99
5.	PNB MetLife India Insurance Company Limited	21,346,993	4.75
6.	Muthoot Finance Limited	18,717,244	4.16
7.	Bajaj Allianz Life Insurance Company Limited	17,469,428	3.89
8.	George Ittan Maramkandathil	13,333,333	2.97
9.	PI Ventures LLP	8,734,714	1.94
10.	ICICI Lombard General Insurance Company Limited	6,239,081	1.39
	Total	**442,613,292**	**98.48**

**280,758,391 Equity Shares are held by our Corporate Promoter and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares*

(iii) The major Equity Shareholders who held 1% or more of the paid-up Equity Share capital of our Bank and the number of Equity Shares held by them one year prior to the date of this Draft Red Herring Prospectus are set forth in the table below:

Sr. No.	Name of the Shareholder	Number of Equity Shares	Percentage of the pre- Offer Equity Share capital (%)
1.	Corporate Promoter	280,758,396*	65.63
2.	Kadambelil Paul Thomas	31,186,785	7.29
3.	ESMACO	21,346,993	4.99
4.	PNB MetLife India Insurance Company Limited	21,346,993	4.99
5.	Yusuffali Musaliam Veettil Abdul Kader	21,346,993	4.99
6.	Muthoot Finance Limited	18,717,244	4.38
7.	Bajaj Allianz Life Insurance Company Limited	17,469,428	4.08
8.	PI Ventures LLP	8,734,714	2.04
9.	ICICI Lombard General Insurance Company Limited	6,239,081	1.46
	Total	**427,146,627**	**99.85**

**280,758,391 Equity Shares are held by our Corporate Promoter and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares*

(iv) The major Equity Shareholders who held 1% or more of the paid-up Equity Share capital of the Bank and the number of shares held by them two years prior to the date of this Draft Red Herring Prospectus are set forth in the table below:

Sr. No.	Name of the Shareholder	Number of Equity Shares	Percentage of the pre- Offer Equity Share capital (%)
1.	Corporate Promoter	280,758,396*	65.63
2.	Kadambelil Paul Thomas	31,186,785	7.29
3.	ESMACO	21,346,993	4.99
4.	PNB MetLife India Insurance Company Limited	21,346,993	4.99
5.	Yusuffali Musaliam Veettil Abdul Kader	21,346,993	4.99
6.	Muthoot Finance Limited	18,717,244	4.38
7.	Bajaj Allianz Life Insurance Company Limited	17,469,428	4.08
8.	PI Ventures LLP	8,734,714	2.04
9.	ICICI Lombard General Insurance Company Limited	6,239,081	1.46
	Total	**427,146,627**	**99.85**

**280,758,391 Equity Shares are held by our Corporate Promoter and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial owner of such Equity Shares*

8. **Details of Equity Shares held by our Promoters, members of our Promoter Group, Directors, Key Managerial Personnel and directors of our Corporate Promoter**

(i) None of our Promoters, members of our Promoter Group, Directors and directors of our Corporate Promoter hold any employee stock options in our Bank.

(ii) Set out below are details of the Equity Shares held by our Directors and Key Managerial Personnel in our Bank:

Sr. No.	Name	No. of Equity Shares	Number of vested employee stock options	Number of unvested employee stock options	Percentage of the pre-Offer Equity Share Capital (%)	Percentage of the post-Offer of Equity Share Capital (%)
Directors						
a)	Kadambelil Paul Thomas*	31,186,785	-	-	6.94	[●]
Total (A)		**31,186,785**	**-**	**-**	**6.94**	**[●]**
Key Managerial Personnel						
a)	George Thomas	-	-	22,653	-	[●]
b)	George Kalaparambil John	-	-	40,809	-	
c)	Ranjith Raj P	-	-	2,891	-	
Total (B)			-	66,353	-	**[●]**
Total (A+B)		**31,186,785**	**-**	**66,353**	**6.94**	**[●]**

**Kadambelil Paul Thomas is also a Key Managerial Personnel and Individual Promoter of our Bank*

(iii) Set out below are the details of the Equity Shares held by our Promoters, directors of our Corporate Promoter and the members of our Promoter Group in our Bank:

Name	No. of Equity Shares	Percentage of the pre-Offer Equity Share Capital (%)
Promoters		
Corporate Promoter	280,758,396*	62.46
Kadambelil Paul Thomas	31,186,785	6.94
Total (A)	**311,945,181**	**69.40**
Promoter Group		
ESMACO	22,413,659	4.99
Beena George	40,000	Negligible
Bosco Joseph	40,000	Negligible
Mereena Paul	33,333	Negligible
Leo Joseph	33,333	Negligible
Savio Joseph	13,333	Negligible
Alok Thomas Paul	13,333	Negligible
Emy Acha Paul	13,333	Negligible
Total (B)	**22,600,324**	**5.03**
Total (A+B)	**334,545,505**	**74.43**

** 280,758,391 Equity Shares are held by our Corporate Promoter and one Equity Share each is held by Mereena Paul, Alok Thomas Paul, Emy Acha Paul, George Kalaparambil John and Beena George, as nominees on behalf of our Corporate Promoter, who is the beneficial* *owner of such Equity Shares. Mereena Paul, Alok Thomas Paul, Emy Acha Paul and Beena George are also members of the Promoter Group of our Bank. Further, Mereena Paul is also a director of our Corporate Promoter*

9. Except for ICICI Lombard General Insurance Company Limited, an associate of one of the BRLMs, namely ICICI, which holds 6,239,081 Equity Shares aggregating 1.38% of our pre-Offer Equity Share capital, none of the BRLMs or their respective associates, as defined in the SEBI Merchant Bankers Regulations hold any Equity Shares in our Bank as on the date of this Draft Red Herring Prospectus. The BRLMs and their associates may engage in transactions with and perform services for our Bank in the ordinary course of business or may in the future engage in commercial banking and investment banking transactions with our Bank, for which they may in the future receive customary compensation.

10. There are no partly paid-up Equity Shares as on the date of this Draft Red Herring Prospectus and all Equity Shares were fully paid-up as on the date of allotment.

11. Our Bank has not made any public or rights issue of any kind or class of securities since its incorporation.

12. Our Bank has not made any bonus issue of any kind or class of securities since its incorporation.

13. **ESAF ESOP Plan 2019**

Our Bank, pursuant to the resolutions passed by the Board on December 23, 2019 and Shareholders on January 3, 2020, adopted the ESAF ESOP Plan 2019. The Bank may grant an aggregate number of up to 22,515,552 employee stock options under the ESAF ESOP Plan 2019. Upon exercise and payment of the exercise price, the option holder will be entitled to be allotted one Equity Share per employee stock option. Accordingly, the number of Equity Shares that may be issued under the ESAF ESOP Plan 2019 shall not exceed 22,515,552 Equity Shares of face value ₹10 each. The objectives of the ESAF ESOP Plan 2019 are, among others, to attract and retain employees with employee stock options as a compensation tool. Through the ESAF ESOP Plan 2019, our 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 our Bank.

The ESAF ESOP Plan 2019 has been framed in compliance with the SEBI SBEB Regulations. The ESOP grant is of two types (i) loyalty grant and (ii) performance grant. As on the date of the Draft Red Herring Prospectus, no options under performance grant have been granted by our Bank under the ESAF ESOP Plan 2019. The details of the options granted under the ESAF ESOP Plan 2019 as loyalty grant are as follows:

Particulars	Details
Options granted	1,125,590 (loyalty grant)
Exercise price on options (in ₹)	18.75
Vesting period	Vesting of the options granted will happen on the first anniversary.
Options vested and not exercised	Nil
Options exercised	Nil
The total number of Equity Shares arising as a result of exercise of options	Not Applicable
Options forfeited/lapsed	Not Applicable
Variation of terms of options	Nil
Money realized by exercise of options	Not Applicable
Total number of options in force as of the date of this Draft Red Herring Prospectus	1,125,590 (loyalty grant)
Employee-wise detail of options granted to:	
i. Key managerial personnel	George Kalaparambil John– 40,809 options George Thomas - 22,653 options Ranjith Raj P – 2,891 options
ii. Any other employee who received a grant in any one year of options amounting to 5% or more of the options granted during the year	Nil
iii. Identified employees who were granted options during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Bank at the time of grant	Nil
Fully diluted Earnings per Equity Share – (face value ₹10 per Equity Share) pursuant to issue of Equity Shares on exercise of options calculated in accordance with applicable accounting standard for 'Earnings per Share'	Not applicable as options were granted after the date of the last audited financial statements
Lock-in	The shares are freely transferable and there is no lock in period envisaged in the scheme.
Difference, if any, between employee compensation cost calculated using the intrinsic value of stock options and the employee compensation cost calculated on the basis of fair value of stock options and its impact on profits and on the Earnings per Equity Share – (face value ₹10 per Equity Share)	Not Applicable
Description of the pricing formula method and significant assumptions used during the year to estimate the fair values of options, including weighted-average information, namely, risk-free interest rate, expected life, expected volatility,	Black Scholes Model

Particulars	Details
expected dividends and the price of the underlying share in market at the time of grant of the option	
Impact on profit and Earnings per Equity Share – (face value ₹10 per Equity Share) of the last three years if the accounting policies prescribed in the SEBI SBEB Regulations had been followed in respect of options granted in the last three years	Not applicable as these options were granted after the date of the last audited financial statements
Intention of the Key managerial personnel and whole time directors who are holders of Equity Shares allotted on exercise of options granted to sell their equity shares within three months after the date of listing of Equity Shares pursuant to the Issue	Nil
Intention to sell Equity Shares arising out of an employee stock option scheme within three months after the listing of Equity Shares, by Directors, senior management personnel and employees having Equity Shares arising out of an employee stock option scheme , amounting to more than 1% of the issued capital (excluding outstanding warrants and conversions)	Nil

14. Other than as disclosed below, none of the members of our Promoter Group, our Individual Promoter, directors of our Corporate Promoter, our Directors, or their relatives have purchased or sold any securities of our Bank during the period of six months immediately preceding the date of filing of this Draft Red Herring Prospectus:

Date of allotment/ transfer	Nature of transaction	No. of equity shares	Nature of consideration	Face value per equity share (₹)	Issue/Acquisition/ Transfer price per equity share (₹)
March 31, 2021	Preferential allotment of Equity Shares to ESMACO	1,066,666	Cash	10	75
March 31, 2021	Preferential allotment of Equity Shares to Beena George	40,000	Cash	10	75
March 31, 2021	Preferential allotment of Equity Shares to Alok Thomas Paul	13,333	Cash	10	75
March 31, 2021	Preferential allotment of Equity Shares to Mereena Paul	33,333	Cash	10	75
March 31, 2021	Preferential allotment of Equity Shares to Emy Acha Paul	13,333	Cash	10	75
March 31, 2021	Preferential allotment of Equity Shares to Leo Joseph	33,333	Cash	10	75
March 31, 2021	Preferential allotment of Equity Shares to Savio Joseph	13,333	Cash	10	75
March 31, 2021	Preferential allotment of Equity Shares to Bosco Joseph	40,000	Cash	10	75
March 31, 2021	Preferential allotment of Equity Shares to Gigi Kesavan	33,333	Cash	10	75

15. As of the date of the filing of this Draft Red Herring Prospectus, our Bank has 85 Shareholders.

16. Our Bank, our Directors and the BRLMs have not made any or entered into any buy-back arrangements for purchase of Equity Shares.

17. All Equity Shares issued pursuant to the Offer will be fully paid-up at the time of Allotment.

18. Except the Equity Shares allotted pursuant to the Offer, the conversion of vested employee stock options, if any granted under the ESAF ESOP Plan 2019, the Pre-IPO Placement, and the sweat equity shares which may be allotted to the Managing Director and Chief Executive Officer, subject to approval from the RBI, there will be no further issue of Equity Shares whether by way of issue of bonus shares, rights issue, preferential issue or any other manner during the period commencing from the date of filing of this Draft Red Herring Prospectus until the listing of the Equity Shares on the Stock Exchanges pursuant to the Offer.

19. Our Bank shall ensure that all transactions in Equity Shares by our Promoter and members of our Promoter Group between the date of filing of this Draft Red Herring Prospectus and the date of closing of the Offer shall be reported to the Stock Exchanges within 24 hours of such transaction.

20. There have been no financing arrangements whereby our Promoters, members of the Promoter Group, the directors of our Corporate Promoter, our Directors, and their relatives have financed the purchase by any other person of securities of our Bank other than in the normal course of the business of the financing entity, during a period of six months preceding the date of filing of this Draft Red Herring Prospectus.

21. Our Bank presently does not intend or propose and is not under negotiations or considerations to alter its capital structure for a period of six months from the Bid/ Offer Opening Date, by way of split or consolidation of the denomination of Equity Shares or further issue of Equity Shares (including issue of securities convertible into or exchangeable, directly or indirectly for Equity Shares) whether on a preferential basis or by way of issue of bonus shares or on a rights basis or by

way of further public issue of Equity Shares or qualified institutions placements or otherwise. Provided, however, that the foregoing restrictions do not apply to: (a) the issuance of any Equity Shares under the Offer; (b) any issuance of any Equity Shares pursuant to the Pre-IPO Placement; (c) any issuance pursuant to the exercise of vested employee stock options, if any under the ESAF ESOP Plan 2019; and (d) the sweat equity shares which may be allotted to the Managing Director and Chief Executive Officer, subject to approval from the RBI as disclosed in "*Our Management - Terms of appointment of Directors - Remuneration paid to the Executive Director*" on page 193. Provided further that if our Bank enters into acquisitions or joint ventures or if the business needs otherwise arise, we may, subject to necessary approvals, consider raising additional capital to fund such activity or use Equity Shares for participation in such acquisitions or joint ventures or other arrangements.

22. Other than employee stock options granted under the ESAF ESOP Plan 2019, there are no outstanding convertible securities or any other right granted by the Bank which would entitle any person any option to receive Equity Shares, as on the date of this Draft Red Herring Prospectus.

OBJECTS OF THE OFFER

The Offer comprises of the Fresh Issue and the Offer for Sale.

Offer for Sale

Each of the Selling Shareholders will be entitled to their respective portion of the proceeds from the Offer for Sale in proportion of the Equity Shares offered by the respective Selling Shareholders as part of the Offer for Sale. Our Bank will not receive any proceeds from the Offer for Sale.

Objects of the Offer

In terms of the SFB Licensing Guidelines, the Bank is required to list its Equity Shares on the Stock Exchanges within a period of three years from reaching a net worth of ₹5,000 million. Further, our Bank is required to maintain a minimum capital adequacy ratio of 15% of our risk weighted assets on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time, and our Tier - I capital is required to be at least 7.5% of the risk weighted asset. For details, see "*Key Regulations and Policies*" on page 169. As at March 31, 2021 our Bank's–Tier - I capital base in accordance with the Restated Financial Information was ₹ 13,889.07 million.

Our Bank proposes to utilize the Net Proceeds from the Fresh Issue towards augmenting our Bank's Tier – I capital base to meet our Bank's future capital requirements. Further, the proceeds from the Fresh Issue will also be used towards meeting the expenses in relation to the Offer.

Our Bank expects to receive the benefits of listing the Equity Shares on the Stock Exchanges.

Net Proceeds

The details of the proceeds from the Fresh Issue are summarized in the following table:

Particulars	Estimated amount (₹ in million)
Gross proceeds of the Fresh Issue(1)	8,000
(Less) Fresh Issue expenses(2)	[●]
Net Proceeds	**[●]**

(1) *Includes the proceeds, if any, received pursuant to the Pre-IPO Placement. Upon allotment of Equity Shares issued pursuant to the Pre-IPO Placement, we may utilise the proceeds from such Pre-IPO Placement towards the Objects of the Offer prior to completion of the Offer*

(2) *To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC*

Requirement of Funds and Utilization of Net Proceeds

The Net Proceeds are proposed to be utilised towards augmentation of our Bank's Tier-I capital base to meet our Bank's future capital requirements which are expected to arise out of growth in our Bank's assets, primarily our Bank's loans/advances and investment portfolio and to ensure compliance with regulatory requirements on capital adequacy prescribed by the RBI from time to time.

Offer Expenses

The total expenses of the Offer are estimated to be approximately ₹[●] million.

The Offer related expenses primarily include fees payable to the BRLMs and legal counsel, fees payable to the Auditors, brokerage and selling commission, underwriting commission, commission payable to Registered Brokers, RTAs, CDPs, SCSBs' fees, Registrar's fees, printing and stationery expenses, advertising and marketing expenses and all other incidental and miscellaneous expenses for listing the Equity Shares on the Stock Exchanges. Other than the listing fees which will be borne by the Bank, each of the Selling Shareholders and the Bank shall, upon successful completion of the Offer, share the costs and expenses (including all the applicable taxes) directly attributable to the Offer, on a pro-rata basis, in the manner agreed, based on the proportion of Equity Shares included in the Offer for Sale, among themselves, and the Equity Shares allotted by the Bank, respectively, as a percentage the total Equity Shares sold in the Offer. Any payments by our Bank in relation to the Offer expenses on behalf of Selling Shareholders shall be reimbursed by each of the Selling Shareholders to our Bank, upon successful completion of the Offer, inclusive of taxes. However, in the event that the Offer is withdrawn by our Bank or not completed for any reason whatsoever, all the Offer related expenses will be solely borne by our Bank.

The estimated Offer related expenses are as under:

Activity	Estimated expenses(1) (₹ in million)	As a % of the total estimated Offer expenses(1)	As a % of the total Offer size(1)
BRLMs fees and commissions (including underwriting commission, brokerage and selling commission)	[●]	[●]	[●]
Commission/processing fee for SCSBs and Bankers to the Offer and fee payable to the Sponsor Bank for Bids made by RIBs using UPI (2)	[●]	[●]	[●]

Activity	Estimated expenses(1) (₹ in million)	As a % of the total estimated Offer expenses(1)	As a % of the total Offer size(1)
Brokerage and selling commission and bidding charges for Members of the Syndicate, Registered Brokers, RTAs and CDPs(3)(4)	[●]	[●]	[●]
Fees payable to the Registrar to the Offer	[●]	[●]	[●]
Fees payable to the other advisors to the Offer	[●]	[●]	[●]
Others			
- Listing fees, SEBI filing fees, upload fees, BSE and NSE processing fees, book building software fees and other regulatory expenses	[●]	[●]	[●]
- Printing and stationery	[●]	[●]	[●]
- Advertising and marketing expenses	[●]	[●]	[●]
- Fee payable to legal counsels	[●]	[●]	[●]
- Miscellaneous	[●]	[●]	[●]
Total estimated Offer expenses	[●]	[●]	[●]

(1) *Amounts will be finalised on determination of Offer Price*

(2) *Selling commission payable to the SCSBs on the portion for Retail Individual Bidders, Non-Institutional Bidders and Eligible Employees which are directly procured by the SCSBs, would be as follows:*

*Portion for Retail Individual Bidders**	*[●]% of the Amount Allotted (plus applicable taxes)*
*Portion for Non-Institutional Bidders**	*[●]% of the Amount Allotted (plus applicable taxes)*
*Portion for Eligible Employees**	*[●]% of the Amount Allotted* (plus applicable taxes)*

**Amount Allotted is the product of the number of Equity Shares Allotted and the Offer Price*

Selling Commission payable to the SCSBs will be determined on the basis of the bidding terminal ID as captured in the Bid Book of BSE or NSE.

(3) *No processing fees shall be payable by our Bank and Selling Shareholders to the SCSBs on the applications directly procured by them Processing fees payable to the SCSBs on the portion for Retail Individual Bidders, Non-Institutional Bidders and Eligible Employees which are procured by the members of the Syndicate/sub-Syndicate/Registered Broker/RTAs/ CDPs and submitted to SCSB for blocking, would be as follows:*

*Portion for Retail Individual Bidders**	*[●]% of the Amount Allotted (plus applicable taxes)*
*Portion for Non-Institutional Bidders**	*[●]% of the Amount Allotted (plus applicable taxes)*
*Portion for Eligible Employees**	*[●]% of the Amount Allotted* (plus applicable taxes)*

**Amount Allotted is the product of the number of Equity Shares Allotted and the Offer Price*

(4) *Selling commission on the portion for Retail Individual Bidders, Non-Institutional Bidders and Eligible Employees which are procured by members of the Syndicate (including their sub-Syndicate Members), Registered Brokers, RTAs and CDPs would be as follows:*

*Portion for Retail Individual Bidders**	*[●]% of the Amount Allotted (plus applicable taxes)*
*Portion for Non-Institutional Bidders**	*[●]% of the Amount Allotted (plus applicable taxes)*
*Portion for Eligible Employees**	*[●]% of the Amount Allotted* (plus applicable taxes)*

**Amount Allotted is the product of the number of Equity Shares Allotted and the Offer Price*

Processing fees payable for applications made by Retail Individual Bidders using the UPI Mechanism would be as follows:

Sponsor Bank	*[●]% of the Amount Allotted (plus applicable taxes)*

The Selling Commission payable to the Syndicate / sub-Syndicate Members will be determined on the basis of the application form number / series, provided that the application is also bid by the respective Syndicate / sub-Syndicate Member. For clarification, if a Syndicate ASBA application on the application form number / series of a Syndicate / sub-Syndicate Member, is bid by an SCSB, the Selling Commission will be payable to the SCSB and not the Syndicate / Sub-Syndicate Member.

Bidding Charges payable to members of the Syndicate (including their sub-Syndicate Members), RTAs and CDPs on the portion for Non-Institutional Bidders which are procured by them and submitted to SCSB for blocking and Retail Individual Bidders (using the UPI Mechanism), and Eligible Employees would be as follows: ₹[●] plus applicable taxes, per valid application bid by the Syndicate (including their sub-Syndicate Members), RTAs and CDPs.

The selling commission and Bidding Charges payable to Registered Brokers the RTAs and CDPs will be determined on the basis of the bidding terminal id as captured in the bid book of BSE or NSE.

Means of finance

The fund requirements set out for the aforesaid objects of the Offer are proposed to be met entirely from the Net Proceeds. Accordingly, our Bank confirms that there is no requirement to make firm arrangements of finance through verifiable means towards at least 75% of the stated means of finance, excluding the amount to be raised from the Fresh Issue and existing identifiable accruals as required under the SEBI ICDR Regulations.

Interim use of Net Proceeds

Our Bank, in accordance with the policies established by the Board from time to time, will have the flexibility to deploy the Net Proceeds. Pending utilization for the purposes described above, our Bank will deposit the Net Proceeds only with one or more scheduled commercial banks included in the second schedule of the RBI Act as may be approved by our Board or IPO Steering Committee.

In accordance with Section 27 of the Companies Act, 2013, our Bank confirms that it shall not use the Net Proceeds for buying, trading or otherwise dealing in the equity shares of any other listed company or for any investment in equity markets.

Bridge Financing Facilities

Our Bank has not raised any bridge loans from any bank or financial institution as on the date of this Draft Red Herring Prospectus, which are proposed to be repaid from the Net Proceeds.

Appraising Entity

None of the objects of the Offer for which the Net Proceeds will be utilised have been appraised by any bank/ financial institution.

Monitoring of Utilization of Funds

In terms of the proviso to Regulation 41(1) of the SEBI ICDR Regulations, our Bank is not required to appoint a monitoring agency for this Offer. To the extent applicable, our Bank will disclose the utilization of the Net Proceeds under a separate head in our balance sheet along with the relevant details, for all such amounts that have not been utilised.

Our Bank will indicate investments, if any, of unutilised Net Proceeds in the balance sheet of our Bank for the relevant Fiscals subsequent to receipt of listing and trading approvals from the Stock Exchanges.

Pursuant to Regulations 18(3) and 32(3) of the Listing Regulations, our Bank shall, on a quarterly basis, disclose to the Audit Committee the uses and applications of the Net Proceeds.

On an annual basis, our Bank shall prepare a statement of funds utilized for purposes other than those stated in the Red Herring Prospectus and place it before the Audit Committee and make other disclosures as may be required until such time as the Net Proceeds remain unutilized. Such disclosure shall be made only until such time that all the Net Proceeds have been utilized in full. The statement shall be certified by the Statutory Auditors of our Bank.

Further, in accordance with Regulation 32(1) of the Listing Regulations, our Bank shall furnish to the Stock Exchanges on a quarterly basis, a statement indicating (i) deviations, if any, in the actual utilization of the Net Proceeds of the Fresh Issue from the objects of the Fresh Issue as stated above; and (ii) details of category wise variations in the actual utilization of the proceeds of the Fresh Issue from the objects of the Fresh Issue as stated above. This information will also be published in newspapers simultaneously with the interim or annual financial results and explanation for such variation (if any) will be included in our Directors' report, after placing the same before the Audit Committee.

Variation in Objects

In accordance with Sections 13(8) and 27 of the Companies Act and applicable rules, our Bank shall not vary the objects of the Offer without our Bank being authorised to do so by the Shareholders by way of a special resolution through postal ballot. In addition, the notice issued to the Shareholders in relation to the passing of such special resolution ("**Postal Ballot Notice**") shall specify the prescribed details as required under the Companies Act and applicable rules.

The Postal Ballot Notice shall simultaneously be published in the newspapers, one in English and one in Malayalam, being the regional language of Kerala, where the Registered and Corporate Office is situated in accordance with the Companies Act and applicable rules. Our Promoters or controlling shareholders will be required to provide an exit opportunity to such Shareholders who do not agree to the proposal to vary the objects, at such price, and in such manner, in accordance with our Articles of Association and the SEBI ICDR Regulations.

Other Confirmations

No part of the Net Proceeds will be paid by us as consideration to our Promoters, Promoter Group, the Directors and Key Managerial Personnel, except in the normal course of business and in compliance with applicable law.

Our Bank has not entered into and is not planning to enter into any arrangement/ agreements with the Promoters, Promoter Group, Directors, Key Managerial Personnel and Group Entities in relation to the utilisation of the Net Proceeds. Further there is no existing or anticipated interest of such individuals and entities in the objects of the Fresh Issue as set out above.

BASIS FOR OFFER PRICE

The Offer Price will be determined by our Bank and the Selling Shareholders, in consultation with the BRLMs, on the basis of assessment of market demand for the Equity Shares offered through the Book Building Process and on the basis of quantitative and qualitative factors as described below. The face value of the Equity Shares is ₹10 each and the Offer Price is [●] times the Floor Price and [●] times the Cap Price of the Price Band. Investors should also see "*Our Business*", "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Financial Statements*" on pages 143, 24, 297 and 240, respectively, to have an informed view before making an investment decision.

Qualitative Factors

We believe the following business strengths allow us to successfully compete in the industry:

- Deep understanding of the microfinance segment, which has enabled us to grow our business outside of Kerala, our home state;
- Strong rural and semi-urban banking franchise;
- Fast growing retail deposit portfolio with low concentration risk;
- Strong customer connections driven by our customer centric products and processes and other non-financial services for micro loan customers;
- Technology driven model with an advanced information technology platform; and
- Experienced Board and Key Management Personnel.

For details, see "*Our Business – Strengths*" on page 145.

Quantitative Factors

Some of the information presented below relating to our Bank is derived from the Restated Financial Information. For details, see "*Financial Statements*" on page 240.

Some of the quantitative factors which may form the basis for computing the Offer Price are as follows:

A. Basic and Diluted Earnings Per Share ("EPS"):

Fiscal Year ended	Basic EPS (in ₹)	Diluted EPS (in ₹)	Weight
March 31, 2019	2.37	2.37	1
March 31, 2020	4.45	4.45	2
March 31, 2021	2.46	2.46	3
Weighted Average	3.11	3.11	

(i) Basic/diluted earnings per share = $\frac{\text{Net profit, as restated, attributable to equity shareholders}}{\text{Weighted average number of equity shares outstanding during the year}}$

(ii) Earnings per share calculations are done in accordance with Accounting Standard 20 "Earnings Per Share" ("**AS 20**") as notified under section 133 of the Companies Act 2013, read together with paragraph 7 of the Companies (Accounts) Rules 2014

The Weighted Average basic and diluted EPS is a product of basic and diluted EPS and respective assigned weight, dividing the resultant by total aggregate weight

B. Price/Earning ("P/E") ratio in relation to the Price Band of ₹ [●] to ₹[●] per Equity Share:

Particulars	P/E at the Floor Price (no. of times)	P/E at the Cap Price (no. of times)
Based on basic & diluted EPS for Financial Year 2019	[●]	[●]

Industry Peer Group P/E ratio

Particulars	Industry P/E
Highest	634.00
Lowest	19.16
Average	158.26

i The industry high and low has been considered from the industry peer set provided later in this section

For Industry P/E, P/E figures for the peers are computed based on closing market price as on July 7, 2021 at BSE, divided by Basic EPS (on consolidated basis unless otherwise available only on standalone basis) based on financial results of the respective company for the year ended March 31, 2021 submitted to stock exchanges

C. Return on Net Worth ("RoNW")

Derived from the Restated Financial Information:

Fiscal Year ended	RoNW (%)	Weight
March 31, 2019	10.10	1
March 31, 2020	17.56	2
March 31, 2021	7.80	3
Weighted Average	11.44	

(i) Return on Net Worth (%) = $\dfrac{\text{Net profit, as restated, attributable to equity shareholders}}{\text{Net worth at the end of the year}}$

(ii) "Net worth" means the aggregate of Capital and Reserves and Surplus

The Weighted Average Return on Net Worth is a product of Return on Net Worth and respective assigned weight, dividing the resultant by total aggregate weight

D. Net Asset Value ("NAV") per Equity Share

Fiscal year ended	NAV per Equity Share (₹)
As on March 31, 2021	30.08
After the completion of the Offer	At Floor Price: [●]
	At Cap Price: [●]
Offer Price	[●]

(i) Offer Price per Equity Share will be determined on conclusion of the Book Building Process

(ii) Net asset value per Equity Share = $\dfrac{\text{Net worth at the end of the year}}{\text{Total number of equity shares outstanding at the end of the year}}$

E. Comparison with Listed Industry Peers

Name of the company	Total Income (₹ in million)	Face Value per Equity Share (₹)	P/E	EPS (Basic) (₹)	EPS (Diluted)(₹)	RoNW (%)	NAV per equity share (₹)
ESAF Small Finance Bank Limited*	17,672.77	10	[●]	2.46	2.46	7.80	30.08
Listed Peers							
Suryoday Small Finance Bank Limited	8,756.30	10.00	160.61	1.32	1.31	0.74%	150.47
CreditAccess Grameen Limited	24,660.70	10.00	80.44	8.96	8.90	4.43%	237.27
Spandana Sphoorty Financial Ltd	15,056.14	10.00	31.92	22.55	22.47	4.20%	427.44
Bandhan Bank Limited	1,46,332.72	10.00	23.40	13.70	13.69	12.67%	108.09
Ujjivan Small Finance Bank Limited	31,168.90	10.00	634.00	0.05	0.05	0.26%	18.37
Equitas Small Finance Bank Limited	36,124.68	10.00	19.16	3.53	3.49	11.31%	29.81

** Financial information for ESAF Small Finance Bank Limited is derived from the Restated Financial Information for the year ended March 31, 2021.*

Notes#:

i *All the financial information for listed industry peers mentioned above is on a consolidated basis (unless otherwise available only on standalone basis) and is sourced from the annual reports/ financial results as available of the respective company for the year ended March 31, 2021 submitted to stock exchanges*

ii *P/E ratio is calculated as closing share price (July 7, 2021 - BSE) / Basic EPS for year ended March 31, 2021.*

iii *Basic and Diluted EPS as reported in the relevant financial results of the respective company for the year ended March 31, 2021.*

iv *Return on net worth (%) = Net profit/(loss) after tax / Net worth at the end of the year.*

v *Net asset value per share (in ₹) = Net worth at the end of the year / Total number of equity shares outstanding at the end of the year*

F. The Offer price is [•] times of the face value of the Equity Shares

The Offer Price of ₹ [●] has been determined by our Bank and the Selling Shareholders in consultation with the BRLMs, on the basis of market demand from investors for Equity Shares through the Book Building Process and is justified in view of the above qualitative and quantitative parameters.

Investors should read the abovementioned information along with "*Risk Factors*", "*Our Business*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Financial Statements*" on pages 24, 143, 297 and 240, respectively, to have a more informed view.

STATEMENT OF SPECIAL TAX BENEFITS

STATEMENT OF SPECIAL TAX BENEFITS AVAILABLE TO ESAF SMALL FINANCE BANK LIMITED (THE "BANK") AND THE SHAREHOLDERS OF THE BANK UNDER THE DIRECT AND INDIRECT TAX LAWS IN INDIA

The Board of Directors

ESAF Small Finance Bank Limited
Building No. VII/83/8,
ESAF Bhavan, Mannuthy,
Thrissur – Palakkad National Highway
Thrissur – 680 651
Kerala, India

Dear Sirs,

Sub: Statement of possible Special Tax Benefits available to the Bank and its equity shareholders under the direct and indirect tax laws

We refer to the proposed initial public offering of equity shares (the "**Offer**") of ESAF Small Finance Bank Limited) (**"ESAF" or** the **"Bank"**). We enclose herewith the statement (the "**Annexure**") showing the current position of special tax benefits available to the Bank and to its shareholders as per the provisions of the Indian direct and indirect tax laws including the Income-tax Act, 1961, the Central Goods and Services Tax Act, 2017, the Integrated Goods and Services Tax Act, 2017, the Union Territory Goods and Services Tax Act, 2017, respective State Goods and Services Tax Act, 2017 (collectively the "GST Act"), the Customs Act, 1962 ("Customs Act") and the Customs Tariff Act, 1975 ("Tariff Act") (collectively the "**Taxation Laws**") including the rules, regulations, circulars and notifications issued in connection with the Taxation Laws, as presently in force and applicable to the assessment year 2022-23 relevant to the financial year 2021-22 for inclusion in the Draft Red Herring Prospectus (**"DRHP"**) for the proposed initial public offering of shares of the Bank as required under the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended ("**ICDR Regulations**").

Several of these benefits are dependent on the Bank or its shareholders fulfilling the conditions prescribed under the relevant provisions of the direct and indirect taxation laws including the Income-tax Act 1961. Hence, the ability of the Bank or its shareholders to derive these direct and indirect tax benefits is dependent upon their fulfilling such conditions.

The benefits discussed in the enclosed Annexure are neither exhaustive nor conclusive. The contents stated in the Annexure are based on the information and explanations obtained from the Bank. This statement is only intended to provide general information to guide the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult their own tax consultants, with respect to the specific tax implications arising out of their participation in the Offer particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail. We are neither suggesting nor are we advising the investors to invest or not to invest money based on this statement.

We do not express any opinion or provide any assurance whether:

- The Bank or its Shareholders will continue to obtain these benefits in future;
- The conditions prescribed for availing the benefits have been/would be met;
- The revenue authorities/courts will concur with the views expressed herein.

This statement is provided solely for the purpose of assisting the Bank in discharging its responsibilities under the ICDR Regulations. We hereby give our consent to include this report and the enclosed Annexure regarding the tax benefits available to the Bank and its shareholders in the DRHP for the proposed initial public offer of equity shares which the Bank intends to submit to the Securities and Exchange Board of India and the National Stock Exchange of India Limited and BSE Limited (the "**Stock Exchanges**") where the equity shares of the Bank are proposed to be listed, as applicable, provided that the below statement of limitation is included in the DRHP.

LIMITATIONS

Our views expressed in the enclosed Annexure are based on the facts and assumptions indicated above. No assurance is given that the revenue authorities/courts will concur with the views expressed herein. Our views are based on the information, explanations and representations obtained from the Bank and on the basis of our understanding of the business activities and operations of the Bank and the existing provisions of taxation laws in force in India and its interpretation, which are subject to change from time to time. We do not assume responsibility to update the views consequent to such changes. Reliance on the statement is on the express understanding that we do not assume responsibility towards the investors and third parties who may or may not invest in the initial public offer relying on the statement. This statement has been prepared solely in connection with the proposed initial public offering of equity shares of the Bank under the ICDR Regulations.

For **Deloitte Haskins & Sells**
Chartered Accountants
(Firm's Registration No. 117365W)

G. K. Subramaniam
Partner
Membership No. 109839
(UDIN: 21109839AAAALV4994)

MUMBAI, 23 July 2021

ANNEXURE TO THE STATEMENT OF SPECIAL TAX BENEFITS AVAILABLE TO ESAF SMALL FINANCE BANK LIMITED (THE "BANK") AND THE SHAREHOLDERS OF THE BANK UNDER THE DIRECT AND INDIRECT TAX LAWS IN INDIA

The information provided below sets out the possible special direct and indirect tax benefits available to ESAF Small Finance Bank Limited ("ESAF" or "the Bank") and the shareholders of the Bank in a summary manner only and is not a complete analysis or listing of all potential tax consequences of the subscription, ownership and disposal of equity shares of the Bank, under the current Tax Laws presently in force in India. Several of these benefits are dependent on the shareholders fulfilling the conditions prescribed under the relevant Tax Laws. Hence, the ability of the shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which, based on business / commercial imperatives a shareholder faces, may or may not choose to fulfill. We do not express any opinion or provide any assurance as to whether the Bank or its shareholders will continue to obtain these benefits in future. The following overview is not exhaustive or comprehensive and is not intended to be a substitute for professional advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult their own tax consultant with respect to the specific tax implications arising out of their participation in the issue. We are neither suggesting nor are we advising the investor to invest money or not to invest money based on this statement.

The statement below covers only relevant special direct and indirect tax law benefits and does not cover benefits under any other law.

INVESTORS ARE ADVISED TO CONSULT THEIR OWN TAX CONSULTANT WITH RESPECT TO THE TAX IMPLICATIONS OF AN INVESTMENT AND CONSEQUENCES OF PURCHASING, OWNING AND DISPOSING OF EQUITY SHARES IN THE SECURITIES, PARTICULARLY IN VIEW OF THE FACT THAT CERTAIN RECENTLY ENACTED LEGISLATION MAY NOT HAVE A DIRECT LEGAL PRECEDENT OR MAY HAVE A DIFFERENT INTERPRETATION ON THE BENEFITS, WHICH AN INVESTOR CAN AVAIL IN THEIR PARTICULAR SITUATION.

STATEMENT OF POSSIBLE SPECIAL DIRECT TAX BENEFITS AVAILABLE TO THE BANK AND SHAREHOLDERS OF THE BANK

A. SPECIAL DIRECT TAX BENEFITS AVAILABLE TO THE BANK

The statement of tax benefits enumerated below is as per the Income-tax Act, 1961 ("Act") as amended from time to time and applicable for financial year 2021-22 relevant to assessment year 2022-23.

Lower Corporate tax rate under section 115BAA of the Act

- As per section 115BAA of the Act inserted by the Taxation Laws (Amendment) Act, 2019 ("the Amendment Act, 2019") w.e.f. April 1, 2020 i.e. AY 2020-21 an option is granted to the domestic companies to compute corporate tax at a reduced rate of 25.17% (22% plus surcharge of 10% and cess of 4%), provided the taxpayer does not avail specified exemptions/incentives and complies with other conditions specified in section 115BAA of the Act. Further, the taxpayer availing such option will not be required to pay Minimum Alternate Tax ("MAT") on its book profits under section 115JB.

  However, such company will not be eligible to avail specified exemptions / incentives under the Act and will also need to comply with the other conditions specified in section 115BAA of the Act. Also, if a company opts for section 115BAA of the Act, the tax credit (under section 115JAA of the Act), if any, which it is entitled to on account of MAT paid in earlier years, will no longer be available. Further, it shall not be allowed to claim set-off of any brought forward loss arising to it on account of additional depreciation and other specified incentives.

  The bank has exercised the aforesaid option to be taxed at the reduced rate of 25.17% (including surcharge and cess) .

Deduction in respect of inter-corporate dividends – Section 80M of the Act

- Up to 31st March, 2020, any dividend paid to a shareholder by a company was liable to Dividend Distribution Tax ("DDT"), and the recipient shareholder was exempt from tax. Pursuant to the amendment made by the Finance Act, 2020, DDT stands abolished and dividend received by a shareholder on or after 1st April, 2020 is taxable in the hands of the shareholder. The Company is required to deduct tax at source at applicable rate specified under the Act read with applicable Double Taxation Avoidance Agreement (if any, subject to eligibility of the shareholder).

- With respect to a resident corporate shareholder, a new section 80M of the Act is inserted in the Finance Act, 2020 w.e.f. 1st April 2021, providing a deduction of an amount equal to dividends received by a domestic company from another domestic company or a foreign company or a business trust. Such deduction shall be claimed from gross total income of a domestic company and shall not exceed the amount of dividend distributed by it on or before the due date. The "due date" means the date one month prior to the date for furnishing the return of income under sub-section (1) of section 139 of the Act.

Deduction under section 80JJAA of the Act

- As per the provisions of Section 80JJAA of the Act, where the gross total income of an assessee, to whom provisions of section 44AB of the Act applies, includes any profit and gains derived from business, then such assessee shall be entitled to claim a deduction of an amount equal to thirty percent of additional employee cost incurred in the course of such business in the previous year, for three assessment years including the assessment year relevant to the previous year in which such employment is provided. The eligibility to claim the deduction is subject to fulfilment of prescribed conditions specified in sub-section (2) of section 80JJAA of the Act.

Deduction for Bad and doubtful debts

- The Bank, being a Small Finance Bank, is entitled for accelerated deduction of bad and doubtful debts in terms of provision for bad and doubtful debts up to a specified limit under section 36(1)(viia) of the Act in computing its income under the head "Profits and gains of Business or Profession"(computed before making any deduction under this section and Chapter VI-A). The said deduction, which represents a timing difference for tax purposes, is available to the extent of 8.5% of the gross total income and 10% of the aggregate average advances made by rural branches of such bank, subject to the satisfaction of prescribed conditions. However, subsequent claim of deduction of actual bad debts under section 36(1) (vii) of the Act shall be reduced to the extent of deduction already allowed under section 36(1) (viia) of the Act. Where a deduction has been allowed in respect of a bad debt or part thereof under the provisions of section 36(1)(vii)/36(1)(viia) of the Act, then, if any amount is subsequently recovered, the said amount is deemed to be profits and gains of business or profession under section 41 of the Act and is taxable accordingly to the extent it exceeds the deduction earlier allowed.

- It should also be noted that the Hon'ble Supreme Court of India in case of Vijaya Bank 1, has held that where the bank has written off bad debt in its books by way of a debit to profit and loss account and simultaneously has reduced corresponding amount from loans and advances to debtors depicted on assets side in balance sheet at the year end, then the bank shall be entitled to deduction under section 36(1)(vii) of the Act.

Other deductions

- Further, the Bank being a Small Finance Bank, is also eligible for a deduction of 20% of the eligible profits or an amount transferred to the special reserve, whichever is lower, as per the provisions of section 36(1)(viii) of the Act in computing its income under the head "Profits and gains of Business or Profession" (computed before making any deduction under this section). However, where the aggregate amounts transferred to such special reserve from time to time, exceeds two hundred percent of the paid-up share capital and general reserves, the Bank shall not get a deduction for such excess.

- In terms of section 43D of the Act, and subject to the conditions specified therein interest income of a bank and certain other specified financial institutions on certain categories of bad and doubtful debts as specified in Rule 6EA of the Income-tax Rules, 1962, shall be chargeable to tax only in the year of receipt or credit to Profit and Loss Account, whichever is earlier.

B. SPECIAL DIRECT TAX BENEFITS AVAILABLE TO THE SHAREHOLDERS

- The Bank would be required to deduct tax at source on the dividend paid to the shareholders, at applicable rates. In case of shareholders who are individuals, Hindu Undivided Family, Association of Persons, Body of Individuals, whether incorporated or not and every artificial juridical person, surcharge would be restricted to 15%, if the income exceeds INR 1 crore. However, if the income is between INR 50 lakhs to INR 1 crore, surcharge at the rate of 10% shall apply. The shareholders would be eligible to claim the credit of such tax in their return of income.

- With respect to a resident corporate shareholder, a new section 80M of the Act is inserted in the Finance Act, 2020 w.e.f. 1st April 2021, providing a deduction of an amount equal to dividends received by a domestic company from another domestic company or a foreign company or a business trust. Such deduction shall be claimed from gross total income of a domestic company and shall not exceed the amount of dividend distributed by it on or before the due date. The "due date" means the date one month prior to the date for furnishing the return of income under sub-section (1) of section 139 of the Act.

- As per Section 112A of the Act, long-term capital gains arising from transfer of an equity share2, or a unit of an equity oriented fund3 or a unit of a business trust4 shall be taxed at 10% (plus applicable surcharge and cess) (without indexation) of such capital gains subject to fulfillment of prescribed conditions under the Act as well as

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1 [2010] 190 Taxman 257 (SC)

2 Where Securities Transaction Tax (STT) was paid on the acquisition and transfer of such share

3 Where STT was paid on the transfer of such unit

4 Where STT was paid on the transfer of such unit

per Notification No. 60/2018/F.No.370142/9/2017-TPL dated 1 October 2018. It is worthwhile to note that tax shall be levied where such capital gains exceed INR 1,00,000.

- As per Section 111A of the Act, short term capital gains arising from transfer of a listed equity share, or a unit of an equity-oriented fund or a unit of a business trust shall be taxed at 15% (plus applicable surcharge and cess) subject to fulfillment of prescribed conditions under the Act.

- The non-resident shareholders can offer the income to tax under the beneficial provisions of the Double Taxation Avoidance Agreement, if any, subject to eligibility. Further, the non-resident shareholders would be eligible to claim the foreign tax credit, based on the local laws of the country of which the shareholder is the resident. Shareholders being Individual and HUF can opt to be taxed as per the new tax rates mentioned under section 115BAC of the Act.

- There are no other possible special tax benefits available to the Shareholders of the Bank for investing in the shares of the Bank.

STATEMENT OF POSSIBLE SPECIAL INDIRECT TAX BENEFITS AVAILABLE TO THE BANK AND SHAREHOLDERS OF THE BANK

The Central Goods and Services Tax Act, 2017, the Integrated Goods and Services Tax Act, 2017, the Union Territory Goods and Services Tax Act, 2017, respective State Goods and Services Tax Act, 2017, the Customs Act, 1962 and the Customs Tariff Act, 1975 (collectively referred to as "Indirect tax")

A. SPECIAL INDIRECT TAX BENEFITS AVAILABLE TO THE BANK

- As per the provisions of the GST law (vide notification no 12/2017-Central Tax (Rate) dated 28 June 2017), income earned out of extending deposits, loans or advances in so far as the consideration is represented by way of interest is exempted. Thus, interest income earned by Banks is exempted from levy of GST.

- Further, in accordance to the provisions of the GST law, every registered person is required to reverse input tax credit corresponding to the exempt income (arrived by determining the ratio of exempt income over total income). However, Banks are given a leeway to reverse merely 50% of their total input tax credit.

B. SPECIAL INDIRECT TAX BENEFITS AVAILABLE TO THE SHAREHOLDERS

- There are no possible special indirect tax benefits available to the shareholders of the Bank.

SECTION IV: ABOUT OUR BANK

INDUSTRY OVERVIEW

All information in this section is sourced from the CRISIL Research Report, which was commissioned and paid for by us for the purposes of the Offer. The CRISIL Research Report is subject to the disclaimer set out in "Certain Conventions, Currency of Presentation, Use of Financial Information – Industry and Market Data" on page 21. Except as noted otherwise, All forward looking statements, estimates and projections in this section are CRISIL Research's forward looking statements, estimates and projections. While we have taken reasonable action to ensure that information from the CRISIL Research Report has been reproduced in its proper form and context, none of our Bank, the Book Running Lead Managers and their respective directors, employees, agents and professional advisors have conducted an independent review of the industry and third party information or independently verified the accuracy thereof. Accordingly, prospective investors should not place undue reliance on the information contained in this section.

The use of the letter "E" after a number means it is an estimated number and the use of the letter "P" after a number means it is a projected number. The use of the symbol "~" means approximately.

Macroeconomic scenario

COVID-19 pandemic impacts world and Indian economy; bounce back expected in Fiscal 2022

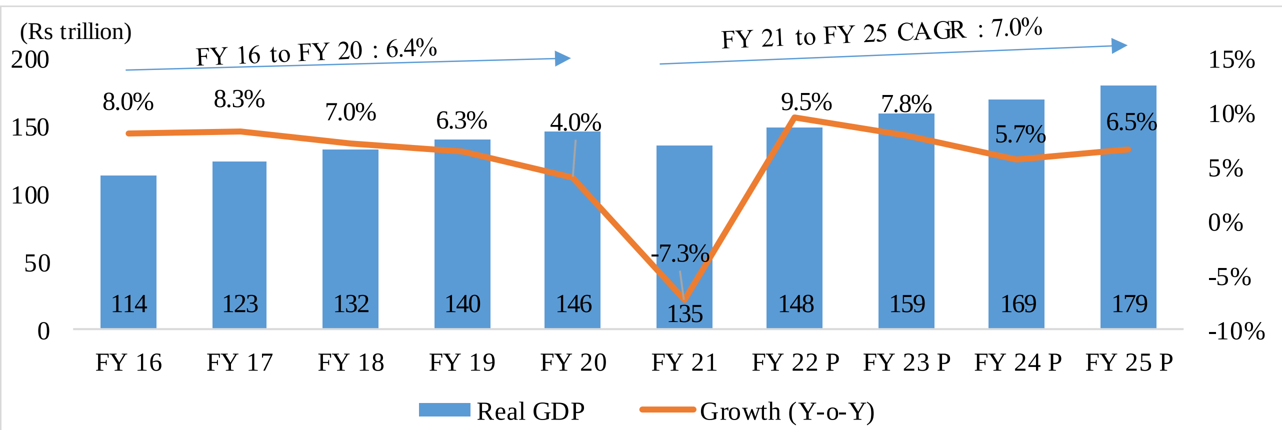
Fiscal 2020 was volatile for the global economy. The first three quarters were ensnared in trade protectionist policies and disputes among major trading partners, volatile commodity and energy prices, and economic uncertainties arising from Brexit. Hopes of broad-based recovery in the fourth quarter were dashed by the COVID-19 pandemic, which has infected more than 184 million people in 219 countries as of July 5, 2021 (*Source: WHO Covid-19 Dashboard*), leading to considerable human suffering and economic disruption.

Growing restrictions on the movement of people and lockdowns in the affected countries led to demand, supply and liquidity shocks. The COVID-19 pandemic sharply slowed the Indian economy in the first quarter of Fiscal 2021, but the huge economic costs that it extracted, forced the economy to open up and get back on its feet in the second quarter of Fiscal 2021. What also helped was a sharp cutback in operating costs for corporates due to job and salary cuts, employees exercising work from home options, low input costs due to benign interest rates, crude and commodity prices. The second and third quarters of Fiscal 2021 showed consistent recovery in global trade activity, especially merchandise volumes.

CRISIL estimates the Indian economy shrank 7.3% in Fiscal 2021 on account of the pandemic. The pandemic came at the most inopportune time since India was showing signs of recovery following a slew of fiscal/monetary measures. Having said that, CRISIL Research foresees growth rebounding in Fiscal 2022, on the back of a very weak base, a counter-cyclical Union Budget for Fiscal 2022 pushing investments and some benefit from a rising-global-tide-lifting-all-boats effect. The gradual increase in vaccinations against COVID-19 is also expected to boost confidence and support stronger recovery. Even after the strong rebound, GDP would have grown merely 1% over the pre-pandemic level of Fiscal 2020.

The focus of the Indian government's budget on pushing capital expenditure (capex) despite walking a fiscal tightrope, however, provides optimism and creates a platform for higher growth. Given that the focus of the budget was on investment rather than consumption push, the full impact of the expenditure will be seen in the near term via multiplier effects, and over time, through enhancement of productive capacity. To that extent, CRISIL believes that the budgetary provisions help raise the medium-term prospects for the economy.

Budgetary support and vaccines expected to boost economic growth



Note: E - Estimated and P - Projected
Source: National Statistics Office (NSO), International Monetary Fund (IMF) and CRISIL Research estimates

The resurgence of COVID-19 infections since March 2021 forced many states to implement localised lockdowns and restrictions to prevent the spread of the infection. In the beginning of May, the country witnessed the highest number of daily COVID-19 cases being reported. (*Source: Ministry of Health and Family Welfare*). While the case load has come down since then, the restrictions on economic activity and mobility imposed by various state governments in the wake of the resurgence in COVID-19 infections has led to downgrades in GDP growth estimates for the year.

CRISIL Research forecasts India's GDP for Fiscal 2022 to grow by around 9.5% in its base case scenario, assuming that COVID-19 restrictions will continue and mobility will remain affected in some form or other, at least till August 2021 and that 70% of the adult population will be vaccinated by December 2021. The lockdowns imposed were less restrictive for economic activity as compared with last year. Manufacturing, construction, agriculture and other essential activities have been permitted to continue in most states. Manufacturing sector purchasing managers' Index remained above the 50 level (*Source: IHS Markit*), indicating some resilience.

In Fiscal 2023, CRISIL Research expects growth to remain strong and become more broad-based, as a sufficient proportion of population gets vaccinated by then. This will particularly strengthen growth for contact-based services, which have been the biggest victims. Beyond that, growth is expected to moderate.

Nonetheless, the risks to growth are firmly tilted downwards. A third wave would pose a significant downside risk to the growth forecast, as would a slower-than-anticipated pace of vaccination. CRISIL Research forecasts India's GDP to grow by 8.0% in Fiscal 2022 in this pessimistic scenario.

On June 1, 2020, Moody's downgraded India's sovereign rating to the lowest investment grade and maintained the outlook from stable to negative. This is a result of the pandemic which has exacerbated India's weak fiscal setting. However, on June 10, S&P Global affirmed its BBB- long-term sovereign ratings on India with a stable outlook.

Prior to the onset of the pandemic, India's GDP growth slowed on account of existing vulnerabilities such as a weak financial sector and subdued private investment. However, in light of production-linked incentive ("**PLI**") scheme, reduction in corporate tax rate, labour law reforms together with healthy demographics and a more favourable corporate tax regime, India is expected to witness strong GDP growth when the global economy eventually recovers, supported by prudent fiscal and monetary policy.

GDP to bounce back over the medium term

After clawing back in Fiscal 2022, CRISIL Research forecasts India's GDP to grow at 6.0-7.0% per annum between Fiscals 2023 and 2025. This growth will be supported by the following factors:

- Focus on investments rather than consumption push enhancing the productive capacity of the economy.
- Reforms undertaken over the past few years such as:
    - The production linked incentive scheme which aims to incentivise local manufacturing by giving volume-linked incentives to manufacturers in specified sectors
    - Key structural reforms such as implementation of Goods and Services Tax ("**GST**") and Insolvency and Bankruptcy Code ("**IBC**") will begin to show its impact over the longer term
    - Reform measures aimed at enhancing financial inclusion like Pradhan Mantri Jan Dhan Yojana will broaden the base of the banking ecosystem, leading to higher lending and investment
    - Government initiatives like Digital India Initiative will aid digitalisation in the country. This will improve the efficiency in the economy, leading to faster growth.
- Raft of reform measures by the Government along with a more expansionary stance of monetary policy leading to a steady pick-up in consumption demand
- Policies aimed towards greater formalisation of the economy are bound to lead to an acceleration in per capita income growth

Key structural reforms: Long-term positives for the Indian economy

Financial inclusion

According to the World Bank's Global Findex Database 2017, the global average of adult population with an account (with a bank, financial institution, or mobile money providers) was ~69% in 2017. India's financial inclusion has improved significantly in the past three years. The adult population with bank accounts rose from 53% (as per Global Findex Database 2014) to 80% in 2017 (*Source: Global Findex Database*) with the Government's concentrated efforts to promote financial inclusion and the proliferation of supporting institutions. That said, the rise in the number of bank accounts has not translated into a corresponding increase in the number of transactions and fruitful usage of those accounts. As per the World Bank's Global Findex Database 2017, 40% of the accounts did not make any deposit or withdrawal in the past year (calendar year 2016), which indicates that although the account penetration has improved, usage of accounts has yet to improve.

The two key initiatives launched by the Government to promote financial inclusion are the Pradhan Mantri Jan Dhan Yojana ("**PMJDY**") and Pradhan Mantri Jeevan Jyoti Bima Yojana ("**PMJJBY**"). Under the PMJDY, the Government's aim is to ensure that every household in India has a bank account which they can access from anywhere and avail of all financial services such as savings and deposit accounts, remittances, credit and insurance affordably. PMJJBY is a one-year life insurance scheme that offers a life cover of Rs. 0.2 million at a premium of Rs. 330 per annum per member, which can be renewed every year. The Government has also launched the Pradhan Mantri Suraksha Bima Yojana (PMSBY), an accident insurance policy that offers an accidental death and full disability cover of Rs. 0.2 million at a premium of Rs. 12 annually. As per the Government, more than 100 million people have registered for these two social security schemes.

PMJDY launched in August 2014, is aimed at ensuring that every household in India has a bank account which they can access from anywhere and avail of all financial services such as savings and deposit accounts, remittances, credit and insurance affordably. PMJDY focuses on household coverage compared to the earlier schemes that focused on coverage of villages. It aims to extend banking facilities to all within a reasonable distance in each sub-service area (consisting of 1,000-1,500 households) across India. As on January 31, 2020, 417.5 million PMJDY accounts had been opened, of which, 66% were in rural and semi-urban areas, with total deposits of Rupees 1,377 billion.

GST implementation

Introduced on July 1, 2017, the GST is an indirect tax regime that subsumed multiple cascading taxes levied by the central and state Governments. Its implementation has spawned structural changes in the supply chain and logistics network in the country. The crux of the GST mechanism is input tax credit, which ensures that more players in the supply chain come under the tax ambit. As supply from only registered taxpayers will get input tax credit, businesses and stakeholders will insist on registration of their suppliers and traders, leading to an increase in the share of organised participants. The GST regime has been stabilising fast and is expected to bring more transparency and formalisation, eventually leading to higher economic growth.

PLI scheme to boost manufacturing in the long run

The Government has budgeted ~Rs. 2 trillion to give incentives to the locally manufacturing units to 13 key sectors. The key sectors likely to get benefit from the scheme include automobiles, pharma, telecom, electronics, food, textile, steel and energy. By incentivising production subject to achieving the desired scale, the scheme aims to spawn a handful of globally competitive large scale manufacturing units in the identified sectors. Furthermore, the Government also hopes to reduce India's dependence on raw material imports from China. The scheme is expected to provide a boost to economic growth over the medium-term and create more employment opportunities as many of these sectors are labour intensive in nature.

Affordable housing, transparency to bring moderate growth in investments

The residential real estate segment saw two policy changes, i.e., Real Estate (Regulation and Development) Act, 2016 ("**RERA**") and GST, that have had a direct impact on the sector's supply-demand dynamics. Consequently, new launches have dropped sharply, with developers focusing on completing ongoing projects. The sector had been battling weak demand for the past couple of years, and a key reason has been unaffordability since developers focused on middle and premium income-category projects. However, Government initiatives have prompted developers to explore affordable housing as a new area. Going ahead, about half of the incremental supply being added in urban stock is expected to be via affordable housing for the next few years. Additionally, formalisation of the industry is likely to bring in more transparency, thereby increasing customer demand.

In a major relief to real estate sector, the Government has extended the timelines of RERA projects by six months for projects expiring on or after March 25, 2020. Further, in affordable housing, it has extended the deadline to March 31, 2022, for first-time homebuyers to avail an additional Rs. 150,000 interest deduction on home loans. Hence, during Fiscals 2020-24, CRISIL expect overall residential construction to increase at 6-7% CAGR in value terms compared with -1.5% CAGR in the past five years, primarily driven by Pradhan Mantri Awas Yojana scheme, which is due for completion in CY 2022.

IBC a key long-term structural positive

The Insolvency and Bankruptcy Code is a reform that will structurally strengthen the identification and resolution of insolvency in India. The IBC enhances the credit enforcement structure and provides certainty around the timeframes for insolvency resolution. It attempts to simplify legal processes, preserve value for creditors and provide them with greater certainty of outcome. With this reform, the RBI has sent a strong signal to borrowers to adhere to credit discipline and also encourage banks to break resolution deadlocks by introducing definite timelines. IBC will enhance investors' confidence when investing in India. Internationally, recovery rates have improved significantly after the implementation of bankruptcy reforms, as can be seen in the following table:

Country	**Year of bankruptcy reform**	**Pre-reforms**		**Five years post-reforms**	
		Recovery rate (%)	***Time (years)***	***Recovery rate (%)***	***Time (years)***
Brazil	2005	0.2	10.0	17.0	4.0
Russia	2009	28.2	3.8	42.8	2.0
China	2007	31.5	2.4	36.1	1.7

India	2016	26.0	4.3	43*	1.6*

Note: * As of 2019
Source: World Bank, CRISIL Research

Reduction in corporate tax rates to boost capital base of financial institutions

On September 20, 2019, the Finance Minister announced Taxation Laws (Amendment) Ordinance, 2019 to make certain amendments in the Income Tax Act, 1961, to allow any domestic company the option to pay income tax at the rate of 22%, subject to the condition that they will not avail of any exemption/incentive. The effective tax rate for these companies will be 25.17% inclusive of surcharge and cess. Also, such companies will not be required to pay minimum alternate tax.

The recent amendments could boost the capital base of the financial institutions and help revive growth in the financial services sector, which has been battling with high NPAs, increasing defaults and liquidity concerns. This move could also revive the private capex cycle leading to credit growth in the economy.

Digitisation: Catalyst for the next growth cycle

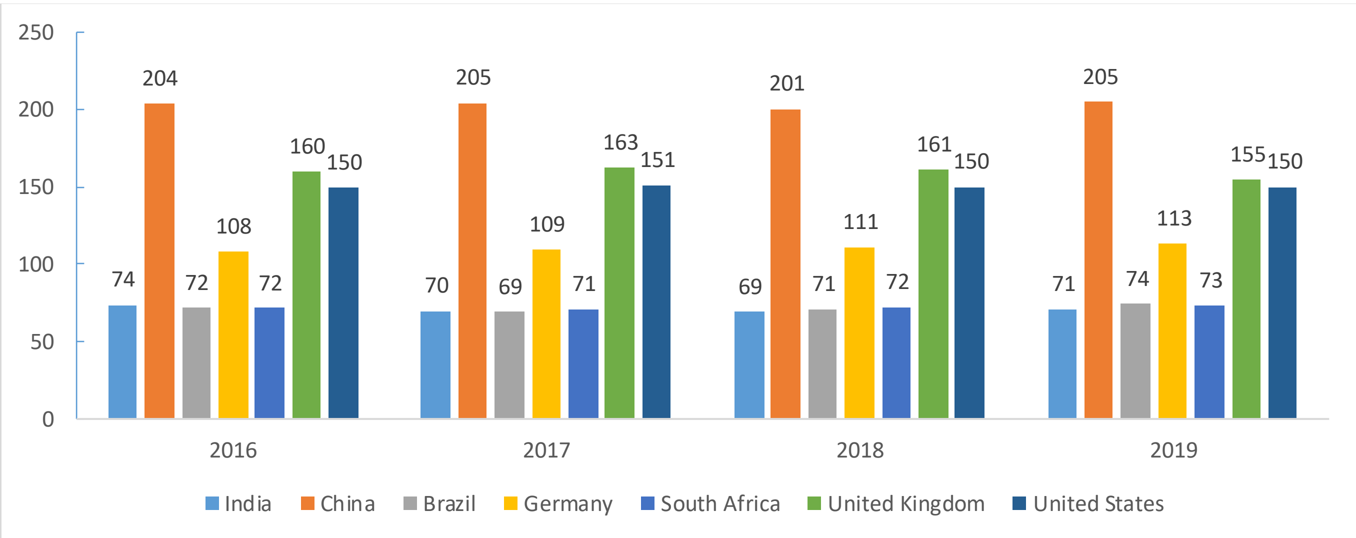
Technology is expected to play a pivotal role in taking the financial sector to the next level of growth, by helping to surmount challenges stemming from India's vast geography, which makes physical footprints in smaller locations commercially unviable. Technology is conducive for India, considering its demographic structure where the median age is less than 30 years. The young population is tech savvy and at ease with using it to conduct the entire gamut of financial transactions. With increasing smartphone penetration and faster data speeds, consumers are now encouraging digitisation as they find it more convenient. Digitisation will help improve efficiency and optimise cost. Players with better mobile and digital platforms will draw more customers and emerge as winners in the long term

Financial Inclusion

Current scenario and key developments

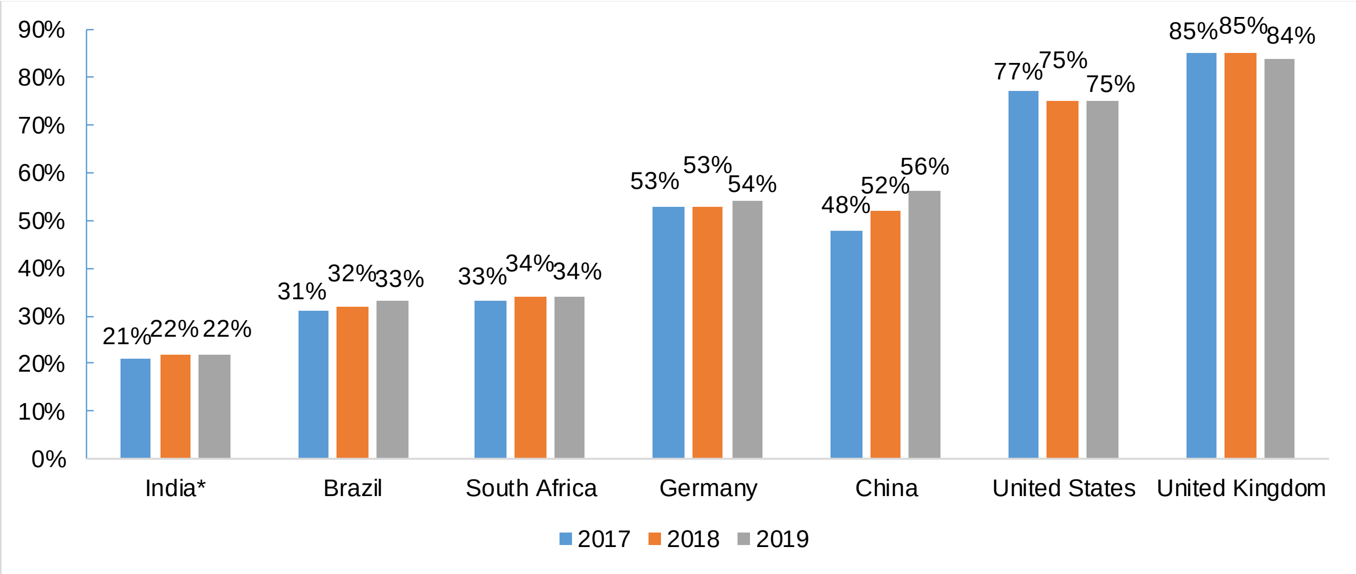
In terms of the credit to GDP ratio, India has a low credit penetration compared with other developing countries, such as China indicating that the existing gap needs to be bridged. Similarly, in terms of credit to households as a proportion of GDP as well, India lags behind other markets, with retail credit hovering at around 22% of GDP as of Fiscal 2020.

Credit to GDP ratio (%)



Note: For countries except India, data is represented for calendar years. For India, data represented is for fiscal year.
Source: Bank of International Settlements, CRISIL Research

Retail Credit to GDP ratio (2017-2019)



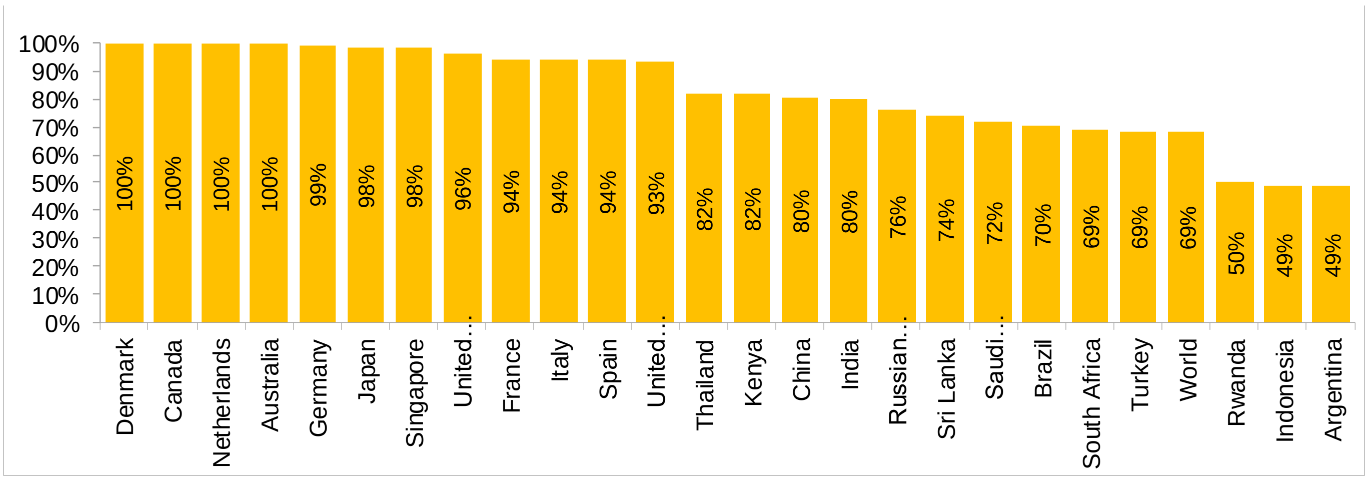
*Note: Retail credit is defines a credit to household sector in the country. For countries except India, data is represented for calendar years. *For India, data represented is for FY18, FY19 and FY20*
Source: Bank of International Settlements, CRISIL Research

India's focus on financial inclusion is increasing; however, a large section of the population is still unbanked

According to the World Bank's Global Findex Database 2017, the global average of adult population with an account (with a bank, financial institution, or mobile money providers) was about 69% in 2017. India's financial inclusion has improved significantly in the past three years, with the adult population with bank accounts rising from 53% (as per Global Findex Database 2014) to 80 % in 2017 (*Source: Global Findex Database 2017*) with the Government's concentrated efforts and the rise of various supporting institutions. Although the rise in the number of bank accounts has not translated into a corresponding increase in the number of transactions and fruitful usage of those accounts. (*Source: Global Findex Database 2017*).

As per the Global Findex Database 2017, ~50% of the world's unbanked adults are in India, Bangladesh, China, Indonesia, Mexico, Nigeria and Pakistan. Of the world's total unbanked adults (about 1.7 billion), 415 million are from just two countries – India (11% or 190 million) and China (13% or 225 million) – because of their huge population.

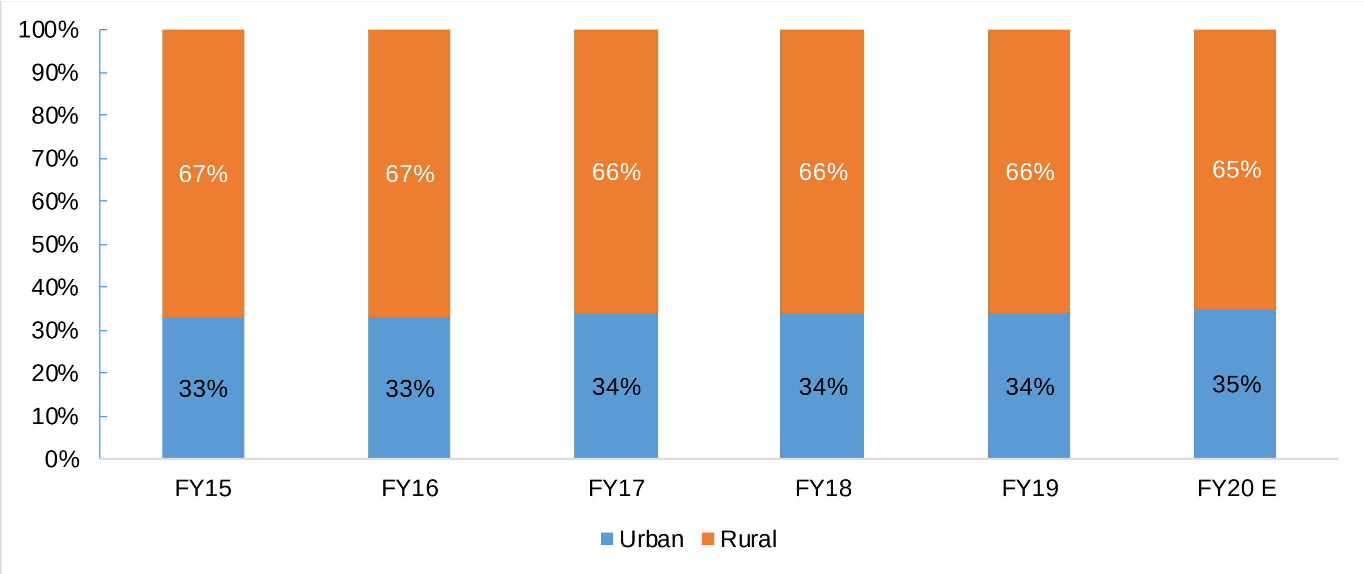
Adult population with a bank account (%): India vis-à-vis other countries



Note: 1. Global Findex data for India excludes northeast states, remote islands and selected districts. 2. Account penetration is for the population within the age group of 15+
Source: World Bank - The Global Findex Database 2017, CRISIL Research

The low levels of adults with bank accounts in comparison with various countries can be further explained by the large number of rural households in the country, which account for nearly two-thirds of the total households in the country. The shift of households towards urban regions is taking place, albeit at a very slow pace.

Two-thirds of total households are in rural India



Source: World Bank; Census; CRISIL Research estimates (E)

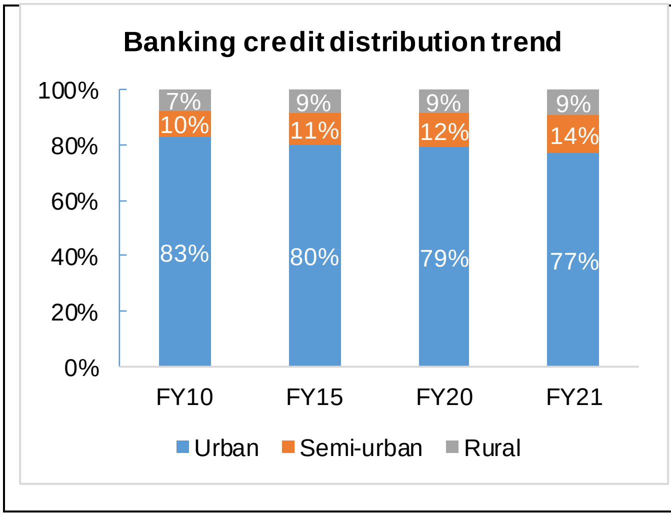
Although the majority of Indian households are located in the rural region, the banking infrastructure in these regions is relatively inferior. Thus, there is a gap in the supply and demand of financial services in the backward regions of the country, which is a pocket of opportunity for the financial services sector.

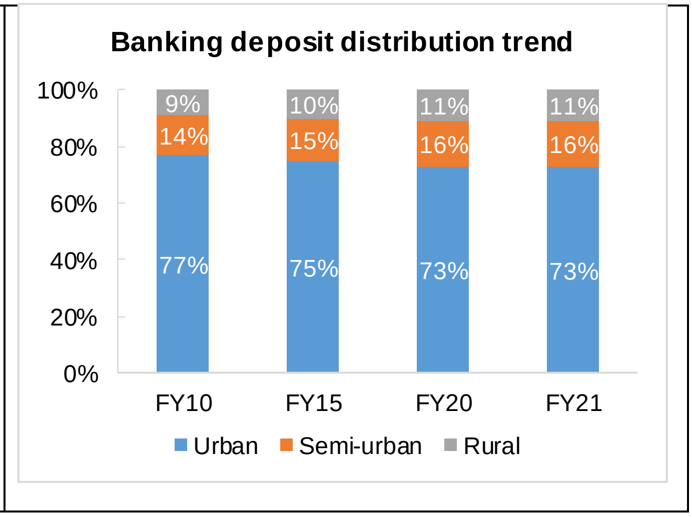
To tackle financial exclusion, the Indian government introduced the PMJDY, a scheme that facilitates opening bank accounts by the unbanked. However, the effective use of these new accounts, increase in the number of transactions in these accounts and availability of credit remain key challenges, which need to be effectively addressed as borrowings from the formal sources still remains low.

Rural India accounts for about half of GDP, but only about 9% of total credit and 11% of total deposits

According to Census 2011, there are about 640,000 villages in India, which were inhabited by about 893 million people, comprising about 66% of the country's population as of March 2020. (*Source: World Urbanization Prospects, Census 2011*). About 47% of India's GDP comes from rural areas. But their share in banking credit and deposits is abysmally low with just 9% of total credit and 11% of total deposits coming from rural areas. The massive divergence in the rural areas' share of India's GDP and banking credit and deposit services compared with urban areas is as an indicator of the extremely low penetration of the banking sector in rural areas.

Low share of banking credit and deposit indicates lower penetration in rural areas





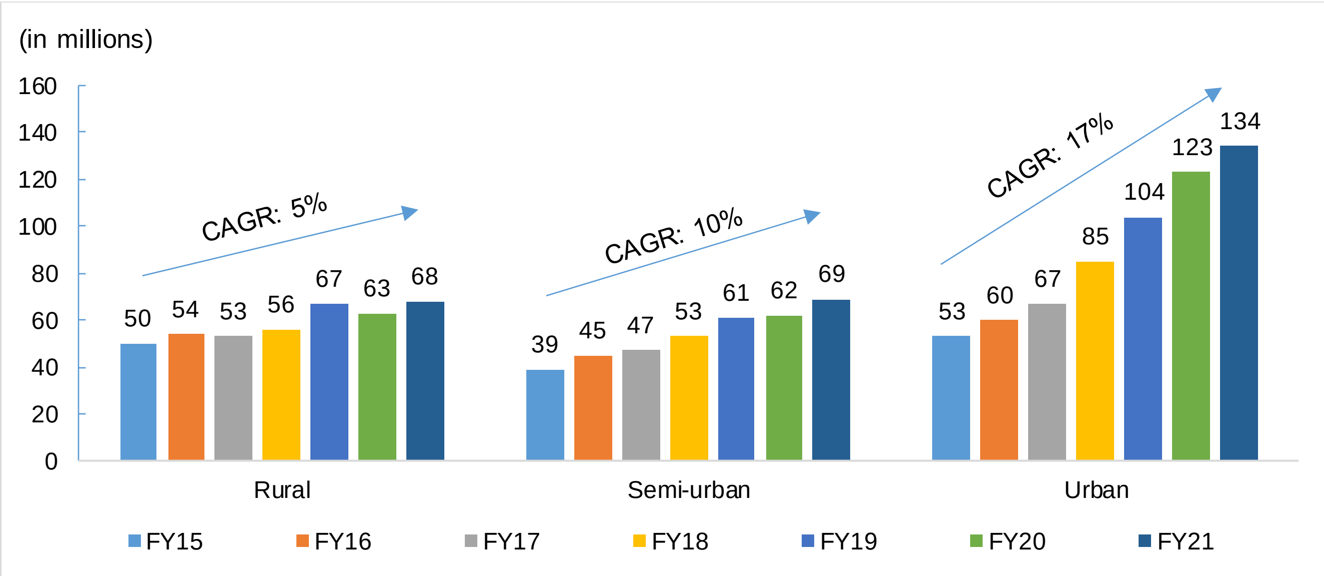
Source: CSO; RBI; CRISIL Research estimates (for GDP contribution as per 2017)

As rural areas in India have lower financial inclusion compared with urban areas and there is less competition for banking services in rural areas compared with urban areas, this presents significant growth opportunities in rural areas.

The number of bank credit accounts in rural areas grew at a CAGR of 5% between the end of Fiscal 2015 and the end of Fiscal 2021 and the number of bank deposit accounts grew at a CAGR of 7% between the end of Fiscal 2015 and the end of Fiscal 2020.

However, with payments bank increasing their reach and expanding into rural areas and increasing financial awareness, faster growth in rural areas can be expected in the future given the huge untapped potential. Between the end of Fiscal 2015 and the end of Fiscal 2021, the number of credit accounts in semi-urban areas grew at a CAGR of 10% and between the end of Fiscal 2015 and the end of Fiscal 2020, the number of deposit accounts grew at a CAGR of 9%. Between the end of Fiscal 2015 and Fiscal 2021, the number of credit accounts in urban areas grew at a CAGR of 17% and between the end of Fiscal 2015 and the end of Fiscal 2020, the number of deposit accounts grew at a CAGR of 7%.

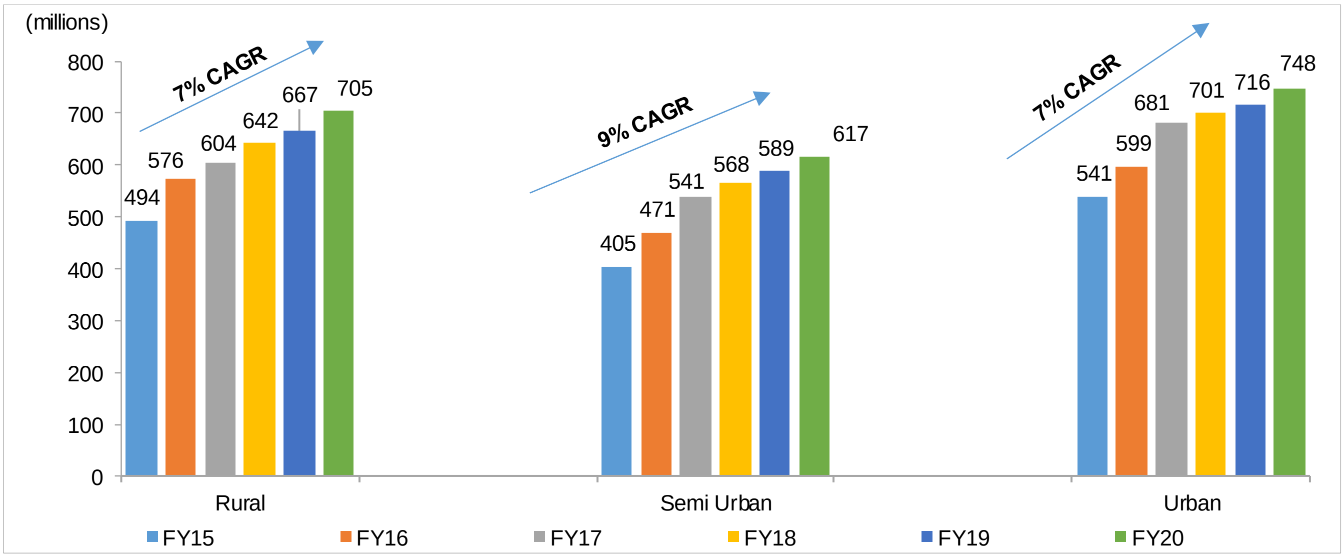
Bank credit accounts in rural, semi-urban and urban areas (FY21)



Note: Urban includes data for Urban and Metropolitan areas; amounts are as of the end of the fiscal year indicated. Data represents only *bank credit accounts*

Source: RBI; CRISIL Research

Bank deposit accounts in rural, semi-urban and urban areas (FY20)



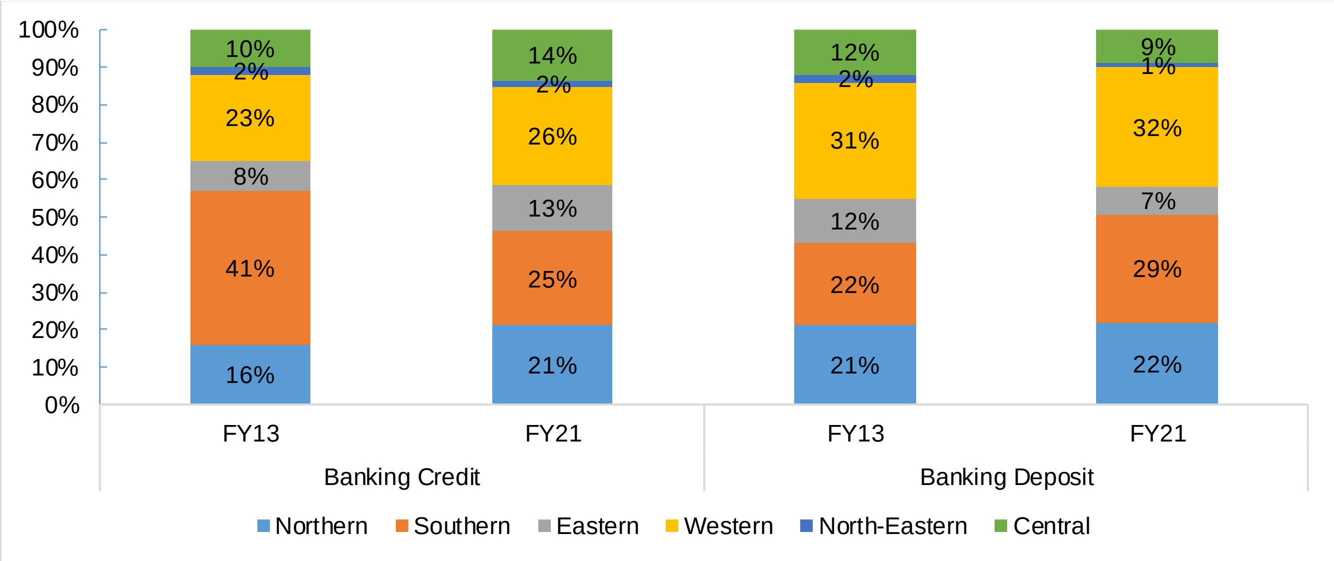
Note: Urban includes data for Urban and Metropolitan areas; amounts are as of the end of the fiscal year indicated. Data represents only bank deposit accounts

Source: RBI; CRISIL Research

Region-wise asymmetry: Central and eastern regions have a lower share in total bank credit and deposits

Bank credit and deposits are predominantly concentrated in the southern and western regions, whereas they have been especially low in the north-eastern and eastern regions. Deposit penetration in the southern region has increased over the past eight fiscal years by 7%.

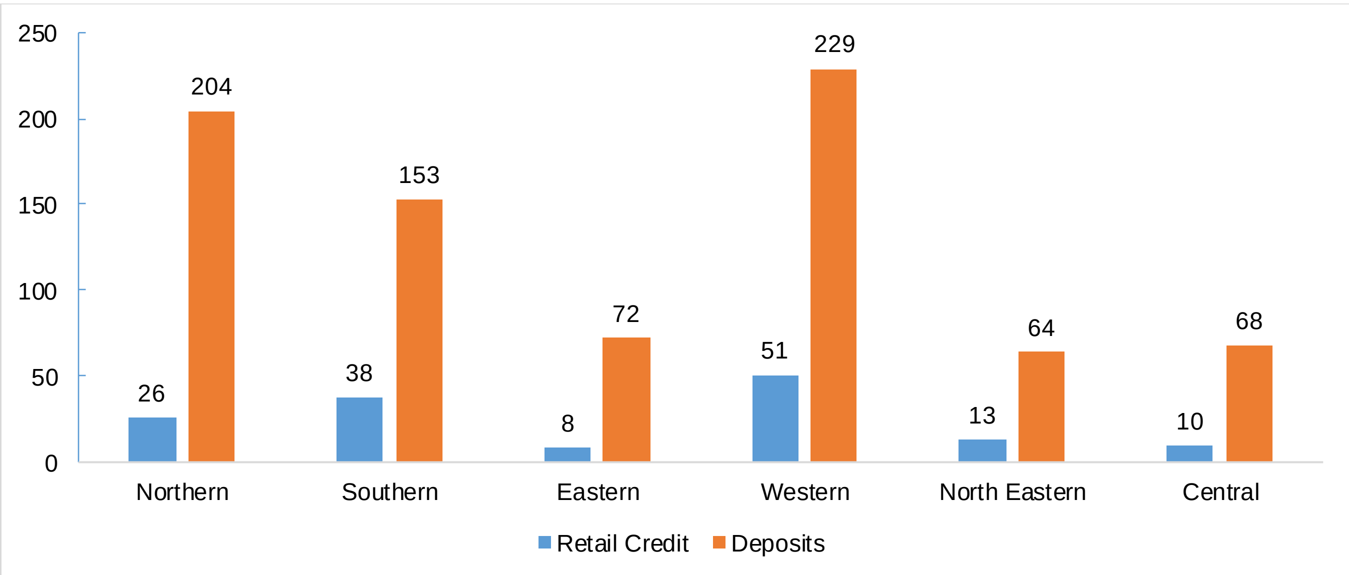
Region-wise share of banking credit and total deposits



Note: The percentages are as of the end of the fiscal year indicated.

Source: RBI; CRISIL Research

Region-wise per capita* banking retail credit and deposits as of the end of FY21 (Rs. in thousands)



Note: '*' population as per the census data of 2011

Source: RBI; Census India; CRISIL Research

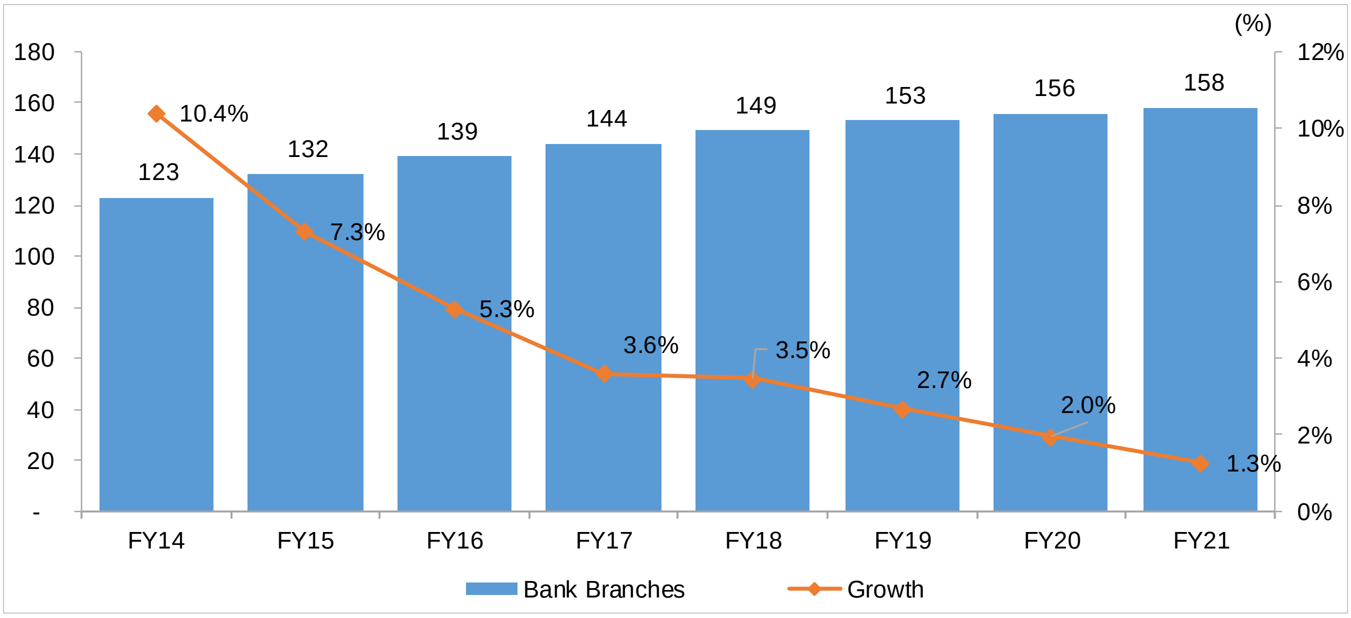
Bank retail credit per capita in the east is the lowest and is nearly five times lower than in the south and west. Low per-capita retail credit as well as deposits in eastern, central, and north-eastern regions compared with other regions implies low penetration of banks in these areas. This provides an opportunity for all lending and deposit accepting institutions to expand in these regions and also expand their reach in specific areas around them. In terms of deposits, the southern region is moderately penetrated compared with the northern and western regions, leaving a lot of headroom for growth for the players to capitalise on.

Branch network and infrastructure has been weak in regions with lower credit and deposit share

The number of branches and ATM facilities in the eastern regions, where credit penetration and deposit-base are low is also below those of the southern and western regions, which CRISIL Research believes is largely due to lower focus from the bigger banks.

To add to that, the pace of opening new branches in scheduled commercial banks has slowed down in the medium term. The branches have grown at a 5% CAGR to 0.15 million at the end of Fiscal 2019 from 0.12 million at the end of Fiscal 2014. In March 2021, the number of schedule commercial bank branches has reached 158,000. In terms of new branches, SFB branch growth has been stronger compared with private and public banks. However, it has come on a small base. In addition, SFBs have been increasing their network and service presence through business correspondents ("**BC**") and by conversion of existing asset centres into full-fledged banking outlets. The SFBs are already focusing and investing on digital initiatives to increase the efficiency of their value chain in loan origination, underwriting and collections to keep their operating expenses in check and stay competitive. CRISIL Research believes that embracing technology and tying up with the various agent networks will be key in fulfilling the needs of the masses in the underserved regions and will help in financial inclusion. In a bid to take the banking services to the remote locations of the country, the Indian government and the RBI has been taking measures to boost financial inclusion.

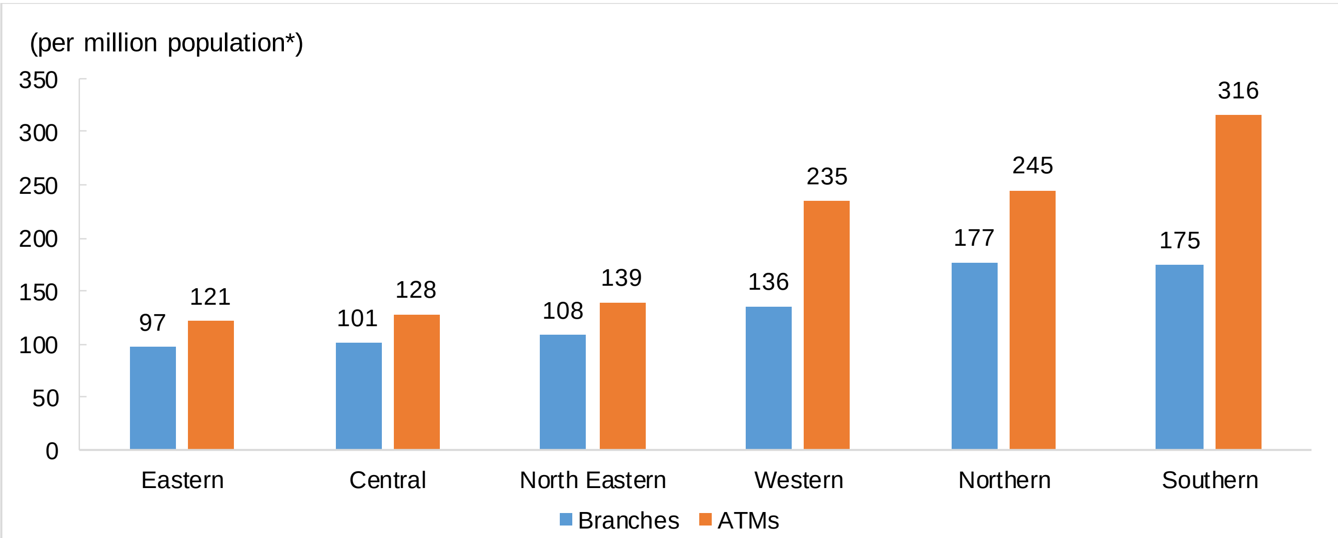
Branch growth in scheduled commercial banks (in thousands)



Note: The numbers are as at the end of fiscal year indicated

Source: RBI; CRISIL Research

Region-wise presence of bank ATM and branches (as of March 31, 2021)



Note: '*' population is as per the census data of 2011

Source: RBI; Census India; CRISIL Research

Large variation in credit availability across states and districts

Karnataka, Telangana and Haryana registered fastest growth over Fiscals 2015-2020

GDP growth has been varied across states with Karnataka growing at the fastest rate of 9.9% CAGR (FY 2015-FY 2020), followed by Telangana (9.8%), Haryana (9.1%), Gujarat (8.7%) and Andhra Pradesh (8.6%). In the South, states like Andhra Pradesh, Karnataka and Tamil Nadu have huge headroom for growth given the credit penetration and economic growth. Similarly, In the West, states like Maharashtra and Gujarat have showcased good growth in terms of GDP and Gujarat has a relatively lower credit penetration, which provides a huge potential to be addressed.

State-wise GDP and GDP growth (FY 2021)

States	Real GDP Rs. Billion (FY 2020)	YOY growth	Real GDP growth CAGR (FY 2015-FY 2020)	Credit account penetration (FY 2021)	Deposit account penetration^	Branch penetration (FY 2021)	ATM penetration (FY 2021)	CRISIL Inclusix Score (FY2016)
Maharashtra*	20,391	6.0%	6.6%	32%	164%	108	211	62.7
Tamil Nadu	13,129	8.0%	8.0%	14%	182%	147	331	77.2
Karnataka	12,010	6.8%	9.9%	9%	190%	157	259	82.1
Uttar Pradesh	11,873	4.4%	7.3%	2%	175%	80	96	44.1
Gujarat*	11,864	9.2%	8.7%	7%	149%	126	175	62.4
West Bengal	7,932	7.3%	6.7%	3%	146%	90	120	53.7
Rajasthan	7,116	5.0%	6.4%	4%	123%	101	137	50.9
Andhra Pradesh	6,720	8.2%	8.6%	9%	167%	137	231	78.4
Delhi	6,344	7.4%	8.2%	25%	277%	197	422	86.1
Haryana	5,722	7.7%	9.1%	10%	187%	180	237	67.7
Madhya Pradesh	5,618	7.6%	7.9%	4%	133%	89	128	48.7
Kerala*	5,594	7.5%	6.7%	11%	200%	180	267	90.9
Punjab	4,189	5.3%	6.1%	9%	196%	212	232	70.9
Bihar	4,150	10.5%	8.2%	1%	114%	65	71	38.5
Odisha	4,024	5.3%	8.3%	4%	137%	113	157	63
Chhattisgarh	2,435	5.3%	5.6%	4%	140%	99	129	45.7
Jharkhand	2,400	6.7%	5.2%	3%	127%	86	97	48.2
Assam*	2,340	6.4%	8.1%	3%	124%	86	117	47.9
Uttarakhand*	1,933	6.9%	7.3%	5%	123%	193	239	69
Himachal Pradesh	1,244	5.6%	6.9%	5%	180%	217	242	72.3
Jammu & Kashmir*	1,128	6.1%	7.3%	8%	151%	125	182	47.8
Tripura	405	9.6%	8.5%	3%	133%	139	123	66.2
Meghalaya	267	8.2%	5.8%	4%	88%	111	121	34.6

Note: 1. (*) – As of FY 2019, (^) – As of FY 2020

2. Credit account penetration is calculated as total number of retail bank credit accounts/population of the state

3 .Deposit account penetration is calculated as total number of bank deposit accounts/ population of the state

4 .Branch penetration is calculated as Number of bank branches per million people

5 ATM penetration is calculated as Number of ATMs per million people

6 For Credit and Deposit account penetration, this does not represent unique borrowers or depositors, total number of accounts have been considered

7 Andhra Pradesh and Telangana have been considered as one state

8 CRISIL Inclusix, India's first financial inclusion index, was launched in 2013 with the objective of creating a dependable yardstick that would become a policy input to further the cause of inclusion. CRISIL Inclusix weighs three service providers (banks, insurers and MFIs) on four dimensions (branch, credit, deposit and insurance).

Source: RBI, MOSPI, CRISIL Research

Key steps taken by the Government to boost financial inclusion

Pradhan Mantri Jan Dhan Yojana

Pradhan Mantri Jan Dhan Yojana (PMJDY), launched in August 2014, is aimed at ensuring affordable access to financial services – banking/savings and deposit accounts, remittances, credit, insurance, and pension.

PMJDY focuses on household coverage as compared with the earlier schemes that focused on coverage of villages. It aims to extend banking facilities to all within a reasonable distance in each sub-service area (consisting of 1,000-1,500 households) across India.

As on March 31 2021, 422 million PMJDY accounts had been opened, of which, 66% were in rural and semi-urban areas, with total deposits of Rs.1455 billion.

Although the opening of Jan Dhan accounts has increased financial inclusion, the high proportion of zero-balance or dormant accounts is a concern. However, the number of inoperative accounts under PMJDY is declining, as per the official website of the Government of India. The data shows that the percentage of inoperative accounts (of total Jan Dhan accounts) declined from 76.8% in September 2014 to less than 14% in August 2020.

With various other schemes, such as Pradhan Mantri Social Security Schemes including Pradhan Mantri Jeevan Jyoti Bima Yojana, Atal Pension Yojana and Pradhan Mantri Suraksha Bima Yojana being run under PMJDY, people have ample reason to enrol for the PMJDY.

Payment banks

Another step taken towards financial inclusion was the RBI granting in-principle approval on August 19, 2015 to 11 players to launch payment banks. The decision came after the recommendations from Nachiket Mor Committee to set up a specialized bank ("Payments Bank") to cater to the low income groups. After the licences were granted to 11 players, three players withdrew their application. Of the remaining eight, seven institutions – India Post Payments Bank Ltd, Airtel Payments Bank Ltd, PayTM Payments Bank Ltd, Fino Payments Bank, Aditya Birla Idea Payments Bank Ltd and Jio Payments Bank and NSDL Payments Bank had commenced operations. In 2019, Aditya Birla Payments Bank Ltd shut down its operations due to mounting losses.

The objective of a payments bank is to widen the spread of payment services and deposit products to small businesses, low-income households, migrant labour workers and other unorganized entities by enabling high volume low value transactions in deposits and payments/remittance services in a secured technology-driven environment.

Small Finance Banks (SFBs)

Until December 2020, the RBI had awarded SFB licenses to 10 institutions, which aim to service the underserved through savings instruments, and supplying credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sector/lending through informal channels. SFBs are also required to dedicate 75% of their Adjusted Net Bank Credit (ANBC) towards priority sector. For the SFBs, nearly 20% of their deposits arise from the rural and semi-urban areas, whereas the credit view shows a geographic skew with 33% of the advances in rural and semi-urban areas as of March 2020. This has led to increasing credit penetration in rural areas, thereby ensuring financial inclusion.

Microfinance Institutions (MFIs)

MFIs have a significant role to play in furthering financial inclusion, by providing small ticket loans to customers, usually for productive purposes. As of March 2021, NBFC-MFIs together had a total gross loan portfolio of Rs. 880 billion, accounting for 32% of total MFI loans (excluding SHG) outstanding. MFI players are heavily focused towards rural areas with rural credit accounting for 74% of the overall NBFC-MFI credit as of March 2021 *(Source: Sa-dhan Bharat Microfinance Report).*

Business Correspondents (BCs)

In one of its foremost measures, the RBI introduced the BC model of banking outreach in January 2006, aimed at leveraging information and communication technology to widen access to the banking system. BCs are retail agents engaged by banks to offer banking services at locations other than a bank branch/ATM. They are authorised to perform a variety of activities including collection of small-value deposits, disbursal of small-value credit, recovery of principal, collection of interest, sale of micro insurance, mutual fund products, pension products, other third-party products, and receipt and delivery of small value remittances/other payment instruments. In July 2014, the RBI allowed NBFC-MFIs to work with banks as BCs. As of March 2020, 600 million basic savings bank deposit accounts (BSBDA) were opened through BCs. *(Source:RBI).*

Aadhaar

Adoption of Aadhaar and Aadhaar authentication in the Indian financial system is expected to transform the financial landscape. To increase financial inclusion, the Unique Identification Authority of India partnered with the RBI, National Payments Corporation of India ("**NPCI**"), Indian Banks Association (IBA) and banks to develop:

- Aadhaar Payments Bridge ("**APB**") – The system was launched in 2011 to enable a smooth transfer of all Government welfare scheme payments to a beneficiary's Aadhaar Enabled Bank Account ("**AEBA**").
- Aadhaar enabled payment system ("**AEPS**") – A system that leverages Aadhaar online authentication and enables AEBAs to be operated in anytime-anywhere banking mode by the marginalised and financially excluded via micro ATMs.

According to the Ministry of Electronics and IT, Aadhaar-generated unique identity covered over 99% of total estimated adult population of India, as of December 2020.

Aadhaar-enabled micropayments have many features, including elimination of the need for individual KYC requirements by banks for no-frills or basic accounts, and reductions in the direct and indirect KYC cost of financial institutions on account of the UIDAI's 'know your residence' standards being sufficient for authentication.

Aadhaar-enabled payments with clear authentication and verification process allow financial institutions to network with village-based BCs. Thus, customers will be able to withdraw money and make deposits at the local BC. UIDAI's authentication will help banks verify residents both in person and remotely. The electronic transfer, backed by UIDAI's authentication, will help residents transact electronically, reducing the cost of transactions. Also, it has helped reduce the KYC approval turnaround time from the previous 10-15 days, when the customer had to submit various documents for identity and address proof, to almost-instant KYC approval.

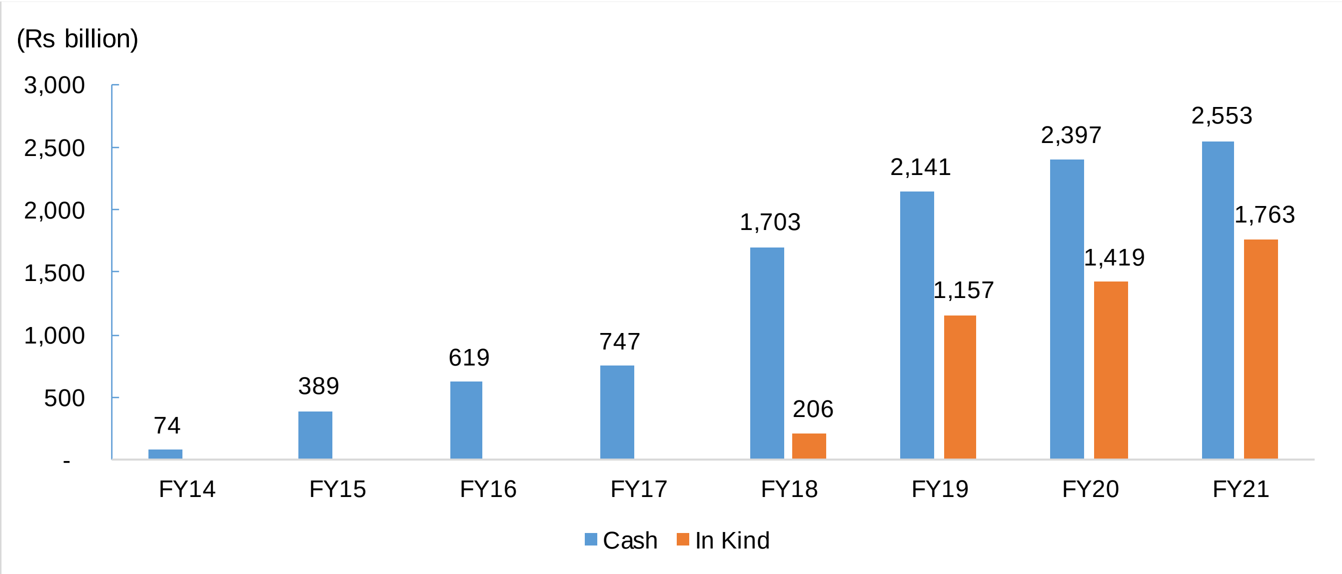
Digital India

An umbrella programme to transform India into a knowledge economy has supported the financial inclusion initiative. Some of the initiatives under this programme include development of digital infrastructure, delivery of Government services digitally and improvement in digital literacy, especially in rural India.

Some of the initiatives include:

- Direct-benefit transfer**:** As of end of Fiscal 2014, only 28 schemes were covered under the direct-benefit transfer ("**DBT**"), where the payment is directly done into the bank account of the beneficiary, This has grown to 427 schemes as of the end of Fiscal 2020. *(Source: DBT Website).* This has resulted in fewer slippages, and faster and easier remittance to the intended. This, in turn, is expected to give rise to the usability of agent network for other related transactions, when the money is already in the bank accounts of customers. CRISIL Research expects the availability of funds in the bank accounts of the beneficiaries will support growth in digital transactions.

Amount transferred to beneficiaries through DBT



Note: DBT also includes in-kind transfers, which includes transfer of goods and services at very low price or for free to the beneficiaries of various such Government schemes

Source: DBT website; CRISIL Research

- Common service centres 2.0**:** This is a service delivery-oriented entrepreneurship model, with a large variety of services made available for citizens. Under Digital India, at least one common service centre ("**CSC**") was envisaged for each of the 250,000 gram panchayats, including the 100,000 operational CSCs launched in the initial version of the programme.

The services to be provided at the CSCs include agriculture services, education and training services, rural banking and insurance services, entertainment services, utility services, healthcare services, and other commercial services.

- BharatNet: This project aims to provide 100 Mbps broadband connectivity to almost all the 0.25 million gram panchayats in the country. Under the first phase of the project, 100,000 gram panchayats were to be connected by laying underground optical fibre cable (OFC). Under Phase-II, targeted to be completed by March 2019, connectivity will be provided to the remaining 0.15 million gram panchayats, using an optimal mix of underground fibre, fibre over power lines, radio and satellite media. As per Bharat Broadband Network Limited (BBNL), ~0.14 million gram panchayats have been linked with this.

  Moreover, under the 'Digital India program', the Government also proposed to provide free-high speed Wi-Fi in 2,500 cities and towns, at an estimated investment of Rs. 70 billion. Under the plan, the Government aims to set up 50,000-60,000 Wi-Fi hotspots across the country.

CRISIL Inclusix, an index that measures extent of financial inclusion at a geographical level across 666 districts in India, reported a score of 58.0 at the end of FY 2016 from 50.1 in FY 2013 and 35.4 in FY 2009. The index score is measured on a scale of 0 to 100. The overall improvement of the score is FY 2016 was mostly driven by JAM trinity: Jan Dhan Yojana, Aadhar and mobile. CRISIL Research expects, on completion, these projects will help catalyse the growth of digital services to the rural masses, and especially to the lower category of the population. This strengthening of digital infrastructure will help various sectors including healthcare, education, skills training, etc. It would provide the private enterprises with an opportunity to expand their services in these remote underserved areas.

Priority sector lending aimed at facilitating financial inclusion

The definition of 'priority sector' was formalised in 1972, based on a report submitted by the Informal Study Group on Statistics, relating to advances to priority sectors, constituted by the RBI in May 1971. The requirement for PSL as a proportion of Adjusted NBC was set at 33.3% for SCBs in 1979, and raised to the current 40% in 1985. Currently, all banks including foreign banks need to comply with this 40% requirement.

Targets and sub-targets for banks were further classified under the priority sector and revised at intervals. As per the latest regulations, unveiled in 2015, medium enterprises, social infrastructure and renewable energy are part of the priority sector, in addition to the existing categories.

In September 2020, RBI new guidelines for PSL, wherein higher weights would be assigned to districts having a relatively lower credit penetration. From FY22, a weight of 125% would be assigned to incremental priority sector credit in identified districts where credit flow is lower and per capita PSL is lower than Rs. 6,000. A lower weight of 90% will be assigned to incremental PSL in identified districts where credit flow is relatively higher and per capita PSL is more than Rs. 25,000. Other districts will continue to have the existing weightage of 100%. This will incentivise credit flow to credit deficient geographies.

Business opportunities available owing to financial inclusion on the asset and liability side

Factors such as lack of documents, migration of individuals for work or other purposes, lack of transaction history with financial institutions, etc., have led to low inclusion of households in the financial system. Also, the costs involved in setting up a network to serve the traditionally ignored categories, such as migrants, rural population, retailers, shop owners, and MSMEs, is high.

In addition, the gap between various regions of the country, as highlighted above, is very wide. However, owing to the Government's emphasis and growth of the banking facility in these regions, the gap is slowly getting plugged. This gives financial institutions an opportunity to expand their services in underserved regions.

Key business opportunities among various population categories - assets and liabilites

Migrants - ~100 million migrant workforce
• Remittance services • Account services • Deposit services
Retailers - ~24-25 million retail outlets
• Payments • Loans • Digitalisation of business functions
MSME - ~63.4 million businesses
• MSME loans • Working capital finance • Fee-based services
Rural population - ~ 66% of India's population
• Basic banking services • Personal loans • Bill payments and bookings • Investment in mutual funds and insurance products • Education loans • Gold loans

Source: CRISIL Research

Indian Banking Industry

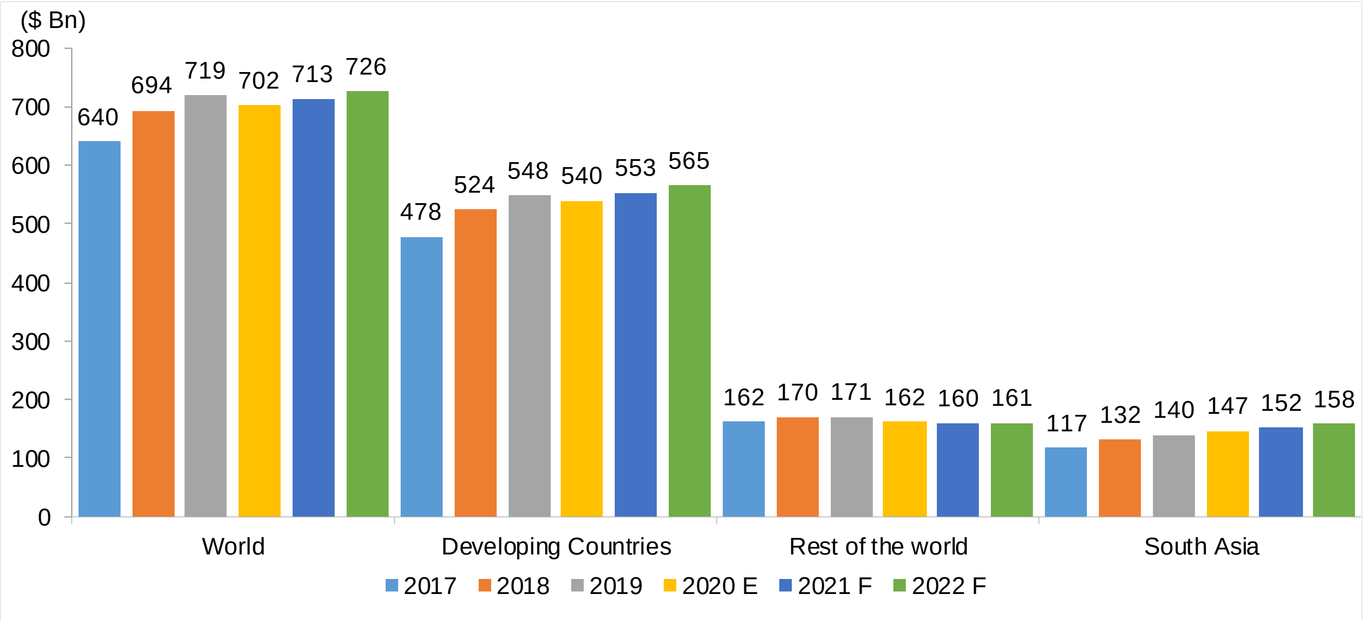
The banking industry plays a crucial role in mobilising savings and stimulating the economic development of a nation. The banking structure in India has multiple layers to cater to the varied and specific requirements of customers. The existing banking structure in the country has evolved over several decades and has been serving the credit and banking services needs of the economy. The evolution of the Indian banking industry can be divided into four phases following independence. Nationalisation of banks in the first phase was one of the biggest structural reforms the industry has seen. In the second phase, the Indian economy was liberalised in 1991 to make it more market- and service-oriented. This move markedly improved the performance and strength of the banking structure. At present, the Indian commercial banking system is very well-developed and comparable with most of the advanced and emerging economies in the world.

Inward Remittances

Size of global remittance flows is estimated at US$ 702 billion in 2020, with developing countries accounting for 78%

As per World Bank, global remittance declined by 2.4% in 2020 to US$ 702 billion. The developing countries account for ~78% of the global flows, with remittances to developing countries witnessing de-growth of ~1.5% in 2020. Regionally, remittances to South Asia grew at ~5% in 2020 from ~6% in 2019. The global flow is projected to grow at a CAGR of ~1.7% between 2020 and 2021.

Size and growth in remittance flows



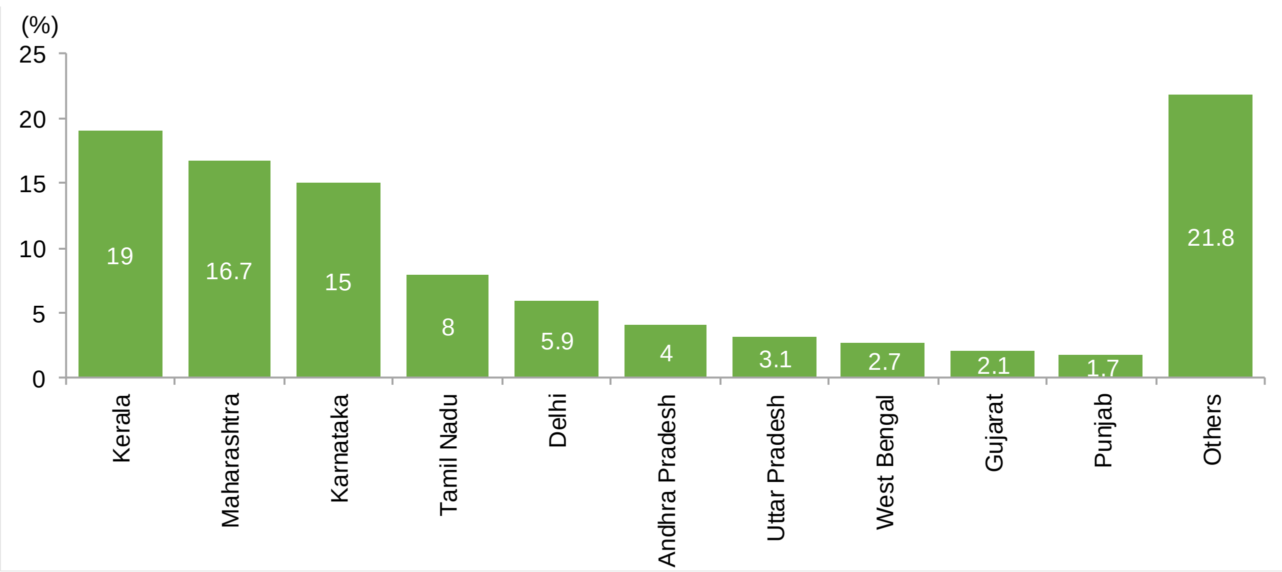
Note: E: Estimated, P: Projected

Source: World Bank's report "Migration and Development Brief 34 -May 2021", CRISIL Research

India retains top position in remittances with US$ 79 billion in 2018

In 2020, India received US$ 83 billion in remittances followed by China (US$ 60 billion). The top five remittance recipients were India, China, Mexico, Philippines, and Egypt in terms of absolute amount. The share of the top five countries was 46% and the share of the top 10 was 64% in remittance flows to developing countries. As per CRISIL Research, remittance flows to India are concentrated in southern states and have a combined share of ~46% in total remittance flows to India for Fiscal 2017. Kerala accounts for the maximum i.e. 19% share in remittance flows to India while other major states like Karnataka, Tamil Nadu and Maharashtra estimated to account for ~40% of the remittances flows in Fiscal 2017.

State-wise share in Inward Remittance (FY 2017)



Source: RBI, CRISIL Research

Small Finance Banking Industry

In order to promote financial inclusion, the Indian banking industry has seen several changes in recent years. NBFCs, such as Bandhan and IDFC received permission to set up universal banks. Also, a few MFI companies, local area banks and NBFCs have received permission to set up small finance banks (SFBs). The RBI has awarded SFB licenses to 11 players in keeping with the Government's focus towards financial inclusion and inclusive banking. Of the 11 SFBs, eight were MFI players; one was a local area bank; one was a co-operative bank and the other an NBFC. In June 2021, RBI granted in-principle approval to Centrum Financial Services to set up a small finance bank, paving a way for the take-over of Punjab & Maharashtra Co-Operative Bank Limited. However, the license for operations has not been awarded by the RBI yet.

SFBs are allowed to take deposits, which provide them with the edge of having lower cost of funds as compared with NBFCs. MFIs turned into SFBs are now diversifying their advances mix and focusing on other retail and corporate lending businesses.

Key advantages and challenges for a typical NBFC upon conversion to SFB

The RBI awarded in-principle SFB licenses to 10 players (including 8 MFIs) in 2015. All the applicants have received final approval from RBI to start operations. These 10 SFBs cumulatively accounted for approximately 17% of the total gross loan portfolio of the microfinance industry as at December 31, 2020.

CRISIL Research expects that over the next couple of years, these SFBs will focus on gradually growing their banking business and complying with tougher regulations. On the other hand, transformation into SFBs has provided access to stable and granular public deposits over the long run, which will bring down their cost of funds. The cost of funds for SFBs has marginally reduced y-o-y from 6.5% to 6.4% in Fiscal 2020. However, the NBFC-MFIs and microfinance business of SFBs will remain susceptible to local developments and political intervention as they cater to the masses.

Below are a few of the advantages and challenges that a NBFC would face upon transition to SFB in the initial phase

Advantages:

Sizeable market opportunity

- The market is under-penetrated compared with the opportunity size of the overall banking sector. The sheer size of the market and suitable business model brings an opportunity for SFBs to not only cater to the unbanked and rural population, but also service the urban poor

Wider product offerings resulting in greater customer stickiness

- Can offer a wide range of products and also cross-sell products on the liability as well as the asset side to improve customer stickiness and loyalty. Over a period of time, the stronger, larger and better-run SFBs would also benefit from the trust that a banking licence provides

Raise funds at substantially lower rates

- Converting to SFB would help NBFCs to raise deposits and not only bring down their cost of funds substantially but also diversify their resources profile. This will also help them to lend at more reasonable rates to its customers. In the current environment, access to liquidity, which bank deposits provide, places SFBs strongly from a competitive perspective

Lower operational expenses

- SFBs with their strong associations to a particular region will help them understand the needs and market potential, and thus will also help them serve better. This coupled with robust technology systems will help them have highly cost effective operations

Challenges:

Geographical concentration

- NBFCs and MFIs are geographically concentrated and thus are highly vulnerable to systemic risk as compared to large private or public sector banks. Also, as per regulatory requirements, SFBs are required to open 25% of the branches in unbanked rural centre which further poses operational challenges

Adhering to Stringent Regulations

- Players will also have to adhere to reserve requirements with RBI such as CRR and SLR. In addition they would also have to adhere to PSL guidelines and maintain promotor holding
- Most players who have won licenses have large foreign shareholders. They have to raise a high amount of domestic equity to reach minimum domestic holding requirement to comply with the regulations

Building a liability profile

- Raising retail liabilities will be a challenge as it depends on factors like customer mindset given the low-ticket size liability customer base and ability to gain customer trust

Asset diversification

- Going into newer products will require new skillsets and underwriting processes. The new entities may face asset quality issues in the newer products due to limited experience of the product

Distribution outlets for small finance banks

In order to preserve the advantages of the MFI/NBFC structure of SFBs and with a view to further financial inclusion, MFI turned SFBs have been increasingly expanding their presence by opening new branches or converting existing MFI branches into banking outlets, where it intends to conduct banking business of accepting deposits, allowing encashment of cheques/withdrawals besides carrying out the current lending activities. The formats of branches that the SFBs have are as follows:

- **Liability branches** – these branches mostly accept deposits by opening savings, current or fixed/term deposit accounts. They also offer facility of withdrawal and encashment of cheque.
- **Asset branches** – These branches of SFBs only carry out lending activities i.e. making advances to the customer. Application and documents for all the asset sold are then entered into the system for processing and approval from the regional asset centre, after which disbursement is made to the customer.
- **Asset centre** – These are generally loan processing centre where all the documents for credit evaluation of the individual and collateral are sent for due diligence. Once the asset centre approves the loan after profiling and due diligence, the amount is disbursed to the customer. In case a loan application is rejected, the asset branch may seek additional documents for re-processing.
- **Fully fledged banking branch** – These banking outlets provide both liability and asset services. Each branch is assigned a liability target for new account opening (CASA) and asset target (advances) across different product portfolio. The branch staff works together to meet the branch target while achieving their individual targets in this process.

Impact of various crisis on financial institutions

<u>RBI keeping MFIs on a tight leash after Andhra Pradesh debacle, eases terms for borrowers</u>

In India's MFI history, 2010 was a turbulent year. Allegations of suicides due to unethical means of loan recovery, MFIs charging higher rates of interest, and over-indebtedness in Andhra Pradesh resulted in the enactment of the Andhra Pradesh MFI Institutions (Regulation of Money Lending) Act, 2010. The objective of the Act was to protect low income borrowers from coercive MFIs.

Provisions of the Act governing loan recovery affected recovery rates, which fell from 99% to 10%. Banks became reluctant to lend to MFIs due to uncertainty and higher risk. Liquidity crunch narrowed MFIs' client base, their profitability and sustainability. The crisis affected Indian microfinance sector's portfolio quality so badly that it became the worst performer globally.

MFIs were largely unregulated until 2010. Initially, Andhra Pradesh promulgated the ordinance to oversee the sector. The ordinance addressed issues such as alleged coercive recovery practices and absence of a social objective among MFIs to help the low income population. After the ordinance, the state saw a sharp decline in MFI operations. In 2011, RBI issued guidelines defining NBFC-MFIs and provided an operating and regulatory framework for MFIs in the country.

In November 2010, after the Andhra Pradesh ordinance, RBI had set up a sub-committee under the chairmanship of YH Malegam to address issues concerning the domestic microfinance industry. The NBFC-MFI guidelines of the central bank were based on this committee's recommendations. The rules became effective in December 2011. The RBI has been regularly modifying the guidelines whenever necessary.

Impact of Government enactments such as demonetisation

The banking sector enjoyed double-digit deposit growth of approximately 13% between Fiscals 2013 and 2015, due to competitive deposit rates. However, the growth slowed to approximately 7% in Fiscal 2016 as RBI cut the repo rate, nudging banks to reduce deposit and lending rates. In Fiscal 2017, deposits grew approximately 10% as households deposited their savings in banks after demonetisation in the second half of Fiscal 2017. As a result, the deposit-to-household-savings ratio also rose significantly in Fiscal 2017 to nearly 39% from 26% in the previous fiscal year. In Fiscal 2018, the growth rate fell to its lowest in over 55 years to approximately 6%, with the effect of demonetisation subsiding, and households moving their savings from deposits to other lucrative instruments, such as shares and debentures. *(Source:RBI).*

For the microfinance sector, the impact was not as serious as the 2010 Andhra Pradesh crisis and was limited to certain districts. Demonetisation adversely affected the share of securitisation in MFIs' overall portfolio in Fiscal 2017. However, it bounced back in Fiscal 2018. Portfolio at risk ("**PAR**") value increased sharply in Fiscal 2017 due to non-availability of cash and slowdown in business activities of individuals after demonetisation. However, MFIs invested heavily in educating borrowers and helping them exchange old notes, which improved borrowing efficiency. As a result, PAR value improved over the next few quarters with the impact of demonetisation fading.

During Fiscal 2021, the microfinance loan portfolio has seen deterioration in asset quality, with the COVID-19 pandemic impacting borrower incomes. However, the situation is gradually improving, with MFIs reporting a month-on-month improvement in collection efficiency in the second half of the year. In March 2021, when the second wave of the pandemic hit the country, the collection efficiency in this segment started to deteriorate again.

Impact of Kosi, Orissa and Kerala floods

The massive Kosi river floods of August 2008 caused unprecedented loss of lives and livelihoods, and destruction of infrastructure in Bihar. The local economy was disrupted and massive damage was caused at village and household levels. At a household level, the losses were in terms of lives, livestock, agriculture operations and employment opportunities. People reported huge income losses, which had an adverse impact on the microfinance industry in Bihar.

In August 2018, Kerala witnessed the worst floods in 100 years. MFIs and SFBs, which operate at the ground level and focus on lending to small and marginal borrowers in rural and remote areas, were hit hard. They saw an increase in credit slippage in the ravaged state. Reviving their operations was also a challenge. According to MFIN report, as of June 2018, Kerala had 303 NBFC-MFI branches. In May 2019, Odisha witnessed the worst cyclone in 20 years. This also resulted in a near-term spike in NBFC-MFIs and SFBs' PAR portfolio. *(Source: MFIN).*

Microfinance sector growth faltered due to Assam protests; Assam MFI bill, 2020 makes micro lenders cautious

The protests in Assam against citizenship law brought businesses of MFIs to a standstill. With imposition of curfew and deteriorating state of law and order, the MFIs were not able to conduct their field visits, meet customers, make collections, create groups and make new disbursements. This arrested the growth of loans in the microfinance industry and also led to a sharp increase in delinquencies in the state, adding to the pain of the MFIs and SFBs operating in the region. *(Source: MFIN, CRISIL Research).*

In December 2020, a law enacted by Assam - Assam MFI Institutions (Regulation of Moneylending) Bill, 2020 to regulate MFIs, threatens to pose severe operational challenges to the micro lenders operating in the state. Although it is a temporary setback, the impact on the performance of the portfolio will depend on how the Assam state government plans to implement the law.

NBFCs' liquidity crisis following the IL&FS default

In the first half of Fiscal 2019, NBFCs gross loan portfolio grew at a robust 17% on-year. However, default by Infrastructure Leasing and Financial Services Limited (IL&FS) in mid-September 2018 created panic, affecting investor confidence in NBFCs. This subsequently spiked market rates for NBFCs and slowed down their commercial paper and bond issuances. Investors' risk perception towards players with asset-liability mismatch and high exposure to developer financing increased significantly. NBFCs that have been relying heavily on short-term commercial paper instruments to grow their book found it difficult to grow at the same pace and witnessed a sharp slowdown in the second half of Fiscal 2019. In February 2019, Reliance Home finance defaulted on its loan payments to Punjab & Sind Bank. Later, in June 2019, DHFL, one of the leading housing finance company also failed to repay its obligations due to lack of liquidity and inability to raise funds.

The liquidity squeeze, which continues even now, has affected the wholesale and loan against property ("**LAP**") segments the most, as they have longer tenured loans, which resulted in asset-liability mismatch. Financiers with shorter term loans and ability to pass on interest rates (such as MFI, consumer durable, gold loan segments) are not seeing much of an impact. *(Source: CRISIL Research).*

CRISIL Research expects non-banks to lose market share to well capitalised banks and SFBs amid the ongoing crisis of confidence and liquidity crunch. NBFCs are heavily reliant on banks for funding, which has led to a rise in cost of funds. However, for SFBs, access to deposits will lower cost of funds. This will help them compete with NBFCs on pricing in the underpenetrated regions and gain market share.

Impact of Yes Bank crisis and COVID-19

The financial position of Yes Bank had declined since 2018; largely due to inability of the bank to raise capital to address loan losses and resultant downgrades, triggering invocation of bond covenants by investors. The bank had also experienced serious corporate governance issues, which had led to its decline. After careful considerations of these developments, on March 5, 2020, RBI imposed a 30-day moratorium on Yes Bank, capping deposit withdrawals at Rs. 50,000 owing to deterioration in financial position of the bank. It also superseded the bank's board. The moratorium was lifted on March 18, 2020. In the wake of the crisis, many shifted their deposits to public sector banks ("**PSBs**") and larger established private banks. SFBs, which have a liability franchise, are newer entities in the sector. They may find it difficult to gain customer confidence and should focus more on building a strong reputation if they were to maintain stable deposits. However, higher interest rates offered by SFBs will be an attraction. In addition, the amended Deposit Insurance Credit Guarantee Corporation ("**DICGC**") rules are a big positive for SFBs. The new rules increased the deposit insurance to up to Rs. 0.5 million (principal and interest) from Rs. 0.1 million earlier. Thus, those who have parked money in SFBs can rest assured that their deposit amount is insured to a five times higher extent. Even as the financial sector was still grappling with the Yes Bank fiasco, the Novel Coronavirus (COVID-19) pandemic delivered another blow to the sector with the nation-wide lockdown to arrest the spread of the virus impacting the normal operations of businesses.

Because of the restricted mobility, there were very few fresh loan disbursements and the collections efficiency was also low, in the first half of Fiscal 2021, among the lenders. The third quarter of Fiscal 2021 saw growth in business as well as increased recovery, which led to higher collection efficiency among many lenders. Given the scenario, CRISIL Research expects lenders with stronger deposit base, varied funding avenues, deeper distribution network, superior underwriting skills, higher capability to offer customised products, and ability to keep asset quality under check will continue to drive growth and stay ahead of the pack.

SFBs differentiate themselves from other banks by offering personalised service to customers. These include home visits for deposits, withdrawals, credit underwriting, loan collections and maintaining close customer touchpoint on a monthly basis. However, the nationwide lockdown and social distancing norms have put a stop to SFBs' doorstep service. This has prompted them to increase their focus on digital initiatives. SFBs that have already transitioned and made requisite investments in people, process and technology are expected to reap more benefits and grow faster than their peers.

Regulatory distinction between NBFCs, Banks and SFBs

	NBFC - ND – SI	NBFC – D	Banks^ (Basel - III)	SFBs
Minimum net-owned funds	Rs. 20 million	Rs. 20 million	N. A.	Rs. 2 billion
Capital adequacy	15.0%	15.0%	9.0%	15.0%
Tier – I Capital#	10.0%	10.0%	7.0%	7.50%
Cash Reserve Ratio (CRR)	N. A.	N. A.	4%	4%
Statutory liquidity ratio (SLR)	N. A.	15.0%	18.0%	18.0%

Notes: # Currently 10% for infrastructure finance companies and proposed to be increased to 10% for all NBFCs except gold loan NBFCs which will have to maintain 12%; ^Under phase-wise implementation of Basel-III by March 2019; numbers exclude capital conservation buffer of 2.5%. N.A. – Not available

Source: RBI.

Growth drivers for small finance banks

Availability of sizeable market opportunity and credit at affordable rates

Given the sheer size of India's population and considering the large section of it that still lacks access to formal banking services, financial inclusion has been a key priority for the Government. The banking system and priority sector lending have been the most explored channels to bring this majority under the ambit of formal credit institutions.

Financial inclusion is a comprehensive exercise that constitutes several products and services, such as bank accounts, insurance facilities, payment and remittance mechanisms, financial counselling, and, most crucially, affordable credit.

Within the large suite of products and services under financial inclusion, credit has particular significance and financial institutions have a major role to play in making it available. As per Global Findex in 2017, 80% of adult population in India possess a bank account. This was achieved through concentrated effort from the Government and various supporting institutions. This size of the remaining market (financially-excluded households) offers scope for SFBs to grow by offering sustainable credit to the poor at affordable rates. SFBs are also diversifying their product portfolio beyond microfinance into unsecured loans, auto loans, housing loans and MSME loans.

Customized products aided by technology and information availability

Greater use of technology is enabling lenders to provide customised products, that too at much lower turnaround time. Multiple data points are available for lenders, facilitating quick decision making. In fact, they can make lending decisions within minutes using data-driven automated models. These models would help in the supply of credit to small business units and the unorganised sector at low cost. Technology also helps these players expand their reach to under penetrated population in remote areas at a lower operating cost.

Availability of funds at cheaper rates

CASA and other retail deposits are a cheap source of funds for SFBs, which help expand their product portfolio. They can provide lower rates in the market to compete with NBFCs. With SFBs expanding in the underserved regions further, their deposit base is expected to further widen. This will give them an advantage over NBFCs and help expand their asset book.

Large Target audience

SFBs' target audience is the low-income segment, who can be wooed with a sachet level product suite. Unlike NBFCs, which expand horizontally with a special focus product, SFBs has a chance to expand vertically and horizontally. This will enable them to have a good mix of medium and low-value customers. Also, rural and MFI borrowers have low credit penetration and migrate less from one player to another. This will enable SFBs to build longer and loyal customer relationships.

Factors such as lack of awareness, illiteracy, and poverty pose a challenge for SFBs on the demand side. However, the Government's focus on increasing financial literacy and awareness is expected to help them overcome it. It is difficult for SFBs to compete with PSBs as the people in the low-income segment trust banks more to park their money. Though they will fare better in terms of their product and service quality due to their focused approach, SFBs will have to create convenient touchpoints to nudge customers into saving regularly. SFBs will also have to invest in human capital to equip their staff for mobilising deposits.

Region-wise levels of financial inclusion across parameters

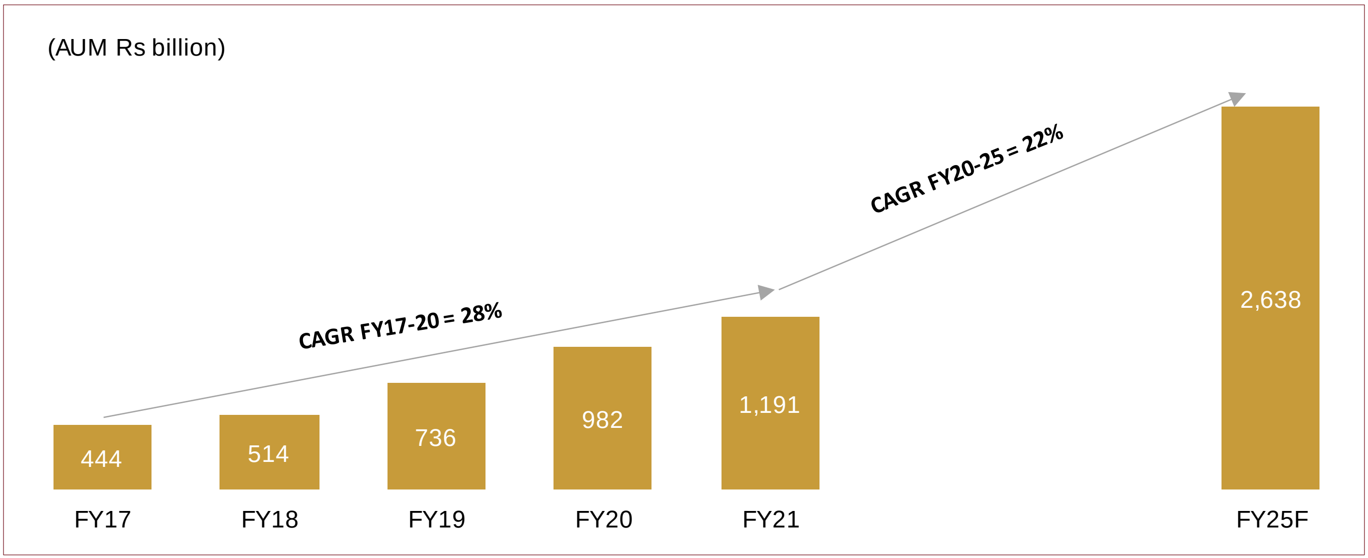
	Branch penetration		Credit penetration		Deposit penetration		Overall Inclusix	
Region	**CY2013**	**CY2016**	**CY2013**	**CY2016**	**CY2013**	**CY2016**	**CY2013**	**CY2016**
South	69.7	**77.3**	88.7	**91.6**	83.1	**95.3**	76.0	**79.8**
West	54.1	**60.1**	37.3	**59.1**	60.5	**78.5**	48.2	**62.8**
North	49.0	**55.9**	32.8	**44.8**	59.1	**77.0**	44.0	**51.7**
East	43.1	**42.8**	35.1	**42.5**	44.8	**68.1**	40.2	**48.2**
North-East	41.2	**42.5**	35.8	**47.7**	45.9	**63.7**	39.7	**46.5**
India Total	52.4	**57.2**	45.7	**56.0**	60.3	**78.3**	50.1	**58.0**

Source: CRISIL Inclusix- Vol IV (Feb - 2018), CRISIL Research

Southern India is one of the regions with the highest literacy rate and this is reinforced by the supremacy in financial penetration in comparison with the other regions. As other regions continue to grow and with the Government's focus on rural rejuvenation, CRISIL Research sees a lot of untapped potential yet to be realized in the Eastern and North-Eastern region of the country.

Small Finance Bank Growth and Outlook

Huge opportunity to support growth over the next three years (AUM)



Note: 1) AUM considered for other players, the amounts are as of the end of the fiscal year indicated; F: Forecast

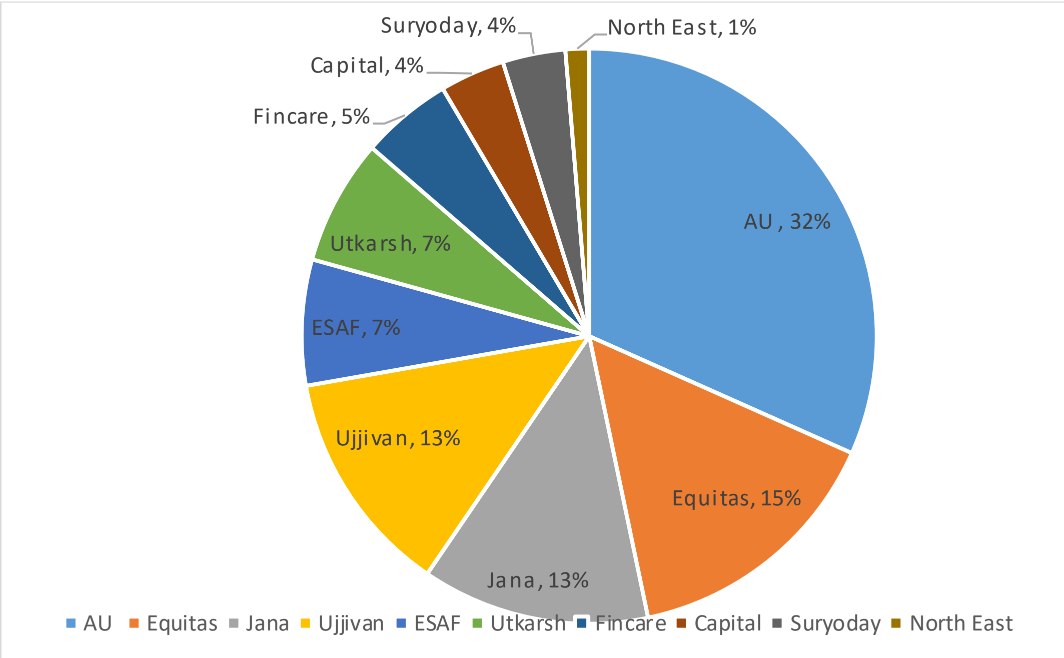
Source: Company reports, CRISIL Research

Small finance banks' AUM clocked 28% CAGR during Fiscals 2017-2021. The top three accounted for ~60% of the aggregate AUM as of Fiscal 2021, up from 55% as of Fiscal 2017. These three players logged a 31% CAGR during the period. The top six players account for ~86% of the market share.

CRISIL Research expects the sector's loan portfolio to see a strong ~22% CAGR in the near term as most of the SFBs have completed the transition phase and are likely to benefit from the operating leverage. New loan origination is expected to remain low as SFBs turn cautious and selective in disbursals due to the pandemic. However, as economy revives and business operations normalise, growth is likely to recover from Fiscal 2022 onwards, largely supported by:

- **Huge market opportunity especially in the rural segment** – Despite larger contribution to GDP of 47% from the rural segment, credit remains fairly low at 10% of the overall credit outstanding. This provides a huge market opportunity for SFBs and other players present in the segment.
- **Presence of high informal credit channels –** In remote areas, informal credit channels have a major presence. In other words, there is a huge section of unbanked population. SFBs have an opportunity to tap this market.
- **Geographic diversification –** With increased focus on diversifying their portfolio and expanding their reach, SFBs are expected to log higher growth as they tap newer geographies.
- **Loan recovery and control on aging NPAs -** SFBs are experienced in collection and monitoring of default risk. This will help them keep asset quality under check
- **Ability to manage local stakeholders –** With their MFI experience, SFBs have the ability to manage local stakeholders and maintain operational efficiency
- **Access to low cost funds & huge cross sell opportunity** - SFBs' cost of funds is substantially low as they are allowed to raise CASA deposits. This will also help them lend at more reasonable rates to its customers, hence enhancing their cross sell opportunity in terms of asset products, insurance etc.

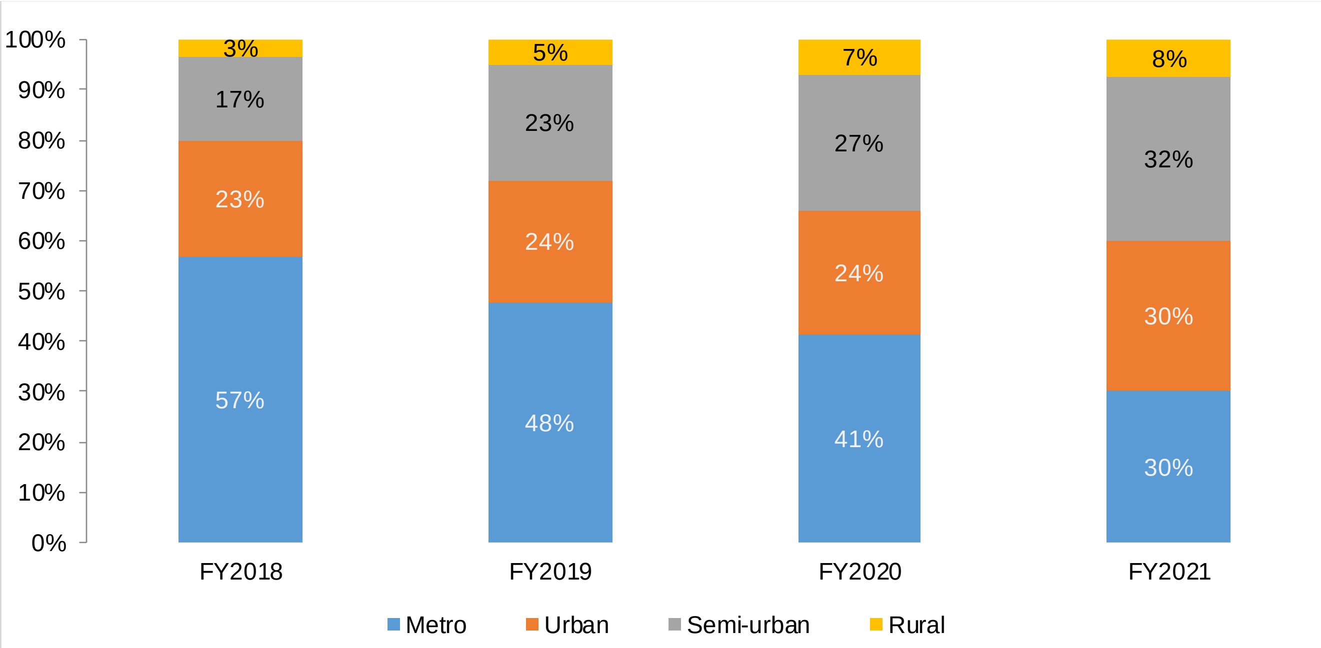
Top six players accounted for 86% of industry AUM as of Fiscal 2021



Note: Jana small finance bank and North-east small finance bank AUM is estimated

Source: Company reports; CRISIL Research

Share of urban and semi-urban regions in total advances continue to increase for SFBs



Note: Rural: Population less than 10,000, Semi urban: 10,000 <=Population <100,000, Urban: 100,000 <=Population <1 million, Metropolitan: Population 1 million and above

Source: RBI, CRISIL Research

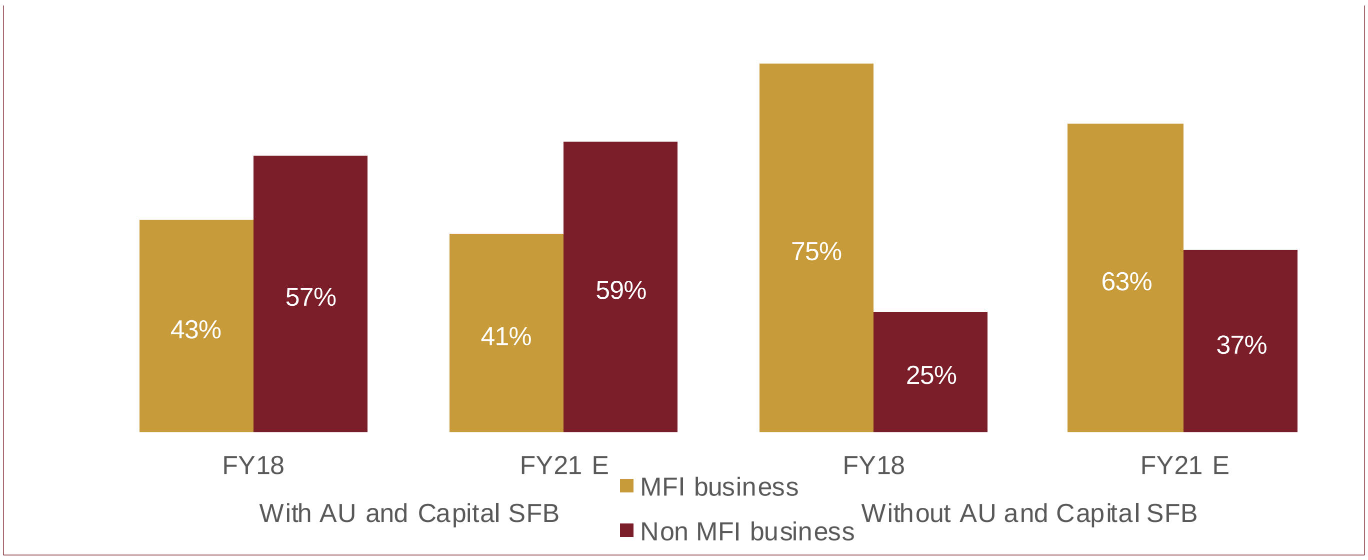
SFBs continue to diversify their portfolio beyond microfinance business

Eight of the 10 firms that got SFBs licence are MFIs and for most of them microfinance is the central product. The microfinance segment accounts for 44% (including Capital and AU SFB) of SFBs' overall business in Fiscal 2020.

In fact, SFBs have shifted their focus from microfinance to other products. But their core customer base is unlikely to have changed much because of the regulatory norms. After the conversion of NBFC-MFIs to SFBs, the focus is now on diversifying the product portfolio. As a result, the share of their microfinance portfolio in total advances reduced to 63% as of March 2021 from 90-95% as of March 2016.

Going forward, SFBs will have to focus on small-ticket size lending to financially under-served and un-served segments (loans below Rs. 2.5 million will have to form at least 50% of their loan book). CRISIL Research expects MFI-converted SFBs to further diversify and focus on allied segment loans, such as MSME loans, affordable housing finance, gold loans, CV/non-CV loans and two-wheeler loans, which will reduce the dominance of microfinance in their overall loan portfolio.

Advances mix:



Notes: E: Estimated

1) Capital and AU SFB are excluded as they mostly deal with non-MFI business

2) Portfolio mix data for Suryoday SFB is as of December 2020

Source: Company reports, CRISIL Research

Growth in network base to curb geographic concentration of loan portfolio

SFBs have been given three years to align their banking network with the extant guidelines. As long as the existing structures continue, they would be treated as 'banking outlets', although not immediately reckoning for the 25% norm. During the three years, all banking outlets opened or converted from microfinance branches in a year, will have to open 25% banking outlets in unbanked rural centres in the same year.

SFBs have seen strong growth in branch expansion in order to meet regulatory requirements. As of Fiscal 2020, the top three players accounted for more than 42% of the total number of functioning offices. Expansion of functioning offices has also helped diversification of portfolio and overcome geographic concentration. As of March 31, 2020, top 10 states account for approximately 85% of the overall SFB portfolio. However, with rapid branch expansion and broad service offerings, the share of these states is expected to come down.

SFB deposits to grow faster than private, public sector banks

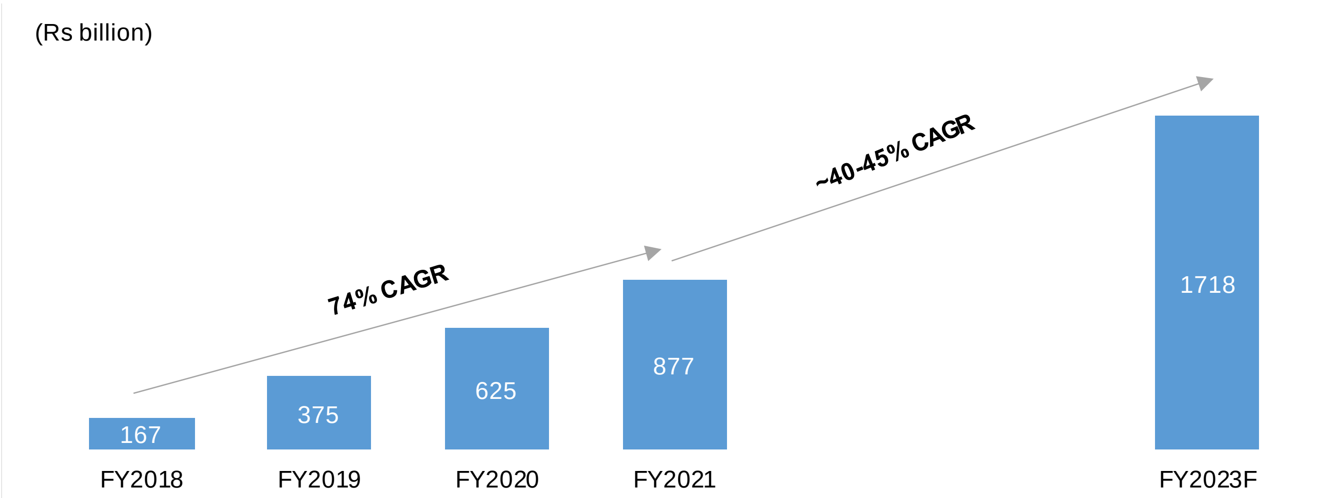
SFBs have a significant growth potential as most of them were functioning as NBFCs/MFIs previously. Immediately after commencement of their operation, all SFBs focused on increasing their deposit base. Their overall deposit base doubled to around Rs. 375 billion as of March 31, 2019. It further increased ~53% CAGR to reach Rs. 877 billion in Fiscal 2021. Further, proportion of CASA deposits increased from nearly ~17% in Fiscal 2020 to ~30% in Fiscal 2021. The increase could be attributed to the higher interest rates they offer and an increase in their branch network.

On account of the crisis in Yes Bank, several private banks were struggling to convince depositors to stay put. But SFBs did not face much issues. Their deposits grew in sharp contrast to the shrinkage that private banks, such as IndusInd Bank and RBL, witnessed leading to a squeeze in overall deposits in March 2020 over December 2019. On the other hand, SFBs have witnessed good growth in deposits during that time despite the lockdown and have seen addition in online customers driven by higher interest rates they offer.

During Fiscal 2021, while the SFBs aggregate deposits grew by 40%, credit outstanding grew by only 20%. This has left the SFBs flushed with liquidity. As of March 2021, the Capital Adequacy Ratio of SFBs was in the range of 24-25%, much higher than the minimum requirement of 15%. This resulted in SFBs having to borrow only Rs. 4 billion out of Rs. 100 billion SLTRO facility in first auction, which was conducted on May 17, 2021. The RBI has notified to conduct one auction for SLTRO each month till October 2021. The unutilised portion of notified ₹100 billion will be carried forward in each subsequent auction until fully utilised or till the last auction, whichever is earlier.

Going forward, CRISIL Research expects SFBs' deposit to grow 40-45% CAGR over Fiscals 2020-2023 as players focus on popularising convenient banking habits to cover the last mile and widen financial inclusion by deepening their penetration in untapped geographies.

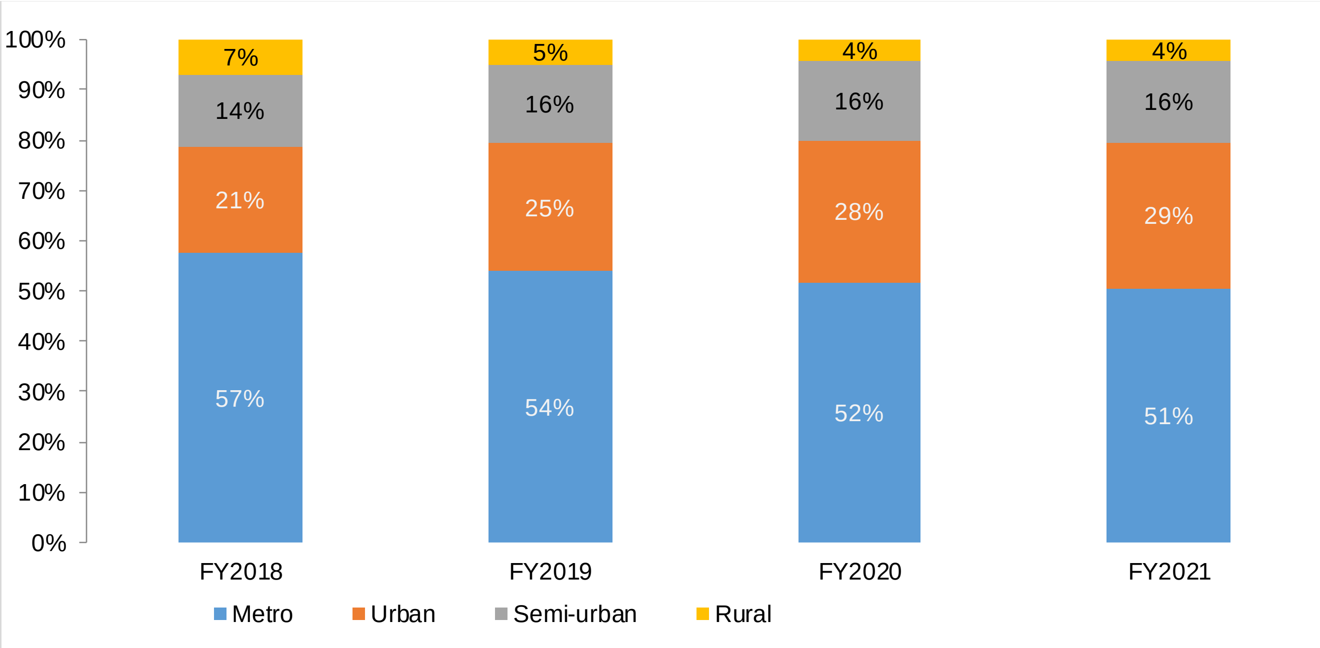
SFB deposits to grow robustly



Note: Amounts are as at the end of fiscal year indicated; F: Forecast

Source: RBI, CRISIL Research

Around 80% deposits is from metropolitan and urban regions for SFBs



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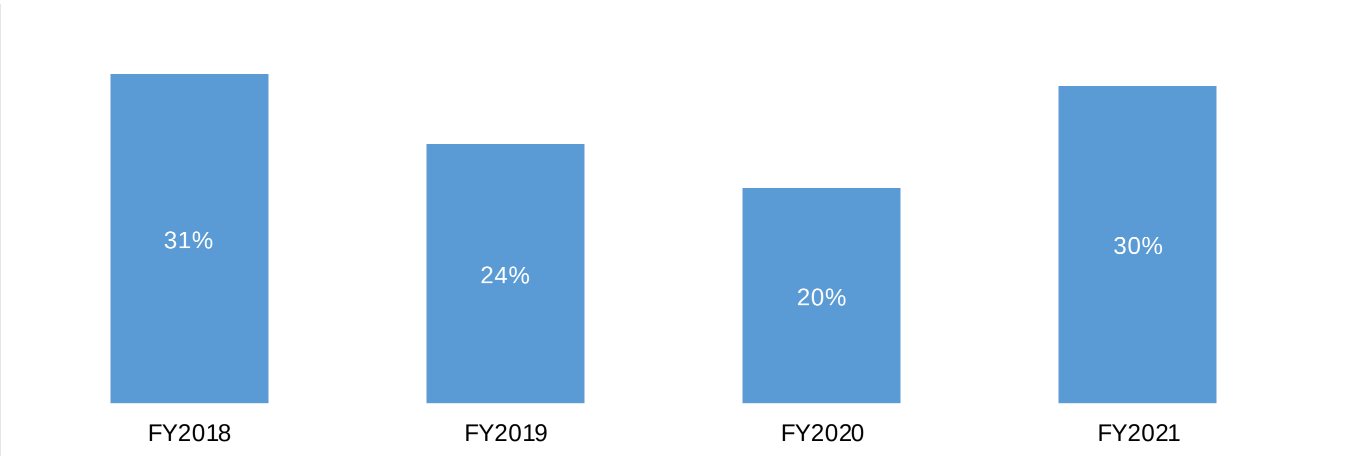
Source: RBI, CRISIL Research

CASA Ratio



Source: RBI, Company reports, CRISIL Research

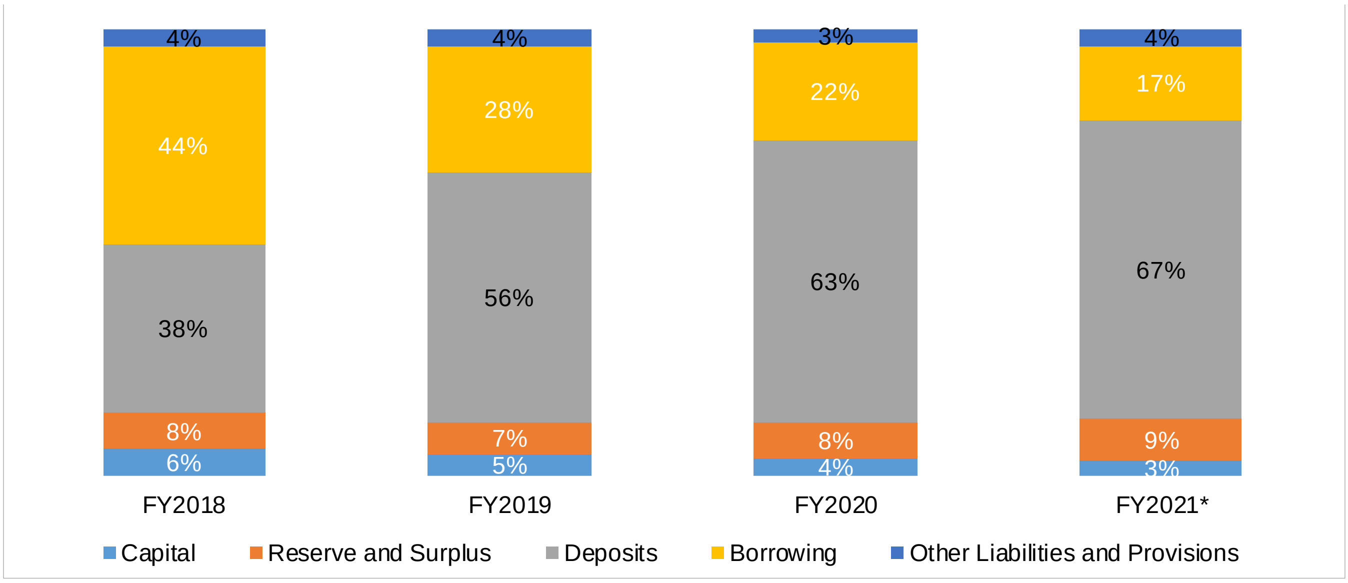
Over the next couple of years, CRISIL Research expects SFBs to focus on gradually building their banking business and complying with tougher regulatory norms. In addition, transformation into SFBs will provide access to stable and granular public deposits over the long run, which will bring down their cost of funds.

Resource profile of SFBs

The resource profile of SFBs transformed in the last two years owing to a decrease in share of borrowings from 44% as of Fiscal 2018 to 17% as of Fiscal 2021 and a rise in share of deposits from 38% to 67% during the period. Their asset-liability management (ALM) profile remains comfortable owing to conservative liquidity policy, mobilisation of deposits and shorter tenure loans.

Their liquidity profile is also supported by regulatory requirements such as a higher requirement of minimum net owned funds ensuring capital adequacy and mandatory maintenance of CRR/SLR ratio, which provides access to call money market and provide better cushion than other NBFCs.

Rapid ramp-up in deposits for SFBs



Note: *Data for Jana SFB, Utkarsh SFB and North East SFB at the end of FY20 only; the percentages are as at the end of fiscal year indicated

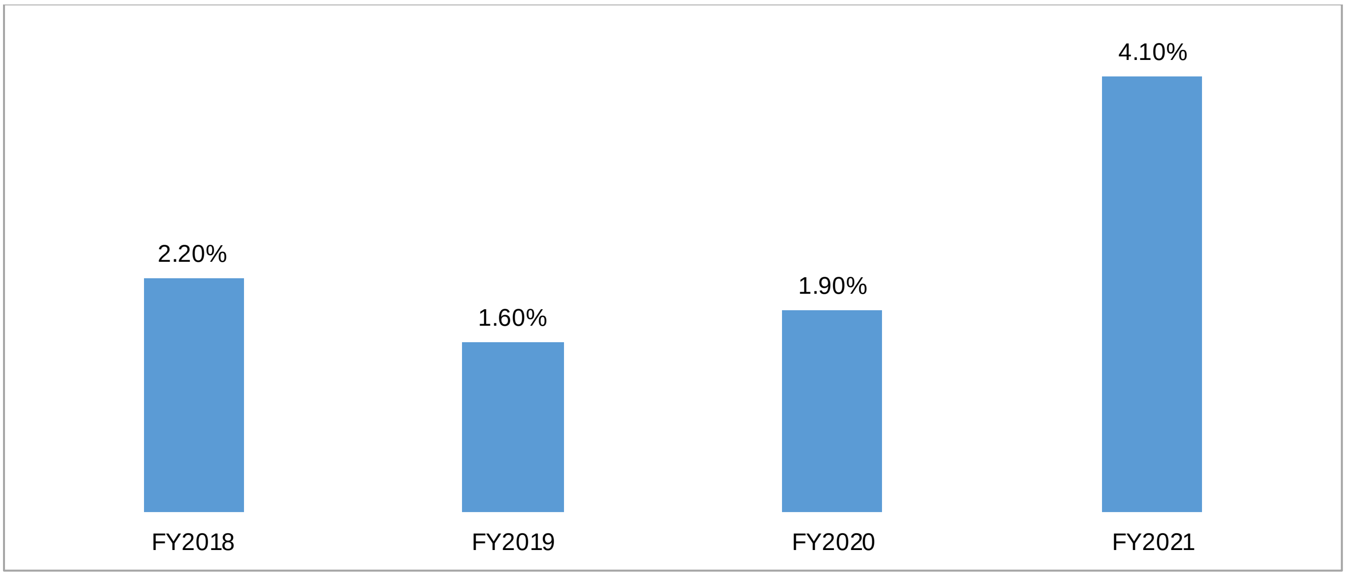
Source: Company reports, CRISIL Research

Asset quality for SFBs could deteriorate due to the pandemic

Gross non-performing assets ("**GNPA**") of SFBs improved to 1.6% in Fiscal 2019 from 2.2% in Fiscal 2018. This could be attributed to diversification of product mix into relatively less risky assets, write-off of legacy loans and reduction in microfinance due to better collection mechanism and deep understanding of their local geographies and customers. In Fiscal 2021, SFBs have faced severe asset quality issues, as near-term collections see disruptions on account of COVID-19.

While banks have offered a moratorium period to borrowers, SFBs' asset quality is likely to deteriorate due to difficulties faced by their borrowers. Going forward, their asset quality will vary depending on their efficiency in credit underwriting, monitoring and collection. Credit cost of SFBs had declined from 1.7% in Fiscal 2018 to 1.1% in Fiscal 2019, which boosted their profitability. However, in Fiscal 2020 and Fiscal 2021, the cost increased due to higher provisioning related to COVID-19. This eroded their profitability in Fiscal 2020 and Fiscal 2021.

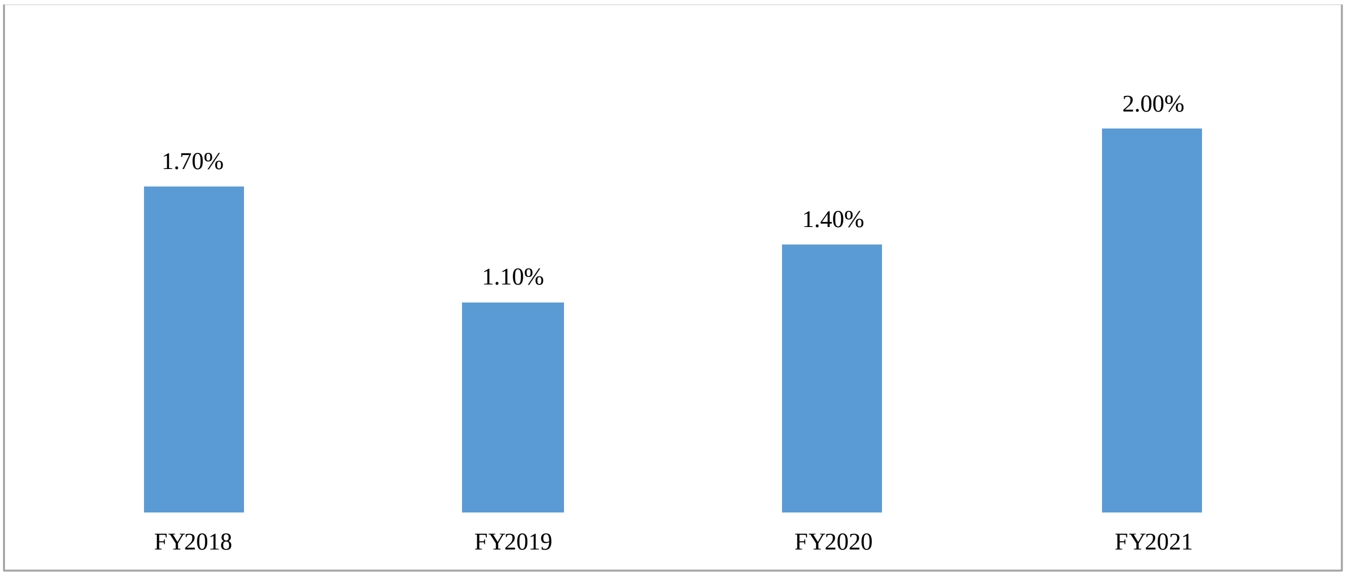
GNPA trend of overall SFB Industry



Note: Data excludes data for Jana SFB and North-east SFB

Source: Company reports, CRISIL Research

Credit cost trend of overall SFB Industry



Note: Data excludes data for Jana SFB and North-east SFB

Source: Company reports, CRISIL Research

Peer Comparison

ESAF SFB reported the highest AUM growth over Fiscals 2019-21 among the compared SFBs

ESAF SFB was the fifth largest SFB in India in terms of AUM as of March 31, 2021. Among the compared SFBs, ESAF SFB posted the fastest AUM CAGR of 35% over Fiscals 2019-21. Among all the compared peers, Utkarsh SFB and ESAF SFB reported the fastest AUM growth of 26% and 23% respectively in Fiscal 2021.

(Rs. billion)	AUM (FY19)	AUM (FY20)	AUM (FY21)	AUM y-o-y growth (FY20)	AUM y-o-y growth (FY21)	AUM CAGR (FY19-21)
SFBs						
AU SFB	242	309	377	27%	22%	25%
Equitas SFB	117	154	179	31%	17%	24%
Ujjivan SFB	110	142	151	28%	7%	17%
Jana SFB	65	113	NA	73%	NM	NM
ESAF SFB	**46**	**68**	**84**	**49%**	**23%**	**35%**
Utkarsh SFB	47	67	84	43%	26%	34%
Fincare SFB	35	53	NA	51%	NM	NM
Suryoday SFB	30	37	42	24%	13%	18%
Capital SFB	31	39	43	27%	10%	18%
Top 3 NBFC-MFIs						
CreditAccess Grameen Ltd.	72	99	113	38%	15%	26%
Spandana Sphoorty Financial Ltd.	44	68	82	56%	19%	37%
Satin Creditcare Network Ltd.	64	72	73	13%	1%	7%
Banks-MFIs*						
Bandhan Bank	448	718	870	60%	21%	39%
RBL Bank	543	580	586	7%	1%	4%

Notes: Players are arranged in descending order of AUM as of Fiscal 2021.

North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

(*) Former MFIs who obtained a bank license.

NA – Not available; NM – Not meaningful

Source: MFIN, Company reports, CRISIL Research

ESAF SFB posted the second highest deposit growth over Fiscals 2019-21 amongst the compared peers

ESAF SFB reported the second highest deposit growth of 44% over Fiscal 2019-21 among the compared peers, including banks-MFI, with Fincare SFB reporting the highest deposit growth of 61% over Fiscals 2019-21. This is followed by Suryodhay SFB and Utkarsh SFB, which reported 43% and 41% deposit growth over the same period respectively. Utkarsh SFB reported the fastest deposit growth of 124% in Fiscal 2021 (y-o-y) after declining by 12% in Fiscal 2020 (y-o-y). ESAF SFB stood fourth in deposit growth in Fiscal 2021 (y-o-y) among the compared SFBs.

Comparison of deposit growth

(Rs. billion)	Deposit (FY19)	Deposit (FY20)	Deposit (FY21)	Deposit y-o-y growth (FY20)	Deposit y-o-y growth (FY21)	Deposit CAGR (FY19-21)
SFBs						
AU SFB	194	262	360	35%	38%	36%
Equitas SFB	90	103	164	14%	59%	35%
Ujjivan SFB	74	108	131	46%	22%	33%
Jana SFB	42	97	NA	130%	NM	NM
ESAF SFB	**43**	**70**	**90**	**63%**	**28%**	**44%**
Utkarsh SFB	38	34	75	-12%	124%	41%
Fincare SFB	20	47	53	128%	14%	61%
Suryoday SFB	16	28	33	79%	14%	43%
Capital SFB	37	44	52	21%	17%	19%
Banks-MFIs*						
Bandhan Bank	432	571	780	32%	37%	34%
RBL Bank	584	578	731	-1%	26%	12%

NA – Not available; NM – Not meaningful, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

(*) Former MFIs which obtained a bank license

Source: Company reports, CRISIL Research

ESAF SFB has the highest retail deposits share of 95% among the compared peers in Fiscal 2020

In Fiscal 2020, ESAF SFB ranked first in retail deposits to total deposits ratio among the compared peers, including banks-MFIs, with over 95% ESAF SFB's deposits being retail deposits. This reflects greater granularity in the deposits base. ESAF SFB ranked second in both proportion of *deposits to loan book* ratio (at 107.3%, after Capital SFB at 134.4%) and deposits to total borrowing (at 85.4%, after Capital SFB at 91.4%). ESAF SFB ranked fourth in CASA to total deposit ratio among the compared SFBs.

FY20	Proportion of deposit to total loan book (%)	Proportion of deposit in total borrowing (%)	Retail deposits (% of deposits)	CASA (% of deposits)	Retail TD (% of deposits)	Bulk TD (% of deposits)
SFBs						
AU SFB	96.9%	71.7%	39.0%	14.0%	25.0%	61.0%
Equitas SFB	74.9%	66.7%	58.4%	21.4%	37.0%	41.6%
Ujjivan SFB	76.8%	73.2%	43.8%	13.5%	30.3%	56.2%
Jana SFB	96.9%	76.9%	61.2%	7.4%	53.8%	38.8%
ESAF SFB	**107.3%**	**85.4%**	**95.1%**	**13.7%**	**81.4%**	**4.9%**
Utkarsh SFB	53.4%	55.6%	48.2%	13.5%	34.7%	51.8%
Fincare SFB	96.6%	77.3%	76.9%	11.9%	65.0%	23.1%
Suryoday SFB	80.7%	69.3%	54.4%	11.5%	43.0%	45.6%
Capital SFB	134.4%	91.4%	NA	37.7%	NA	NA
Banks-MFIs*						
Bandhan Bank	85.7%	77.7%	78.0%	36.8%	41.2%	22.0%
RBL Bank	99.6%	77.3%	32.9%	29.6%	3.3%	67.1%

Notes: 1) NA - Not available. 2) Retail deposits includes CASA and retail term deposits. Bulk deposits include institutional deposits. Retail deposits include deposits less than Rs. 20 million. 3) CASA ratio is calculated based on overall deposits excluding certificates of deposits (CoD)

(*) Former MFIs which obtained a bank license,

North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

Source: Company reports, CRISIL Research

In Fiscal 2021, ESAF SFB remained second in both proportion of deposits to loan book and deposits to overall borrowing among the compared SFBs.

FY21	Proportion of deposit to total loan book (%)	Proportion of deposit in total borrowing (%)	Retail deposits (% of deposits)	CASA (% of deposits)	Retail TD (% of deposits)	Bulk TD (% of deposits)
SFBs						
AU SFB	104.0%	83.7%	44.0%	23.0%	21.0%	56.0%

FY21	Proportion of deposit to total loan book (%)	Proportion of deposit in total borrowing (%)	Retail deposits (% of deposits)	CASA (% of deposits)	Retail TD (% of deposits)	Bulk TD (% of deposits)
Equitas SFB	97.3%	79.7%	70.1%	34.2%	35.8%	29.9%
Ujjivan SFB	90.6%	80.2%	47.5%	20.5%	27.0%	52.5%
Jana SFB	NA	NA	NA	NA	NA	NA
ESAF SFB	**110.2%**	**84.2%**	**97.7%**	**19.4%**	**78.3%**	**2.7%**
Utkarsh SFB	91.4%	74.2%	NA	NA	NA	NA
Fincare SFB	100.3%	79.2%	NA	NA	NA	NA
Suryoday SFB	81.7%	66.1%	NA	NA	NA	NA
Capital SFB	138.7%	89.4%	NA	NA	NA	NA
Banks-MFIs*						
Bandhan Bank	95.5%	82.1%	79.0%	43.4%	35.6%	21.0%
RBL Bank	124.6%	86.7%	37.2%	31.8%	5.4%	62.8%

Notes: 1) NA - Not available. 2) Retail deposits includes CASA and retail term deposits. Bulk deposits include institutional deposits. Retail deposits include deposits less than Rs.20 million. 3) CASA ratio is calculated based on overall deposits excluding certificates of deposits (CoD

(*) Former MFIs which obtained a bank license.

North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

Source: Company reports, CRISIL Research

ESAF SFB has the second largest client base among the compared SFBs in Fiscals 2019, 2020 and 2021

Among the compared SFBs and NBFC-MFIs, ESAF SFB has the second largest client base of 3.28 million, 4.07 million and 4.68 million as at end of Fiscals 2019, 2020 and 2021 respectively. ESAF SFB reported strong customer growth of 24.4% and 15.1% in Fiscal 2020 and Fiscal 2021, respectively.

	Clients (in 100,000)				Clients y-o-y growth	
	FY19	FY20	FY21		FY20	FY21
SFBs						
AU SFB	15.2	22.4	27.5		47.4%	22.8%
Equitas SFB	NA	24.2	39.0		NM	61.2%
Ujjivan SFB	46.1	52.5	59.2		13.9%	12.8%
Jana SFB	22.5	30.7	NA		36.4%	NM
ESAF SFB	**32.8**	**40.7**	**46.8**		**24.4%**	**15.1%**
Utkarsh SFB	20.0	25.0	NA		25.0%	NM
Fincare SFB	15.5	25.5	NA		64.5%	NM
Suryoday SFB	11.5	14.6	NA		26.7%	NM
Capital SFB	NA	NA	NA		NM	NM
Top 3 NBFC-MFIs						
CreditAccess Grameen Ltd.	24.7	29.1	28.7		17.6%	-1.2%
Spandana Sphoorty Financial Ltd.	24.6	25.7	24.5		4.5%	-4.9%
Satin Creditcare Network Ltd.	31.5	30.8	26.6		-2.2%	-13.6%
Banks-MFIs*						
Bandhan Bank	165.6	201.0	230.0		21.4%	14.4%
RBL Bank	65.1	84.9	96.3		30.4%	13.4%

NA – Not available; NM – Not meaningful, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

(*) Former MFIs which obtained a bank license

Source: MFIN, Company reports, CRISIL Research

	No. of branches				Branch y-o-y growth	
	FY19	FY20	FY21		FY20	FY21
SFBs						
AU SFB	558	647	744		15.9%	15.0%
Equitas SFB	392	854	861		117.9%	0.8%
Ujjivan SFB	474	575	575		21.3%	0.0%
Jana SFB	221	585	NA		164.7%	NM
ESAF SFB	**423**	**454**	**550**		**7.3%**	**21.1%**
Utkarsh SFB	482	507	NA		5.2%	NM
Fincare SFB	569	711	NA		25.0%	NM
Suryoday SFB	382	477	556		24.9%	16.6%
Capital SFB	129	150	158		16.3%	5.3%
Top 3 NBFC-MFIs						
CreditAccess Grameen Ltd.	670	929	964		38.7%	3.8%

	No. of branches				Branch y-o-y growth	
	FY19	FY20	FY21		FY20	FY21
Spandana Sphoorty Financial Ltd.	925	1,010	1,062		9.2%	4.2%
Satin Creditcare Network Ltd.	977	1,140	1,011		16.7%	-11.3%
Banks-MFIs*						
Bandhan Bank	4,000	4,559	5,310		14.0%	16.5%
RBL Bank	1,543	1,631	1,794		5.7%	10.0%

NA – Not available; NM – Not meaningful, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

(*) Former MFIs which obtained a bank license

Source: MFIN, Company reports, CRISIL Research

ESAF SFB is highly concentrated in rural and semi-urban region

ESAF SFB's portfolio is largely concentrated in rural and semi-urban region as compared to other SFBs. Its portfolio share of 74% from rural and semi-urban is the highest among the compared SFBs as of March 31, 2020. ESAF SFB stood second highest in terms of branches share (76%) present in rural and semi-urban region among the compared peers, including banks-MFIs, as of March 31, 2020.

FY20	No. of states	Share of rural + semi-urban portfolio	Share of rural + semi-urban branches	Portfolio Concentration of states (FY20)	
			FY20	Top state	Top 3 states
SFBs					
AU SFB	12	64%	61%	43%	70%
Equitas SFB	15	NA	NA	54%	78%
Ujjivan SFB	24	36%	14%	16%	45%
Jana SFB	22	NA	26%	20%	51%
ESAF SFB	**18**	**74%**	**76%**	**57%**	**86%**
Utkarsh SFB	17	73%	68%	43%	78%
Fincare SFB	19	NA	67%	NA	NA
Suryoday SFB	12	38%	55%	33%	77%
Capital SFB	4	NA	82%	NA	NA
Top 3 NBFC-MFIs					
CreditAccess Grameen Ltd.	14	86%	NA	48%	86%
Spandana Sphoorty Financial Ltd.	18	95%	NA	17%	47%
Satin Creditcare Network Ltd.	23	75%	NA	23%	49%
Banks-MFIs*					
Bandhan Bank	34	NA	71%	47%	NA
RBL Bank	21	NA	34%	13%	35%

NA – Not available, NM – Not meaningful, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

(*) Former MFIs which obtained a bank license

Source: MFIN, Company reports, CRISIL Research

ESAF SFB had the second best gross loan portfolio ("GLP") per employee and best business per employee among SFBs in Fiscal 2021

ESAF SFB had the second highest GLP per employee and highest business per employee among the compared SFBs in Fiscal 2021, showing better efficiency per employee. ESAF SFB's retail deposit per employee is also the best among the compared SFBs in Fiscal 2020 and Fiscal 2021.

FY20	Number of employees	GLP per employee	Business^ per employee	Retail deposit per employee
SFBs				
AU SFB	17,112	18.1	33.3	6.0
Equitas SFB	16,104	9.5	15.9	3.7
Ujjivan SFB	17,841	7.9	14.0	2.6
Jana SFB	16,212	7.0	12.9	3.6
ESAF SFB	**3,337**	**20.4**	**41.5**	**20.0**
Utkarsh SFB	8,831	7.5	11.3	1.8
Fincare SFB	7,363	7.3	13.6	4.9
Suryoday SFB	4,695	7.9	14.0	3.3
Capital SFB	1,646	23.9	50.9	NA

FY20	Number of employees	GLP per employee	Business^ per employee	Retail deposit per employee
Top 3 NBFC-MFIs				
CreditAccess Grameen Ltd.	10,824	9.1	NA	NA
Spandana Sphoorty Financial Ltd.	8,224	8.3	NA	NA
Satin Creditcare Network Ltd.	11,148	6.5	NA	NA
Banks-MFIs*				
Bandhan Bank	39,750	18.1	32.4	11.2
RBL Bank	7,221	80.3	160.4	26.3

Note: 1. ^Business includes AUM and deposits

2. (*) Former MFIs which obtained a bank license

3. NA – Not available, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

Source: MFIN, Company reports, CRISIL Research

FY21	Number of employees	GLP per employee	Business^ per employee	Retail deposit per employee
SFBs				
AU SFB	22,484	16.8	32.8	7.04
Equitas SFB	16,556	10.8	20.7	6.94
Ujjivan SFB	16,571	9.1	17.1	3.77
Jana SFB	NA	NA	NA	NA
ESAF SFB	**3,803**	**22.2**	**45.8**	**23.1**
Utkarsh SFB	NA	NA	NA	NA
Fincare SFB	NA	NA	NA	NA
Suryoday SFB	5,131	8.2	14.5	NA
Capital SFB	NA	NA	NA	NA
Top 3 NBFC-MFIs				
CreditAccess Grameen Ltd.	10,625	10.7	NA	NA
Spandana Sphoorty Financial Ltd.	8,644	9.4	NA	NA
Satin Creditcare Network Ltd.	10,612	6.9	NA	NA
Banks-MFIs*				
Bandhan Bank	49,445	17.6	33.4	12.46
RBL Bank	7,816	75.0	168.5	34.77

1.^Business includes AUM and deposits

2. (*) Former MFIs which obtained a bank license

3. NA – Not available, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

Source: MFIN, Company reports, CRISIL Research

ESAF SFB has the best yield on advances among the compared SFBs and Banks-MFIs in Fiscal 2021

ESAF SFB ranked fourth in both yield on advances and Net Interest Margin ("**NIM**") in Fiscal 2020 among the compared SFBs and banks-MFIs. ESAF SFB improved its standing under both categories in Fiscal 2021. ESAF SFB has the highest yield on advances among the compared SFBs and banks-MFIs in Fiscal 2021. ESAF SFB's NIM of 8.5% is also the second best after Ujjivan SFB among the compared SFBs and banks-MFIs in Fiscal 2021.

FY21	Yields on advances	Cost of borrowing	NIM	Opex ratio	Cost to income ratio	Cost to average AUM ratio	Credit costs
SFBs							
AU SFB	13.1%	6.5%	5.0%	3.5%	52.4%	4.8%	1.5%
Equitas SFB	19.0%	7.8%	8.2%	6.0%	60.0%	8.0%	1.7%
Ujjivan SFB	19.9%	6.9%	9.1%	6.3%	60.3%	8.4%	4.1%
Jana SFB	NA	NA	NA	NA	NA	NA	NA
ESAF SFB	**22.3%**	**7.6%**	**8.5%**	**5.8%**	**60.3%**	**8.3%**	**2.8%**
Utkarsh SFB	16.9%	7.3%	6.9%	4.5%	55.4%	7.2%	2.7%
Fincare SFB	24.7%	8.6%	9.3%	6.1%	55.9%	8.7%	3.3%
Suryoday SFB	17.7%	8.1%	6.8%	5.4%	64.4%	8.3%	2.8%
Capital SFB	10.5%	5.8%	3.4%	3.0%	70.7%	4.2%	0.3%
Top 3 NBFC-MFIs							
CreditAccess Grameen Ltd.	20.1%	9.1%	11.1%	4.2%	38.1%	5.5%	5.6%

FY21	Yields on advances	Cost of borrowing	NIM	Opex ratio	Cost to income ratio	Cost to average AUM ratio	Credit costs
Spandana Sphoorty Financial Ltd.	22.9%	10.1%	14.7%	3.3%	21.6%	3.1%	9.0%
Satin Creditcare Network Ltd.	21.8%	11.9%	8.7%	5.1%	58.5%	5.3%	3.7%
Banks-MFIs*							
Bandhan Bank	14.7%	5.9%	7.3%	2.7%	29.1%	3.5%	4.8%
RBL Bank	11.8%	5.6%	4.4%	3.2%	49.7%	5.3%	2.5%

Notes:

1. NA – Not available, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

2. (*) Former MFIs which obtained a bank license

Source: Company reports, CRISIL Research

FY20	Yields on advances	Cost of borrowing	NIM	Opex ratio	Cost to income ratio	Cost to average AUM ratio	Credit costs
SFBs							
AU SFB	13.8%	7.4%	5.3%	3.9%	56.1%	5.1%	0.8%
Equitas SFB	19.1%	8.1%	8.5%	6.7%	66.4%	8.7%	1.4%
Ujjivan SFB	21.2%	8.1%	10.2%	8.2%	67.4%	10.5%	1.5%
Jana SFB	22.7%	9.4%	8.6%	9.9%	80.6%	13.1%	2.1%
ESAF SFB	**22.3%**	**8.7%**	**9.6%**	**7.3%**	**64.9%**	**10.5%**	**1.6%**
Utkarsh SFB	19.0%	9.6%	7.8%	5.1%	57.6%	8.4%	0.6%
Fincare SFB	24.9%	9.7%	11.0%	7.6%	56.0%	9.7%	3.4%
Suryoday SFB	22.5%	8.1%	10.8%	6.0%	47.1%	8.1%	3.3%
Capital SFB	11.2%	6.4%	3.6%	3.4%	75.5%	4.6%	0.6%
Top 3 NBFC-MFIs							
CreditAccess Grameen Ltd.	18.7%	8.1%	11.3%	4.3%	38.0%	5.0%	2.4%
Spandana Sphoorty Financial Ltd.	25.3%	11.9%	19.8%	4.1%	19.9%	3.9%	5.0%
Satin Creditcare Network Ltd.	23.5%	12.1%	11.9%	6.1%	51.2%	6.2%	2.7%
Banks-MFIs*							
Bandhan Bank	17.9%	7.8%	8.5%	3.3%	30.8%	4.2%	1.9%
RBL Bank	12.8%	6.7%	4.6%	3.6%	52.8%	5.5%	2.3%

Notes:

1. *North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.*

2. *(*) Former MFIs which obtained a bank license*

Source: Company reports, CRISIL Research

MFI segment accounts for 93% of ESAF portfolio mix, highest among the compared peers

Except for AU SFB and Capital SFB, all of the compared SFBs were pure MFI turned SFB, resulting in a huge concentration in MFI products. Equitas' relatively lower concentration in MFI products is due to its diversification into other businesses. With SFBs' focus on portfolio diversification, CRISIL expects the product mix across SFBs to be distributed into multiple asset classes in the coming years.

Product mix of all SFBs and banks-MFIs (as of end-Fiscal 2020)

Product mix	MFI	Vehicle loans	Mortgage loans	MSME	Large and mid-corporate loans	Gold loans	Others	% share of secured products
SFBs								
AU SFB	-	50%	2%	44%	-	1%	3%	98.0%
Equitas SFB	24%	24%	-	41%	10%	-	1%	75.4%
Ujjivan SFB	77%	-	11%	10%	-	-	2%	78.0%
Jana SFB	75%	-	7%	14%	1%	1%	3%	24.7%
ESAF SFB	93%	-	-	-	2%	-	5%^	6.4%
Utkarsh SFB	88%	-	1%	4%	6%	-	2%	8.3%
Fincare SFB	80%	-	11%	-	-	5%	4%	21.7%
Suryoday SFB	76%	10%	5%	5%	-	-	4%	22.5%
Capital SFB	NA	NA	NA	NA	NA	NA	NA	99.1%
Banks-MFIs*								
Bandhan bank	64%	-	26%	4%	5%	1%	-	34.6%
RBL bank	11%				18%		71%	59.0%

Notes:

1. ^Include all retail loans by ESAF

2. NA – Not available, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

3. (*) Former MFIs which obtained a bank license

Source: Company reports, CRISIL Research

ESAF SFB has the second best return on equity ("RoE") among the compared SFBs in Fiscal 2020

In Fiscal 2020, ESAF SFB's RoE ratio of 19.25% was the second best after Utkarsh SFB and was ranked fourth in RoA ratio among the compared SFBs. In Fiscal 2021, ESAF SFB ranked fourth in both RoE and RoA ratio among the compared SFBs.

Profitability	FY20			FY21	
	RoE (%)	RoA (%)		RoE (%)	RoA (%)
SFBs					
AU SFB	17.90%	1.87%		21.99%	2.50%
Equitas SFB	9.75%	1.39%		12.52%	1.75%
Ujjivan SFB	14.04%	2.18%		0.26%	0.04%
Jana SFB	3.51%	0.26%		NA	NA
ESAF SFB	**19.25%**	**2.30%**		**8.65%**	**0.97%**
Utkarsh SFB	20.84%	2.39%		9.37%	1.04%
Fincare SFB	18.28%	2.54%		11.78%	1.50%
Suryoday SFB	11.40%	2.43%		0.89%	0.20%
Capital SFB	7.73%	0.52%		3.04%	0.22%
Top 3 NBFC-MFIs					
CreditAccess Grameen Ltd.	12.88%	3.36%		3.96%	0.95%
Spandana Sphoorty Financial Ltd.	15.56%	6.44%		5.41%	2.02%
Satin Creditcare Network Ltd.	12.00%	2.26%		-0.92%	-0.18%
Banks-MFIs*					
Bandhan Bank	22.91%	4.08%		13.53%	2.13%
RBL Bank	5.53%	0.59%		4.56%	0.56%

Note:

1. *NA – Not available, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.*

2. *(*) Former MFIs which obtained a bank license*

Source: Company reports, CRISIL Research

ESAF SFB has the third best capital adequacy ratio in Fiscal 2021

ESAF SFB has the third highest capital adequacy ratio in Fiscal 2021 among the compared SFBs and banks-MFIs, an improvement from Fiscal 2020 when ESAF SFB was the fourth highest. ESAF SFB ranked second best in AUM/Net worth ratio in Fiscal 2021 among all the compared peers, also an improvement from Fiscal 2020 when ESAF SFB ranked fifth.

	FY20				FY21	
	AUM/ Net worth (x)	Capital adequacy ratio (%)	Provisioning coverage ratio (%)		AUM/ Net worth (x)	Capital adequacy ratio (%)
SFBs						
AU SFB	7.06	22.0%	53%		6.01	23.4%
Equitas SFB	5.61	23.6%	45%		5.28	24.2%
Ujjivan SFB	4.47	28.8%	80%		4.70	26.4%
Jana SFB	10.83	19.3%	56%		NA	NA
ESAF SFB	**6.29**	**24.0%**	**80%**		**6.23**	**24.2%**
Utkarsh SFB	6.53	22.2%	75%		6.14	21.9%
Fincare SFB	5.91	29.3%	91%		NA	NA
Suryoday SFB	3.48	35.4%	85%		2.63	51.5%
Capital SFB	9.70	19.1%	30%		9.72	19.8%
Top 3 NBFC-MFIs						
CreditAccess Grameen Ltd.	3.48	23.6%	NA		2.99	31.8%
Spandana Sphoorty Financial Ltd.	2.60	47.4%	NA		2.96	40.0%
Satin Creditcare Network Ltd.	4.97	30.5%	NA		4.88	25.3%
Banks-MFIs*						
Bandhan Bank	4.73	27.4%	61%		5.00	23.5%

	FY20				FY21	
	AUM/ Net worth (x)	**Capital adequacy ratio (%)**	**Provisioning coverage ratio (%)**		**AUM/ Net worth (x)**	**Capital adequacy ratio (%)**
RBL Bank	5.48	16.4%	64%		4.63	17.5%

Note:

1. NA – Not available, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

2. (*) Former MFIs which obtained a bank license

Source: Company reports, CRISIL Research

ESAF SFB has the fourth lowest GNPA and fifth lowest NNPA among the SFBs in Fiscal 2020

	FY20		FY21	
	GNPA (%)	**NNPA (%)**	**GNPA (%)**	**NNPA (%)**
SFBs				
AU SFB	1.60%	0.80%	2.70%	2.20%
Equitas SFB	3.00%	1.67%	3.73%	1.58%
Ujjivan SFB	0.97%	0.20%	7.07%	2.93%
Jana SFB	2.71%	1.30%	NA	NA
ESAF SFB	**1.53%**	**0.64%**	**6.70%**	**3.88%**
Utkarsh SFB	0.71%	0.18%	3.75%	1.33%
Fincare SFB	0.90%	0.40%	NA	NA
Suryoday SFB	2.79%	0.57%	9.41%	4.73%
Capital SFB	1.76%	1.25%	2.08%	1.13%
Top 3 NBFC-MFIs				
CreditAccess Grameen Ltd.	1.57%	0.37%	4.43%	NA
Spandana Sphoorty Financial Ltd.	0.50%	0.07%	3.10%	1.40%
Satin Creditcare Network Ltd.	3.30%	-0.10%	8.40%	3.30%
Banks-MFIs*				
Bandhan Bank	1.48%	0.58%	6.81%	3.51%
RBL Bank	3.62%	2.05%	4.34%	2.12%

Note:

1. NA – Not available, North East Small Finance Bank and Shivalik Small Finance Bank are not considered as peer banks as both these banks are comparatively smaller in terms of total advances and size.

2. (*) Former MFIs which obtained a bank license

Source: Company reports, CRISIL Research

Analysis of various segments

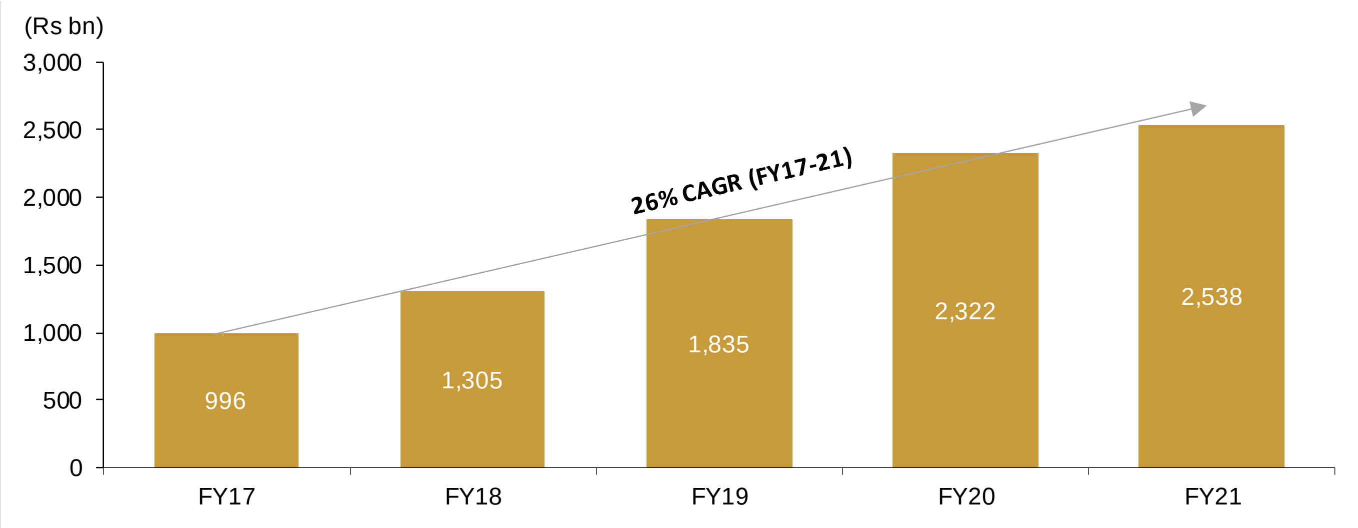
Microfinance

<u>*Industry GLP surged at 26% CAGR from Fiscal 2017 to Fiscal 2021*</u>

The microfinance industry (joint-liability group (“**JLG**”) portfolio) has recorded healthy growth in the past few years. The industry’s gross loan portfolio (GLP) increased at a CAGR of 26% since Fiscal 2017 to reach ~Rs. 2.5 trillion in Fiscal 2021. The growth rate has been relatively faster for the Banks and NBFC-MFIs, with the outstanding loans for these player groups increasing at a CAGR of 36% and 25% respectively over the same period.

In Fiscal 2021, the industry has been adversely impacted due to the onset of the COVID-19 pandemic. While disbursements came to a standstill in the first quarter of the year, they have picked up subsequently. Disbursements have reached to the pre-COVID levels for NBFC-MFI in the second half of Fiscal 2021. Even in Fiscal 2022, based on the current scenario, the impact of the second wave, is expected to be lower than first since there are local lockdowns and RBI has allowed MFIs to continue their operations. However, the key monitorables will be duration of second wave, impact of any new waves if they materialise, any new regulatory interventions, collection efficiency of players, and income generation capabilities of borrowers.

GLP clocked 26% CAGR between Fiscals 2017 and 2021



Note: Data includes data for banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for banks lending through SHG. The amounts are as at the end of the fiscal year.

Source: CRIF High Mark, Company reports, Industry and CRISIL Research

Industry resilient despite major setbacks and changing landscape

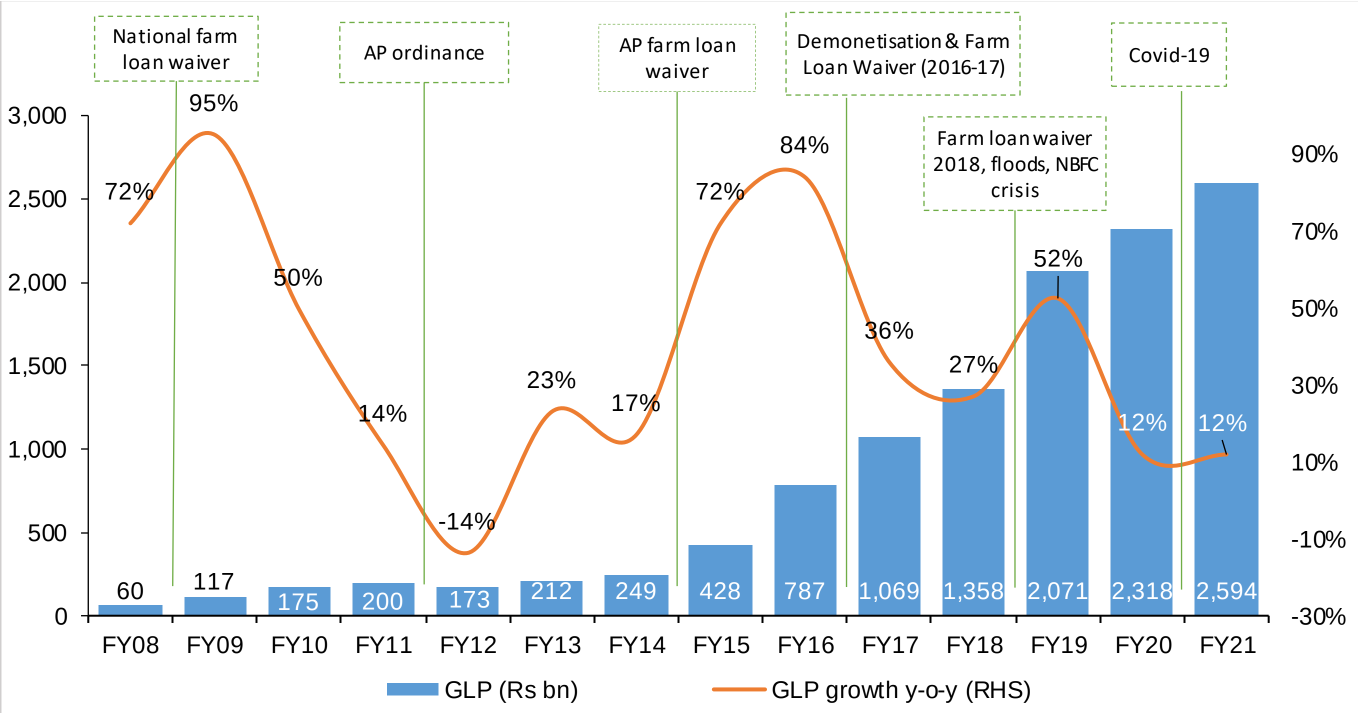
Microfinance industry gross loan portfolio has increased almost 13 times in the last 10 years or has grown at a robust 29% CAGR over Fiscals 11-21 regardless of various headwinds in the past decade – national farm loan waivers (2008, 2017 and 2018), the Andhra Pradesh crisis (2010), Andhra Pradesh farm loan waiver (2014), demonetisation (2016), NBFC liquidity crisis (FY19) and COVID-19 pandemic (FY21). Of these events, the Andhra Pradesh crisis of 2010 had a lasting impact on the industry. Some players had to undertake corporate debt restructuring and found it difficult to sustain business. Since then, however, no other event has affected a complete state to such a degree. The MFIs too have diversified across states and the concentration of largest state in the portfolio has been declining.

While demonetisation of Rs. 500 and Rs. 1,000 denomination banknotes in November 2016 hurt the industry, the impact was not as serious as the Andhra Pradesh crisis as the industry still reported strong growth of 36% in Fiscal 2017. Portfolio at risk (PAR) data as of September 2018 indicates that the industry has recovered fairly strongly from the aftermath of demonetisation. Furthermore, collections of loan disbursements since January 2017 have been healthy. The liquidity crisis in FY 2019, however, has had a ripple effect on micro lending as smaller NBFC-MFIs with capital constraints and lenders relying on NBFCs for funding slowed down disbursements.

Liquidity has been one of the biggest challenges faced by financial institutions in India over the last few years. NBFC-MFIs, in particular, have been adversely affected by the demonetization of banknotes in November 2016, the ILFS crisis in mid-September 2018, and more recently, the ongoing global COVID-19 pandemic, which adversely affected funding access for various NBFCs.

In the current scenario of the COVID-19 pandemic, NBFC-MFIs have recovered quicker than expected as the disbursement is back to the pre-COVID level in the third quarter and grew 30% in fourth quarter of Fiscal 2021. Hence, CRISIL Research expects the industry to rebound and grow at healthy pace over the next few years as well, given the low penetration of credit amongst the target population.

Microfinance industry has shown resilience over the past decade



Note: Data includes data for banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for banks lending through SHG. The amounts are as at the end of fiscal year

Source: MFIN, CRISIL Research

The microfinance industry's GLP grew at 26% CAGR over Fiscals 2017-21, despite various setbacks. The demand for microfinance products and services has increased due to improving awareness and reach leading to increased volumes, a rise in inflation and higher number of borrowers in higher loan cycles driving higher ticket sizes.

Over the years, MFIs have proven their resilience. They have played an important role in promoting inclusive growth by providing credit to borrowers at the bottom of the economic pyramid. Despite catering to a vulnerable segment, the MFIs have historically proven their ability to recover effectively from crisis situations like that of Demonetization within a few months and have been able to maintain profitability over a cycle. Moreover, several MFIs have also shown proven ability to raise capital, which has helped the industry grow at a healthy pace despite credit costs getting elevated during periods of crisis. The ability of entities to raise capital can be attributed to the low penetration of MFI loans, the ability of the industry to wade through periods of crisis by making requisite changes in the focus (such as regional diversification after the Andhra Pradesh crisis), social impact of the MFI lending and healthy profitability over business cycles.

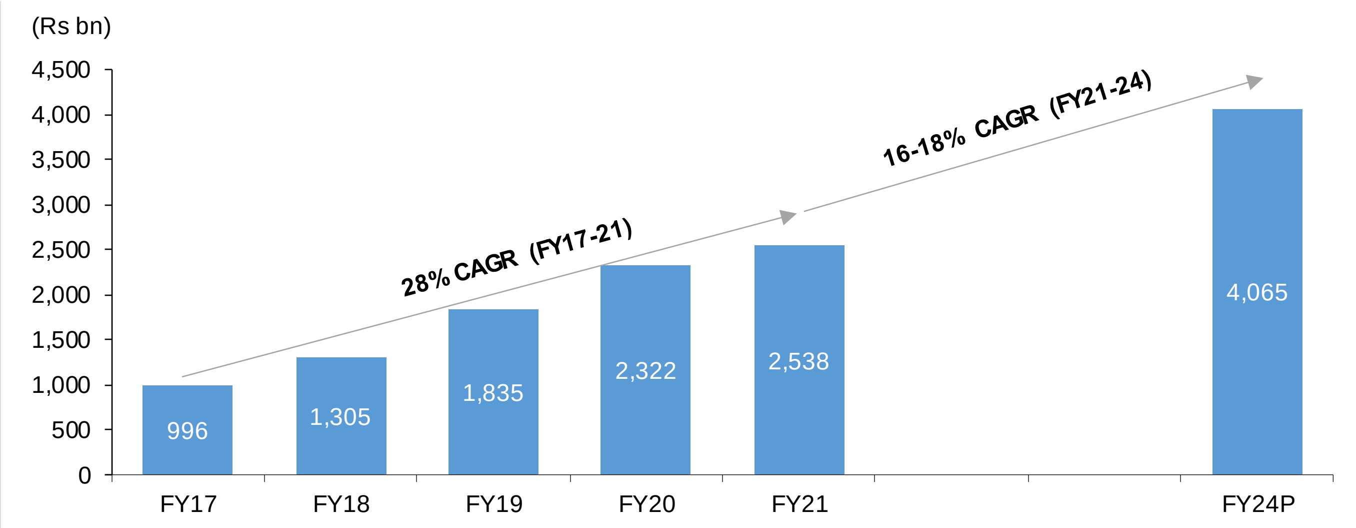
Rising penetration to support continued growth of the industry

Although India's household credit penetration of microfinance loans has increased to 33% in Fiscal 2020 from 23% in Fiscal 2017. The penetration is still on the lower side, as only four states have penetration higher than 40%. There is huge untapped market available for MFI players. As at the end of March 2021, the microfinance sector had grown at a CAGR of 26% since Fiscal 2017. The industry grew by 9% year on year to reach Rs. 2.5 trillion as of March 2021.

In the light of COVID-19 outbreak, the microfinance sector is expected to feel the heat in the current Fiscal 2022. CRISIL Research expects the overall portfolio size to grow at a moderate pace and reach to Rs. 2.9 trillion by March 2022 as the growth to remain subdued throughout the first half of the financial year 2022 due to the impact of the recent second wave.

However, the domestic microfinance sector has shown resilience towards external shocks in the past and is expected to gain momentum in the next two Fiscals with pickup in economic growth and improved capital availability for players who are able to wade through the challenges created by COVID-19.

Microfinance sector GLP to grow at 16-18% CAGR over Fiscals 2021-24



Note: Data includes data for banks lending through joint liability group (JLG), SFBs, NBFC-MFIs, other NBFCs and non-profit MFIs. It excludes data for banks lending through SHG. The amounts are as at the end of the fiscal year

Note: E: Estimated, P: Projected

Source: CRIF High Mark, Company reports, Industry and CRISIL Research

Between Fiscals 2021 and 2024, CRISIL Research expects the microfinance loan portfolio to clock 16-18% CAGR. While considerably lower compared with the past three fiscal years, growth would be driven by gradual increasing of the ticket size and continuous expansion in the client base of MFIs through increasing penetration in rural areas and exploring newer states. SFBs grew at a moderate 6% over Fiscals 2017-21 as they continue to diversify their portfolio to other asset classes including mortgage loan, MSME and vehicle loan.

There has been a significant jump in the number of MFIs operating in Assam, Bihar, Odisha, and West Bengal. The total number of branches in these states have more than doubled since Fiscal 2017, leading to a similar jump in GLP for these states. The availability of borrower credit related data from credit information companies ensures that MFIs have access to more data on borrowers, helping them make informed lending decisions.

<u>Players tapping newer states and districts to widen client base</u>

In the last few years, many MFIs have opened branches in untapped districts, thus increasing their penetration. States including Maharashtra, Uttar Pradesh, Madhya Pradesh, Kerala and Haryana have witnessed increase in number of MFI player. This has led to a rise in customer base and number of active loan accounts. In states where the presence of MFIs and banks is strong, CRISIL Research has witnessed an increase in ticket size as well.

Going forward, CRISIL Research expects penetration to deepen, which will further drive growth. Punjab, Haryana, Manipur, Sikkim and Uttarakhand are the few states with the lowest number of MFIs, and hence provides an opportunity for existing players to improve their penetration and market share.

<u>Average ticket size to expand, but at slower pace</u>

The average ticket size of MFIs has risen to Rs. 35,262 in Fiscal 2021 from Rs. 23,196 in Fiscal 2018, translating into a CAGR of 15%. Going forward, CRISIL Research expects microfinance ticket size growth would be higher in newer under-penetrated states, but ticket size growth in other states with high penetration is expected to be lower. Further, growth would be faster in rural areas, where ticket sizes are relatively low. Consequently, increase in average ticket size at the industry level is projected to be much lower than in the past.

<u>Rural segment to drive MFI's business</u>

CRISIL Research expects the share of rural segment in MFIs' business to remain higher, with burgeoning demand expected from this segment. Despite the rural segment comprising 2/3rd of population, 47% of GDP contribution and 2/3rd of two wheeler demand; the rural segment's share in credit remains fairly low at 10% of the overall credit outstanding, thereby opening up a huge opportunity for savings and loan products.

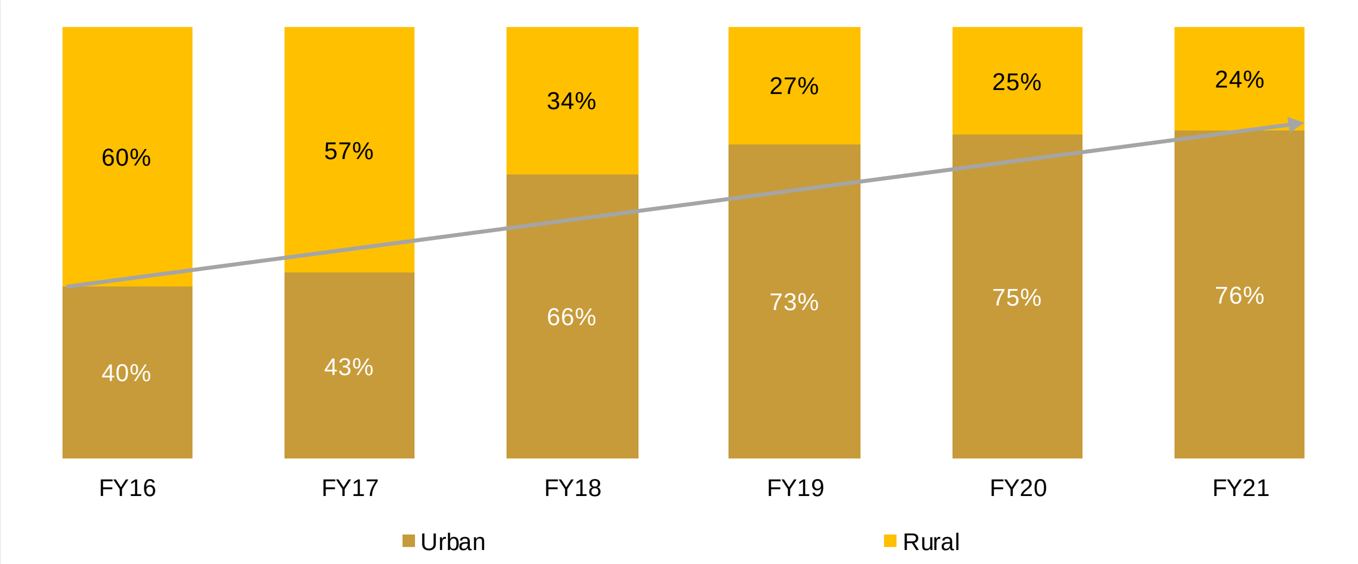
Under the 'Digital India program', the Government also proposed to provide free-high speed Wi-Fi in 2,500 cities and towns, at an estimated investment of Rs. 70 billion. Under the plan, the Government aims to set up 50,000-60,000 Wi-Fi hotspots across the country. CRISIL Research expects the completion of these projects to help catalyse the growth of digital services to the rural masses, and especially to the lower category of the population.

Compared to banks, MFIs have a higher focus on rural areas. Going forward as well, for MFIs, rural clientele is expected to remain high in the range of 55-60% compared to urban clientele. CRISIL Research believes that establishing a good relationship with rural customers and engaging with them regularily leads to longer and more loyal customer relationship, which can be further leveraged to cross-sell other products.

Although, rural economy has been adversely affected due to the second wave of the COVID-19, rural economy is structurally far more resilient And, with the Government's focus on financial inclusion, and financial institutions increasingly opening up branches in the unbanked areas, the rural economy is expected to bounce back strongly. CRISIL Research has also seen that the demand for loan is higher in rural areas. In Fiscal 2021, the rural share of NBFC-MFI had increased to 76% of the GLP from 40% in Fiscal 2016.

The significant under-penetration of credit in rural areas offers strong potential for improvement. Further, given the relatively deeper reach, existing client relationships and employee base, MFIs are well placed to address this demand which is currently being met by informal sources such as local money lenders.

Rural region continues to gain market share



Source: MFIN, CRISIL Research

<u>*Challenges in rural-focused business*</u>

The microfinance sector mainly caters to the poorer section of society, because of which there are some inherent challenges faced by the institutions, especially in rural areas:

- **High cost of reaching customer:** Providing microfinance in rural India requires reaching people in remote and sparsely populated regions, where deploying manpower and requisite infrastructure for disbursing loans and for recovery can often be expensive. The high cost of reaching out, and the small volume and ticket size of transactions elongates the breakeven period. Therefore, players need to focus on optimising costs and delivery model, especially in the initial stages of operations

- **Lack of financial awareness:** Lack of financial and product awareness is a major challenge for institutions in rural areas. They are faced with the task of educating people about the benefits of financial inclusion, about the product and services offered by them, and establishing trust before selling the product

- **Vulnerability of household's income to local developments:** Uncertainty and unpredictability faced by low income households, and vulnerability of their incomes to local developments can make it difficult for the borrowers to make repayments on time

- **High proportion of cash collections:** Despite having a large proportion of loans disbursed through the cashless mode, the collection process in unbanked and rural areas is still done through cash. This leads to increased time spent on reconciliation, risks involved in handling cash, and higher TAT from the financier's perspective

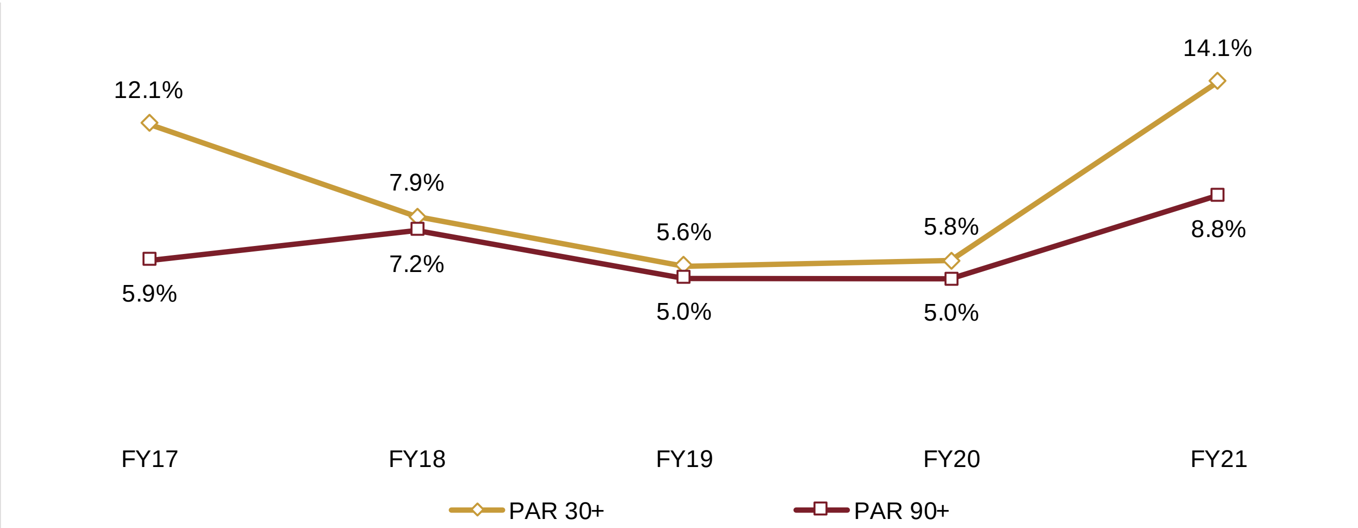
However, the rural economy has been resilient in the last year, amidst the COVID-19 pandemic. India has witnessed above normal, timely and largely well distributed monsoon, benefitting the agriculture industry and rural India. As a result, CRISIL expects that agriculture GDP to grow at 2.5% in Fiscal 2021. The Government, through budget 2021 also signalled that it is committed to their cause towards rural India. For instance, an increase in the agriculture credit target and allocation of infrastructure fund for the development of Agriculture Produce and Livestock Market Committee (APMC) reiterates Government's commitment and is expected to provide a thrust to rural India.

Portfolio at risk (PAR), the primary indicator of risk for the sector, equals the percentage of loans overdue. PAR value rose sharply in Fiscal 2017 owing to an unavailability of cash and slowdown in business activity of individuals post demonetisation. RBI had announced 60-day relief for loans up to Rs. 10 million from 1st November 2016 to 31st December 2016 for all states. However, this has been misinterpreted as leeway on recognition of GNPAs to financiers as well as for loan waivers, and political intervention in some states led to lower collections.

Asset quality deteriorated drastically post demonetisation, especially for MFIs. PAR>30 and PAR>90 for MFIs jumped post demonetisation, and was at 12.1% and 5.9% respectively in March 2017. However, banks and MFIs invested significantly in educating borrowers, which gradually improved collection efficiency and reduced their overall PAR. Consequently, the PAR for MFIs as well as the industry had been trending downward till Fiscal 2020.

In Fiscal 2021, the asset quality of the industry deteriorated quite sharply, reflecting the adverse impact of COVID-19 on the industry. The PAR>30 and PAR>90 for the industry shot up to 14.1% and 8.8% respectively as of March 2021. However, SFB asset quality has improved to 7.9% for the PAR>90 in Fiscal 2021, which is the lowest among the peer groups.

Asset quality trend over the years



Note: PAR 30+ and PAR 90+ include delinquency beyond 180 days of microfinance industry

Source: CRIF High Mark, CRISIL Research

Small finance banks observed significant deterioration in their asset quality due to demonetization, inadequate currency supply, and political interference in some states and disruption in borrower cash flows. This led to a sharp dip in the collection efficiencies of MFIs, from over 98% prior to demonetization to approximately 75-80% in November and December 2016. Among peer groups, SFBs asset quality has improved to 7.9% in Fiscal 2021 from 20.8% in Fiscal 2018 for the PAR>90.

<u>*Competitive dynamics*</u>

Loans in the microfinance sector are provided by banks, SFBs, NBFC-MFIs, other NBFCs, and non-profit organisations. Banks provide loans under the SHG model. However, they also disburse microfinance loans directly or through BCs to meet their priority-sector lending targets.

Key participants in the microfinance lending business are:

- Banks-SHGs, which refers to banks who provide microcredit under the SGH programme.
- Banks (direct and indirect through BCs) includes portfolios for direct and indirect lending (through BCs) by banks; private banks are key constituents.
- NBFC-MFIs includes MFIs exclusively focused on the microfinance business, and accordingly registered as NBFC-MFIs with the RBI. Major players in this category include Satin Creditcare, Credit Access Grameen Ltd (formerly Grameen Koota Financial Services Ltd) and Fusion MFI Pvt Ltd.
- SFBs: This category includes 10 players (AU, Capital, ESAF, Equitas, Fincare, Jana, North East, Suryoday, Ujjivan, and Utkarsh), which were formerly NBFC-MFIs/NBFCs, but have now converted into SFBs.
- NBFCs include ASA, Fullerton, L&T Finance, and Reliance Commercial Finance Ltd, each of which has a microcredit lending business, in addition to other lending businesses.

- Non-profit MFIs refers to MFIs registered as not-for-profit organisation, such as Cashpor.

NBFC-MFIs and non-profit MFIs are the only two player groups with loan portfolios exclusively focused towards microcredit. Some of the well-established MFIs have converted to SFBs or have been acquired by banking institutions, which has led to a change in the landscape.

After commencement of operations, SFBs with microfinance business started looking at other asset classes, such as affordable housing, SMEs and vehicle finance, to provide buoyance to the loan book. While the strategy is to diversify into newer products, sustained growth of the microfinance business will depend on strategies of individual SFBs. Though most players plan to diversify their portfolio and reduce the portion of microfinance loans, some players continue to grow their microfinance book. However, this growth is a bank-specific strategy.

Hence, CRISIL Research expects NBFC-MFIs to grow at a much faster rate vis-a-vis SFBs, on account of increasing focus of SFBs towards other product suite beyond the microfinance loan portfolio and improving liquidity for NBFCs in the system.

MSME loans

MSME loans witnessed a reasonable growth in the past

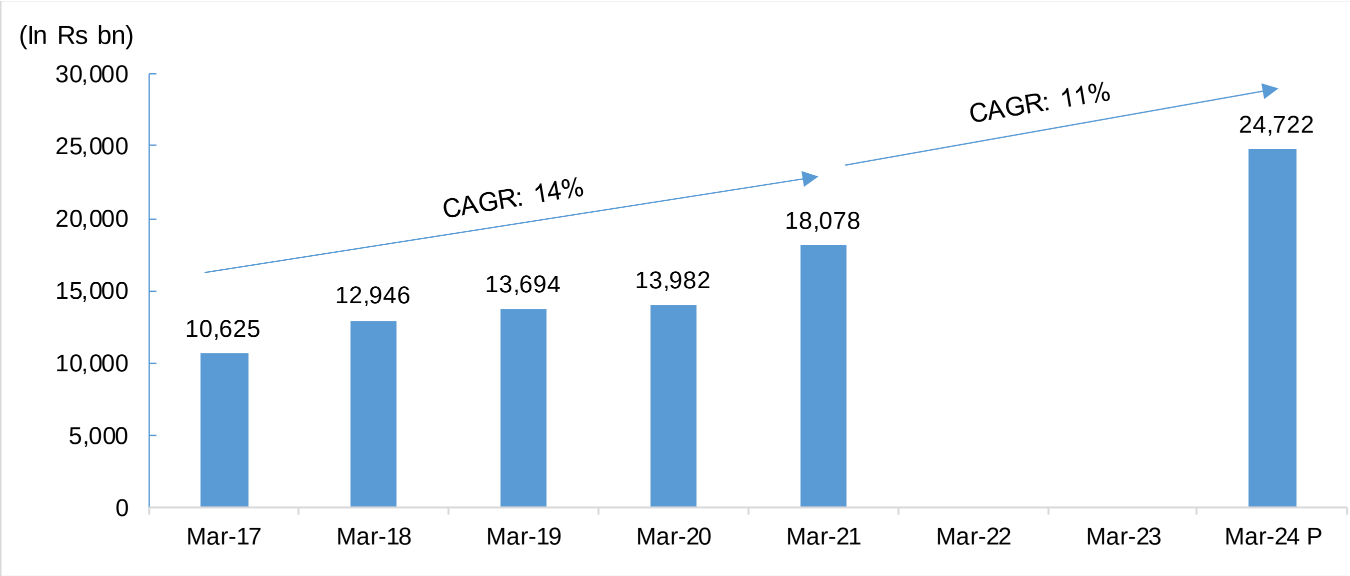
MSME loans grew at a fast pace, registering a CAGR of 14% over Fiscal 2017 and 2021. Over the years, more data availability and government initiatives like GST has led to increasing focus of lenders, especially the NBFCs, on the underserved segment of MSME customers as lending to this segment has become easier compared to the past. In Fiscals 2019 and 2020, however, the growth was relatively muted due to the NBFC liquidity crisis as well as cautious stance being taken while lending to MSMEs due to slower economic growth. Due to liquidity constraints for NBFCs, the growth slowed in Fiscal 2019.

In Fiscal 2021, the nationwide lockdown to contain the spread of the pandemic disrupted economic activity, hit production facilities, impacted working capital needs and supply chain along with future investments and expansions. Domestic supplies and supplies from imports also suffered, affecting both, their availability and cost. Contractual and wage labour was also hit due to more layoffs. MSMEs in the sectors such as hotels, tourism, logistics, construction, textiles and gems and jewellery suffered the most during the first half of the fiscal. In the second half of the fiscal, MSMEs started recovering with economic activity. However in the first quarter of Fiscal 2022, owing to the second wave of pandemic, MSMEs suffered due to local lockdowns as economic activity also declined.

Given the pain suffered by MSMEs due to the pandemic and the importance of MSMEs in India, the government undertook several initiatives to support MSMEs to keep them afloat, the most significant of which was the Rs. 3 trillion emergency credit line guarantee scheme ("**ECLGS**") to banks and NBFCs. Under this scheme, banks and NBFCs were allowed to extend incremental credit of up to 20% of the loans outstanding of MSMEs as on February 29, 2020 subject to these accounts not being delinquent as on February 29, 2020. This entire loan was guaranteed by the government. This scheme clearly provided much-needed liquidity to MSMEs that are known to have faced severe working capital crunch during downturns. As on February 28, 2021, cumulative loan sanctions under the scheme stood at Rs. 2.46 trillion against which guarantees of Rs. 2.14 trillion to more than 9.2 million borrowers have been issued. Further, in March 2021, the validity of the scheme has been extended to June 31, 2021 from earlier date of March 31, 2021.

Other measures include making available subordinated debt to MSMEs, equity infusion in MSMEs, steps undertaken to clear MSME dues, introducing ECLGS and disallowing global tenders in government tenders up to Rs. 2 billion to support the MSMEs amidst the pandemic. MSME loans recorded 29% growth in Fiscal 2021, largely on the back of support extended to MSMEs under the ECLGS scheme.

MSME Loans to grow at 11% CAGR over Fiscals 2021 and 2024



Note: P-Projected

Source: CRIF Highmark, CRISIL Research

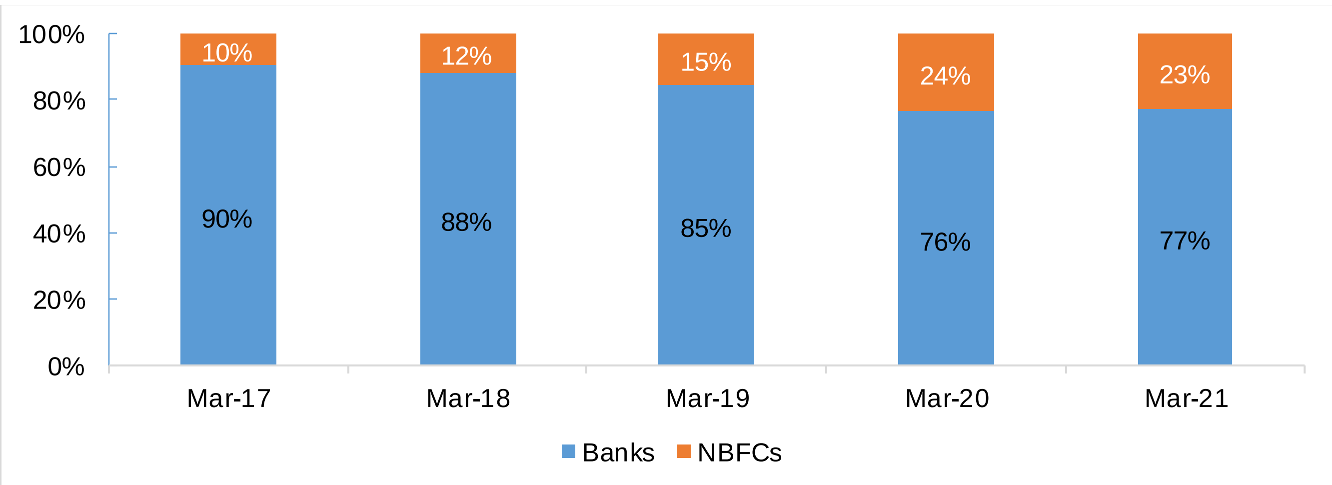
Going forward, CRISIL Research expects the MSME portfolio to grow at 11% CAGR over Fiscals 2021 and 2024 aided by increasing penetration of such loans, enhanced availability of data making it easier to under write such loans, enhanced use of technology, newer players entering the segment, and continued government support.

NBFCs increasing their presence in the MSME loans

NBFCs have managed to carve out a strong presence in MSME loans due to their focus on serving the needs of the customer segment, faster turnaround time, customer service provided and expansion in geographic reach. As of Fiscal 2021 the cumulative market share of NBFCs in MSME loans outstanding is 23%.

Over the years, the MSME loan portfolio of NBFCs have grown at a faster rate than the overall MSME portfolio at a systemic level, clocking a CAGR of ~46% over Fiscals 2017 and 2021.Though banks still account for a giant share of lending to this segment (~77%), NBFCs market share is estimated to have increased by 13 percentage points over Fiscals 2017-2021.

NBFCs continue to gain market share from banks in MSME loans



Source: CRIF Highmark, CRISIL Research

Growth drivers

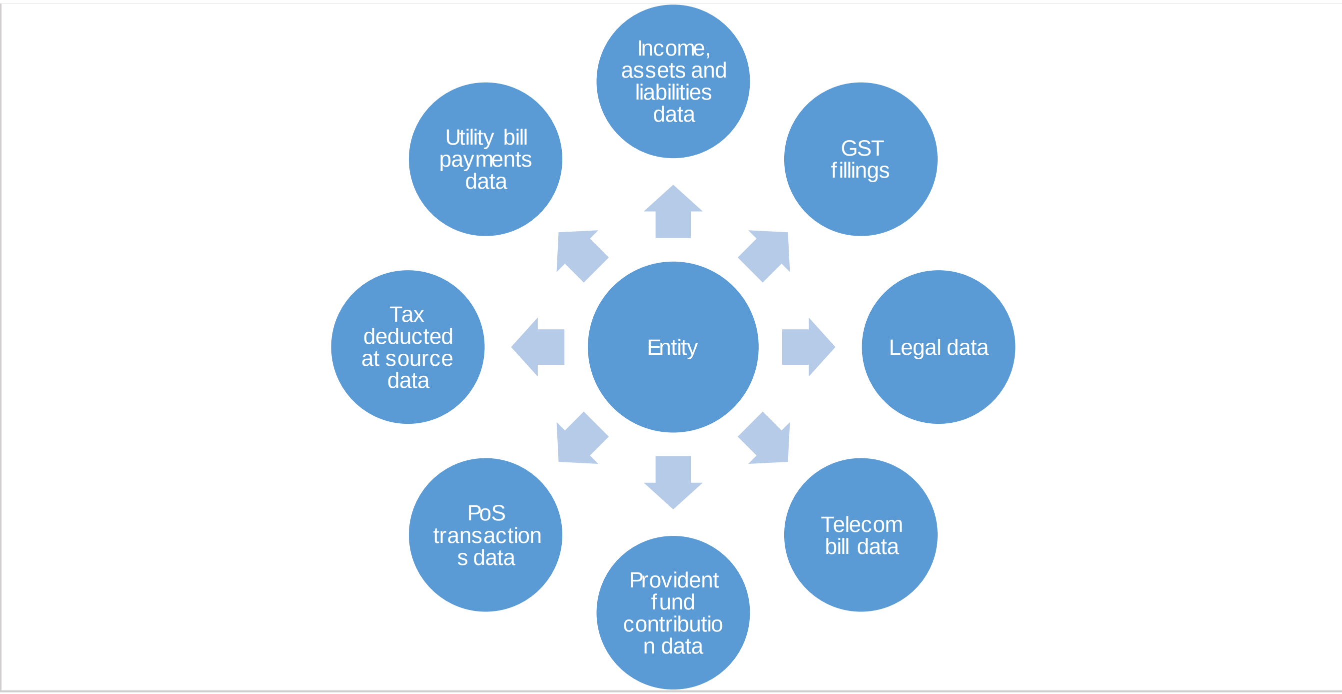
<u>Low credit penetration for MSMEs</u>

Less than 10% of the MSMEs have access to formal credit in any manner. High risk perception and the prohibitive cost of delivering services physically have constrained traditional institutions' ability to provide credit to underserved or unserved MSMEs historically. They are either self-financed or take credit from the unorganised sector. There are around 63 million MSME's out of which less than 10% have access to formal credit. This untapped market offers huge growth potential for financial institutions.

Increased data availability and transparency

With increased digital initiatives by the MSMEs, the shift towards their formalisation and digitisation has created a plethora of data points for lenders that would help improve the efficacy of credit assessment and gradually enable provision of credit to hitherto underserved customer segments.

Multiple data points can be used for credit assessment



Source: CRISIL Research

Reduction in risk premiums due to information asymmetry

In the absence of reliable information about small businesses, it becomes difficult for lenders to assess the creditworthiness of the borrower. Hence, lenders often charge a hefty premium from these customers, leading to higher interest rates – typically 10-16% for secured loans and in the range of 16-30% for unsecured loans. By leveraging technology and using a combination of traditional data (bureau data, financial statements, credit score), non-traditional data (payments, telecom, provident fund contribution and psychometric data), and Government data (Aadhaar, GST), lenders would be able to gain greater insight into their customers' data, thereby increasing the accuracy of customer assessments.

Increasing competition with entry of new players and partnerships between them

More players in consumer-facing businesses with a repository of data (such as e-commerce companies and payment service providers) are expected to enter the lending business, intensifying competition. For example, Amazon India launched a platform for lenders and sellers, wherein sellers can choose loan offers from various lenders at competitive rates. Incumbent traditional lenders, either on their own or in partnership with newer players/ technology firms, will increasingly leverage the digital ecosystem to cross-sell products to existing customers, tap customers of other lenders, and also cater to new-to-credit customers.

Reduction in TAT and increased use of technology

With the availability of multiple data points and technological advancement, TAT for lending to MSMEs has been continuously declining. This too will drive the demand for MSME loans.

Gold loans

Gold loans have grown at a strong pace in Fiscal 2020 and Fiscal 2021; expected to grow at 14-16% CAGR between Fiscals 2021 and 2024

In Fiscal 2020, gold loan industry (including Banks and NBFCs) AUM grew ~15% YoY to reach Rs. 2.9 trillion due to an increased focus of players on diversifying their regional presence, strong growth in non-southern regions and the rise in gold prices by ~19% in Fiscal 2020, along with the convenience provided by the short turnaround time in disbursing gold loans.

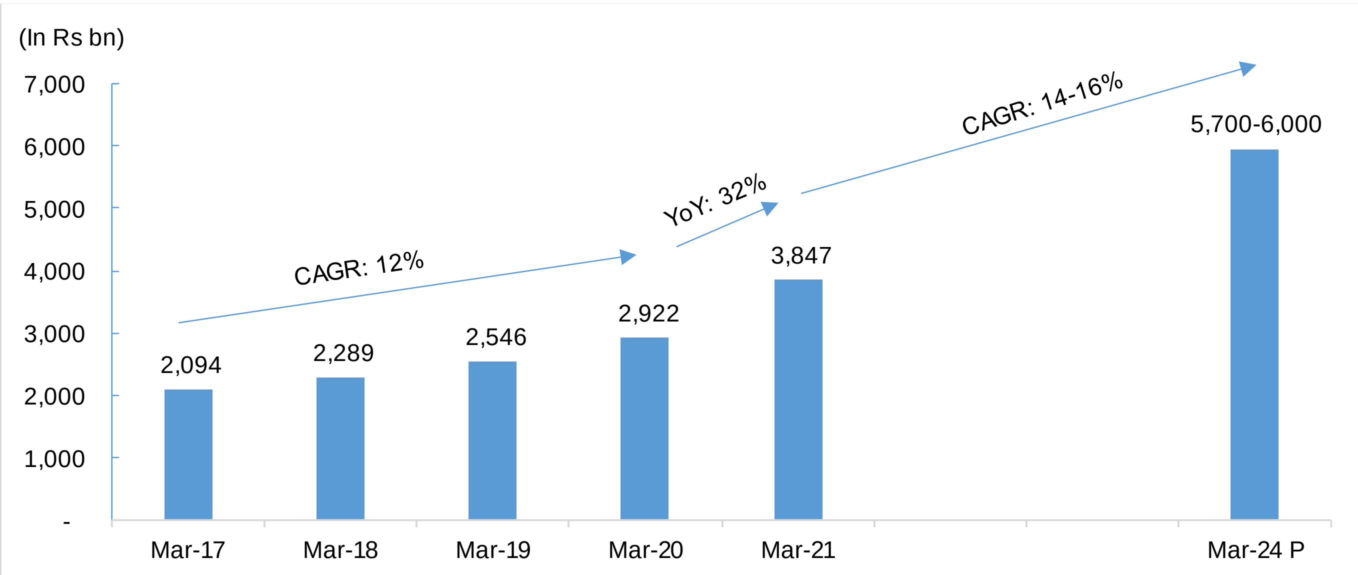
The demand for gold loan finance has continued unabated in Fiscal 2021, as India's economy coped with the devastating effect of the global pandemic. Many consumers who held gold in reserve considered gold loans as an option to meet their credit requirements during this period.

The demand for gold loans was also supported by a consistent surge in gold price, liquidity crunch due to the pandemic and lenders' hesitancy to give unsecured loans due to risk aversion. The RBI also revisited its guidelines for banks' lending gold loans by increasing its LTV to 90% from the existing 75% to help stressed borrowers unlock more value. From an average of Rs. 41,884 per 10 grams in Fiscal 2020, gold prices rose to Rs. 53,063 per 10 grams in August 2020 before declining to Rs. 49,462 per 10 grams in December 2020 and Rs. 44,669 per 10 grams in March 2021. Despite the decline in gold prices in the fourth quarter of Fiscal 2021, the gold loan portfolio grew at a robust 32% during the period to touch ~Rs. 3.8 trillion.

The industry, which has traditionally grown through the expansion of branch network across the nook and corner of the country, has witnessed the emergence of branchless fintechs over the last 3-4 years. These fintechs offer doorstep pickup and disbursement of gold loans directly to the account of the customer. Under this model, when a user requests for a loan, the loan agent visits the customer with a metal testing kit and necessary tools to measure the purity of the gold. After proper due diligence and a credit check, the loan is processed digitally and the amount is transferred instantly to the customer. After the amount is transferred, the gold is packed in a GPS enabled secured packets, which is tracked on a real time basis until the collateral is deposited in the lender's vault.

Going forward, CRISIL Research believes that initiatives to increase awareness are expected to help the industry clock a decent growth along with geographic diversification and rising interest from the northern, western and eastern regions. The sector, which is undergoing a considerable transformation in many aspects, from unorganized to the organised sector and further from organised to digital and online products, is expected to grow in the mid-teens over the medium-term. CRISIL projects industry AUM to touch ~Rs. 5,700-6,000 billion by March 2024, translating into a 14-16% CAGR over a three year period.

Growth in gold loan AUMs of organized lenders



Note: P: Projected

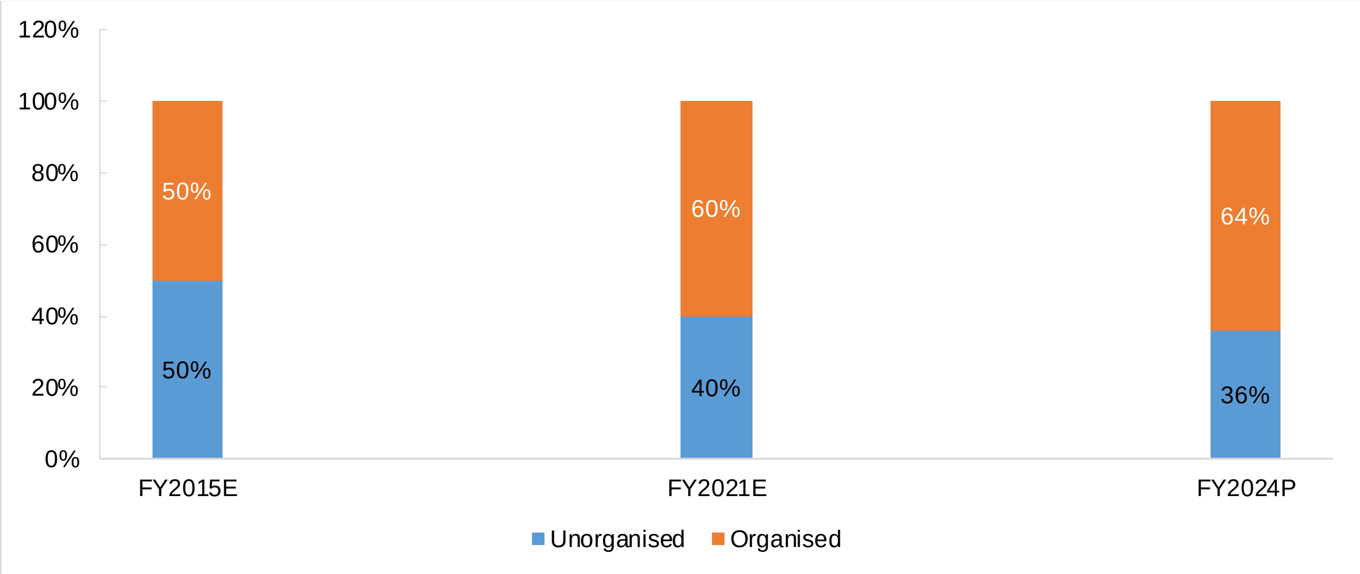
Source: CRIF Highmark, CRISIL Research

Growth Drivers

<u>Rising share of organised financier in gold loans</u>

The share of unorganised gold loan market is estimated to be around 40% currently, which has decreased over the past four-five years from approximately 50% in Fiscal 2015. Increasing customer awareness about the benefits of availing gold loans from organised segment has helped increase their share. Over the next three fiscal years, CRISIL Research expects the share of organised gold loan market to increase further to ~64-65%.

Share of organised players to further improve in gold loans segment



Note: E: Estimated, P: Projected

Source: CRISIL Research

Huge stock of gold with Indian households

The Indian households have holdings of approximately 25,000 tonnes of gold which enables the borrowers to avail funds in times of economic distress. Organised gold loan penetration in the country is estimated to be less than 10% as of March 2021, which presents a reasonable growth opportunity for players going forward.

Online gold loans to help in market expansion

Digital gold loans products offer the feature of loan sanction within few hours through the online process. These loans can be accessed through mobile applications, online platform, prepaid card etc. KYC, registration and disbursements are all possible through online platform. For example, Manappuram Finance requires borrowers to personally deliver the gold collateral at the nearest branch, whereas new age players such as Rupeek have started providing doorstep delivery wherein verification of the gold ornaments as well as gold collection will be done at the customer's residence. These are managed through a central application that is simultaneously accessed by all branches for each and every transaction.

Gold loan market to stay attractive

Other factors contributing to the attractiveness of gold loans for financiers are:

- Liquid collateral to protect against risk
- Higher interest rate

Greater accessibility and growing customer base to boost growth for SFBs and NBFCs

SFBs to witness strong growth due to following reasons:

- Large customer base: With experience in the microfinance sector over the years, SFBs have access to a large customer segment, both agriculture and non-agriculture. Large set of such loans would classify under PSL and customers would get subsidies. This would help SFBs cater to customers by providing gold loans at competitive interest rates as compared to gold loans by NBFCs.
- Greater accessibility: SFBs will be able to better penetrate in the gold loan segment due to their ability or past experience to serve non-bankable and underbanked customers in tier III and tier IV cities. This would not only help SFBs to capture share in organised market but will also increase the share of organised financiers in the industry by catering untapped customers in remote regions.

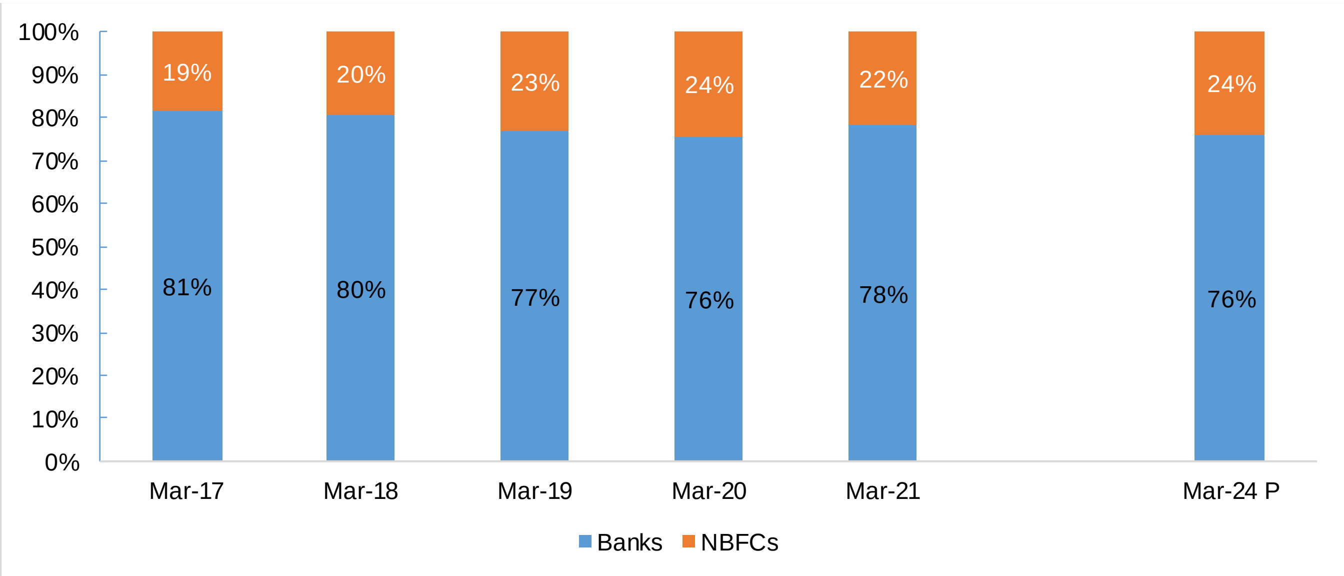
Over the past decade, specialized gold loan NBFCs have witnessed exceptional growth amongst organized players. This growth is driven by aggressive expansion of branches, heavy expenditures on marketing and rapid acquisition of customers. NBFCs and banks approach the gold loan market differently, which is reflected in their interest rates, ticket sizes and loan tenures. NBFCs focus more single-mindedly on the gold loans business and have, accordingly, built their service offerings by investing significantly in manpower, systems, processes and branch expansion. This has helped them attract and serve more customers. Some of their advantages are:

- Less documentation enabling faster turnaround;
- Adequate systems to ensure quick disbursals. For example, NBFCs have dedicated personnel to value the gold jewellery at the branches;
- Flexible repayment options, wherein the borrower can pay both the interest and principal at closure of the loan; and
- Greater accessibility due to better penetration and ability to serve non-bankable customers.

Competitive landscape

In Fiscal 2021, banks have witnessed a faster growth in gold loans as compared to NBFCs on account of increasing LTV offered by banks, rising gold prices, demand from small businesses for cash and increasing focus of banks towards this asset class. For instance, State Bank of India' (SBI) personal gold loan book jumped to Rs. 175 billion as of December 2020 from Rs. 115 billion as of September 2020 and Rs. 21.8 billion as of March 2020. The gold loan portfolio of CSB Bank also increased by 60% on year to reach Rs. 56 billion as of December 2020, leading to an increase in banks' share in the overall gold loans industry in Fiscal 2021. Going forward, with the increase in organised lending in gold loans market, NBFCs are also expected to gain market share in this segment owing to higher operational efficiencies, customised and flexible products and offerings.

Share of banks and NBFCs expected to increase marginally by Fiscal 2024



Note: P: Projected

Source: CRIF Highmark, CRISIL Research

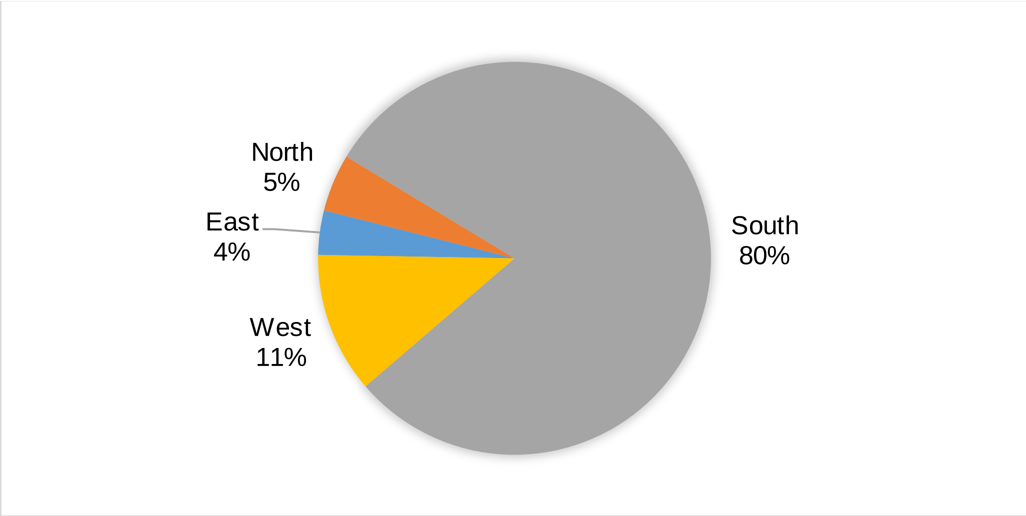
South commands the region wise gold demand

In India, the southern zone still commands a major share of demand at 40-50%. This can be explained by the culture and lifestyle attributes found in South India compared to the rest of the country. It is followed by the west at 25-30%. The northern zone and the eastern zone lag behind in gold demand share with 15-20% and 10-15% respectively.

It is thus no surprise that the 80% of organized gold loan demand comes from the southern zone. People in South India have lower taboo associated with borrowing against gold and are more ready to pledge gold. Also, a majority of the NBFCs and banks (that have strong presence in gold loans) have deep rooted distribution network in the south.

However, changing consumer perceptions about gold loans, driven by increasing awareness, as well as rising funding requirements will drive faster growth in the non-southern regions. The incremental additions in the number of branches, is seen mainly in north and east region where the existing number of branches are less, indicating a good geographical expansion opportunity in these regions. Hence, going forward, CRISIL Research expects other regions to witness stronger growth momentum in gold loans as compared to the Southern region.

South account for major share of overall gold loans portfolio (as of March 2021)

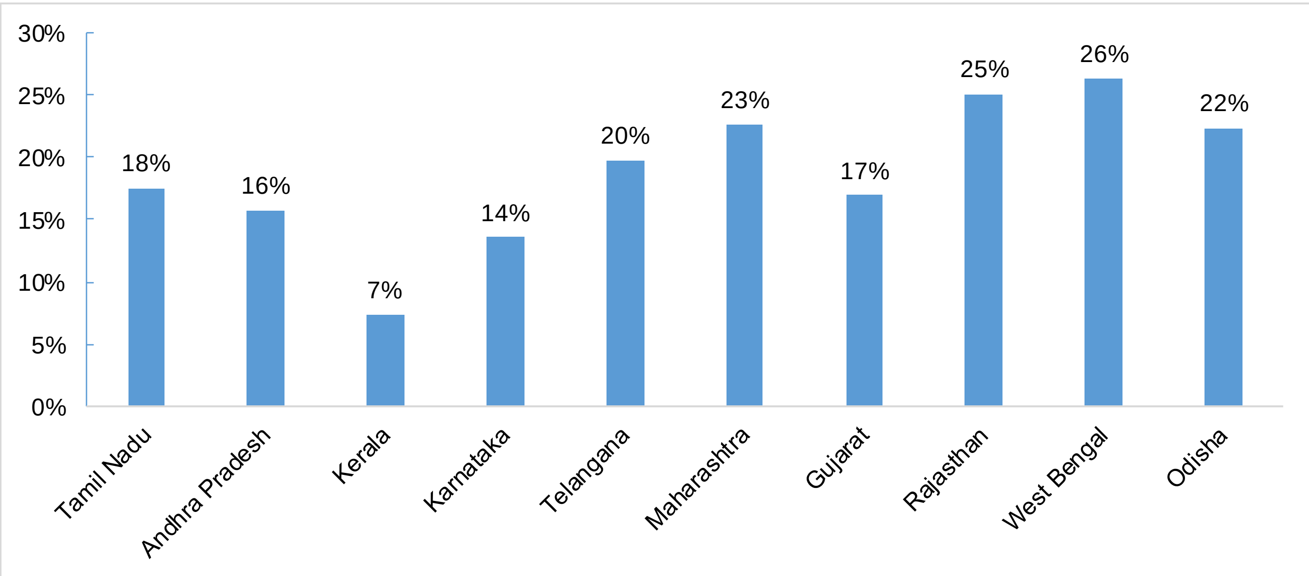


Source: CRIF Highmark, CRISIL Research

Top 10 states account for 92% of the market

About 92% of the loan portfolio is concentrated in top 10 states with Tamil Nadu (40%), Andhra Pradesh (14%) and Kerala (11%) recording the highest shares as of March 2021. From a growth perspective, West Bengal recorded the fastest CAGR of 26% between Fiscals 2017 and 2021 in terms of portfolio outstanding, among the top 10 states. Other states like Rajasthan, Odisha and Maharashtra have witnessed a CAGR of more than 20% during the same period. Among the top 10 states, most non-southern states witnessed higher growth in gold loans portfolio outstanding. (*Source: CRIF Highmark, CRISIL Research*).

State-wise 4 year CAGR growth of gold loans as of March 31, 2021; Non-southern states growing at a faster rate



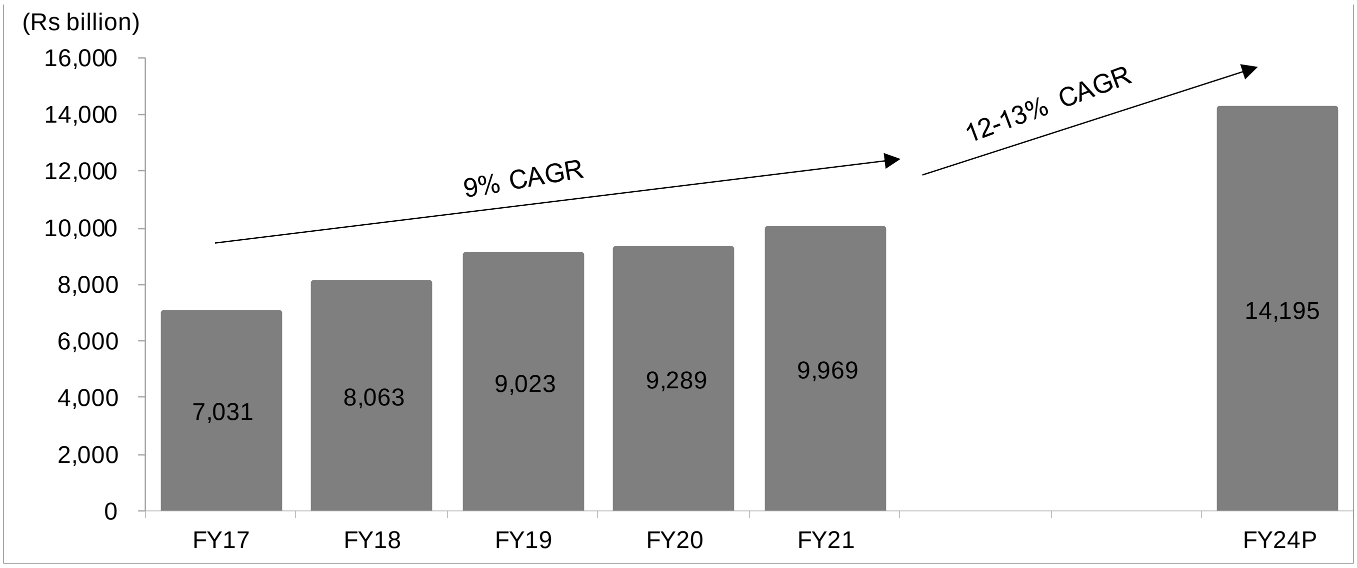
Source: CRIF Highmark, CRISIL Research

Affordable housing loans (ticket size < Rs. 2.5 million)

Affordable housing loans segment to log 12-13% CAGR till FY23

Despite the enormous unmet demand in the affordable housing finance market, the segment clocked 9% CAGR from the end of Fiscal 2017 to end of Fiscal 2021. As at end of Fiscal 2021, outstanding loans stood at ~Rs. 10 trillion growing from ~Rs. 9.2 trillion at 7% from the end of Fiscal 2020 despite several months of lockdown in Fiscal 2021. The segment is further expected to grow by 12-13% till the end of Fiscal 2024 due to favourable demographic profile, underserved market, Government support in the form of subsidies and housing shortage. Loans with ticket sizes from Rs. 1 million to Rs. 2.5 million are expected to grow faster than low-cost housing finance loans below Rs. 1 million.

Growth to be range-bound in the medium term as in the past three Fiscals



Note: P - Projected

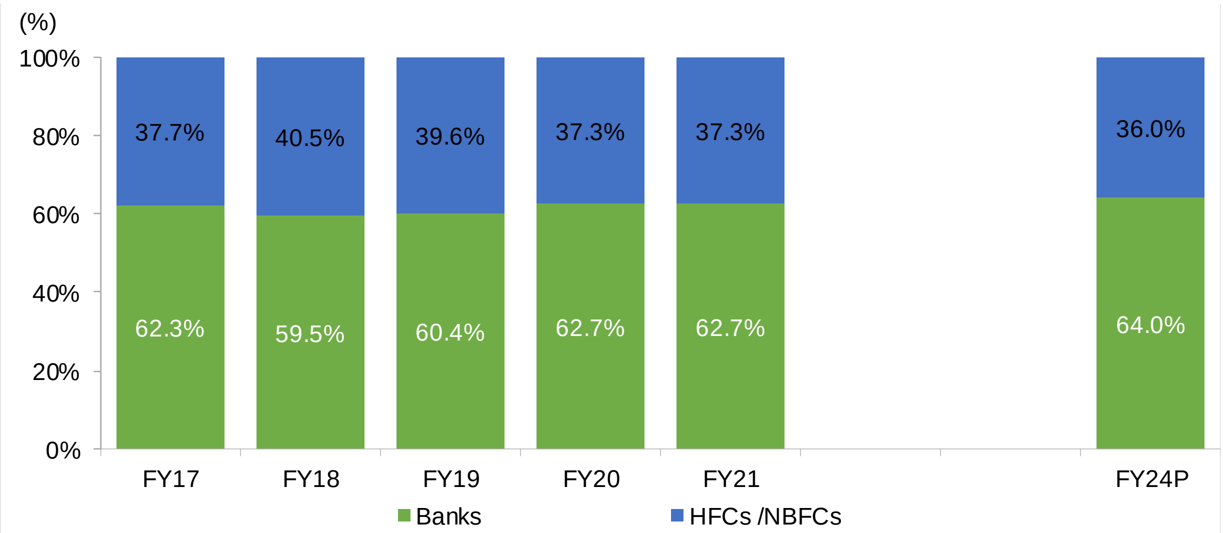
Source: CRIF High Mark, CRISIL Research

The number of accounts for affordable housing loans has increased from 10.5 million in Fiscal 2017 to ~13.8 million in Fiscal 2021 at 7% CAGR.

Banks to gain market share in low-ticket housing finance

CRISIL Research expect banks to grow at a faster pace vis-à-vis HFCs in low cost housing, given their advantage in terms of cost of funds and base of deposit accounts. Despite HFCs' focus on low-ticket housing loans, as they attempt to ward off competition from banks and protect profitability, the liquidity crisis has plagued their capability to lend. GNPAs of public sector banks in the past has also paved path for private sector bank to grow at a faster rate. The SFBs are also expected to grow at a faster pace as compared to other banks and HFCs over the next three years, thereby adding to banks share.

Banks to continue to increase their foothold in the segment



Note: P - Projected

Source: CRIF High Mark, CRISIL Research

<u>Key factors contributing to high competitiveness of SFBs in Low Cost Housing will be:</u>

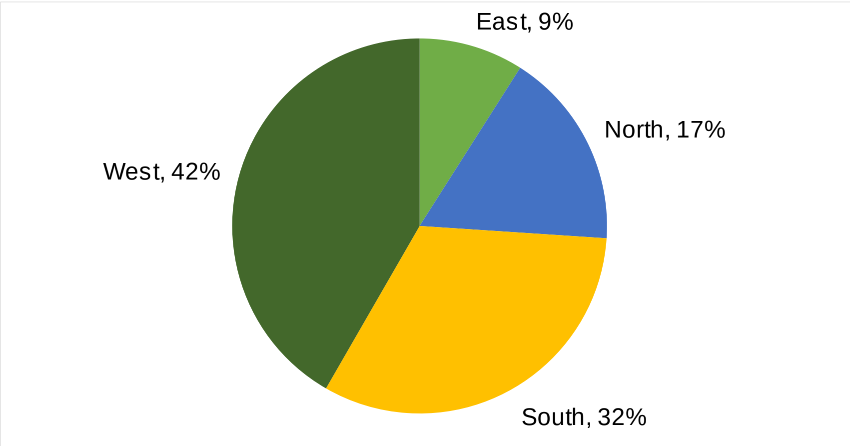
- Clear understanding of target market: Given the target borrower's profile, players need to have a clear and deeper understanding of micro markets and develop a strong local network. The strong network helps players to source business from niche customer category by having references from their existing customers. It is observed that successful players in the segment generally focus on a few geographies where they have a good understanding and scale up gradually to manage costs and asset quality better.

- Access to public deposits for the SFBs gives it a pricing advantage due to lower cost of funds as compared to HFCs
- Collection Efficiency: Given that players in the segment typically cater to the lower income customer segment, many of whom may not be financially literate, a strong focus and understanding of SFBs on collections and monitoring risk of default at customer level will help them to keep asset quality under check.

Western and southern markets account for two-thirds of outstanding loans

With the high influx of affordable housing finance players in the lower tiered cities, growth in the affordable housing space there has been growth in these smaller regions and is expected to continue in them while the major housing markets remain to be saturated. The focus of buyers on these low cost options in low cost and affordable segment has spread across the regions which were traditionally focused in the South and the West. However, these two regions combined still hold 74% of the total affordable housing loans outstanding as on FY21.

Region-wise share in affordable housing loans (as at FY21)



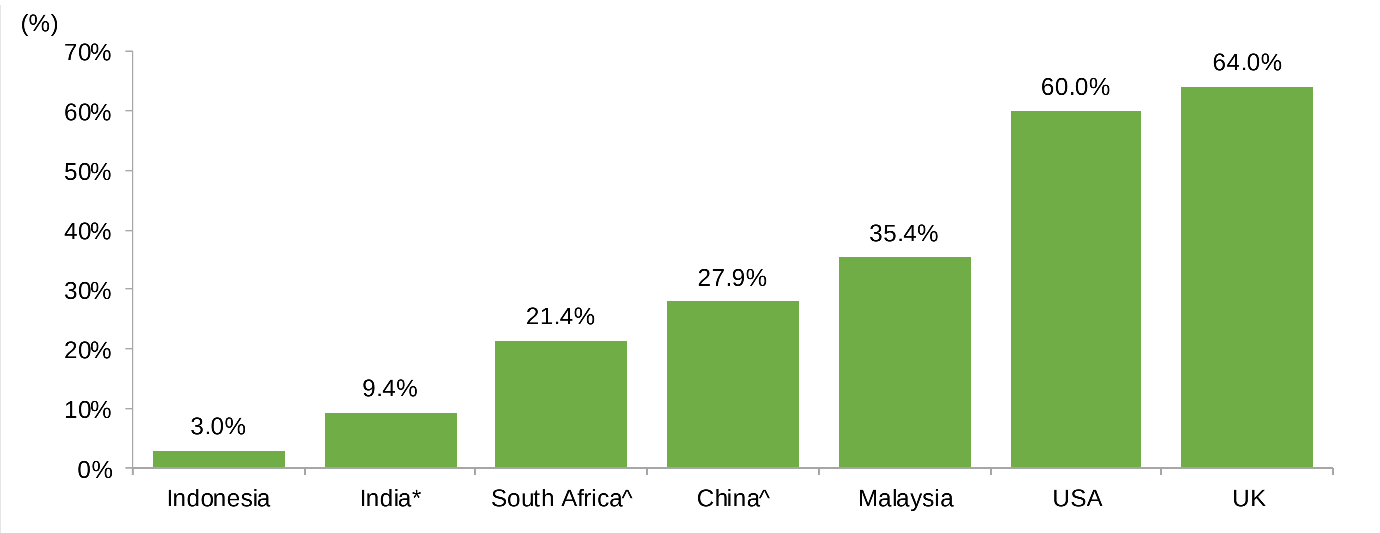
Source: CRIF High Mark, CRISIL Research

Low mortgage penetration and increasing lender interest to lead to growth

While the mortgage-to-GDP ratio in India is already miniscule at 9.4% as at Fiscal 2019, mortgage penetration in affordable housing is even smaller. Due to the burgeoning traditional mortgage finance market, a few commercial banks have entered the affordable housing loan market. These banks tend to offer long-term mortgage loans, which extend to 20 years and require down payment between 10% and 30% of the home value, pay slips, and legal title to property.

Even at these levels, affordable housing loan penetration in India is expected to remain lower than in developed markets, such as the United States and developing countries, such as China.

Mortgage-to-GDP ratio in India compared with other countries (CY18)



Note – (*) – As at the end of CY19, (^) As at the end of CY17

Source – HOFINET, Peoples Bank of China, IMF, National Mortgage Corporation of Malaysia, CRISIL Research

India's housing shortage is lesser by 50%, still enormous

(in Rs. millions)	FY 2012	FY 2018
Urban housing shortage	18.78	10.00
Rural housing shortage	43.10	43.67*

*Note: * As at the end of FY 2017*

Source: NHB, Urban Housing Shortage (2012-2017) Report of the Ministry of Housing and Urban Poverty Alleviation

Growth drivers

Higher affordability led by increasing disposable income

India's per capita income has been growing at a healthy rate in the recent years. It rose to Rs. 86,659 in Fiscal 2021 (base year Fiscal 2012). According to Ministry of Statistics and Programme Implementation (MOSPI), per capita income is estimated to have decreased by 8.4% in Fiscal 2021 compared with an increase of 2.5% in the preceding fiscal year.

In the short-to-medium term, CRISIL Research expects disposable income will rise as sufficient people get vaccinated that will particularly strengthen growth in contact-based services, which have been hit the hardest of all. This will be an enabler for domestic consumption. Increasing disposable income typically has a positive correlation with demand for housing units as it increases affordability.

Rapid urbanisation will boost housing demand

Urbanisation provides an impetus to housing demand as migrants require dwelling units. The rising trend of urban population has pushed the demand for houses in urban areas. People from rural areas move to cities for better job opportunities, education, avail better lifestyle, etc. A family living in a rural area may migrate to an urban area as whole or only a few people (generally earning members or students) may migrate, while a part of the family continues to hold on to its native house.

Urbanisation has a twin impact on housing demand. On the one hand, it reduces the area per household, while on the other hand, there is a rise in the number of nuclear families, which leads to the formation of more households.

Rise in number of nuclear families leads to formation of new houses

Nuclearisation refers to formation of multiple single families out of one large joint family. Each family lives in separate houses, while the ancestral house may be retained or partitioned to buy new houses. Nuclearisation in urban areas is primarily driven by changing lifestyle of people, individualism, changing social/cultural attitudes and increased mobility of labour in search of better employment opportunities. CRISIL Research expects these trends to continue in the future.

Changing floor space requirement: Floor space requirement is dependent upon the size of the family as well as affordability determined by the income levels. With increasing nuclearisation, the per capita floor space area required reduces as the family size shrinks. As incomes increase, people shift to bigger houses, thus increasing existing demand. For lower income groups, floor space required is marginally higher in rural areas compared with urban areas. This may be attributed to lower prices in rural areas.

Traditional tools to promote the housing sector: Tax incentives

The Government has traditionally used tax regulations to promote the housing sector. Tax sops for the housing sector have been instrumental in driving growth in the housing and housing finance sectors.

Some of the tax benefits announced in Union Budget 2021-22 are:

- Interest deduction on loans taken until March 31, 2020, for the purchase of a house valued up to Rs. 4.50 million and loan value should not exceed 3.5 million. This benefit is further extend till March 31, 2022. The additional interest deduction of Rs. 0.15 million would reduce the effective home loan interest rate by 40-50 basis points (bps) for a typical 15-year loan

Other tax benefits are as follows:

- As per Section 24 (B) of the Income Tax Act, 1961, annual interest payments of up to Rs. 200,000 (Rs. 300,000 for senior citizens) on housing loans can be claimed as a deduction from taxable income

- As per Section 80 C (read with Section 80 CCE) of the Income Tax Act, 1961, principal repayments of up to Rs. 150,000 on a home loan are allowed as a deduction from gross total income

- As per Section 80 EE, an additional deduction in respect of interest of Rs. 50,000 per annum has been provided exclusively for first-time home buyers, given the property value is up to Rs. 5 million and the loan is up to Rs. 3.5 million

Interest subvention scheme will boost loan disbursements over next 3-5 years

The Cabinet Committee on Economic Affairs approved a proposal to increase the interest subsidy to 6.5% for loans of up to Rs. 0.6 million for economically weaker sections and lower income group beneficiaries under affordable housing through the Credit Linked Subsidy Scheme (CLSS) component of the Housing for All.

In February 2017, benefits of the CLSS were extended to include middle income group households with incomes ranging between Rs. 600,000 and Rs. 1.8 million. This will lead to a surge in loan disbursements over the next few fiscal years, resulting in faster outstanding growth. Higher Government support for the affordable-housing segment (in terms of interest rate subsidies) as well as a low interest rate scenario will boost overall housing loan demand over next two fiscal years.

Ease of access to finance and rise in finance penetration to drive industry

Growth of the housing sector in India also depends on the availability of finance and the cost of obtaining it. The availability of finance can broadly be gauged through finance penetration. The spurt in housing demand over the past few years was primarily due to easy availability of finance, coupled with low interest rates. Also, the presence of a large number of financiers across categories contributed to the uptick in housing demand.

CRISIL Research expects that increase in finance penetration will support the industry's growth. Rising demand for housing from Tier II and III cities and a subsequent surge in construction activity have increased the focus of financiers on these geographies.

Consequently, finance penetration in urban areas is estimated to have increased to 45% in Fiscal 2020, from an estimated 39% in Fiscal 2012. With the increased in affordable housing push and rising competition in mid ticket size loans. CRISIL Research expects finance penetration to touch about 46% in urban areas in near term.

GST cut - A leg-up for realty demand

A drastic 700 bps reduction in the Goods and Services Tax (GST) from 8% to 1% for under-construction affordable housing projects (effective rate after deducting one-third towards land cost) and from 12% to 5% for other under-construction housing projects (effective rate after deducting one-third for land cost), is likely to increase end user demand. Also, the GST Council adopted a new definition for affordable housing, which is now described as a residential house / flat with a carpet area of up to 90 sq. m. in non-metropolitan cities/towns, and 60 sq. m. in a metro, and having value up to Rs. 4.5 million. Metros identified are Bengaluru, Chennai, Delhi NCR (limited to New Delhi, Noida, Greater Noida, Ghaziabad, Gurgaon and Faridabad), Hyderabad, Kolkata and Mumbai (whole of Mumbai Metropolitan Region). It should be noted that 40-45% of ongoing supply in these six cities fall below the Rs. 4.5 million ticket size, so the effective 1% GST rate should stoke demand.

Over the past two years, preference for completed projects has been clearly visible because of the additional GST burden and execution risks associated with under-construction properties. With the Real Estate (Regulatory & Development) Act, 2016, (RERA) framework evolving and GST reduced, end-user confidence towards under-construction properties will improve. This should also gradually improve volume growth in the housing segment.

Effective implementation of RERA to aid transparency, drive growth in long term

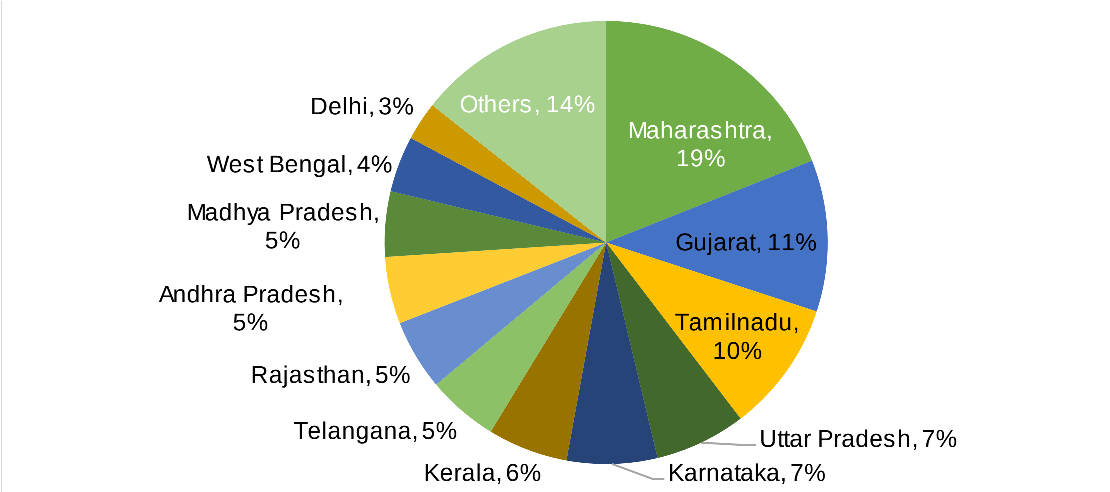
The RERA 2016 could have some impact over the next one to two fiscal years until the industry adjusts to the new regulations, as it has forced developers to focus on completing their existing projects. This, coupled with sluggish demand, has resulted in fewer new launches of residential properties. However, CRISIL Research expects RERA will lead to better structure, transparency and discipline in the sector in future.

State wise Analysis

Top 12 states contribute about ~86% of affordable housing loans

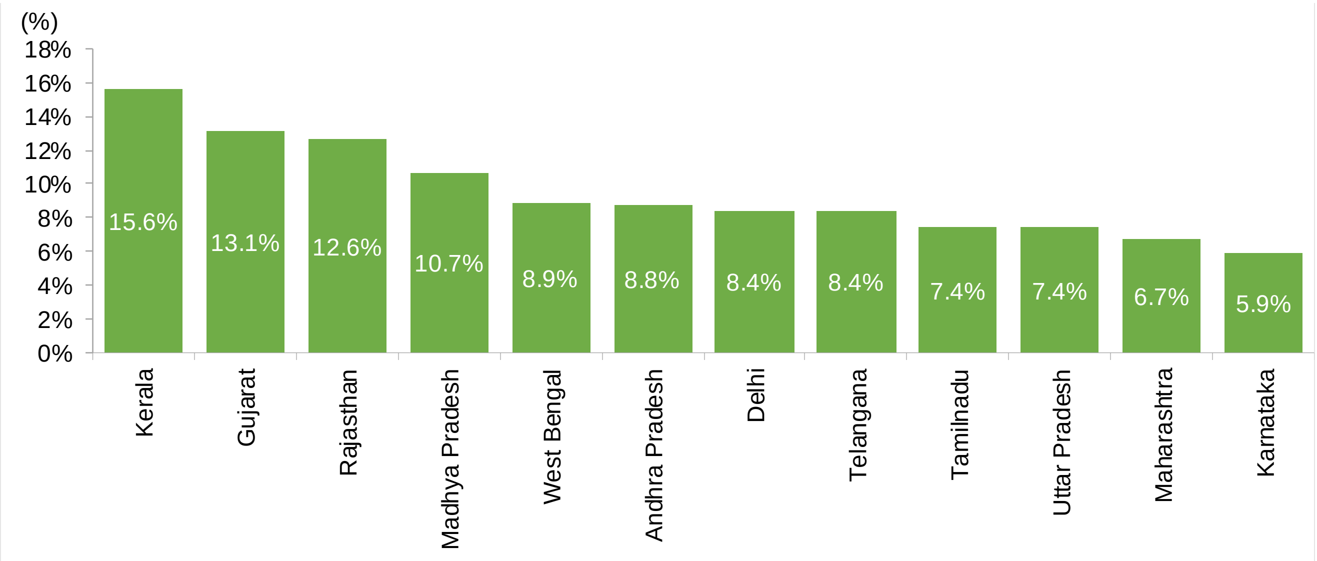
About 86% of the loan portfolio is concentrated in top 12 states with Maharashtra (19%), Gujarat (11%) and Tamil Nadu (10%) recording the highest shares as at March 2021. From a growth perspective, Kerala recorded the fastest CAGR growth (among top 12 states) of 16% between Fiscals 2017 and 2021 in terms of portfolio outstanding. Other states like Gujarat, Rajasthan and Madhya Pradesh have witnessed a CAGR of 13%, 13% and 11% respectively during the same period. On the other hand, Karnataka, Maharashtra and Uttar Pradesh have seen a relatively slower CAGR growth (among top 12 states) of 6%, 7% and 7% respectively between FY17 and FY21.

State-wise distribution of portfolio (as at March 2021)



Source: CRIF High Mark, CRISIL Research

State-wise four year CAGR growth as at March 2021; Kerala growing at the fastest pace (among top 12 states)



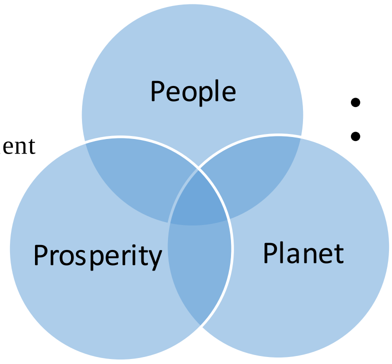
Source: CRIF High Mark, CRISIL Research

Social Banking

The Institute of Social Banking defines Social Banking as banking and financial services whose main objective is to contribute to the development and prospering of people and planet, today and in the future. According to the Global Alliance for Banking on Values (GABV), social banking follows a triple bottom line approach - focusing simultaneously on people, planet and prosperity - at the core of the business model and is grounded in communities, serving the real economy and enabling new business models.

Triple bottom line approach in Social Banking

- Community development
- CSR activities



- Green finance
- Environmental health and safety

- Energy Efficiency
- Environmental Governance

Source: CRISIL Research

The critical difference that sets social banking apart from conventional commercial banking is that though earning profit is one of the objectives of social banking, it would not be their *raison d'être*. Social banking is also be concerned about the community, about contributing to the wellbeing of the masses and ensuring that their activities are carried out in a manner that is in congruence with the broader goals of the society. They do not encourage businesses that harm the ecosystem and support sustainable environmental practices through their lending policies. Social banking would seek to closely understand the requirements of customers and develop products that are best suited to their needs. They work towards developing technology leveraged models that bring down the co sts of providing services and make banking affordable to the masses. By extending the reach and penetration of banks, social banking tries to make banking services available to the marginalized segments of the society.

Historically, the first social banks were founded in Italy in the 15th century. Their primary responsibility was to be an intermediary between those with money to save and those who needed money to do business. In India, the history of co-operative banks goes back to the year 1904, when the Co-operative Credit Societies Act was enacted. Thus, social banks are not a new concept but rather an idea that has had a long history both globally and in India.

In India, though social banking initiatives were introduced long back through measures such as the cooperative banking movement, nationalization of banks, creation of Regional Rural Banks, etc, their success was largely constrained by the size and population of the country and non-availability of banking services. However, in the last decade, with the developments in technology, financial inclusion has received a big boost in India and greater efforts have been laid on inclusive banking.

Apart from the financial inclusion aspect, the SFBs through their CSR initiatives have taken steps towards social wellbeing of the community, which is also an important dimension to the people aspect of the triple bottom line approach in social banking.

CSR Initiatives by few Small Finance Banks

(Rs. million)	Amount spend (Rs. million)		CSR activity
	FY20	FY21	Details
ESAF Small Finance Bank	28.9*	71.5*	People Impacted: 24,087 (till September 2020) The key programs are: • ESAF Balajyothi – Children Education Program • ESAF Suvidhi – Village Development Initiative Support during COVID-19 pandemic: • To provide adequate relief support to the vulnerable population for ensuring basic supplies and improve livelihood • To build the COVID-19 treatment facilities of hospitals through COVID-19 isolation wards by providing personnel protection equipment for medical staff
Ujjivan Small Finance Bank	12.5	NA	Total beneficiaries: 22,700 • The initiatives are focused on healthcare/ preventive health care, sanitisation, cleanliness, disaster relief, promoting education, safe drinking water and livelihood support. • One of the key initiatives is the "Swachh Neighbourhood" which started off as a pilot campaign for cleanliness in the neighbourhood of one branch in Bengaluru and later scaled to 98 locations across 67 districts in 15 Indian States.

(Rs. million)	Amount spend (Rs. million)		CSR activity
	FY20	FY21	Details
AU Small Finance Bank	126.5	NA	Key initiatives are: • AU Udyogini - Empowering women entrepreneurship: 330+ women trained • Financial and Digital Literacy initiative – Empowering with financial knowledge and wisdom: 300,000 people reached through the program
Utkarsh Small Finance Bank	10	NA	The key initiatives include: • Financial literacy and primary education initiative: Total beneficiaries reached 1,84,989 • Health initiative: Total beneficiaries reached 32,088 • Other initiatives towards education including skill and vocational training and learning enhancement program
Suryoday Small Finance Bank	12.4	NA	The initiatives under CSR primarily included financial literacy programs, heath camps, environment (planning saplings) and community engagement programs to spread awareness
Equitas Small Finance Bank	132.7	NA	Total beneficiaries: 594,777 Key CSR initiatives are focused towards heath, education and employment. Health: The bank contributes towards this aspect through health education, health camps and Sugam Clinics Education: Empowering the unprivileged communities through Equitas Gurukul Schools (currently 7 such schools are operational) Employment: This initiative includes providing home-based skill training for women and organising job fairs for unemployed youth

*Note: *- CSR Outlay*

Source: Company Reports, CRISIL Research

In the Indian banking industry, steps are also being taken towards environment protection through efficient and sustainable operational practices, which contribute to the planet aspect in the triple bottom line approach under social banking. Small finance banks like ESAF Small Finance Bank (ESAF SFB) have been focusing on green loans by financing 479,191 clean energy products and CO2 emission reduction of 430,445 tonnes till September 2020. Similarly, AU Small Finance Bank has also taken steps towards reducing its carbon footprint and conservation of energy. Among small finance banks, ESAF SFB follows the principles of social banking and a triple bottom line approach. Among other banks in India, Yes Bank also follows a similar approach with a high focus on initiatives towards climate finance and green products and services.

Currently, only a few players are involved in following social banking principles as the core principles for business, but the trend has begun with some banks focused toward such business models. However, many banks are incorporating these principles in their business models partially through CSR activities or lending practices. Going forward, with the rising importance of financial inclusion and environmentally sustainable businesses, CRISIL Research expects more banks in the industry to incorporate these principles wholly in their business models.

OUR BUSINESS

To obtain a complete understanding of our Bank, prospective investors should read this section in conjunction with "Risk Factors", "Industry Overview", "Selected Statistical Information", "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" on pages 24, 92, 221, 240 and 297, respectively.

The industry and market data used in this section has been derived from the CRISIL Research Report prepared and released by CRISIL Research and commissioned by and paid for by us in connection with the Offer. None of our Bank, the BRLMs or any other person connected with the Offer has independently verified such information. Unless otherwise indicated, all financial, operational, industry and other related information derived from the CRISIL Research Report and included here in with respect to any particular year refers to such information for the relevant fiscal year.

Our Bank's fiscal year commences on April 1 and ends on March 31 of the immediately subsequent year, and references to a particular Fiscal are to the 12 months ended March 31 of that year. Unless otherwise indicated or the context otherwise requires, the financial information included herein is derived from our Restated Financial Information included in this Draft Red Herring Prospectus.

Certain non-GAAP financial measures and certain other statistical information relating to our operations and financial performance have been included in this section and elsewhere in this Draft Red Herring Prospectus. We compute and disclose such non-GAAP financial measures and such other statistical information relating to our operations and financial performance as we consider such information to be useful measures of our business and financial performance, and because such measures are frequently used by securities analysts, investors and others to evaluate the operational performance of financial services businesses, many of which provide such non-GAAP financial measures and other statistical and operational information when reporting their financial results. Such non-GAAP measures and other statistical and operational information are not measures of operating performance or liquidity defined by generally accepted accounting principles. These non-GAAP financial measures and other statistical and other information relating to our operations and financial performance may not be computed on the basis of any standard methodology that is applicable across the industry and therefore may not be comparable to financial measures and statistical information of similar nomenclature that may be computed and presented by other banks in India or elsewhere.

This Draft Red Herring Prospectus contains certain forward-looking statements that involve risks and uncertainties. Our results could differ materially from such forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Draft Red Herring Prospectus. For details, see "Forward-Looking Statements" on page 23.

Overview

We are one of the leading small finance banks in India in terms of client base size, yield on advances, Net Interest Margin, assets under management CAGR, total deposit CAGR, loan portfolio concentration in rural and semi-urban areas and ratio of micro loan advances to gross advances. (*Source: CRISIL Research Report*).

Along with our Promoters, we have a history of more than 25 years of primarily serving the unserved and underserved, with a focus on financial inclusion. As a small finance bank, we are required to have at least 75.00% of our adjusted net bank credit to the priority sectors. Our business model focuses on the principles of responsible banking, providing customer-centric products and services through the extensive application of technology. As at May 31, 2021, we had 550 Branches, 421 customer service centres (which are operated by our business correspondents), 12 business correspondents, 158 banking agents and 327 ATMs in 21 states and two union territories and we served over 4.68 million customers.

We follow a social business strategy seeking a triple bottom line impact: people; planet; and prosperity. We believe that the social, environmental, and economic outcomes of our business create synergies that have an amplified impact on our stakeholders. The legacy of a mission, fighting the partiality of prosperity (i.e., the drive for inclusion of marginalised sections of society, equal distribution of wealth, and the equity of opportunities) led to the formation of our Bank. Our vision is to be India's leading social bank, that offers equal opportunities through universal financial access and inclusion and livelihood and economic development. We have adopted various policies to implement our triple bottom line approach, including an Environmental, Social and Governance ("**ESG**") policy. Pursuant to the ESG policy, we are 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. We can trace our roots back to 1992, when Kadambelil Paul Thomas, our Managing Director and Chief Executive Officer, along with others, founded ESAF Society, a society focused on the development of microenterprises, community development, and community health development. ESAF Society started its micro loan activities in 1995. In 2006, Kadambelil Paul Thomas along with others acquired our Corporate Promoter. Thereafter, ESAF Society transferred its micro loan business undertaking to our Corporate Promoter in 2008 pursuant to a business transfer agreement dated March 31, 2008. Our Corporate Promoter was awarded NBFC-MFI status in 2014. Our Corporate Promoter transferred its business undertaking, comprising its lending and financing business, to our Bank on March 10, 2017 pursuant to a business transfer agreement dated February 22, 2017. We commenced our business as a small finance bank on March 10, 2017. For more details on our history and our major events and milestones, see "*History and Certain Corporate Matters*" on page 185.

Our asset products comprise (a) micro loans, (b) retail loans, (c) MSME and corporate loans and (d) agricultural loans. As at March 31, 2021, 2020 and 2019, our gross advances were ₹ 84,150.05 million, ₹ 66,065.11 million and ₹ 45,870.63 million, respectively, and the percentage of our gross NPAs to gross advances was 6.70%, 1.53% and 1.61%, respectively. As at March 31, 2021, 2020 and 2019, our gross micro loans were ₹ 71,343.55 million, ₹ 61,389.57 million and ₹ 44,177.86 million, respectively, which represented 84.78%, 92.92% and 96.31% of our gross advances, respectively. We had the highest ratio of micro loan advances to gross advances among our compared peers as at March 31, 2020. *(Source: CRISIL Research Report)*. As at March 31, 2021, 2020 and 2019, our total advances (net of provisions) were ₹ 81,675.86 million, ₹ 65,478.22 million and ₹ 45,482.54 million, respectively, and the percentage of our net NPAs to net advances was 3.88%, 0.64% and 0.77%, respectively. As at March 31, 2021, 2020 and 2019, our provision coverage ratio was 52.77%, 79.93% and 78.45%, respectively. Our Yield on Average Interest-Earning Advances was 20.14%, 22.64% and 23.69% for Fiscals 2021, 2020 and 2019, respectively.

Our liability products comprise current accounts, savings accounts, fixed deposits and recurring deposits. We also serve NRI customers and offer NRE and NRO current accounts, saving accounts, fixed deposits and recurring deposits. Our total deposits were ₹ 89,994.26 million, ₹ 70,283.82 million and ₹ 43,170.08 million as at March 31, 2021, 2020 and 2019, respectively. We had the second highest deposits growth over Fiscals 2019-2021 and the highest share of retail deposits (comprising CASA and retail term deposits) as a percentage of our total deposits as at March 31, 2020 among our compared peers. (*Source: CRISIL Research Report*). Our retail deposits as at March 31, 2021, 2020 and 2019 represented 97.74%, 95.08% and 92.43% of our total deposits as at March 31, 2021, 2020 and 2019, respectively. We began offering NRIs savings bank and term deposits in June 2018 and current accounts in May 2021. Our deposits from NRIs represented 22.71%, 21.15% and 10.83% of our total deposits as at March 31, 2021, 2020 and 2019, respectively.

Further, we distribute third-party life and general insurance policies and government pension products. We also provide foreign exchange services, which include currency exchange and outward and inward remittances.

We deliver our products and services through our business correspondents, customer service centres (which are operated by our business correspondents), Branches, banking agents, ATMs, ATM cum debit cards, mobile banking platforms, SMS alerts, internet banking portals and unified payment interface facilities. We have a strong focus on leveraging technology to deliver products and services.

We use business correspondent entities for sourcing and servicing of customers for micro loans, mortgage loans, vehicle loans, supply chain and MSME finance, select deposit products and select third-party products. As at March 31, 2021, 2020 and 2019, our business correspondents were responsible for sourcing and/or servicing customers for 84.59%, 93.97% and 96.31% of our gross advances, respectively. As at March 31, 2021, 2020 and 2019, our business correspondents were responsible for sourcing customers for 1.66%, 1.79% and 2.55% of our deposits, respectively.

For details on the effects of COVID-19 on our business and operations, see "*-Recent Developments – Effects of the COVID-19 Pandemic on our Business and Operations*" on a page 164.

Set forth below are certain financial metrics and reconciliation of certain non-GAAP measures as at and for the years ended March 31, 2021, 2020 and 2019.

(₹ in million, except percentages)

Particulars	As at or for the year ended		
	March 31, 2021	March 31, 2020	March 31, 2019
Interest Earned	16,411.73	14,132.45	10,316.39
Net Profit [A]	1,053.96	1,903.90	902.84
Provisions and Contingencies [B]	3,104.44	1,343.11	1,388.29
Operating Profit (1) [C=A+B]	4,158.39	3,247.01	2,291.13
Average shareholders' funds [D] (2)	11,909.32	9,858.17	6,512.43
Average total assets (3) [E]	110,306.75	84,052.74	59,477.99
Return on Equity (4) (%) [F=A/D]	8.85	19.31	13.86
Return on Assets (5) (%) [G=A/E]	0.96	2.27	1.52
Capital [H]	4,494.74	4,277.96	4,277.96
Reserves and Surplus [I]	9,025.90	6,562.85	4,658.95
Net Worth [K=H+I] (6)	13,520.64	10,840.81	8,936.91

Notes:

1. *Operating Profit is a non-GAAP measure and is computed as net profit plus provisions and contingencies.*
2. *Average shareholders' funds is calculated on the basis of average of the opening balance of capital and reserves and surplus as at the start of the relevant year and the closing balance as at the quarter ended for all quarters in the relevant fiscal year.*
3. *Average total assets is calculated on the basis of average of the opening balance of capital and reserves and surplus as at the start of the relevant year and the closing balance as at the quarter ended for all quarters in the relevant fiscal year.*
4. *Return on Equity is a non-GAAP measure and is computed as a percentage of net profit divided by average shareholders' funds.*
5. *Return on Assets is a non-GAAP measure and is computed as a percentage of net profit divided by average total assets.*
6. *Net Worth is a non-GAAP measure and is computed as the sum of capital and reserves and surplus.*

As at March 31, 2021, 2020 and 2019, our CRAR was 24.23% (Tier 1 capital of 21.54%), 24.03% (Tier 1 capital of 20.99%) and 27.59% (Tier 1 capital of 23.30%), respectively.

Our Strengths

Deep understanding of the micro loan segment, which has enabled us to grow our business outside of Kerala, our home state

We can trace our micro loan roots back to 1995. As at March 31, 2021, 2020 and 2019, our gross micro loans were ₹ 71,343.55 million, ₹ 61,389.57 million and ₹ 44,177.86 million, respectively, which represented 84.78%, 92.92% and 96.31%, of our gross advances, respectively. As at May 31, 2021, we had over 2.28 million micro loan customers, all of whom were women. Our deep understanding of the micro loan segment has enabled us to successfully expand our business outside of Kerala and as at May 31, 2021, our products and services were offered in 21 states and two union territories. Our micro loans to customers outside of Kerala were ₹ 33,718.28 million, representing 47.20% of our total micro loans, as at March 31, 2021. As at March 31, 2021, our top five states outside Kerala for micro loans were Tamil Nadu, Madhya Pradesh, Maharashtra, Chhattisgarh and Karnataka, with micro loans in those states representing 21.32%, 6.09%, 5.64%, 4.07% and 3.72% of our total micro loans, respectively.

Strong rural and semi-urban banking franchise

Our main focus is on providing loans to customers in rural and semi-urban areas. As at March 31, 2021, 2020 and 2019, advances to our customers in rural and semi-urban areas (combined) accounted for 73.95%, 76.93% and 78.05% of our gross advances, respectively. As per the CRISIL Research Report, we had the highest percentage of gross advances from rural and semi-urban areas as at March 31, 2020 among the compared small finance banks. We believe that we have developed an understanding of the rural and semi-urban households in the regions in which we operate. In 2019, we received the "Best performance award for SHG-Bank linkage" from NABARD and the "Banking Gold" SKOCH award for access and affordable banking services for financially underserved areas. In 2018, we received the "Banking & Finance Gold" SKOCH award for financial inclusion for all.

There are significant growth opportunities in rural areas in India as rural areas have lower financial inclusion compared with urban areas and there is thus less competition for banking services in rural areas compared with urban areas. Approximately 47% of India's GDP comes from rural areas but the share in banking credit and deposits coming from rural areas is only 9% of total credit and 11% of total deposits, respectively, as at March 31, 2021. (*Source: CRISIL Research Report*). This divergence in the rural areas' share of India's GDP and banking credit and deposit services compared with urban areas is as an indicator of the low penetration of the banking sector in rural areas. (*Source: CRISIL Research Report*). The table set forth below shows the CAGRs in the number of credit and deposit accounts for the periods stated.

Area	CAGR of number of credit accounts from the end of Fiscal 2015 to the end of Fiscal 2021	CAGR of number of deposit accounts from the end of Fiscal 2015 to the end of Fiscal 2020
Rural	5%	7%
Semi-urban	10%	9%
Urban	17%	7%

(Source: CRISIL Research Report).

With payment banks increasing their reach and expanding into rural areas and increasing financial awareness, CRISIL Research expects faster growth in rural areas in the future, given their large untapped potential. (*Source: CRISIL Research Report*). We believe our strong rural and semi-urban franchise will enable us to take advantage of this growth opportunity. Our customers in rural and semi-urban areas have increased from 0.06 million and 1.37 million as at March 31, 2019, respectively, to 0.67 million and 2.38 million as at May 31, 2021, respectively. Our Branches in rural and semi-urban areas were 61 and 95 as at March 31, 2019, respectively, and 190 and 215 as at May 31, 2021, respectively. As per the CRISIL Research Report, we had the second highest share of total Branches present in rural and semi-urban areas as at March 31, 2020 among our compared peers. Our business correspondents' customer service centres in rural and semi-urban areas were nil and nil as at March 31, 2019, respectively, and 60 and 174 as at May 31, 2021, respectively. We started using banking agents in Fiscal 2021. Our banking agents in rural and semi-urban areas were 15 and 61 as at May 31, 2021, respectively. Our ATMs in rural and semi-urban areas have increased from 31 and 52 as at March 31, 2019, respectively, to 119 and 115 as at May 31, 2021, respectively.

Fast growing retail deposit portfolio with low concentration risk

We have been able to leverage the strength of the "ESAF" brand, which has been built over more than 25 years, to rapidly grow our deposit portfolio since we commenced operations. As per the CRISIL Research Report, we had the highest share of retail deposits as a percentage of our total deposits as at March 31, 2020 among our compared peers and the second highest deposit growth among the compared peers over Fiscals 2019 to 2021. We had the highest AUM growth among the compared SFBs over Fiscals 2019 to 2021. (*Source: CRISIL Research Report*). As an NBFC-MFI, our Corporate Promoter was unable to accept deposits as per applicable laws in India. After acquiring the business of our Corporate Promoter, we have placed a strong emphasis on increasing our total retail deposits, as they have lower rates of interest compared to bulk term deposits. As at March 31, 2021, our total retail deposits were ₹ 87,963.84 million, which accounted for 97.75% of our total deposits. Set forth below is a table showing our deposits as at the dates indicated.

	As at March 31, 2021 (₹ in million)	% increase / (decrease) from March 31, 2020	As at March 31, 2020 (₹ in million)	% increase / (decrease) from March 31, 2019	As at March 31, 2019 (₹ in million)
Demand Deposits [A]	1,531.84	164.83%	578.43	70.26%	339.74
Savings Bank Deposits [B]	15,944.61	76.68%	9,024.42	63.77%	5,510.50
CASA [C = A + B]	**17,476.45**	**81.99%**	**9,602.85**	**64.14%**	**5,850.24**
Of which:					
NRI CASA	*3,415.32*	*103.45%*	*1,678.73*	*263.20%*	*462.20*
Retail term deposits(1) [D]	70,487.39	23.19%	57,220.16	68.04%	34,050.92
Of which:					
NRI retail term deposits	*15,383.22*	*36.69%*	*11,254.04*	*199.28%*	*3,760.41*
Total retail deposits [E = C + D]	**87,963.84**	**31.64%**	**66,823.01**	**67.47%**	**39,901.16**
Bulk term deposits(2) [F]	2,030.42	(41.33)%	3,460.81	5.87%	3,268.92
Of which:					
NRI bulk term deposits	*1,392.96*	*(20.00)%*	*1,741.22*	*283.87%*	*453.60*
Total term deposits [G = D + F]	**72,517.81**	**19.51%**	**60,680.97**	**62.60%**	**37,319.84**
Total deposits [H =A+B+G]	**89,994.26**	**28.04%**	**70,283.82**	**62.81%**	**43,170.08**

Notes:

(1) Retail term deposits are single rupee term deposits that are not bulk term deposits. Bulk term deposits are single rupee term deposits of ₹ 20.00 million or more.

(2) Bulk term deposits are single rupee term deposits of ₹ 20.00 million or more.

CASA tends to provide a stable and low-cost source of deposits compared to term deposits. Our CASA increased to ₹ 17,476.45 million as at March 31, 2021 from ₹ 5,850.84 million as at March 31, 2019, representing a CAGR of 72.72%. Our Cost of Average CASA was 4.67%, 4.90% and 4.43% for Fiscals 2021, 2020 and 2019, respectively, and our Cost of Average Term Deposits was 8.00%, 8.82% and 8.76% for Fiscals 2021, 2020 and 2019, respectively. We increased our CASA to total deposits ratio to 19.42% as at March 31, 2021 from 13.55% as at March 31, 2019, while our Cost of Funds decreased to 7.56% for Fiscal 2021 from 8.95% for Fiscal 2019.

As at March 31, 2021, 2020 and 2019, our deposits from the 20 largest depositors accounted for 9.11%, 11.15% and 16.38% of our total deposits, respectively, indicating a low concentration risk as at March 31, 2021.

Kerala is our home state and we have a presence in all 14 districts. Remittance flows into India are concentrated in southern states and have a combined share of approximately 46% of total remittance flows into India for Fiscal 2017. Kerala accounts for the maximum (i.e., 19% share of total remittance flows into India) while other major states including Karnataka, Tamil Nadu and Maharashtra are estimated to account for approximately 40% of the inward remittances during Fiscal 2017. (*Source: CRISIL Research Report*). Due to the foregoing and our presence in all districts in Kerala, we have been able to capitalise on this opportunity and increase our NRI deposits. We began offering NRIs savings bank and term deposits in June 2018 and current accounts in May 2021. As at March 31, 2021, 2020 and 2019, our deposits from NRIs were ₹ 20,191.50 million, ₹ 14,673.99 million and ₹ 4,676.21 million, respectively, which represented 22.44%, 20.88% and 10.83% of our total deposits, respectively.

Strong customer connections driven by our customer centric products and processes and other non-financial services for micro loan customers

We aim to provide the best-in-class banking services to our customers, as we believe our customers are the most important stakeholders in our business. Our products and services are designed to meet the various lifecycle needs of our customers, such as home loans, clean energy product loans, loans for agricultural activities, loans against property, personal loans, education loa ns, gold loans and vehicle loans.

An example of our customer-centric approach is that our micro loans can be repaid on a weekly, fortnightly or monthly basis based on our customers' preferences. Furthermore, money can be deposited on a weekly, fortnightly or monthly basis for our micro recurring deposits. As at March 31, 2021, 69.00% of our micro loan customers repaid their loans on a weekly basis. Our business correspondents collect cash repayments on our behalf and through regularly meeting with our micro loan customers, our business correspondents are better able to understand our customers' requirements. We believe our business correspondents' constant engagement with our micro loan customers leads to a lower risk of delinquencies.

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

Our guiding principles include transparency, preventing our customers from becoming over-indebted, treating our customers fairly and being empathetic towards our customers in times of crisis, which we have demonstrated by launching three new loan products to assist our customers during the COVID-19 pandemic: (1) Income Generation Loan Top Up loan, which is targeted at customers who have an existing Income Generation loan/ Income Generation Loan Top-up loan maturing within the next three months and who have a good repayment track record; (2) Pre-approved Loan, which is a variant of the Income Generation Loan Top Up loan, and (3) Utdhan Loan Series 3 – Covid Care Loan, which is tailor made to support the financial needs of customers adversely affected by the COVID-19 pandemic. Another example is how we supported our customers during Kerala's floods in 2018 and 2019 by providing emergency funding in the form of "Utdhan Loans" to customers for rebuilding their livelihood and meeting other expenses, moratoriums on repayment of their loans for a period of up to four months depending on the needs of such customers affected by the floods and extending total repayment periods for up to 36 months on certain categories of loans.

We believe our customer-centric products and processes have resulted in high customer retention rates. As at March 31, 2021, 80.23% of our then current borrowers had previously borrowed from us. In 2019, we received the "Kerala Bank of the Year 2019" award from Dhanam Business Magazine and the "Banking Gold" SKOCH award for access and affordable banking services for financially underserved areas. In 2018, we received the "Banking & Finance Gold" SKOCH award for financial inclusion for all as well as the "Special Jury Award for Serving MSMEs" MSME Banking Excellence Award from the Chamber of Indian Micro Small and Medium Enterprises.

Technology driven model with an advanced digital technology platform

We offer our customers various digital platforms, including an internet banking portal, a mobile banking platform, SMS alerts, bill payments and RuPay branded ATM cum debit cards. All banking and payment transactions, such as remittances and utility payments, can be completed through these platforms. Our customers are also able to register our savings accounts on a unified payment interface based mobile applications.

Our account opening and loan underwriting processes have been digitalised by using tablets, which we believe enables us to reduce our turnaround time and offers better service to customers. CASA accounts can be opened through tablets, which enables us to provide doorstep services to our customers. By leveraging technology solutions, we provide 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.

We have a digitalised central credit-processing unit for our micro loans. Our customer on-boarding process has been predominantly digitalised for our micro loans. We leverage technology for underwriting and credit sanctioning for our loan products based on inputs from credit bureaus and/or our customer data analytics. We have implemented technology solutions that enable us to ensure cashless disbursement of loans. Our collections mechanism has also been digitalised through the use of mobile applications and a payment gateway through which our borrowers can repay their loans.

We continuously work towards improving our customers' experience through the use of technology. We have implemented a customer relationship management solution to better handle customer requests. We believe that such initiatives have helped us improve our customer service and enable us to deliver our services in a more cost-effective manner.

Experienced Board and Key Management Personnel

We have an experienced Board comprising members with diverse business experience, many of whom have held senior positions in well-known financial services institutions. Mr. Kadambelil Paul Thomas, our Managing Director and Chief Executive Officer, was previously a senior field representative at Indian Farmers Fertilizers Co-operative Limited and since 2013 he has been the president of the Kerala Association of Micro Institutional Entrepreneurs. Members of our Key Management Personnel have been working in the banking and financial services sector for more than 25 years. Our Key Management Personnel have expertise in scaling up financial services organizations and collectively they have all the relevant experience in credit evaluation, risk management, treasury and technology. For details of our Board and Key Management Personnel, see "*Our Management*" on page 190.

Our Strategies

Penetrate deeper into our existing geographies

As at May 31, 2021, we had 550 Branches, 12 business correspondents, 421 customer service centres (which are run by our business correspondents), 158 banking agents and 327 ATMs in 21 states and two union territories. Over the last two fiscal years, we have considerably expanded the number of states and territories we operate in. In Fiscal 2020, we expanded our operations into Assam, Gujarat and Rajasthan by opening Branches in these states. In Fiscal 2021, we expanded our operations to Meghalaya, Uttar Pradesh, Haryana, Chandigarh, Uttarakhand and Tripura by opening Branches and/or appointing business correspondents for these states/union territory. We intend to deepen our distribution within the states and union territories we operate in by opening additional Branches, having business correspondents open more customer service centres, entering into relationships with new business correspondent entities and banking agents and adding ATMs. We intend to open Branches in urban and semi-urban areas after taking into account data from the RBI for certain parameters, such as aggregate deposits, deposit growth, number of urban households, households with banking access, share of PSU deposits and total NRI remittances.

Increase our deposits and in particular our NRI deposits and CASA

We plan to continue to increase our deposits, in particular our NRI deposits and CASA, in order to help grow our business and reduce our Cost of Funds. Our total deposits were ₹ 89,994.26 million, ₹ 70,283.82 million and ₹ 43,170.08 million as at March 31, 2021, 2020 and 2019, respectively, which represented 84.16%, 85.38% and 71.72% of our total deposits and borrowings, respectively. Our CASA were ₹ 17,476.45 million, ₹ 9,602.85 million and ₹ 5,850.24 million as at March 31, 2021, 2020 and 2019, respectively, which represented 19.42%, 13.66% and 13.55% of our total deposits, respectively. The increase in our CASA to total deposits ratio has helped to reduce our Cost of Funds to 7.56% for Fiscal 2021 from 8.95% for Fiscal 2019.

To increase our deposits, our Branches and business correspondents will continue to target new and existing customers to source deposits in the form of CASA, fixed deposits and recurring deposits by focusing on customer service and offering competitive pricing.

Our business correspondent entities are the primary channel for sourcing deposits from our micro loan customers. We plan to add more business correspondents, which will help to increase our deposits.

We plan to relocate more of our Branches that were former Ultra-Small Branches over time to more suitable locations for our deposit taking business. Our Ultra-Small Branches were the erstwhile micro loan branches from when our business was owned by our Corporate Promoter. They catered primarily to our micro loan customers. As per the RBI's circular dated May 18, 2017, all our Ultra-Small Branches were converted to Branches or merged with a Branch before March 10, 2020. We relocated 26 Branches in Fiscal 2021 and nil Branches in the two months ended May 31, 2021. As at May 31, 2021, we have identified 149 Branches for relocation.

Furthermore, we intend to continue to target NRIs to scale up our deposit base and in particular our CASA base. We began offering NRIs savings bank and term deposits in June 2018 and current accounts in May 2021. Our deposits from NRIs were ₹ 20,191.50 million, which represented 22.44% of our total deposits, as at March 31, 2021. To target NRIs, we will continue to focus on regions where NRI remittances are high by launching targeted campaigns around festivals, conducting marketing activities at airports, malls, etc., and entering into tie-ups with third parties, such as remittance arrangers. We also plan to open new Branches in areas that have a large population dependent on remittances.

We also intend to continue to target high net worth individuals ("**HNIs**") to scale up our deposit base and in particular our CASA base. To target additional HNIs, we plan to leverage our Branches by appointing additional dedicated relationship managers to source deposits and other business from HNI customers. As at May 31, 2021, we had dedicated relationship managers to source deposits and other business from HNI customers.

We also plan to establish relationships with farmer producers' associations, co-operative societies, government departments, non-government organisations, and educational institutions in order to offer our products and services, including CASA, to their members/employees.

We will also offer savings accounts targeted at different types of workers.

Continue to grow our micro loan business while increasing our other categories of advances both in absolute terms and as a percentage of total advances

<u>Continue to grow our micro loan business</u>

CRISIL Research projects the microfinance sector's gross loan portfolio will grow at 16-18% CAGR from Fiscals 2021 to 2024. (*Source: CRISIL Research Report*). As at March 31, 2021, 2020 and 2019, our gross micro loans were ₹ 71,343.55 million, ₹ 61,389.57 million and ₹ 44,177.86 million, respectively, which represented 84.78%, 92.92% and 96.31%, respectively, of our gross advances. We plan to continue to grow our micro loans by cross-selling and up-selling to our micro loan customer base and marketing our micro loans to family members of our micro loan customers, thereby deepening our relationships with them and becoming their trusted bank of choice. We also plan to appoint new business correspondents and have our banking agents start to source customers.

<u>Expand our retail asset business</u>

In Fiscal 2018, we began offering retail loans and since then, we have been expanding our portfolio of retail loan products. As at March 31, 2021, 2020 and 2019, our gross retail advances were ₹ 9,607.19 million, ₹ 3,608.92 million and ₹ 1,382.59 million, respectively, which represented 11.42%, 5.46% and 3.01%, respectively, of our gross advances. We plan to continue to increase our retail advances both in terms of amount and as a percentage of our gross advances by targeting households with NRI family members, salaried employees, students and senior citizens, thereby expanding our retail loan customer base. We plan to continue to focus on our individual customers to continue to build our retail loan portfolio, as well as capitalise on our relationships with our existing micro loan customers whose borrowing ability has increased and who require increased loan amounts. We will continue offering personalised loan products to our salaried account holders.

<u>Increase our MSME and corporate loan business</u>

In Fiscal 2020, we started offering MSME and corporate loans and since then, we have been expanding our portfolio of MSME and corporate loan products. As at March 31, 2021, 2020 and 2019, our gross MSME and corporate advances were ₹ 3,109.01 million, ₹ 1,065.43 million and ₹ 310.00 million, respectively, which represented 3.69%, 1.61% and 0.68%, respectively, of our gross advances. We plan to continue to increase our MSME and corporate advances both in terms of amount and as a percentage of our gross advances by having our relationship managers in our Branches reach out to MSMEs and offer them working capital and term loans. We will also help our existing micro loan customers to grow their businesses with additional funding. We will encourage our business correspondents to find more customers for our small ticket term loans. We also plan to increase our supply chain finance by partnering with fintechs/tech platforms to find more customers for our working capital loans. We use web based platforms operated by certain entities which facilitates financing / discounting of trade receivables of MSMEs, and we plan to increase our activity on these platforms, thereby increasing our receivables discounting business.

Grow our agriculture loan business

In Fiscal 2020, we set up our agricultural business department. In Fiscal 2021, we introduced four more agricultural loan products. As at March 31, 2021, our gross agricultural advances were ₹ 90.30 million, which represented 0.11% of our gross advances. We currently have agri relationship officers, who are responsible for sourcing agri loans, in Tamil Nadu, Maharashtra and Kerala. We plan to continue to increase our agricultural advances both in terms of amount and as a percentage of our gross advances by appointing agri relationship officers in more states by entering into relationships with more farmer producer organisations and sourcing more loans through our Branches and business correspondents.

Increase fee-based income by cross-selling, expanding third-party products and service offerings and expanding our fee-based offerings

We intend to increase our fee-based income by cross-selling third-party products and service offerings to our customers and expanding third-party products and service offerings. Our fees/remuneration received from Bancassurance business for selling life insurance policies, non-life insurance policies and pension products was ₹ 88.38 million, ₹ 89.21 million and ₹ 3.68 million for Fiscals 2021, 2020 and 2019, respectively, which represented 0.50%, 0.58% and 0.03% of our total income, respectively. We began distributing the National Pension System in Fiscal 2019, Atal Pension Yojna in Fiscal 2019, third-party general insurance products in Fiscal 2019 and third-party life insurance products in Fiscal 2020. We plan to distribute third-party mutual funds and offer third-party depositary services.

We introduced a platinum debit card in Fiscal 2020, which yielded fees totalling ₹ 18.12 million in Fiscal 2021. In addition, we plan to offer bank guarantees and letters of credit to MSMEs.

Continue to leverage technology and customer data analytics

We believe our use of advanced technology has significantly improved the efficiency of our operations. We plan to further enhance our technology platforms, such as internet banking, mobile banking, ATMs, cash deposits machines, customer service applications and payment interfaces, which we believe will increase the adoption of our service delivery mechanisms. This will also enable us to perform more reliable data analytics, resulting in more efficient risk management processes, targeted customer profiling and offer customized products to suit our customers' diverse requirements.

Asset Products

Our asset products comprise (a) micro loans, (b) retail loans, (c) MSME and corporate loans and (d) agricultural loans. As at March 31, 2021, 2020 and 2019, our gross advances were ₹ 84,150.05 million, ₹ 66,065.11 million and ₹ 45,870.63 million, respectively.

Micro Loans

Our current micro loans comprise the following loan products:

Name of the loan	Purpose	Maximum loan amount (in ₹)	Loan tenure
ESAF Income Generation Loan	Loan for income generation activities	100,000	12 to 35 months
Income Generation Loan Top Up	Loan for income generation activities	100,000	12 to 35 months
ESAF General Loan	Loan for any personal needs	20,000	Up to 10 months
ESAF General Loan Green Energy	Loan for financing clean energy products, such as solar lanterns and energy efficiency stoves	50,000	Up to 20 months
ESAF Jeevandhara Loan	Loan for water connection and storage facilities	20,000	Up to 10 months
ESAF Nirmal Loan	Loan for the construction of toilets	20,000	Up to 10 months
ESAF Vidhyajyothy Loan	Loan for education expenses for children	50,000	Up to 24 months
Utdhan Loan Series 3 – Covid Care Loan	Loan to support the financial needs of a customer affected by the COVID-19 pandemic	30,000	Up to 27 months
ESAF General Loan Products	Loan for procuring household/ consumer durable items	30,000	Up to 15 months

The interest rates on our micro loans are fixed. Interest rates on new micro loans with a tenure of less than three years are fixed based on our MCLR, which is approved by our Market Risk and Assets Liability Committee ("**MR-ALCO**") on a monthly basis. Our interest rates are displayed at our Branches and on our website to ensure transparency in our operations.

Our micro loans are provided to individuals without being secured by collateral. In order to be given a loan, an individual must be part of a sub-group, which normally comprises five to 10 people. Three to five sub-groups combine to form a "sangam". The sangam facilitates the repayment process by holding meetings at regular intervals with sangam members. As at March 31, 2021, 2020 and 2019, our gross micro loans were ₹ 71,343.55 million, ₹ 61,389.57 million and ₹ 44,177.86 million, respectively, which represented 84.78%, 92.92% and 96.31% of our gross advances, respectively. For more details on our micro loans, see "*Selected Statistical Information – Advances Portfolio*" on page 228.

Customers

Our target customers for our micro loans are women in unserved and underserved households in India. As at May 31, 2021, we had over 2.28 million micro loan customers, all of whom were women. Our business correspondents source and service customers for our micro loans.

Credit Approval and Disbursement Process

An employee of a business correspondent entity conducts initial promotional meetings in the area and amongst prospective sangam members to source a new customer and requests for their KYC documents to allow for data capture. The applicant's data and the loan application are captured on a tablet and submitted to us electronically. A house verification visit is carried out by an employee of a business correspondent entity. We conduct a de-duplication check, AML validation and automatic credit bureau check. This is followed by a compulsory group training program and group recognition test for our new customers, which is undertaken by an employee of the business correspondent entity. Post successful validation, an employee of the business correspondent entity recommends the loan based on the customer's need and our credit sanction team approves the loan based on pre-set parameters. An authorised officer of our Bank verifies the loan documents, KYC documents, etc., following which our Bank issues a loan card to the customer and then transfers the funds into the customer's savings account at our Bank. If the customer does not already have a savings account with our Bank, we require them to open a savings account, which has a debit card facility.

Loan Collection and Monitoring Process

We tailor our collection schedule to weekly, fortnightly or monthly repayments depending on the sangam's preference. As at March 31, 2021, 69.00% of our micro loan customers repaid their loans on a weekly basis, 13.97% repaid on a fortnightly basis and 17.03% repaid on a monthly basis. Our business correspondents collect the repayments and enter each repayment on a tablet, which is then automatically reflected in our system.

Retail Loans

The following is a description of our retail loan products:

Name of the loan	Purpose	Maximum loan amount (in ₹)	Loan tenure
ESAF Dream Home Loan	Loan to a salaried customer for construction of a house or purchase of a new house, flat, or villa and for renovations of an existing property	10,000,000	3 to 25 years
ESAF Clean Energy Product Loan	Loan for the purchase of solar-based power generators, biomass-based power generators, non-conventional energy based public utilities, home lighting systems and solar inverters	1,000,000	1 to 7 years
ESAF Loan Against Property	Loan for any specified purpose, including business, education, marriage, commercial purchase and commercial construction or other purposes secured by property	10,000,000	3 to 10 years
ESAF Micro Housing Loan	Loan for construction of a house or purchase of a new house or flat and for renovations of an existing property	3,500,000	3 to 25 years
ESAF Gold Loan	Loans for short term funding needed to meet personal/family/business/agricultural requirements and other unforeseen requirements, including consumption purposes, secured by gold	2,000,000	Up to 1 year
ESAF Salary Personal Loan*	Personal loan offered to a salaried customer for general purposes	1,000,000	Up to 5 years
ESAF School Loan	Loan to an educational institution for improving their facilities	30,000,000	Up to 10 years
ESAF Global Career Development Loans	Loan for higher education studies outside of India	10,000,000	Up to 12 years
ESAF New Car Loan	Loan for the purchase of a new car	2,500,000	Up to 7 years
ESAF Used Car Loan	Loan for the purchase of a used car	2,000,000	Up to 7 years
ESAF New LCV Loan	Loan for the purchase of a new light commercial vehicle	1,000,000	3 to 5 years
ESAF Two-Wheeler Loan	Loan for the purchase of a two-wheeler	1,000,000	Up to 5 years
ESAF Three-Wheeler Loan	Loans for the purchase of a three-wheeler	300,000	Up to 5 years
Salary Overdraft Loan	Loan for personal purposes	1,000,000	24 months
Loan against deposit	Loan secured against a fixed deposit in our Bank	Up to 90% of the term deposit value	Up to the tenure of the Deposit
ESAF Lease Rental Discounting	Loan against lease rent receivables with mortgage of the premises	50,000,000	36 to 120 months

Note:

**Also includes ESAF Personal Loan.*

The interest rates we charge on our retail loans are fixed or floating depending on the product. Our fixed rate loans with a tenure of less than three years are based on the MCLR. Our MCLR is reviewed by our MR-ALCO on a monthly basis. Our floating rate loans are based on the RBI's repo rate. As at March 31, 2021, 2020 and 2019, our gross retail loans were ₹ 9,607.19 million, ₹ 3,608.92

million and ₹ 1,382.59 million, respectively, which represented 11.42%, 5.46% and 3.01% of our gross advances, respectively. For more details on our retail loans, see "*Selected Statistical Information – Advances Portfolio*" on page 228.

Customers

Our target customers for our retail loans are salaried individuals, the self-employed, businesses and customers who have graduated from micro loans. We source customers for our retail loans through our sales executives, dealers and direct sales agents on a walk-in basis in our Branches and through our business correspondents.

Credit Approval and Disbursement Process

Upon sourcing a customer, a sales officer collects their application and applicable supporting documents. These documents are handed over to a sales officer who performs a series of checks, which include credit bureau checks, house verification, and eligibility assessment in order to verify the applicant's credit history. For new customers, the sales officer will assist with the opening of a savings account. The sales officer then prepares the proposal in the system, after which the application undergoes a reference check for certain loans such as home loans, vehicles loans and business loans, by a member of the back-office before forwarding the application to the credit appraisal and credit sanction teams. Our credit department has centralized processing hubs for home loans and vehicle loans. The sales officer arranges for legal and technical reports for mortgage loans if the customer is applying for a mortgage loan. The loan requires the final approval by the appropriate credit sanction officer. Once the loan has been approved, a member of the operations team prepares the documents to be executed at one of our Branches. Subsequently, the operations manager takes custody of the documents to verify them. Once verified, a checklist of all documents is sent to the central loan administration team for disbursement.

Furthermore, our gold loan staff appraise the gold provided for as security for our ESAF Gold Loans. Our ESAF Gold Loans are approved by the Branch head.

Loan Collection and Monitoring Process

When the loan documents are executed for certain loan products, we collect NACH instructions, standing instructions or post-dated cheques for loan repayment. To monitor loan collection, we have a collection and recovery department, which sends reminders to our customers before each repayment date.

MSME and Corporate Loans

The following is a description of our MSME and corporate loan products:

Name of the loan	Purpose	Maximum loan amount (in ₹)	Loan tenure
ESAF Micro Enterprise Loan	Loans to an existing sangam member (micro loan customer) to further grow their business	300,000	35 months
Vyapar Vikas Yojana	Loan to a resident individual having a shop/ business with a minimum vintage of three months in the same location as working capital for their business	50,000	180 days to 6 months
PM SVANidhi Loan	Loans for street vendors identified by the municipality or corporation	10,000	1 year
ESAF TReDS (Financing Trade Receivables e-Discounting System) (TReDS)	Discounting of bills using a TReDS platform. We are a member of certain TReDS platforms	500,000,000	Maximum tenor of 180 days
ESAF MSME Easy Business Loan (CC(1)/ OD(2) /TL(3))*	Loan for meeting working capital through overdraft and long-term fund requirements of a micro enterprise for the growth of their business	2,500,000	CC/OD - 1 year TL - 36 to 120 months (for loan amounts above ₹ 5.00 million) and 36 to 84 months (for loan amounts up to ₹ 5.00 million)
ESAF MSME Smart Loan (OD/TL)*	Loan for meeting working capital and long-term fund requirement of small enterprises for the growth of their business	10,000,000	OD - 1 year TL - 36 months to 120 months
ESAF Udyog Loan (CC/ OD/ TL/ Demand Loan/ Non-funded)	Loan for meeting working capital and long-term fund requirement of an MSME for the growth of their business	None	CC/OD - 1 year TL – 84 months

Name of the loan	Purpose	Maximum loan amount (in ₹)	Loan tenure
			Demand Loan - 180 days Non-funded - 5 years (period over 5 years and up to 10 years may be permitted by Managing Director or CEO)

Notes:

(1) CC means cash credit.

(2) OD means overdraft.

(3) TL means term loan.

* Yet to be sanctioned.

The interest rates we charge on our MSME and corporate loans are fixed or floating depending on the product. Our fixed rate loans with a tenure of less than three years are based on the MCLR. Our MCLR is reviewed by our MR-ALCO on a monthly basis. Our floating rate loans are based on the RBI's repo rate. As at March 31, 2021, 2020 and 2019, our MSME and corporate loans were ₹ 3,109.01 million, ₹ 1,065.43 million and ₹ 310.00 million, respectively, which represented 3.69%, 1.61% and 0.68% of our gross advances, respectively. For more details on our MSME and corporate loans, see "*Selected Statistical Information – Advances Portfolio*" on page 228.

Customers

Our target customers for our MSME and corporate loans are MSMEs, NBFCs, MFIs and our existing micro loan customers who want to grow their business.

We source customers for our MSME and corporate loans through Branches, digital channels (except for corporate loans), direct sourcing and third party intermediaries, including business correspondents. We are a member of certain TReDS platforms and bills are discounted by participating in the bidding process on these platforms.

Credit Approval and Disbursement Process

Upon sourcing a customer, a relationship officer collects the application and applicable supporting documents. These documents are handed over to a sales officer who performs a series of checks, which include credit bureau checks, house verification, and eligibility assessment in order to verify the applicant's credit history. For new customers, a relationship officer will assist with the opening of a current account. A relationship officer then prepares the proposal in the system, after which the application undergoes a reference check for certain loans by a member of the back-office before forwarding the application to the credit appraisal and credit sanction teams. Our credit department has centralized processing hubs for processing loan applications. The sales officer arranges for legal and technical reports for collateral for loans. The loan requires the final approval by the appropriate credit sanction officer. Once the loan has been approved, a member of the operations team prepares the documents to be executed at one of our Branches. Subsequently, the operations manager takes custody of the documents to verify them. Once verified, a checklist of all documents is sent to the central loan administration team for disbursement.

Loan Collection and Monitoring Process

When the loan documents are executed for certain loan products, we collect NACH instructions, standing instructions or post-dated cheques for loan repayment. To monitor loan collection, we have a collection and recovery department, which sends reminders to our customers before each repayment date.

Corporate Loan

In addition, we make loans to NBFCs and MFIs for onward lending as well as other companies for general business purposes. Such loans are provided after due diligence on the company's business model and other factors, such as experience of the board and management, external rating of the company and, with respect to an NBFC or MFI, the quality of its loan portfolio and the segments that the NBFC/MFI lends to.

Credit Appraisal and Disbursement Process

When a loan application is received, the relationship manager collects relevant documents, such as the audited financial statements for the last two to three years, provisional financial statements, ratings reports, NBFC/MFI grading reports (in the case of NBFC/MFIs) and other essential documents to appraise the loan application. These documents are submitted to the credit department. The credit department evaluates the financial position, credit history and growth plans of the company by reviewing financial statements, business reports, discussions with senior management team of the applicant and prepares a detailed credit appraisal memorandum. We also obtain credit opinion reports from other lenders of the applicant. The credit appraisal memorandum is submitted to the risk management department. All the corporate advances are to be recommended by the executive credit committee, which consists of two executive vice presidents and the Managing Director. The loan is then sanctioned by the Executive Credit Committee or Management Committee of the Board or the Board of Directors, as per the policy prescriptions and the delegated powers. The loan documents are executed at one of our Branches or at the applicant's office in the presence of one of our authorised bank officials. Once the documents are executed and the confirmation is given to the credit monitoring team, the loan is disbursed to the bank account of the applicant.

Loan Collection and Monitoring Process

The loan is repaid as per the repayment schedule provided for in the loan documentation. Borrowers are required to submit a monthly progress report and a monthly receivables statement. Receivables statements are to be certified by a chartered accountant every quarter. We monitor the special mention account status of the borrower with other banks and seek further information from the borrower in the event that the borrower has a special mention account status with another bank.

Agricultural Loans

The following is a description of our agricultural loan products:

Name of the loan	Purpose	Maximum loan amount (in ₹)	Loan tenure
ESAF Haritha Loan	Loans for all agricultural activities, including farm credit, agricultural infrastructure and ancillary activities, such as purchase of implements, developmental activities undertaken in the farm, vermicomposting and agri-entrepreneurship.	1,500,000	1 to 5 years
ESAF Dairy Development Loan	Loan for the purchase and maintenance of animals for milk production and loans for the construction of shed(s) for keeping the animals and purchase of dairy machinery and equipment.	1,000,000	3 to 5 years
ESAF Kisan Credit Card	Loans in terms of working capital for all agricultural activities, including dairy production, inland fisheries, etc., and term loans for farm credit/agriculture infrastructure, such as land development, minor irrigation, purchase of equipment, construction, etc.	10,000,000	1 to 7 years
ESAF Loan against Gold for Agriculturist	Crop cultivation/ allied agriculture/ animal husbandry/ fisheries/ agro-processing/ repairs of agri implements and machinery, etc.	2,500,000	1 year
ESAF Farmer Producer Organization Finance	Credit support for all business activities of the farmer producer organization, including purchase of input material for farmers, setting up of customer service centres, processing units, other productive purposes and/or working capital requirements.	10,000,000	Working capital loan – 12 months Term loan – up to 7 years Demand loan – up to 180 days

The interest rates we charge on our agricultural loans are fixed or floating depending on the product. Our fixed rate loans with a tenure of less than three years are based on the MCLR. Our MCLR is reviewed by our MR-ALCO on a monthly basis. Our floating rate loans are based on the RBI's repo rate. As at March 31, 2021, our gross agricultural loans were ₹ 90.30 million, which represented 0.11% of our gross advances. For more details on our agricultural loans, see "*Selected Statistical Information – Advances Portfolio*" on page 228.

<u>Customers</u>

Our target customers for our agricultural loans are individual farmers and joint borrowers engaged in agriculture and allied activities, such as dairy farming, fishery, animal husbandry, poultry farming, beekeeping, sericulture, agri infrastructure, agri processing units, and agri ancillary activities.

We primarily source customers for our agricultural loans through agri relationship officers, who are employees of our Bank. Each agri relationship officer handles four to five branches in the vicinity of 50 to 75 kilometres. As at May 31, 2021, we had 18 agri relationship officers in the states of Tamil Nadu, Maharashtra and Kerala. We also source customers for our agricultural loans through our Branches, farmer producer organizations and business correspondents. Farmer producer organizations help us to originate loans to farmers and then help those farmers to be more successful through training, technical support, marketing of produce, processing and value addition, thereby leading to a reduced risk of default on those loans. As at May 31, 2021, we had entered into relationships with two farmer producer organizations.

<u>Credit Approval and Disbursement Process</u>

Upon sourcing a customer, the agri relationship officer conducts the field visit, collects the application and applicable supporting documents. These documents are handed over to a sales officer who performs a series of checks, which include credit bureau checks, house verification, applicant's credit history and eligibility assessment. For new customers, the agri relationship officer will assist with the opening of a savings account. The sales officer then prepares the proposal in the system, after which the application undergoes a reference check for certain loans, by a member of the back-office before forwarding the application to the credit appraisal and credit sanction teams. Our credit department has centralized processing hubs for further processing of proposals. The sales officer arranges for legal and technical reports for mortgage loans, if applicable. The loan requires the final approval by the appropriate credit sanction officer. Once the loan has been approved, a member of the operations team prepares the documents to be executed at one of our Branches. Subsequently, the operations manager takes custody of the documents to verify them. Once verified, a checklist of all documents is sent to the central loan administration team for disbursement.

Furthermore, our gold loan staff appraise the gold provided for as security for our Loan against Gold for Agriculturist. Our Loan against Gold for Agriculturist are approved by the Branch head.

Loan Collection and Monitoring Process

When the loan documents are executed for certain loan products, we collect NACH instructions, standing instructions or post-dated cheques for loan repayment. To monitor loan collection, we have a collection and recovery department, which sends reminders to our customers before each repayment date.

Liability Products

Our liability products comprise current accounts, savings accounts, fixed deposits and recurring deposits. We also serve NRI customers and offer NRE and NRO current accounts, saving accounts, fixed deposits and recurring deposits. Our total deposits were ₹ 89,994.26 million, ₹ 70,283.82 million and ₹ 43,170.08 million as at March 31, 2021, 2020 and 2019, respectively. As per the CRISIL Research Report, we had the highest share of retail deposits as a percentage of our total deposits as at March 31, 2020 among our compared peers. Our total retail deposits as at March 31, 2021, 2020 and 2019 were ₹ 87,963.84 million, ₹ 66,823.01 million and ₹ 39,901.16 million, respectively, which represented 97.74%, 95.08% and 92.43% of our total deposits, respectively.

Current Accounts

Our current accounts are demand deposits for customers that do not accrue interest. As at May 31, 2021, we had five variants of current account products catering to the needs of our diverse customer base in India, including corporate entities, individuals, sole proprietorship, trusts, and our agents. In May 2021, we started offering NRE and NRO current accounts.

Savings Accounts

Savings accounts are demand deposits for customers that accrue interest. As at May 31, 2021, we had 23 variants of savings account products catering to the needs of our diverse customer base in India, including women, senior citizens, societies and clubs, children above 10 years, our staff, salaried employees of corporates, and farmers. We offer NRE and NRO savings accounts.

Recurring Deposits

Recurring deposits are a kind of term deposit where a fixed amount is deposited into the account every month over a fixed term and which accrue interest at a fixed rate. The deposits may be withdrawn before maturity in accordance with applicable terms and conditions. As at May 31, 2021, the tenures ranged from six months to 10 years. As at May 31, 2021, we had eight variants of recurring deposit products catering the needs of our diverse customer base in India, including individuals, senior citizens, corporate entities. We offer NRE and NRO recurring deposits. We also offer micro recurring deposits for our micro loan customers.

Fixed Deposits

Fixed deposits are tenure-based deposits of a fixed amount over a fixed term that accrue interest at a fixed rate and may be withdrawn before maturity in accordance with applicable terms and conditions. The tenures for our fixed deposits range from seven days to 10 years. We offer fixed deposits on which we pay simple or cumulative interest. The minimum tenure for our cumulative interest fixed deposits is one year. We also offer NRE fixed deposits and NRO fixed deposits with a tenure ranging from one to 10 years.

In addition, we also offer the Hrudaya Deposit Scheme, which presents our customers with the opportunity to be a part of a social cause, as these deposits are lent to marginalized sections of society. An individual or a corporate entity can join the Hrudaya Deposit Scheme with a minimum deposit amount of ₹ 1,500,000 and for a minimum period of two years.

For more details on our deposits, see "– *Our Strengths – Fast growing retail deposit portfolio with low concentration risk*" and "*Selected Statistical Information – Deposits*" on pages 145 and 225, respectively.

Distribution of Third-Party Products

Insurance Products

We are a corporate agent for Bajaj Allianz Life Insurance Company Ltd and PNB MetLife Life Insurance Company Limited for life insurance products and ICICI Lombard and IFFCO Tokio General Insurance for general insurance products. We distribute a range of insurance products, including term plans, unit linked insurance plans, guaranteed savings plan, motor insurance, fire insurance, health insurance, travel insurance and personal accident policies. We started distributing third-party life and general insurance policies in Fiscal 2019.

Pension Systems

We act as one of the point of presence service providers in the country to provide services to subscribers of Atal Pension Yojna and the National Pension System introduced by Pension Fund Regulatory and Development Authority. The National Pension System is a pension and investment scheme launched by the Government to provide financial security to senior citizens. Atal Pension Yojna is a guaranteed pension product launched by the Government and it is primarily targeted towards the unorganised sector. Subscribers of Atal Pension Yojna receive a fixed minimum monthly pension when they turn 60, depending on the amount they contributed and when they became subscribers. We started distributing Government pension products in Fiscal 2019.

As at May 31, 2021, we had 550 Branches acting as point of presence service providers.

Other Services

Bharat Bill Payment System

We offer our customers access to the Bharat Bill Payment System, which is a one-stop payment solution for all bills across India. It is an interoperable and accessible bill payment service for utility services and also other categories, such as education fees, insurance and municipal taxes. Customer can access the Bharat Bill Payment System via our website, mobile app and our banking agents.

Money Transfer Services

We provide our customers with a remittance service for transferring money on NPCI's Immediate Payment Service (IMPS), on the RBI's Real Time Gross Settlement (RTGS) system and on the National Electronic Funds Transfer (NEFT) system.

Safe Deposit Lockers

We provide safe deposit lockers to our customers to store their valuables for a fee.

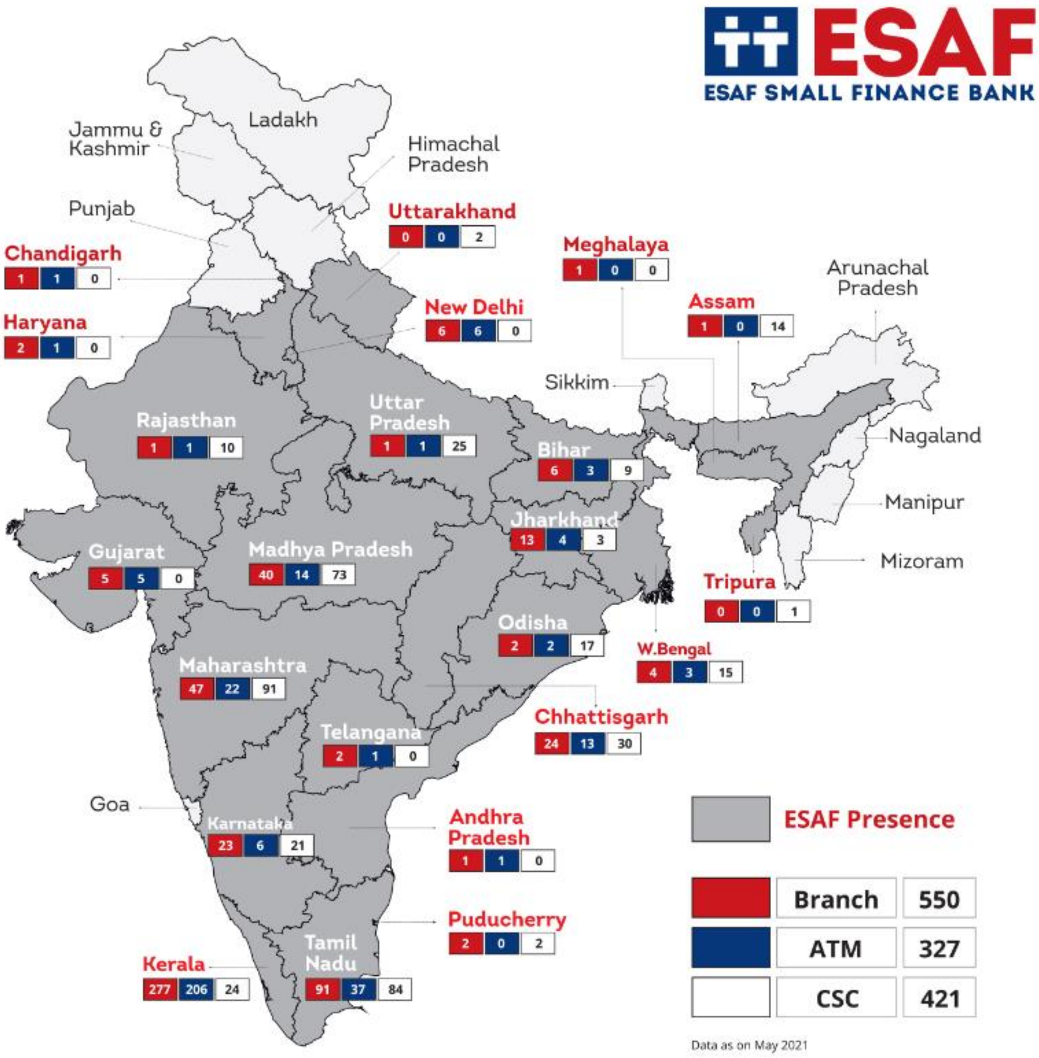
Foreign Exchange Services

We buy from and sell foreign currency to our customers. We also provide overseas money transfer services through an authorised dealer.

Delivery Channels

We deliver our products and services through our business correspondents, Branches, customer service centres (which are operated by business correspondents), banking agents, ATMs, ATM cum debit cards, mobile banking platforms, internet banking portals, unified payment interface facilities and SMS alerts.

As at May 31, 2021, we had 550 Branches, 421 customer service centres (which are operated by business correspondents), 12 business correspondents, 158 banking agents and 327 ATMs in 21 states and two union territories, The map below shows our Branches, customer service centres and ATMs as at May 31, 2021.



Note: CSC means customer service centre.

As per the RBI's requirements, at least 25% of our Branches must be in unbanked rural centres. As at May 31, 2021, 31.27% of our Branches were in unbanked rural centres.

Branches

As at May 31, 2021, we had 550 Branches, of which 190 were rural Branches, 215 were semi-urban Branches, 82 were urban Branches and 63 were metro Branches. During the two months ended May 31, 2021 and Fiscals 2021, 2020 and 2019, we opened nil, 96, 216 and 122 new Branches, respectively. We intend to continue to increase the number of our Branches. For details, see "– *Our Strategies–Penetrate deeper into our existing geographies*" on page 147.

Business Correspondents

As at May 31, 2021, we had 12 business correspondent entities for the distribution of our products and services. Our business correspondent entities are responsible for, among other things, sourcing and servicing of customers for micro loans, mortgage loans, vehicle loans, supply chain and MSME finance, select deposit products and select third-party products. As at March 31, 2021, 2020 and 2019, our business correspondents were responsible for sourcing and/or servicing customers for 84.59%, 93.97% and 96.31% of our gross advances, respectively. As at March 31, 2021, 2020 and 2019, our business correspondents were responsible for sourcing customers for 1.66%, 1.79% and 2.55% of our deposits, respectively.

On March 10, 2017, we acquired the business of our Corporate Promoter through a Business Transfer Agreement dated February 22, 2017. Certain of our Corporate Promoter's employees were responsible for sourcing and servicing micro loan customers until February 28, 2017. With effect from March 1, 2017, the employees responsible for sourcing and servicing micro loan customers were engaged by ESMACO. ESMACO entered into an agreement with our Bank to act as business correspondents for our Bank with effect from March 10, 2017. Until January 12, 2018, ESMACO was our only business correspondent. ESMACO focuses on promoting social and economic opportunities by conducting various programs, such as financial literacy programmes, livelihood training, environment education, skill development and healthcare programmes. ESMACO owns 63.49% of the equity shares in our

Corporate Promoter, which owns 62.46% of the Equity Shares prior to the Offer. We have an agreement with ESMACO to act as our business correspondent that is valid until December 31, 2028. As at March 31, 2021, 2020 and 2019, ESMACO was responsible for sourcing and/or servicing customers for 75.12%, 85.55% and 94.02% of our gross advances, respectively. As at March 31, 2021, 2020 and 2019, ESMACO was responsible for sourcing and servicing customers for 1.41%, 1.49% and 2.55% of our deposits, respectively. ESMACO owns 63.49% of the equity shares in our Corporate Promoter, which owns 62.46% of the Equity Shares prior to the Offer.

Under the terms of the agreements with our business correspondents, our business correspondents act for us on a non-exclusive basis.

We have two different models for our business correspondents and the compensation terms are based on different parameters. One model is where the business correspondent uses our Branch to operate from and the other model is where the business correspondent uses its own premise to operate from. By having a separate payment model for business correspondents that use their own premises to operate from, which we call customer service centres, we are able to grow our business beyond areas where we currently have a Branch. As at May 31, 2021, our business correspondents had 421 customer service centres.

Banking Agents

Banking agents are third party agents that provide banking services on behalf of our Bank from premises managed by themselves. These banking agents can source and service customers for micro loans, select deposit products, select retail asset products and select third-party products. Each banking agent has a POS terminal (also called a micro ATM) installed on its premises and using this POS terminal it can also offer (a) cash deposits, cash withdrawals, balance enquiries, and mini bank statements through debit cum ATM cards and the Aadhaar enabled payment system, (b) intrabank and interbank fund transfers through the Immediate Payment Service (IMPS) and the Aadhaar enabled payment system, and (c) the payment of bills using the Bharat Bill Payment System. Our banking agents serve unbanked and underbanked markets. Through the use of banking agents, we are able to expand our network without having to incur the capital expenditure required for setting up a Branch. In addition, banking agents are usually familiar with the customer base they have in their area. Therefore, they may be more aware of a loan applicant's repayment capacity, financial stability, and many other factors that will help us to make better decisions in relation to loan applications and thereby help us to reduce NPAs. We began using banking agents in Fiscal 2021. We call our banking agents customer service points. As at May 31, 2021, we had 158 customer service points.

ATMs

As at May 31, 2021, we had 327 ATMs, comprising 327 brown label ATMs. Our brown label ATMs are set up, owned and operated by FIS but are branded as our ATMs. During the two months ended May 31, 2021 and Fiscals 2021, 2020 and 2019, we added seven, 99, 98 and 43 brown label ATMs, respectively. We intend to continue to increase the number of our ATMs. For details, see "–*Our Strategies–Penetrate deeper into our existing geographies*" on page 147.

ATM cum Debit Cards

We offer Classic and Platinum RuPay branded ATM cum debit cards to our customers. The cards can be used to withdraw cash through our ATMs and the ATMs of any other bank in India and for purchase transactions at POS/online terminals in India. We also offer a platinum RuPay International Debit card, which is a chip-and-pin card that has enhanced insurance coverage and access to certain airport lounges, and another brand of credit and debit cards. We started distributing platinum debit cards in Fiscal 2020.

Internet Banking

We offer a suite of internet banking services, allowing our customers to conduct banking operations at any time, on any day and from anywhere in the world. Our internet banking services include fund transfers within our Bank, fund transfers to other banks, balance enquiry, bill payment, online payment for certain services, and the payment of direct and indirect taxes.

Mobile Banking

Mobile banking services help customers maintain a virtual connection with our Bank at all times. We currently offer a mobile banking application that connects with the National Payments Corporation of India's unified payments interface platform, thereby enabling our customers to pay bills, transfer funds to other banks instantaneously and use scan and pay facilities at merchant outlets. Our mobile application is compatible with both Android and iOS operating systems.

SMS Alerts

Our SMS alerts facility provides alerts, account information and transactional services via SMS on both smartphones and feature phones. Our SMS alerts facility helps detect unauthorised access to customer accounts. Our missed call banking facility is available to ascertain account balance information and transaction details.

Customer Service

We make use of both interactive voice responses systems and call centre agents to manage our customers' queries. Our call centre facility is available to our customers 24 hours per day, seven days per week. Our call centre agents are multi-lingual and can assist our customers in most languages spoken in areas where we operate. All calls made to our call centre are recorded and these recordings are made available to us for monitoring, quality control and reference purposes. Daily reports of all calls handled by our call centre are monitored by our Customer Service Quality department. Our call centre facility is managed by FIS.

The customer service quality department also conducts fortnightly review calls to discuss areas of improvement to ensure the efficient resolution of customer complaints. We have begun to undertake surveys from customers to obtain their feedback on the quality of our customer service.

Treasury Operations

Our treasury department is responsible for fund raising and asset liability management, minimizing the cost of our borrowings, liquidity management and control, managing interest rate risk and investing funds in accordance with the criteria set forth in our investment policy.

Risk Management

Risk Management Architecture

Our Bank has put in place a well-defined risk management architecture with the following key features:

- active Board and senior management overseeing risk management;
- appropriate policies, procedures and limits;
- comprehensive and timely identification, measurement, mitigation, controlling, monitoring and reporting of risks;
- appropriate management information systems at the business and bank-wide level; and
- comprehensive internal controls.

While the Board is responsible for overall governance and overseeing of core risk management activities, it has delegated authority to the Risk Management Committee of the Board for overseeing and review of the processes and practices of risk management, and further sub-delegated to the executive level Credit Risk Management Committee for managing credit risk; Operational Risk and Business Continuity Management Committee for managing operational risk and Business Continuity and the MR-ALCO for managing market risk, ALM risk, interest rate risk and liquidity risk. The Risk Management Committee approves and recommends to the Board for its review and approval, the policies, strategies and framework for management of risk. It ensures an appropriate risk organization structure with authority and responsibility clearly defined, ensuring the independence of risk management function.

The Risk Management Department is responsible for the formulation of risk policies and the Internal Capital Adequacy Assessment Process ("**ICAAP**"), identifying risks, assessing its materiality, measuring the magnitude of each type of risk, formulating risk-capital linkages, suggesting appropriate controls and mitigations, conducting stress tests, identifying impact on key risk parameters, coordinating the implementation of risk management framework approved by the Board and periodical risk reporting.

The Risk Management Department is headed by the Chief Risk Officer, who is independent of all businesses and other functions, and reports to the Managing Director & Chief Executive Officer on administrative matters and to the Board of Directors through the Risk Management Committee of the Board, on functional matters. The Risk Management Department, in the process of identifying, measuring, monitoring and managing various risks, focuses on Credit Risk, Market Risk, Operational Risk, Transaction Monitoring, Information Security and Internal Financial Controls. Heads of the Credit, Market and Operational Risk Divisions report to the Chief Risk Officer. The Chief Information Security Officer reports to the Chief Risk Officer.

Various functional departments are responsible for devising and implementing suitable policies and processes for effective management of risks embedded in their respective functions, in consultation with the Risk Management Department. Business units are responsible for compliance of various policies and procedures stipulated by the Corporate Office for effective implementation of risk management systems.

The Internal Audit Function cross verifies the risk management activities and results thereof through various systems of audits and inspections, pointing out deficiencies and shortfalls, if any, for rectification and compliance. Other important aspects of our risk architecture are:

- Segregation of duties across the 'three lines of defense' model, whereby business functions, risk management and compliance and internal audit roles are made independent of one another;
- Risk strategy is approved by the Board on an annual basis and is defined based on our risk appetite aligning risk, capital and performance targets;
- All major risk classes are managed through focused and specific risk management processes; these risks include credit risk, market risk, operational risk and liquidity risk. Policies, processes and systems are in place to enhance our risk management capability; and

- The risk function has appropriate representation on all management committees to ensure that risk view is factored into business decisions. Stress testing tools and escalation processes are established to monitor the performance against approved risk appetite parameters.

Our risk management activities are governed by various policy documents approved by the Board.

Credit Risk

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

Credit risk management is the direct responsibility of the Credit Risk Management Committee. The Credit Risk Management Committee manages implementation of credit risk management framework and provides recommendations to the Risk Management Committee and the Board. It ensures implementation of Credit Risk Management Policy and procedures, as approved by the Risk Management Committee and the Board and recommends changes thereto, considering any changes in the regulatory instructions, business or economic conditions. It also monitors quality of the loan portfolio at periodic intervals, identifies problem areas and instructs business units with directions to rectify the deficiencies.

The Credit Risk Division of the Risk Management Department implements policies and processes for credit risk identification, assessment, measurement, monitoring and control. Credit risk appetite statements are drawn up with inputs from the business units, and credit risk parameters and credit exposure and concentration limits are set by the Board, based on regulatory guidelines. The Credit Risk Division constructs credit risk identification systems, monitors the quality of our loan portfolio, identifies problem credits and undertakes asset quality reviews with support from the business units and submits its analysis and reports to the Risk Management Committee on an on-going basis. The Credit Risk Division captures early warning signals in the loan portfolio for identification of weak exposures, suggests remedial measures and monitors the actions taken.

Market Risk Management

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

The primary components of market risk are discussed below.

Interest rate risk

Interest rate risk refers to fluctuations in our Net Interest Income and the value of our assets and liabilities arising from external and internal factors. Internal factors include the composition of assets and liabilities, borrowings, loans and investments, quality, maturity and interest rates. External factors cover general economic and monetary conditions. While the immediate impact of this risk is on Net Interest Income and the value of fixed income investments, in the long term, variations in interest rates impact our net worth, since the economic value of the assets, liabilities and off-balance sheet positions get affected.

Liquidity risk

Liquidity refers to our ability to fund a decrease in liabilities or increase in assets and meet both cash and collateral obligations at a reasonable cost without adversely affecting our financial status. Liquidity risk arises when we are unable to meet such obligations. Liquidity risk is dependent on specific factors, such as maturity profile and composition of sources and uses of funding, the quality and size of the liquid asset buffer, and broader market factors, such as wholesale market conditions alongside depositor and investor behaviour. This type of risk may result in our failure to meet regulatory liquidity requirements, support normal banking activity or, at worst, cease to be an ongoing concern.

Market risk management is overseen and undertaken by the Market Risk Division of the Risk Management Department. The Division is responsible for the design and implementation of our market risk management and asset liability management systems. The Division is independent from business and trading units, and provides an independent risk assessment, which is critical to controlling and managing market risk. The Treasury Mid Office function is attached to the Market Risk Division of the Risk Management Department. The Mid Office prepares and analyses daily reports on various activities of Treasury Department. The Mid Office is responsible for independent market risk monitoring, measurement and analysis. The Mid office reports to the Chief Risk Officer.

The market risk management and asset liability management functions are handled by the MR-ALCO, the executive level committee headed by the Managing Director & Chief Executive Officer.

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

- design and implementation of effective market risk management and asset liability management framework;

- review of new directives and regulatory limits for market risk, interest rate risk and liquidity risk, monitoring and revising tolerance limits prescribed in the market risk management policy, with the approval of the Board;

- ensuring that our risk management strategies are aligned to the business strategies;
- determining the structure, responsibilities and controls for managing market risk and the liquidity positions; and
- ensuring independence in the working of the mid office and market risk functions.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk but excludes strategic risk and reputational risk. While operational risk management is the responsibility of various functions and business units handling operational activities, it is overseen at executive level by the Operational Risk and Business Continuity Management Committee.

The Operational Risk and Business Continuity Management Committee mitigates operational risk by creation and maintenance of an explicit operational risk management process. It conducts detailed reviews of all operational risk exposures and focuses on all operational risk issues.

The Operational Risk and Business Continuity Management Committee reviews the risk profile to take into account future changes and threats, and concurs on areas of high priority and related mitigation strategies with different departments and business units. The committee ensures that adequate resources are being assigned to mitigate risks as needed, and communicates to business units and staff, the importance of operational risk management.

In addition to the Operational Risk and Business Continuity Management Committee, the Operational Risk Division also coordinates the functions of the Crisis Management and Quick Response Team, which is responsible for swift actions to address the business continuity issues in the event of the occurrence of a crisis.

Business continuity management and coordination of relevant activities are also the functions of the Operational Risk management team. Activities include building up understanding of the risk profile, implementing tools related to business continuity management, and working towards the goals of improved controls and lower risk.

Our Bank has operationalized the Risk Control and Self-Assessment process, which assesses the operational risks in various banking operations and effectiveness of controls in place. Monitoring of key risk indicators is done on a quarterly basis to monitor the risk movements. Appropriate corrective action plans are initiated in case of adverse movement of risk levels. The operational risk management model facilitates conducting of risk and control assessments and scenario assessments, controls testing, investigation of incidents, tracking of issues and development of action plans. Each of these activities can be linked to the other activities in the system, thereby providing an integrated and centralized framework for collecting, managing, and storing information on operational risks.

Information Security Risk and Cyber Security Risk

Overseeing of information security governance is the responsibility of the Information Security Governance Committee. The Information Security Governance Committee is an executive level committee headed by the Managing Director and Chief Executive Officer. The Information Security Governance Committee monitors, reviews, directs and manages our information security risk management system by establishing a robust information security risk management framework. This committee reports to the Board through the IT Strategy Committee of the Board and keeps the Board apprised of relevant risks that need attention.

Our information security policy and cyber security policy are approved and periodically reviewed by the Board. The Chief Information Security Officer is responsible for articulating and enforcing the policies that we use to protect our information assets for coordinating with relevant external agencies on the information security related issues. Our cyber security management functions are guided directly by the Board approved Cyber Security Policy and also by other related policies, including the Operational Risk Management Policy, Business Continuity Management Policy, Fraud Risk Management Policy and Information Security Policy.

Transaction Monitoring

We have controls and compliance mechanisms in place for ensuring that our customers do not include persons prone to money laundering and other financial crimes. The Transaction Monitoring team focuses on the following:

- risk categorization of customers at the time of account opening, and transaction monitoring measures that align with the risk categorization of our customers;
- maintenance of a compliance culture across the organization ensures that all our employees understand money laundering risks and the consequences of breaches in AML norms;
- effective implementation of our KYC and AML policy helps ensure that we are not used for money laundering or terrorist financing activities;
- development and maintenance of a comprehensive AML and CFT programme in line with the regulatory requirements;

- reporting on cash transactions above the limits specified, transaction involving receipts by non-profit organizations and transactions involving the use of forged or counterfeit currency notes to Financial Intelligence Unit India; and

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

Internal Financial Controls

Internal financial controls are the policies and procedures adopted by us to ensure orderly and efficient conduct of our business, including adherence to our policies, safeguarding of our assets, prevention and detection of frauds and errors, accuracy and completeness of accounting records, and timely preparation of reliable financial information. We have developed an internal financial control framework in line with the requirements prescribed by the Companies Act, 2013. We have an Internal Financial Control team in the Risk Management Department for implementing the internal financial controls. The Audit Committee of the Board oversees implementation of internal financial controls and submits a report to the Board. The Board confirms that the internal financial controls are adequate and operating effectively.

We have identified and documented risk control matrices incorporating all the major processes along with the key risks associated with them.

The Internal Financial Control team maintains repository of all process walk-through documents and the risk control matrices. Based on the risk assessment, processes are categorized into different risk categories for the purpose of determining testing frequency. Testing includes both the testing of design gaps as well as test of operating effectiveness. After certifications from heads of departments, the Chief Financial Officer certifies our internal financial control compliance and the same is disclosed in our annual report.

Material Risk Assessment

The Risk Management Department assesses on a quarterly basis and presents to the Board all the major risks faced by us and identifies the risks that are material through the ICAAP review document. Our policies and procedures provide specific guidance for the implementation of broad business strategies and establish, where appropriate, internal limits for various types of risks to which we may be exposed.

Material risks are those risks that impact our earnings, capital and people. A combination of the following qualitative and quantitative parameters is assessed to study the impact of a specific risk on us to check for materiality:

Earnings

Earnings include Net Interest Income and non-interest income. The assessment is forward looking and aligned to financial plans.

Capital

The material risk assessment exercise assesses the impact of adverse events on our capital requirements. This is mainly done through the stress testing exercise.

People

This criterion assesses the impact of different risk events on the staff, including staff morale, attrition rate, performance management, training and development and balancing business requirements with personal goals of employees.

ICAAP

As per the directives set out by the RBI, banks with varying levels of complexity in their operations shall be classified as 'simple', 'moderately complex' or 'complex' while formulating ICAAP. The objective of ICAAP is to ensure that we have adequate capital to support all risks found in our businesses as well as to develop and use better risk management techniques for monitoring and managing these risks. In accordance with the criteria outlined by the RBI, we have classified ourselves as 'Simple' bank, taking into account the nature and level of complexities of our business.

A comprehensive review of Pillar 1 and Pillar 2 risks is undertaken during each quarter. Pillar 1 risks comprise credit risks, market risks and operational risks. Pillar 2 risks include credit concentration risks, liquidity risks, interest rate risks, strategic risks, reputational risks, compliance risks, IT and cyber security risks, human resources risks, group risks, outsourcing risks, internal frauds and malpractices risks, governance risks, regulatory norms violation risks, settlement risks, legal risks, sustainability risks and process risks.

Risk Tolerance Levels and Risk Appetite Statement

Risk appetite is the level of risk that we are prepared to accept in pursuit of our business objectives, the level beyond which we do not intend to go. It represents a balance between the potential benefits and the threats. We have varying degrees of risk appetite for various types of risks defined under the Pillar I and Pillar II categories under Basel III norms. This has been established through our

Risk Appetite Statement, which is approved by the Board. The risk appetite or tolerance levels include both qualitative and quantitative parameters.

Our business plans and Risk Appetite Statement are aimed at optimal capital position, defined by regulatory and internal ratios as well as optimal liquidity and funding management.

Stress Testing

Stress testing is done by the Risk Management Department on various parameters on a quarterly basis. Stress testing provides a means for estimating our risk exposure under stressed conditions enabling development of our choice of appropriate strategies for mitigating such risks (e.g., restructuring positions and developing appropriate contingency plans). It improves our understanding of our risk profile and facilitates monitoring of changes in that profile over time. It allows the Board and senior management to determine whether our risk exposures correspond to our risk appetite and evaluate our capacity to withstand stressed situations in terms of profitability and capital adequacy. The stress tests used by us include sensitivity analysis and scenario analysis. Sensitivity tests are used to assess the impact of change in one variable on our financial position and scenario tests include simultaneous moves in a number of variables based on historical or hypothetical events and assessment of their impact on our financial position.

We test a variety of scenarios of increasing NPAs, since credit quality generally tends to deteriorate during an economic downturn as borrowers begin to experience cash flow problems, which in turn affect servicing of debt, leading to possible deterioration in asset quality.

Liquidity risk stress tests are done on the parameters of 'baseline' (with respect to institution specific crisis), 'medium' (with respect to general market crisis) and 'severe' (with respect to combined scenarios).

We also conduct stress tests on interest rate risk using the economic value of equity approach. The economic value of equity approach analyses the long-term impact of changing interest rates on the market value of our equity or net worth under various scenarios. The economic value of our assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates.

Business Continuity Planning

We rely on increasingly complex technology and business models to deliver our products. Technology based products include interconnected ATM networks, tele-banking, core banking solutions, a mobile banking application and internet banking solutions.

We have established a business continuity plan, which involves the creation and implementation of strategies that recognize threats and risks that we may be subject to, with a focus on the protection of personnel and assets, while maintaining continued operations in the event of a disaster. The process defines potential risks, measures their impact, designs safeguards and procedures to mitigate those risks, tests those procedures to ensure that they work, and executes the implementation part. These plans and processes are periodically reviewed to ensure that they are effective and functional.

We have an executive-level Crisis Management and Quick Response Team that is responsible for initiating immediate actions in the event of occurrence of a crisis and to guide the business units on steps to be taken to protect our assets and to ensure continuity of business. The Crisis Management and Quick Response Team is responsible for–initiating 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.

Information Technology

FIS provides us with a fully integrated banking and payments platform through a totally outsourced delivery model, which encompasses a core banking solution, risk management, domestic treasury management, analytics and the entire suite of payments services, which includes switching, debit card management services and ATM management for our brown label ATMs. The service agreement between our Bank and FIS is dated June 10, 2016 and expires on December 31, 2021. Our Bank has the option to renew the agreement for a further period of three years on the same terms and conditions. We decided to outsource our IT requirements to FIS in order to minimise our upfront capital expenditure costs and avoid redundancy risk. We have rolled out FIS' core banking solution in all of our Branches. All of the accounts of our customers are on our core banking solution.

In addition, we use another software service provider for our micro loan business.

Our primary data centre is in Mumbai and our disaster recovery centre is in Hyderabad, both of which are operated by FIS.

For further information, see "*Risk Factors – Weaknesses, disruptions or failures in IT systems could adversely impact our business*" on page 37.

Marketing

To enhance our brand visibility, we advertise using banners, newspaper advertisements and billboards. We also have kiosks/umbrellas in crowd-pulling areas where our team members distribute leaflets. One of our major lead generation activities includes associating with various organizations, such as rotary clubs and local cultural organisations. We set up counters at events held by such organizations where our staff distributes leaflets and interact with potential customers. We also organize our own lead generating activities, such as health check-ups at our Branches or in nearby residential societies to connect with people. Furthermore, we use social media to promote our Bank.

Competition

The Indian finance industry is intensely competitive. We face intense competition in all our principal products and services.

Loans in the microfinance sector are provided by banks, small finance banks, NBFC-MFIs, other NBFCs and non-profit organisations. Banks provide loans under the self-help group model. However, they also give micro loans directly or through business correspondents to meet their priority-sector lending targets. NBFC-MFIs and non-profit MFIs are the only two players with loan portfolios exclusively focused towards microfinance. The eight small finance banks that are former MFIs, including our Bank, cumulatively accounted for approximately 14% of the gross loan portfolio of the microfinance sector as at March 31, 2021. (*Source: CRISIL Research Report*). Our gross micro loans were ₹ 71,343.54 million as at March 31, 2021, which represented 2.81% of the microfinance sector's gross loan portfolio of approximately ₹ 2.54 trillion as at March 31, 2021 as per the CRISIL Research Report. For more details on our competition, see "*Industry Overview – Competitive Dynamics*" on page 128.

Our competitors in the organized sector may have a better brand recognition, greater business experience, more diversified operations, a greater customer and depositor base, a larger branch network and better access to funding and at lower costs than we do. Furthermore, certain requirements that are applicable to small finance banks in terms of the SFB Operating Guidelines and other banking laws and regulations are significantly more stringent in comparison to scheduled commercial banks and NBFCs. Ensuring compliance with these laws and regulations has and will continue to limit our revenue, thereby making it more difficult to compete with other players in the organized sector. For further details, see "– *We are subject to stringent regulatory requirements and prudential norms. If we are unable to comply with such laws, regulations and norms it may have an adverse effect on our business, financial condition, results of operations and cash flows*" on page 29. In addition, we compete with informal sources of lending for micro loans, including moneylenders, landlords, local shopkeepers and traders.

On December 5, 2019, the RBI issued guidelines for on-tap licensing of small finance banks, which allows applicants to apply for a small finance bank license at any time, subject to the fulfilment of certain eligibility criteria and other conditions. We expect this to increase competition for us. Further, consolidation in the industry driven by the merger of other banks is likely to further increase competition by creating larger, more homogeneous and potentially stronger competitors in the market. Increases in operations of our existing competitors or the entry of additional banks offering a similar or wider range of products and services could also increase competition. Further, with the advent of technology-based initiatives and alternative modes of banking, we may face increased competition in this sector, which may in turn impact our results of operations. We also face competition from specialized fintech companies who could disrupt our origination, sales and distribution process.

Insurance

We maintain insurance policies that we believe are customary for banks operating in our industry. Our principal insurance policies are commercial general liability insurance, cyber risk insurance, standard insurance for fire and special perils, special contingency policy (electronic crime), group health insurance, bankers indemnity, professional indemnity and directors' and officers' liability insurance.

Intellectual Property

For details on our intellectual property, see "*Government and Other Approvals – Intellectual Property*" on page 339.

Employees

The following table sets forth the numbers of our employees, categorised by function, as at May 31, 2021:

Functions	Number of Employees
Audit	76
Administration	551
Micro business	35
Retail assets	140
Retail liabilities	2,988
MSME and Corporate business	29
Agri business	22
Total	**3,841**

We believe our employees are one of our 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. We recognise the importance of continuous learning and have adopted a comprehensive learning and development policy.

Each employee on-boarded has to mandatorily undergo a minimum of two weeks' training, which includes on-the-job training in micro at our Branches. After on the job training at our Branches, they are given one week's residential induction training and also another week's training on core banking solution software.

We have facilitated a culture of self-learning for our employees by establishing an online learning portal, ESAF Small Finance Bank Online Academy. We conduct various topic-based trainings for our employees. We also have tie-ups with coaching institutes in multiple locations for approved certification courses at concessional fees for employees and we give incentives to those employees who pass those courses. Employees can also avail professional development loans from us to pay for these courses. We also regularly nominate senior staff to attend programmes arranged by certain financial educational institutes.

Properties

We do not own any real property. We lease our corporate office and registered office. As at May 31, 2021, we leased/licensed 550 Branches. As at May 31, 2021, we had 327 brown label ATMs, all of which are on leased/licensed premises.

Corporate Social Responsibility

We have adopted a CSR policy in compliance with the requirements of the Companies Act, 2013 and the Companies (Corporate Social Responsibility) Rules, 2014 notified by the Central Government. We have a board approved CSR policy and have established a board level CSR management committee. Our CSR focus areas are education, healthcare, sanitation and livelihood development. We have entered into a memorandum of understanding dated of December 19, 2018 with ESAF Society, pursuant to which the ESAF Society provides services to us for the execution of CSR projects, including providing project proposals, timelines and budgetary estimates for CSR projects within our focus areas. The memorandum of understanding is valid for a term of three years.

We have also entered into a memorandum of understanding with Prachodhan Development Services dated December 15, 2019, pursuant to which it provides services to us for the execution of certain CSR projects. The memorandum of understanding is valid for a term of three years.

Recent Developments – Effects of the COVID-19 Pandemic on our Business and Operations

The World Health Organization (WHO) declared the outbreak of COVID-19 a global pandemic on March 11, 2020. The Government of India initiated a nation-wide lockdown from March 25, 2020 for three weeks on all services except for essential services (which included bank branches and ATMs), which was extended to May 31, 2020. Although the nation-wide lockdown was lifted on June 1, 2020, restrictions on non-essential activities and travel were imposed until August 31, 2020 in multiple states across specific districts that were witnessing increases in COVID-19 cases. On August 29, 2020, the Government notified all states to allow economic activities to function normally from September 1, 2020 while continuing with restrictions only in containment zones. India has been witnessing a second wave of COVID-19 since the end of February 2021, leading to state governments imposing curfews and lockdowns in an attempt to control the spread of COVID-19. The medical impact of the second wave of the pandemic has been much worse than the first wave, and the impact has been seen across rural and urban areas, unlike the first wave's impact, which was largely urban centric. (*Source: CRISIL Research Report*). The effects of COVID-19, including lockdowns and restrictions, led to significant disruptions for individuals and businesses, including us, and adversely affected our operations and our business correspondents' operations, including lending, collection of loan repayments and the acceptance of deposits, thereby adversely affecting our financial condition, results of operations and cash flows.

We have adopted a proactive approach in managing the impact of the pandemic on our business since its outbreak. Crisis Management Committee meetings were convened on various dates to take stock of the situation. A quick response team was formed for co-ordinating the Business Continuity Plan activity against the background of the nation-wide lockdown. Our Risk Management Department prepared a Business Continuity Plan document dated March 19, 2020 for dealing with the COVID-19 situation and it was circulated to all Branches and offices for implementation. The Business Continuity Plan document dated March 19, 2020 covers, among other things: general work place measures; identification of critical functions, roles and activities; employee absenteeism; work from home arrangements; rotation of duties; alternate plans for Branch staffing; business continuity plans for critical functions such as IT and operations; method of conducting meetings; travel restrictions; vendor management; infrastructure management; and internal and external communications. Set forth below are a few key measures we adopted for managing the lockdown and COVID-19 pandemic:

- Staff members in critical functions were separated into different teams and deployed at different offices.
- Infrastructure support and webmail access using a secured VPN with two-factor authentication was provided to employees to enable them to work from home. Work from home reporting and monitoring is being done by all departments.
- Disaster recovery systems were checked regularly and confirmed at short notice and at critical times.
- Business continuity arrangements of our core banking solutions provider, business correspondents and vendors were continuously evaluated and tracked.
- We used external vendors to ensure we had an adequate supply of computers and accessories as well as maintenance support for different locations.

- We circulated on a periodic basis to our employees a list of do's and don'ts.

- We staffed our Branches in a structured manner, so as to keep a pool of staff available for meeting exigencies.

- We formed emergency support teams at cluster levels for deploying staff to different centres in case of exigencies.

- The Business Continuity Management team in our Risk Management Department verified the implementation and effectiveness of the Business Continuity Plan document dated March 19, 2020 by contacting business units, employees and business correspondents on an on-going basis.

As a supplement to the Business Continuity Plan document dated March 19, 2020, we prepared a Business Continuity Plan document dated August 10, 2020 and a Business Continuity Plan document dated April 19, 2021 to update the earlier documents in view of our experience since then, considering the probable impact and continuous risks for our business and staff. We circulated these documents to all Branches and offices for implementation.

The measures we have adopted have been largely successful in ensuring business continuity and none of our critical functions suffered any major disruption during this period. However, due to the nation-wide lockdown, the collection and disbursement activities for micro loans were almost stopped entirely during April 2020 and were very limited in May 2020. Effective June 1, 2020, our business correspondents were able to begin operations again in most of the centres and hence micro loan disbursements and collections began to improve.

Our Branches and ATMs were exempt from the nation-wide lockdown. Since March 25, 2020, we have closed down our Branches at different points of time in order to comply with state and local COVID-19-related regulations. In particular, on May 6, 2021, the Government of Kerala notified a state-wide lockdown from May 8, 2021 to May 16, 2021, which was extended up until July 15, 2021, during which banks were permitted to remain open for a limited number of hours per day, on alternate days (i.e., Monday, Wednesday and Friday), with minimal staff. Our Branches in Kerala were permitted to operate on all five weekdays from July 15, 2021 onwards. As at May 31, 2021, 277, or 50.36% of our 550 Branches were located in Kerala.

We have adopted a "business as usual" approach since the nation-wide lockdown was lifted on June 1, 2020, while exercising precautions and preventive measures. We have adopted and promoted a 'Panch Sheel' approach, pursuant to which we have advised all employees to wear facemasks regularly, to wash their hands frequently with soap and water, to use hand sanitizer, to keep physical distance from others and to keep away from crowds. We have advised our operational staff to fully adhere to the instructions of local government authorities and health department officials, and the state-level official forum of bankers in opening Branches and in maintaining any COVID-19-related protocols.

We launched three new loan products to assist our customers during the pandemic: (1) Income Generation Loan Top Up Loan; (2) Pre-approved Loan; and (3) Utdhan Loan Series 3 – Covid Care Loan.

Pursuant to the 'COVID-19 Regulatory Package' on asset classification and provisioning, which was announced by the RBI on March 27, 2020, April 17, 2020 and May 23, 2020, lending institutions, including us, were permitted to grant an effective moratorium of six months on the payment of term loans falling due between March 1, 2020 and August 31, 2020. As such, in respect of all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, were excluded by the lending institutions from the number of days past-due for the purpose of asset classification under RBI's income recognition and asset classification norms. We granted a full or partial moratorium on all payments falling due between March 1, 2020 and August 31, 2020 to all eligible borrowers. The following table sets forth certain information in relation to our micro loans and other loans (comprising all retail loans, MSME and corporate loans and agricultural loans, excluding gold loans and loans against deposit ("**Other Loans**, **excluding Gold Loans and Loans Against Deposit**")) for the first moratorium (which was from March 1, 2020 up to and including May 31, 2020) and the second moratorium (which was from June 1, 2020 up to and including August 31, 2020).

Particulars	During the period of the first moratorium (March 1, 2020 to May 31, 2020) (unaudited)				During the period of the second moratorium (June 1, 2020 to August 31, 2020) (unaudited)			
	Micro loans		Other Loans, excluding Gold Loans and Loans against Deposit		Micro loans		Other Loans, excluding Gold Loans and Loans against Deposit	
	Amount (₹ in million)	% of total eligible for moratorium	Amount (₹ in million)	% of total eligible for moratorium	Amount (₹ in million)	% of total eligible for moratorium	Amount (₹ in million)	% of total eligible for moratorium
Eligible for moratorium	19,466.79	100.00%	366.25	100.00%	19,769.85	100.00%	445.95	100.00%
Paid during the period	4,794.52	24.63%	171.48	46.81%	9,149.51	46.28%	282.18	63.28%
Not paid and availed moratorium	14,672.27	75.37%	194.85	53.19%	10,620.34	53.72%	163.77	36.72%

The Supreme Court of India in *Gajendra Sharma v. Union of India & Anr* vide its interim order dated September 3, 2020 directed banks that accounts that were not declared as NPAs as at August 31, 2020 shall not be declared as NPAs until further orders, and the case was disposed vide the Supreme Court's judgment dated November 27, 2020. The Supreme Court of India in *Small Scale Industrial Manufactures Associate (Regd.) v. Union of India and others* vide a judgment dated March 23, 2021 directed that the interim order granted on September 3, 2020 to not declare the accounts of borrowers as NPAs stands vacated. As per the RBI's notification dated April 7, 2021, for the period commencing September 1, 2020, asset classification for all such accounts shall be as per the applicable RBI asset classification norms.

Our provisions for NPAs increased by 321.56% to ₹ 2,474.19 million for Fiscal 2021 from ₹ 586.91 million for Fiscal 2020.

On October 23, 2020, the Government announced a scheme for the grant of ex-gratia payments to borrowers of certain categories of loans where the sanctioned limit and outstanding amount does not exceed ₹ 20.00 million irrespective of whether they opted for the moratorium or not (aggregate of all facilities with the lender) of the difference between compound interest and simple interest charged on those loans for the period from March 1, 2020 to August 31, 2020. The scheme involves the lenders crediting the difference between simple interest and compound interest for the period from March 1, 2020 to August 31, 2020 to the accounts of such borrowers and the Government paying such credited amounts to the lenders.

Additionally, on March 23, 2021, in *Small Scale Industrial Manufactures Association v. Union of India and others*, the Supreme Court directed that there shall not be any charge of interest on interest/compound interest/penal interest for the period during the moratorium and any amount already recovered under the same head, namely, interest on interest/penal interest/compound interest shall be refunded to the concerned borrowers and be given credit/adjusted in the next instalment of the loan account. In accordance with the instructions in the RBI notification dated April 7, 2021, we shall refund/ adjust 'interest on interest' to all borrowers, including those who had availed of working capital facilities, during the moratorium period, irrespective of whether the moratorium had been fully or partially availed, or not availed. Pursuant to these instructions, the methodology for calculation of the amount of such 'interest on interest' was finalised by the Indian Banks Association (the "**IBA**") in consultation with other industry participants/ bodies on April 19, 2021. As at March 31, 2021, we held a provision of ₹ 80.00 million, which was created by debiting interest income, to meet our obligation towards refunding interest on interest to eligible borrowers as prescribed by the RBI.

For information on the effect of the moratorium and the Supreme Court's orders on our results of operations and financial condition as at and for the year ended March 31, 2021, see "*Financial Statements – Note 19 i. (a) – "COVID Regulatory Package Asset classification and provisioning for the Year ended 31 March 2021*" on page 270. For information on the effect of the moratorium on our results of operations and financial condition as at and for the year ended March 31, 2020, see "*Financial Statements – Note 19 i. (b) – "COVID Regulatory Package Asset classification and provisioning for the Year ended 31 March 2020"* on page 270.

Advances

<u>Disbursements</u>

Set forth below is a table showing disbursements of our micro loans and Other Loans, excluding Gold Loans and Loans against Deposit for each of the months indicated. The numbers below have not been audited.

(₹ in million)

	For March 2020	For April 2020	For May 2020	For June 2020	For the three months ended September 30, 2020	For the three months ended December 31, 2020	For the three months ended March 31, 2021
Micro loans	4,879.16	-	434.10	1,327.33	7,316.45	14,928.42	20,457.37
Other Loans, excluding Gold Loans and Loans against Deposit	1,078.26	137.56	615.82	1,211.96	3,962.57	4,698.19	7,773.97

<u>Collections</u>

<u>During the Moratorium</u>

Set forth below is a table showing collections of our micro loans and Other Loans for each of the months indicated. The numbers below have not been audited.

(₹ in million)

	For March 2020	For April 2020	For May 2020	For June 2020	For July 2020	For August 2020
Micro loans	4,679.45	1.30	113.77	2,569.47	3,132.59	3,447.45
Other Loans, excluding Gold Loans and Loans against Deposit	135.21	10.80	25.47	89.77	85.24	107.16

<u>Post the Moratorium</u>

Set forth below is a table showing collections of our micro loans and Other Loans for September 2020 and the three-months periods indicated. The numbers below have not been audited.

(₹ *in million)*

	For September 2020	For the three months ended December 31, 2020	For the three months ended March 31, 2021
Micro loans	3,975.77	14,811.67	18,299.11
Other Loans, excluding Gold Loans and Loans against Deposit	176.09	110.68	132.23

Collection Efficiency

During the Moratorium

The following table sets forth our collection efficiency including arrears and collected in advance, which is calculated as a percentage of the total collections made in the month (including arrears and collected in advance) to the total amount due for collection in such month (without considering the repayment holiday during the moratorium). The numbers below have not been audited.

	For March 2020	For April 2020	For May 2020	For June 2020	For July 2020	For August 2020
Micro loans	72.11%	0.02%	1.75%	39.45%	47.53%	51.71%
Other Loans, excluding Gold Loans and Loans against Deposit	110.75%	8.85%	20.86%	60.39%	57.35%	72.09%

The following table sets forth our collection efficiency after adjustments with respect to collections due toward arrear demands and amount collected in advance, which is calculated as a percentage of the total collections (after adjustments with respect to collections due towards arrear demands and amount collected in advance) to the total amount due for collection in such month (without considering the repayment holiday during the moratorium). The numbers below have not been audited.

	For March 2020	For April 2020	For May 2020	For June 2020	For July 2020	For August 2020
Micro loans	71.68%	0.02%	0.94%	37.14%	36.83%	36.29%
Other Loans, excluding Gold Loans and Loans against Deposit	96.09%	8.24%	20.55%	52.30%	41.09%	59.29%

Post the Moratorium

The following table sets forth our collection efficiency including arrears and collected in advance, which is calculated as a percentage of the total collections made in the month (including arrears and collected in advance) to the total amount due for collection in such month or period, as applicable. The numbers below have not been audited.

	For September 2020	For the three months ended December 31, 2020	For the three months ended March 31, 2021	For April 2021	For May 2021
Micro loans	79.24%	87.61%	108.79%	88.28%	37.29%
Other Loans, excluding Gold Loans and Loans against Deposit	87.27%	82.19%	97.83%	89.61%	73.76%

The following table sets forth our collection efficiency after adjustments with respect to collections due toward arrear demands and amount collected in advance, which is calculated as a percentage of the total collections (after adjustments with respect to collections due towards arrear demands and amount collected in advance) to the total amount due for collection in such month or period, as applicable. The numbers below have not been audited.

	For September 2020	For the three months ended December 31, 2020	For the three months ended March 31, 2021	For April 2021	For May 2021
Micro loans	74.18%	70.18%	83.21%	81.28%	33.60%
Other Loans, excluding Gold Loans and Loans against Deposit	86.49%	80.46%	87.44%	84.58%	72.52%

Percentage of Borrowers Paying their Instalments

During the Moratorium

The following table sets forth the percentage of borrowers who had (a) fully paid their instalments, (b) party paid their instalments and (c) not paid any of their instalments due for payment in such month. The numbers below have not been audited.

	For March 2020	For April 2020	For May 2020	For June 2020	For July 2020	For August 2020
Fully paid borrowers	34.23%	34.21%	23.38%	24.39%	16.53%	78.81%

	For March 2020	For April 2020	For May 2020	For June 2020	For July 2020	For August 2020
Partly paid borrowers	58.52%	-	-	17.60%	33.58%	13.15%
Nil paid borrowers	7.25%	65.78%	76.62%	58.01%	49.88%	8.04%

Post the Moratorium

The following table sets forth the percentage of borrowers who had (a) fully paid their instalments, (b) party paid their instalments and (c) not paid any of their instalments due for payment in such month or period, as applicable. The numbers below have not been audited.

	For September 2020	For the three months ended December 31, 2020	For the three months ended March 31, 2021	For April 2021	For May 2021
Fully paid borrowers	46.89%	60.01%	82.37%	72.16%	28.62%
Partly paid borrowers	34.00%	32.25%	13.17%	23.39%	66.95%
Nil paid borrowers	19.11%	7.74%	4.45%	4.44%	4.43%

Deposits

For details on our deposits as at March 31, 2021 and 2020, see "*-Our Strengths-Fast growing retail deposit portfolio with low concentration risk*" on page 145.

For more details, see "*Risk Factors – COVID-19 has had and could continue to have an adverse effect on our business, financial condition, results of operations and cash flows"* on page 24.

KEY REGULATIONS AND POLICIES

The following description is a summary of certain key sector specific laws and regulations in India, which are applicable to us. The information detailed in this section has been obtained from publications available in the public domain. The regulations and their descriptions set out below may not be exhaustive and are only intended to provide general information to the bidders and are neither designed nor intended to substitute for professional legal advice. Judicial and administrative interpretations are subject to modification or clarification by subsequent legislative, judicial or administrative decisions.

Our Bank is engaged in the business of operating as a small finance bank primarily serving the unserved and underserved, with a focus on financial inclusion. We deliver our products and services through our Branches and our business correspondents. Other services include ATMs, ATM cum debit cards, mobile banking platforms, SMS alerts, internet banking portals and unified payment interface facilities. Under the provisions of various Central Government and State Government statutes and legislations, our Bank is required to obtain and regularly renew certain licenses or registrations and to seek statutory permissions to conduct our business and operations. For information regarding regulatory approvals obtained by our Bank, see *"Government and Other Approvals"* on page 336.

The following is an overview of some of the important laws and regulations, which are relevant to our business as an SFB.

BANKING RELATED LEGISLATIONS

Banking Regulation Act, 1949 ("Banking Regulation Act")

Banks in India are required to obtain a license from the RBI to carry on banking business in India. Such license is granted to the bank subject to compliance with certain conditions some of which include that: (i) the bank has or will have the ability to pay its present and future depositors in full as their claims accrue; (ii) the affairs of the bank are not or are not likely to be conducted in a manner detrimental to the interests of present or future depositors; (iii) the bank has adequate capital structure and earnings prospects; (iv) public interest will be served if such a license is granted to the bank; and (v) the general character of the proposed management of the company will not be prejudicial to public interest or the interests of the depositors. The RBI has the power to cancel the license if a bank fails to meet the conditions or if the bank ceases to carry on banking operations in India. Additionally, the RBI has issued various reporting and record-keeping requirements for such commercial banks. The appointment of the auditors of the banks is subject to the approval of the RBI. The RBI can direct a special audit in public interest, or in the interest of the banking company, or in the interest of its depositors. It also sets out the provisions in relation to the loan granting activities of a banking company. The Banking Regulation Act specifies the business activities in which a bank may engage. Banks are prohibited from engaging in other business activities. As per the Banking Regulation Act read with the gazette notification DBR.PSBD. No. 1084/16.13.100/2016-17 dated July 21, 2016, there is a limit of 26% on voting rights in respect of private sector banks. Pursuant to amendments to the Banking Regulation Act in January 2013, private sector banks are permitted, subject to the guidelines framed by the RBI, to issue preference shares in addition to ordinary equity shares.

Further, the Banking Regulation Act, requires any person to seek prior approval of the RBI, to acquire or agree to acquire, directly or indirectly, shares or voting rights of a bank, by himself or with persons acting in concert, wherein such acquisition (taken together with shares or voting rights held by him or his relative or associate enterprise or persons acting in concert with him) results in aggregate shareholding of such person to be 5% or more of the paid-up capital of a bank or entitles him to exercise 5% or more of the voting rights in a bank. Further, the RBI may, by passing an order, restrict any person or persons acting in concert with him, holding more than 5% of the total voting rights of all the shareholders of the banking company from exercising voting rights on poll in excess of the said 5%, if such person is deemed to be not fit and proper to hold shares or voting rights, by the RBI. Under the RBI (Prior Approval for Acquisition of Shares or Voting Rights in Private Sector Banks) Directions, 2015, as amended, an existing shareholder who has already obtained prior approval of the RBI for having a "major shareholding" in a private sector bank, need not obtain approval for an additional fresh acquisition resulting up to 10% aggregate shareholding in such bank. However, if the additional acquisition results in an aggregate shareholding that is in excess of 10%, the prior approval of RBI must be obtained. Further, persons with 'major shareholding' shall also periodically report to the concerned bank on continuing to be fit and proper.

Further, the RBI requires the banks to create a reserve fund to which it must transfer not less than 25% of the net profit before appropriations. In terms of Section 17(2) of the Banking Regulation Act, if there is an appropriation from this account or the share premium account, the bank is required to report the same to the RBI within 21 days, explaining the circumstances leading to such appropriation. However, in terms of the RBI circular bearing number DBOD.BP.BC No. 31 / 21.04.018/ 2006-07 dated September 20, 2006, banks are advised in their own interest to take prior approval from the RBI before any appropriation is made from the statutory reserve or any other reserves.

Certain amendments also permit the RBI to establish a 'Depositor Education and Awareness Fund' (the "**Fund**"), which will take over any credit balances in any account in India with a banking company which has not been operated upon for a period of 10 years or any deposit or any amount remaining unclaimed for more than 10 years. The credit balances or any deposit amount shall be credited to the Fund within a period of three months from the expiry of the said period of ten years. The bank shall be liable to repay a depositor or any other claimant at such rate of interest as may be specified by the RBI. In terms of the RBI circular bearing number DoR.DEA.REC.No.16/30.01.002/2021-22 dated May 11, 2021, rate of interest payable by banks to the depositors/claimants on the unclaimed interest bearing deposit amount transferred to the Fund shall be 3 per cent simple interest per annum.

The amendments also confer power on the RBI (in consultation with the central government) to supersede the board of directors of a banking company for a period not exceeding a total period of 12 months, in public interest or for preventing the affairs of the bank from being conducted in a manner detrimental to the interest of the depositors or any banking company or for securing the proper management of any banking company.

The appointment, re-appointment, or termination of the appointment of a chairman, managing director or whole-time director, manager, chief executive officer of a bank shall have effect only if it is made with the prior approval of the RBI. Further, no amendment in relation to the maximum number of permissible directors, remuneration of the chairman, managing director, whole-time director or any other director, manager, chief executive officer shall have effect unless approved by the RBI. RBI is also empowered to remove a chairman, director, chief executive officer or other officer or employee from office on the grounds of public interest, interest of depositors or securing the proper management. Moreover, RBI may order meetings of the board of directors to discuss any matter in relation to the bank, appoint observers to such meetings, make such changes to the management as it may deem necessary, and may also order the convening of a general meeting of the bank's shareholders to elect new directors. Banking companies are restricted from granting loans or advances on the security of its own shares, enter into any commitment for granting any loan or advance to or on behalf of (i) any of its directors; (ii) any firm in which any of its directors is interested as partner, manager, employee or guarantor or (iii) any company which is not a subsidiary of the banking company, a company registered under Section 25 of the Companies Act, 1956, a government company, a subsidiary or a holding company of which any of the directors of the banking company is a director, managing agent, manager, employee or guarantor or in which the director holds substantial interest; or (iv) any individual in respect of whom any of its Directors is a partner or a guarantor.

The RBI may impose penalties on banks, directors and its employees in case of infringement of regulations under the Banking Regulation Act. The penalty may be a fixed amount or may be related to the amount involved in the contravention. The penalty may also include imprisonment of the concerned director or employee. Banks are also required to disclose the penalty in their annual report.

The RBI Act, 1934 ("RBI Act")

The RBI Act provides a framework for supervision of banking firms in India. The RBI Act was passed to constitute a central bank to, *inter alia,* regulate the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country. RBI may, subject to certain conditions, direct the inclusion or exclusion of any bank from the second schedule of the RBI Act. Scheduled banks are required to maintain cash reserves with the RBI. In this regard, RBI may stipulate an average daily balance requirement to be complied with by such banks and may direct that such banks regard a transaction or class of transactions as a liability. Further, RBI may direct any banking company to submit returns for the collection of credit information and may also furnish such information to a banking company upon an application by such company. RBI has the power to impose penalties against any person for inter-alia failure to produce any book, account or other document or furnish any statement, information or particulars which such person is duty-bound to produce or furnish under the RBI Act, or any order, regulation or direction thereunder.

Reserve Bank of India's Guidelines for Licensing of "Small Finance Banks" in the Private Sector dated November 27, 2014 ("SFB Licensing Guidelines")

The RBI issued the SFB Licensing Guidelines and clarifications dated January 1, 2015, for licensing of SFBs in the private sector. The following is an indicative list of guidelines applicable to our Bank:

1. **Registration, licensing and regulations**: An SFB is required to be registered as a public limited company under the Companies Act and licensed under Section 22 of the Banking Regulation Act. The SFB is required to use the words "Small Finance Bank" in its name. SFBs are governed by the provisions of the Banking Regulation Act, RBI Act, FEMA, Payment and Settlement Systems Act, 2007, Credit Information Companies (Regulation) Act, 2005, as amended, Deposit Insurance and Credit Guarantee Corporation Act, 1961, as amended, and other relevant statutes and the directives, prudential regulations and other guidelines/instructions issued by RBI and other regulators from time to time. The SFBs will be given scheduled bank status once they commence their operations and are found suitable as per Section 42(6)(a) of the RBI Act. Pursuant to a notification dated March 28, 2020, titled 'Guidelines for Licensing of Small Finance Banks in Private Sector' dated November 27, 2014 – Modifications to existing norms ("**RBI March 28, 2020 Notification**"), the RBI revised certain requirements under the SFB Licensing Guidelines including, inter alia; (i) providing general permission to all existing SFBs to open banking outlets subject to adherence to unbanked rural centre norms as per RBI circular DBR.No.BAPD.BC.69/22.01.001/2016-17; (ii) exempting all existing SFBs from seeking prior approval of the RBI for undertaking such non risk sharing simple financial service activities, which do not require any commitment of own funds, after three years of commencement of business.

2. **Eligible promoters**: Resident individuals/professionals with ten years of experience in banking and finance and companies and societies owned and controlled by residents will be eligible as promoters to set up SFBs. Existing NBFCs, MFIs and local area banks that are owned and controlled by residents can also opt for conversion into an SFB. However, joint ventures by different promoter groups for the purpose of setting up SFBs would not be permitted. Promoters/ promoter groups should be 'fit and proper', on the basis of their past record of their sound credentials and integrity, financial soundness and successful track record of professional experience or of running their business for at least a period of five years in order to be eligible to promote SFB. Pursuant to the RBI March 28, 2020 Notification, the RBI clarified that the promoters of the

existing SFBs could cease to be promoters or could exit from the bank after completion of a period of 5 years, depending on the RBI's regulatory and supervisory comfort/discomfort and SEBI regulations in this regard at that time.

3. **Scope of activities**: The SFB is required to primarily undertake basic banking activities of acceptance of deposits and lending to unserved and underserved sections and supply of credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sector entities, through high technology-low cost operations. It can also undertake other non-risk sharing simple financial services activities, not requiring any commitment of own fund, such as distribution of mutual fund units, insurance products, pension products, etc. with the prior approval of RBI and after complying with the requirements of the sectoral regulator for such products. The SFB can also become a Category II Authorised Dealer in foreign exchange business for its clients' requirements. It cannot set up subsidiaries to undertake non-banking financial services activities. Further, the other financial and non-financial services activities of the promoters, if any, should be kept distinctly ring-fenced and not comingled with the banking business. The annual branch expansion plans should be compliant with the requirement of opening at least 25% of its branches in unbanked rural centres ("**URC**") (having population of up to 9,999 as per the latest census). Further, there shall not be any restriction in the area of operations of a SFB, however, preference will be given to SFBs who in the initial phase to set up the bank in a cluster of under-banked states/ districts, such as in the North-East, East and Central regions of India. Such SFBs shall not have any hindrance to expand to other regions in due course. It is expected from the SFBs that it shall be primarily responsive to local needs.

4. **Capital requirement**: The minimum paid-up equity capital of an SFB is required to be ₹1,000 million. It shall be required to maintain a minimum capital adequacy ratio of 15% of its risk weighted assets on a continuous basis, subject to any higher percentage as may be prescribed by RBI from time to time. The tier I capital should be at least 7.5% of the risk weighted asset. The tier II capital should be limited to a maximum of 100% of the tier I capital. Further, the capital adequacy ratio should be computed as per the Basel committee's standardised approaches.

5. **Promoter's contribution**: The promoter's minimum initial contribution to the paid-up equity capital of the SFB shall at least be 40% which shall be locked in for a period of five years from the date of commencement of business of the SFB. However, if an existing NBFC, MFI or local area bank has diluted the promoter's shareholding to less than 40% but above 26%, due to regulatory requirements or otherwise, the RBI may not insist on the promoter's minimum initial contribution. Further, the promoter's shareholding should be brought down in prescribed phases. If the initial shareholding of the promoters is more than 40%, it should be brought down to 40% within a period of five years and thereafter to 30% within 10 years and to 26% within 12 years from the date of commencement of business of the SFB. Further, if an SFB reaches the net worth of ₹5,000 million, listing will be mandatory within three years of reaching that net worth.

6. **Foreign shareholding**: Foreign shareholding would be as per the FDI Policy for private sector banks, as amended from time to time. As per the current FDI Policy, foreign direct investment is permitted up to 49% under the automatic route and up to 74% under government route in a private sector Indian bank.

   With effect from April 1, 2020, the aggregate limit for FPI investments shall be the sectoral caps applicable to our Bank (i.e. automatic up to 49% and government route beyond 49% and up to 74%).

7. **Voting rights and transfer/ acquisition of shares**: As per the Banking Regulation Act read with the gazette notification DBR.PSBD. No. 1084/16.13.100/2016-17 dated July 21, 2016, there is a limit of 26% on voting rights in respect of private sector banks. This will also apply to SFBs.

8. **Prudential norms**: The SFB will be subject to all prudential norms and regulations of RBI as applicable to existing commercial banks. Further, the SFB will have to comply with additional conditions/ norms such as extending 75% of its adjusted net bank credit to sectors eligible for classification as priority sector lending by RBI, while 40% of its adjusted net bank credit shall be allocated to different sub-sectors under priority sector lending as per the extant priority sector lending prescriptions, the SFB can allocate the balance of 35% to any one or more sub-sectors under priority sector lending where it has competitive advantage, maximum loan size and investment limit exposure to a single and group obligor being restricted to 10% and 15% of its capital funds, respectively, at least 50% of its loan portfolio should constitute loans and advances of up to ₹2.5 million, etc. However, after the initial stabilisation period of five years, and after a review, RBI may relax the above exposure limits. The SFB is also precluded from having any exposure to its promoters, major shareholders (who have shareholding of 10% of paid-up equity shares in the bank), and relatives (as defined in Section 2 (77) of the Companies Act, 2013 and rules made thereunder) of the promoters as also the entities in which they have significant influence or control (as defined under Accounting Standards AS 21 and AS 23).

9. **Corporate Governance**: The Board of the SFB should have a majority of independent directors. Further, the SFB will have to comply with the corporate governance guidelines including 'fit and proper' criteria for directors as issued by RBI from time to time.

10. **Others**:

    - Individuals (including relatives) and entities other than the promoters will not be permitted to have shareholding in excess of 10% of the paid-up equity capital. In case of NBFCs or MFIs converting to an SFB, if shareholding of entities (other than the promoters) in the NBFC is in excess of 10% of the paid-up equity capital, RBI may consider providing time up to 3 years for the shareholding to be brought down to 10%.

- An SFB cannot be a Business Correspondent ("**BC**") for another bank. However, it can have its own BC network.

- A promoter of an SFB cannot be granted licenses for both universal bank and small finance bank even if the proposal is set to them up under the non-operative financial holding company structure.

- If an SFB wishes to transit into a universal bank, it will have to apply to the RBI for such conversion and fulfil the minimum paid-up capital/ net worth requirement as applicable to universal banks and also comply with other criteria prescribed in this regard.

- The operations of the bank should be technology driven from the beginning, conforming to generally accepted standards and norms; while new approaches (such as for data storage, security and real time data updating) are encouraged, a detailed technology plan for the same shall be furnished to RBI.

- The compliance of terms and conditions laid down by RBI is an essential condition of grant of licence. Any non-compliance will attract penal measures including cancellation of licence of the bank.

Reserve Bank of India's Operating Guidelines for Small Finance Bank dated October 6, 2016 ("SFB Operating Guidelines")

The SFB Operating Guidelines are supplementary to SFB Licensing Guidelines. The SFB Operating Guidelines came into force considering the differentiated nature of business and financial inclusion focus of SFBs. The SFB Operating Guidelines set out the following:

1. **Prudential Regulation**: The prudential regulatory framework for the SFBs will be largely drawn from the Basel standards. However, given the financial inclusion focus of these banks, it will be suitably calibrated:

   a) **Capital adequacy framework**: The minimum capital requirement is 15%;

   b) **Leverage ratio**: The leverage ratio is 4.5%, calculated as percentage of Tier 1 capital to total exposure; and

   c) **Inter-bank borrowings**: SFBs are allowed exemption from the existing regulatory ceiling of interbank borrowings till the existing loans mature or up to three years, whichever is earlier. Afterwards, it will be on par with scheduled commercial banks. However, the borrowings made by the SFBs after the commencement of its operations shall be subject to inter-bank borrowing limits.

2. **Corporate governance**:

   a) **Constitution and functioning of board of directors**: The extant provisions as applicable to banking companies shall be applicable to SFBs as well. Specifically, in case of entities being converted into SFBs, the existing terms and conditions of appointment of directors will be grandfathered till completion of their present term; and

   b) **Constitution and functioning of committees of the board, management level committees, and remuneration policies**: The extant provisions in this regard as applicable to private sector banks, shall be applicable to SFBs as well.

3. **Banking Operations**:

   a) **Branch authorization policy**: SFBs should follow the extant instructions pertaining to the branch authorization policy applicable to scheduled commercial banks as laid down in the Rationalisation of Branch Authorisation Policy - Revision of Guidelines issued by the RBI on May 18, 2017 and March 28, 2020. SFBs are required to have 25% of their branches in unbanked rural centres within one year from the date of commencement of business. The SFBs are given three years from the date of commencement of the business to align with this requirement, however, during these three years, at least 25% of total number of branches opened by SFBs in a financial year should be in unbanked rural centres.

   b) **Regulation of Business Correspondents:** The SFBs may engage all permitted entities including the companies owned by their business partners and own group companies on an arm's length basis as business correspondents These business correspondents can have their own branches managed by their employees operating as "access points" or may engage other entities/persons to manage the "access points" which could be managed by the latter's staff. In such cases, from the regulatory perspective, the SFB will be responsible for the business carried out at the 'access points' and the conduct of all the parties in the chain regardless of the organizational structure including any other intermediaries inserted in the chain to manage the BC network. Further, the Operating Guidelines also provide that the business correspondents must be doing online transactions/using point of sale terminals for doing transactions; and

   c) **Bank charges, lockers, nominations, facilities to disabled persons:** The extant provisions applicable to scheduled commercial banks shall be applicable to SFBs as well.

d) **Marginal Cost of funds based lending rate, other related regulations on interest rates and fair practice code for lenders:** The extant provisions applicable to scheduled commercial banks shall be applicable to SFBs as well.

4. **KYC requirements:** At their discretion, SFBs may (like all other banks) decide not to take the wet signature while opening accounts, and instead rely upon the electronic authentication/ confirmation of the terms and conditions of the banking relationship or account relationship keeping in view their confidence in the legal validity of such authentications or confirmations. However, all the extant regulations concerning KYC including those covering the Central KYC registry, and any subsequent instructions in this regard, as applicable to commercial banks, would be applicable to SFBs.

Reserve Bank of India's Master Direction on Priority Sector Lending – Small Finance Banks – Targets and Classification dated September 04, 2020, updated as on June 11, 2021 ("Priority Sector Lending Regulations")

The Priority Sector Lending Regulations have consolidated certain circulars pertaining to issued earlier, including the 'Master Direction on Priority Sector Lending – Small Finance Banks – Targets and Classification' dated July 29, 2019. The Priority Sector Lending Regulations apply to every commercial bank and primary (urban) co-operative bank other than salary earners' bank licensed to operate in India by the RBI. Further, the Priority Sector Lending Regulations requires SFBs to have a target of 75% for PSL of their adjusted net bank credit or credit equivalent of off-balance sheet exposures. Further, for agriculture sector, micro enterprises and advance to weaker sections, the targets are 18%, 7.5% and 12% of the adjusted net bank credit respectively. The sub-target for small and marginal farmers is increased from 9% currently to reach 10% in phased manner by financial year ending 2023-24 and weaker section target from 11% currently to reach 12% in phased manner by financial year ending 2023-24. In addition, certain other changes were made such as change in definition of MSME in line with Government of India (GoI), Gazette Notifications S.O. 2347(E) dated June 16, 2021 and S.O. 2119 (E) dated June 26, 2020 read with circulars RBI/2021-2022/63 FIDD.MSME & NFS.BC.No. 12/06.02.31/2021-22 and RBI/2020-2021/10 FIDD.MSME & NFS.BC.No.3/06.02.31/2020-21 read with FIDD.MSME & NFS. BC. No.4 /06.02.31/2020-21 dated July 2, 2020, August 21, 2020 respectively on 'Credit flow to Micro, Small and Medium Enterprises Sector' and updated from time to time.

Reserve Bank of India's Press Release 'Statement on Developmental and Regulatory Policies' dated October 9, 2020

The press release has now revised the limit for risk weight for regulatory retail portfolio to ₹7.5 from ₹5 crores, for individuals and small businesses with turnover up to INR 50 crore, in respect of all fresh as well as incremental qualifying exposures. Further, the RBI issued another circular – DOR.No.BP.BC.23/21.06.201/2020-21, dated October 12, 2020 clarified that the risk weight of 75 per cent will apply to all fresh exposures and also to existing exposures where incremental exposure may be taken by the banks up to the revised limit of ₹ 7.5 crore. The other exposures shall continue to attract the normal risk weights as per the extant guidelines.

In respect of payment and settlement systems, the Real Time Gross Settlement System ("**RTGS**") will be available 24x7 on all days with effect from December 2020.

Lastly, the RBI issued notification – DOR. No.BP.BC.24/08.12.015/2020-21, dated October 16, 2020 titled "Individual Housing Loans – Rationalisation of Risk Weights", to rationalise the risk weights for all housing loans, irrespective of the amount, sanctioned on or after October 16, 2020 and up to March 31, 2022, the risk weight shall be 35% if Loan To Value Ratio (**"LTV"**) is less than or equal to 80%, and 50% if LTV is above 80% but less than or equal to 90%.

Reserve Bank of India's Press Release 'Statement on Developmental and Regulatory Policies' dated February 5, 2021

As a measure during the peak of the COVID-19 pandemic, the cash reserve ratio ("**CRR**") of all banks was reduced by 100 basis points to 3.0 per cent of net demand and time liabilities ("**NDTL**") effective from the reporting fortnight beginning March 28, 2020 up to March 26, 2021. On a review of monetary and liquidity conditions, it has been decided to gradually restore the CRR in two phases in a non-disruptive manner. Banks would now be required to maintain the CRR at 3.5 per cent of NDTL effective from the reporting fortnight beginning March 27, 2021 and 4.0 per cent of NDTL effective from fortnight beginning May 22, 2021. Previously under the press release dated March 27, 2020 'Statement on Developmental and Regulatory Policies' banks were allowed to avail of funds under the marginal standing facility by dipping into the Statutory Liquidity Ratio ("**SLR**") up to an additional one per cent of NDTL, i.e., cumulatively up to 3 per cent of NDTL. This facility, which was initially available up to June 30, 2020 was later extended in phases up to March 31, 2021 and is now further extended up to September 30, 2021.

The notification dated February 5, 2021 'Basel III Framework on Liquidity Standards – Net Stable Funding Ratio ("**NSFR**")", the implementation of NSFR by banks in India had been deferred to April 1, 2021. While banks are comfortably placed on the liquidity front, in view of the continued stress on account of COVID-19, it has been decided to defer the implementation of NSFR to October 1, 2021.

Reserve Bank of India's Compendium of Guidelines for Small Finance Banks – Financial Inclusion and Development dated July 6, 2017

Considering the differentiated nature of business and financial focus of the SFBs and taking into account the important role that SFBs can play in the supply of credit to micro and small enterprises, agriculture and banking services, the RBI issued a specific compendium of guidelines for SFBs on areas relating to financial inclusion and development. SFBs are required to open at least 25% of its branches in unbanked rural centres. The identified priority sectors are agriculture, MSMEs, export credit, education, housing, social infrastructure, renewable energy and certain categories of loans identified therein. SFBs will have a target of 75% for priority sector lending of their adjusted net bank credit.

Reserve Bank of India's Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function Staff dated November 4, 2019 ("RBI Compensation Guidelines")

The Financial Stability Board brought out a set of Principles titled 'The Financial Stability Board Principles for Sound Compensation Practices, 2009', dated April 2, 2009 ("**FSB Principles**") and Implementation Standards titled 'FSB Principles for Sound Compensation Practices-Implementation Standards', dated September 25, 2009 with an aim to ensure effective governance of compensation, alignment of compensation with prudent risk taking and effective supervisory oversight and stakeholder engagement in compensation. The FSB Principles have been endorsed by the G-20 countries and the Basel Committee on Banking Supervision ("**BCBS**") which has published remuneration related reports and disclosure requirements. Pursuant to the stipulations in the reports and disclosure requirements published by BCBS, the RBI issued the RBI Compensation Guidelines which are based on the FSB Principles and are applicable to all private sector banks (including small finance banks) and foreign banks operating in India. In line with the FSB Principles banks are required to take steps to implement certain guidelines by putting in place necessary policies/systems. These guidelines include, *inter alia*, formulation of a compensation policy, constitution of nomination and remuneration committee, alignment of compensation of whole-time directors / chief executive officers and material risk takers with prudent risk taking etc. All applications for approval of appointment/re-appointment or approval of remuneration/revision in remuneration of whole time directors/chief executive officers shall be submitted to the RBI with the details as prescribed in the guidelines. These guidelines shall be applicable for pay cycles beginning from/after April 1, 2020.

Reserve Bank of India's Guidelines on Compensation of Non-executive Directors of Private Sector Banks dated June 1, 2015

The board of directors of a private sector bank, in consultation with its remuneration committee, is required to formulate and adopt a comprehensive compensation policy for non-executive directors (other than part-time non-executive Chairman), subject to the requirements prescribed under the Companies Act, 2013. The Board may, at its discretion, provide for in the policy, payment of compensation in the form of profit related commission to the non-executive directors (other than the Part-time Chairman), subject to bank making profits. Such compensation, however, shall not exceed ₹1.00 million per annum for each non-executive director. In addition to the directors' compensation, the bank may pay sitting fees to the non-executive directors and reimburse their expenses for participation in the board and other meetings. Further, all private sector banks are required to obtain prior approval of RBI for granting remuneration to the part-time non-executive Chairman under Section 10B(1A)(i) and 35B of the Banking Regulation Act.

Reserve Bank of India's Master Circular - Mobile Banking Transactions in India- Operative Guidelines for Banks dated July 1, 2016, updated as on January 10, 2020 ("Mobile Banking Transaction-Operative Guidelines")

The Mobile Banking Transaction Operative Guidelines contains all rules, regulations and procedures prescribed to be followed by banks for operationalizing mobile banking in India. Banks which are licensed, supervised and have physical presence in India are permitted to offer mobile banking services after obtaining one-time RBI approval. Only banks who have implemented core banking solutions are permitted to provide mobile banking services. Banks are required to put in place a system of registration of customers for mobile banking. Further, to meet the objective of a nation-wide mobile banking framework, facilitating inter-bank settlement, a robust clearing and settlement infrastructure operating on a 24x7 is mandated. Pending creation of such a national infrastructure, bank and non-bank entities may enter into bilateral or multilateral arrangement for inter-bank settlements, with express permission from the RBI, unless such arrangements have been authorized by the RBI under the Payment and Settlement System Act, 2007.

Reserve Bank of India's Master Direction - Know Your Customer (KYC) Direction, 2016 dated February 25, 2016, updated as on May 10, 2021 ("KYC Directions")

KYC Directions are applicable to every entity regulated by RBI specifically, scheduled commercial banks, regional rural banks, local area banks, primary (urban) co-operative banks, all India financial institutions, NBFCs, miscellaneous non-banking companies and residuary non-banking companies, amongst others. In terms of the KYC Directions, every entity regulated thereunder is required to formulate a KYC policy which is duly approved by the board of directors of such entity or a duly constituted committee thereof. The KYC policy formulated in terms of the KYC Directions is required to include four key elements, being customer acceptance policy, risk management, customer identification procedures and monitoring of transactions. The KYC Directions also prescribe detailed instructions in relation to, *inter alia*, the due diligence of customers, record management and reporting requirements (such as the details of the person designated by the board of directors as a designated director etc.,) to Financial Intelligence Unit – India. The RBI, pursuant to a circular dated January 9, 2020 titled Amendment to Master Direction (MD) on KYC read with the amended KYC Directions dated April 20, 2020, has provided that all regulated entities shall develop an application to enable a video based customer identification process i.e. digital KYC process at customer touchpoints, of their customers. It also inserted directions for Regulated entities to assess 'Money Laundering' and 'Terrorist Financing' risk for clients, transactions or delivery channels, products, services etc. and take measures to mitigate the same on a risk based approach. The outcome of this exercise shall be put up to the Board or any committee of the Board formed in this regard and shall be made available to competent authorities and self-regulating bodies.

Reserve Bank of India's Master Circular on Prudential norms on income recognition, asset classification and provisioning pertaining to advances dated July 1, 2015 ("Master Circular on Prudential Norms")

The RBI, pursuant to its "Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning Pertaining to Advances" issued on July 1, 2015, classifies NPAs into (i) sub-standard assets; (ii) doubtful assets; and (iii) loss assets. The circular also specifies provisioning requirements specific to the classification of the assets.

In July 2005, the RBI issued guidelines on sales and purchases of NPAs between banks, financial institutions and NBFCs. However, as per SFB Operating Guidelines, while SFBs are permitted to sell NPAs, they are not permitted to purchase NPAs. These guidelines require that the board of directors of a bank must establish a policy for purchases and sales of NPAs. An asset must have been classified as non-performing for at least two years by the seller bank to be eligible for sale. In October 2007, the RBI issued guidelines regarding valuation of NPAs being put up for sale.

Reserve Bank of India's Circular on Automation of Income Recognition, Asset Classification and Provisioning processes in banks dated September 14, 2020

The RBI, pursuant to a circular dated August 4, 2011 advised banks, inter alia, to have appropriate IT system in place for identification of NPAs and generation of related data/returns, both for regulatory reporting and bank's own MIS requirements. In order to ensure the completeness and integrity of the automated asset classification (classification of advances/investments as NPA/NPI and their upgradation), provisioning calculation and income recognition processes, RBI under this circular advised banks to put in place / upgrade their systems latest by June 30, 2021. The circular extends the "coverage" to automated IT based systems, asset classification, calculation of provisioning requirements, income recognition/derecognition without any manual intervention. The circular also provides exceptions where the banks may resort to manual interventions/ over-ride the system based asset classification subject to the various conditions including two level authorisation, appropriate audit trials and subjected to audit by concurrent and statutory auditors. Further, the bank is required to maintain logs of such manual intervention/ over-rides for a minimum period of three years. Banks are allowed to draw up their own standard operating procedure for system based NPA classification. The circular provides baseline requirements for the NPA classification and banks are required to adhere to the instructions while designing and maintaining their system as a part of supervisory assessment. In case of non-compliance with the instructions suitable supervisory/enforcement action can be initiated against the concerned bank.***Reserve Bank of India's (Prudential Framework for Resolution of Stressed Assets) Directions 2019 dated June 07, 2019 ("Framework for Resolution of Stressed Assets")***

The RBI laid down directions under the Framework for Resolution of Stressed Assets with a view to aid early recognition, reporting and time bound resolution of stressed assets. The framework provided for entails a stage wise resolution plan which includes (a) early identification and reporting of stress; (b) Implementation of resolution plan; (c) implementation conditions for the resolution plan; (d) delayed implementation of resolution plan.

Stressed assets shall be recognised by incipient stress in loan accounts immediately or default, by classifying such assets as special mention accounts which would further be categorised based on the number of days since the default has occurred. Following this, the resolution plan formulated by the Board of the Bank would become applicable.

Reserve Bank of India's Master Direction – Ownership in Private Sector Banks, Directions, 2016 dated May 12, 2016

The Reserve Bank of India issued master directions for ownership in private sector banks in May 2016. The directions are applicable to all private sector banks licensed by RBI to operate in India. Under the directions, shareholders are now categorized as natural persons (individuals) and legal persons (entities/institutions) for the purposes of ownership limits in the longer run. Non-financial and financial institutions, and among financial institutions, diversified and non-diversified financial institutions shall have separate limits for shareholding.

The limits for shareholding are as follows: (i) in the case of individuals and non-financial entities (other than promoters/promoter group), the limit shall be 10% of the paid-up capital. However, in case of promoters being individuals and non-financial entities in existing banks, the shareholding shall be 15% of the paid up capital, (ii) for entities in the financial sector, other than regulated or diversified or listed, the limit shall be at 15% of the paid up capital, (iii) in case of 'regulated, well diversified, listed entities from the financial sector' and shareholding by supranational institutions or public sector undertaking or Government undertaking, a uniform limit up to 40% of the paid up capital is permitted for both promoter/ promoter group and non-promoters, and (iv) higher stake/strategic investment by promoters/non-promoter through capital infusion by domestic or foreign entities/institution shall be permitted on a case to case basis under circumstances such as relinquishment by existing promoters, rehabilitation/ restructuring of problem/ weak banks/ entrenchment of existing promoter or in the interest of the bank or in the interest of consolidation in the banking sector

A period of 12 years from the date of commencement of business of the bank shall be available for the promoters/ promoter group or Non-Operative Financial Holding Company ("**NOFHC**") in cases where dilution to a lower level of shareholding is required for compliance with the specified limits. Acquisition of shareholding in a private sector bank shall be subject to the applicable FDI Policy, with the aggregate foreign investment in private sector banks not exceeding 74% of the paid-up capital. The directions further prescribe that banks (including foreign banks having branch presence in India) shall not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's holding is 10% or more of the investee bank's equity capital. However, RBI may permit a higher level of shareholding by a bank in exceptional cases.

Reserve Bank of India's Master Direction – Issue and Pricing of shares by Private Sector Banks, Directions, 2016 dated April 21, 2016

The RBI issued master directions for issue and pricing of shares by private sector banks on April 21, 2016. The directions are applicable to all private sector banks licensed by RBI to operate in India. Under the directions, "private sector banks" have been defined as banks licensed to operate in India under the Banking Regulation Act other than urban co-operative banks, foreign banks and banks licensed under specific statutes. Under the directions, a private sector bank, both listed and unlisted, has general permission for issue of shares by way of public issues (initial public offer, further public offer), private placement (preferential issue, qualified institutional placement), rights issue and bonus issue, subject to compliance with applicable laws such as FEMA and extant foreign investment policy of the GoI for private sector banks, provisions of the Companies Act, and the relevant SEBI guidelines, the RBI master directions dated November 19, 2015 on Prior Approval for Acquisition of Shares or Voting Rights in Private Sector Banks which requires investors to obtain specific prior approval of RBI if the proposed acquisition results in aggregate holding of 5 per cent or more of the paid-up capital of the bank and reporting of complete details of the issue to RBI such as date of issue, details of the type of issue, issue size, details of pricing, number and names of allottees, post allotment shareholding position etc., along with a copy of the board/ annual general meeting resolution and prospectus/ offer document in the prescribed format.

Reserve Bank of India's Guidelines for 'on tap' Licensing of Small Finance Banks in the Private Sector dated December 5, 2019 ("On-Tap Licensing Guidelines")

The RBI had, post review of the performance of existing small finance banks, issued the Draft Guidelines for 'on tap' Licensing of Small Finance Banks in the Private Sector dated September 13, 2019, to encourage competition amongst small finance banks, and subsequently, post consideration of responses received, issued the On-Tap Licensing Guidelines on December 5, 2019. Pursuant to the On-Tap Licensing Guidelines, the following are eligible promoters: (i) resident individuals/ professionals (Indian citizens), singly or jointly, each having at least 10 years of experience in banking and finance at a senior level; and (ii) companies and societies in the private sector, that are owned and controlled by residents (as defined in FEMA Regulations, as amended from time to time), and have a successful track record of running their businesses for at least a period of five years. Further, existing NBFCs, micro finance institutions and local area banks in the private sector that are controlled by residents (as defined in FEMA Regulations, as amended from time to time), and have a successful track record of running their businesses for at least a period of five years, can opt for conversion into SFBs after complying with applicable law. Promoters/promoter groups should be 'fit and proper' with, amongst other things, past record of sound credentials and integrity, financial soundness, a successful track record of professional experience or of running their business for at least a period of five years in order to be eligible to promote SFB. The SFB is required to be registered as a public limited company under the Companies Act and licensed under the Banking Regulation Act. The minimum net worth of such small finance banks shall be ₹1000 million from the date of commencement of business. However, they will have to increase their minimum net worth to ₹ 2000 million within five years from the date of commencement of business. Further, the SFB is required to maintain a paid-up voting equity capital of ₹2,000 million, which certain exceptions, such as in case of SFBs which are transited from Primary (Urban) Co-operative Banks ("**UCBs**"), or converted from NBFCs/MFIs etc., for which the requirement is separately set out.

Further, promoters are required to hold a minimum of 40% of the paid-up voting equity capital of the SFB, which shall be locked-in for a period of five years from the date of commencement of business of the bank. Such shareholding is required to be reduced to a maximum of 30% and 15% of the paid-up voting equity capital within 10 years and 15 years, respectively, from the date of commencement of business of the SFB. Furthermore, SFBs are required to be mandatorily listed within three years of reaching a net worth of ₹5,000 million. The SFB will be subject to all prudential norms and regulations of the RBI as applicable to existing commercial banks.

Reserve Bank of India's Circular on Risk Based Internal Audit (RBIA) Framework – Strengthening Governance Arrangements dated January 07, 2021

Pursuant to the guidance note on Risk-Based Internal Audit dated December 27, 2002 issued the RBI, under which it was required to put in place a risk based internal audit (RBIA) system as part of their internal control framework that relies on a well-defined policy for internal audit, functional independence with sufficient standing and authority within the bank, effective channels of communication, adequate audit resources with sufficient professional competence, among others. In an effort to stay with the evolving best practices, under this circular, banks are encouraged to adopt the International Internal Audit standards, like those issued by the Basel Committee on Banking Supervision (BCBS) and the Institute of Internal Auditors (IIA). To bring in uniformity to the approach of the Internal Audit Function, banks are advised to follow directions given on, authority, stature and independence, competence, staff rotation, tenor for appointment of head of internal audit, reporting line and remuneration. Lastly, the internal audit function shall not be outsourced. However, where required, experts, including former employees, could be hired on contractual subject to the audit committee of the board being assured that such expertise does not exist within the audit function of the bank.

Reserve Bank of India's Master Direction – Call, Notice and Term Money Markets Directions, 2021, dated April 1, 2021, updated as on June 25, 2021

The RBI issued master directions for participating in call, notice and term money markets on April 1, 2021. The directions are applicable to banks as defined under the Banking Regulation Act. Under the directions, "banks" have been defined as banking company (including a payment bank and a small finance bank) or a regional rural bank, a corresponding new bank or State Bank of India or a cooperative bank as defined under the Banking Regulation Act. Under the directions, participants shall be eligible to participate in the call, notice and term money markets, both as borrowers and lenders. The term "participants" have been defined to include scheduled commercial banks (excluding local area banks), payment banks, small finance banks, regional rural banks, state co-operative banks, district central co-operative banks and urban co-operative banks (hereinafter co-operative banks), and primary dealers. Prudential limits for outstanding lending transaction shall be decided by the participants with the approval of their board within the regulatory framework of the exposure norms prescribed by the Department of Regulation of the RBI. Prudential limits for outstanding borrowing transactions for scheduled commercial banks have been specified as (i) 100% of capital funds, on a daily average basis in a reporting fortnight, (ii) 125% of capital funds on any given day for call and notice money and internal board approved limit within the prudential limits for inter-bank liabilities, for term money. Further, the directions also specify provisions for cancellation and termination of transaction, reporting requirements of call, notice and term money transactions and the obligations of persons or agencies dealing in the call, notice and term money markets, including eligible participants to provide information sought by the RBI.

Reserve Bank of India's Circular on Corporate Governance in Banks - Appointment of Directors and Constitution of Committees of the Board dated April 26, 2021

The RBI pursuant to issue of discussion paper on 'Governance in Commercial Banks in India' dated June 11, 2020, issued these instructions with regards to the chair and meetings of the board, composition of certain committees of the board, age, tenure and remuneration of directors, and appointment of the whole-time directors. The revised instructions are applicable to all the private sector banks including small finance banks and wholly owned subsidiaries of foreign banks. As per the circular, the chair of the board ('**Chair**') shall be an independent director and in the absence of Chair, the meetings of the board shall be chaired by an independent director. The circular also specifies the composition of various committees of the board including audit committee, risk management committee, and nomination and remuneration committee. The age and tenure and the remuneration of non-executive directors and tenure of managing director, chief executive officer and whole time directors have also been provided. Further, to enable smooth transition to the revised requirements, banks are permitted to comply with these instructions latest by October 1, 2021. Specifically (i) the chair of board who is not an independent director on the date of issue of this circular is allowed to complete the current term as chair as already approved by the RBI and (ii) banks with MD & CEOs or WTDs who have already completed 12/15 years as MD & CEO or WTD, on the date these instructions coming to effect, are allowed to complete their current term as already approved by the RBI.

Reserve Bank of India's 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

The RBI issued the guideline for appointment/re-appointment of SCAs/ SAs of the entities on April 27, 2021 superseding all the previous guidelines as annexed in the guidelines. The guidelines are applicable to commercial banks (excluding RRBs), UCBs and NBFCs including HFCs for financial year 2021-22 and onwards. UCBs and NBFCs shall have the flexibility to adopt the guidelines from second half of financial year 2021-22 in order to ensure that there is no disruption. Under the guidelines, Commercial Banks and UCBs will be required to take prior approval of RBI for the appointment of SCAs/ SAs on annual basis. It also specifies the maximum number of SCAs/ SAs to be appointed by the board based on the asset size of the entity. Entities are required to appoint audit firms as it SCAs/ SAs fulfilling the eligibility norms and independence of auditors requirements as prescribed under these directions. Other criteria's including professional standards for discharge of audit responsibilities, tenure and rotation, and audit fees and expenses for SCAs/ SAs have been provided. Each entity is required to formulate a board approved policy to be hosted on its official website/ public domain and formulate necessary procedure thereunder to be followed for appointment of SCAs/ SAs.

The Recovery of Debts Due to Banks and Financial Institutions Act, 1993 ("RDDBFI Act")

The RDDBFI Act was enacted for adjudication of disputes pertaining to debts due to banks and financial institutions exceeding ₹2.00 million. The RDDBFI Act provides for the constitution of debt recovery tribunals before which banks and financial institutions may file applications for recovery of debts. Further, no court or other authority, except the Supreme Court or a High Court exercising jurisdiction under Articles 226 and 227 of the Constitution of India, shall have, or is entitled to exercise, any jurisdiction, powers or authority in relation to the aforementioned matter. The tribunals may pass orders for directions including *inter- alia* recovery of such dues by the bank as may be deemed fit along with a recovery certificate to such effect from the presiding officer of the respective tribunal; attachment of the secured properties towards the dues to the bank: injunctive orders restraining the debtors from alienating, transferring or disposing of such secured properties; appointment of receivers and/or local commissioners with respect to such secured properties and distribution of proceeds from sale of such secured properties towards dues. Pursuant to the recovery certificate being issued, the recovery officer of the respective debt recovery tribunal shall effectuate the final orders of the debt recovery tribunal in the application. Unless such final orders of the debt recovery tribunal have been passed with the consent of the parties to an application, an appeal may be filed against such final orders of the debt recovery tribunal before the debt recovery appellate tribunal, which is the appellate authority constituted under the RDDBFI Act.

The Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 ("SARFAESI Act")

The SARFAESI Act governs securitization of financial assets in India. The SARFAESI Act provides that any securitization or reconstruction company may acquire the financial assets of a bank or financial institution by either entering into an agreement with such bank or financial institution for the transfer of such assets to the company or by issuing a debenture or bond or any other security in the nature of the debenture, for consideration, as per such terms and conditions as may be mutually agreed between them. The SARFAESI Act further provides that if the bank or financial institution is a lender in relation to any financial assets acquired by the securitization/reconstruction company as stated above, then such company shall be deemed to be the lender in relation to those financial assets. Further, upon such acquisition, all material contracts entered into by the bank or financial institution, in relation to the financial assets, shall also get transferred in favour of the securitization/reconstruction company. The SARFAESI Act also enables banks and notified financial institutions to enforce the underlying security of an NPA without court intervention. Pursuant to an asset being classified as an NPA, the security interest can be enforced as per the procedure laid down in the Security Interest Enforcement Rules, 2002.

The Repurchase Transactions (Repo) (Reserve Bank) Directions, 2018, updated as on November 28, 2019 ("Repo Directions")

The Repo Directions are applicable to repurchase transactions undertaken on stock exchanges, electronic trading platforms authorised by the RBI and over-the-counter market. The securities eligible for repurchase under the Repo Directions are government securities, listed corporate bonds and debentures subject to the condition that no participant shall borrow against the collateral of its own securities, or securities issued by a related entity, commercial papers, certificate of deposits, units of Debt Exchange Traded Funds and other such securities of a local authority as prescribed by the Central Government. Eligible participants include any regulated entity, listed corporate, unlisted company which has been issued special securities by the Government of India, using only such special securities as collateral, All India Financial Institution viz. Exim Bank, NABARD, NHB and SIDBI and any other entity approved by the Reserve Bank from time to time for this purpose. The Repo Directions prescribes the eligibility criteria, roles and obligations, application procedure for authorisation and exit procedure for tri-party agents. The Repo Directions provide that a repo shall be undertaken for a minimum period of one day and a maximum period of one year.

The Banking Ombudsman Scheme, 2006, as amended up to July 1, 2017 ("Ombudsman Scheme")

The Ombudsman Scheme provides the extent and scope of the authority and functions of the Banking Ombudsman for redressal of grievances against deficiency in banking services, concerning loans and advances and other specified matters. All scheduled commercial banks, regional rural banks and scheduled primary co-operative banks are covered under the Ombudsman Scheme. On July 1, 2017, the Ombudsman Scheme was amended to widen the scope of the scheme, *inter alia*, to deficiencies arising out of sale of insurance/mutual fund/ other third party investment products by banks and now permitted customer to lodge a complaint against the bank for non-adherence to RBI instructions with regard to mobile banking/electronic banking services. The amended Ombudsman Scheme also provided for revised procedures for redressal of grievances by a complainant under the Ombudsman Scheme and increased the pecuniary jurisdiction of the Banking Ombudsman. The Banking Ombudsman receives and considers complaints relating to the deficiencies in banking or other services filed on the grounds mentioned in clause 8 of the Ombudsman Scheme and facilitates their satisfaction or settlement by agreement or through conciliation and mediation between the bank concerned and the aggrieved parties or by passing an Award in accordance with the Ombudsman Scheme.

Prevention of Money Laundering Act, 2002 ("PMLA")

In order to prevent money laundering activities, the PMLA was enacted which seeks to prevent money laundering and to provide for confiscation of property derived from, or involved in money laundering, and for incidental matters connected therewith. Section 12 of the PMLA casts certain obligations on, *inter alia*, banking companies in relation to preservation and reporting of customer account information. The RBI has advised all banks to go through the provisions of the PMLA and the rules notified thereunder and to take all steps considered necessary to ensure compliance with the requirements of section 12 of the PMLA.

In view of transactions in virtual currencies, RBI pursuant to a notification - DOR. AML.REC 18 /14.01.001/2021-22 dated May 31, 2021, titled "Customer Due Diligence for transactions in Virtual Currencies", notified banks to continue carrying out customer due diligence processes in line with regulations governing standards for KYC, Anti-Money Laundering, Combating of Financing of Terrorism and obligations of regulated entities under PMLA in addition to ensuring compliance with FEMA for overseas remittances.

Ministry of Finance circular dated October 23, 2020 in relation to scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts

In view of the COVID-19 pandemic, the Ministry of Finance, Government of India has, pursuant to circular dated October 23, 2020, approved a scheme for grant of *ex-gratia* payment of difference between compound interest and simple interest by way of reliefs for the six months period from March 1, 2020 to August 31, 2020, to borrowers in specified loan accounts ("**Scheme**"), benefits of which would be routed through lending institutions. The Scheme is applicable to all lending institutions, including, *inter alia*, banking companies, public sector banks, NBFCs and housing finance companies. Borrowers in the following segments, who have loan accounts having sanctioned limits and outstanding amount not exceeding ₹2 crore as on February 29, 2020 shall be eligible under the Scheme, subject to certain conditions, namely (i) MSME loans; (ii) education loans; (iii) housing loans; (iv) consumer durable loans; (v) credit card dues; (vi) automobile loans; (vii) personal loans of professionals; and (viii) consumption loans. Under the Scheme, lending institutions can claim reimbursement in respect of the amounts credited to the accounts of the eligible borrowers, in the manner set out under the operational guidelines of the Scheme.

Report on the Internal Working Group to Review Extant Ownership Guidelines and Corporate Structure for Indian Private Sector Banks, 2020 dated November 20, 2020 ("IWG Report")

The RBI pursuant to a press release dated November 20, 2020 released the IWG Report, with the aim to bring uniformity of norms in extant licensing and regulatory guidelines relating to ownership and control, corporate structure, and other related issues. The

RBI's Internal Working Group has made recommendations which have implications on SFBs. These include, *inter-alia*, (i) cap on Promoters' holding at 26% of the paid-up voting equity share capital of the bank in the long run (i.e. 15 years). Additionally, the IWG Report proposes a dispensation of the requirement of sub-targets (between 5 to 15 years) for dilution of Promoters' holding, and uniform cap of 15% of paid-up voting equity share capital of the bank for non-promoter shareholders in long run; (ii) proposal for the existing SFBs to be mandatorily listed within 6 years of reaching net worth of INR 500 crores or 10 years from commencement of operations, whichever is earlier; and (iii) bar on creation of any pledge of shares by the promoters, during the lock-in period, which results in insufficient unencumbered shares to meet lock-in requirements. Further, voting rights emanating from any invocation of pledge, which results in transfer/purchase of 5% of total shareholding of the bank, without prior approval from RBI are proposed to be restricted until the pledgee receives the approval of the RBI.

The recommendations of this report will come into effect, after its adoption by the RBI.

RBI Regulatory Framework in light of COVID-19

In view of the recent outbreak of the COVID-19 pandemic, the RBI has issued various circulars and other regulatory frameworks and relaxations to taken / to be availed by the respective banks to deal with the disruptions caused by the COVID-19 pandemic.

The RBI *vide* its circular dated March 16, 2020, has provided an indicative list of actions to be taken by the banks as part of their operations and business continuity plans including inter alia take steps of sharing important instructions/ strategy with the staff members at all levels and sensitizing the staff members about preventive measures/steps to be taken in suspected cases, based on the instructions received from health authorities, from time-to-time, encourage their customers to use digital banking facilities, as far as possible, take stock of critical processes and revisiting BCP in the emerging situations/scenarios with the aim of continuity in critical interfaces and preventing any disruption of services, due to absenteeism either driven by the individual cases of infections or preventive measures.

The RBI *vide* its circular dated May 23, 2020 has permitted the lending institutions to extend the Moratorium Period on payment of all instalments in respect of term loans (including agricultural term loans, retail and crop loans) by another three months i.e. from June 1, 2020 to August 31, 2020. In relation to working capital facilities sanctioned in the form of cash credit/overdraft, lending institutions are permitted to allow a deferment of another three months, from June 1, 2020 to August 31, 2020, on recovery of interest applied in respect of all such facilities. In respect of such working capital facilities, lending institutions are permitted, at their discretion, to convert the accumulated interest for the deferment period up to August 31, 2020, into a funded interest term loan which shall be repayable not later than March 31, 2021. As mentioned above, such changes will not be treated as concessions granted due to 'financial difficulty' of the borrower under the Prudential Framework and consequently, availing such a measure, will not, by itself, result in asset classification downgrade.

In respect of such working capital facilities sanctioned in the form of CC/OD to borrowers facing stress on account of the economic fallout of the pandemic, lending institutions may, as a one-time measure,

i. recalculate the 'drawing power' by reducing the margins till August 31, 2020. However, in all such cases where such a temporary enhancement in drawing power is considered, the margins shall be restored to the original levels by March 31, 2021; and/or,

ii. review the working capital sanctioned limits upto March 31, 2021, based on a reassessment of the working capital cycle.

The above measures under the RBI circular dated May 23, 2020, shall be contingent on the lending institutions satisfying themselves that the same is necessitated on account of the economic fallout from COVID-19. Further, accounts provided relief under these instructions shall be subject to subsequent supervisory review with regard to their justifiability on account of the economic fallout from COVID-19. Lending institutions may, accordingly, put in place a Board approved policy to implement the above measures.

The RBI has also issued a notification on August 6, 2020 titled "Resolution Framework for COVID-19-related Stress" ("**Resolution Framework - 1.0**"). Under this Resolution Framework – 1.0, lending institutions are required to frame policies, as approved by their board of directors, for implementation of viable resolution plans for eligible borrowers pursuant to the Resolution Framework – 1.0 and ensure that the resolution plans under this facility are extended only to borrowers bearing stress on account of the COVID-19 pandemic.

The RBI *vide* its circular dated August 6, 2020, with a view to continue the need to support the viable MSME entities on account of the fallout of COVID-19 and to align these guidelines with the Resolution Framework - 1.0 announced for other advances, decided to extend the scheme permitted in terms of the aforesaid circular. Accordingly, existing loans to MSMEs classified as 'standard' can be restructured without a downgrade in the asset classification, subject to certain conditions.

Further, the RBI also issued notification on May 5, 2021 titled "Resolution Framework – 2.0: Resolution of Covid-19 related stress of Individuals and Small Businesses" ("**Resolution Framework - 2.0**"). Under this, the lending institutions are permitted to offer a limited window to individual borrowers and small businesses to implement resolution plans in respect of their credit exposures while classifying the same as Standard. The RBI in its notification on June 4, 2021, had revised the threshold for aggregate credit exposure with respect to resolution of advances to individuals and small businesses. The Resolution Framework – 2.0 also permits lending institutions to review the working capital sanctioned limits and / or drawing power based on a reassessment of the working capital cycle, reduction of margins, etc. without the same being treated as restructuring. Lending institutions also needs to comply with the disclosures and credit reporting requirements pursuant to the Resolution Framework – 2.0.

The RBI vide its circular dated April 17, 2020 on "COVID-19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets" read with COVID19 Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets" dated May 23, 2020, provided detailed instructions in relation to the extension of resolution timelines under the Prudential Framework on Resolution of Stressed Assets. In respect of accounts which were within the review period as on March 1, 2020, the period from March 1, 2020 to August 31, 2020 shall be excluded from the calculation of the 30-day timeline for the review period. In respect of all such accounts, the residual review period shall resume from September 1, 2020, upon expiry of which the lenders shall have the usual 180 days for resolution. In respect of accounts where the review period was over, but the 180-day resolution period had not expired as on March 1, 2020, the timeline for resolution shall get extended by 180 days from the date on which the 180-day period was originally set to expire.

In order to accommodate the burden on banks' cash flows on account of the Covid-19 pandemic, the RBI vide its circular dated April 17, 2020, has permitted banks to maintain liquidity coverage ratio as under: (i) April 17, 2020 to September 30, 2020 – 80%; (ii) October 1, 2020 to March 31, 2021 – 90%; and (iii) April 1, 2021 onwards – 100%.

The RBI vide its circular dated April 29, 2020 has extended the timelines for submission of various regulatory returns by RBI regulated entities to the Department of Regulation by a period of 30 days from the due date in lieu of the disruptions caused by the pandemic. The extension will be applicable to regulatory returns required to be submitted upto June 30, 2020. No extension in timeline is permitted for submission of statutory returns i.e. returns prescribed under the Banking Regulation Act, 1949, RBI Act, 1934 or any other act (for instance, returns related to CRR/SLR). Further, all communication to the Department of Regulation should be through corporate e-mail to the extent possible (i.e., without involving physical movement of papers) until further notice

Asset Classification and Income Recognition following the expiry of Covid-19 regulatory package, dated April 7, 2021

The notification is pursuant to the Supreme Court of India has pronounced its judgement in the matter of Small Scale Industrial Manufacturers Association vs UOI & Ors. ("Judgement") and other connected matters on March 23, 2021. Commercial banks, including small finance banks shall immediately put in place a Board-approved policy to refund/adjust the 'interest on interest' charged to the borrowers during the moratorium period, i.e. March 1, 2020 to August 31, 2020 in conformity with the Judgement. The reliefs shall be applicable to all borrowers, including those who had availed of working capital facilities during the moratorium period, irrespective of whether moratorium had been fully or partially availed, or not availed, in terms of the 'COVID-19 regulatory packages' dated March 27, 2020 (DOR.No.BP.BC.47/21.04.048/2019-20) and May 23, 2020 (DOR.No.BP.BC.71/21.04.048/2019-20). Lending institutions shall disclose the aggregate amount to be refunded/adjusted in respect of their borrowers based on the above reliefs in their financial statements for the year ending March 31, 2021.With respect to the asset classification, in order to comply with the Judgement, (i) in respect of accounts which were not granted any moratorium in terms of the Covid19 Regulatory Package, asset classification shall be as per the criteria laid out in Master Circular on Prudential Norms (given above) or other relevant instructions as applicable to the specific category of lending institutions (**IRAC Norms**); (ii) in respect of accounts which were granted moratorium in terms of the Covid19 Regulatory Package, the asset classification for the period from March 1, 2020 to August 31, 2020 shall be governed in terms of the circular 'COVID19 Regulatory Package - Asset Classification and Provisioning' dated April 17, 2020 (DOR.No.BP.BC.63/21.04.048/2019-20) read with the circular COVID-19 – Regulatory Package dated May 23, 2020 (DOR.No.BP.BC.71/21.04.048/2019-20). For the period commencing September 1, 2020, asset classification for all such accounts shall be as per the applicable IRAC Norms.

FOREIGN INVESTMENT LAWS

The foreign investment in our Bank is governed by, *inter alia*, the FEMA, as amended, the FEMA Regulations, the Consolidated FDI Policy Circular of 2020 ("**FDI Policy**") effective from October 15, 2020, issued and amended by way of press notes.

Foreign investment in private sector banks, carrying on activities approved for FDI, will be subject to the conditions specified in the FDI Policy.

As per the FDI policy, the aggregate foreign investment in a private sector bank from all sources will be allowed up to a maximum of 74% of the paid-up capital of the bank (automatic up to 49% and government approval route beyond 49% and up to 74%). This 74% limit will include investment under the Portfolio Investment Scheme (PIS) by FPIs, NRIs. At all times, at least 26% of the paid-up capital will have to be held by residents, except in regard to a wholly-owned subsidiary of a foreign bank.

In case of NRIs, individual holdings are restricted to 5% of the total paid-up capital both on a repatriation and a non-repatriation basis and the aggregate limit cannot exceed 10% of the total paid-up capital both on a repatriation and a non-repatriation basis. However, NRI holdings can be allowed up to 24% of the total paid-up capital both on a repatriation and a non-repatriation basis subject to a special resolution to this effect passed by the banking company's general body.

Further, in the case of FPIs, individual FPI holding is restricted to below 10% of the total paid-up capital of the company, aggregate limit for all FPIs cannot exceed 24% of the total paid-up capital of the company, which can be raised to the sectoral cap/statutory ceiling, as applicable, until March 31, 2020 (in case of private sector banks it can be raised up to 49% of the total paid-up capital of the bank) through a resolution by its board of directors followed by a special resolution to that effect by its General Body, and subject to prior intimation to RBI. In terms of the FEMA Regulations, for calculating the aggregate holding of FPIs in a company, holding of all registered FPIs shall be included.

The aggregate limit for FPI investments shall be the sectoral caps applicable to our Bank (i.e. automatic up to 49% and government route beyond 49% and up to 74%).All investments shall be subject to the guidelines prescribed for the banking sector under the Banking Regulation Act and the RBI Act. The RBI guidelines relating to acquisition by purchase or otherwise among others, shares of a private bank, if such acquisition results in any person owning or controlling 5% or more of the paid-up capital or voting rights of the private bank will apply to non-residents as well. As per the Banking Regulation Act read with the gazette notification DBR.PSBD. No. 1084/16.13.100/2016-17 dated July 21, 2016, there is a limit of 26% on voting rights in respect of private sector banks, and this should be noted by potential investors.

TAX LAWS

In addition to the aforementioned material legislations which are applicable to our Bank, some of the tax legislations that may be applicable to the operations of our Bank include:

- Income Tax Act 1961, as amended by the Finance Act in respective years;
- Central Goods and Service Tax Act, 2017 and various state-wise legislations made thereunder;
- Indian Stamp Act, 1899 and various state-wise legislations made thereunder; and
- State-wise legislations in relation to professional tax.
- The Foreign Account Tax Compliance Act (FATCA)

LABOUR LAWS

In addition to the aforementioned material legislations which are applicable to our Bank, some of the labour legislations that may be applicable to the operations of our Bank include:

- Contract Labour (Regulation and Abolition) Act, 1970;
- Payment of Wages Act, 1936;
- Payment of Bonus Act, 1965;
- Employees' State Insurance Act, 1948;
- Employees' Provident Funds and Miscellaneous Provisions Act, 1952;
- Equal Remuneration Act, 1976;
- Payment of Gratuity Act, 1972;
- Minimum Wages Act, 1948;
- Industrial Disputes (Banking and Insurance Companies) Act, 1949;
- Employee's Compensation Act, 1923;
- Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959;
- The Industrial Employment (Standing Orders) Act,1946;
- Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act and Rules, 2013;
- Maternity Benefit Act, 1961, as amended
- Shops and Establishment Act 1963, the state-wise acts and rules made thereunder

In order to rationalize and reform labour laws in India, the Government of India has framed four labour codes, namely:

a) The Industrial Relations Code, 2020 received the assent of the President of India on September 28, 2020 and it proposes to subsume three existing legislations, namely, the Industrial Disputes Act, 1947, the Trade Unions Act, 1926 and the Industrial Employment (Standing Orders) Act, 1946. The provisions of this code will be brought into force on a date to be notified by the Central Government.

b) The Code on Wages, 2019 received the assent of the President of India on August 8, 2019 and proposes to subsume four existing laws namely, the Payment of Wages Act, 1936, the Minimum Wages Act, 1948, the Payment of Bonus Act, 1965 and the Equal Remuneration Act, 1976. The Central Government has notified certain provisions of the Code on Wages, mainly in relation to the constitution of the advisory board.

c) The Occupational Safety, Health and Working Conditions Code, 2020 received the assent of the President of India on September 28, 2020 and proposes to subsume certain existing legislations, including the Factories Act, 1948, the Contract Labour (Regulation and Abolition) Act, 1970, the Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979 and the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. The provisions of this code will be brought into force on a date to be notified by the Central Government.

d) The Code on Social Security, 2020 received the assent of the President of India on September 28, 2020 and it proposes to subsume certain existing legislations including the Employee's Compensation Act, 1923, the Employees' State Insurance Act, 1948, the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, the Maternity Benefit Act, 1961, the Payment of Gratuity Act, 1972, the Building and Other Construction Workers' Welfare Cess Act, 1996 and the Unorganised Workers' Social Security Act, 2008. The provisions of this code will be brought into force on a date to be notified by the Central Government.

OTHER LEGISLATIONS

In addition to the aforementioned material legislations, our Bank is governed by the provisions of the Companies Act, SEBI Act, SCRA along with the rules, regulations and guidelines made thereunder and other key circulars and regulations as provided below:

- Central KYC Registry Operating Guidelines 2016;
- Master Circular - Disclosure in Financial Statements - Notes to Accounts dated July 1, 2015;
- Master Circular - Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards / Combating of Financing of Terrorism (CFT) / Obligation of banks under PMLA, 2002;
- Master Circular on Customer Service in Banks (2015);
- Master Direction - Reserve Bank of India (Interest Rate on Advances) Directions, 2016;
- Master Direction - Reserve Bank of India (Interest Rate on Deposits) Directions, 2016;
- Master Direction on Frauds - Classification and Reporting by commercial banks and select FIs dated July 1, 2016 (updated as on July 3, 2017);
- Pension Fund Regulatory and Development Authority (Point of Presence) Regulations, 2018;
- Rationalisation of Branch Authorisation Policy- Revision of Guidelines (May 2017); and
- Unique Identification Authority of India (Authentication Division) circular number 1 of 2018, dated January 10, 2018 on Enhancing Privacy of Aadhar Holders – Implementation of Virtual ID, UID Token and Limited KYC, and other applicable circulars.

Our Bank is also required to comply with Insurance Regulatory and Development Authority of India (Registration of Corporate Agents) Regulations, 2015, Negotiable Instruments Act, 1881, Payment and Settlements Systems Act, 2007, Companies Act, 2013 and various intellectual property and environment protection related legislations and other applicable statutes, rules, regulations, notifications, circular, policies and guidelines for its day-to-day operations.

HISTORY AND CERTAIN CORPORATE MATTERS

Our Corporate Promoter, was granted the RBI In-Principle Approval to establish an SFB, on October 7, 2015. Our Bank was incorporated as 'ESAF Small Finance Bank Limited' on May 5, 2016 at Thrissur, Kerala, as a public limited company under the Companies Act, 2013, and was granted a certificate of incorporation by the RoC. Our Bank was thereafter granted the RBI Final Approval vide license no. MUM:124, to carry on business as an SFB, on November 18, 2016.

Subsequently, our Corporate Promoter transferred its business undertaking comprising of its lending and financing business to our Bank pursuant to the Business Transfer Agreement dated February 22, 2017 (described in more detail below). Our Bank commenced its business as an SFB on March 10, 2017. Our Bank became a scheduled bank pursuant to a notification bearing no. DBR.NBD.(SFB-ESAF).No.4083/16.13.216/2018-19 dated November 12, 2018 issued by the RBI and published in the gazette of India (Part III-Section 4) dated December 22 – December 28, 2018, as per which our Bank was included in the second schedule to the RBI Act.

Changes in the Registered Office

Except as disclosed below, there has been no change in the Registered and Corporate Office of our Bank since the date of incorporation.

Date of change	Details of change in the Registered Office	Reasons for change
October 1, 2018	From Hepzibah Complex, Second Floor, No. X/109/M4, Mannuthy P.O., Thrissur 680 651, Kerala, India to Building no. VII/83/8, ESAF Bhavan, Thrissur – Palakkad National Highway, Mannuthy P.O., Thrissur 680 651, Kerala, India	Administrative convenience

Main objects of our Bank

The main objects contained in our Memorandum of Association are as follows:

"1. *To establish and carry on the business of banking that is to say to accept, for the purpose of lending or investment of deposits of money from the depositors, repayable on demand or otherwise, and withdraws by cheque, draft, order or otherwise in any part of India or outside India.*

2. *To undertake all banking activities of acceptance of deposits from the depositors and lending to the borrowers including to small business units, small and marginal farmers, micro and small industries and unorganised sector entities.*

3. *To undertake non-risk sharing financial services activities such as distribution of mutual fund units, insurance products, pension products, etc.*

4. *To carry on the business of an authorised dealer in foreign exchange business in respect of the customer's requirements.*

5. *To carry on business of accepting deposits of money from the depositors, repayable on demand or otherwise, and withdraws by cheque, draft, order or otherwise.*

6. *To carry on the business of:*

   a) *borrowing, raising or taking up of money;*

   b) *lending or advancing of money by way of a loan, overdraft or on cash credit or other accounts or in any other manner whether without or on the security or movable or immovable properties, bills of exchange, hundies, promissory notes, bills of lading, railway receipts, debentures, share warrants and other instruments whether transferable or negotiable or not;*

   c) *drawing, making, accepting, discounting, buying, selling, collecting and dealing in bills of exchange, hundies, promissory notes, coupons, drafts, bills of lading, railway receipts, warrants, debentures, certificates, scrips and other instruments and securities whether transferable or negotiable or not;*

   d) *granting and issuing of letters of credits, travellers' cheques and circulars notes;*

   e) *buying, selling and dealing in bullion and specie;*

   f) *buying and selling of and dealing in foreign exchange including foreign bank notes;*

   g) *acquiring, holding, issuing on commission, underwriting and dealing in stock, funds, shares, debentures, debenture stock, bonds, obligations, securities and investments of all kinds;*

   h) *purchasing and selling of bonds, scrips or other forms of securities on behalf of itself, its constituents or others;*

i) *negotiating of loans and advances;*

j) *receiving of all kinds of bonds, scrips or valuables on deposit or for safe custody or otherwise;*

k) *providing of safe deposit vaults;*

l) *collecting and transmitting of money and all kinds of securities;*

m) *issuing credit cards, debit cards, prepaid instruments, smart card or any similar instruments and extending any other credits;*

n) *acting as aggregators, as may be permitted by the Pension Fund Regulatory and Development Authority ("**PFRDA**"), in connection with the National Pension System of the PFRDA;*

o) *carrying on any other business specified in section 6(1)(a) to (n) of the Banking Regulation Act, 1949, as amended from time to time ("1949 Act"), and such other forms of business which the Central Government has pursuant to Section 6(1)(o) of 1949 Act specified or may from time to time specify by notification in the official gazette or as may be permitted by Reserve Bank of India ("**RBI**") from time to time as a form of business in which it would be lawful for a banking company to engage.*

7. *To carry on the business of merchant banking, investment banking, portfolio investment management, wealth management and investment advisors; to form, constitute, promote, act as managing and issuing agents, prepare projects and feasibility reports for and on behalf of any company, association, society, firm, individual and body corporate.*

8. *To carry on the business of mutual fund distribution, equipment leasing and hire purchase.*

9. *To act as corporate agents for insurance products for life and general insurance including but not limited to he alth, pension & employees benefit, fire, marine, cargo, marine hull, aviation, oil & energy, engineering, accident, liability, motor vehicles, transit and other products and to carry on the business of insurance, reinsurance and risk management as an insurance agent or otherwise as may be permitted under law.*

10. *To carry on the business of factoring by purchasing and selling debts receivables and claims including invoice discounting and rendering bill collection, debt collection and other factoring services.*

11. *To carry on and transact the business of giving guarantees and coun ter guarantees and indemnities whether by personal covenant or by mortgaging or charging all or any part of the undertaking, property or assets of the Company, both present and future wherever situate or in any other manner and in particular to guarantee the payment of any principal moneys, interest or other moneys secured by or payable under debentures, bonds, debenture-stock, mortgages, charges, contracts, obligations and securities, and the repayment of the capital moneys and the payment of dividends in respect of stocks and shares or the performance of any such other obligations.*

12. *To carry on the business of setting up a payment and settlement system in accordance with the Payment and Settl ement Systems Act, 2007, and to support, provide informational and transactional facilities and solutions to consumers for making payments for all goods and services.*

The main objects as contained in our Memorandum of Association enable our Bank to carry o n the business presently being carried out and proposed to be carried out by it.

Amendments to the Memorandum of Association

Set out below are the amendments to our Memorandum of Association in the last 10 years:

Date of Shareholders' resolution/ Effective date	Particulars
December 12, 2019	Clause V of the MoA was amended to reflect the increase in the authorized share capital of our Bank from ₹4,500,000,000 divided into 450,000,000 Equity Shares of ₹10 each to ₹6,000,000,000 divided into 600,000,000 Equity Shares of ₹10 each
June 13, 2018	Clause V of the MoA was amended to reflect the increase in the authorized share capital of our Bank from ₹3,500,000,000 divided into 350,000,000 Equity Shares of ₹10 each to ₹4,500,000,000 divided into 450,000,000 Equity Shares of ₹10 each
January 27, 2017	Clause V of the MoA was amended to reflect the increase in the authorized share capital of our Bank from ₹1,100,000,000 divided into 110,000,000 Equity Shares of ₹10 each to ₹3,500,000,000 divided into 350,000,000 Equity Shares of ₹10 each
May 17, 2016	Clause V of the MoA was amended to reflect the increase in the authorized share capital of our Bank from ₹1,000,000 divided into 100,000 Equity Shares of ₹10 each to ₹1,100,000,000 divided into 110,000,000 Equity Shares of ₹10 each

Major events and milestones of our Bank

The table below sets forth some of the key events in the history of our Bank:

Calendar Year	Event
2021	• Banking business (advances and deposits) crossed over ₹150,000 million
2020	• Crossed 500 Branches in aggregate
2019	• Crossed 400 Branches in aggregate • Banking business (advances and deposits) crossed over ₹100,000 million
2018	• Crossed two million borrowers • Bank became a member of the Global Alliance for Banking on Values • Received RBI approval for maintaining non-resident rupee account • Inclusion of our Bank in the second schedule of the RBI Act • Selected by the GoI for Atal Pension Yojana • Crossed 100 Branches in aggregate
2017	• Commenced our banking operations
2016	• Received RBI Final Approval for commencement of banking operations • Incorporation of our Bank

Key awards, accreditations and recognitions received by our Bank

Calendar Year	Awards/Accreditations/Recognitions
2021	• 'Great Place to Work' certification for March 2021- February 2022 by the Great Place to Work Institute, India • ISO 9001:2015 certification no. IN92405A valid April 8, 2021 to April 7, 2024 by LMS Certifications Private Limited for our: (i) customer service quality initiatives; (ii) regulatory and statutory reporting of the customer service quality department; (iii) customer grievance redressal mechanism; and (iv) customer service call center monitoring.
2020	• 'Global Sustainability Award 2020' for outstanding achievements in sustainability management by the Energy and Environment Foundation
2019	• Dhanam 'Kerala Bank of The Year – 2019' award • 'Banking Gold' SKOCH Award for Access and Affordable Banking Services for Financially Underserved Areas • Diversity & Inclusion Excellence Awards 2019 – first runner up under the category 'Best Employer for Women (in Large Category)' by ASSOCHAM India • Best Performance Award 2018-19 under the SHG – Bank Linkage Programme by NABARD, Kerala Regional Office
2018	• MSME Banking Excellence Awards 'Special Jury Award for Serving MSMEs' by Chamber of Indian Micro Small & Medium Enterprises • Finalist at the 9th European Microfinance Award 'Inclusive Finance through Technology' and recognition for the Bank's range of back and front end digital solutions for staff and clients alike • Recognition for implementing outstanding initiatives in the category 'Positive External Image Building' by MFIN Microfinance Awards 2018: In Pursuit of Excellence • Perform for Pride FY 2018-19 'Best Performing Branch - Kattapana' under the Atal Pension Yojana by PFRDA • 'Banking & Finance Gold' SKOCH Award for Financial Inclusion for All

Time and cost over-runs

There have been no time and cost over-runs in the setting up of any of the establishments of our Bank or in respect of our business operations.

Defaults or re-scheduling of borrowings

There have been no defaults or re-scheduling/ re-structuring in relation to borrowings availed by our Bank from any financial institutions or banks.

Significant financial and strategic partners

As of the date of this Draft Red Herring Prospectus, our Bank does not have any significant financial or strategic partners.

Launch of key products or services, entry into new geographies or exit from existing markets

For details of key products or services launched by our Bank, entry into new geographies or exit from existing markets, see "*Our Business*" on page 143.

Details regarding material acquisitions or divestments of business/ undertakings, mergers, amalgamations or any revaluation of assets, in the last ten years

Other than as disclosed below, our Bank has not acquired any business or undertaking and has not undertaken any merger, amalgamation or revaluation of assets:

Our Bank and our Corporate Promoter have entered into the Business Transfer Agreement, pursuant to which the business undertaking of our Corporate Promoter comprising of its lending and financing business, was transferred to our Bank. For further details, see "*– Key terms of other subsisting material agreements*" on page 186.

Holding Company

As of the date of this Draft Red Herring Prospectus, our Bank has no holding company.

Our Subsidiaries

As of the date of this Draft Red Herring Prospectus, our Bank has no subsidiaries.

Joint Venture

As of the date of this Draft Red Herring Prospectus, our Bank has no joint ventures.

Shareholders' agreements and other agreements

Key terms of subsisting shareholders' agreements

Shareholders agreement dated July 27, 2018 entered into amongst PNB MetLife India Insurance Company Limited ("PNB"), Bajaj Allianz Life, Muthoot Finance Limited ("Muthoot"), PI Ventures, our Promoters and our Bank, read along with the deeds of adherence, each dated September 27, 2018, signed by ESMACO, ICICI Lombard General Insurance Company Limited ("ICICI Lombard"), Yusuffali Musaliam Veettil Abdul Kader ("Yusuffali Kader" and collectively with PNB, Bajaj Allianz Life, Muthoot, PI Ventures, ESMACO, ICICI Lombard and George Ittan Maramkandathil are referred to as the "Investors", and such shareholders agreement the "Bank SHA"), as amended by the waiver cum amendment agreement dated July 9, 2021 ("SHA Amendment Agreement")

Our Bank, our Promoters and the Investors have entered into the Bank SHA to govern their *inter-se* rights and obligations in the Bank. Pursuant to the terms of the Bank SHA, the Investors are entitled to certain rights including *inter-alia* information rights; anti-dilution rights; and pre-emptive rights until the completion of an initial public offer by the Bank. Further, pursuant to the terms of the Bank SHA, Investors are not permitted to transfer or subscribe to Equity Shares in breach of the ceiling limit on shareholding specified in the Master Direction – Ownership in Private Sector banks, Directions, 2016 dated May 12, 2016 and/or transfer or subscribe to Equity Shares which along with the shareholding of related parties, subsidiaries, associates, affiliates etc. exceeds 4.99% of the total share capital of the Bank, unless permitted by the Bank, subject to receipt of requisite approvals, including but not limited to RBI approval. Further, Investors and Promoters are subject to certain transfer restrictions. Further, the Promoters are entitled to a right of first offer in case of transfer of Equity Shares by Investors and the Investors are entitled to tag along rights in case of transfer of Equity Shares by the Promoters of the Bank. Pursuant to the Bank SHA, 30% of the total Shares offered pursuant to the Offer are required to be reserved for an offer for sale of Equity Shares held by the Investors and Promoters. Promoters are entitled to participate in the offer for sale within the reserved percentage in proportion to their existing shareholding in our Bank, and Investors (holding less than 5%) will be entitled to offer within the reserved percentage which should be 125% of their proportionate holding in the existing shareholding of our Bank. The Bank SHA will terminate upon a shareholder ceasing to hold Equity Shares, or upon the occurrence of an event of default at the option of the non-defaulting party, or with the mutual consent of the parties to the Bank SHA.

The parties to the Bank SHA have entered into the SHA Amendment Agreement, which is effective from the date of this Draft Red Herring Prospectus, and shall remain in effect until the earlier of: (i) the long stop date, i.e., March 31, 2022, or such extended date as may be mutually agreed amongst the parties; (ii) consummation of the Offer; or (iii) the date on which the Board and the Investors jointly decide not to undertake the Offer ("**Term**"). George Ittan Maramkandathil has been added as a party to the Bank SHA through the SHA Amendment Agreement. Pursuant to the SHA Amendment Agreement, each party has agreed to waive its rights in terms of the financial statements, business plan and other information disclosure rights, under the Bank SHA from the date of filing of the Red Herring Prospectus until the expiry of the Term. However, parties are entitled to receive all financial information pertaining to the Bank post listing which the Bank has disclosed to stock exchanges or otherwise made available in the public domain, subject to the approval by shareholders by special resolution post listing and trading of the Equity Shares of our Bank. Further, each Party has agreed to waive *inter alia*, its anti-dilution rights, transfer and exit rights (subject to compliance with the exit provisions in connection with the Offer), for the duration of the Term. The SHA will terminate automatically without any further act or deed required by any party, upon the Bank receiving the final listing and trading approvals from the Stock Exchanges for the listing and trading of the Equity Shares of the Bank on the Stock Exchanges. In the event that the Offer is not completed on or prior to the long stop date, or if the Board and Investors jointly decide not to undertake the Offer, the SHA Amendment Agreement shall stand immediately and automatically terminated with effect from the long stop date or the date on which the Board and the Investors jointly decide not to undertake the IPO, without any further action by any Party and the provisions of the Bank SHA shall be deemed to have been in force during the period between the execution date and the date of termination of the SHA Amendment Agreement, without any break or interruption whatsoever.

Shareholders agreement dated December 23, 2019 entered into amongst our Corporate Promoter, Kadambelil Paul Thomas, George Thomas acting in his capacity as the trustee of ESAF Staff Welfare Trust ("Trust"), ESMACO, SIDBI Trustee Company Limited ("SIDBI Trustee"), Dia Vikas Capital Private Limited ("Dia Vikas" and collectively with SIDBI Trustee and Dia Vikas

referred to as "Investors in the Corporate Promoter") ("Corporate Promoter SHA") as amended by the amendment agreement to the Corporate Promoter SHA dated March 29, 2021 and the letter amendment agreement dated July 13, 2021 ("Corporate Promoter SHA Amendment Agreement")

Our Corporate Promoter, Kadambelil Paul Thomas, the Trust, ESMACO and the Investors in the Corporate Promoter have entered into the Corporate Promoter SHA to govern their *inter-se* relationship, rights and obligations with respect to their respective investments in Corporate Promoter and the operation, administration, management and certain matters in connection therewith.

Pursuant to the Corporate Promoter SHA, the parties to the Corporate Promoter SHA have acknowledged that the Bank is required to undertake an initial public offering which may include a pre-IPO placement of Equity Shares on or prior to March 31, 2022 and have *inter-alia* provided their no objection to the Offer (including Pre-IPO Placement). The Corporate Promoter has agreed that upon successful completion of the Offer, the Corporate Promoter shall: (i) undertake a buy-back of its shares in accordance with applicable law from the amount received from the Offer for Sale of its Equity Shares and such buy-back shall be computed in the manner set out in the Corporate Promoter SHA; and (ii) file an application before the NCLT along with its shareholders for the cancellation and reduction of a portion of shares of the Corporate Promoter in consideration for which the Corporate Promoter has agreed to transfer a certain portion of its Equity Shares of the Bank to the Investors in the Corporate Promoter in such proportion as agreed to in the Corporate Promoter SHA as per the formula set out therein. The reduction of capital of the Corporate Promoter and the transfer of its Equity Shares of the Bank to the Investors in the Corporate Promoter shall be subject to applicable laws and receipt of the order of the NCLT approving such reduction of capital. Further, the transfer of Equity Shares of the Bank to Investors in the Corporate Promoter shall be subject to applicable law (including in compliance with the lock-in obligations prescribed under the SEBI ICDR Regulations) and receipt of the order of the NCLT approving such reduction in capital. Separately, in the event that the Offer is successfully completed but application for reduction of shares of the Corporate Promoter is rejected by the NCLT, the Company may, in mutual agreement with Investors, make an application to the NCLT for reduction of shares in consideration of cash, in accordance with the Companies Act, 2013. In the event that the Offer is not completed within the specified timeline i.e., March 31, 2022, the Investors in the Corporate Promoter are, amongst other things, entitled to exercise a put option and require our Corporate Promoter, Individual Promoter or ESMACO to buy-back or redeem or purchase the shares held by the Investors in the Corporate Promoter. Upon the occurrence of an event of default as set out in the Corporate Promoter SHA, which are not remedied within the prescribed time periods, the Investors in the Corporate Promoter may be entitled to transfer their shareholding to any third party without offering the Individual Promoter a right of first refusal.

Key terms of other subsisting material agreements

Our Bank has not entered into any other subsisting material agreements, including with strategic partners, joint venture partners, and/or financial partners, other than in the ordinary course of business.

Deed of assignment dated February 16, 2017 entered into between the Corporate Promoter and ESAF Enterprise Development Finance Limited ("EEDFL" and such deed of assignment be referred to as "Assignment Deed")

Our Corporate Promoter and EEDFL entered into the Assignment Deed pursuant to the RBI In-Principle Approval, which amongst other conditions, required that the lending activities of EEDFL be folded into the SFB before the date of commencement of business of the SFB. Accordingly, pursuant to the Assignment Deed, EEDFL transferred its entire portfolio of loan assets, and sold the loans and receivables as defined in the Assignment Deed, along with the underlying securities to the Corporate Promoter and exited such line of business completely; and the Corporate Promoter purchased the said loans and receivables along with the underlying securities on the terms and conditions sets out in the Assignment Deed for a purchase consideration aggregating to ₹8.34 million.

Agreement to sell business undertaking dated February 22, 2017 entered into between the Corporate Promoter and our Bank ("Business Transfer Agreement")

Upon receipt of the RBI Final Approval on November 18, 2016, our Promoter, the Corporate Promoter entered into the Business Transfer Agreement with our Bank, pursuant to which the business undertaking of the Corporate Promoter comprising of the lending and financing business of the Corporate Promoter ("**Business Undertaking**") together with, *inter-alia*, all the assets, liabilities, rights, title, interest, obligations, risks and rewards relating to and arising out of the Business Undertaking was transferred to our Bank as a going concern on a slump sale basis for a lump sum purchase consideration of ₹70 million on March 10, 2017 ("**Transfer Date**"). The purchase consideration for the Business Undertaking has been discharged partly by way of cash (i.e., ₹20 million) and partly pursuant to the issue of 4,901,960 Equity Shares by our Bank to the Corporate Promoter at an aggregate issue price of ₹10.20 per Equity Share, aggregating to ₹50 million. For further details, see "*Capital Structure*" on page 69.

Pursuant to the Business Transfer Agreement, the entire legal and beneficial ownership including all the gains and losses accruing thereof, and the interest of the Corporate Promoter in the Business Undertaking was transferred to us with effect from the Transfer Date and our Bank is the full and undisputed owner of the Business Undertaking with effect from the Transfer Date. However, all gains and losses accruing to the Business Undertaking up to and including the financial closing date immediately preceding the Transfer Date will be accounted to the Corporate Promoter.

Pursuant to the Business Transfer Agreement, all legal proceedings in relation to the Business Undertaking, pending as on the Transfer Date or in respect of which, the cause of action had arisen on or prior to the Transfer Date, shall continue to be managed by the Corporate Promoter and all claims, liabilities, obligations etc., arising out of such legal proceedings shall be borne by the Corporate Promoter. Further, all legal proceedings in relation to the Business Undertaking, in respect of which, the cause of action has arisen post the Transfer Date, shall be managed by our Bank and all claims, liabilities, obligations etc., arising out of such legal proceedings shall be borne by our Bank. In terms of the Business Transfer Agreement, our Corporate Promoter is liable for all tax liabilities and entitled to all tax refunds pertaining to the Business Undertaking which accrue to our Corporate Promoter up to March 9, 2017, (including such sums received by our Bank or the Corporate Promoter post March 9, 2017). Further, our Bank is liable for all tax liabilities and entitled to all tax refunds pertaining to the Business Undertaking which accrue to our Bank, from (and including) March 10, 2017, in relation to the tax liabilities assumed by our Bank, including service tax.

Further, simultaneous with the transfer of the Business Undertaking, the employees of the Corporate Promoter along with connected costs and obligations, as of the financial closing date have been transferred to our Bank. In addition to the non-convertible debentures of the Corporate Promoter which were transferred to us, all the loans, securitization transactions, direct assignments, business correspondent arrangements and other obligations and liabilities that form part of the Business Undertaking have been novated by the Corporate Promoter in our favour, and we have assumed all rights, obligations and liabilities in connection therewith. As per the terms of the Business Transfer Agreement, we are liable to satisfy and discharge all transferred debts and liabilities pertaining to or arising out of the Business Undertaking on or after the Transfer Date and to fulfil any pending contracts or engagements pertaining to the Business Outstanding which are pending as on the Transfer Date. Pursuant to the Business Transfer Agreement, the Corporate Promoter has agreed to indemnify us from and against claims not forming part of the Business Undertaking that are imposed on us, and we have agreed to indemnify the Corporate Promoter from claims relating to the Business Undertaking which are imposed upon it, on and after the Transfer Date.

Deposit transfer agreement dated March 7, 2017 entered into between ESMACO and our Bank ("Deposit Transfer Agreement")

ESMACO and our Bank entered into the Deposit Transfer Agreement pursuant to the RBI In-Principle Approval, which amongst other conditions, required ESMACO to cease accepting any fresh deposits and transfer all deposits to our Bank before the date of commencement of business of the Bank. Pursuant to the Deposit Transfer Agreement, ESMACO agreed to facilitate the transfer its accounts and the outstanding deposit amount aggregating to ₹877.62 million, to our Bank on the closing date, i.e., March 10, 2017. In consideration of ESMACO facilitating such transfer, our Bank agreed to pay ESMACO a facilitation fee of ₹100 per depositor or ₹50 million, whichever is lower.

Deed of assignment dated March 9, 2017 entered into between ESMACO and our Bank ("ESMACO DOA")

ESMACO and our Bank entered into the ESMACO DOA pursuant to the RBI In-Principle Approval, which, amongst other conditions, required ESMACO to fold and discontinue its lending activities. Pursuant to the ESMACO DOA, ESMACO agreed to cease and exit the business of lending and has agreed to sell, assign, transfer, convey and release all loans and receivables together with all the rights, benefits and interest under and in relation to the loan agreements to the Bank for a purchase consideration aggregating to ₹309.98 million.

Subscription agreement dated July 27, 2018 entered into between our Bank and PNB MetLife India Insurance Company Limited ("PNB")

Pursuant to the subscription agreement entered into between our Bank and PNB, our Bank agreed to issue and allot, and PNB agreed to subscribe to 18,717,244 Equity Shares for a consideration of ₹749.99 million. Our Bank issued such Equity Shares to PNB on July 31, 2018. For further details, see "*Capital Structure*" on page 69.

Subscription agreement dated July 27, 2018 entered into between our Bank and Muthoot Finance Limited ("Muthoot")

Pursuant to the subscription agreement entered into between our Bank and Muthoot, our Bank agreed to issue and allot, and Muthoot agreed to subscribe to 18,717,244 Equity Shares for a consideration of ₹749.99 million. Our Bank issued such Equity Shares to Muthoot on July 31, 2018. For further details, see "*Capital Structure*" on page 69.

Subscription agreement dated July 27, 2018 entered into between our Bank and Bajaj Allianz Life

Pursuant to the subscription agreement entered into between our Bank and Bajaj Allianz Life, our Bank agreed to issue and allot, and Bajaj Allianz Life agreed to subscribe to 17,469,428 Equity Shares for a consideration of ₹699.99 million. Our Bank issued such Equity Shares to Bajaj Allianz Life on July 31, 2018. For further details, see "*Capital Structure*" on page 69.

Subscription agreement dated July 27, 2018 entered into between our Bank and PI Ventures

Pursuant to the subscription agreement entered into between our Bank and PI Ventures, our Bank agreed to issue and allot, and PI Ventures agreed to subscribe to 8,734,714 Equity Shares for a consideration of ₹349.99 million. Our Bank issued such Equity Shares to PI Ventures on July 31, 2018. For further details, see "*Capital Structure*" on page 69.

Subscription agreement dated September 27, 2018 entered into between our Bank and ICICI Lombard General Insurance Company Limited ("ICICI Lombard")

Pursuant to the subscription agreement entered into between our Bank and ICICI Lombard, our Bank agreed to issue and allot, and ICICI Lombard agreed to subscribe to 6,239,081 Equity Shares for a consideration of ₹249.99 million. Our Bank issued such Equity Shares to ICICI Lombard on September 28, 2018. For further details, see "*Capital Structure*" on page 69.

Subscription agreement dated September 27, 2018 entered into between our Bank and ESMACO

Pursuant to the subscription agreement entered into between our Bank and ESMACO, our Bank agreed to issue and allot, and ESMACO agreed to subscribe to 21,346,993 Equity Shares for a consideration of ₹855.37 million. Our Bank issued such Equity Shares to ESMACO on September 28, 2018. For further details, see "*Capital Structure*" on page 69.

Subscription agreement dated September 27, 2018 entered into between our Bank and Yusuffali Musaliam Veettil Abdul Kader ("Yusuffali Kader")

Pursuant to the subscription agreement entered into between our Bank and Yusuffali Kader, our Bank agreed to issue and allot, and Yusuffali Kader agreed to subscribe to 21,346,993 Equity Shares for a consideration of ₹855.37 million. Our Bank issued such Equity Shares to Yusuffali Kader on September 28, 2018. For further details, see "*Capital Structure*" on page 69.

Trademark licensing agreement dated January 5, 2020 entered into between ESAF Society and our Bank ("Trademark Agreement")

Under the Trademark Agreement, ESAF Society has granted our Bank an exclusive, irrevocable license and right to use the trademarks , , , , "CREATING OPPORTUNITIES" and "FIGHTING THE PARTIALITY OF PROSPERITY" which are registered trademarks of the ESAF Society under certain classes and "ESAF" (word mark), of which the application status is 'opposed', (collectively "**Trademarks**"), exclusively in relation to the banking, financial services and insurance business ("**Business**"), and including on all stationery, advertising, marketing, promotional materials and websites ("**License**"). Further, ESAF Society has granted our Bank a non-exclusive license for the worldwide use of "ESAF" as part of our Bank's trade name/ corporate name. Additionally, for the better protection, promotion and enforcement of the ESAF brand and in view of the fact that all activities related to the Business will be exclusively conducted by our Bank, ESAF Society permitted our Bank to register the trademark "ESAF SMALL FINANCE BANK", which is registered by the Bank under registration number 3459568 ("**Bank TM**"). Pursuant to the Trademark Agreement, ESAF Society has permitted our Bank to register in its name, any trade name containing "ESAF" solely for the Business in class 36, subject to the written consent of the ESAF Society prior to making an application in this regard. Our Bank has agreed to hold the Bank TM and any other mark registered by it containing "ESAF" in trust for ESAF Society so long as the Trademark Agreement is in force.

The License is valid for a period of 15 years from January 5, 2020 ("**Term**") or until such time it in terminated as per the Trademark Agreement. The Trademark Agreement may be terminated with the mutual consent of ESAF Society and the Bank, and shall stand automatically terminated: (a) in the event our Bank goes into liquidation (other than voluntary liquidation for the purpose of reconstruction or amalgamation); or (b) upon revocation of the banking license of our Bank by the RBI. Further, our Bank can terminate the Trademark Agreement upon providing prior written notice of one year to ESAF Society. Upon expiry of the Term or termination of the Trademark Agreement, our Bank shall immediately, amongst other things: (i) cancel the Bank TM and any other application/ registration for trademarks containing "ESAF"; (ii) discontinue the use of the Trademarks, and dispose any material bearing or using the Trademarks; and (iii) change or procure to be changed its corporate name and/or trading style in such a manner so as to delete "ESAF".

The License granted is subject to the rights already enjoyed and granted to our Corporate Promoter and ESMACO to use the mark and the name "ESAF" in respect of their current business activities. ESAF Society and our Bank have agreed that the consideration for the grant of License is 0.30% of the total income (calculated as the sum of interest earned and other income) or 2.50% of the net profit of our Bank, whichever is less (exclusive of applicable indirect taxes), as recorded in the audited financial statements of the respective financial year, payment of which will commence from April 1, 2020, and shall be annually payable on September 30 of the subsequent financial year.

Agreements with Key Managerial Personnel, Director, Promoters or any other employee

There are no agreements entered into by a Key Managerial Personnel or Director or Promoters or any other employee of our Bank, either by themselves or on behalf of any other person, with any shareholder or any other third party with regard to compensation or profit sharing in connection with dealings in the securities of our Bank.

Guarantees provided by the Promoter Selling Shareholder

As of the date of this Draft Red Herring Prospectus, the Promoter Selling Shareholder has not given any guarantees to third parties.

OUR MANAGEMENT

Board of Directors

In terms of the Articles of Association, our Bank is required to have not less than three Directors and not more than 15 Directors. As on the date of this Draft Red Herring Prospectus, our Board comprises of eight Directors including one Executive Director, two Non-Executive Nominee Director of our Corporate Promoter and five Non-Executive Independent Directors. Our Board comprises of one woman director.

The following table sets forth details regarding our Board of Directors as on the date of this Draft Red Herring Prospectus:

S. No.	Name, designation, address, occupation, nationality, term and DIN	Age (years)	Other directorships
1.	Ravimohan Periyakavil Ramakrishnan ***Designation**:* Part-Time Chairman and Non-Executive Independent Director ***Address**:* Flat No. N 074, DLF New Town Heights, Seaport Airport Road, Opposite Doordarshan Kendra, Kakkanad P.O., Ernakulam 682 030, Kerala ***Occupation**:* Retired Banker ***Date of birth**:* May 29, 1958 ***Nationality**:* Indian ***Period and term:*** For a period of three years with effect from December 21, 2019, i.e., until December 20, 2022, and is not liable to retire by rotation ***DIN**:* 08534931	63	• TP Renewable Microgrid Limited; and • CARE Ratings (Africa) Private Limited
2.	Kadambelil Paul Thomas ***Designation**:* Managing Director and Chief Executive Officer ***Address**:* Kadambelil House, Mannuthy P.O., Nettissery, Thrissur 680 651, Kerala ***Occupation**:* Service ***Date of birth**:* May 21, 1963 ***Nationality**:* Indian ***Period and term:*** For a period of three years with effect from October 1, 2018, i.e. until September 30, 2021 and is not liable to retire by rotation.^ ***DIN**:* 00199925	58	Nil
3.	Joseph Vadakkekara Antony ***Designation**:* Non-Executive Independent Director ***Address**:* A-1, Chakolas Marine Apartments, Pandit Karuppan Road, Opposite Chakolas Habitat, Thevara, Ernakulam 682 013, Kerala ***Occupation**:* Director (Relations) at Rajagiri Hospital ***Date of birth**:* May 24, 1951 ***Nationality**:* Indian ***Period and term:*** For a period of three years with effect from August 17, 2020, i.e., until August 16, 2023 and is not liable to retire by rotation	70	• Agappe Diagnostics Limited

S. No.	Name, designation, address, occupation, nationality, term and DIN	Age (years)	Other directorships
	DIN: 00181554		
4.	Thomas Jacob Kalappila ***Designation:*** Non-Executive Independent Director ***Address:*** Kalappilayil TC 5/2548(2), Krishna Gardens, Golf Links Road, Kowdiar P O, Trivandrum 695 003, Kerala ***Occupation:*** Practicing Chartered Accountant ***Date of birth:*** June 13, 1953 ***Nationality:*** Indian ***Period and term:*** For a period of three years with effect from March 10, 2020, i.e., until March 9, 2023 and is not liable to retire by rotation. ***DIN:*** 00812892	68	• Spotmarket Securities Private Limited; and • Syncon Management Consultants Private Limited
5.	Asha Morley ***Designation:*** Non-Executive Independent Director ***Address:*** 154, Avon Classic, Opposite Tata SSL, Borivali East, Mumbai 400 066, Maharashtra ***Occupation:*** Practising Chartered Accountant ***Date of birth:*** March 22, 1959 ***Nationality:*** Indian ***Period and term:*** For a period of three years with effect from December 13, 2019, i.e., until December 12, 2022 and is not liable to retire by rotation ***DIN:*** 02012799	62	Nil
6.	Alex Parackal George ***Designation:*** Non-Executive Independent Director ***Address:*** 78, Greenpark, Thiruvambadi P.O., Thrissur 680 022, Kerala ***Occupation:*** Business ***Date of birth:*** January 22, 1955 ***Nationality:*** Indian ***Period and term:*** For a period of three years with effect from December 13, 2019, i.e., until December 12, 2022 and is not liable to retire by rotation ***DIN:*** 07491420	66	Nil
7.	Saneesh Singh Designation: Non-Executive Nominee Director* Address: Flat no. F-224, DLF Park Place, DLF City Phase-5, Section 56, Gurgaon 122 011, Haryana Occupation: Service Date of birth: September 19, 1968	52	• Cashpor Micro Credit; • Dia Vikas Capital Private Limited; • ESAF Financial Holdings Private Limited; • Growing Opportunity Finance (India) Private Limited; • MI India Capital Consultants Private Limited;

S. No.	Name, designation, address, occupation, nationality, term and DIN	Age (years)	Other directorships
	Nationality: Indian Period and term: For a period of three years with effect from December 13, 2018, i.e., until December 12, 2021 and is liable to retire by rotation DIN: 02254868		• MI India Capital & Investment Private Limited; and • Satya Microcapital Limited
8.	Chandanathil Pappachan Mohan ***Designation****:* Non-Executive Nominee Director* ***Address*****:** 65/1928 A, Chandanathil House, Manakaparampil Lane, Azad Road, Near Renewal Centre, Kaloor, Ernakulam 682 017, Kerala ***Occupation:*** Retired Banker ***Date of birth:*** May 27, 1956 ***Nationality:*** Indian ***Period and term:*** for a period of three years with effect from May 29, 2020, i.e. until May 28, 2023 and is liable to retire by rotation. ***DIN:*** 02661757	65	• Satya Microcapital Limited

^Our Bank has passed a resolution for reappointment for a period of three years which has been approved by RBI. This is pending approval from the shareholders of our Bank.

**Nominee of our Corporate Promoter, EFHPL*

Brief Biographies of Directors

Ravimohan Periyakavil Ramakrishnan is the Part-Time Chairman and Non-Executive Independent Director of our Bank. He holds a bachelor's degree in science and master's degree in science from Kerala University, and a master's degree in business administration from Birmingham University. He is a certified associate of the Indian Institute of Bankers. He was previously employed as a chief general manager in the department of banking supervision of the Reserve Bank of India. He was previously a resident advisor, financial sector supervision, International Monetary Fund, AFRITAC South, Mauritius.

Kadambelil Paul Thomas is the Managing Director and Chief Executive Officer of our Bank. He holds a master's degree in business administration from the Annamalai University. He was previously the chairman and managing director of ESAF Financial Holdings Private Limited. He has also served as the founder secretary cum honorary executive director of Evangelical Social Action Forum for over 25 years. He was also previously a director on the boards of Sanma Garments Private Limited, Rhema Dairy Products India Private Limited, Rhema Milk Producer Company Limited, Lahanti Homes and Infrastructure Private Limited, ESAF Health Care Services Private Limited, ESAF Swasraya Producers Company Limited, CEDAR Retail Private Limited, ESAF Enterprise Development Finance Limited and CEDAR Livelihood Services Private Limited (Formerly Cedar Agri Solutions Private Limited). Presently, he is the president of Kerala Association of Microfinance Institutions Entrepreneurs. He was previously the chairman of Sa-Dhan, and the chairman of Confederation of Indian Industry – Kerala.

Joseph Vadakkekara Antony is a Non-Executive Independent Director on the Board of our Bank. He holds a bachelor's degree in law, a master's degree in personnel management and a doctorate of philosophy (business economics) from Pune University. He is a certified associate of the Indian Institute of Bankers. He was the managing director and chief executive officer on the board of South Indian Bank Limited and was also on the boards of directors of Muthoot Homefin (India) Limited, SP Life Care Private Limited and ET Marlabs Private Limited. He was previously employed with Syndicate Bank. He is currently on the board of directors of Agappe Diagnostics Limited. He received the Sunday Standard Best Banker award in 2013 and IDRBT Technology Excellence Award in 2012.

Thomas Jacob Kalappila is a Non-Executive Independent Director on the Board of our Bank. He holds a bachelor's degree in science from Kerala University and is an associate member of the Institute of Chartered Accountants of India. He is a partner of Thomas Jacob & Co., a partnership firm and has 35 years of experience in statutory audit, internal and forensic audit of banks. He has previously served as an independent director on the board of directors of South Indian Bank Limited and Malabar Cements Limited.

Asha Morley is a Non-Executive Independent Director on the Board of our Bank. She holds a bachelor's degree in commerce from the Bombay University. She is a Fellow member of the Institute of Chartered Accountants of India and holds a diploma in information and systems audit from the Institute of Chartered Accountants of India. She was previously a director on the boards of Morley Investments Private Limited and Morley Consultants Private Limited.

Alex Parackal George is a Non-Executive Independent Director on the Board of our Bank. He holds a bachelor's degree of technology in chemical engineering from the Indian Institute of Technology, Madras and a post graduate diploma in management from the Indian Institute of Management, Calcutta. He is also the proprietor of Alco Fasteners, a small scale industrial unit registered with the Directorate of Industries and Commerce.

Saneesh Singh is the Non-Executive Nominee Director of our Bank. He holds a master's degree in arts from Lucknow University and an advanced post graduate diploma in computers and information management from the Uptron Academy of Computer Learning. He has also completed the HBS ACCION program on 'Strategic Leadership' in Inclusive Finance from Harvard Business School. He is the managing director of Dia Vikas Capital Private Limited and was previously employed with the Small Industries Development Bank of India. He was awarded a British Chevening Scholarship by the Foreign and Commonwealth Office to study banking at the London School of Economics and Political Science.

Chandanathil Pappachan Mohan is a Non-Executive Nominee Director on the Board of our Bank. He holds a bachelor's degree of science in agriculture and animal husbandry from G. B. Pant University for Agriculture and Technology, a post graduate diploma in rural management from the Institute of Rural Management and is a certified associate of the Indian Institute of Bankers. He was previously the chief general manager of NABARD and managing director of NABFINS. He has served on the board of directors of CEDAR Retail Private Limited, Kamal Fincap Private Limited, and Prachodhan Development Services. He is an independent director on the board of Satya Microcapital Limited, New Delhi.

Relationship between our Directors

None of our Directors are related to each other.

Confirmations

None of our Directors is, or was a director of any listed company during the last five years preceding the date of this Draft Red Herring Prospectus, whose shares have been, or were suspended from being traded on any of the stock exchanges during the term of their directorship in such company.

No consideration in cash or shares or otherwise has been paid or agreed to be paid to any of our Directors or to the firms or companies in which they are interested by any person either to induce them to become or to help them qualify as a Director, or otherwise for services rendered by them or by the firm or company in which they are interested, in connection with the promotion or formation of our Bank.

None of our Directors is, or was a director of any listed company which has been, or was delisted from any stock exchange during the term of their directorship in such company.

Terms of appointment of Directors

1. **Remuneration paid to the Executive Director:**

Kadambelil Paul Thomas was paid a total remuneration of ₹14.62 million during Fiscal 2021.*^ The details of remuneration governing his appointment pursuant to contract of employment dated October 1, 2018 entered into between the Bank and Kadambelil Paul Thomas and as approved by the RBI are stated below:

Particulars	Remuneration
Gross Salary	₹13.20 million per annum
Perquisites	Including but not limited to furnished house up to ₹1.20 million per annum, Bank's car, provident fund aggregating to ₹1.32 million, travelling and halting allowance, medical insurance coverage for self and dependents (premium of ₹0.20 million, medical expenses reimbursement for self and dependents up to ₹1 million, reimbursement of entertainment expenditure of ₹1 million, leave travel allowance of ₹1 million, loan for house up to five times annual salary (house construction) and one time monthly salary (festival advance).

**This includes leave encashment for the financial year 2019-2020.*
^Our Bank has filed an application dated July 8, 2021 with the RBI for revision of the remuneration structure, basis the guidelines issued by the RBI on Compensation of Whole Time Directors/ Chief Executive Officers/ Material Risk Takers and Control Function staff dated November 4, 2019. The revised remuneration that will be applicable should the RBI provide its approval will be (i) a fixed pay of ₹16.5 million along with perquisites of (a) food coupons worth ₹0.28 million, (b) leave travel allowance of up to ₹1 million, (c) conveyance allowance, (d) professional development allowance of up to ₹1 million, (e) superannuation benefits such as provident fund and gratuity, (f) medical expenses reimbursement for self and dependents up to ₹1 million, (f) reimbursement of entertainment expenditure of ₹1 million, (g) leave travel allowance of ₹1 million, (h) travelling and halting allowance, (i) loan for house up to five times annual salary (house construction) and one time monthly salary (festival advance) and (ii) a variable pay of up to ₹10.7 million along with sweat equity shares worth ₹10.7 million.. Subject to RBI approval, the revised remuneration will be effective from April 1, 2020.

2. **Remuneration and sitting fee paid to Non-Executive Independent Directors:**

Pursuant to the Board resolution dated December 11, 2019, each Non-Executive Independent Director is entitled to receive sitting fees of ₹0.05 million per meeting for attending meetings of the Board and sitting fees of ₹0.04 million per meeting for attending meetings of committees of the Board, within the limits prescribed under the Companies Act, 2013, and the rules made thereunder.

The details of remuneration paid to our Non-Executive Independent Directors during Fiscal 2021 are as follows:

S. No.	Name of Director	Sitting fees paid (in ₹ million)	Remuneration (in ₹ million)
1.	Ravimohan Periyakavil Ramakrishnan	2.12	Nil
2.	Joseph Vadakkekara Antony	2.00	Nil
3.	Asha Morley	1.44	Nil
4.	Alex Parackal George	1.2	Nil
5.	Thomas Jacob Kalappila	1.44	Nil
6.	Santhosh George*	0.28	Nil

**Santhosh George ceased to be a Non-Executive Independent Director with effect from May 26, 2021*

Further, details of remuneration governing the appointment of our Part-Time Chairman and Non-Executive Independent Director pursuant to RBI letter dated December 19, 2019 are as follows:

Particulars	Remuneration
Gross Salary	₹0.60 million^
Perquisites	Including the Bank's car with driver, the cost of the vehicle shall not exceed ₹3 million (for official purpose and for private purpose)

^Excludes sitting fees as decided by the Board from time to time for the meetings of the Board and the Board committees under the provisions of the Companies Act, 2013

3. **Remuneration paid to the Non-Executive Directors:**

Pursuant to the Board resolution dated December 11, 2019, each Non-Executive Director is entitled to receive sitting fees of ₹0.05 million per meeting for attending meetings of the Board and sitting fees of ₹0.04 million per meeting for attending meetings of the committees of the Board within the limits prescribed under the Companies Act, 2013, and the rules made thereunder.

The details of remuneration paid to our Non-Executive Directors during Fiscal 2021 are as follows:

S. No.	Name of Director	Sitting fees paid (in ₹ million)	Remuneration (in ₹ million)
1.	Assan Khan Akbar^	0.21	Nil
2.	Chandanathil Pappachan Mohan	1.46	Nil
3.	Saneesh Singh	1.16	Nil

^Assan Khan Akbar ceased to be a Non-Executive Director with effect from May 4, 2020

Arrangement or understanding with major Shareholders, customers, suppliers or others

Except for Saneesh Singh and Chandanathil Pappachan Mohan, who have been appointed as the Non-Executive Nominee Director on our Board by our Corporate Promoter pursuant to the provisions of our AoA, which permits our Corporate Promoter to appoint a maximum of three Directors on the Board of our Bank, there is no arrangement or understanding with the major shareholders, customers, suppliers or others, pursuant to which any Director was appointed as a director.

Shareholding of Directors in our Bank

As per our Articles of Association, our Directors are not required to hold any qualification shares.

None of our Directors hold any employee stock options of the Bank.

The Equity Shares held by our Directors are as set out below:

Sr. No.	Name of the Director	No. of Equity Shares	Percentage of the pre-Offer Equity Share Capital (%)
1.	Kadambelil Paul Thomas	31,186,785	6.94
Total		31,186,785	6.94

Shareholding of Directors in our subsidiaries and associate companies

Our Bank does not have any subsidiaries or associate companies.

Appointment of relatives of our Directors to any office or place of profit

None of the relatives of our Directors currently hold any office or place of profit in our Bank, except Chandanathil Pappachan Mohan, whose son Mithun Abe Mohan is an employee of our Bank.

Interests of Directors

All Directors may be deemed to be interested to the extent of fees payable to them for attending meetings of our Board or a Committee thereof as well as to the extent of other remuneration and reimbursement of expenses payable to them under our Articles of Association, and to the extent of remuneration paid to them for services rendered as an officer or employee of our Bank. Some of our Directors may hold positions in our Corporate Promoter. In consideration for these services, they are paid managerial remuneration in accordance with the provisions of applicable law.

The Directors may also be regarded as interested in the Equity Shares, if any, held by them, relatives or that may be subscribed by or allotted to the companies, firms and trusts, in which they are interested as directors, members, partners, trustees and promoters, pursuant to this Offer. All of our Directors may also be deemed to be interested to the extent of any dividend payable to them and other distributions in respect of the Equity Shares held by them. Further, Kadambelil Paul Thomas, our Individual Promoter, Managing Director and Chief Executive Officer had entered into lease agreements with our Bank (which has as on date of this Draft Red Herring Prospectus not been renewed) and received lease rentals in respect of the properties taken on lease from him by our Bank until March 31, 2020. For details, see "*Other Financial Information – Related Party Transactions*" on page 296.

Our Individual Promoter, Managing Director and Chief Executive Officer, Kadambelil Paul Thomas is a board member of Evangelical Social Action Forum ("ESAF Society"), with whom our Bank has entered into the Trademark Agreement and pursuant to which ESAF Society has granted our Bank an exclusive, irrevocable license and right to use certain trademarks. For details, see "*History and Certain Corporate Matters - Key terms of other subsisting material agreements*" on page 187.

Other than Kadambelil Paul Thomas who is the Individual Promoter, Managing Director and Chief Executive Officer of our Bank, none of our Directors have any interest in the promotion or formation of our Bank.

None of our Directors have any interest in any property acquired or proposed to be acquired of the Bank or by the Bank.

No amount or benefit has been paid or given within the two preceding years or is intended to be paid or given to any of our Directors except the normal remuneration for services rendered as Directors.

No loans have been availed by our Directors from our Bank.

None of the beneficiaries of loans, advances and sundry debtors are related to the Directors of our Bank.

None of the Directors is party to any bonus or profit sharing plan of our Bank other than the performance linked incentives given to each of the Directors.

Changes in the Board in the last three years

Name	Date of Appointment/ Change/Cessation	Reason
Santhosh George	May 26, 2021	Resignation as a Non-Executive Independent Director
Santhosh George	December 8, 2020	Appointment as a Non-Executive Independent Director
Joseph Vadakkekara Antony	August 17, 2020	Re-appointment as a Non-Executive Independent Director
Chandanathil Pappachan Mohan	May 29, 2020	Appointment as a Non-Executive Nominee Director
Assan Khan Akbar	May 4, 2020	Retirement as a Non-Executive Nominee Director
Thomas Jacob Kalappila	March 10, 2020	Change in designation to a Non-Executive Independent Director
Thomas Jacob Kalappila	March 10, 2020	Appointment as an Additional Non-Executive Independent Director
George Joseph	March 9, 2020	Retirement as a Non-Executive Independent Director
Ravimohan Periyakavil Ramakrishnan	December 23, 2021	Appointment as Part-Time Chairman and Non-Executive Independent Director
Ravimohan Periyakavil Ramakrishnan	December 21, 2019	Appointment as Non-Executive Independent Director
Alex Parackal George	December 13, 2019	Re-appointment as Non-Executive Independent Director
Asha Morley	December 13, 2019	Re-appointment as Non-Executive Independent Director
Prabha Raveendranathan	December 12, 2019	Retirement as Part-Time Chairman and Non-Executive Independent Director
Saneesh Singh	December 13, 2018	Re-appointment as a Non- Executive Nominee Director
Kadambelil Paul Thomas	October 1, 2018*	Change in designation to Managing Director and Chief Executive Officer
Kadambelil Paul Thomas	June 2, 2018*	Change in designation to Non-Executive Director

******Pursuant to RBI letter dated May 28, 2018 read with RBI letter dated March 9, 2017, Kadambelil Paul Thomas was required to divest his shareholding in our Corporate Promoter within a period of one year i.e. March 8, 2018 before taking charge as Managing Director and Chief Executive Officer in compliance with Section 10B(4) of the Banking Regulation Act. While Kadambelil Paul Thomas transferred majority of his shareholding in our Corporate Promoter on February 22, 2018, the balance equity share holding, which were issued to him as sweat equity were subject to a three year lock-in period from allotment i.e. up to September 28,* *2018, and accordingly, could not be transferred within the aforementioned timeline. As a result, Kadambelil Paul Thomas was directed by the RBI to step down from his position of Managing Director and Chief Executive Officer. Kadambelil Paul Thomas resigned from his position of Managing Director and Chief Executive Officer on June 2, 2018, and re-joined on October 1, 2018 with the approval of the RBI dated October 1, 2018, post divesture of his shareholding in the Corporate Promoter in compliance with the letters issued by the RBI. For further details, see "Outstanding Litigation and Material Developments – Litigation against Kadambelil Paul Thomas" on page 332.*

Borrowing Powers of the Board

Pursuant to a resolution passed by the Shareholders of our Bank on December 13, 2016, the Board is authorised to borrow from time to time any sums of moneys on such terms and conditions as the Board may think fit which together with the moneys already borrowed by the Bank (apart from temporary loans obtained or to be obtained from the Bank's bankers in the ordinary course of business), and which may exceed the aggregate of the paid-up capital of the Bank, for the time being and its free reserves, provided that the total outstanding amount so borrowed by the Board including commercial papers shall not result in a borrowing outstanding in excess of ₹30,000 million.

Corporate Governance

The corporate governance provisions of the Listing Regulations will be applicable to us immediately upon the listing of the Equity Shares on the Stock Exchanges. We are in compliance with the requirements of the applicable regulations, including the Listing Regulations, the Companies Act and the SEBI ICDR Regulations, in respect of corporate governance including constitution of the Board and committees thereof and formulation and adoption of policies. The corporate governance framework is based on an effective independent Board, separation of the Board's supervisory role from the executive management team and constitution of the Board committees, as required under law.

Our Board has been constituted in compliance with the Companies Act, the Listing Regulations, guidelines issued by the RBI from time to time, and in accordance with best practices in corporate governance. The Board of Directors functions either as a full board or through various committees constituted to oversee specific operational areas. The executive management provides the Board of Directors detailed reports on its performance periodically.

The composition of our Board is also in compliance with the Banking Regulation Act, SFB Licensing Guidelines and conditions stipulated by the RBI Final Approval and RBI In-Principle Approval. Further, pursuant to letters dated December 8, 2016, March 9, 2017, May 30, 2017 for the constitution of our Board, the RBI:

a) approved the appointment of Kadambelil Paul Thomas as Managing Director and Chief Executive Officer for a period of three years from the date of his taking charge, subject to the condition that he relinquishes his position on the board of our Corporate Promoter and submits an undertaking to divest his shareholding in our Corporate Promoter within a period of one year before taking charge as Managing Director and Chief Executive Officer in compliance with Section 10B(4) of the Banking Regulation Act. Kadambelil Paul Thomas was unable to comply with some of the conditions of the RBI letter and was directed by the RBI to step down from his position as managing director and chief executive officer. Kadambelil Paul Thomas resigned from this position on June 2, 2018 and re-joined on October 1, 2018 with the approval of RBI letter dated October 1, 2018. For further details, see "*Risk Factors - We are dependent on our senior management and other key personnel, and the loss of, or our inability to attract or retain, such persons could adversely affect our business, financial condition, results of operations and cash flows.*" and "*Outstanding Litigation and Material Developments – Litigation against Kadambelil Paul Thomas*" on pages 44 and 332, respectively;

b) advised that Saneesh Singh will be eligible to be appointed as a Director after he relinquishes his directorship in the holding company of another small finance bank;

c) approved the appointment of Asha Morley and Alex Parackal George;

d) approved the nomination of George Joseph as director on the Board, and approved the nomination of Assan Khan Akbar as director on the Board for a period of four years from the date of his joining the Board;

e) approved the appointment of Joseph Vadakkekara Antony as a Non-Executive Independent Director on the Board;

f) reiterated that the Bank shall ensure compliance with Sections 10A, 16 and 20 of the Banking Regulation, statutory provisions including provisions of the Companies Act, 2013 and the instructions issued vide RBI circulars dated March 5, 1994 and July 1, 1994, respectively.

Subsequently, pursuant to RBI letter dated October 1, 2018, the RBI approved the appointment of Kadambelil Paul Thomas as the Managing Director and Chief Executive Officer of our Bank for a period of three years from the date of his taking charge.

Pursuant to RBI letter dated December 19, 2019, the RBI approved the appointment of Ravimohan Periyakavil Ramakrishnan as the Part-Time Chairman and Non-Executive Independent Director of our Bank for a period of three years with effect from December 21, 2019.

Committees of the Board

Audit Committee

The members of the Audit Committee are:

1. Asha Morley, *Chairperson*;
2. Ravimohan Periyakavil Ramakrishnan;
3. Thomas Jacob Kalappila;
4. Joseph Vadakkekara Antony; and
5. Chandanathil Pappachan Mohan.

The Audit Committee was constituted by a meeting of the Board of Directors held on December 13, 2016 and was last reconstituted on May 29, 2020. The scope and function of the Audit Committee is in accordance with Section 177 of the Companies Act, 2013, the Listing Regulations and the guidelines issued by the RBI from time to time. The terms of reference of the Audit Committee include the following:

1. Review and monitor the accuracy and completeness of books of account, published financial statement including disclosures and any public announcements related to the Bank's financial performance and the auditor's report.
2. Oversight of the Bank's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
3. Review the Bank's internal financial controls and the internal controls and compliance systems.
4. Recommending the appointment and removal of external auditor, fixation of audit fee and also approval for payment for any other services.
5. Reviewing, with the management, the quarterly, half yearly financial statements before submission to the Board for approval.
6. To oversee a vigil mechanism set up by the Bank under the provisions of the Companies Act, 2013, Companies (Meetings of Board and its Powers) Rules, 2014 and the SEBI (Listing Obligations and Disclosure) Requirements, 2015.
7. With respect to Internal Audit function:
    a. Review, approve and oversee implementation the annual audit plan and annual audit budget prior to the beginning of each financial year proposed by the Head of Internal Audit. The annual audit plan shall include the scope of the work, the branches to be covered, the areas and topics to be covered and any specific emphasis on matters which the Committee may require.
    b. Review and approve the remit of the internal audit function and ensure it has adequate resources, skills, qualifications and appropriate access to information to enable it to perform its function effectively.
    c. Examine the reporting arrangement and the level of seniority of the Head of Internal Audit.
    d. Monitor the reporting of issues identified by internal auditors to the management and ensure that corrective actions are being taken in a timely manner.
    e. Review appointment, replacement, removal, performance, terms of appointment, annual compensation and salary adjustment of the Head of Internal Audit.
    f. Review the internal audit budget, resource plan, activities, and organizational structure of the internal audit function with the Head of Internal Audit.
    g. Review the effectiveness of the internal audit function, including conformance with applicable regulatory requirements and industry standards.
    h. Review results of thematic reviews, management audits and appointment of any co-sourcing auditors.
    i. Ensure that IS Audit of internal systems and processes is conducted at least once in 2 years to assess the operational risks faced by the Bank.
8. With respect to Statutory Auditors:
    a. Ensure that appointment of statutory auditors is in compliance with Companies' Act, 2013 requirements, regulatory guidelines and other applicable laws. The Audit committee shall review Appointment of statutory auditors and review of performance - both for domestic and overseas operations.

b. Oversee relationship with statutory auditors with respect to their remuneration for services, terms of engagement, assessment of their independence and rotation of auditors.

c. Ensure that any concerns raised by the statutory auditors are addressed by the management and bring any unaddressed concerns to the notice of the management.

d. Evaluate the scope of statutory audit and ensure that there are no limitations placed by the management on the statutory auditors.

e. Review management letter(s) and other submissions by the statutory auditors and management response to the findings and recommendations of the statutory auditors.

f. Study the issues raised by statutory auditors and raise appropriate flags to the management in case of repeated issues.

g. Review and approve policy on supply of non-audit services by statutory auditors, taking into account any relevant statutory requirements, regulatory guidelines and ethical guidance on the matter.

h. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.

i. Review any difficulties encountered during the audit work including any restrictions on the scope of activities or access to required information.

9. With respect to compliance function:

a. Review the effectiveness of the system for monitoring and compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance.

b. Review the findings of any examinations by regulatory agencies, and any audit observations.

c. Review the process for communicating the Code of Conduct to Bank personnel, and for monitoring compliance therewith.

d. Obtain regular updates from management regarding compliance matters.

e. Reviewing Quarterly Compliance Report confirming adherence to all the applicable laws, rules, guidelines, instructions and internal instructions/manuals.

10. Review the annual financial statements and auditors' report with the management with particular reference to the following:

a. Matters to be included in the directors' responsibility statement.

b. Change in the accounting policies and practices, if any, with reasons for the same.

c. Major accounting entries involving estimates based on the exercise of judgment by management.

d. Significant adjustments made in the financial statements arising out of audit findings.

e. Compliance with listing and other legal and regulatory requirements relating to financial statements.

f. Disclosure of related party transactions.

g. Modified opinions in the draft audit report.

h. Qualifications if any in draft audit report.

i. The going concern assumption.

j. Compliance with applicable legal requirement concerning financial statements.

k. Compliance with accounting standards.

11. Assess if any major findings of the internal, statutory, or RBI audits point to the quality of the accounting process and review if appropriate corrective action has been taken by the management.

12. To review the Vigilance Function of the Bank including review of frauds reported.

13. To review the frauds reported quarterly and annually.

14. Review the findings of any internal investigations by the internal auditors (or other agencies) into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the Board.

15. Review and scrutinize matters including the inter-corporate loans and investments, transactions with related parties, valuation of undertakings or assets of the Bank and end-use of funds raised through public offers such as public issue, rights issue or preferential issue.

16. Review the system of storage and retrieval, display or printout of books of account maintained in electronic mode during the required period under law.

17. Review with Senior Management of the Bank, overall anti-fraud programmes and controls in the Bank.

18. Look into the reasons for substantial defaults in the payment to depositors, debenture holders (if any), shareholders (in case of non-payment of declared dividends) and creditors.

19. Confirm that an effective whistle blower policy is in place that protects the complainants and review implementation of this policy.

20. Recommend the appointment of the Chief Financial Officer and Head of Internal Audit after assessing the qualifications, experience and background, etc. of the candidate.

21. Seek the statement of identified deviations from laid down policies. Study these deviations from financial and procedural aspect to understand any significant need for change in policies.

22. Perform any other duties and responsibilities expressly delegated by the Board from time to time and provide the Board with such assurance as it may require regarding the reliability of financial information.

23. Approval transactions with related parties of the Bank including investments.

24. Consider and comment on rationale, cost-benefits and impact of schemes involving merger, demerger, amalgamation etc., on the Bank and its shareholders.

The Audit Committee shall mandatorily review the following information:

1. management discussion and analysis of financial condition and results of operations;

2. statement of significant related party transactions (as defined by the Audit Committee), submitted by management;

3. management letters / letters of internal control weaknesses issued by the statutory auditors;

4. internal audit reports relating to internal control weaknesses;

5. the appointment, removal and terms of remuneration of the internal auditor shall be subject to review by the Audit Committee; and

6. statement of deviations as and when becomes applicable:

    a. quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1) of SEBI (LODR) Regulations, 2015.

    b. annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of SEBI (LODR) Regulations, 2015.

The Audit Committee is required to meet at least four times in a year and not more than 120 days shall elapse between two meetings under the terms of the Listing Regulations.

Nomination, Remuneration and Compensation Committee

The members of the Nomination, Remuneration and Compensation Committee are:

1. Joseph Vadakkekara Antony, *Chairman*;

2. Asha Morley;

3. Ravimohan Periyakavil Ramakrishnan;

4. Saneesh Singh; and

5. Chandanathil Pappachan Mohan.

The Nomination, Remuneration and Compensation Committee was constituted by a meeting of the Board of Directors held on December 13, 2016 and was last reconstituted on May 29, 2020. The scope and function of the Nomination, Remuneration and Compensation Committee is in accordance with Section 178 of the Companies Act, 2013, guidelines issued by the RBI from time to time, and the Listing Regulations. The terms of reference of the Nomination, Remuneration and Compensation Committee include:

1. Put in place appropriate procedures for determining the suitability of persons qualified to become members of the Board of Directors and formulate criteria based on qualification, experience, track record and integrity for appointment of such Directors.

2. Recommend to the Board for appointment of directors if directors are found suitable as per defined criteria.

3. Recommend removal/ reappointment of the directors and shall specify the manner for effective evaluation of performance of Board, its committees and individual directors to be carried out either by the Board, by the Committee or by an independent external agency and review its implementation and compliance.

4. Assist the Board in formulation, review and implementation of the compensation policy related to specific remuneration packages for directors, key management personnel and other employees including pension rights and any other compensation payment.

5. Ensure that the remuneration for Managing Director and Chief Executive Officer and other senior management personnel is in accordance with the Financial Stability Board principles before it is put up for regulatory approval.

6. Formulating criteria for evaluation of performance of independent directors and the Board of Directors.

7. Furnish a report at least on a yearly basis on the matters within the purview of the committee to enable the Board to look at possible policy changes and strategies.

8. Human Resources

   a. Review and administer the implementation of policies and procedures with respect to performance, evaluations, compensation, succession any other matters of Senior/ executive Management and also recommendations respecting the salary ranges for employees and Senior/ executive Management.

   b. Matters relating to issue of sweat equity shares, ESOP, etc. to the directors and senior/executive management.

   c. Assist the Board in formulation and implementation of compensation policy which will lay down the remuneration to directors, key management personnel and take inputs from the Risk Management Committee of the Board to ensure balance between remuneration and risks. The mix of cash, equity and other forms of compensation must be consistent with risk alignment.

   d. Ensure that the compensation policy formulated for remuneration of directors, key managerial personnel and senior management is reasonable, sufficient to attract, retain and motivate quality directors required to run the Bank.

   e. Devise a policy in line with the Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015 on Diversity of Board of Directors based on diversity of thought, experience, knowledge, perspective and gender in the Board.

   f. Identifying persons who are qualified to become part of the senior management and recommend to the board of directors for their appointment and removal.

   g. Matters pertaining to the extension or continuation of the term of appointment of independent director on the basis of the report of performance evaluation of independent directors in line with the Securities and Exchange Board of India (Listing Obligation and Disclosure Requirements) Regulations, 2015.

9. Corporate Governance Norms with respect to directors' appointment and their remuneration

   a. Formulate comprehensive criteria for appointment of directors in terms of qualifications, positive attributes, independence, professional experience, track record and integrity of the person.

   b. Consider all information about the Directors/ Managing Director and Chief Executive Officer / Whole time Directors such as background details, past remuneration, recognition and awards, job profile and determine if the directors meet the 'fit and proper' criteria.

   c. Conduct appropriate due diligence and scrutinize the declarations made by probable candidates at the time of appointment/ re-appointment of directors of the Board.

d. Hold Committee meetings on discussion of matters pertaining to the remuneration payable, including any revision in remuneration payable to Managing Director and Chief Executive Officer, Directors and approve such payments by passing resolution passed by the Committee after taking into account the financial position of the Bank, trend in the industry, qualification, experience and past performance of the appointee.

e. Bring about objectivity in determining the remuneration package while striking the balance between the interest of the Bank and the Shareholders.

f. Ensure that the compensation for Managing Director and Chief Executive Officer and key management personnel is a mix of fixed and variable (incentive) pay for directors and key management personnel and conforms with the RBI Guidelines on Compensation of Whole Time Directors/ Chief Executive Officers/ Risk takers and Control function staff, etc. dated January 13, 2012 and other applicable provisions.

g. Assist in defining the performance evaluation criteria for directors and other key management personnel and ensure that relationship of remuneration to performance is clear and meets appropriate performance benchmarks.

h. Analyse and ensure that the cost/ income ratio of the Bank supports the remuneration package consistent with maintenance of sound capital adequacy ratio.

i. To represent the committee and answer queries of investors at the Annual General Meeting of the Bank.

j. Review annually its own performance and terms of reference to ensure effectiveness of its operations and recommend changes, if any to the Board for approval.

k. Ensure that appropriate procedures are in place to assess Board Membership needs and Board effectiveness.

l. Ensure that the Bank has a detailed succession and management continuity plan for key positions.

10. Board

a. Make recommendations to the Board with respect to:

- Selection and nomination of qualified candidates as directors of the Board
- Appointment of other key management personnel
- Board composition and size
- Re-appointment/ removal of existing directors

b. Present the minutes of the meetings of the Committee as approved by the Chairman of the Committee to be noted and confirmed by the Board in its subsequent meeting.

Risk Management Committee

The members of the Risk Management Committee are:

1. Alex Parackal George, *Chairman*;
2. Ravimohan Periyakavil Ramakrishnan;
3. Kadambelil Paul Thomas; and
4. Thomas Jacob Kalappila

The Risk Management Committee was constituted by our Board of Directors at their meeting held on December 13, 2016 and was last reconstituted by the Board of Directors at their meeting held on May 29, 2020. The terms of reference of the Risk Management Committee of our Bank include the following:

The Risk Management Committee shall also oversee the following functions:

1. Oversee risk management and obtain assurance that all the principal risks faced by the Bank have been identified and are being appropriately managed.
2. Approve / recommend to the Board for its approval/ review the policies, risk assessment models, strategies and associated frameworks for the management of risk.
3. Approve and periodically review Bank's overall risk appetite and set limits for all risks before submission to the Board.

4. Ensure appropriate risk organisation structure with authority and responsibility clearly defined, adequate staffing, and the independence of Risk Management functions.

5. Provide appropriate and prompt reporting to the Board of Directors, which would help the Board to have a detailed understanding of the level of risk and steps taken for managing risks.

6. Review reports from management about the Bank's risk management framework (i.e. principles, policies, strategies, process and controls) and also discretions conferred on executive management, in order to oversee the effectiveness of them.

7. Review and approve the Internal Capital Adequacy Assessment Process (ICAAP) document on a quarterly basis.

8. Review reports from management about changes in the factors relevant to the Bank's projected strategy, business performance or capital adequacy.

9. Determine prudential limits for individuals, groups, portfolios, geographies, sectors, industries and various other exposures of the Bank, within the ceilings fixed by RBI and the Board.

10. Review reports from management about implications of new and emerging risks, legislative or regulatory initiatives and changes, organisational change and major initiatives, in order to monitor them.

11. Review the Cyber Security Functions of the Bank on regular intervals.

12. Ensure adherence to the Board approved internal policy guidelines and also statutory and regulatory guidelines.

13. Review performance and set objectives for the Bank's Chief Risk Officer and ensure he has unfettered access to the Board.

14. Oversee statutory / regulatory reporting requirements related to risk management.

15. Monitor and review the capital adequacy computation with an understanding of methodology, systems and data and ensure capital adequacy management with due regard to various risks impacting the balance sheet.

16. Approve the stress testing results, review the performance of product wise/geography wise /rating wise loan portfolio, rating migration of accounts, collection/recovery in NPA accounts etc. and recommend / monitor the action plans and corrective measures periodically.

17. Monitor and review the exposure limits set by the Board.

18. Monitor and review of non-compliance, limit breaches, audit / regulatory findings, and policy exceptions with respect to risk management.

19. Review and confirm order/decisions for identification of wilful defaulters given by the Credit Risk Management Committee.

20. Monitor the Bank's credit risk profile, including risk trends and concentrations, loan impairment etc.

21. Determine /amend/review the functions of the Executive Level Committees from time to time.

22. To formulate a detailed risk management policy which shall include:

    (i) A framework for identification of internal and external risks specifically faced by the Bank, in particular including financial, operational, sectoral, sustainability (particularly, ESG related risks), information, cyber security risks or any other risk as may be determined by the Committee.

    (ii) Measures for risk mitigation including systems and processes for internal control of identified risks.

    (iii) Business continuity plan.

23. To ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Bank.

24. To monitor and oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems.

25. To periodically review the risk management policy, at least once in two years, including by considering the changing industry dynamics and evolving complexity.

26. To keep the Board of Directors informed about the nature and content of its discussions, recommendations and actions to be taken.

27. The appointment, removal and terms of remuneration of the Chief Risk Officer (if any) shall be subject to review by the Risk Management Committee.

Stakeholders' Relationship Committee

The members of the Stakeholders' Relationship Committee are:

1. Joseph Vadakkekara Antony, *Chairman*;

2. Kadambelil Paul Thomas;

3. Alex Parackal George; and

4. Saneesh Singh.

The Stakeholders' Relationship Committee was constituted by our Board of Directors at their meeting held on December 23, 2019 and was last reconstituted by the Board of Directors at their meeting held on May 29, 2020. The scope and function of the Stakeholders' Relationship Committee is in accordance with Section 178 of the Companies Act, 2013 and the Listing Regulations. The terms of reference of the Stakeholders' Relationship Committee are as follows:

1. To resolve the grievances of the security holders of the Bank including complaints related to transfer/transmission of shares, non-receipt of annual report, non-receipt of declared dividends, issue of new/duplicate certificates, general meetings etc. and assisting with quarterly reporting of such complaints;

2. To review of measures taken for effective exercise of voting rights by shareholders;

3. To review of adherence to the service standards adopted by the Bank in respect of various services being rendered by the Registrar & Share Transfer Agent;

4. To review of the various measures and initiatives taken by the Bank for reducing the quantum of unclaimed dividends and ensuring timely receipt of dividend warrants/annual reports/statutory notices by the shareholders of the Bank; and

5. Carrying out such other functions as may be specified by the Board from time to time or specified/provided under the Companies Act or SEBI Listing Regulations or by any other regulatory authority.

Corporate Social Responsibility and Sustainability Committee

The members of the Corporate Social Responsibility and Sustainability Committee are:

1. Saneesh Singh, *Chairman*;

2. Joseph Vadakkekara Antony;

3. Kadambelil Paul Thomas; and

4. Asha Morley.

The Corporate Social Responsibility and Sustainability Committee was constituted as 'Corporate Social Responsibility Committee' by our Board of Directors at their meeting held on August 17, 2017 and was renamed to Corporate Social Responsibility and Sustainability Committee in the meeting held on June 29, 2021. The Committee was last reconstituted by the Board of Directors at their meeting held on May 29, 2020. The terms of reference of the Corporate Social Responsibility and Sustainability Committee of our Bank include the following:

1. Formulate and recommend to the Board of the Bank, a Corporate Social Responsibility ("**CSR**") policy which shall indicate the activities to be undertaken by the Bank in areas or subject, specified in Schedule VII of the Companies' Act, 2013.

2. Recommend the amount of expenditure to be incurred on the activities provided for in the CSR policy.

3. Implementing and Monitoring the effectiveness of the corporate social responsibility policy from time to time and issuing necessary directions as required for proper implementation and timely completion of corporate social responsibility programmes.

4. Identifying corporate social responsibility policy partners and corporate social responsibility policy programmes

5. Coordinating with the implementing agency in implementing programs and executing initiatives as per CSR policy of the Bank.

6. Identifying and appointing the corporate social responsibility team of the Bank including corporate social responsibility manager, wherever required.

7. Institute a transparent monitoring mechanism for implementation of the CSR projects or programs or activities undertaken by the Bank.

8. Transferring the unspent CSR amount to a Fund specified in the Schedule VII, within a period of six months of the expiry of the financial year and setting-off the amount spent in excess of the requirements for such number of succeeding financial years and in such manner as specified in the Companies Act, 2013.

IPO Steering Committee

The members of the IPO Steering Committee are:

1. Ravimohan Periyakavil Ramakrishnan, *Chairman*

2. Kadambelil Paul Thomas; and

3. Joseph Vadakkekara Antony

The IPO Steering Committee was constituted by our Board of Directors on August 6, 2019 and was last reconstituted on December 23, 2019. The terms of reference of the IPO Steering Committee are as follows:

1. To make applications, seek clarifications, obtain approvals and seek exemptions from, where necessary, the RBI, SEBI, the relevant registrar of companies and any other governmental or statutory authorities as may be required in connection with the Offer and accept on behalf of the Board such conditions and modifications as may be prescribed or imposed by any of them while granting such approvals, permissions and sanctions as may be required and wherever necessary, incorporate such modifications / amendments as may be required in the draft red herring prospectus, the red herring prospectus and the prospectus as applicable;

2. To finalize, settle, approve, adopt and file in consultation with the Promoter Selling Shareholder and BRLMs where applicable, the draft red herring prospectus ("DRHP"), the red herring prospectus ("RHP") the Prospectus, the preliminary and final international wrap and any amendments, supplements, notices, addenda or corrigenda thereto, and take all such actions as may be necessary for the submission and filing of these documents including incorporating such alterations/corrections/ modifications as may be required by SEBI, the RoC or any other relevant governmental and statutory authorities or in accordance with Applicable Laws;

3. To decide in consultation with the Selling Shareholders and the BRLMs on the Offer Price; and to decide in consultation with the Promoter Selling Shareholder and the BRLMs, the actual Offer size, the timing, pricing, Discount, Reservation and all the terms and conditions of the Offer, including the price band (including offer price for anchor investors), bid period, and to do all such acts and things as may be necessary and expedient for, and incidental and ancillary to the Offer including to make any amendments, modifications, variations or alterations in relation to the Offer;

4. To appoint and enter into and terminate arrangements with the BRLMs, underwriters to the Offer, syndicate members to the Offer, brokers to the Offer, escrow collection bankers to the Offer, refund bankers to the Offer, registrars, legal advisors, auditors, and any other agencies or persons or intermediaries to the Offer and to negotiate, finalise and amend the terms of their appointment, including but not limited to the execution of the mandate letter with the BRLMs and negotiation, finalization, execution and, if required, amendment of the offer agreement with the BRLMs;

5. To negotiate, finalise and settle and to execute and deliver or arrange the delivery of the DRHP, the RHP, the Prospectus, offer agreement, syndicate agreement, underwriting agreement, share escrow agreement, cash escrow agreement, agreements with the registrar to the offer and all other documents, deeds, agreements and instruments whatsoever with the registrar to the Offer, legal advisors, auditors, stock exchange(s), BRLMs, any Selling Shareholders in the Offer and any other agencies/intermediaries in connection with the Offer with the power to authorise one or more officers of the Bank to execute all or any of the aforesaid documents or any amendments thereto as may be required or desirable in relation to the Offer;

6. To seek, if required, the consent and/or waiver of the lenders of the Bank, customers, parties with whom the Bank has entered into various commercial and other agreements, all concerned government and regulatory authorities in India or outside India, and any other consents and/or waivers that may be required in relation to the Offer or any actions connected therewith;

7. To open and operate bank accounts in terms of the escrow agreement and to authorize one or more officers of the Bank to execute all documents/deeds as may be necessary in this regard;

8. To open and operate bank accounts of the Bank in terms of Section 40(3) of the Companies Act, 2013, as amended, and to authorize one or more officers of the Bank to execute all documents/deeds as may be necessary in this regard;

9. To authorize and approve incurring of expenditure and payment of fees, commissions, brokerage, remuneration and reimbursement of expenses in connection with the Offer;

10. To accept and appropriate the proceeds of the Offer in accordance with the Applicable Laws;

11. To approve code of conduct as may be considered necessary by the IPO Steering Committee or as required under applicable laws, regulations or guidelines for the Board, officers of the Bank and other employees of the Bank;

12. To approve the implementation of any corporate governance requirements that may be considered necessary by the Board or the IPO Steering Committee or as may be required under the applicable laws or the SEBI Listing Regulations, as amended and listing agreements to be entered into by the Bank with the relevant stock exchanges, to the extent allowed under law;

13. To issue receipts/allotment letters/confirmation of allotment notes either in physical or electronic mode representing the underlying Equity Shares in the capital of the Bank with such features and attributes as may be required and to provide for the tradability and free transferability thereof as per market practices and regulations, including listing on one or more stock exchange(s), with power to authorize one or more officers of the Bank to sign all or any of the aforestated documents;

14. To authorize and approve notices, advertisements in relation to the Offer in consultation with the Promoter Selling Shareholder and the relevant intermediaries appointed for the Offer;

15. To do all such acts, deeds, matters and things and execute all such other documents, etc., as may be deemed necessary or desirable for such purpose, including without limitation, to finalise the basis of allocation and to allot the shares to the successful allottees as permissible in law, issue of allotment letters/confirmation of allotment notes, share certificates in accordance with the relevant rules, in consultation with the Promoter Selling Shareholder and BRLMs;

16. To do all such acts, deeds and things as may be required to dematerialise the Equity Shares and to sign and / or modify, as the case maybe, agreements and/or such other documents as may be required with the National Securities Depository Limited, the Central Depository Services (India) Limited, registrar and transfer agents and such other agencies, authorities or bodies as may be required in this connection and to authorize one or more officers of the Bank to execute all or any of the aforestated documents;

17. To make applications for listing of the Equity Shares in one or more stock exchange(s) for listing of the Equity Shares and to execute and to deliver or arrange the delivery of necessary documentation to the concerned stock exchange(s) in connection with obtaining such listing including without limitation, entering into listing agreements and affixing the common seal of the Bank where necessary;

18. To settle all questions, difficulties or doubts that may arise in regard to the Offer, including such issues or allotment, terms of the IPO, utilisation of the IPO proceeds and matters incidental thereto as it may deem fit;

19. To submit undertaking/certificates or provide clarifications to the SEBI, Registrar of Companies, Kerala at Ernakulam and the relevant stock exchange(s) where the Equity Shares are to be listed;

20. To negotiate, finalize, settle, execute and deliver any and all other documents or instruments and to do or cause to be done any and all acts or things as the IPO Steering Committee may deem necessary, appropriate or advisable in order to carry out the purposes and intent of this resolution or in connection with the Offer and any documents or instruments so executed and delivered or acts and things done or caused to be done by the IPO Steering Committee shall be conclusive evidence of the authority of the IPO Steering Committee in so doing;

21. To delegate any of its powers set out under (a) to (q) hereinabove, as may be deemed necessary and permissible under Applicable Laws to the officials of the Bank;

22. To approve suitable policies on insider trading, whistle-blowing, risk management, and any other policies as may be required under the SEBI Listing Regulations or any other Applicable Laws;

23. To approve the list of 'group of companies' of the Bank, identified pursuant to the materiality policy adopted by the Board, for the purposes of disclosure in the DRHP, the RHP and the Prospectus;

24. Deciding, negotiating and finalising the pricing and all other related matters regarding the Pre-IPO Placement, including the execution of the relevant documents with the investors in consultation with the BRLMs and in accordance with Applicable Laws;

25. Taking on record the approval of the Selling Shareholders for offering their Equity Shares in the Offer for Sale;

26. To withdraw the DRHP or the RHP or to decide to not proceed with the Offer at any stage in accordance with Applicable Laws and in consultation with the Promoter Selling Shareholder and BRLMs; and

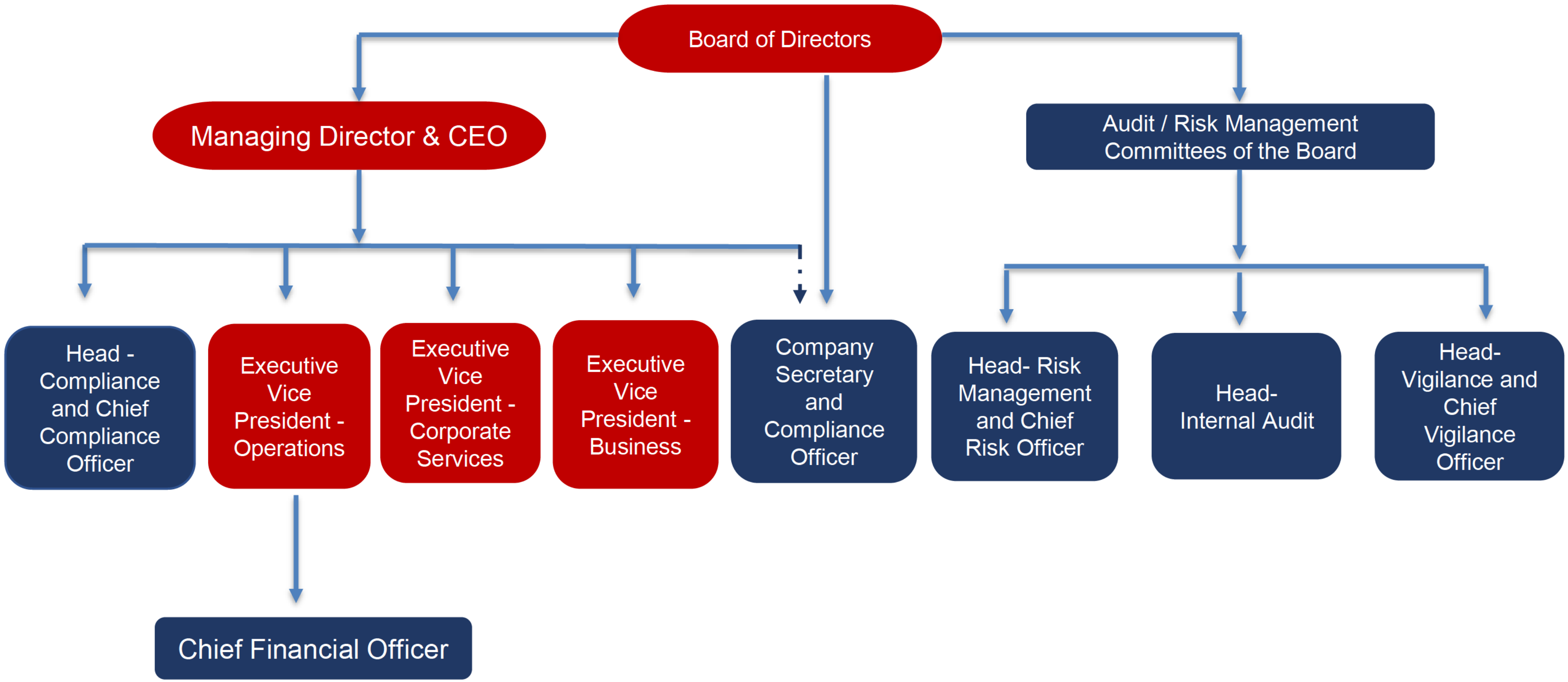
27. To appoint, in consultation with the Promoter Selling Shareholder and BRLMs, the registrar and other intermediaries to the Offer, in accordance with the provisions of the SEBI Regulations and other Applicable Laws including legal counsels, banks or agencies concerned and entering into any agreements or other instruments for such purpose, to remunerate all

such intermediaries/agencies including the payments of commissions, brokerages, etc. and to terminate any agreements or arrangements with such intermediaries/ agents.

Other committees of our Bank

In addition to the committees mentioned in " - *Committees of the Board*" on page 196, our Bank has constituted various other committees at the Board level, namely, Management Committee, IT Strategy Committee, Customer Service Committee and High Value Fraud Monitoring Committee. Our Bank has also constituted executive committees, such as but not limited to, Management Committee of Executives, Market Risk - Asset Liability Management Committee, Credit Risk Management, Business Correspondent/ Business Facilitators Committee, Product and Process Committee, Financial Inclusion Committee, Outsourcing Vendor Assessment Committee, Procurement Evaluation Committee, Project Management Committee, IT Steering Committee of Executives and Executive Credit Committee to oversee and govern various internal functions and activities of the Bank.

Management Organisation Chart



Key Managerial Personnel

The details of the Key Managerial Personnel of our Bank are as follows:

Kadambelil Paul Thomas is the Managing Director and Chief Executive Officer of our Bank. For details in relation to Kadambelil Paul Thomas, see "*- Brief Biographies of Directors*" on page 192. For details of compensation paid to him, see "*Terms of Appointment of Directors*" on page 193.

Gireesh C.P. is the Chief Financial Officer of our Bank. He holds a bachelor's degree in science from Mahatma Gandhi University. He is a fellow member of the Institute of Chartered Accountants of India and a certified associate of the Indian Institute of Banking and Finance. He was previously employed with South Indian Bank Limited and Rourkela Steel Plant. He joined as the Chief Financial Officer of our Bank with effect from September 5, 2018. During Fiscal 2021, he received a remuneration of ₹5.03 million from our Bank.

Ranjith Raj P is the Company Secretary and Compliance Officer of our Bank. He holds a bachelor's degree in commerce from Calicut University. He is a company secretary and is an associate of the Institute of Company Secretaries of India. He was previously employed as a company secretary of ESAF Financial Holdings Private Limited. He joined as the Company Secretary of our Bank with effect from March 29, 2017, and was appointed as the Compliance Officer of our Bank with effect from December 11, 2019. During Fiscal 2021, he received a remuneration of ₹1.45 million from our Bank.

George Kalaparambil John is the Executive Vice President – Business of our Bank. He holds a bachelor's degree in commerce from Mahatma Gandhi University and a master's degree in social work from Pune University. He was previously employed as the general manager – operations of ESAF Financial Holdings Private Limited and was an associate director – central zone of Evangelical Social Action Forum. He joined our Bank on March 10, 2017 and was appointed as the Executive Vice President – Business of our Bank with effect from June 13, 2018. During Fiscal 2021, he received a remuneration of ₹3.83 million from our Bank.

George Thomas is the Executive Vice President – Corporate Services of our Bank. He holds a master's degree of science in ecology and environment from Sikkim Manipal University. He was previously a senior agriculture officer (assistant director agriculture) with the Department of Agriculture Development and Farmers' Welfare, Wayanad district. He joined our Bank on March 10, 2017 as an executive vice president and resigned on May 31, 2018. He subsequently re-joined our Bank and was appointed as the Executive Vice President – Corporate Services of our Bank. His present term is valid for a period of 12 months from June 1, 2021, renewable at the sole discretion of the Bank and subject to fulfilment of conditions stipulated by our Bank. During Fiscal 2021, he received a remuneration of ₹4.93 million from our Bank.

M.G. Ajayan is the Executive Vice President – Operations of our Bank. He holds a bachelor's degree in science (horticulture) from Kerala Agriculture University. He was employed with Canara Bank from 1984 to 2018 and has 34 years of experience in the public sector. He was presented with a certificate of excellence at the Innovative CIO Awards in 2015. He joined as senior vice president of our Bank on March 6, 2019 and was promoted to Executive Vice President – Operations of our Bank with effect from December 1, 2019, for a term of three years, renewable based on his performance. During Fiscal 2021, he received a remuneration of ₹3.78 million from our Bank.

Dominic Joseph is the Head – Vigilance and Chief Vigilance Officer of our Bank. He holds a bachelor's degree in science from Kerala University, a bachelor's degree in law from Bombay University and a post graduate diploma in personnel management from National Institute of Personnel Management, Calcutta. He is a certified associate of the Indian Institute of Bankers. He was employed with Federal Bank Limited for over 37 years, and retired as the deputy general manager and chief vigilance officer at the bank's head office in October 2016. He joined our Bank on June 11, 2018 as the Chief Vigilance Officer and his present term as Head – Vigilance and Chief Vigilance Officer is valid up to September 30, 2021. During Fiscal 2021, he received a remuneration of ₹1.48 million from our Bank.

Antoo P.K. is the Head – Internal Audit of our Bank. He holds a bachelor's degree in science from Calicut University and a master's degree in science from Cochin University. He is a certified associate of the Indian Institute of Bankers. He was previously a vice president (inspection) of Federal Bank Limited. He joined our Bank on September 18, 2019 and his present term as the Head – Internal Audit of our Bank is valid for a period of 12 months from September 18, 2020, renewable based on performance and with mutual consent. During Fiscal 2021, he received a remuneration of ₹1.33 million from our Bank.

Dinesh Kallarackal is the Head – Legal and Chief Compliance Officer of our Bank. He holds a bachelor's degree in law from Calicut University. He has experience in working in the legal function of financial institutions such as Manappuram Finance Limited. He was appointed as the Chief Compliance Officer with effect from June 1, 2021 and his term is valid for a period of three years, renewable based on performance and with mutual consent. He has not received any remuneration from our Bank in Fiscal 2021.

Mohanachandran K.R. is the Head - Risk Management and Chief Risk Officer of our Bank. He holds a bachelor's degree in arts from Kerala University and master's degree in arts (economics) from Punjab University. He is a certified associate of the Indian Institute of Bankers. He was employed with Federal Bank Limited for over 37 years and retired as the chief general manager and chief risk officer of the bank in November 2016. He joined our Bank on March 1, 2018 and his term as the Head-

Risk and Chief Risk Officer of our Bank is valid up to November 30, 2021. During Fiscal 2021, he received a remuneration of ₹2.92 million from our Bank.

Relationship between our Key Managerial Personnel, and our Key Managerial Personnel and Directors

None of the Key Managerial Personnel are either related to each other or to the Directors.

Shareholding of Key Managerial Personnel

Other than Kadambelil Paul Thomas who holds 31,186,785 Equity Shares of our Bank and George Kalaparambil John who holds one Equity Share on behalf of our Corporate Promoter, none of our Key Managerial Personnel hold any Equity Shares in our Bank. Further, George Thomas holds 1,000,000 Equity Shares of our Bank in the capacity as Chairman of ESAF Staff Welfare Trust, which is the beneficial owner of these Equity Shares. Further, except for George Kalaparambil John, George Thomas and Ranjith Raj P, none of our Key Managerial Personnel hold any employee stock options.

Bonus or Profit Sharing Plans of the Key Managerial Personnel

None of our Key Managerial Personnel is party to any bonus or profit sharing plan of our Bank, other than the performance linked incentives given to Key Managerial Personnel.

Status of Key Managerial Personnel

The terms of certain of our Key Managerial Personnel, namely, George Thomas, M.G. Ajayan and Antoo P.K. are on a contractual basis, and renewable subject to the terms and conditions of their respective appointments. Further, the term of employment of Dominic Joseph and Mohanachandran K.R. are valid up to September 30, 2021 and November 30, 2021, respectively, and are not subject to renewal on account of each of them crossing 65 years of age, as per the Bank's internal policy. Other than the aforementioned Key Managerial Personnel, all our Key Managerial Personnel are permanent employees of our Bank.

Interests of Key Managerial Personnel

Our Key Managerial Personnel do not have any interest in our Bank other than to the extent of the remuneration or benefits to which they are entitled as per their terms of appointment and reimbursement of expenses incurred by them during the ordinary course of business and the shares held by the relatives of George Kalaparambil John, Kadambelil Paul Thomas and George Thomas. Some of our Key Managerial Personnel may also be deemed to be interested to the extent of any dividend payable to them and other distributions in respect of Equity Shares held in the Bank, if any. For interests of Kadambelil Paul Thomas, see "*Our Promoter and Promoter Group*" on page 211.

None of the Key Managerial Personnel have been paid any consideration of any nature by our Bank, other than their remuneration.

Our Individual Promoter, Managing Director and Chief Executive Officer, Kadambelil Paul Thomas is a board member of Evangelical Social Action Forum ("**ESAF Society**"), with whom our Bank has entered into the Trademark Agreement and pursuant to which ESAF Society has granted our Bank an exclusive, irrevocable license and right to use certain trademarks. For details, see "*History and Certain Corporate Matters - Key terms of other subsisting material agreements*" on page 187.

There is no arrangement or understanding with the major shareholders, customers, suppliers or others, pursuant to which any Key Managerial Personnel was selected as key managerial personnel.

Changes in the Key Managerial Personnel

The changes in the Key Managerial Personnel in the last three years are as follows:

Name	Date of change	Reason for change
Dinesh Kallarackal	June 1, 2021	Appointed as Head – Legal and Chief Compliance Officer
Sivasankaran N.	September 30, 2020	Resigned as–Head - Compliance and Chief Compliance Officer
M.G. Ajayan	December 1, 2019	Appointed as Executive Vice President – Operations
A.G. Varughese	November 30, 2019	Cessation as Executive Vice President – Operations
Antoo P.K.	November 8, 2019	Designated as Head – Internal Audit
Narayanankutty M.	November 8, 2019	Cessation as Head – Internal Audit
Dominic Joseph	June 11, 2019	Re-appointed as Head – Vigilance and Chief Vigilance Officer
A.G. Varughese	June 1, 2019	Designated as Executive Vice President – Operations
George Thomas	June 1, 2019	Appointed and designated as Executive Vice President – Corporate Services
Sivasankaran N.	May 15, 2019	Designated as–Head - Compliance and Chief Compliance Officer
Mathews M.	May 14, 2019	Cessation as Head – Compliance and Chief Compliance Officer
Mohanachandran K.R.	March 1, 2019	Appointed as Head-Risk Management and Chief Risk Officer
Ajit K. Choudhary	January 11, 2019	Resignation as Executive Vice President – Operations
Narayanankutty M.	December 4, 2018	Re-appointed as Head – Internal Audit

Name	Date of change	Reason for change
Kadambelil Paul Thomas	October 1, 2018	Appointed as Managing Director and Chief Executive Officer
Gireesh C.P.	September 5, 2018	Appointed as Chief Financial Officer
Padmakumar K.	September 4, 2018	Resignation as Chief Financial Officer
A.G. Varughese	June 13, 2018	Designated as Executive Vice President – Corporate Services
Ajit K. Choudhary	June 13, 2018	Re-appointment as Executive Vice President – Operations
George Kalaparambil John	June 13, 2018	Change in designation to Executive Vice President – Business
Dominic Joseph	June 11, 2018	Appointed and designated as Head – Vigilance and Chief Vigilance Officer
Kadambelil Paul Thomas	June 2, 2018*	Change in designation from Managing Director and Chief Executive Officer to Non-Executive Director
George Thomas	May 31, 2018	Resignation as Executive Vice President – Corporate Services
Mathews M.	May 15, 2018	Re-appointed as–Head - Compliance

**For further details, see "- Changes in the Board in the last three years" and "Outstanding Litigation and Material Developments – Litigation against Kadambelil Paul Thomas" on pages 195 and 332, respectively.*

Service Contracts with Directors and Key Managerial Personnel

Other than statutory benefits upon termination of their employment in our Bank on retirement, no officer of our Bank, including our Directors and the Key Managerial Personnel has entered into a service contract with our Bank pursuant to which they are entitled to any benefits upon termination of employment.

Contingent and deferred compensation payable to our Director and Key Managerial Personnel

There is no contingent or deferred compensation payable to our Directors and KMPs, which does not form a part of their remuneration.

Payment or benefit to Key Managerial Personnel

Except as stated in this section and "*Our Promoters and Promoter Group*" on page 211 in respect of our Managing Director and Chief Executive Officer, Kadambelil Paul Thomas, no non-salary amount or benefit has been paid or given to any of our Bank's officers including Key Managerial Personnel within the two preceding years or is intended to be paid or given.

Employees stock option

For details of our employee stock options, see "*Capital Structure*" on page 69.

OUR PROMOTERS AND PROMOTER GROUP

ESAF Financial Holdings Private Limited and Kadambelil Paul Thomas are the Promoters of our Bank. As on the date of this Draft Red Herring Prospectus, our Promoters collectively hold 311,945,181 Equity Shares equivalent to 69.40% of the pre-Offer issued, subscribed and paid-up Equity Share capital of our Bank. Our Corporate Promoter holds 280,758,396 Equity Shares (which includes five Equity Shares held by nominees on behalf of our Corporate Promoter) equivalent to 62.46% of the pre-Offer issued, subscribed and paid-up Equity Share capital of our Bank. Our Individual Promoter, Kadambelil Paul Thomas holds 31,186,785 Equity Shares equivalent to 6.94% of the pre-Offer issued, subscribed and paid-up Equity Share capital of our Bank. For further details, see "*Capital Structure*" on page 69.

Our Individual Promoter

Kadambelil Paul Thomas

Our Individual Promoter, Kadambelil Paul Thomas (DIN: 00199925), born on May 21, 1963 and aged 58 years, is the Managing Director and Chief Executive Officer of our Bank. He is a resident Indian national. For further details in respect of his address, educational qualifications, professional experience, positions/posts held in the past, other directorships and special achievements, see "*Our Management*" on page 190.

Kadambelil Paul Thomas holds 31,186,785 Equity Shares in our Bank, equivalent to 6.94% of the pre-Offer issued, subscribed and paid-up Equity Share capital of our Bank. Other than as disclosed in this section and "*Our Management*" on page 190, Kadambelil Paul Thomas is not involved in any other venture.

His permanent account number is AJPPK0458A and his driver's license number is 11/1439/1988. His Aadhaar card number is [redacted]

Our Bank confirms that the permanent account number, bank account number(s) and passport number of Kadambelil Paul Thomas, shall be submitted to the Stock Exchanges at the time of filing this Draft Red Herring Prospectus.

Our Corporate Promoter

Corporate Information

Our Corporate Promoter was originally incorporated as 'Pinnai Finance and Investments Private Limited' on September 27, 1996 at Chennai, Tamil Nadu, India, as a private limited company under the Companies Act, 1956. The name of our Corporate Promoter was subsequently changed to 'ESAF Microfinance and Investments Private Limited' and a fresh certificate of incorporation consequent upon change of name was issued on March 1, 2007. The name of the company was thereafter changed to 'ESAF Financial Holdings Private Limited' and a fresh certificate of incorporation consequent upon change of name was issued on March 1, 2019.

The registered office of our Corporate Promoter is located at No 8/9, Mansuk Buildings, Flat No.3A, 3rd Floor, Gangadeeswara Koil Street, Purasawalkam, Chennai 600 084, Tamil Nadu, India.

Our Individual Promoter, Kadambelil Paul Thomas, along with several others, founded the Evangelical Social Action Forum ("**ESAF Society**") in 1992, which started undertaking microfinance activities in 1995. Subsequently, in 2006, our Individual Promoter and others, including Mereena Paul, one of our Promoter Group members, acquired our Corporate Promoter. The microfinance business undertaking of ESAF Society was thereafter transferred by ESAF Society to our Corporate Promoter in 2008.

Our Corporate Promoter was granted NBFC-MFI status by the RBI on January 7, 2014. As per the RBI In-Principle Approval and RBI Final Approval, our Corporate Promoter has, pursuant to the Business Transfer Agreement, sold its business undertaking comprising the lending and financing business undertaken as an NBFC-MFI and other business activities incidental thereto, to our Bank. Our Corporate Promoter has thereafter surrendered its registration as an NBFC-MFI and applied for registration as an NBFC Non-Deposit taking Systemically Important Core Investment Company from the RBI. Our Corporate Promoter was granted certificate of registration bearing number B-07-00652 by RBI dated February 26, 2020, for carrying out the business as an NBFC (Core Investment Company) without accepting public deposits.

The main objects of our Corporate Promoter are:

"1. *To carry on the business, whether in India or outside, of making investments in group companies in the form of shares, bonds, debentures, debts, loans or securities and providing guarantees, other form of collateral, or taking on other contingent liabilities, on behalf of or for the benefit of, any group companies.*

2. *To carry on financial activities, whether in India or outside, in the nature of investment in bank deposits, money market instruments (including money market mutual funds and liquid mutual funds), government securities, and to carry on such*

other activities as may be permitted and prescribed by the relevant statutory authorities for core investment companies from time to time.

3. *To carry on and undertake the business of lending money and to negotiate advance, deposit or loan, money or securities to buy, sell, discount and deal in promissory notes, bills of exchange, hundies or other negotiable or transferable securities or other documents to invest, guarantee or become liable for the payment of money or for the performance of any obligation or to stand as surety and generally to transact all kinds of business of indemnity and guarantee.*

4. *To render Financial Advisory Services, Investment Advisory Services and Management Consultancy Services.*

5. *To promote, establish and undertake financial ventures of all kinds, not included in the aforesaid, and to carry out the said activities either on its own or in alliance with any other Person/Body/ Bodies Corporate incorporated in India or Overseas either under the Strategic Alliance or Joint Venture or any other arrangement."*

Our Individual Promoter, Kadambelil Paul Thomas is the promoter of our Corporate Promoter.

Board of directors

The board of directors of our Corporate Promoter comprises of the following:

1. Mereena Paul
2. Ranganathan Varadarajan Dilip Kumar
3. Vikraman Ampalakkat
4. Saneesh Singh
5. Philomina

Shareholding pattern

As on the date of this Draft Red Herring Prospectus, the authorised share capital of our Corporate Promoter is ₹2,500,000,000 divided into 190,000,000 equity shares of face value of ₹10 each and 6,000,000 preferences shares of face value of ₹100 each. The issued and paid-up share capital of our Corporate Promoter, as on the date of this Draft Red Herring Prospectus is ₹1,718,095,960 divided into 153,761,096 equity shares of face value of ₹10 each, 1,804,850 preference shares of face value of ₹100 each.

The shareholding pattern of the equity shares of face value of ₹10 each of the Corporate Promoter as on the date of this Draft Red Herring Prospectus is as follows:

S. No	Name of shareholder	Number of shares held	Percentage of equity shareholding (%)
1.	ESMACO	97,616,607	63.49
2.	Dia Vikas Capital Private Limited	30,730,000	19.99
3.	SIDBI Trustee Company Ltd- A/C Samridhi Fund	17,176,230	11.17
4.	George Thomas (in the capacity as chairman of the ESAF Staff Welfare Trust)	5,640,600	3.67
5.	Cedar Retail Private Limited	633,333	0.41
6.	Kadambelil Pailee Thomas	253,180	0.16
7.	Achamma Thomas	253,180	0.16
8.	Raphael Parambi	200,000	0.13
9.	Thomas Joseph	200,000	0.13
10.	George Thomas	174,400	0.11
11.	Alok Thomas Paul	87,500	0.06
12.	Emy Acha Paul	87,500	0.06
13.	Leo Samuel	56,666	0.04
14.	Jacob Samuel	53,000	0.03
15.	Saleena George	40,000	0.03
16.	Beena George	40,000	0.03
17.	Sunny Thomas	40,000	0.03
18.	Padmakumar K.	40,000	0.03
19.	Rajesh Sreedharan Pillai	40,000	0.03
20.	Kadambelil Paul Thomas	34,900	0.02
21.	George K. John	30,000	0.02
22.	Sibu K. A.	30,000	0.02
23.	Leo Joseph	30,000	0.02
24.	Sheena	20,000	0.01
25.	Mercy Jimmy	20,000	0.01
26.	Christudas K. V.	20,000	0.01

S. No	Name of shareholder	Number of shares held	Percentage of equity shareholding (%)
27.	Assan Khan Akbar	20,000	0.01
28.	T. D. Jose	20,000	0.01
29.	Sony V. Mathew	20,000	0.01
30.	Jubilee Sherine George E.	20,000	0.01
31.	Mereena Paul	15,000	0.01
32.	Joseph Varghese	14,000	0.01
33.	Elizabeth John	10,000	0.01
34.	Idicheria Ninan	10,000	0.01
35.	Soyi K. Elias	10,000	0.01
36.	Jojy Koshy Varghese	10,000	0.01
37.	Roy Alex	10,000	0.01
38.	Jijo Kuriappan	10,000	0.01
39.	Sam Thomas	10,000	0.01
40.	Philip John	10,000	0.01
41.	James Varghese	5,000	0.00
42.	Cherian Mathew	5,000	0.00
43.	E. Mathai	5,000	0.00
44.	Jose Thomas	5,000	0.00
45.	P. V. Jose	5,000	0.00
Total		**153,761,096**	**100**

Our Corporate Promoter has issued 1,804,850, 1% compulsorily convertible preference shares of face value of ₹100 each as on the date of this Draft Red Herring Prospectus. The shareholding pattern of these compulsorily convertible preference shares is as follows:

S. No	Name of shareholder	Number of shares held	Percentage of equity shareholding (%)
1% compulsorily convertible preference shares			
1.	Dia Vikas Capital Private Limited	1,804,850	100
Total		**1,804,850**	**100**

Change in control

There has been no change in the control of our Corporate Promoter in the last three years preceding the date of this Draft Red Herring Prospectus.

Our Bank confirms that the permanent account number, bank account number(s), company registration number and the address of the registrar of companies where our Corporate Promoter is registered, shall be submitted to the Stock Exchanges at the time of filing this Draft Red Herring Prospectus.

Interests of our Promoters

Our Promoters are interested in our Bank to the extent they have promoted our Bank and to the extent: (i) of their shareholding in the Bank and dividend payable, if any, and other distributions in respect of the Equity Shares held by them; (ii) that Kadambelil Paul Thomas is the Managing Director and Chief Executive Officer of our Bank and received remuneration from our Bank in this regard; and (iii) that the Promoters are also customers of our Bank and operate their savings accounts, current accounts and term deposits from our Bank. For details, see "*Capital Structure – Build-up of the shareholding of our Promoters in our Bank*", "*Our Management – Remuneration to Executive Director*", and "*Other Financial Information – Related Party Transactions*" on pages 72, 193 and 296, respectively. Our Individual Promoter, Kadambelil Paul Thomas is a board member of Evangelical Social Action Forum ("**ESAF Society**"), with whom our Bank has entered into the Trademark Agreement and pursuant to which ESAF Society has granted our Bank an exclusive, irrevocable license and right to use certain trademarks. For details, see "*History and Certain Corporate Matters - Key terms of other subsisting material agreements*" on page 187.

Our Promoters have no interest in any property acquired in the three years preceding the date of the Draft Red Herring Prospectus or proposed to be acquired by our Bank or in any transaction by our Bank for acquisition of land, construction of building or supply of machinery.

No sum has been paid or agreed to be paid to any of our Promoters or to the firms or companies in which our Promoters are interested as members in cash or shares or otherwise by any person, either to induce them to become or to qualify them, as directors or promoters or otherwise for services rendered by our Promoters or by such firms or companies in connection with the promotion or formation of our Bank.

Payment of benefits to our Promoter or our Promoter Group during the two years preceding the filing of this Draft Red Herring Prospectus

Except (i) lease rentals paid to our Promoters and to Lahanti Homes in respect of the properties taken on lease from them by our Bank; (ii) commission/fees paid to ESMACO for services as business correspondents of our Bank; (iii) amounts paid to

ESMACO for the corporate facility management services provided by it to our Bank; (iv) that Kadembelil Paul Thomas and the Corporate Promoter have entered into lease agreements with our Bank (which have as one date of this Draft Red Herring Prospectus not been renewed) and received lease rentals in respect of the properties taken on lease from them by our Bank until March 31, 2020 and August 6, 2019, respectively; (v) gross salary paid to Bosco Joseph who is in the employment of the Bank; and (vi) as disclosed in "*Other Financial Information – Related Party Transactions*" on page 296, no amount or benefit has been paid or given to our Promoters or Promoter Group during the two years preceding the filing of this Draft Red Herring Prospectus nor is there any intention to pay or give any amount or benefit to our Promoters or Promoter Group.

Material guarantees given by our Promoters to third parties with respect to Equity Shares of our Bank

Our Promoters have not given any material guarantees to third parties with respect to the Equity Shares of our Bank.

Companies or firms with which our Promoters have disassociated in the last three years

Sr. No.	Name of the Company	Reason for Disassociation	Date of Disassociation
Corporate Promoter			
1.	ESAF Healthcare Services Private Limited	Divestment of stake	September 21, 2019
2.	Alpha Microfinance Consultants Pvt Ltd	Divestment of stake	November 21, 2019

Further, while our Individual Promoter has not disassociated from our Corporate Promoter, he has divested substantial interest in our Corporate Promoter on February 22, 2018 and September 28, 2018 pursuant to RBI letters dated May 28, 2018 and March 9, 2017 in compliance with Section 10B(4) of the Banking Regulation Act. Our Individual Promoter continues to hold 34,900 equity shares equivalent to 0.02% of the issued and paid-up equity share capital of our Corporate Promoter and is the promoter of our Corporate Promoter.

Our Promoter Group

Natural persons who are part of the Promoter Group other than our Individual Promoter

The following natural persons form part of our Promoter Group as immediate relatives of Kadambelil Paul Thomas.

Name of relative	Nature of relationship
Mereena Paul	Wife of Kadambelil Paul Thomas
Kadambelil Pailee Thomas	Father of Kadambelil Paul Thomas
Achamma Thomas	Mother of Kadambelil Paul Thomas
Sunny Thomas	Brother of Kadambelil Paul Thomas
Mercy Jimmy	Sister of Kadambelil Paul Thomas
Beena George	Sister of Kadambelil Paul Thomas
Alok Thomas Paul	Son of Kadambelil Paul Thomas
Abhishek Joe Paul	Son of Kadambelil Paul Thomas
Ashish Chris Paul	Son of Kadambelil Paul Thomas
Emy Acha Paul	Daughter of Kadambelil Paul Thomas
Leo Joseph	Brother of spouse
Savio Joseph	Brother of spouse
Benno Joseph	Brother of spouse
Bosco Joseph	Brother of spouse

Entities forming part of the Promoter Group other than our Corporate Promoter

1. ESMACO;
2. Lahanti Homes and Infrastructure Private Limited (*Formerly ESAF Homes & Infrastructure Private Limited*);
3. JRK Marketing Private Limited; and
4. Dev Bhoomi Eco Tourism Private Limited.

Our Bank has submitted an application dated July 24, 2021 ("**Exemption Application**"), under Regulation 300(1)(c) of the SEBI ICDR Regulations to SEBI seeking relaxation from considering and disclosing Dia Vikas Capital Private Limited, a pure financial investor in our Corporate Promoter holding 19.99% of the paid-up equity share capital of our Corporate Promoter and also holding 1,804,850, 1% compulsorily convertible preference shares of face value of ₹100 each of our Corporate Promoter, as a part of the "promoter group" of the Bank in accordance with the SEBI ICDR Regulations. The Bank pursuant to the Exemption Application sought exemption from i) naming Dia Vikas as promoter group in the Offer Documents, and accordingly; (ii) providing any confirmations as required to be provided by an issuer's promoter group under the SEBI ICDR Regulations in respect of Dia Vikas in the Offer Documents.

OUR GROUP ENTITIES

In terms of the SEBI ICDR Regulations and pursuant to the resolution passed by our Board at its meeting held on June 29, 2021, group entities of our Bank shall include (i) the companies (other than our Corporate Promoter) with which there were related party transactions as per the Restated Financial Information of our Bank read with "*Other Financial Information – Related Party Transactions*" on page 296, during any of the last three financial years (and stub period, if any, in respect of which, Restated Financial Information are included in this Draft Red Herring Prospectus); (ii) the companies forming part of the promoter group (other than our Corporate Promoter) with whom our Bank has entered into one or more transactions during the last completed financial year and the most recent period included in the restated financial information, if any, which individually or cumulatively exceeds 10% of the total revenue of our Bank for that financial year as per the Restated Financial Information; or (iii) such other entities as deemed material by our Board.

Accordingly, in terms of the policy adopted by our Board for determining group entities, our Board has identified the following entities as the group entities of the Bank ("**Group Entities**"):

1. ESAF Swasraya Multi-State Agro Co-operative Society Limited;

2. CEDAR Retail Private Limited (*Formerly ESAF Retail Private Limited*);

3. Lahanti Homes and Infrastructure Private Limited (*Formerly ESAF Homes and Infrastructure Private Limited*);

4. ESAF Swasraya Producers Company Limited;

5. Lahanti Lastmile Services Private Limited; and

6. Prachodhan Development Services

Details of our Group Entities

Details of our top five Group Companies

1. ESAF Swasraya Multi-State Agro Co-operative Society Limited ("ESMACO")

Corporate Information

ESMACO is a multi-state co-operative society, which was originally registered as 'ESAF Swasraya Multi-State Co-operative Credit Society Limited' on October 13, 2011 under the Multi-State Co-operative Societies Act, 2002 in Thrissur, Kerala. Its name was subsequently changed to 'ESAF Swasraya Multi-State Agro Co-operative Society Limited' and a certificate of registration of amendment consequent to change of name was issued on October 10, 2016. The registration number of ESMACO is MSCS/CR/442/2011.

Nature of Activities

ESMACO is authorised to engage in the business of, *inter alia*, cultivation, sale, and supply of agricultural and allied products, promote agri technology centres and agri nurseries and to act as a business correspondent of public and private sector banks and financial institutions.

Interest of our Promoters

Our Individual Promoter holds one equity share in ESMACO.

Financial Performance

The financial information derived from the audited standalone financial statements of ESMACO as at and for the Financial Years ended March 31, 2020, 2019 and 2018 is set forth below:

(₹ in million except per share data)

Particulars	As at and for the Financial Year ended March 31,		
	2020	2019	2018
Equity capital	2,777.14	2,995.49	2,923.74
Reserves and surplus (excluding revaluation reserves)	1,879.55	1,261.28	588.20
Sales	2,338.29	2,309.26	1,587.04
Profit/(Loss) after tax	618.26	673.08	430.23
Earnings per share (Basic)	NA	NA	NA
Earnings per share (Diluted)	NA	NA	NA
Net asset value per share	NA	NA	NA

Significant notes of auditors of ESMACO in the audited financial statements of ESMACO for the last three Financial Years

There are no significant notes of auditors of ESMACO in the audited financial statements of ESMACO for the last three Financial Years.

2. CEDAR Retail Private Limited (*Formerly ESAF Retail Private Limited*) ("CEDAR Retail")

Corporate Information

CEDAR Retail is a private limited company, which was originally incorporated as 'ESAF Retail Private Limited' on March 26, 2008 under the Companies Act, 1956 in Thrissur, Kerala. The name of the company was subsequently changed to 'CEDAR Retail Private Limited' and a fresh certificate of incorporation consequent upon change of name was issued on September 27, 2019. The corporate identity number of CEDAR Retail is U52100KL2008PTC022142.

Nature of Activities

CEDAR Retail is authorised to engage in the business of, *inter alia*, manufacturing, buying, warehousing, marketing, and dealing in any manner in all types of goods and services on retail and wholesale basis. The company promotes locally produced food and consumables by linking them to markets through their supermarkets and other retail chains.

Interest of our Promoters

Our Individual Promoter holds 20,000 equity shares aggregating to 4.80% of the issued, subscribed and paid-up equity capital of CEDAR Retail.

Financial Performance

The financial information derived from the audited standalone financial statements of CEDAR Retail as at and for the Financial Years ended March 31, 2020, 2019 and 2018 is set forth below:

(₹ in million except per share data)

Particulars	As at and for the Financial Year ended March 31,		
	2020	2019	2018
Equity capital	4.16	4.16	4.16
Reserves and surplus (excluding revaluation reserves)	69.30	52.18	35.08
Sales	1,940.53	1,553.39	1,086.72
Profit/(Loss) after tax	17.12	18.83	10.18
Earnings per share (Basic)	41.12	45.21	24.45
Earnings per share (Diluted)	9.23	10.15	5.49
Net asset value per share	176.40	135.29	94.24

Significant notes of auditors of CEDAR Retail in the audited financial statements of CEDAR Retail for the last three Financial Years

There are no significant notes of auditors of CEDAR Retail in the audited financial statements of CEDAR Retail for the last three Financial Years.

3. **Lahanti Homes and Infrastructure Private Limited (*Formerly ESAF Homes and Infrastructure Private Limited*) ("Lahanti Homes")**

Corporate Information

Lahanti Homes is a private limited company, which was originally incorporated as 'ESAF Homes and Infrastructure Private Limited' on March 25, 2008 under the Companies Act, 1956 in Thrissur, Kerala. The name of the company was subsequently changed to 'Lahanti Homes and Infrastructure Private Limited' and a fresh certificate of incorporation consequent upon change of name was issued on August 12, 2020. The corporate identity number of Lahanti Homes is U45200KL2008PTC022134.

Nature of Activities

Lahanti Homes is authorised to engage in the business of building houses, flats, complexes and theatres.

Interest of our Promoters

Our Individual Promoter holds 8,000 equity shares aggregating to 4.82% of the issued, subscribed and paid-up capital of Lahanti Homes.

Financial Performance

The financial information derived from the audited standalone financial statements of Lahanti Homes as at and for the Financial Years ended March 31, 2020, 2019 and 2018 is set forth below:

(₹ in million except per share data)

Particulars	As at and for the Financial Year ended March 31,		
	2020	2019	2018
Equity capital	1.66	1.66	1.66
Reserves and surplus (excluding revaluation reserves)	(1.70)	(1.83)	(6.99)
Sales	22.57	18.52	18.24
Profit/(Loss) after tax	0.13	5.16	(0.31)
Earnings per share (Basic)	0.79	31.09	(1.87)
Earnings per share (Diluted)	0.79	31.09	(1.87)
Net asset value per share	(0.24)	(1.02)	(32.11)

Significant notes of auditors of Lahanti Homes in the audited financial statements of Lahanti Homes for the last three Financial Years

There are no significant notes of auditors of Lahanti Homes in the audited financial statements of Lahanti Homes for the last three Financial Years.

4. ESAF Swasraya Producers Company Limited ("ESAF Swasraya Producers")

Corporate Information

ESAF Swasraya Producers is a private limited company, which was incorporated as a producer company on September 19, 2006 under Section 581C of the Companies Act, 1956 in Thrissur, Kerala. The corporate identity number of ESAF Swasraya Producers is U36998KL2006PTC019870.

Nature of Activities

ESAF Swasraya Producers is authorised to engage in the business of, *inter alia*, production/cultivation, procurement, selling and marketing or export of handicraft produces, herbs, medicinal plants, vegetables, milk, dairy products and m eat.

Interest of our Promoters

Our Individual Promoter holds 10,000 equity shares aggregating to 2.02% of the issued, subscribed and paid-up capital of ESAF Swasraya Producers.

Financial Performance

The financial information derived from the audited standalone financial statements of ESAF Swasraya Producers as at and for the Financial Years ended March 31, 2020, 2019 and 2018 is set forth below:

(₹ in million except per share data)

Particulars	As at and for the Financial Year ended March 31,		
	2020	2019	2018
Equity capital	4.94	4.94	4.94
Reserves and surplus (excluding revaluation reserves)	4.43	4.14	3.67
Sales	18.90	12.32	9.37
Profit/(Loss) after tax	0.28	0.47	(1.04)
Earnings per share (Basic)	0.57	0.96	(2.12)
Earnings per share (Diluted)	0.57	0.96	(2.12)
Net asset value per share	18.96	18.38	17.43

Significant notes of auditors of ESAF Swasraya Producers in the audited financial statements of ESAF Swasraya Producers for the last three Financial Years

There are no significant notes of auditors of ESAF Swasraya Producers in the audited financial statements of ESAF Swasraya Producers for the last three Financial Years.

5. Lahanti Lastmile Services Private Limited ("Lahanti")

Corporate Information

Lahanti is a private limited company, which was incorporated on April 13, 2016 under the Companies Act, 2013 in Thrissur, Kerala. The corporate identity number of Lahanti is U93000KL2016PTC045496.

Nature of Activities

Lahanti is authorised to engage in the business of, *inter alia*, buying, selling, reselling, importing, exporting, transporting, storing, developing, and acting as agent, distributor in respect of all types of goods including consumer durables, on retail and wholesale basis with an aim of developing and promoting rural entrepreneurs, producers, creating marketing channels and providing financial aid. The company is also authorised to engage in the business of acting as a business correspondent or service agent of banks and financial institutions for providing various services.

Interest of our Promoters

Our Promoters do not hold any of the issued, subscribed and paid-up capital of Lahanti.

Financial Performance

The financial information derived from the audited standalone financial statements of Lahanti as at and for the Financial Years ended March 31, 2020, 2019 and 2018 is set forth below:

(₹ in million except per share data)

Particulars	As at and for the Financial Year ended March 31,		
	2020	2019	2018
Equity capital	31.00	1.00	1.00
Reserves and surplus (excluding revaluation reserves)	29.07	15.92	(3.12)
Sales	236.87	166.38	44.58
Profit/(Loss) after tax	13.15	19.05	(3.03)
Earnings per share (Basic)	13.81	190.48	(30.32)
Earnings per share (Diluted)	13.81	190.48	(30.32)
Net asset value per share	19.38	169.23	(21.25)

Significant notes of auditors of Lahanti in the audited financial statements of Lahanti for the last three Financial Years

There are no significant notes of auditors of Lahanti in the audited financial statements of Lahanti for the last three Financial Years.

Other group companies:

6. Prachodhan Development Services ("Prachodhan")

Corporate Information

Prachodhan is a non-profit company, which was incorporated on August 7, 2008 under the Companies Act, 2013 in Nagpur, Maharashtra. The corporate identity number of Prachodhan is U67190MH2008NPL185592.

Nature of Activities

Prachodhan is authorised to engage in the business of promoting education, mitigation of poverty, promoting development of the economically, and socially poor, marginalised, weak and neglected sections of the society and to promote skills and technology to poor and marginalized for self-employment with comprehensive support program covering raw material supply, common facilities, quality control and providing marketing supports.

Interest of our Promoters

Our Individual Promoter holds 20,000 equity shares aggregating to 5% of the issued, subscribed and paid-up capital of Prachodhan.

Loss making Group Entities

None of our Group Entities have made losses in the preceding Fiscal Year, as available for the respective Group Entities.

Nature and extent of interest of our Group Entities

a. ***In the promotion of our Bank***

Our Group Entities do not have any interest in the promotion of our Bank.

b. ***In the properties acquired by our Bank or proposed to be acquired by our Bank in the preceding three years before filing this Draft Red Herring Prospectus***

Our Group Entities are not interested in the properties acquired by our Bank in the three years preceding the filing of this Draft Red Herring Prospectus or proposed to be acquired by our Bank.

However, our Bank and Lahanti Homes have entered into a deed of lease dated April 1, 2017 for leasing of office space for our Registered and Corporate Office.

c. ***In transactions for acquisition of land, construction of building and supply of machinery entered into with our Bank***

None of our Group Entities are interested in any transactions for the acquisition of land, construction of building or supply of machinery.

Defunct Group Entities

Our Group Entities are not defunct and no applications have been made to the relevant registrar of companies for striking off their names during the five years preceding the date of filing the Draft Red Herring Prospectus with SEBI.

Group Entities which are a sick industrial company or are under winding up/ insolvency proceedings

Our Group Entities do not fall under the definition of sick companies under the erstwhile Sick Industrial Companies (Special Provisions) Act, 1985 and are not under any winding up or insolvency proceedings.

Common Pursuits between our Group Entities and our Bank

As of the date of this Draft Red Herring Prospectus, there are no common pursuits between our Group Entities and our Bank. However, some of our group entities have certain business interests in our Bank. For details, see " – *Business interest of our Group Entities in our Bank*" on page 219.

Related Business Transactions within the Group and significance on the financial performance of our Bank

Except (i) lease rentals paid to Lahanti Homes in respect of our Registered and Corporate Office taken on lease from it by our Bank; (ii) commission/fees paid to ESMACO and Lahanti for their services as business correspondents of our Bank; (iii) amount paid to ESMACO in respect of the corporate facility management services provided by it to our Bank; (iv) amount paid to Prachodhan for corporate social responsibility expenses; (v) amounts paid to ESAF Swasraya Producers in respect of purchases of gifts & conference kits; (vi) amounts paid to ESAF Retail in respect of office stationery and (vii) other transactions disclosed in the section "*Other Financial Information – Related Party Transactions*" on page 296, there are no other related business transactions with the Group Entities.

Business interest of our Group Entities in our Bank

Except for (i) provision of services as business correspondents of our Bank by ESMACO and Lahanti, (ii) corporate facility management services provided by ESMACO, (iii) lease rentals paid to Lahanti Homes in respect of our Registered and Corporate Office taken on lease from it by our Bank, and (iv) corporate social responsibility services provided by Prachodhan, our Group Entities have no business interest in our Bank.

Litigation

Our Group Entities are not party to any pending litigation which will have material impact on our Bank.

Other confirmations

The equity shares of our Group Entities are not listed on any stock exchange and our Group Entities have not made any public or rights issue of securities in the preceding three years.

DIVIDEND POLICY

The declaration and payment of dividends will be recommended by the Board of Directors and approved by the Shareholders, at their discretion, subject to the provisions of the Banking Regulation Act and regulations made thereunder, the RBI Act and the regulations and guidelines made thereunder, the Articles of Association and other applicable laws, including the Companies Act, 2013. The dividend, if any, will depend on a number of factors, including but not limited to, the future expansion plans and capital requirements, profit earned during the Fiscal, past dividend trends, liquidity and applicable taxes including optimal capital adequacy ratio subject to regulatory minimum of total and tier I capital adequacy ratio, additional regulatory requirements of capital in near future cost of raising funds from alternate sources, reinvestment opportunities and any other applicable criteria from the legal or regulatory framework applicable to our Bank. In addition, our ability to pay dividends may be impacted by a number of factors, including restrictive covenants under loan or financing arrangements our Bank is currently availing of or may enter into to finance our fund requirements for our business activities.

As per the Articles of Association, the Bank may pay dividend by cheque or warrant or ECS or RTGS or any other mode as may be permissible under the Companies Act, 2013 or may send through post to the registered address of the member or person entitled, or in the case of joint holders, to the registered address of the joint holders first named in the register.

Our Bank has not declared any dividends for Fiscals 2019, 2020 and 2021. Further, our Bank has not declared any dividend from April 1, 2021 till the date of this Draft Red Herring Prospectus. In terms of Section 15 of the Banking Regulation Act, a banking company is permitted to declare dividends only upon all of its capitalised expenses being written off. Our Bank has no formal dividend policy.

SELECTED STATISTICAL INFORMATION

This section should be read together with the Restated Financial Information, including the notes thereto, in "Financial Statements" on page 240 and "Management's Discussion and Analysis of Financial Condition and Results of Operations" on page 297.

Our fiscal year commences on April 1 and ends on March 31 of the immediately subsequent year, and references to a particular Fiscal are to the 12 months ended March 31 of that year. Unless otherwise indicated or the context otherwise requires, the financial information included herein is derived from our Restated Financial Information included in this Draft Red Herring Prospectus.

Demand deposits are current account deposits. Although we do not pay interest on demand deposits, demand deposits have been included as interest-bearing liabilities in this section.

The following information is included for analytical purposes. Certain non-GAAP financial measures and certain other statistical information relating to our operations and financial performance have been included in this section and elsewhere in this Draft Red Herring Prospectus. We compute and disclose such non-GAAP financial measures and such other statistical information relating to our operations and financial performance as we consider such information to be useful measures of our business and financial performance, and because such measures are frequently used by securities analysts, investors and others to evaluate the operational performance of financial services businesses, many of which provide such non-GAAP financial measures and other statistical and operational information when reporting their financial results. Such non-GAAP measures and other statistical and operational information are not measures of operating performance or liquidity defined by generally accepted accounting principles. These non-GAAP financial measures and other statistical and other information relating to our operations and financial performance may not be computed on the basis of any standard methodology that is applicable across the industry and therefore may not be comparable to financial measures and statistical information of similar nomenclature that may be computed and presented by other banks in India or elsewhere. For more details, see "-Certain Non-GAAP Measures" on page 237.

Average Balance Sheet, Interest Earned/Expended and Yield/Cost

The tables below present our average balances for total interest-earning assets and total interest-bearing liabilities together with the related interest earned and interest expended, resulting in the presentation of the yield and cost for each fiscal year.

(₹ in million, except percentages)

	As at and for the year ended March 31,								
	2021			2020			2019		
	Average Balance[(1)] [A]	**Interest Earned[(2)]/ Expended[(3)] [B]**	**Yield/ Cost[(4)] (%) [C = B/A]**	**Average Balance[(1)] [A]**	**Interest Earned[(2)]/ Expended[(3)] [B]**	**Yield/ Cost[(4)] (%) [C = B/A]**	**Average Balance[(1)] [A]**	**Interest Earned[(2)]/ Expended[(3)] [B]**	**Yield/ Cost[(4)] (%) [C = B/A]**
Interest-earning assets:									
Advances	73,170.11	14,735.06	20.14%	54,702.39	12,382.84	22.64%	38,614.43	9,146.08	23.69%
Investments	19,326.01	1,283.26	6.64%	17,532.82	1,321.98	7.54%	12,622.13	969.35	7.68%
Others[(5)]	10,182.48	393.41	3.86%	5,912.06	427.63	7.23%	2,914.07	200.96	6.90%
Total interest-earning assets	**102,678.60**	**16,411.73**	**15.98%**	**78,147.27**	**14,132.45**	**18.08%**	**54,150.63**	**10,316.39**	**19.05%**
Non-interest-earning assets:									
Fixed assets	1,261.65	-	-	1,003.73	-	-	768.78	-	-
Other assets[(6)]	6,366.50	-	-	4,901.74	-	-	4,558.58	-	-
Total non-interest-earning assets	**7,628.15**	**-**	**-**	**5,905.47**	**-**	**-**	**5,327.36**	**-**	**-**
Total assets	**110,306.75**	**-**	**-**	**84,052.74**	**-**	**-**	**59,477.99**	**-**	**-**
Interest-bearing liabilities:									
Deposits[(7)]	80,911.38	6,045.68	7.47%	58,303.97	4,851.17	8.32%	32,196.81	2,659.07	8.26%
Borrowings[(8)]	14,327.51	1,150.14	8.03%	14,100.02	1,359.40	9.64%	19,011.69	1,923.75	10.12%
Total interest-bearing liabilities	**95,238.89**	**7,195.82**	**7.56%**	**72,403.99**	**6,210.57**	**8.58%**	**51,208.50**	**4,582.82**	**8.95%**
Non-interest-bearing liabilities:									
Capital and reserves	11,909.32	-	-	9,858.17	-	-	6,512.43	-	-
Other liabilities	3,158.54	-	-	1,790.58	-	-	1,757.06	-	-
Total non-interest-bearing liabilities	**15,067.86**	**-**	**-**	**11,648.75**	**-**	**-**	**8,269.49**	**-**	**-**
Total liabilities	**110,306.75**	**-**	**-**	**84,052.74**	**-**	**-**	**59,477.99**	**-**	**-**

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 as at quarter end for all quarters in the relevant fiscal year. The average balances of advances are advances net of provisions for NPAs ("**Interest-Earning Advances**"), and average investments are net of depreciation or provision for investments, if any.*

2. *Interest earned on advances includes interest on advances and direct assignment transactions. Interest earned on investments includes interest earned on government securities, treasury bills and other securities. Interest earned on others includes interest on balances with banks in other deposits accounts and money at call and short notice ("**Interest-Earning Balance with Reserve Bank of India and other Inter-Bank Funds**").*

3. *Interest expended comprises interest expended on deposits and borrowings.*

4. *Yield/Cost on average balance is a non-GAAP measure and is calculated as interest earned/expended divided by the average balance.*

5. *Comprises Interest-Earning Balance with the Reserve Bank of India and other Inter-Bank Funds.*

6. *Includes cash in hand, balance with the Reserve Bank of India in current accounts, balances with banks in current accounts and other assets.*

7. *Comprises demand deposits, savings bank deposits and term deposits. We do not pay interest on demand deposits.*

8. *Borrowings include borrowing from the Reserve Bank of India, other banks, other institutions and agencies, subordinated debt and perpetual debt instruments.*

Analysis of Changes in Interest Earned and Interest Expended by Volume and Rate

The following tables set forth, for the fiscal years indicated, the analysis of the changes in our interest earned and interest expended between average volume and changes in rates.

(₹ in million)

	Year ended March 31, 2021 vs. Year ended March 31, 2020		
	Net Changes in Interest(1)	**Change in Average Volume(2)**	**Change in Average Rate(3)**
Interest earned:			
Advances	2,352.22	3,719.05	(1,366.83)
Investments	(38.72)	119.08	(157.80)
Others	(34.22)	164.99	(199.21)
Total interest earned [A]	**2,279.28**	**4,003.12**	**(1,723.84)**
Interest expended:			
Deposits(4)	1,194.51	1,689.22	(494.71)
Borrowings	(209.26)	18.26	(227.52)
Total interest expended [B]	**985.25**	**1,707.48**	**(722.23)**
Net Interest Income [A-B]	**1,249.03**	**2,295.64**	**(1,001.61)**

(₹ in million)

	Year ended March 31, 2020 vs. Year ended March 31, 2019		
	Net Changes in Interest(1)	**Change in Average Volume(2)**	**Change in Average Rate(3)**
Interest earned:			
Advances	3,236.76	3,641.79	(405.03)
Investments	352.63	370.27	(17.64)
Others	226.67	216.85	9.82
Total interest earned [A]	**3,816.06**	**4,228.91**	**(412.85)**
Interest expended:			
Deposits(4)	2,192.10	2,176.03	16.07
Borrowings	(564.35)	(473.54)	(90.81)
Total interest expended [B]	**1,627.75**	**1,702.49**	**(74.74)**
Net Interest Income [A-B]	**2,188.31**	**2,526.42**	**(338.10)**

Notes:

1. *The changes in interest earned, interest expended and Net Interest Income between fiscal years have been reflected as attributed either to volume or rate changes. For purposes of this table, changes that are due to both volume and rate have been allocated solely to changes in rate.*

2. *Change in average volume is computed as the increase in average balances for the year multiplied by yield/cost for Fiscal 2021 and Fiscal 2020, as the case may be.*

3. *Change in average rate represents the average balance for Fiscal 2021 and Fiscal 2020, as the case may be, multiplied by change in rates during the respective year during the relevant year.*

4. *Comprises demand deposits, savings bank deposits and term deposits. We do not pay interest on demand deposits.*

Yields, Spread, Cost of Funds and Net Interest Margin

The following table sets forth, for the fiscal years indicated, the yields, spread and net interest margins on our interest-earning assets and cost of funds on our interest-bearing liabilities.

(₹ in million, except percentages)

	As at and for the year ended March 31,		
	2021	**2020**	**2019**
Interest earned [A]	16,411.73	14,132.45	10,316.39
Of which:			
Interest/discount earned on advances/bills [B]	*14,735.06*	*12,382.84*	*9,146.08*
Interest expended [C]	7,195.82	6,210.57	4,582.82
Net Interest Income(1)(*) [D =A-C]	9,215.91	7,921.88	5,733.57
Average Interest-Earning Advances(2) [E]	73,170.11	54,702.39	38,614.43
Average Total Interest-Earning Assets(3) [F]	102,678.60	78,147.27	54,150.63
Average Total Assets(4) [G]	110,306.75	84,052.74	59,477.99
Average Total Interest-Bearing Liabilities(5) [H]	95,238.89	72,403.99	51,208.50
Average Total Interest-Earning Assets as a percentage of Average Total Interest-Bearing Liabilities(*) (%) [I = F/H]	107.81	107.93	105.75
Average Interest-Earning Advances as a percentage of Average Total Assets(*) (%) [J = E/G]	66.33	65.08	64.92
Average Total Interest-Earning Assets as a percentage of Average Total Assets(*) (%) [K = F/G]	93.08	92.97	91.04
Average Total Interest-Bearing Liabilities as a percentage of Average Total Assets(*) (%) [L = H/G]	86.34	86.14	86.10
Yield on Average Total Interest-Earning Assets(6)(*) (%) [M = A/F]	15.98	18.08	19.05
Yield on Average Interest-Earning Advances(7)(*) (%) [N = B/E]	20.14	22.64	23.69
Cost of Funds(8)(*) (%) [O = C/H]	7.56	8.58	8.95
Spread(9)(*) (%) [P = M-O]	8.42	9.50	10.10
Net Interest Margin(10)(*) (%) [Q = D/F]	8.98	10.14	10.59

Notes:

1. *Net Interest Income is interest earned minus interest expended ("**Net Interest Income**").*

2. *Average Interest-Earning Advances are Interest-Earning Advances 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 quarter end for all quarters in the relevant fiscal year ("**Average Interest-Earning Advances**").*

3. *Average Total Interest-Earning Assets are total interest-earning assets (comprising Interest-Earning Advances, interest earning investments (comprising government securities, treasury bills and other interest earning securities) and Interest-Earning Balance with the Reserve Bank of India and other Inter-Bank Funds) 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 quarter end for all quarters in the relevant fiscal year ("**Average Total Interest-Earning Assets**").*

4. *Average Total Assets are total assets 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 quarter end for all quarters in the relevant fiscal year ("**Average Total Assets**").*

5. *Average Total Interest-Bearing Liabilities are total interest-bearing liabilities (comprising demand deposits, savings bank deposits, term deposits and borrowings) 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 quarter end for all quarters in the relevant fiscal year ("**Average Total Interest-Bearing Liabilities**"). We do not pay interest on demand deposits.*

6. *Yield on Average Total Interest-Earning Assets is calculated as the ratio of interest earned to Average Total Interest-Earning Assets.*

7. *Yield on Average Interest-Earning Advances is calculated as ratio of interest earned on advances divided by Average Interest-Earning Advances .*

8. *Cost of funds is the ratio of interest expended to Average Total Interest-Bearing Liabilities ("**Cost of Funds**").*

9. *Spread is the difference between Yield on Average Total Interest-Earning Assets and Cost of Funds.*

10. *Net Interest Margin is the ratio of Net Interest Income to Average Total Interest-Earning Assets.*

** Non-GAAP measure.*

Return on Equity and Assets and Other Financial Ratios

The following table presents selected financial ratios for the fiscal years indicated.

(₹ in million, except percentages)

	As at and for the year ended March 31,		
	2021	2020	2019
Net Interest Income(*) [A]	9,215.91	7,921.88	5,733.57
Other Income [B]	1,261.04	1,331.90	1,091.50
Operating Income(*) [C=A+B]	10,476.95	9,523.78	6,825.07
Operating expenses [D]	6,318.55	6,006.76	4,533.94
Net Profit [E]	1,053.96	1,903.90	902.84
Average Total Assets [F]	110,306.75	84,052.74	59,477.99
Average Shareholders' Funds(1) (*) [G]	11,909.32	9,858.17	6,512.43
Return on Equity(*) (%) [H=E/G]	8.85	19.31	13.86
Return on Assets(*) (%) [I=E/F]	0.96	2.27	1.52
Average Shareholders' Funds as a percentage of Average Total Assets(2) (*) (%) [J=G/F]	10.80	11.73	10.95
Cost to income ratio(3) (*) (%) [K=D/C]	60.31	64.91	66.43
Operating expenses to Average Total Assets(*) (%) [L=D/F]	5.73	7.15	7.62
Provision for NPAs (excluding provisions on standard assets) [M]	2,474.19	586.92	388.09
Provisions towards Standard Assets [N]	1,241.42(9)	315.90(10)	215.14
Average Interest-Earning Advances [O]	73,170.11	54,702.39	38,614.43
Provisions to Average Interest-Earning Advances(4) (*) (%) [P=(M+N)/O]	5.05	1.65	1.56
Retail deposits to total deposit ratio(5) (%)	97.74	95.08	92.43
CASA to total deposits ratio(6) (*) (%)	19.42	13.66	13.55
Total deposit to credit ratio (7) (*) (%)	106.94	106.39	94.11
Operating expenses to Net Interest Income(*)(8) (%) [Q=D/A]	68.56	75.83	79.08

Notes:

1. *Average Shareholders' Funds is capital and reserves and surplus 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 quarter end for all quarters in the relevant fiscal year ("**Average Shareholders' Funds**").*

2. *Average Shareholders' Funds as a percentage of Average Total Assets is calculated as Average Shareholders' Funds divided by Average Total Assets.*

3. *Cost to income ratio is calculated as a ratio of operating expenses divided by operating income.*

4. *Provisions to Average Interest-Earning Advances is calculated as a ratio of provisions (provision towards non-performing advances and provision towards standard advances) divided by Average Interest-Earning Advances.*

5. *Retail deposits represents total outstanding deposits less bulk deposits. Bulk deposits are deposits exceeding ₹ 20.00 million.*

6. *CASA to total deposits ratio is calculated as (demand deposits from banks plus demand deposits from others plus savings bank deposits) divided by total deposits.*

7. *Total deposit to credit ratio is calculated as a ratio of total deposits divided by gross advances.*

8. *Calculated as operating expenses divided by Net Interest Income.*

9. *Includes ₹ 404.00 million as at March 31, 2021 against the potential impact of COVID-19 as additional provisions on standard assets (other than provisions held for restructuring under COVID-19 norms).*

10. *Includes ₹ 44.08 million as at March 31, 2020 against the potential impact of COVID-19 as additional provisions on standard assets (other than provisions held for restructuring under COVID-19 norms).*

** Non-GAAP measure.*

Investment Portfolio

The following table sets forth, as at the dates indicated, information related to our total net investment portfolio.

(₹ in million)

	As at March 31, 2021				As at March 31, 2020				As at March 31, 2019			
	Book Value	Held to Maturity	Available for Sale	Held for Trading	Book Value	Held to Maturity	Available for Sale	Held for Trading	Book Value	Held to Maturity	Available for Sale	Held for Trading
Government securities	18,889.75	18,645.37	244.38	-	15,069.47	12,827.40	2,242.07	-	8,864.09	7,047.75	1,568.56	247.78
Shares	81.67	-	81.67	-	35.62	-	35.62	-	-	-	-	-
Debentures and bonds	-	-	-	-	-	-	-	-	-	-	-	-

	As at March 31, 2021				As at March 31, 2020				As at March 31, 2019			
	Book Value	Held to Maturity	Available for Sale	Held for Trading	Book Value	Held to Maturity	Available for Sale	Held for Trading	Book Value	Held to Maturity	Available for Sale	Held for Trading
Others[(1)]	349.27	-	349.27	-	2,231.16	-	2,231.16	-	6,443.41	-	4,948.47	1,494.94
Total	**19,320.69**	**18,645.37**	**675.32**	**-**	**17,336.25**	**12,827.40**	**4,508.85**	**-**	**15,307.50**	**7,047.75**	**6,517.04**	**1,742.72**

Note:

1. *Others include investment in pass-through certificates, commercial papers, mutual funds and certificate of deposits.*

Residual Maturity Profile

In computing the below information only, the book value of investments is considered. Depreciation and NPI provisioning for the investments is not considered.

Available for Sale

The following table sets forth, as at the date indicated, an analysis of the residual maturity profile of our investments in securities classified as available for sale securities and their weighted average market yields.

(₹ in million, excluding percentages)

	As at March 31, 2021									
	Up to One Year		One to Five Years		Five to Ten Years		More than Ten Years		Total	
	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Government securities	-	-	195.56	5.15	48.82	5.85	-	-	244.38	5.29
Shares	81.67	N.A.	-	-	-	-	-	-	81.67	N.A.
Others	349.27	3.77	-	-	-	-	-		349.27	3.77
Total	**430.94**	**3.77**	**195.56**	**5.15**	**48.82**	**5.85**	**-**	**-**	**675.32**	**3.56**

Note:

1. *Provisions towards depreciation and non-performing investments have been deducted from book value of respective categories. Therefore, total book value will match with the net balance of the balance sheet as at the respective dates.*

Held to Maturity

The following table sets forth, as at the date indicated, an analysis of the residual maturity profile of our investments in securities classified as held to maturity securities and their weighted average market yields.

(₹ in million, except percentages)

	As at March 31, 2021									
	Up to One Year		One to Five Years		Five to Ten Years		More than Ten Years		Total	
	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)	Amount	Yield (%)
Government securities	-	-	1,825.63	7.72	9,818.85	7.58	7,000.89	7.35	18,645.37	7.51
Total	**-**	**-**	**1,825.63**	**7.72**	**9,818.85**	**7.58**	**7,000.89**	**7.35**	**18,645.37**	**7.51**

Held for Trading

We had nil investments held for trading as at March 31, 2021.

Deposits

Average Deposits, Interest Expended and Cost by Category

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. Average balance is calculated as the average of the opening balance at the start of the relevant year and the closing balance as at quarter end for all quarters in the relevant year. Cost is a non-GAAP measure.

(₹ in million, except percentages)

	For the year ended March 31,								
	2021			2020			2019		
	Average Balance [A]	Interest Expended [B]	Cost (%) [C=B/A]	Average Balance [A]	Interest Expended [B]	Cost (%) [C=B/A]	Average Balance [A]	Interest Expended [B]	Cost (%) [C=B/A]
Demand Deposits [A]	952.60	-	-	428.77	-	-	281.96	-	-
Savings Bank Deposits [B]	11,882.47	599.28	5.04	7,034.56	365.46	5.20	3,474.20	166.55	4.79

	For the year ended March 31,								
	2021			2020			2019		
	Average Balance [A]	Interest Expended [B]	Cost (%) [C=B/A]	Average Balance [A]	Interest Expended [B]	Cost (%) [C=B/A]	Average Balance [A]	Interest Expended [B]	Cost (%) [C=B/A]
CASA [C=A+B]	***12,835.07***	***599.28***	***4.67***	***7,463.33***	***365.46***	***4.90***	***3,756.16***	***166.55***	***4.43***
Term Deposits [D]	68,076.31	5,446.40	8.00	50,840.64	4,485.71	8.82	28,440.65	2,492.52	8.76
Total [E= C+ D	**80,911.38**	**6,045.68**	**7.47**	**58,303.97**	**4,851.17**	**8.32**	**32,196.81**	**2,659.07**	**8.26**

Balance to maturity for Deposits exceeding ₹ 7.00 million

As at March 31, 2021, our individual domestic term deposits in excess of ₹ 7.00 million had balance to maturity profiles as set out below.

(*₹ in million*)

	As at March 31, 2021				
	Up to Three Months	Over Three Months to Six Months	Over Six Months to One Year	Over One Year	Total
Balance to maturity for deposits exceeding ₹ 7.00 million	2,970.31	3,564.36	3,497.49	2,429.44	**12,461.60**

Deposits Based on Location of Branches

The following table sets forth, as at the dates indicated, deposits and the percentage composition by location of Branches.

(₹ in million, except percentages)

	As at March 31,					
	2021		2020		2019	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Urban	34,423.13	38.25%	30,211.16	42.98%	21,106.80	48.89%
Semi Urban	40,857.31	45.40%	31,295.41	44.53%	17,280.90	40.03%
Rural	6,297.97	7.00%	4,824.87	6.86%	2,370.90	5.49%
Metro	8,415.85	9.35%	3,952.38	5.63%	2,411.48	5.59%
Total	**89,994.26**	**100.00%**	**70,283.82**	**100.00%**	**43,170.08**	**100.00%**

Concentration of Deposits

The following table presents an analysis of our domestic deposits by region as at the dates indicated.

(₹ in million, except percentages)

Geographical Distribution	State / Union Territory	As at March 31,					
		2021		2020		2019	
		Amount	% of Total	Amount	% of Total	Amount	% of Total
Eastern	Bihar	75.92	0.08	18.52	0.03	-	-
	Jharkhand	889.69	0.99	225.17	0.32	118.10	0.27
	Odisha	341.27	0.38	125.24	0.18	24.90	0.06
	West Bengal	281.53	0.31	212.91	0.30	38.00	0.09
	Meghalaya	9.83	0.01	-	-	-	-
	Assam	31.17	0.04	6.79	0.01	-	-
	Subtotal	**1,629.41**	**1.81**	**588.63**	**0.84**	**181.00**	**0.42**
Western	Gujarat	74.77	0.08	18.00	0.03	-	-
	Maharashtra	2,431.62	2.70	569.55	0.81	251.40	0.58
	Subtotal	**2,506.39**	**2.78**	**587.55**	**0.84**	**251.40**	**0.58**
Northern	Chhattisgarh	373.66	0.42	116.87	0.17	21.50	0.05
	Delhi	2,445.08	2.72	1,557.41	2.22	12.70	0.03
	Madhya Pradesh	544.27	0.60	187.44	0.27	1,240.80	2.87
	Rajasthan	41.91	0.05	7.43	0.01	-	-
	Haryana	27.26	0.03	-	-	-	-
	Uttar Pradesh	49.01	0.05	-	-	-	-
	Chandigarh	22.03	0.02	-	-	-	-
	Subtotal	**3,503.22**	**3.89**	**1,869.15**	**2.66**	**1,275.00**	**2.95**
Southern	Andhra Pradesh	264.34	0.29	34.94	0.05	17.60	0.04
	Telangana	14.86	0.02	-	-	-	-
	Karnataka	1,672.12	1.86	966.37	1.38	497.50	1.15
	Kerala	77,857.62	86.51	64,889.47	92.32	40,490.58	93.79
	Puducherry	59.80	0.07	8.45	0.01	-	-
	Tamil Nadu	2,486.50	2.76	1,339.26	1.91	457.00	1.06
	Subtotal	**82,355.24**	**91.51**	**67,238.49**	**95.67**	**41,462.68**	**96.04**

(₹ *in million, except percentages*)

Geographical Distribution	State / Union Territory	As at March 31,					
		2021		2020		2019	
		Amount	% of Total	Amount	% of Total	Amount	% of Total
Total domestic deposits		**89,994.26**	**100.00**	**70,283.82**	**100.00**	**43,170.08**	**100.00**

Total Borrowings

The following table sets forth, for the fiscal years indicated, information related to our borrowings, which are comprised primarily of borrowings from banks, refinances and subordinated debt.

(₹ *in million, except percentages*)

	As at and for the Year ended March 31,		
	2021	2020	2019
Year-end balance	16,940.00	12,033.17	17,023.60
Average balance during the year(1)	14,327.51	14,100.02	19,011.69
Interest expended during the year	1,150.14	1,359.40	1,923.75
Cost of average borrowings(2) (*) (%)	8.03	9.64	10.12
Average interest rate at year end(3) (%)	8.13	9.83	9.77
Average cost of subordinated debt (including perpetual debt)(4) (%)	12.93	12.97	13.05
Cost of average refinance borrowings(5) (*) (%)	7.33	9.20	9.54

Notes:

1. *Average is 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 quarter end for all quarters in the relevant fiscal year.*

2. *Represents the ratio of interest expended on borrowings to average borrowings 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 quarter end for all quarters in the relevant fiscal year. All of the borrowings are interest-bearing.*

3. *Average interest per annum is calculated as the sum of interest rate of the borrowings multiplied by the closing balance of the borrowings divided by the sum of closing balance of the borrowings.*

4. *Average cost of subordinated debt represents the ratio of interest expended on subordinated to average subordinated debt 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 quarter end for all quarters in the relevant fiscal year.*

5. *Cost of average refinance borrowings represents the ratio of interest expended on refinance borrowings to average refinance borrowings (which represents borrowings from Mudra, SIDBI and NABARD) 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 quarter end for all quarters in the relevant fiscal year.*

** Non-GAAP measure.*

Interest Sensitivity Analysis

The following table sets forth the interest rate sensitivity analysis of certain items of assets and liabilities as March 31, 2021, which is prepared/compiled based on guidelines provided by the RBI.

(₹ *in million*)

	As at March 31, 2021				
	Up to Three Months	Over Three Months to One Year	Over One Year to Five Years	Over Five Years-	Total
Cash and Balances with RBI	1,564.94	1,214.32	1,161.25	340.21	4,280.72
Balances with Other Banks	13,907.23	-	2.06	1.25	13,910.54
Investments	430.94	-	2,021.19	16,868.56	19,320.69
Advances	19,206.45	34,783.38	26,702.23	983.80	81,675.86
Other Assets(1)	203.42	474.65	-	5,202.79	5,880.86
Total Assets	**35,312.98**	**36,472.35**	**29,886.73**	**23,396.61**	**125,068.67**
Capital and Reserves	-	4,138.27	-	9,862.36	14,000.63
Borrowings	4,585.00	4,422.50	7,452.50	-	16,460.00
Deposits	19,187.30	34,737.71	35,591.95	477.30	89,994.26
Other Liabilities(2)	153.98	1,925.80	203.28	2,330.72	4,613.78
Total Liabilities	**23,926.28**	**45,224.28**	**43,237.73**	**12,670.38**	**125,068.67**

Notes:

1. *Other assets include, among others, net inter-office adjustments, interest accrued, net tax paid in advance/tax deduced at source and net deferred tax assets.*

2. *Other liabilities include bills payable, net inter-office adjustments, interest accrued, provisions for standard assets and others (including provisions).*

Asset Liability Gap

The following table sets forth the maturity pattern of certain items of assets and liabilities as at March 31, 2021, which is prepared/compiled based on guidelines provided by the RBI.

(₹ in million, except percentages)

	1-30 Days	30-90 Days	3-6 Months	6-12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Cash and Bank Balance	15,155.57	316.60	415.34	798.98	1,104.93	58.38	341.46	18,191.26
Advances	8,150.60	11,055.85	14,579.72	20,203.66	22,552.55	4,149.68	983.80	81,675.86
Investments	349.27	81.67	-	-	-	2,021.19	16,868.56	19,320.69
Fixed Assets	-	-	-	-	-	-	1,385.12	1,385.12
Other Assets	135.61	67.81	67.81	406.84	-	-	3,817.67	4,495.74
Total Assets	**23,791.05**	**11,521.93**	**15,062.87**	**21,409.48**	**23,657.48**	**6,229.25**	**23,396.61**	**125,068.67**
Capital & Reserve	-	-	-	4,138.27	-	-	9,862.36	14,000.63
Deposits	8,003.28	11,184.02	13,221.27	21,516.44	34,667.59	924.36	477.30	89,994.26
Borrowings	4,000.00	585.00	2,225.00	2,197.50	6,202.50	1,250.00	-	16,460.00
Other Liabilities	131.89	22.09	22.09	1,903.71	203.28	-	2,330.72	4,613.78
Total Liabilities	**12,135.17**	**11,791.11**	**15,468.36**	**29,755.92**	**41,073.37**	**2,174.36**	**12,670.38**	**125,068.67**
Liquidity Gap	11,655.88	(269.18)	(405.49)	(8,346.44)	(17,415.89)	4,054.89	10,726.23	-
Cumulative Liquidity Gap	11,655.88	11,386.70	10,981.21	2,634.77	(14,781.12)	(10,726.23)	-	-
Cumulative Liabilities	12,135.17	23,926.28	39,394.64	69,150.56	110,223.93	112,398.29	125,068.67	125,068.67
Cumulative Liquidity Gap as a percentage of Cumulative Liabilities (%)	96.05%	47.59%	27.87%	3.81%	(13.41%)	(9.54%)	0.00%	0.00%

Note: *Grouping of future Rupee cash flows in the above table is in accordance with the guidelines issued by RBI under its circular PBOD.NO.BP.BC.38/21.04.098/2007. The numbers for certain line items in the above table are different from those appearing in the same line item in the Restated Financial Information as the above table was prepared as per RBI guidelines, which require (a) perpetual bonds to be considered as Capital, (b) the table to be prepared on a gross basis without the netting of certain items, such as provisions relating to tax, prepaid taxes and advances set off, and (c) the accumulated profit for the year ended March 31, 2021 to be classified in other liabilities.*

Advances Portfolio

The table below presents our average balances for micro loans and other loans (comprising (a) retail loans, (b) MSME and corporate loans and (c) agricultural loans ("**Other Loans**")) together with the related interest earned, resulting in the presentation of the yield for each fiscal year. Average balance is calculated as the average of the opening balance at the start of the relevant year and the closing balance as at quarter end for all quarters in the relevant year. Yield is a non-GAAP measure.

(₹ in million, except percentages)

	For the year ended March 31,								
	2021			2020			2019		
	Average Balance[(1)] [A]	Interest Earned [B]	Yield (%) [C=B/A]	Average Balance [A]	Interest Earned [B]	Yield (%) [C=B/A]	Average Balance [A]	Interest Earned [B]	Yield (%) [C=B/A]
Micro loans	65,523.57	13,861.65	21.16%	52,018.86	12,025.54	23.12%	37,692.61	9,022.03	23.94%
Other Loans	7,646.54	873.41	11.42%	2,683.53	357.30	13.31%	921.82	124.05	13.46%
Total	**73,170.11**	**14,735.06**	**20.14%**	**54,702.39**	**12,382.84**	**22.64%**	**38,614.43**	**9,146.08**	**23.69%**

Notes:

*(1) Average micro loans are gross micro loans net of provisions for NPAs for micro 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 quarter end for all quarters in the relevant fiscal year ("**Average Interest-Earning Micro Loans**"). Average Other 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 quarter end for all quarters in the relevant fiscal year ("**Average Interest-Earning Other Loans**").*

The table set forth below sets forth our gross advances by product groups as at the dates indicated.

	As at March 31,					
	2021		2020		2019	
Classification of Advances	**Advances (₹ in million)**	**% of Total**	**Advances (₹ in million)**	**% of Total**	**Advances (₹ in million)**	**% of Total**
Micro loans	71,343.55	84.78%	61,389.57	92.92%	44,177.86	96.31%
Retail loans	9,607.19	11.42%	3,608.92	5.46%	1,382.59	3.01%

Classification of Advances	As at March 31,					
	2021		2020		2019	
	Advances (₹ in million)	% of Total	Advances (₹ in million)	% of Total	Advances (₹ in million)	% of Total
MSME and corporate loans	3,109.01	3.69%	1,065.43	1.61%	310.00	0.68%
Agricultural loans	90.30	0.11%	1.19	0.01%	0.18	0.00%
Total	**84,150.05**	**100.00%**	**66,065.11**	**100.00%**	**45,870.63**	**100.00%**

The table set forth below the disbursement of our advances by product groups for the fiscal years indicated.

	Year ended March 31,					
	2021		2020		2019	
	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total
Micro loans	44,463.67	70.73%	68,248.09	91.89%	52,779.79	95.57%
Retail loans	15,917.17	25.32%	4,937.60	6.65%	2,107.67	3.82%
MSME and Corporate loans	2,391.12	3.80%	1,084.70	1.46%	336.89	0.61%
Agricultural loans	91.78	0.15%	1.13	0.00%	0.18	0.00%
Total	**62,863.74**	**100.00%**	**74,271.52**	**100.00%**	**55,224.53**	**100.00%**

The table set forth below represents our cycle-wise outstanding assets under management, which is equal to gross advances plus off-balance sheet advances (i.e., securitisation/ assignment and inter-bank participation certificate) ("**Assets Under Management**"), of micro loans as at the dates indicated.

Cycle	As at March 31,					
	2021		2020		2019	
	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total
1	14,122.85	19.77%	4.65	0.01%	5.87	0.01%
2	18,707.30	26.18%	12,338.57	19.69%	13,113.08	27.12%
3	15,087.14	21.12%	19,454.09	31.05%	14,903.25	30.82%
4	9,910.20	13.87%	13,630.50	21.75%	9,526.93	19.70%
5	5,072.44	7.10%	7,342.13	11.72%	4,054.23	8.38%
>5	8,544.51	11.96%	9,892.77	15.79%	6,754.59	13.97%
Total	**71,444.44**	**100.00%**	**62,662.71**	**100.00%**	**48,357.95**	**100.00%**

The table set forth below represents the Asset Under Management of micro loans break up in terms of collection cycle as at the dates indicated.

	As at March 31,					
	2021		2020		2019	
	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total
Weekly	49,297.09	69.00%	45,297.62	72.29%	35,187.94	72.77%
Fortnightly	9,981.09	13.97%	7,024.84	11.21%	5,792.32	11.98%
Monthly	12,166.26	17.03%	10,340.25	16.50%	7,377.68	15.25%
Total	**71,444.44**	**100.00%**	**62,662.71**	**100.00%**	**48,357.94**	**100.00%**

The following table presents our sector-wise outstanding gross advances and the proportion of these advances to our outstanding domestic advances as at the dates indicated.

	As at March 31,					
	2021		2020		2019	
	Gross Advances (₹ in million)	% of Total Gross Advances	Gross Advances (₹ in million)	% of Total Gross Advances	Gross Advances (₹ in million)	% of Total Gross Advances
Agricultural and Allied Activities	37,485.27	44.54%	33,528.24	50.75%	25,906.58	56.48%
Advances to Industry Sector	9,474.44	11.26%	11,210.46	16.97%	5,775.19	12.59%
Advances to Services Sector	14,657.95	17.42%	11,607.53	17.57%	7,762.51	16.92%
Personal Loan and Others	22,532.39	26.78%	9,718.88	14.71%	6,426.35	14.01%
Total Gross Advances	**84,150.05**	**100.00%**	**66,065.11**	**100.00%**	**45,870.63**	**100.00%**

Note: *The above categorization is based on the sectoral classification as reported under RBI DSB Risk Based Supervision Returns. The above figures reported are the same as reported under RBI DSB Risk Based Supervision Returns.*

Maturity and Interest Rate Sensitivity of Advances

The following table sets forth, for the fiscal years indicated, the interest rate sensitivity of our variable rates and fixed rates advances as at March 31, 2021.

(*₹ in million*)

Interest rate classification of advances by maturity	Due in One Year or less	Due in One Year to Five Years	Due after Five Years	Total
Variable rates	7,196.98	3,210.60	562.86	10,970.44
Fixed rates	46,792.85	23,491.63	420.94	70,705.42
Total	**53,989.83**	**26,702.23**	**983.80**	**81,675.86**

Regional Concentration of Gross Advances

The following table presents an analysis of our domestic gross advances by region as at the dates indicated.

(*₹ in million, except percentages*)

Geographical Distribution	State / Union Territory	As at March 31,					
		2021		2020		2019	
		Amount	% of Total	Amount	% of Total	Amount	% of Total
Eastern	Assam	428.91	0.51	78.70	0.12	109.91	0.24
	Bihar	1,028.66	1.22	709.04	1.07	427.33	0.93
	Jharkhand	1,596.49	1.90	1,403.82	2.12	599.02	1.31
	Odisha	162.76	0.19	36.29	0.05	7.69	0.02
	West Bengal	391.65	0.47	266.77	0.40	170.94	0.37
	Meghalaya	-	-	-	-	-	-
	Subtotal	**3,608.47**	**4.29**	**2,494.62**	**3.78**	**1,314.89**	**2.87**
Western	Gujarat	257.55	0.31	-	-	-	-
	Maharashtra	4,341.78	5.16	3,246.37	4.91	2,271.00	4.95
	Subtotal	**4,599.33**	**5.47**	**3,246.37**	**4.91**	**2,271.00**	**4.95**
Northern	Chhattisgarh	2,971.85	3.53	1,783.49	2.70	1,219.16	2.66
	Delhi	576.13	0.68	10.00	0.02	1.73	0.00
	Madhya Pradesh	4,413.75	5.25	2,739.71	4.15	2,262.70	4.93
	Haryana	-	-	-	-	-	-
	Chandigarh	50.00	0.06	-	-	-	-
	Uttar Pradesh	402.15	0.48	-	-	-	-
	Rajasthan	136.11	0.16	29.81	0.05	-	-
	Subtotal	**8,549.99**	**10.16**	**4,563.01**	**6.91**	**3,483.59**	**7.59**
Southern	Andhra Pradesh	11.57	0.01	6.41	0.01	4.95	0.01
	Telangana	109.59	0.13	-	-	-	-
	Karnataka	3,000.36	3.57	2,028.73	3.07	1,287.95	2.81
	Kerala	47,102.12	55.97	37,845.34	57.28	24,068.82	52.47
	Puducherry	474.47	0.56	403.75	0.61	323.13	0.70
	Tamil Nadu	16,694.15	19.84	15,476.88	23.43	13,116.30	28.59
	Subtotal	**67,392.26**	**80.09**	**55,761.11**	**84.40**	**38,801.15**	**84.59**
Total gross advances		**84,150.05**	**100.00**	**66,065.11**	**100.00**	**45,870.63**	**100.00**

Concentration of Advances and Credit Substitutes by Industry/ Economic Activity

Pursuant to RBI guidelines, exposure ceilings are 15.00% of capital funds in the case of a single borrower and 40.00% in the case of a borrower group. The single borrower exposure limit is extendable by another 5.00%, up to 20.00% of capital funds. The borrower group exposure limit is extendable by another 10.00%, up to 50.00% of capital funds, provided that the additional exposure is for the purpose of financing infrastructure projects. In addition, a bank may, in exceptional circumstances and with the approval of its board of directors, consider increasing its exposure to a single borrower up to a maximum of an additional 5.00% of capital funds, subject to the borrower consenting to us making appropriate disclosure about the borrower in our annual report. There are generally no restrictions in India on exposure to a particular industry. RBI norms specify exposure to capital market, real estate, sensitive commodities listed by the RBI, venture capital funds, stockbrokers, financing for acquisition of overseas entities, and credit to overseas joint ventures. For further information, see "*Key Regulations and Policies*" on page 169.

The following table sets forth, at the dates indicated, our gross fund-loans outstanding categorized by borrower industry or economic activity.

(*₹ in million, except percentages*)

Subsector	As at March 31, 2021		As at March 31, 2020		As at March 31, 2019	
	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total
Agriculture-Land Development	114.35	0.14	146.21	0.22	328.3	0.72
Agri-Farm Mechanisation	168.55	0.20	220.66	0.33	461.66	1.01
Animal Husbandry	23,246.85	27.62	26,068.64	39.46	12,192.13	26.58

Subsector	As at March 31, 2021		As at March 31, 2020		As at March 31, 2019	
	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total	Amount (₹ in million)	% of Total
Crop Loans	2,491.15	2.96	3,057.00	4.63	10,108.04	22.04
Fisheries	1,814.64	2.16	2,263.07	3.43	1,279.94	2.79
Others	8,061.09	9.58	248.98	0.38	758.99	1.65
Poultry	1,588.62	1.89	1,523.67	2.31	774.33	1.69
Consumer Durables	897.72	1.06	1,476.58	2.24	1,384.97	3.02
Education	1,232.82	1.47	968.15	1.47	234.92	0.51
Housing	1,177.44	1.40	672.85	1.02	295.76	0.64
Micro Food Processing	9,474.43	11.26	11,210.46	16.97	5,775.19	12.59
Service	7,747.84	9.20	7,325.93	11.09	4,591.75	10.01
Trade	6,910.11	8.21	4,281.60	6.48	3,171.25	6.91
Personal and Others	19,224.44	22.85	6,601.30	9.99	4,513.40	9.84
Total	**84,150.05**	**100.00**	**66,065.11**	**100.00**	**45,870.63**	**100.00**

Priority Sector Lending

Small finance banks in India are required to lend, through advances or investment, 75.00% of their adjusted net bank credit ("**ANBC**") or credit equivalent amount of off-balance sheet exposures, whichever is higher, to specified sectors known as "priority sectors", subject to certain exemptions permitted by RBI from time to time. Priority sector advances include advances to agriculture sector, micro and small enterprises, weaker sections, housing and education finance up to certain ceilings.

We are required to comply with the priority sector lending requirements on a quarterly basis. Any shortfall in the amount required to be lent to the priority sectors is required to be deposited with the Rural Infrastructure Development Fund established by NABARD or funds with other financial institutions as specified by the RBI, which generally provide for lower than market interest rate. Therefore, if we are unable to meet the priority sector conditions requirements, it could have an adverse effect on our results of operations.

The tables below set out our outstanding Priority Sector advances (as defined by the Government and the RBI) by sector and as a percentage of our ANBC as at the dates indicated.

	As at March 31,					
	2021		2020		2019	
	Advances (₹ in million)	% of ANBC[(1)]	Advances (₹ in million)	% of ANBC[(1)]	Advances (₹ in million)	% of ANBC[(1)]
Agricultural and Allied Activities	37,485.27	56.74%	33,528.24	73.35%	23,906.58	87.80%
Advances to Industry Sector	4,474.44	6.77%	6,210.46	13.59%	5,775.19	21.21%
Advances to Services Sector	4,657.95	7.05%	11,607.53	25.39%	7,762.51	28.51%
Personal Loans and others	6,659.72	10.08%	5,727.51	12.53%	4,995.98	18.35%
Gross advances to the priority sector	**53,277.38**	**80.64%**	**57,073.74**	**124.86%**	**42,440.26**	**155.87%**

Note:

1. *ANBC represents gross advances less bills re-discounted and other permissible reductions as per RBI guidelines, and increased by bonds/debentures in investments eligible by priority sectors.*

Capital to Risk-Weighted Assets Ratios

We are subject to the Basel II Capital Adequacy guidelines - New Capital Adequacy Framework stipulated by the RBI. Our Capital Adequacy Ratio is calculated as per the Standardized approach for Credit Risk. As per the RBI circular "DBR.NBD.No. 4502/16.13.218/2017-18" dated November 8, 2017, no separate capital charge is prescribed for market and operational risk. We hae also considered an additional Risk Weight of 25% on assets under lien for our "grandfathered" legacy borrowings as per instructions received from the RBI. No Capital Conservation Buffer and Counter - Cyclical Capital Buffer is applicable on a small finance bank as per operating guidelines issued on small finance bank by the RBI. The following table sets forth our capital to risk-weighted assets ratios as at the dates indicated.

(₹ in million, except percentages)

	As at March 31,		
	2021	2020	2019
Tier I Capital [A]	13,889.07	11,225.01	9,393.97
Of which:			
Perpetual Debt Instruments	*480.00*	*480.00*	*480.00*
Tier II Capital [B]	1,737.39	1,627.17	1,730.48
Of which:			
Subordinated Debt	*890.00*	*1,270.00*	*1,510.00*

	As at March 31,		
	2021	2020	2019
Total Capital [C= A+B]	15,626.46	12,852.18	11,124.45
Total risk weighted assets	64,489.02	53,481.91	40,331.45
Tier I Capital (%)	21.54	20.99	23.30
Tier II Capital (%)	2.69	3.04	4.29
Total Capital Adequacy Ratio (%)	**24.23**	**24.03**	**27.59**

Non-Performing Advances

As at March 31, 2021, our gross NPAs as a percentage of gross advances were 6.70% and net NPAs as a percentage of net advances were 3.88%. As at March 31, 2021, we had in effect a provision coverage ratio of 52.77% of our gross NPAs.

The following table sets forth information about our NPA portfolio as at and for the fiscal years indicated.

(₹ in million, except percentages)

	As at and for the year ended March 31,		
	2021	2020	2019
Opening balance of Gross NPAs at the beginning of the year	1,008.61	740.14	1,210.47
Additions during the year	4,734.65	801.06	760.80
Less: Reductions during the year on account of recovery	23.84	49.03	30.44
Less: Reductions during the year on account of upgradations	79.45	190.89	306.99
Less: Reductions during the year on account of write-offs (including technical write-offs)	-	292.67	893.70
Gross NPAs [A]	5,639.97	1,008.61	740.14
Total provision towards NPAs [B]	2,474.19	586.91	388.09
Net NPAs [C= A- B]	3,165.78	421.70	352.05
Gross Advances [D]	84,150.05	66,065.11	45,870.63
Net Advances [E = D-B]	81,675.86	65,478.22	45,482.54
Gross NPAs as a percentage of gross advances [F = A/D] (%)	6.70	1.53	1.61
Net NPAs as a percentage of net advances [G = C/E] (%)	3.88	0.64	0.77
Provision for standard assets (1) [H]	1,241.42	315.90	215.14
Total of provision towards NPAs and provision towards standard assets (1) [I = B + H]	3,715.61	902.81	603.23
Total of provision towards NPAs and provision towards standard assets (1) held as percentage of gross advances (%) [J=I/D]*	4.41	1.37	1.32
Total provision towards NPAs held as percentage of gross NPAs (%) [K=B/A]*	43.87	58.19	52.43
Outstanding balance of technical written-off accounts [L]	1,063.33	1,091.97	893.70
Provision coverage ratio [M = (B+L)/(A+L)/(%)(2)	52.77	79.93	78.45

Notes:

1. *The COVID-19 pandemic has adversely affected the world economy, including India. The extent to which the COVID-19 pandemic including the current second wave witnessed in India, will continue to adversely affect our operations and asset quality will depend on the future developments, which are uncertain. Considering the prevailing uncertainty over the business due to COVID-19 pandemic (including the second wave), we held provisions of ₹ 404.00 million and ₹ 44.08 million as at March 31, 2021 and 2020, respectively, against the potential effect of COVID-19 as additional contingency provision on standard assets (other than provisions held for restructuring under COVID-19 norms). The provisions we hold are in excess of the RBI prescribed norms.*

2. *Provision coverage ratio is computed as a percentage of total provisions towards NPAs as at the fiscal year end plus outstanding balance of technical written off accounts as at the fiscal year end divided by the sum of gross NPAs plus outstanding balance of technical written off accounts as at the fiscal year end.*

** Non-GAAP measure.*

Recognition of Non-Performing Advances

We classify our advances in accordance with the RBI guidelines. Under these guidelines, an advance is classified as non-performing if any amount of interest or principal remains overdue for more than 90 days with respect to term loans. In respect of overdraft and cash credit, an advance is classified as non-performing if the account remains out of order for a continuous period of 90 days, and in respect of bills purchased and discounted if the account remains overdue for more than 90 days.

<u>Substandard Advances</u>

In accordance with RBI guidelines, a substandard advance is an advance that has remained non-performing for a period less than or equal to 12 months.

Doubtful Advances

In accordance with RBI guidelines, a doubtful advance is an advance that has remained in the sub-standard category for a period of 12 months. Further, these doubtful advances are to be classified into the following three categories, depending on the period for which such advances have been classified as doubtful:

- Advances which have remained in the doubtful category for a period of up to one year;
- Advances which have remained in the doubtful category for a period of more than one year but less than three years; and
- Advances which have remained in the doubtful category for a period of more than three years.

Loss Advances

In accordance with the RBI guidelines, a loss advance is an advance where loss has been identified by us or internal or external auditors or the RBI at the time of inspection but the amount has not been written off / provided for wholly.

In cases of serious credit impairment, an advance is required to be immediately classified as doubtful or as a loss advance, as appropriate. Further, erosion in the value of the security provided may also be considered significant when the realisable value of the security is less than 50.00% of the value as assessed by us or as accepted by the RBI at the time of the last inspection of the security, as the case may be. In such a case, the advance secured by such impaired security may immediately be classified as doubtful and provisioning should be made as applicable to doubtful advance. If the realisable value of the security, as assessed by us or approved valuers or by the RBI, is less than 10.00% of the outstanding in the borrower's accounts, the existence of security should be ignored and the advance should be immediately classified as a loss asset and it may be either written off or fully provided for by us.

The table below sets forth our non-performing advances by category as well as our standard advances as at the dates specified:

(*₹ in million*)

Advances	As at March 31,		
	2021	**2020**	**2019**
Sub-standard advances	4,733.05	787.30	571.87
Doubtful advances	906.92	221.31	168.25
Loss advances	-	-	-
Gross NPAs	***5,639.97***	***1,008.61***	***740.14***
Standard advances	78,510.08	65,056.50	45,130.49
Gross Advances	**84,150.05**	**66,065.11**	**45,870.63**

Non-accrual Policy

Once a loan account is identified as non-performing, interest and other fees charged in the account, if uncollected, are reversed. In accordance with RBI guidelines, interest realised on NPAs may be credited to a bank's income account provided that such credited interest is not out of fresh or additional credit facilities sanctioned to the borrower. The RBI has also stipulated that in the absence of a clear agreement between us and the borrower for the purpose of appropriating recoveries in NPAs (i.e., towards principal or interest due), banks should adopt an accounting principle and exercise the right of appropriation of recoveries in a uniform and consistent manner.

In the case of NPAs where recoveries are effected, our policy is to appropriate the same against the demand of the customers. If any of a borrower's advances are classified as an NPA, all advances to such borrower are classified as NPAs. For more information on the recognition and provisioning of NPAs, see the section "*Management's Discussion and Analysis of Financial Condition and Results of Operations –Critical Accounting Policies – Advances*" on page 306.

Policy for Making Provisions for Non-Performing Advances

Our policy for making provisions for non-performing advances, which is in accordance with the RBI's policy on provisioning, described below:

Provisions for Standard Advances

In accordance with RBI guidelines, a general provision is made on all standard advances based on the category of advances identified in the RBI's guidelines.

Changes Implemented Pursuant to the RBI's COVID-19 Relief Package

COVID-19 virus, a global pandemic, has adversely affected the world economy, including India's economy. The extent to which the COVID-19 pandemic, including the current second wave witnessed in India, will continue to adversely affect our operations and asset quality will depend on the future developments, which are uncertain.

The RBI on March 27, 2020, April 17, 2020 and May 23, 2020, announced the 'COVID-19 Regulatory Package' on asset classification and provisioning. In terms of these RBI guidelines, the lending institutions were permitted to grant an effective moratorium of six months on payment of all instalments/interest as applicable, falling due between March 1, 2020 and August 31, 2020 (the "**Moratorium Period**"). As such, in respect of all accounts classified as standard as on February 29, 2020, even if overdue, the Moratorium Period, wherever granted, was excluded by the lending institutions from the number of days past-due for the purpose of asset classification under RBI's Income Recognition and Asset Classification norms.

Considering the prevailing uncertainty over the business due to COVID-19 pandemic (including the second wave), we held provisions of ₹ 404.00 million and ₹ 44.08 million as at March 31, 2021 and 2020, respectively, against the potential impact of COVID-19 as additional contingency provision on standard assets (other than provisions held for restructuring under COVID-19 norms). The provisions we hold are in excess of the RBI's prescribed norms.

The Honourable Supreme Court in *Gajendra Sharma v. Union of India & Anr* vide its Interim order dated September 3, 2020 directed banks that the accounts that were not declared NPAs till August 31, 2020 shall not be declared NPAs till further orders. On March 23, 2021, in *Small Scale Industrial Manufactures Association v. Union of India and others*, the Supreme Court directed that the interim order granted on September 3, 2020 to not declare the accounts of borrowers as NPAs stands vacated. As per the RBI's notification dated April 7, 2021, for the period commencing September 1, 2020, asset classification for all such accounts shall be as per the applicable RBI asset classification norms.

Substandard Advances

The general provisioning requirement for substandard advances is 15.00% of the amount outstanding without making any allowance for ECGC guarantee cover and securities available and in respect of "unsecured exposures" identified as "substandard", an additional provision of 10.00% of the amount outstanding (i.e., a total of 25.00% in the outstanding balance).

As at March 31, 2021, 85.50% of our advances (net of provisions) were unsecured. As per our Board approved policy, unsecured loans that are classified as 'substandard' and 'doubtful' attract a total of 25.00% and 100.00% provisioning on the day of slippages, respectively.

Accordingly, the provisioning on the substandard category, as approved by the Board, is as follows:

Period for which the advance has remained in 'Substandard' category	Provision requirement (%) (secured loan)	Provision requirement (%) (unsecured loan)
On classification	15.00	25.00
After the end of Quarter 1	15.00	40.00
After the end of Quarter 2	15.00	60.00
After the end of Quarter 3	15.00	80.00

Doubtful Advances

The following provisions are made for doubtful advances.

- Doubtful "up to one year" – 100.00% of the unsecured portion and 25.00% of the secured portion;
- Doubtful "one to three years" – 100.00% of the unsecured portion and 40.00% of the secured portion; and
- Doubtful "more than three years" – 100.00% of the unsecured portion and, 100.00% of the secured portion.

Loss Advances

Loss advances are provided for 100.00% or written off.

The above-mentioned provisions are the minimum provisions that have to be provided for non-performing advances in accordance with the RBI's policy. We provide for more than the stipulated rates if we feel that the credit deterioration of the customer requires us to do so.

Floating Provisions

We do not carry any floating provisions in our books.

Analysis of Non-Performing Advances by Industry Sector

The table below sets forth our non-performing advances by the borrower's industry or economic activity as at the dates indicated.

(₹ in million, except percentages)

Sector	As at March 31,								
	2021			2020			2019		
	Gross NPA	Provision	% of NPA in Industry	Gross NPA	Provision	% of NPA in Industry	Gross NPA	Provision	% of NPA in Industry
Agriculture-Land Development	20.59	13.99	0.37%	11.22	8.16	1.11%	-	-	-
Agri-Farm Mechanization	30.45	20.93	0.54%	16.43	11.31	1.63%	-	-	-
Animal Husbandry	1,647.89	665.85	29.22%	208.24	102.85	20.65%	60.43	34.24	8.16%
Crop Loans	355.26	261.51	6.30%	236.31	171.82	23.43%	318.66	139.13	43.05%
Fisheries	217.38	76.53	3.85%	12.52	7.05	1.24%	3.69	1.60	0.50%
Other Agricultural Loan	157.85	53.01	2.80%	7.64	4.78	0.76%	14.05	6.66	1.90%
Poultry	115.89	49.02	2.05%	17.22	8.99	1.71%	4.79	2.22	0.65%
Consumer Durables	87.56	37.30	1.55%	12.59	6.24	1.25%	14.33	7.36	1.94%
Education	121.06	42.48	2.15%	3.74	2.08	0.37%	3.99	2.09	0.54%
Housing	55.89	26.93	0.99%	23.35	15.22	2.32%	6.91	2.93	0.93%
Micro Manufacturing	1,051.38	454.91	18.64%	165.94	79.01	16.45%	36.30	18.96	4.90%
Services	737.73	308.88	13.08%	99.18	51.49	9.83%	37.56	19.19	5.08%
Trade	481.50	218.29	8.54%	92.02	48.65	9.12%	39.59	21.53	5.35%
Other	185.21	82.23	3.28%	46.96	32.70	4.66%	6.00	3.58	0.81%
Personal	374.33	162.32	6.64%	55.25	36.56	5.47%	193.83	128.60	26.19%
Total	**5,639.97**	**2,474.19**	**100.00%**	**1,008.61**	**586.91**	**100.00%**	**740.14**	**388.09**	**100.00%**

Analysis of our NPA Portfolio

The table below sets forth our non-performing advances by category of advance as at the dates indicated.

(₹ in million, except percentages)

	As at March 31,					
	2021		2020		2019	
	Gross NPAs	% of Total	Gross NPAs	% of Total	Gross NPAs	% of Total
Micro loans	5,329.90	94.50%	934.26	92.63%	660.84	89.29%
Retail loans	270.69	4.80%	74.35	7.37%	79.30	10.71%
MSME and Corporate loans	39.38	0.70%	-	-	-	-
Agricultural loans	-	-	-	-	-	-
Total	**5,639.97**	**100.00%**	**1,008.61**	**100.00%**	**740.14**	**100.00%**

Movement in our Provisions for NPAs

The table below sets forth movement in our provision for NPAs.

(₹ in million)

	As at March 31,		
	2021	2020	2019
Opening balance at the beginning of the year	586.91	388.09	362.49
Additions during the year	1,944.55	618.94	1,011.91
Deductions during the year	57.27	420.12	986.31
Provisions at the close of the year	**2,474.19**	**586.91**	**388.09**

Upgradations of Loan Accounts Classified as NPAs

If arrears of interest and principal are paid by the borrower in the case of loan account classified as NPAs, the account will no longer be treated as non-performing and be classified as a 'standard' account.

Restructuring of Advances

All of our loans where the repayment terms of existing advances have been revised in order to extend the repayment period and/or decrease the instalment amount and/or decrease the interest rate as per the borrower's request are marked as rescheduled loans.

We consider a restructured account, if any, as one where we, for economic or legal reasons relating to the borrower's financial difficulty, grant to the borrower concessions that we would not otherwise consider. Restructuring would normally involve modification of terms of the advance/securities, which would generally include, among others, alteration of repayment period/

repayable amount/ the amount of instalments/ rate of interest (due to reasons other than competitive reasons). However, extension in repayment tenure of a floating rate loan on reset of interest rate, so as to keep the equated monthly instalment ("**EMI**") unchanged, provided it is applied to a class of accounts uniformly, will not render the account to be classified as a 'restructured account'. In other words, extension or deferment of EMIs to individual borrowers as against to an entire class, would render the accounts to be classified as 'restructured accounts' except as permitted by the RBI.

Restructured accounts are classified as such by us only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of the asset is made. Restructuring of an account, if any, is done at a borrower level. This will result in immediate down-gradation of the loan, i.e., a standard loan will become sub-standard and attract provisions as per the asset classification and subsequent provisioning norms. The NPAs, upon restructuring, would continue to have the same asset classification as prior to restructuring and slip into further lower asset classification categories as per extant asset classification norms with reference to the pre-restructuring repayment schedule. If such account classified as NPA performs regularly, it will be upgraded after satisfactory performance during the 'specified period'. Specified Period means a period of one year from the commencement of the first payment of interest or principal, whichever is later, on the credit facility with longest period of moratorium under the terms of restructuring package.

The erosion in the fair value of the advance is computed as the difference between the fair value of the loan before and after restructuring. Fair value of the loan before restructuring is computed as the present value of cash flows representing the interest at the existing rate charged on the advance before restructuring and the principal, discounted at the existing interest rate as on the date of restructuring. Fair value of the loan after restructuring is computed as the present value of cash flows representing the interest at the rate charged on the advance on restructuring and the principal, discounted at the existing interest rate on the date of restructuring. If due to lack of expertise/ appropriate infrastructure, a bank finds it difficult to ensure computation of diminution in the fair value of advances, as an alternative to the methodology prescribed above for computing the amount of diminution in the fair value, banks will have the option of notionally computing the amount of diminution in the fair value and providing therefore, at 5.00% of the total exposure, in respect of all restructured accounts where the total dues to bank(s) are less than ₹ 10.00 million.

Additional finance approved under the resolution plan is treated as a 'standard asset' during the specified period, provided the account performs satisfactorily during the specified period. If the restructured asset fails to perform satisfactorily during the specified period or does not qualify for upgradation at the end of the specified period, the additional finance shall be placed in the same asset classification category as the restructured debt.

On August 6, 2020, the RBI issued a circular that permits lenders to implement a resolution plan, along with asset classification benefits, for eligible corporate and individual borrower segments. Lenders h-ave to ensure that the resolution facility is provided only to borrowers impacted by COVID-19. The resolution facility is applicable for accounts classified as standard and not in default for more than 30 days as at March 1, 2020. The resolution plan has to be finalized by December 31, 2020, and implemented within 180 days from the date of invocation. Restructuring of loans has also been allowed for micro, small and medium enterprises for accounts classified as standard as at March 1, 2020. The RBI has, vide their circular dated September 7, 2020, issued certain financial parameters to be mandatorily considered by lenders while finalizing the resolution plan in respect of eligible borrowers. As at March 31, 2021, out of a total of ₹ 84,150.05 million of our gross advances, ₹ 171.22 million, or 0.20%, was subject to a resolution plan.

Productivity Ratios

The following table sets forth certain information relating to our productivity ratios:

Particulars	As at and for the year ended March 31,		
	2021	2020	2019
Branches and Ultra-Small Branches(1) combined	550	454	423
ATMs	320	222	126
Total number of employees	3,803	3,337	2,168
Assets Under Management per employee (₹ in million)	22.16	20.43	23.34
Assets Under Management per Branch and Ultra-Small Branch(1) (combined) (₹ in million)	153.20	150.17	119.63
Gross advances per employee	22.13	19.80	21.16
Total disbursements	62,863.74	74,271.52	54,305.09
Disbursements per Branch and Ultra-Small Branch(1) (combined) (₹ in million)	114.30	163.59	128.38
Disbursements per employee (₹ in million)	16.53	22.26	25.05
Deposits per employee (₹ in million)	23.66	21.06	19.91
Deposits per Branch and Ultra-Small Branch(1) (combined) (₹ in million)	163.63	154.81	102.06
Lending accounts (in million)	3.12	2.83	2.78
Deposit accounts (in million)	4.72	4.19	3.25

Note:

1. Ultra-Small Branches were the erstwhile micro loan branches from when our business was owned by our Corporate Promoter. They catered primarily to our micro loan customers. As per the RBI's guidelines, all our Ultra-Small Branches were converted to Branches or merged with a Branch before March 10, 2020.

Certain Non-GAAP Measures

The body of generally accepted accounting principles is commonly referred to as "GAAP." Our management believes that the presentation of certain non-GAAP measures provides additional useful information to investors regarding our performance and trends related to our results of operations. Accordingly, we believe that when non-GAAP financial information is viewed together with GAAP financial information, investors are provided with a more meaningful understanding of our ongoing operating performance and financial results.

We use a variety of financial and operational performance indicators to measure and analyse our operational performance from period to period, and to manage its business. Our management also uses other information that may not be entirely financial in nature, including statistical and other comparative information commonly used within the Indian banking industry to evaluate our financial and operating performance. For these reasons, we have included certain non-GAAP measures in this section and elsewhere in this Draft Red Herring Prospectus, including, among others: Cost to Income Ratio; Net Interest Income; Net Interest Margin; Yield on Average Interest-Earning Advances; Yield on Average Interest-Earning Investments; Yield on Average Interest-Earning Balance with Reserve Bank of India and other Inter-Bank Funds, Yield on Average Total Interest-Earning Assets; net worth; net asset value per Equity Share; return on net worth; operating expenses to Net Interest Income; operating profit; return on equity; return on assets; Average Total Interest-Earning Assets as a percentage of Average Total Interest-Bearing Liabilities; Average Interest-Earning Advances as a percentage of Average Total Assets; Average Total Interest-Earning Assets as a percentage of Average Total Assets; Average Total Interest-Bearing Liabilities as a percentage of Average Total Assets; Cost of Funds; spread; operating income; Average Shareholders' Funds as a percentage of Average Total Assets; operating expenses to Average Total Assets; provisions to Average Interest-Earning Advances; CASA to total deposits ratio; total deposits to credit ratio; total of provision towards NPAs and provision towards standard assets held as percentage of gross advances; total provision towards NPAs held as a percentage of gross NPAs; provision made towards income tax as percentage of Net Profit Before Tax; earnings before interest, tax, depreciation and amortisation (EBITDA); cost of average refinance borrowings; Cost of Average Borrowings; Cost of Average Total Interest-Bearing Liabilities; Cost of Average Savings Bank Deposits; Cost of Average Term Deposits; Cost of Average Total Deposits; Average CASA to Average Total Deposits; and Cost of Average CASA, other expenditure to Net Interest Income, business correspondent expenses to Net Interest Income, payment to and provision for employees to Net Interest Income, rent, taxes and Lighting to Net Interest Income, depreciation on Bank's property to Net Interest Income and provision towards NPA/Write offs to Average Advances, as well as certain other metrics based on or derived from those non-GAAP measures. These financial and operational performance indicators have limitations as analytical tools. These non-GAAP measures are not calculated in accordance with Indian GAAP and, therefore, should not be viewed as substitutes for performance or profitability measures under Indian GAAP. As a result, these financial and operational performance indicators should not be considered in isolation from, or as a substitute for, analysis of our historical financial performance, as reported under Indian GAAP and presented in our Restated Financial Information. Our use of these terms may vary from the use of similarly titled measures by other banks due to potential inconsistences in the method of calculation and differences due to items subject to interpretation and, as such, they may not be comparable to similar financial or performance indicators used by other banks or financial institutions.

Sets forth below are the non-GAAP measures presented in this section that are able to be reconciled to a directly comparable GAAP measure that have not already been reconciled to a directly comparable GAAP measure in the tables above.

CASA to Total Deposits Ratio

(₹ in million, except percentages)

Particulars	As at March 31,		
	2021	**2020**	**2019**
Demand Deposits From Banks [A]	66.73	26.20	28.74
Demand Deposits From Others [B]	1,465.11	552.23	311.00
Savings Bank Deposits [C]	15,944.61	9,024.42	5,510.50
CASA [D] = [A+B+C]	17,476.45	9,602.85	5,850.24
Total Deposits [E]	89,994.26	70,283.82	43,170.08
CASA to Total Deposits Ratio [F=D/E]	**19.42%**	**13.66%**	**13.55%**

Total Deposit to Credit Ratio

(₹ in million, except percentages)

Particulars	As at March 31,		
	2021	**2020**	**2019**
Total Deposits [A]	89,994.26	70,283.82	43,170.08
Gross Advances [B]	84,150.05	66,065.11	45,870.63
Total Deposit to Credit Ratio [C=A/B]	**106.94%**	**106.39%**	**94.11%**

Cost of Average Refinance Borrowings

(₹ in million, except percentages)

Particulars	As at and for the year ended March 31,		
	2021	2020	2019
Average Refinance Borrowings [A]	10,418.00	11,160.24	13,728.77
Interest expended on Refinance Borrowings [B]	763.18	1,026.83	1,310.29
Cost of Average Refinance Borrowings [C=B/A]	**7.33%**	**9.20%**	**9.54%**

Average CASA to Average Total Deposits

(₹ in million, except percentages)

Particulars	For the year ended March 31,		
	2021	2020	2019
Average CASA [A]	12,835.07	7,463.33	3,756.15
Average Total Deposits [B]	80,911.38	58,303.97	32,196.81
Average CASA to Average Total Deposits [C=A/B]	**15.86%**	**12.80%**	**11.67%**

Provision made towards income tax as percentage of Net Profit Before Tax

(₹ in million, except percentages)

Particulars	For the year ended March 31,		
	2021	2020	2019
Current Tax expense [A]	602.48	713.50	328.97
Deferred Tax [B]	(242.71)	(54.84)	40.00
Provision made towards income tax [C=A+B]	359.77	658.66	368.97
Net Profit [D]	1,053.96	1,903.90	902.84
Net Profit before tax [E=C+D]	1,413.73	2,562.56	1,271.81
Provision made towards income tax as percentage of Net Profit Before Tax [F=C/E]	**25.45%**	**25.70%**	**29.01%**

Net Interest Income

See *"-Yields, Spread, Cost of Funds and Net Interest Margin"* on page 223 for a table showing a reconciliation of Net Interest Income.

Other expenditure to Net Interest Income

(₹ in million, except percentages)

Particulars	For the year ended March 31,		
	2021	2020	2019
Other expenditure [A]	3,415.82	3,735.12	3,088.30
Net Interest Income [B]	9,215.91	7,921.88	5,733.57
Other expenditure to Net Interest Income [C=A/B]	**37.06%**	**47.15%**	**53.86%**

Business Correspondent expenses to Net Interest Income

(₹ in million, except percentages)

Particulars	For the year ended March 31,		
	2021	2020	2019
Business correspondent expenses [A]	2,328.08	2,777.82	2,382.30
Net Interest Income [B]	9,215.91	7,921.88	5,733.57
Business Correspondent expenses to Net Interest Income [C=A/B]	**25.26%**	**35.07%**	**41.55%**

Payment to and provision for employees to Net Interest Income

(₹ in million, except percentages)

Particulars	For the year ended March 31,		
	2021	2020	2019
Payment to and provision for employees [A]	1,877.84	1,440.65	771.04
Net Interest Income [B]	9,215.91	7,921.88	5,733.57
Payment to and provision for employees to Net Interest Income [C=A/B]	**20.38%**	**18.19%**	**13.45%**

Rent, taxes and Lighting to Net Interest Income

(₹ in million, except percentages)

Particulars	For the year ended March 31,		
	2021	2020	2019
Rent, taxes and lighting [A]	420.39	339.13	267.83
Net Interest Income [B]	9,215.91	7,921.88	5,733.57
Rent, taxes and Lighting to Net Interest Income [C=A/B]	**4.56%**	**4.28%**	**4.67%**

Depreciation on Bank's property to Net Interest Income

(₹ in million, except percentages)

Particulars	For the year ended March 31,		
	2021	2020	2019
Depreciation on Bank's property [A]	285.73	231.67	169.06
Net Interest Income [B]	9,215.91	7,921.88	5,733.57
Depreciation on Bank's property to Net Interest Income [C=A/B]	**3.10%**	**2.92%**	**2.95%**

Provision towards NPA/Write offs to Average Advances

(₹ in million, except percentages)

Particulars	As at March 31,		
	2021	2020	2019
Provision towards NPA/Write offs [A]	2,474.19	586.91	388.09
Average Advances [B]	73,170.11	54,702.39	38,614.43
Provision towards NPA/Write offs to Average Advances [C=A/B]	**3.38%**	**1.07%**	**1.01%**

SECTION V: FINANCIAL INFORMATION

FINANCIAL STATEMENTS

In accordance with the SEBI ICDR Regulations, the audited financial statements of our Bank as at and for the Financial Years ended March 31, 2021, March 31, 2020 and March 31, 2019 prepared by our Bank in accordance with the provisions of Section 29 of the Banking Regulation Act 1949, accounting principles generally accepted in India including the Companies (Accounting Standard) Rules 2006 (as amended) specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies (Accounts) Rules, 2014 in so far as they apply to our Bank and circulars, guidelines and directions issued by Reserve Bank of India from time to time (collectively, the "**Audited Financial Statements**") are available on our website at https://www.esafbank.com/report/esaf-small-finance-bank-annual-reports/.

Our Bank is providing a link to this website solely to comply with the requirements specified in the SEBI ICDR Regulations. The Audited Financial Statements and the reports thereon do not constitute, (i) a part of this Draft Red Herring Prospectus; or (ii) a prospectus, a statement in lieu of a prospectus, an offering circular, an offering memorandum, an advertisement, an offer or a solicitation of any offer or an offer document to purchase or sell any securities under the Companies Act, the SEBI ICDR Regulations, or any other applicable law in India or elsewhere. The Audited Financial Statements and the reports thereon should not be considered as part of information that any investor should consider subscribing for or purchase any securities of our Bank and should not be relied upon or used as a basis for any investment decision. None of our Bank or any of its advisors, nor the BRLMs, nor any of their respective employees, directors, affiliates, agents or representatives accept any liability whatsoever for any loss, direct or indirect, arising from any information presented or contained in the Audited Financial Statements and the reports thereon, or the opinions expressed therein.

The following pages set forth the Auditor's Examination Report on the Restated Financial Information and the Restated Financial Information.

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INDEPENDENT AUDITOR'S EXAMINATION REPORT ON RESTATED FINANCIAL INFORMATION

The Board of Directors
ESAF Small Finance Bank Limited

Dear Sirs,

1. We have examined (as appropriate, refer paragraph 5 below) the attached Restated Financial Information of ESAF Small Finance Bank Limited (the "Bank" or the "Issuer"), comprising the Restated Statement of Assets and Liabilities as at 31 March 2021, 2020 and 2019, the Restated Profit and Loss Account, the Restated Cash Flow Statement for the years ended 31 March 2021, 2020 and 2019, the Summary Statement of Significant Accounting Policies, and other explanatory information (collectively, the "Restated Financial Information"), as approved by the Board of Directors of the Bank at their meeting held on 29 June 2021 for the purpose of inclusion in the Draft Red Herring Prospectus ("DRHP") prepared by the Bank in connection with its proposed Initial Public Offer of equity shares ("IPO") prepared in terms of the requirements of:

    a) Section 26 of Part I of Chapter III of the Companies Act, 2013 (the "Act");

    b) The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended ("ICDR Regulations"); and

    c) The Guidance Note on Reports in Company Prospectuses (Revised 2019) issued by the Institute of Chartered Accountants of India ("ICAI"), as amended from time to time (the "Guidance Note").

2. The Bank's Board of Directors is responsible for the preparation of the Restated Financial Information for the purpose of inclusion in the DRHP to be filed with Securities and Exchange Board of India, BSE Limited, National Stock Exchange of India Limited and Registrar of Companies, Kerala in connection with the proposed IPO. The Restated Financial Information have been prepared by the management of the Bank on the basis of preparation stated in Note 2 (2) to the Restated Financial Information. The Board of Directors of the Bank's responsibility includes designing, implementing and maintaining adequate internal control relevant to the preparation and presentation of the Restated Financial Information. The Board of Directors are also responsible for identifying and ensuring that the Bank complies with the Act, ICDR Regulations and the Guidance Note.

3. We have examined such Restated Financial Information taking into consideration:

    a) The terms of reference and terms of our engagement agreed upon with you in accordance with our engagement letter dated 21 June 2021 in connection with the proposed IPO of equity shares of the Issuer;

    b) The Guidance Note. The Guidance Note also requires that we comply with the ethical requirements of the Code of Ethics issued by the ICAI;

c) Concepts of test checks and materiality to obtain reasonable assurance based on verification of evidence supporting the Restated Financial Information; and

d) The requirements of Section 26 of the Act and the ICDR Regulations. Our work was performed solely to assist you in meeting your responsibilities in relation to your compliance with the Act, the ICDR Regulations and the Guidance Note in connection with the IPO.

4. These Restated Financial Information have been compiled by the management from the audited financial statements as at and for each of the years ended 31 March 2021, 2020 and 2019 which have been approved by the Board of Directors at their meetings held on 26 May 2021, 29 May 2020 and 10 May 2019 respectively. These audited financial statements as at and for each of the years ended 31 March 2021, 2020 and 2019 were prepared by the Bank in accordance with the requirements prescribed under the Banking Regulation Act, 1949, the circulars and guidelines issued by RBI from time to time and Accounting Standards prescribed under Section 133 of the Companies Act, 2013, read with the Companies (Accounts) Rules, 2014 ("Indian GAAP") to the extent applicable and other relevant provisions of the Companies Act, 2013 ("Act") and current practices prevailing within the Banking industry in India.

5. For the purpose of our examination, we have relied on:

a) Auditors' reports issued by us dated 26 May 2021 on the financial statements of the Bank as at and for the year ended 31 March 2021 as referred in Paragraph 4 above.

The auditors' report on the Financial Statements of the Bank as at and for the year ended 31 March 2021 includes the following Emphasis of Matter paragraph (also refer Note 1- Part C (2) of the Restated Financial Information):

"We draw attention to Note 18A.7(i) to the Financial Statements which fully describes that the Bank has recognized additional contingency provision on loans to reflect the continuing uncertainties arising from the COVID 19 pandemic. Such estimates are based on current facts and circumstances and may not necessarily reflect the future uncertainties and events arising from the full impact of the COVID 19 pandemic.

Our opinion is not modified in respect of this matter."

b) Auditors' Report issued by the previous auditors (the "Previous Auditors") dated 29 May 2020 and 10 May 2019 on the financial statements of the Bank as at and for the years ended 31 March 2020 and 2019, as referred in Paragraph 4 above.

The audits for the financial years ended 31 March 2020 and 2019 were conducted by the Bank's Previous Auditors, and accordingly reliance has been placed on the restated statement of assets and liabilities as at 31 March 2020 and 2019 and the restated profit and loss account and cash flow statements for the years ended 31 March 2020 and 2019, the Summary Statement of Significant Accounting Policies, and other explanatory information and (collectively, the "2020 and 2019 Restated Financial Information") examined by them for the said years. The examination report included for the said years is based solely on the report submitted by the Previous Auditors. They have also confirmed that the 2020 and 2019 Restated Financial Information:

i. have been prepared after incorporating adjustments for the changes in accounting policies, material errors and regrouping/reclassifications retrospectively in the financial year ended 31 March 2020 and 2019 to reflect the same accounting treatment as per the accounting policies and grouping/classifications followed as at and for the year ended 31 March 2021;

ii. there are no qualifications in the auditors' report on the audited financial statements as at and for each of the years ended 31 March 2020 and 31 March 2019 which require any adjustments to the Restated Summary Statements;

iii. includes an Emphasis of matter paragraph in the auditor's report on the audited financial statements as at and for the year ended 31 March 2020 as follows, which does not require any corrective adjustment to the Restated Summary Statements:

"We draw attention to Schedule 18 A- Note 7(h) to the financial statements, which describes the extent to which COVID-19 pandemic will impact the Bank's operations and asset quality will depend on future developments, which are highly uncertain. Our opinion is not modified in respect of this matter."

iv. have been prepared in accordance with the Act, ICDR Regulations and the Guidance Note.

6. Based on our examination and according to the information and explanations given to us and also as per the reliance placed on the examination report submitted by the Previous Auditors for the respective years as per paragraph 5(b) above, we report that the Restated Financial Information:

a) have been prepared after incorporating adjustments for the changes in accounting policies, material errors and regrouping/reclassifications retrospectively in the financial years ended 31 March 2020 and 2019 to reflect the same accounting treatment as per the accounting policies and grouping/classifications followed as at and for the year ended 31 March 2021, as applicable;

b) do not require any adjustment for modification as there is no modification in the underlying audit reports. There are items relating to emphasis of matter (refer paragraph 5(a) and paragraph 5(b)(iii) above), which do not require any adjustment to the Restated Financial Information; and

c) have been prepared in accordance with the Act, ICDR Regulations and the Guidance Note.

7. We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and Other Assurance and Related Services Engagements.

8. The Restated Financial Information do not reflect the effects of events that occurred subsequent to the respective dates of the reports on the audited financial statements mentioned in paragraph 4 above.

9. This report should not in any way be construed as a reissuance or re-dating of any of the previous audit reports issued by us or the Previous Auditors, nor should this report be construed as a new opinion on any of the financial statements referred to herein.

10. We have no responsibility to update our report for events and circumstances occurring after the date of the report.

11. Our report is intended solely for use of the Board of Directors for inclusion in the DRHP to be filed with Securities and Exchange Board of India, BSE Limited, National Stock Exchange of India Limited and Registrar of Companies, Kerala in connection with the proposed IPO. Our report should not be used, referred to, or distributed for any other purpose except with our prior consent in writing. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come without our prior consent in writing.

For **DELOITTE HASKINS & SELLS**
Chartered Accountants
(Firm's Registration No.117365W)

G. K. Subramaniam
Partner
Membership No.109839
(UDIN: 21109839AAAAJR9326)

MUMBAI, 30 June 2021

ESAF SMALL FINANCE BANK LIMITED
RESTATED STATEMENT OF ASSETS AND LIABILITIES

Rs. in Million

Particulars	Note Reference	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
CAPITAL AND LIABILITIES				
Capital	3	4,494.74	4,277.96	4,277.96
Reserves and Surplus	4	9,025.90	6,562.85	4,658.95
Deposits	5	89,994.26	70,283.82	43,170.08
Borrowings	6	16,940.00	12,033.17	17,023.60
Other Liabilities and Provisions	7	2,931.62	1,541.92	1,453.54
Total		**1,23,386.52**	**94,699.72**	**70,584.13**
ASSETS				
Cash and Balances with Reserve Bank of India	8	4,280.72	3,047.72	2,467.41
Balances with Banks and Money at Call and Short Notice	9	13,910.54	5,980.19	5,347.15
Investments	10	19,320.69	17,336.25	15,307.50
Advances	11	81,675.86	65,478.22	45,482.54
Fixed Assets	12	1,385.12	1,201.07	899.41
Other Assets	13	2,813.59	1,656.27	1,080.12
Total		**1,23,386.52**	**94,699.72**	**70,584.13**
Contingent Liabilities	14	15.04	15.04	583.26
Bills for collection		-	-	-
Significant Accounting Policies and notes to accounts forming part of Restated financial information	2 & 19			

The accompanying Notes are an integral part of this Statement.

In terms of our report attached
For Deloitte Haskins & Sells
Chartered Accountants
Firm's Registration Number: 117365W

For and on behalf of the Board of Directors

P R Ravi Mohan
Chairman
DIN:08534931

Kadambelil Paul Thomas
Managing Director & CEO
DIN: 00199925

G K Subramaniam
Partner
Membership No. : 109839

Asha Morley
Director
DIN: 02012799

Gireesh C P
Chief Financial Officer

Ranjith Raj P
Company Secretary

Place : Mumbai
Date : 30 June 2021

Place : Mannuthy
Date : 29 June 2021

ESAF SMALL FINANCE BANK LIMITED
RESTATED PROFIT AND LOSS ACCOUNT

Rs. in Million

Particulars	Note Reference	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
I. INCOME				
Interest Earned	15	16,411.73	14,132.45	10,316.39
Other Income	16	1,261.04	1,331.90	1,091.50
Total		**17,672.77**	**15,464.35**	**11,407.89**
II. EXPENDITURE				
Interest Expended	17	7,195.82	6,210.57	4,582.82
Operating Expenses	18	6,318.55	6,006.77	4,533.94
Provisions and Contingencies (Refer Note A.12 of Note 19)		3,104.44	1,343.11	1,388.29
Total		**16,618.81**	**13,560.45**	**10,505.05**
III. PROFIT				
Net Profit for the year (I - II)		**1,053.96**	**1,903.90**	**902.84**
Add: Balance in Restated Profit and Loss Account brought forward from Previous Year		2,271.96	879.96	208.17
		3,325.92	**2,783.86**	**1,111.01**
IV. APPROPRIATIONS				
Transfer to Statutory Reserve		263.49	475.97	225.71
Transfer to Capital Reserve		-	-	-
Transfer to/(from) Investment Fluctuation Reserve Account		-	35.93	5.34
Balance carried over to Restated Statement of Assets and Liabilities		3,062.43	2,271.96	879.96
Total		**3,325.92**	**2,783.86**	**1,111.01**
Earnings per share (Face Value of Rs.10/- each) (Rs.)				
(Refer Note B.1 of Note 19)				
Basic		2.46	4.45	2.37
Diluted		2.46	4.45	2.37
Significant Accounting Policies and notes to accounts forming part of Restated financial information	2 & 19			

The accompanying Notes are an integral part of this Statement.

In terms of our report attached
For Deloitte Haskins & Sells
Chartered Accountants
Firm's Registration Number: 117365W

G K Subramaniam
Partner
Membership No. : 109839

Place : Mumbai
Date : 30 June 2021

For and on behalf of the Board of Directors

P R Ravi Mohan
Chairman
DIN:08534931

Kadambelil Paul Thomas
Managing Director & CEO
DIN: 00199925

Asha Morley
Director
DIN: 02012799

Gireesh C P
Chief Financial Officer

Ranjith Raj P
Company Secretary

Place : Mannuthy
Date : 29 June 2021

ESAF SMALL FINANCE BANK LIMITED

RESTATED CASH FLOW STATEMENT

			Rs. In Million
Particulars	**Year Ended 31 March 2021**	**Year Ended 31 March 2020**	**Year Ended 31 March 2019**
Cash Flows from Operating Activities			
Net Profit before tax	1,413.73	2,562.56	1,271.82
Adjustments for:			
Depreciation on Fixed Assets	285.73	231.67	169.06
Amortisation of Premium on HTM Investments	68.46	35.25	21.99
Profit on sale of investments (net)	(230.40)	(64.02)	(10.04)
Profit/(Loss) on sale of Fixed Assets	23.34	(0.39)	(0.26)
Provision for Non Performing Advances	1887.27	491.51	919.38
Provision/ (Reversal) for Standard Advances	925.52	100.76	92.33
Provision for Depreciation on investments	(11.44)	18.32	-
Provision/ (Reversal) for Other Contingencies	(57.07)	73.86	7.61
	4,305.14	**3,449.52**	**2,471.89**
Adjustments for :-			
(Increase)/ Decrease in Investments (other than HTM Investments)	4,075.38	3,796.59	(6,673.03)
(Increase)/ Decrease in Advances	(18,084.91)	(20,487.18)	(14,851.06)
(Increase)/ Decrease in Fixed Deposit with Banks (Original Maturity greater than 3 months)	2,264.25	(1,662.83)	(59.31)
(Increase)/ Decrease in Other Assets	(424.03)	(498.78)	(323.34)
Increase/ (Decrease) in Deposits	19,710.44	27,113.74	17,939.16
Increase/ (Decrease) in Other liabilities and provisions	521.25	(86.24)	(489.39)
Direct taxes paid	(1,093.07)	(736.04)	(406.26)
Net Cash Flows from/(used in) Operating Activities (A)	**11,274.45**	**10,888.78**	**(2,391.34)**
Cash Flows from/(Used in) Investing Activities			
Purchase of Fixed Assets	(495.01)	(533.93)	(381.46)
Proceeds from Sale of Fixed Assets	1.89	0.99	0.28
(Increase)/ Decrease in Held to Maturity Investments	(5,886.43)	(5,814.89)	(1,327.78)
Net Cash Used in Investing Activities (B)	**(6,379.55)**	**(6,347.83)**	**(1,708.96)**
Cash Flows from/(Used in) Financing Activities			
Proceeds from Issue of Share Capital (including Share Premium)	1,625.87	-	4,642.13
Share Issue Expenses	-	-	(41.53)
Increase/(Decrease) in Borrowings	4,906.83	(4,990.43)	277.09
Cash Flows from/(Used in) Financing Activities (C)	**6,532.70**	**(4,990.43)**	**4,877.69**
Net Increase/(Decrease) in Cash and Cash Equivalents (A+B+C)	**11,427.60**	**(449.48)**	**777.39**

ESAF SMALL FINANCE BANK LIMITED

RESTATED CASH FLOW STATEMENT

Rs. In Million

Particulars	**Year Ended 31 March 2021**	**Year Ended 31 March 2020**	**Year Ended 31 March 2019**
Cash and Cash Equivalents at the beginning of year	**6,760.35**	**7,209.83**	**6,432.44**
Cash and Cash Equivalents at the end of year (refer note below)	**18,187.95**	**6,760.35**	**7,209.83**
Note:			
Cash in Hand [Refer Note 8 (I)]	1,155.33	761.28	202.04
Balance with RBI in Current Account [Refer Note 8 (II) (i)]	3,125.39	2,286.44	2,265.37
Balance with Banks in India in Current Account [Refer Note 9 I (i) (a)]	2,007.23	362.63	892.42
Balance with Banks in India in Fixed Deposit	-	250.00	850.00
Money at Call and Short Notice [Refer Note 9 (I)(ii) (a)]	-	-	2,200.00
Lending Under Reverse Repo [Refer note 9 (I) (ii) (c)]	11,900.00	3,100.00	800.00
Cash and cash equivalents at the end of the year	**18,187.95**	**6,760.35**	**7,209.83**

The above Cash Flow Statement has been prepared under the indirect method as set out in Accounting Standard (AS) 3 - Cash Flow Statements specified under Section 133 of the Companies Act, 2013 read with the Companies (Account) Rules, 2014.

The accompanying Notes are an integral part of this Statement.

For and on behalf of the Board of Directors

In terms of our report attached

For Deloitte Haskins & Sells

Chartered Accountants

Firm's Registration Number: 117365W

P R Ravi Mohan
Chairman
DIN:08534931

Kadambelil Paul Thomas
Managing Director & CEO
DIN: 00199925

G K Subramaniam
Partner
Membership No. : 109839

Asha Morley
Director
DIN: 02012799

Gireesh C P
Chief Financial Officer

Ranjith Raj P
Company Secretary

Place : Mumbai
Date : 30 June 2021

Place : Mannuthy
Date : 29 June 2021

ESAF SMALL FINANCE BANK LIMITED

NOTE 1 - Restated Statement of Material Adjustments, Regroupings and changes in Accounting polices

Appropriate adjustments have been made in the Restated Statement of Assets and Liabilities , Restated Profit and Loss Account and Restated statement of cash flows in accordance with the requirements of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 (as amended), by reclassification of the corresponding items of income, expense, assets, liabilities and cash flows in order to bring them in line with the groupings and accounting policies as per the Financials statements of the Bank as at and for the year ended 31 March 2021

Part A

i.Regroupings in Restated Statement of Assets and Liabilities & Restated Profit and Loss Account

i. for the year ended 31 March 2019

Rs. in Million

Particulars	As per Audited Financial Statements	Changes due to Regrouping	As per Restated Summary Statements
Assets and Liabilities			
Other Assets	1,070.86	9.26	1,080.12
Other Liabilities	1,444.28	9.26	1,453.54

b. Regroupings in Restated Statement of Cash Flows

i. for the year ended 31 March 2019

Rs. in Million

Particulars	As per Audited Financial Statements	Changes due to Regrouping	As per Restated Summary Statements
Net Cash Flows from/(used in) Operating Activities	(2,401.38)	10.04	(2,391.34)
Net Cash Used in Investing Activities	(1,698.92)	(10.04)	(1,708.96)

Part B

Other Adjustments

Adjustments for Audit Qualifications	Nil
Other Material Adjustments	Nil
Changes in Accounting Policy	Nil
Tax Adjustments	Nil

Part C

Non Adjusting Items

1. There are no qualifications in auditor's report for the financial year ended 31 March 2021, 31 March 2020 and 31 March 2019.

2. Emphasis of matter paragraph in auditor's report on the financial statements for the year ended 31 March 2021:

The auditors' report on the financial statements for the year ended 31 March, 2021 included following Emphasis of Matter paragraphon:

We draw attention to Note 18 A. 7(i) to the Financial Statement which fully describes that the Bank has recognized additional contingency provision on loans to reflect the continuing uncertainties arising from the COVID 19 pandemic. Such estimates are based on current facts and circumstances and may not necessarily reflect the future uncertainties and events arising from the full impact of the COVID 19 pandemic.

3. Emphasis of matter paragraph in auditor's report on the financial statements for the year ended 31 March 2020:

The auditors' report on the financial statements for the year ended 31 March, 2020 included following Emphasis of Matter paragraphon:

We draw attention to Note 18 A – Note 7(h) to the financial statements, which describes the extent to which COVID- 19 Pandemic will impact the Bank's operations and asset quality will depend on future developments, which are highly uncertain. Our opinion is not modified in respect of this matter.

ESAF SMALL FINANCE BANK LIMITED

NOTE 2 -SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF RESTATED FINANCIAL INFORMATION

1.Background

ESAF Small Finance Bank Limited ("the Bank") is a public limited company incorporated on 5 May 2016 in India after receiving in principle approval from Reserve Bank of India ("RBI") to establish a small finance bank in the private sector under section 22 of the Banking Regulation Act, 1949 on 16 September 2015. The Bank received the license from the Reserve Bank of India on 18 November 2016 and commenced its banking operations from 10 March 2017. As per RBI Approval, the name of the Bank is included in the Second Schedule to the Reserve Bank of India Act, 1934 w.e.f 12 November 2018.The Bank provides micro, retail and corporate banking, para banking activities, such as debit card, third party financial product distribution, in addition to Treasury and permitted Foreign Exchange Business.

In order to get the shares listed in stock exchange, the bank filed DRHP before SEBI on 6 January 2020 and obtained the final observations on 20 March 2020. However, the outbreak of Covid 19 pandemic and the prolonged lockdown immediately after that resulted in uncertainty in business conditions and disrupted the normal operations of Financial Year 2021 thereby listing process could not be completed. As mandated by the Board, the bank is taking all possible steps for completing the listing process by re-filing the DRHP at an earlier date.

2.Basis of Preparation

The Restated Financial Information of the Bank comprise of the Restated Statement of Assets and Liabilities as at 31 March 2021, 2020 and 2019, the Restated Profit and Loss Account and RestatedCash Flow Statement for the years ended 31 March 2021, 31 March 2020, and 31 March 2019, and the Summary of Significant Accounting Policies and explanatory notes (collectively, the 'Restated Financial Information'). Restated Financial Information is prepared by the management of the Bank for the purpose of inclusion in the draft red herring prospectus ("DRHP") prepared by the Bank in connection with its proposed Initial Public Offer ("IPO") of its equity shares in terms of the requirements of:

i. Section 26 of Part I of Chapter III of the Companies Act, 2013, as amended (the "Act");

ii. The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (the "ICDR Regulations"); and

iii. The Guidance Note on Reports on Company Prospectuses (Revised 2019) issued by the Institute of Chartered Accountants of India ("ICAI"), as amended (the "Guidance Note").

The Restated Financial Information has been compiled by the Management from:

a) the audited financial statements of the Bank as at and for the year ended 31 March 2021 prepared in accordance with the requirements prescribed under the Banking Regulation Act, 1949, the circulars and guidelines issued by RBI from time to time, accounting principles generally accepted in India including Accounting Standards prescribed under Section 133 of the Companies Act, 2013, read with the Companies (Accounts) Rules, 2014 to the extent applicable and other relevant provisions of the Companies Act, 2013 ("Act") and current practices prevailing within the Banking industry in India, which have been approved by the Board of Directors at their meeting held on 26 May 2021.

b) the audited financial statements as at and for each of the years ended 31 March 2020 and 2019 which have been approved by the Board of Directors at their meetings held on 29 May 2020 and 10 May 2019 respectively. These audited financial statements as at and for each of the years ended March 31, 2020 and 2019 have been prepared in accordance with the requirements prescribed under the Banking Regulation Act, 1949. The accounting and reporting policies of Bank used in the preparation of these financial statements conform in all material aspects with Generally Accepted Accounting Principles in India ("Indian GAAP"), the circulars and guidelines issued by Reserve Bank of India from time to time and the Accounting Standards prescribed under Section 133 of the Companies Act, 2013 (as amended), read with the Companies (Accounts) Rules, 2014 to the extent applicable and other relevant provisions of the Companies Act, 2013 ("Act") and current practices prevailing within the Banking industry in India.

The Bank follows historical cost convention and accrual method of accounting in the preparation of the financial statements, except otherwise stated. The accounting policies have been consistently applied by the Bank in preparation of the Restated Financial Information and are consistent with those adopted in the preparation of financial statements for the year ended 31 March 2021.

The Restated Financial Information:

a) have been prepared after incorporating adjustments for the changes in accounting policies, material errors and regrouping / reclassifications retrospectively in the financial years ended 31 March 2020 and 2019 to reflect the same accounting treatment as per the accounting policy and grouping/classifications followed as at and for the year ended 31 March 2021, as applicable.

b) do not require any adjustment for modification as there is no modification in the underlying audit reports.

i. The auditor's reports dated May 26, 2021 on the Financial Statements as at and for the year ended 31 March 2021 includes the following Emphasis of Matter paragraph:

"We draw attention to Note 18A.7(i) to the Financial Statements which fully describes that the Bank has recognized additional contingency provision on loans to reflect the continuing uncertainties arising from the COVID 19 pandemic. Such estimates are based on current facts and circumstances and may not necessarily reflect the future uncertainties and events arising from the full impact of the COVID 19 pandemic

Our opinion is not modified with respect to this matter."

ii. The auditor's report dated May 29, 2020 on the Financial Statements as at and for the year ended 31 March 2020 includes the following Emphasis of Matter paragraph:

"We draw attention to Schedule 18 A- Note 7(h) to the financial statements, which describes the extent to which COVID-19 pandemic will impact the Bank's operations and asset quality will depend on future developments, which are highly uncertain. Our opinion is not modified in respect of this matter

Our opinion is not modified in respect of this matter."

NOTE 2 -SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF RESTATED FINANCIAL INFORMATION

The above emphasis of matters do not require any adjustment to the Restated Financial Information.
The Restated Financial Information are presented in Indian Rupees "INR" or "Rs." and all values are stated as INR or Rs. millions, except when otherwise indicated.

3. Use of Estimation

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

4.Significant Accounting Policies

4.1 Revenue Recognition

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

i. Interest Income is recognized in the Restated Profit and Loss Account on accrual basis, except in the case of non-performing assets. Interest on non-performing assets is recognized on realization basis as per the prudential norms issued by the RBI.

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

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

iv Dividend on Investments in shares and units of Mutual Funds are accounted when the Bank's right to receive the dividend is established.

v Processing Fee/ upfront fee, handling charges and similar charges collected at the time of sanctioning or renewal of loan/ facility is recognised at the inception/ renewal of loan.

vi Other fees and Commission income (including commission income on third party products) are recognised when due, except in cases where the Bank is uncertain of ultimate collection.

vii Interest income on deposits with banks and other financial institutions are recognised on a time proportion accrual basis taking into account the amounts outstanding and the rates applicable.

viii. Guarantee commission is recognised on a straight line basis over the period of contract.

ix. Locker rent is recognised on realisation basis.

x. In accordance with the RBI guidelines on Securitisation Transactions, gains arising from assignment / securitisation are amortised over the life of the underlying loan portfolio. In case of any loss, the same is recognised in the Restated Profit and Loss Account immediately. Income from interest strip (excess interest spread) is recognized in the Restated Profit and Loss Account net of any losses when redeemed in cash in line with the relevant Reserve Bank of India guidelines.

xi. Fees received on sale of priority sector lending certificates is considered as Miscellaneous income, while fees paid for purchase is expended as other expenses in accordance with the guidelines issued by RBI on the date of purchase/ sale on upfront basis.

4.2 Investments

i. Classification:

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

However for disclosure in the Restated Statement of Assets and Liabilities, Investments in India are classified under six groups - Government Securities, Other Approved Securities, Shares, Debentures and Bonds, Investments in Subsidiaries / Joint Ventures and Others.

Purchase and sale transactions in securities are recorded under 'Settlement Date' accounting.

ii. Basis of classification:

Investments that the Bank intends to hold till maturity are classified as HTM category.

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.

Investments which are not classified in either of the above two categories are classified under AFS category.

iii. Acquisition Cost :

The Cost of investments is determined on the weighted average basis. Broken period interest in debt instruments and government securities is treated as a revenue item. The transaction cost including brokerage, commission etc. paid at the time of acquisition of investments are charged to the Restated Profit and Loss Account.

iv. Disposal of investments:

Investments classified as HFT or AFS - Profit or loss on sale or redemption is recognised in the Restated Profit and Loss Account. Investments classified as HTM - Profit on sale or redemption of investments is recognised in the Restated Profit and Loss Account and is appropriated to Capital Reserve after adjustments for tax and transfer to Statutory Reserve. Loss on sale or redemption is recognised in the Restated Profit and Loss Account.

NOTE 2 -SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF RESTATED FINANCIAL INFORMATION

v. Valuation:

HTM securities are carried at their acquisition cost. Any premium on acquisition of government securities are amortised over the remaining maturity of the security on a straight line basis. Any diminution, other than temporary, in the value of such securities is provided for.

AFS and HFT securities are valued periodically as per RBI guidelines.

The market/ fair value for the purpose of periodical valuation of quoted investments included in the AFS and HFT categories is measured with respect to the market price of the scrip as available from the trades/ quotes on the stock exchanges, SGL account transactions, price list of RBI or prices periodically declared by Financial Benchmark India Pvt. Ltd. [FBIL], based on relevant RBI circular.

The valuation of non-SLR securities, other than those quoted on the stock exchanges, wherever linked to the YTM rates, shall be with a mark-up (reflecting associated credit risk) over the YTM rates for government securities put out by FIMMDA/FBIL. Securities are valued scrip wise and depreciation/appreciation aggregated for each category. Net appreciation in each basket if any, being unrealised, is ignored, while net depreciation is provided for.

Treasury bills and Certificate of Deposits being discounted instruments, are valued at carrying cost.

Pass through Certificates are valued as per RBI guidelines.

Non Performing investments are identified and valued based on RBI guidelines.

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

vi. Repo Reverse Repo transactions

In accordance with the RBI guidelines repo and reverse repo transactions in Government securities are reflected as borrowing and lending transactions respectively. Borrowing cost on repo transaction is accounted for as interest expense and revenue on reverse repo is accounted for as interest income.

vii. Investment Fluctuation Reserve ("IFR")

With a view to building up of adequate reserves to protect against increase in yields in accordance with RBI guideline, bank started to create an IFR with effect from the Financial Year 2018-19.

Amount appropriated from Net Profit to IFR is not less than lower of the following:

(i) net profit on sale of investments during the year or

(ii) net profit for the year less mandatory appropriations, until the amount of IFR is at least 2 percent of the HFT and AFS portfolio, on a continuing basis.

The amount held in the IFR shall be utilized by way of draw down, in accordance with the provisions of the Reserve Bank of India guidelines

Viii. Short Sales

The short sale transactions in Central Government dated securities undertaken by the bank shall be accounted in the following manner in accordance with RBI guidelines.

- The short position is categorised under HFT category and netted off from investments in Restated Statement of Assets and Liabilities.
- The short position is marked to market at periodical intervals and loss, if any, is charged to the Restated Profit and Loss Account while gain, if any, is ignored.
- Profit / Loss on settlement of the short position is recognised in the Restated Profit and Loss Account

ix. Transfer of Securities between Categories:

The transfer/shifting of securities between categories of investments is accounted in accordance with the RBI guidelines.

4.3 Advances

i. Advances are classified into performing assets ("Standard") and non-performing assets ("NPA") as per the RBI guidelines and are stated net of unrealised interest in suspense for non performing advances and specific provisions made towards NPAs [also Refer Note A. 7 (i) of Note 19]. Interest on Non-performing advances is not recognised in Restated Profit and Loss Account and is transferred to an unrealised interest account till the actual realisation. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Provisions for NPAs are made at /or above the minimum required level in accordance with the provisioning policy adopted by the Bank and as per the guidelines and circulars of the RBI on matters relating to prudential norms.

ii. Provision for standard advances is made as per the extant RBI guidelines. Additional Provision on standard assets is made as per the policy decided by the Board .

iii. The Bank transfers advances through interbank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances and where the Bank is participating; the aggregate amount of participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the Bank is participating, the aggregate amount of participation is shown as due from banks under advances.

iv Non Performing Advances are written off as per the Bank's policy. Amounts recovered against debts written off/ technically written off are recognised in the Restated Profit and Loss account and included under “Other Income”.

NOTE 2 -SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF RESTATED FINANCIAL INFORMATION

v. The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advances/ securities, which would generally include, among others, alteration of repayment period/ repayable amount/ the amount of instalments/ rate of interest (due to reasons other than competitive reasons). Restructured accounts are classified as such by the Bank only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of a restructured account is made and classification thereof is as per the extant RBI guidelines, as amended from time to time.

4.4 Fixed Assets (Property Plant & Equipment and Intangible) and Depreciation / Amortization

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

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

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

Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The management believes that the useful life of assets assessed by the Bank, pursuant to the Companies Act, 2013, taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use, fairly reflects its estimate of useful lives of the fixed assets. The estimated useful lives of key fixed assets, based on technical evaluation done by the management are given below:

Class of Asset (Tangible and Intangible)	Estimated useful life as assessed by the Bank	Estimated useful life specified under Schedule II of the Companies Act, 2013 (in years)
Office Equipment's	4-5	5
Computers	2- 3	3
Furniture & Fixtures	9-10	10
Motor Vehicles	2-4	8
Servers	5	6

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset comprises its purchase price including after deducting trade discounts and rebates, any directly attributable cost of bringing the item to its working condition for its intended use following initial recognition. Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets comprising of software is amortised on straight line basis over a period of 4 years, unless it has a shorter useful life.

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

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

4.5 Impairment of Assets

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

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

4.6 Retirement and employee benefits

i. Short Term Employee Benefit

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

ii. Long Term Employee Benefit

a. Defined Contribution Plan:

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

b. Defined Benefit Plan:

Gratuity: The Bank provides for Gratuity, covering employees in accordance with the Payment of Gratuity Act, 1972. The Bank's liability is actuarially determined (using Projected Unit Credit Method) at the Balance Sheet date. The actuarial gain or loss arising during the year is recognised in the Restated Profit and Loss Account.

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

4.7 Share Issue expenses

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

4.8 Income Taxes

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

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

At each reporting date, the bank re-assesses unrecognized deferred tax assets. It recognizes unrecognized deferred tax asset to the extent that it has become reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which such deferred tax assets can be realized.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred tax assets and deferred taxes relate to the same taxable entity and the same taxation authority.

The carrying amount of deferred tax assets are reviewed at each reporting date. The Bank writes-down the carrying amount of deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available against which deferred tax asset can be realized. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Deferred tax assets and liabilities are measured using tax rates and tax laws that have been enacted or substantively enacted at the Restated Statement of Assets and Liabilities date. Changes in deferred tax assets / liabilities on account of changes in enacted tax rates are given effect to in the Restated Profit and Loss Account in the year of change.

4.9 Cash and Cash equivalents

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

4.10 Segment Information

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

a) Treasury: The treasury segment revenue primarily consists of interest earnings on investments portfolio of the bank, gains or losses on investment operations and earnings from foreign exchange business. The principal expenses of the segment consist of interest expense allocated on funds borrowed/ deposits received and other expenses. Treasury segment also includes allocation of deposits received from customers.

b) Wholesale Banking: Wholesale Banking segment provides loans to corporate segment identified on the basis of RBI guidelines. Revenues of this segment consist of interest earned on loans made to corporate customers and the charges/fees earned from other banking services. The principal expenses of the segment consist of interest expense allocated on funds borrowed/deposits received and other expenses.

c) Retail banking: The Retail Banking segment provides loans to non-corporate customers identified on the basis of RBI guidelines and also includes deposits from customers. Revenues of this segment consist of interest earned on loans made to non-corporate customers and the charges/fees earned from other banking services. The principal expenses of the segment consist of interest expense allocated on funds borrowed/ deposits received and other expenses.

d) Other Banking Operations: This segment includes income from para banking activities such as debit cards, third party product distribution and associated costs.

Segment revenues consist of earnings from external customers and other allocated revenues. Segment expenses consist of allocated interest expenses, operating expenses and provisions. Segment results are net of segment revenues and segment expenses.

Segment assets include assets related to segments and exclude tax related assets. Segment liabilities include liabilities related to the segment excluding net worth.

Unallocated: All items which are reckoned at an enterprise level are classified under this segment. This includes capital, reserves and other un allocable assets and liabilities such as fixed assets, deferred tax, tax paid in advance and income tax provision etc.

Geographical Segment

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

NOTE 2 -SIGNIFICANT ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF RESTATED FINANCIAL INFORMATION

4.11 Earnings Per Share

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

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

4.12 Provisions and contingent assets/liabilities

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

The Bank creates a provision when there is a present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each Restated Statements of Assets and Liabilities date and adjusted to reflect the current best estimate. Provisions are not discounted to their present value and are determined based on the best estimate required to settle the obligation at the reporting date. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are neither recognized nor disclosed in the Restated Financial Information.

4.13 Leases

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

4.14 Transactions involving Foreign Exchange

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

Foreign currency monetary items are reported using the exchange rate prevailing at the Restated Statement of Assets and Liabilities date.

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

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

4.15 Securitisation Transactions and direct assignments

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

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

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

ESAF SMALL FINANCE BANK LIMITED

NOTES FORMING PART OF THE RESTATED FINANCIAL INFORMATION

Rs. in Million

Particulars	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
NOTE 3 - RESTATED STATEMENT OF CAPITAL			
Authorised Capital			
Number of Equity Shares (in Million) of Rs. 10/- each	600.00	600.00	450.00
Equity Share Capital (Authorised)	6,000.00	6,000.00	4,500.00
Issued, Subscribed and Paid up Capital #			
Number of Equity Shares (in Million)	449.47	427.79	427.79
Face Value per Equity Share (in Rs.)	10.00	10.00	10.00
Equity Share Capital	4,494.74	4,277.96	4,277.96
Total	**4,494.74**	**4,277.96**	**4,277.96**
NOTE 4 - RESTATED STATEMENT OF RESERVES AND SURPLUS			
I. Statutory Reserve			
Opening balance	771.08	295.11	69.40
Additions during the year	263.49	475.97	225.71
	1,034.57	**771.08**	**295.11**
II. Capital Reserves			
(a) Revaluation Reserve			
Opening balance	-	-	-
Additions during the year	-	-	-
	-	-	-
(b) Others			
Opening balance	-	-	-
Additions during the year	-	-	-
	-	**-**	**-**
III. Share premium #			
Opening balance	3,478.54	3,478.54	36.45
Additions during the year	1,409.09	-	3,483.62
Less : Capital Raise expenses (Refer Note A.14 of Note 19)	-	-	41.53
	4,887.63	**3,478.54**	**3,478.54**
IV. Revenue and Other Reserves			
a) Revenue Reserve			
Opening Balance	-	-	-
Additions during the year	-	-	-
Deductions during the year	-	-	-
	-	**-**	**-**
b) Investment Fluctuation Reserve			
Opening Balance	41.27	5.34	-
Additions during the year	-	35.93	5.34
	41.27	**41.27**	**5.34**
V. Balance in Restated Profit and Loss Account	**3,062.43**	**2,271.96**	**879.96**
Total (I to V)	**9,025.90**	**6,562.85**	**4,658.95**

1. During the year ended 31 March 2021, the Bank has raised Tier I capital amounting to Rs.1,625.87 Million by way of private placement of 21.67 Million Equity Shares having the face value of Rs.10/- each at an issue price of Rs.75/- per Equity Share
2.During the year ended 31 March 2019, the Bank has raised Tier I capital for Rs.4,642.12 Million through private placement of 115.85 Million Equity Shares having the face value of Rs.10/- each at an issue price of Rs.40.07 per Equity Share. The related issue expenses amounting to Rs.41.53 Million has been drawn from Share Premium.

ESAF SMALL FINANCE BANK LIMITED

NOTES FORMING PART OF THE RESTATED FINANCIAL INFORMATION

Rs. in Million

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
NOTE 5 - RESTATED STATEMENT OF DEPOSITS			
A. I. Demand Deposits			
i. From Banks	66.73	26.20	28.74
ii. From Others	1,465.11	552.23	311.00
	1,531.84	**578.43**	**339.74**
II. Savings Bank Deposits	15,944.61	9,024.42	5,510.50
III. Term Deposits			
i. From Banks	7,296.06	5,990.47	5,205.94
ii. From Others	65,221.75	54,690.50	32,113.90
	72,517.81	**60,680.97**	**37,319.84**
Total (I to III)	**89,994.26**	**70,283.82**	**43,170.08**
B. I. Deposits of branches in India	89,994.26	70,283.82	43,170.08
II. Deposits of branches outside India	-	-	-
Total (I and II)	**89,994.26**	**70,283.82**	**43,170.08**
NOTE 6 - RESTATED STATEMENT OF BORROWINGS			
I. Borrowings in India			
i. Reserve Bank of India	1,460.00	1,630.00	-
ii. Other Banks	-	-	859.93
iii. Other institutions and agencies	13,100.00	8,023.17	13,783.67
iv. Subordinated Debt	1,900.00	1,900.00	1,900.00
v. Perpetual Debt Instrument	480.00	480.00	480.00
	16,940.00	**12,033.17**	**17,023.60**
II.Borrowings outside India	-	-	-
Total (I and II)	**16,940.00**	**12,033.17**	**17,023.60**
Secured Borrowings included in I and II above	1,460.00	1,633.17	2,322.35
NOTE 7- RESTATED STATEMENT OF OTHER LIABILITIES AND PROVISIONS			
I. Bills Payable	26.26	5.84	7.72
II. Inter - office adjustments (Net)	-	-	-
III. Interest accrued	219.11	188.74	266.91
IV. Provision for Standard Assets (Refer Note A (7) (h) of Note 19)	1,241.42	315.90	215.14
V. Others (including Provisions)	1,444.83	1,031.44	963.77
Total (I to V)	**2,931.62**	**1,541.92**	**1,453.54**

ESAF SMALL FINANCE BANK LIMITED

NOTES FORMING PART OF THE RESTATED FINANCIAL INFORMATION

Rs. in Million

Particulars	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
NOTE 8 - RESTATED STATEMENT OF CASH AND BALANCES WITH RESERVE BANK OF INDIA			
I. Cash in hand	1,155.33	761.28	202.04
II. Balance with Reserve Bank of India			
i. in Current Accounts	3,125.39	2,286.44	2,265.37
ii. in Other Accounts	-	-	-
Total (I and II)	**4,280.72**	**3,047.72**	**2,467.41**
NOTE 9 - RESTATED STATEMENT OF BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE			
I. In India			
i. Balances with Banks			
a. in Current Accounts	2,007.23	362.63	892.42
b. in Other Deposit Accounts	3.31	2,517.56	1,454.73
Total	**2,010.54**	**2,880.19**	**2,347.15**
ii. Money at Call and Short Notice			
a. With Banks	-	-	2,200.00
b. With Other Institutions	-	-	-
c. Lending under Reverse Repo (RBI)	11,900.00	3,100.00	800.00
Total	**11,900.00**	**3,100.00**	**3,000.00**
Total (I)	**13,910.54**	**5,980.19**	**5,347.15**
II. Outside India			
i. in Current Accounts	-	-	-
ii. in Other Deposit Accounts	-	-	-
iii. Money at call and short notice	-	-	-
Total (II)	**-**	**-**	**-**
Total (I and II)	**13,910.54**	**5,980.19**	**5,347.15**
NOTE 10- RESTATED STATEMENT OF INVESTMENTS (NET OF PROVISION)			
I. Investments in India in :			
i. Government Securities	18,889.75	15,069.47	8,864.09
ii. Other approved Securities	-	-	-
iii. Shares	81.67	35.62	-
iv. Debentures and Bonds	-	-	-
v. Subsidiaries/ Joint Ventures	-	-	-
vi. Others [Certificate of Deposits (CDs), Pass Through Certificates (PTCs), Mutual Funds etc.]	349.27	2,231.16	6,443.41
Total (I)	**19,320.69**	**17,336.25**	**15,307.50**
II. Investments outside India	-	-	-
Total (II)	-	-	-
Total (I and II)	**19,320.69**	**17,336.25**	**15,307.50**
Gross Investments	19,327.57	17,354.57	15,307.50
Less: Depreciation/ Provision for Investments	6.88	18.32	-
Net Investments	**19,320.69**	**17,336.25**	**15,307.50**

ESAF SMALL FINANCE BANK LIMITED

NOTES FORMING PART OF THE RESTATED FINANCIAL INFORMATION

Rs. in Million

Particulars	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
NOTE 11 - RESTATED STATEMENT OF ADVANCES (NET OF PROVISION)			
A. i. Bills purchased and discounted	-	-	-
ii. Cash credits, overdrafts and loans repayable on demand	762.87	308.08	126.56
iii. Term loans	80,912.99	65,170.14	45,355.98
Total	**81,675.86**	**65,478.22**	**45,482.54**
B. i. Secured by tangible assets	11,839.85	4,205.55	1,496.21
ii. Covered by Bank/Government guarantees	-	-	-
iii. Unsecured	69,836.01	61,272.67	43,986.33
Total	**81,675.86**	**65,478.22**	**45,482.54**
C. I. Advances in India			
i. Priority Sectors	50,889.74	56,519.54	42,100.01
ii. Public Sector	-	-	-
iii. Banks	-	-	-
iv. Others	30,786.12	8,958.68	3,382.53
Total (I)	**81,675.86**	**65,478.22**	**45,482.54**
II.Advances outside India			
i. Due from Banks	-	-	-
ii. Due from Others			
a) Bills purchased and discounted	-	-	-
b) Syndicated Loans	-	-	-
c) Others	-	-	-
Total (II)	**-**	**-**	**-**
Total (C I and C II)	**81,675.86**	**65,478.22**	**45,482.54**

ESAF SMALL FINANCE BANK LIMITED

NOTES FORMING PART OF THE RESTATED FINANCIAL INFORMATION

Rs. in Million

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
NOTE 12 - RESTATED STATEMENT OF FIXED ASSETS			
I OWNED ASSETS			
a. Fixed assets			
(including furniture and fixtures)			
Gross Block			
At the beginning of the year	1,657.95	1,124.20	701.66
Additions during the year	477.91	534.95	422.84
Deductions during the year	48.93	1.20	0.30
Closing Balance	**2,086.93**	**1,657.95**	**1,124.20**
Depreciation			
As at the beginning of the year	498.83	267.46	98.68
Charge for the year	285.73	231.97	169.06
Deductions during the year	23.70	0.60	0.28
Depreciation to date	**760.86**	**498.83**	**267.46**
Net Block	**1,326.07**	**1,159.12**	**856.74**
II. Capital work in progress (Including capital advances)	**59.05**	**41.95**	**42.67**
Total (I and II)	**1,385.12**	**1,201.07**	**899.41**

ESAF SMALL FINANCE BANK LIMITED

NOTES FORMING PART OF THE RESTATED FINANCIAL INFORMATION

Rs. in Million

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
NOTE 13 - RESTATED STATEMENT OF OTHER ASSETS			
I. Inter - office adjustments (net)	-	-	-
II. Interest accrued	678.07	637.27	409.34
III. Tax paid in advance/Tax Deducted at source (Net of provision)	591.69	101.11	78.57
IV. Stationery and Stamps	1.02	0.38	0.11
V. Non-banking assets acquired in satisfaction of claims	-	-	-
VI. Deferred tax asset (net)	356.30	113.61	58.77
VII. Others	1,186.51	803.90	533.33
Total (I to VII)	**2,813.59**	**1,656.27**	**1,080.12**
NOTE 14 - RESTATED STATEMENT OF CONTINGENT LIABILITIES			
I. Claims against the Bank not acknowledged as debts	-	-	-
II. Liability on account of outstanding forward exchange contracts	-	-	-
III. Guarantees given on behalf of constituents - in India	13.04	13.04	6.44
IV. Acceptances, endorsements and other obligations	-	-	-
V. Other items for which the Bank is contingently liable	2.00	2.00	576.82
Total (I to V)	**15.04**	**15.04**	**583.26**

ESAF SMALL FINANCE BANK LIMITED
NOTES FORMING PART OF THE RESTATED FINANCIAL INFORMATION

Rs. in Million

Particulars	**Year Ended 31 March 2021**	**Year Ended 31 March 2020**	**Year Ended 31 March 2019**
NOTE 15 - RESTATED STATEMENT OF INTEREST EARNED			
I. Interest/discount on advances/bills	14,735.06	12,382.84	9,146.08
II. Income on investments	1,283.26	1,321.98	969.35
III.Interest on balances with Reserve Bank of India and other inter-bank funds	393.41	427.63	200.96
IV. Others	-	-	-
Total (I to IV)	**16,411.73**	**14,132.45**	**10,316.39**
NOTE 16 - RESTATED STATEMENT OF OTHER INCOME			
I. Commission, exchange and brokerage	645.01	979.79	542.16
II. Profit on sale of investments (Net)	230.40	64.02	10.04
III. Profit on revaluation of investments (Net)	-	-	-
IV. Profit/ (Loss) on sale of land, buildings and other assets (Net)	(23.34)	0.39	0.26
V. Profit on foreign exchange transactions (Net)	5.48	2.38	0.23
VI. Income earned by way of dividends etc. from companies	1.10	0.04	-
VII. Miscellaneous income	402.39	285.28	538.81
Total (I to VII)	**1,261.04**	**1,331.90**	**1,091.50**
NOTE 17 - RESTATED STATEMENT OF INTEREST EXPENDED			
I. Interest on deposits	6,045.68	4,851.17	2,659.07
II. Interest on Reserve Bank of India/Inter bank borrowings	79.20	23.36	266.26
III.Others	1,070.94	1,336.04	1,657.49
Total (I to III)	**7,195.82**	**6,210.57**	**4,582.82**
NOTE 18 - RESTATED STATEMENT OF OPERATING EXPENSES			
I. Payments to and provisions for employees	1,877.84	1,440.65	771.04
II. Rent, taxes and lighting	420.39	339.13	267.83
III. Printing and stationery	52.91	53.36	53.60
IV. Advertisement and publicity	27.10	34.80	80.41
V. Depreciation on Bank's Property	285.73	231.67	169.06
VI. Directors' fees, allowances and expenses	14.04	14.75	11.50
VII. Auditors' fees and expenses (Refer Note B.13 of Note 19)	6.30	7.67	8.47
VIII. Law charges	2.61	2.02	7.22
IX. Postage, Telegrams, Telephones etc.	91.68	73.71	38.60
X. Repairs and maintenance	15.78	13.12	12.03
XI. Insurance	108.35	60.77	25.88
XII. Other expenditure *	3,415.82	3,735.12	3,088.30
Total (I to XII)	**6,318.55**	**6,006.77**	**4,533.94**

* includes expenditure towards Corporate Social Responsibility and Business Correspondent Expenses (refer table below)

Rs. in Million

Particulars	**Year Ended 31 March 2021**	**Year Ended 31 March 2020**	**Year Ended 31 March 2019**
Corporate Social Responsibility	71.55	28.90	11.50
Business Correspondent Expense	2,328.08	2,777.82	2,382.30

ESAF SMALL FINANCE BANK LIMITED
NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

A. DISCLOSURES AS LAID DOWN BY RBI CIRCULARS:

1. Capital Adequacy Ratio:

The Bank is subject to the Basel II Capital Adequacy guidelines - New Capital Adequacy Framework (NCAF) stipulated by RBI. The Capital Adequacy Ratio (CRAR) of the Bank is calculated as per the Standardized approach for Credit Risk.
As per RBI circular "DBR.NBD.No. 4502/16.13.218/2017-18" dated 8 November 2017, no separate capital charge is prescribed for market and operational risk.
The Bank has also considered an additional Risk Weight of 25% on assets under lien for its "grandfathered" legacy borrowings as per instructions received from RBI upto 31 March 2019.
No Capital Conservation Buffer and Counter - Cyclical Capital Buffer is applicable on Small Finance Bank (SFB) as per operating guidelines issued on SFB by RBI.

(Rs. in Million)

Particulars	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
Common Equity Tier I Capital	13,409.07	10,745.01	8,931.57
Tier I Capital - A	13,889.07	11,225.01	9,393.97
Tier II Capital - B	1,737.39	1,627.17	1,730.48
Total Capital (A)+(B)	15,626.46	12,852.18	11,124.45
Total Risk Weighted Assets	64,489.02	53,481.91	40,331.45
Capital Ratios:			
(i) Common Equity Tier I Capital (%)	20.79%	20.09%	22.11%
(ii) Tier I Capital (%)	21.54%	20.99%	23.30%
(iii) Tier II Capital (%)	2.69%	3.04%	4.29%
(iv) Total CRAR (%)	24.23%	24.03%	27.59%
(v) Percentage of the shareholding of the Government of India in Public Sector Banks	NA	NA	NA
(vi) Amount raised by issue of Equity Shares *(Including Share Premium)*	1,625.87	-	4,642.12
(vii) Amount of Additional Tier I capital raised of which:			
Perpetual Non Cumulative Preference Shares (PNCPS)	-	-	-
Perpetual Debt Instruments (PDI)	-	-	-
(viii) Amount of Tier II Capital raised of which:			
Debt capital instruments	-	-	400.00
Preference share capital instruments	-	-	-

2. Investments

2.1 Category-wise details of Investments (Net of provision for depreciation): **(Rs. in Million)**

Sl.No	Particulars	**As at 31 March 2021**			
		HTM	**AFS**	**HFT**	**Total**
(i)	Government securities	18,645.37	244.38	-	**18,889.75**
(ii)	Other approved securities	-	-	-	**-**
(iii)	Shares	-	81.67	-	**81.67**
(iv)	Debentures and bonds	-	-	-	**-**
(v)	Others	-	349.27	-	**349.27**
	Total	**18,645.37**	**675.32**	**-**	**19,320.69**

(Rs. in Million)

Sl.No	Particulars	**As at 31 March 2020**				**As at 31 March 2019**			
		HTM	**AFS**	**HFT**	**Total**	**HTM**	**AFS**	**HFT**	**Total**
(i)	Government securities	12,827.40	2,242.07	-	**15,069.47**	7,047.75	1,568.56	247.78	**8,864.09**
(ii)	Other approved securities	-	-	-	**-**	-	-	-	**-**
(iii)	Shares	-	35.62	-	**35.62**	-	-	-	**-**
(iv)	Debentures and bonds	-	-	-	**-**	-	-	-	**-**
(v)	Others	-	2,231.16	-	**2,231.16**	-	4,948.47	1,494.94	**6,443.41**
	Total	**12,827.40**	**4,508.85**	**-**	**17,336.25**	**7,047.75**	**6,517.03**	**1,742.72**	**15,307.50**

7

Securities kept as margin

The details of securities that are kept as margin are under:

(Rs. in Million)

Sl.No	Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
1	Securities kept as margin with Clearing Corporation of India towards Collateral and funds management - Securities segment	71.00	71.00	51.00

2.2 The details of investments of Bank : (Rs. in Million)

	Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
1.	**Value of Investments**			
i.	Gross value of Investments			
	a. In India	19,327.57	17,354.57	15,307.50
	b. Outside India	-	-	-
ii.	Provision for Depreciation			
	a. In India	6.88	18.32	-
	b. Outside India	-	-	-
iii.	Net value of Investments			
	a. In India	19,320.69	17,336.25	15,307.50
	b. Outside India	-	-	-
2	**Movement of provisions held towards depreciation on investments**			
i.	Opening Balance	18.32	-	-
ii.	Add : Provisions made during the year	17.26	18.32	4.50
iii.	Less : Write off/ Write back of excess provisions made during the year	28.70	-	4.50
iv.	Closing Balance	6.88	18.32	-

3. Details of Repo /Reverse Repos including Liquidity Adjustment Facility (LAF) Transactions in (face value terms):

As at 31 March 2021 (Rs. in Million)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year *	Outstanding as at 31 March 2021
Securities sold under repos				
i. Government securities	1,460.00	1,630.00	1,538.00	1,460.00
ii. Corporate debt securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	2,700.00	13,150.00	8,289.50	11,900.00
ii. Corporate debt securities	-	-	-	-

* daily average is considered for entire Year including the days when outstanding were nil.

As at 31 March 2020 (Rs. in Million)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year *	Outstanding as at 31 March 2020
Securities sold under repos				
i. Government securities	-	1,680.00	89.80	1,630.00
ii. Corporate debt securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	-	3,420.00	674.40	3,100.00
ii. Corporate debt securities	-	-	-	-

* daily average is considered for entire year including the days when outstanding were nil.

As at 31 March 2019 **(Rs. in Million)**

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year*	Outstanding as at 31 March 2019
Securities sold under repos				
i. Government securities	-	-	-	-
ii. Corporate debt securities	-	-	-	-
Securities purchased under reverse repos				
i. Government securities	-	800.00	11.80	800.00
ii. Corporate debt securities	-	-	-	-

* daily average is considered for entire year including the days when outstanding were nil.

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

(i) a. Issuer Composition of Non SLR Investments as at 31 March 2021 **(Rs. in Million)**

Sl.No	Issuer	Amount	Extent of Private placement	Extent of 'Below Investment grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
[1]	[2]	[3]	[4] 1	[5] 1	[6] 1 2	[7] 1 2
1	PSUs	-	-	-	-	-
2	FIs	-	-	-	-	-
3	Banks	288.46	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	148.01	-	-	-	-
7	Provision held towards depreciation	(5.53)	-	-	-	-
	Total	430.94	-	-	-	-

1 Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive.
2 Excludes Investments in Equity shares, Equity Oriented Mutual Funds and Certificate of Deposits in line with extant RBI guidelines.

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b. Issuer Composition of Non SLR Investments as at 31 March 2020 **(Rs. in Million)**

Sl.No	Issuer	Amount	Extent of Private placement	Extent of 'Below Investment grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
[1]	[2]	[3]	[4] 1	[5] 1	[6] 1 2	[7] 1 2 3
1	PSUs	-	-	-	-	-
2	FIs	841.00	-	-	-	-
3	Banks	1,434.20	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	9.90	-	-	-	-
7	Provision held towards depreciation	(18.32)	-	-	-	-
	Total	2,266.78	-	-	-	-

1 Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive.
2 Excludes Investments in Certificate of Deposits / Equity Shares in line with extant RBI guidelines.
3 Excludes Investments in Equity shares, Commercial Papers and Certificate of Deposits in line with extant RBI guidelines.

c. Issuer Composition of Non SLR Investments as at 31 March 2019 **(Rs. in Million)**

Sl.No	Issuer	Amount	Extent of Private placement	Extent of 'Below Investment grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
[1]	[2]	[3]	[4] 1	[5] 1	[6] 1 2	[7] 1 2 3
1	PSUs	-	-	-	-	-
2	FIs	1,919.80	-	-	-	-
3	Banks	4,443.59	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries / Joint ventures	-	-	-	-	-
6	Others	80.02	80.02	-	-	80.02
7	Provision held towards depreciation	-	-	-	-	-
	Total	6,443.41	80.02	-	-	80.02

1 Amount reported under Columns 4,5,6 and 7 above are not mutually exclusive.
2 Excludes Investments in Certificate of Deposits / Equity Shares in line with extant RBI guidelines.
3 Excludes Investments in Equity shares, Commercial Papers and Certificate of Deposits in line with extant RBI guidelines.

(ii) Non-performing Non-SLR investments:
The Bank does not have any non performing non-SLR Investments during the year and as on 31 March 2021, 31 March 2020 and 31 March 2019.

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

During the years ended 31 March 2021, 31 March 2020 and 31 March 2019 there were no sale/transfer of securities to/from HTM category in excess of 5% of book value of investments held in HTM category at the beginning of the year.

In accordance with the RBI guidelines, sales from, and transfers to / from, HTM category exclude the following from the 5% cap

a) one-time transfer of securities permitted to be undertaken by banks at the beginning of the accounting year with approval of the Board of Directors;
b) sales to the RBI under pre-announced open market operation auctions;
c) repurchase of Government securities by Government of India from banks;
d) additional shifting of securities explicitly permitted by the RBI from time to time; and
e) direct sales from HTM for bringing down SLR holdings in the HTM category.
f) sale of securities or transfer to AFS / HFT consequent to the reduction of ceiling on SLR securities under HTM.

6. Derivatives:

The Bank did not have any transactions in derivative instruments. Hence the disclosure is not applicable.

7. Asset Quality

a. Non Performing Assets: **(Rs. in Million)**

Sl. No	Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
(i)	Net NPAs to Net Advances (%)	3.88%	0.64%	0.77%
(ii)	Movement of Gross NPAs			
(a)	Opening balance	1,008.61	740.14	1,210.47
(b)	Additions during the Year	4,734.65	801.06	760.80
(c)	Reductions during the year			
	i) Recoveries (excluding recoveries made from upgraded accounts)	23.84	49.03	30.44
	ii) Upgradations	79.45	190.89	306.99
	iii)Technical / Prudential Write-offs	-	292.67	893.70
	iv) Write-offs other than those under (iii) above	-	-	-
(d)	Closing balance	5,639.97	1,008.61	740.14
(iii)	Movement of Net NPAs			
(a)	Opening balance	421.70	352.05	847.98
(b)	Additions during the year	3,167.38	422.13	351.64
(c)	Reductions during the year	423.30	352.48	847.57
(d)	Closing balance	3,165.78	421.70	352.05
(iv)	Movement of provision for NPAs (excluding provisions on standard assets)			
(a)	Opening balance	586.91	388.09	362.49
(b)	Additions during the year	1,944.55	618.94	1,011.91
(c)	Reductions during the year	57.27	420.12*	986.31*
(d)	Closing balance	2,474.19	586.91	388.09

* includes provision withdrawn for technical write off of Rs.292.70 Million and Rs. 893.70 Million for the years ended 31 March 2020 and 31 March 2019 respectively.

b. Divergence in asset Classification and provisioning

The Bank has been subjected to assessment by the RBI during the period upto 31 March 2019 and no divergence is reported by Reserve Bank of India in its assessment report dated 7 September 2020. The Bank has not been subjected to assessment by the RBI for the years ended 31 March 2020 and 31 March 2021. On account of the same the disclosure on divergence in asset classification and provisioning as per RBI Circular: DBR.BP.BC.No. 63/21.04.018/2016-17 dated 18 April 2017 is not applicable.

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c. Particulars of Accounts Restructured for the year ended 31 March 2021 **Rs.in Million**

Sl No.	Type of Restructuring		Under SME Debt Restructuring Mecahnism					Others					Total				
			Standard	Sub- Standard	Doubtful	Loss	Total	Standard	Sub- Standard	Doubtful	Loss	Total	Standard	Sub- Standard	Doubtful	Loss	Total
1	Restructured Accounts as on 1st April of the FY	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2	Fresh Restructuring During the Year *	No. of borrowers	117	-	-	-	117	634	-	-	-	634	751	-	-	-	751
		Amount Outstanding	21.38	-	-	-	21.38	171.22	-	-	-	171.22	19.26	-	-	-	19.26
		Provision thereon	2.58	-	-	-	2.58	18.50	-	-	-	18.50	2.11	-	-	-	2.11
3	Upgradations to restructured standard category during the FY	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4	Restructured standard advances which cease to attract higher provisioning and / or additional risk weight at the end of the FY and hence neednot be shown asrestructured standardadvances at the beginning of the next FY	No. of borrowers	-					-					-				-
		Amount Outstanding	-					-					-				-
		Provision thereon	-					-					-				-
5	Downgradations of restructured accounts during the FY	No. of borrowers	(28)	28	-	-	-	(46)	46	-	-	-	(74)	74	-	-	-
		Amount Outstanding	(4.70)	4.70	-	-	-	(6.28)	6.28	-	-	-	(10.98)	10.98	-	-	-
		Provision thereon	(1.75)	1.75	-	-	-	(2.01)	2.01	-	-	-	(3.76)	3.76	-	-	-
6	Write-offs of restructured accounts during the FY	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
		Provision thereon	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
7	Restructured Accounts as on March 31 of the FY	No. of borrowers	89	28	-	-	117	588	46	-	-	634	677	74	-	-	751
		Amount Outstanding	16.68	4.70	-	-	21.38	164.94	6.28	-	-	171.22	181.62	10.98	-	-	192.60
		Provision thereon	0.83	1.75	-	-	2.58	16.49	2.01	-	-	18.50	17.32	3.76	-	-	21.08

* The amount reported here represents balance outstanding as on 31 March 2021.

The Bank does not have any restructured account as on and for the year ended 31 March 2020 and 31 March 2019

The Bank does not have any restructured account under CDR Mechanism as on and for the years ended 31 March 2021, 31 March 2020 and 31 March 2019

d) I. Details of resolution plan implemented under the Resolution Framework for COVID-19-related Stress as per RBI circular dated August 6, 2020 are given below.

For the Financial year ended 31 March 2021 **Rs.in Million**

Type of Borrower	(A) Number of accounts where resolution plan has been implemented under this window	(B) Exposure to accounts mentioned at (A) before implementation of the plan	(C) Of (B), aggregate amount of debt that was converted into other securities	(D) Additional funding sanctioned, if any, including between invocation of the plan andimplementation	(E) Increase in provisions on account of the implementation of the resolution
Personal Loans	63	1.69	-	-	0.31
Corporate Persons	-	-	-	-	-
Of Which MSMEs	-	-	-	-	-
Others	571	169.53	-	-	18.19
Total	634	171.22	-	-	18.50

II. Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances

The Bank has restructured accounts in accordance with RBI Circular on 'Micro, Small and Medium Enterprises (MSME) sector — Restructuring of Advances' - DBR.No.BP.BC.100/21.04.048/2017-18 dated 7 February 2018, DBR.No.BP.BC.108/21.04.048/2017-18 dated 6 June 2018, DBR.No.BP.BC.18/21.04.048/2018-19 1 January 2019, DOR.No.BP.BC.34/21.04.048/2019-20 dated 11 February 2020 and DOR.No. BP.BC/4/21.04.048/2020-21 dated 6 August 2020.

For the Financial Year ended 31 March 2021

Rs.in Million

Particulars	As at 31 March 2021	As at 31 March 2020
Number of Accounts Restructured	117	-
Amount	21.38	-

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NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

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

During the years ended 31 March 2021, 31 March 2020 and 31 March 2019, there was no sale of non-performing financial assets to Securitisation Company/ Reconstruction Company for asset reconstruction.

f. Details of book value of investments in Security Receipt

The Bank has not invested in security receipts during the years ended 31 March 2021, 31 March 2020 and 31 March 2019.

g. Details of Non Performing Assets Purchased/Sold

The Bank did not sell/purchase any non-performing assets during the years ended 31 March 2021, 31 March 2020 and 31 March 2019.

h .Provisions on Standard Assets **(Rs. in Million)**

Particulars	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
Provisions towards Standard Assets	1,241.42#	315.90#	215.14

includes Rs. 404.00 Million (31 March 2020: Rs. 44.08 Million) provision against the potential impact of COVID -19 (Refer Note A. 7i (a) of Note 19)

i. (a) COVID Regulatory Package Asset classification and provisioning for the Year ended 31 March 2021

COVID-19 virus, a global pandemic has affected the world economy including India. The extent to which the COVID-19 pandemic including the current second wave witnessed in the country, will continue to impact the Bank's operations and asset quality will depend on the future developments, which are uncertain.

The RBI on 27 March 2020, 17 April 2020 and 23 May 2020, announced 'COVID-19 Regulatory Package' on asset classification and provisioning. In terms of these RBI guidelines, the lending institutions have been permitted to grant an effective moratorium of six months on payment of all instalments/interest as applicable, falling due between 1 March 2020 and 31 August 2020 ('moratorium period'). As such, in respect of all accounts classified as standard as on 29 February 2020, even if overdue, the moratorium period, wherever granted, shall be excluded by the lending institutions from the number of days past-due for the purpose of asset classification under RBI's Income Recognition and Asset Classification norms.

Considering the prevailing uncertainty over the business due to COVID 19 pandemic (including Second Wave), the Bank holds provisions of Rs 404.00 Million as at 31 March 2021 (Previous Year: Rs. 44.08 Million) against the potential impact of COVID-19 as additional contigency provision on standard assets (other than provisions held for restructuring under COVID 19 norms) based on the information available at this point in time. The provisions held by the Bank are in excess of the RBI prescribed norms.

The Honourable Supreme Court (SC) in PIL by Gajendra Sharma Vs Union of India & Anr vide its interim order dated 3 September 2020 has directed Banks that the accounts which were not declared NPA till 31 August 2020 shall not be declared NPA till further orders, pending disposal of the case by Supreme Court. Pursuant to the order, the Bank has not classified any borrowal account which has not been declared as NPA as at 31 August 2020 as per the RBl Prudential norms on Income Recognition, Asset classification, provisioning and other related matters as Non-Performing Asset (NPA) after 31 August 2020. The interim order granted to not declare accounts as NPA stood vacated on 23 March 2021 vlde the Judgement of the Hon'ble SC in the matter of Small Scale Industrial Manufacturers Association Vs. Union of India and Others and other connected matter. In accordance with the instructions in paragraph 5 of the RBI circular dated 7 April 2021 issued In this connection, the Bank has continued with the asset classification of borrower accounts as per the extant RBI instructions/ IRAC norms.

(b) COVID Regulatory Package Asset classification and provisioning for the Year ended 31 March 2020

The outbreak of COVID-19 virus, declared as a global pandemic by the World Health Organisation (WHO) has affected the world economy including India leading to a significant decline and volatility in financial markets and decline in economic activities across the globe. Various governments and central banks have introduced a variety of measures to contain the spread of the virus and to moderate the impact on economic activities and disruptions. On 24 March 2020, the Government of India announced a 21-day lock-down which was further extended three times up to 31 May 2020 across the country to contain the spread of the Virus. The extent to which the COVID-19 pandemic will impact the Bank's business prospects, asset quality, results of operations and other future developments, is highly uncertain. However, the Bank is taking all possible steps to take care of the activities and take proactive steps leveraging the Government of India measures to strengthen the rural economy including among the other things to reduce the severity of the COVID-19 pandemic.

In accordance with the RBI guidelines relating to COVID 19 regulatory package dated 27 March 2020, 17 April 2020 and 23 May 2020, the Bank has granted a moratorium of six months on the payment of instalments and/ or interest, as applicable, falling due between 1 March 2020 to 31 August 2020 to all eligible borrowers. For all such accounts where the moratorium is granted, the asset classification shall remain standstill during the moratorium period (i.e. the number of days past due shall exclude the moratorium period for the purpose of asset classification under the income recognition, asset classification and provisioning norms). In line with the RBI guidelines, the Bank has made a provision of Rs. 44.08 Million as on 31 March 2020 in respect of accounts in overdue standard category against the potential impact of COVID-19.

Disclosure as per RBI Circular on DOR.No.BP.BC.63/21.04.048/2019-20 dated 17 April 2020

Rs. in Million

Particulars	**As at 31 March 2021***	**As at 31 March 2020***
Respective amounts in SMA/overdue categories, where the moratorium/deferment was extended	3,719.60	881.60
Respective amount where asset classification benefits is extended	30,149.80	65,708.80
Provisions Made during the Year	88.20	44.08
Provisions adjusted during the respective accounting periods against slippages and the residual provisions	NA	NA
Residual provisions as at the year end	88.20	44.08

* The above disclosure is not applicable for the year ended 31 March 2019.

j. Interest on Interest

In accordance with the Instructions in the RBI circular dated 7 April 2021, the Bank shall refund / adjust 'interest on interest' to all borrowers including those who had availed of working capital facilitles during the moratorium period, irrespective of whether moratorium had been fully or partially availed, or not availed. Pursuant to these instructions, the methodology for calculation of the amount of such 'interest on Interest' has been finalised by the Indian Banks Association (IBA) in consultation with other Industry participants/ bodies as on 19 April 2021. As on 31 March 2021, the Bank holds provision of Rs. 80 Million, which was created by debiting Interest Income, to meet its aforesaid obligation towards refund of interest on interest to eligible borrowers as prescribed by the RBI.The bank is currently in the process of suitably implementing the methodology of giving credit to the respective eligible borrower accounts.

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NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

8. Business ratios / information:

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
Interest income as a percentage of Working Funds*	14.76%	16.61%	17.34%
Non interest income as a percentage of Working Funds*	1.13%	1.57%	1.83%
Operating profit # as a percentage of Working Funds*	3.74%	3.82%	3.85%
Return on assets (Based on Working Fund*)	0.95%	2.24%	1.52%
Business ^ (deposit plus advance) per employee (Rs. in Million)$	43.20	38.88	38.48
Profit per employee $ (Rs. in Million)	0.28	0.57	0.42

* For the purpose of computing the ratio, Working Fund represents the average of total assets as reported in Form X to RBI under Section 27 of the Banking Regulation Act, 1949

#For the purpose of this ratio, Operating profit is net profit for the year before provisions and contingencies

$ For the purpose of computing the ratio, number of employees (excluding part-time employees) as on Restated Statement of Assets and Liabilities date is considered.

^ Business is sum of net advances and deposits as reported to the RBI under section 27 of the Banking Regulation Act, 1949. Interbank deposits are excluded for the purposes of computation of this ratio.

9. Asset Liability Management

Maturity Pattern of certain items of assets and liabilities as at 31 March 2021: **(Rs. in Million)**

Particulars	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & up to 2 months	More than 2 months and up to 3 months	Over 3 Months and up to 6 months	Over 6 Months and up to 1 year	Over 1 Year and up to 3 years	Over 3 Year and up to 5 years	Over 5 years	Total
Advances	271.69	1,630.12	1,901.80	4,346.98	5,527.93	5,527.93	14,579.72	20,203.66	22,552.55	4,149.68	983.80	81,675.86
Investments	100.00	-	-	249.27	-	81.67	-	-	-	2,021.19	16,868.56	19,320.69
Deposits	884.96	2,253.88	1,463.06	3,401.38	6,475.55	4,708.47	13,221.26	21,516.45	34,667.59	924.36	477.30	89,994.26
Borrowings	-	-	4,000.00	-	-	585.00	2,225.00	2,197.50	6,202.50	1,250.00	480.00	16,940.00
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-	-

Maturity Pattern of certain items of assets and liabilities as at 31 March 2020: **(Rs. in Million)**

Particulars	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & up to 2 months	More than 2 months and up to 3 months	Over 3 Months and up to 6 months	Over 6 Months and up to 1 year	Over 1 Year and up to 3 years	Over 3 Year and up to 5 years	Over 5 years	Total
Advances	-	-	-	-	-	-	7,136.82	24,851.70	28,532.70	4,213.00	744.00	65,478.22
Investments	-	249.90	500.25	-	347.11	35.60	530.37	1,103.79	205.10	1,268.13	13,096.00	17,336.25
Deposits	103.66	972.91	1,178.64	1,618.44	2,896.01	3,105.79	10,357.79	19,787.34	29,960.88	90.83	211.53	70,283.82
Borrowings	0.28	-	-	-	0.28	585.28	1,375.86	2,131.47	5,987.50	1,072.50	880.00	12,033.17
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-	-

Maturity Pattern of certain items of assets and liabilities as at 31 March 2019: **(Rs. in Million)**

Particulars	Day - 1	2-7 Days	8-14 Days	15-30 Days	31 Days & up to 2 months	More than 2 months and up to 3 months	Over 3 Months and up to 6 months	Over 6 Months and up to 1 year	Over 1 Year and up to 3 years	Over 3 Year and up to 5 years	Over 5 years	Total
Advances	161.54	969.25	1,130.79	2,584.67	3,437.14	3,437.14	9,326.38	13,196.62	10,421.05	585.26	232.70	45,482.54
Investments	1.96	1,267.43	767.26	19.51	28.28	786.13	2,901.63	1,469.43	721.36	37.86	7,306.65	15,307.50
Deposits	73.87	570.94	483.43	445.06	942.58	993.95	3,432.56	15,559.50	20,628.71	23.33	16.15	43,170.08
Borrowings	0.27	-	115.29	27.15	149.20	803.53	2,197.46	3,029.42	7,514.78	1,456.49	1,730.01	17,023.60
Foreign Currency Assets	-	-	-	-	-	-	-	-	-	-	-	-
Foreign Currency Liabilities	-	-	-	-	-	-	-	-	-	-	-	-

Also the liquid assets in the form of Reverse Repo for Rs. 11,900 Million as on 31 March 2021 with residual maturity upto one day (31 March 2020: Rs. 3,100 Million) were not included in the above disclosure

Classification of assets and liabilities under the maturity buckets is based on the same estimates and assumptions as used by the Bank for compiling the returns submitted to RBI, which has been relied upon by the auditors.

10. Lending to Sensitive Sectors

a. Exposure to Real Estate Sector: **(Rs. in Million)**

Particulars		As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
	Direct exposure			
i	Residential Mortgages – Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented;	1244.50	788.75	354.72
	of which individual Housing loans eligible for inclusion in priority sector advances	970.54	*566.60*	*180.00*
ii	Commercial Real Estate - Lending secured by mortgages on commercial real estate's (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure also includes non-fund based (NFB) limits	-	-	-
iii	Investments in Mortgage Backed Securities (MBS) and other securitized exposures			
	- Residential	-	-	-
	- Commercial Real Estate	-	-	-
	Indirect Exposure			
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	-	-	-
	Total Exposure to Real Estate Sector	**1,244.50**	**788.75**	**354.72**

b. Exposure to Capital Market **(Rs. in Million)**

Particulars		As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
i	Direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	187.20	53.92	-
ii	Advances against shares / bonds / debentures or other securities or on clean basis to individuals for investment in shares (including IPOs / ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	-	-	-
iii	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	-	-	-
iv	Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds does not fully cover the advances;	-	-	-
v	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stock brokers and market makers;	-	-	-
vi	Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	-	-	-
vii	Bridge loans to companies against expected equity flows / issues;	-	-	-
viii	Underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	-	-	-
ix	Financing to stock brokers for margin trading;	-	-	-
x	All exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect)	-	-	-
xi	Others (Financial Guarantees)	-	-	-
	Total Exposure to Capital Market	**187.20**	**53.92**	**-**

c. Risk category wise country exposure

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

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

During the years ended 31 March 2021, 31 March 2020 and 31 March 2019, the Bank has not exceeded the prudential credit exposure limit as prescribed by the Reserve Bank of India in respect of Single Borrower and Group Borrower

e. Unsecured Advances

During the years ended 31 March 2021, 31 March 2020 and 31 March 2019, the bank has not extended any advances where the collateral is an intangible asset such as a charge over rights, licenses, authorisations, etc.

11. Disclosure of penalties imposed by RBI

During the years ended 31 March 2021, 31 March 2020 and 31 March 2019, no penalty had been imposed by Reserve Bank of India on the Bank under the provision of Section 47 A read with section 46(4) of the Banking Regulation Act, 1949

12 . Provisions and Contingencies

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

(Rs. in Million)

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Provision towards NPA/ Write offs *	1887.40	491.51	919.38
Provision towards Standard Assets #	925.52	100.76	92.33
Provision towards Depreciation on Investments	(11.44)	18.32	-
Provision made towards income tax			
-Current Tax expense ^	602.48	713.50	328.97
-Deferred Tax	(242.71)	(54.84)	40.00
Other Provision and Contingencies	(56.81)	73.86	7.61
Total Provisions and Contingencies	**3104.44**	**1,343.11**	**1,388.29**

* The Bank has changed the estimate relating to minimum provision of unsecured substandard assets to incremental additional provision on quarterly basis during the 4th Quarter of year 2018-19. The impact by way of additional provision during the year on account of the above change in estimate is increase in provision towards NPA by Rs.76.80 Million and reduction in the Profit after Tax by Rs. 54.50 Million for the year ended 31 March 2019.

includes Rs. 404.00 Million, Rs. 44.08 Million and Rs. Nil for the year ended 31 March 2021, 31 March 2020 and 31 March 2019 respectively, provision against the potential impact of COVID -19 (Refer Note A. 7i of Note 19)

^ Net off reversal of Provision for earlier years - Rs. 20 Million during the Year ended 31 March 2021

Amount in bracket represents write backs

13 Floating Provisions

The bank does not have any floating provisions as at and during the years ended 31 March 2021, 31 March 2020 and 31 March 2019.

14 Drawdown from Reserves

The Bank has not drawn down any amount from its opening reserves during the years ended 31 March 2021, 31 March 2020 and 31 March 2019. An amount of Rs.41.53 Million, being the expenditure in connection with further Issue of shares has been charged against Share Premium account in accordance with the accounting policy and as permitted under section 52 of the Companies Act, 2013 during the year ended 31 March 2019.

15. Disclosure of Complaints

a. Customer Complaints

S.No	Particulars	Year ended 31 March 2021	Year ended 31 March 2020	Year ended 31 March 2019
(a)	No. of complaints pending at the beginning of the Year	33	5	-
(b)	No. of complaints received during the Year	7,393	6,089	194
(c)	No. of complaints redressed during the Year	7,208	6,061	189
(d)	No. of complaints pending at the end of the Year	218	33	5

b. Awards passed by the Banking Ombudsman:

S.No	Particulars	Year ended 31 March 2021	Year ended 31 March 2020	Year ended 31 March 2019
(a)	No. of complaints pending at the beginning of the Year	-	-	-
(b)	No. of complaints received during the Year	-	-	-
(c)	No. of complaints redressed during the Year	-	-	-
(d)	No. of complaints pending at the end of the Year	-	-	-

c. Top five grounds of complaints received by the bank from customers

Year ended 31 March 2021

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
(1)	(2)	(3)	(4)	(5)	(6)
ATM Cards/ Debit Cards	23	5050	-2.13%	150	2
Internet banking/ Mobile Banking/ Electronic banking	10	2266	177%	68	-
Account opening/difficulty in operation of accounts	-	57	-8%	-	-
Loans and advances	-	16	-54.28%	-	-
Others	-	4	-75%	-	-
Total	**33**	**7393**	**21.41%**	**218**	**2**

Year ended 31 March 2020

Grounds of complaints, (i.e. complaints relating to)	Number of complaints pending at the beginning of the year	Number of complaints received during the year	% increase/ decrease in the number of complaints received over the previous year	Number of complaints pending at the end of the year	Of 5, number of complaints pending beyond 30 days
(1)	(2)	(3)	(4)	(5)	(6)
ATM Cards/ Debit Cards	2	5160	4.64%	23	1
Internet banking/ Mobile Banking/ Electronic banking	3	816	871.42%	10	-
Account opening/difficulty in operation of accounts	-	62	19.23%	-	-
Loans and advances	-	35	600.00%	-	-
Levy of charges without prior notice/excessive charges/foreclosure charges	-	3	200.00%	-	-
Others	-	13	550.00%	-	-
Total	**5**	**6089**	**19.98%**	**33**	**1**

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

d. Details of Shareholder Complaints:

S.No	Particulars	Year ended 31 March 2021	Year ended 31 March 2020	Year ended 31 March 2019
(a)	No. of complaints pending at the beginning of the Year	-	-	-
(b)	No. of complaints received during the Year	-	-	-
(c)	No. of complaints redressed during the Year	-	-	-
(d)	No. of complaints pending at the end of the Year	-	-	-

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

The Bank has not issued any LOC during the years ended 31 March 2021, 31 March 2020 and 31 March 2019.

17. Provisioning Coverage Ratio

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
Provision Coverage Ratio (PCR)	52.77%	79.93%	78.45%

18. Bancassurance Business (Rs. in Million)

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Fees/remuneration received from Bancassurance business:			
- For selling life insurance policies	75.66	85.21	2.71
- For selling non-life insurance policies	11.78	3.24	0.00
- For selling pension products	0.94	0.76	0.97
Total	**88.38**	**89.21**	**3.68**

19. Concentration of deposits, advances, exposures and NPAs

a. Concentration of deposits: (Rs. in Million)

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Total deposits of twenty largest depositors	8,197.75	7,834.50	7,072.46
Percentage of deposits of twenty largest depositors to total deposits of the Bank	9.11%	11.15%	16.38%

b. Concentration of advances: (Rs. in Million)

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Total advances to twenty largest borrowers	2,999.83	1,293.29	343.93
Percentage of advances to twenty largest borrowers to total advances of the bank	3.58%	1.97%	0.76%

Note: Advance is computed as per the definition of Credit Exposure in RBI Master Circular on Exposure Norms DBOD. No. Dir.BC.12/13.03.00/2015-16 dated 1 July 2015.

c . Concentration of exposures: **(Rs. in Million)**

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Total exposure to twenty largest borrowers/customers	2,999.83	1,547.55	422.43
Percentage of exposures to twenty largest borrowers/customers to total exposure of the bank on borrowers/customers	3.58%	2.35%	0.93%

Note: Exposure is computed as per the definition of Credit and Investment Exposure in RBI Master Circular on Exposure Norms DBOD. No. Dir.BC.12/13.03.00/ 2015-16 dated 1 July 2015.

The bank has compiled the data for the purpose of disclosure in Note No. 19.a to 19.c from its internal MIS system and has been furnished by the management, which has been relied upon by the auditors.

d. Concentration of NPAs: **(Rs. in Million)**

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Total Exposure to top Four NPA Accounts	44.23	6.06	4.46
Total Exposure to top four NPA accounts to Gross NPA	0.78%	0.60%	0.61%

20. Sector-wise Advances

(Rs. in Million)

SI. No	Sector	31 March 2021		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
A	**Priority Sector**			
1	Agricultural and Allied Activities	37,485.27	2,546.53	6.79%
2	Advances to Industry Sector	4,474.44	1,051.55	23.50%
3	Advances to Services Sector	4,657.95	1,219.57	26.18%
4	Personal Loans and others	6,659.72	637.11	9.57%
	Sub-Total (A)	**53,277.38**	**5,454.76**	**10.24%**
B	**Non Priority Sector**			
1	Agricultural and Allied Activities	-	-	-
2	Advances to Industry Sector	5,000.00	-	-
3	Advances to Services Sector	10,000.00	-	-
4	Personal Loans and others	15,872.67	185.21	1.17%
	Sub-Total (B)	**30,872.67**	**185.21**	**0.60%**
	Total (A+B)	**84,150.05**	**5,639.97**	**6.70%**

(Rs. in Million)

SI. No	Sector	31 March 2020		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
A	**Priority Sector**			
1	Agricultural and Allied Activities	33,528.24	509.58	1.52%
2	Advances to Industry Sector	6,210.46	165.94	2.67%
3	Advances to Services Sector	11,607.53	191.20	1.65%
4	Personal Loans and others	5,727.51	94.93	1.66%
	Sub-Total (A)	**57,073.74**	**961.65**	**1.68%**
B	**Non Priority Sector**			
1	Agricultural and Allied Activities	-	-	-
2	Advances to Industry Sector	5,000.00	-	-
3	Advances to Services Sector	-	-	-
4	Personal Loans and others	3,991.37	46.96	1.18%
	Sub-Total (B)	**8,991.37**	**46.96**	**0.52%**
	Total (A+B)	**66,065.11**	**1,008.61**	**1.53%**

(Rs. in Million)

SI. No	Sector	31 March 2019		
		Gross Advances	Gross NPAs	Percentage of Gross NPAs to Gross Advances in that Sector
A	**Priority Sector**			
1	Agricultural and Allied Activities	23,906.58	401.63	1.68%
2	Advances to Industry Sector	5,775.19	36.30	0.63%
3	Advances to Services Sector	7,762.51	77.15	0.99%
4	Personal Loans and others	4,995.98	157.24	3.15%
	Sub-Total (A)	**42,440.26**	**672.32**	**1.58%**
B	**Non Priority Sector**			
1	Agricultural and Allied Activities	2,000.00	-	-
2	Advances to Industry Sector	-	-	-
3	Advances to Services Sector	-	-	-
4	Personal Loans and others	1,430.37	67.82	4.74%
	Sub-Total (B)	**3,430.37**	**67.82**	**1.98%**
	Total (A+B)	**45,870.63**	**740.14**	**1.61%**

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

21. Movement of Technical / Prudential Written off Accounts:

(Rs. in Million)

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Opening balance of Technical/Prudential written-off accounts	1,091.97	893.70	-
Add: Technical/Prudential write-offs during the year	-	292.67	893.70
Sub-total (A)	**1,091.97**	**1,186.37**	**893.70**
Less: Reduction due to recovery made from previously technical/prudential written-off accounts during the year	28.64	94.40	-
Less: Reduction due to sale of NPAs to ARCs from previously technical/prudential written-off accounts during the year	-	-	-
Less: Sacrifice made from previously technical/prudential written-off accounts during the year	-	-	-
Sub-total (B)	**28.64**	**94.40**	**-**
Closing balance (A-B)	**1,063.33**	**1,091.97**	**893.70**

22. Overseas Assets, NPAs and Revenue:

The Bank does not have any overseas Assets during the years ended 31 March 2021, 31 March 2020 and 31 March 2019.

23. Off Balance Sheet SPVs sponsored

There are no Off-Balance Sheet SPVs sponsored (which are required to be consolidated as per accounting norms) during the years ended 31 March 2021, 31 March 2020 and 31 March 2019.

24. Disclosures on Remuneration

A. Qualitative Disclosures:

a) Information relating to the composition and mandate of the Remuneration Committee:

The Nomination, Remuneration & Compensation Committee ("NRC") comprises of 5 directors of the Bank, majority being independent Directors of the Bank. Key mandate of the NRC is to oversee the overall design and operation of the compensation policy of the Bank, formalising criteria for appointment of Directors based on qualification, experience, track record and integrity.

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

Objective of Bank's Compensation Policy is:

· to establish guidelines for the fair and equitable administration of salary and benefits in accordance with the policies of the Bank

· To ensure effective governance of compensation and alignment of compensation practices with prudent risk taking;

· To have mechanisms in place for effective supervisory oversight and Board engagement in compensation. The remuneration process is aligned to the Bank's Compensation Policy objectives.

c) Description of the ways in which current and future risks are taken into account in the remuneration processes. It should include the nature and type of the key measures used to take account of these risks:

In order to manage current and future risk and allow a fair amount of time to measure and review both quality and quantity of the delivered outcomes, the Bank has a policy to set apart a portion of the total compensation of senior and middle management as variable..

In addition, remuneration process provides for 'malus' and 'clawback' option to take care of any disciplinary issue or future drop in performance of individual/ business/ company.

d) Description of the ways in which the bank seeks to link performance during a performance measurement period with levels of remuneration:

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

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

Nil

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

Variable remuneration in the form of Cash is paid at intervals ranging from Monthly, Quarterly and Annual

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

B. Quantitative Disclosures

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

Details of Meetings of Nomination and Remuneration committee is given below

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Number of Meetings of Nomination and Remuneration Committee	7	8	8

Each member of NRC is paid a sitting fee of Rs. 30,000 per meeting upto 30 November 2019 w.e.f from 01 December 2019, sitting fees is increased to Rs 40,000 per meeting.

b) Number of employees having received a variable remuneration award:

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Details of Employees	Four [Quantitative Disclosure is restricted to MD & CEO and 3 Executive Vice President (EVPs)]	Four [Quantitative Disclosure is restricted to MD & CEO and 5 EVPs [1 EVP joined during the year and 1 EVP retired during the year]	Five - MD & CEO and 4 EVPs [2 EVPs resigned during the year]

c) Number and total amount of sign-on awards made

Not Applicable

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

Not Applicable

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

Nil

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

Nil *

g) Total amount of deferred remuneration paid out .

Nil *

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

Rs. in Million

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Total Fixed Salary Paid	25.20	23.20	23.46
Variable Pay and Bonus Paid	1.40	2.36	10.51

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

Nil

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

Nil

* In accordance with guidelines issued by Reserve Bank of India on compensation of whote time Directors/ Chief Executive Officers/ Material Risk Takers and control function staff dated 4 November 2020, Nomination and Remuneration committee of the Board and Board in its respective meetings held on 9 November 2020 and 10 November 2020 recommented the revised salary structure of MD &CEO and approval is sought from Reserve Bank of India. The approval is yet to be obtained.

25. Disclosures relating to Securitization **(Rs. in Million)**

Sl No.	Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
1	No. of SPVs sponsored by the bank for securitization transactions	-	-	6
2	Total amount of Securitized assets as per books of the SPVs sponsored by the bank	-	-	900.90
3	Total			
	A Off Balance Sheet exposures			
	First Loss	-	-	31.20
	Others	-	-	-
	B On Balance Sheet exposures			
	First Loss (Cash Collateral)	-	-	368.51
	Others (Credit Enhancement)	-	-	175.11
4	Amount of exposures to securitization transactions other than MRR as on the date of Restated Statement of Assets and Liabilities			
	A Off Balance Sheet Exposures			
	Exposure to own Securitization			
	First Loss (Subordination of Interest Strip)	-	-	-
	Others	-	-	-
	Exposure to Third Party Securitization			
	First Loss	-	-	-
	Others	-	-	-
	B On Balance Sheet Exposures			
	Exposure to own securitizations			
	First Loss	-	-	80.02
	Others	-	-	-
	Exposure to third party securitization			
	First Loss	-	-	-
	Others	-	-	-

26. Credit Default Swaps

The Bank has not entered into any Credit Default Swap transactions during the years ended 31 March 2021, 31 March 2020 and 31 March 2019.

27. Intra Group Exposures

The Bank does not have any intra group exposures during the years ended 31 March 2021, 31 March 2020 and 31 March 2019. Exposure is computed as per RBI Master Circular on Exposure Norms DBOD. No. Dir.BC.12/13.03.00/ 2015-16 dated 1 July 2015.

28. Transfer to Depositor Education and Awareness Fund (DEAF) **(Rs. in Million)**

Particulars	Year Ended 31 March	Year Ended 31 March	Year Ended 31 March
Opening balance of amounts transferred to DEAF	-	-	-
Add: Amounts transferred to DEAF during the year	-	-	-
Less: Amounts reimbursed by DEAF towards claim	-	-	-
Closing balance of amounts transferred to DEAF	-	-	-

29. Unhedged foreign currency exposure

The Bank does not have any unhedged foreign currency as at 31 March 2021, 31 March 2020 and 31 March 2019.

30. Priority sector lending certificates

The amount of PSLCs (Category wise) sold/ purchased

(Rs. in Million)

Sl No.	Type of PSLCs	Year Ended 31 March 2021		Year Ended 31 March 2020		Year Ended 31 March 2019	
		Purchase	Sale	Purchase	Sale	Purchase	Sale
1	PSLC- Agriculture	-	-	-		-	2,000
2	PSLC- SF/MF	-	-	-	-	-	-
3	PSLC- Micro enterprises	-	10,000	-	5,000	-	-
4	PSLC- General	-	10,000	-	-	-	-

31. Provisioning Pertaining to Fraud Accounts

The Bank has reported cases and amount involved as per the table given below. Amount involved in fraud net of recovery has been fully provided for in the books of account. Bank does not have any unamortised loss in this regard .

Rs. in Million

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Number of cases	10	23	6
Amount of Involved	0.50	10.20	1.95

32. Inter-bank participation with risk sharing

The aggregate amount of participation issued by the Bank and reduced from advances as per regulatory guidelines is as follows:

Rs. in Million

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Inter Bank Participation Certificates	-	2,000	3,000

33. Disclosures relating to Flexible structuring, Strategic Debt Restructuring and Sustainable structuring of Stressed Assets (S4A)

The Bank does not have any Flexible structuring, Strategic Debt Restructuring and Sustainable structuring of Stressed Assets (S4A) during the years ended 31 March 2021, 31 March 2020 and 31 March 2019. Hence the disclosures relating to the same is not applicable to the Bank.

34. Unamortised Pension and Gratuity Liabilities

Them are no unamortised pension and gratuity liabilities as at 31 March 2021, 31 March 2020 and 31 March 2019.

35. Details of factoring exposure:

The factoring exposure of the Bank is NIL as at 31 March 2021, 31 March 2020 and 31 March 2019

ESAF SMALL FINANCE BANK LIMITED
NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

36. A. Liquidity Coverage Ratio **(Rs. in Million)**

		Three Month period ended 30 June 2020		Three Month period ended 30 September 2020		Three Month period ended 31 December 2020		Three Month period ended 31 March 2021	
High Quality Liquid Assets		**Total Unweighted value (average)**	**Total Weighted value (average)**	**Total Unweighted value (average)**	**Total Weighted value (average)**	**Total Unweighted value (average)**	**Total Weighted value (average)**	**Total Unweighted value (average)**	**Total Weighted value (average)**
1	Total High Quality Liquid Assets (HQLA)	19,645.80	19,645.80	24,520.91	24,520.91	31,057.85	31,057.85	27,731.88	27,731.88
Cash Outflows									
2	Retail deposits and deposits from small business customers, of								
	i Stable deposits	55,169.85	2,758.49	60,135.91	3,006.80	64,095.10	3,204.75	64,574.42	3,228.72
	ii Less stable deposits	4,800.27	480.03	5,564.61	556.46	5,472.05	547.21	6,749.91	674.99
3	Unsecured wholesale funding, of which								
	i Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	ii Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	iii Unsecured debt	10,066.00	8,992.57	12,021.48	10,755.53	12,820.43	11,416.38	13,851.66	12,537.78
4	Secured wholesale funding	0.28	0.28	41.95	41.95	0.29	0.29	0.10	0.10
5	Additional requirements, of which								
	i Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
	ii Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
	iii liabilities from maturing ABCP, SIV's, SPV's etc. assignments	15.05	15.05	15.20	15.20	15.33	15.33	16.05	16.05
6	Currently undrawn committed credit and liquidity facilities	277.70	92.64	281.60	92.83	292.18	93.36	314.03	94.45
7	Other contractual and Contingent funding obligations	1,283.25	1,270.21	1,504.80	1,491.92	1,745.67	1,745.67	2,413.80	2,413.80
8	Other Contingent funding obligations	13.04	0.39	12.88	0.39	12.88	0.39	13.04	0.39
9	**Total Cash Outflows**	**71,625.44**	**13,609.66**	**79,578.43**	**15,961.08**	**84,453.93**	**17,023.38**	**87,933.01**	**18,966.28**
Cash Inflows									
10	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
11	Inflows from fully performing exposures	-	-	2,652.41	1,326.21	4,985.40	2,492.70	5,288.55	2,644.28
12	Other cash inflows	495.34	495.34	4,045.49	4,045.49	83.37	83.37	83.33	83.33
13	**Total Cash Inflows**	**495.34**	**495.34**	**6,697.90**	**5,371.70**	**5,068.77**	**2,576.07**	**5,371.88**	**2,727.61**
14	Total HQLA (a)		19,645.80	24,520.71	24,520.71	31,057.85	31,057.85	27,731.88	27,731.88
15	Total Net Cash Outflows		13,114.32		10,589.38		14,447.31		16,238.67
16	25% of Total cash flow		3,402.42		3,990.27		4,255.85		4,741.57
17	Total Net Cash inflows [Higher of 15 or 16] (b)		13,114.32		10,589.38		14,447.31		16,238.67
18	**Liquidity Coverage Ratio (%) (a/b)**		**149.80%**		**231.56%**		**214.97%**		**170.78%**

Average of all Quarters is simple average of monthly observations for the Quarter

ESAF SMALL FINANCE BANK LIMITED

NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

Liquidity Coverage Ratio **(Rs. in Million)**

			Three Month period ended 30 June 2019		Three Month period ended 30 September 2019		Three Month period ended 31 December 2019		Three Month period ended 31 March 2020	
High Quality Liquid Assets			**Total Unweighted value (average)**	**Total Weighted value (average)**	**Total Unweighted value (average)**	**Total Weighted value (average)**	**Total Unweighted value (average)**	**Total Weighted value (average)**	**Total Unweighted value (average)**	**Total Weighted value (average)**
1	Total High Quality Liquid Assets (HQLA)		9,079.32	9,079.32	11,020.36	11,020.36	13,213.27	13,213.27	14,441.92	14,441.92
Cash Outflows										
2	Retail									
	i	Stable deposits	35,281.98	1,764.10	42,520.90	2,126.04	46,936.42	2,346.82	51,439.66	2,571.99
	ii	Less stable deposits	1,005.50	100.55	1,406.43	140.64	2,346.13	234.61	2,650.54	265.05
3	Unsecured wholesale funding, of which									
	i	Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	ii	Non-operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	iii	Unsecured debt	4,830.35	3,094.38	6,428.67	4,498.70	8,532.95	6,279.17	10,291.56	7,642.65
4	Secured wholesale funding		442.94	442.94	116.64	116.64	197.55	197.55	28.54	28.54
5	Additional requirements, of which									
	i	Outflows related to derivative exposures	-	-	-	-	-	-	-	-
	ii	Outflows related to loss of funding on debt	-	-	-	-	-	-	-	-
	iii	liabilities from maturing ABCP, SIV's,	222.37	222.37	65.94	65.94	16.11	16.11	16.68	16.68
6	Other contractual funding obligations		1,327.07	1,327.07	1,745.39	1,745.39	1,468.24	1,468.24	1,038.86	935.43
7	Other contingent funding obligations		-	-	33.84	1.02	16.38	0.49	13.04	0.39
8	**Total Cash Outflows**		**43,110.21**	**6,951.41**	**52,317.81**	**8,694.37**	**59,513.78**	**10,542.99**	**65,478.88**	**11,460.73**
Cash Inflows										
9	Secured lending (e.g. reverse repos)		-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures		5,940.82	2,970.41	6,396.72	3,198.36	6,898.63	3,449.32	4,763.40	2,381.70
11	Other cash inflows		3,100.23	3,100.23	3,339.40	3,339.40	1,019.36	1,019.36	873.79	873.79
12	**Total Cash Inflows**		**9,041.05**	**6,070.64**	**9,736.12**	**6,537.76**	**7,917.99**	**4,468.68**	**5,637.19**	**3,255.49**
13	Total HQLA (a)		9,079.32	9,079.32	11,020.36	11,020.36		13,213.27		14,441.92
14	Total Net Cash Outflows			880.77		2,156.61		6,074.31		8,205.24
15	25% of Total cash flow			1,737.85		2,173.59		2,635.75		2,865.18
16	Total Net Cash inflows [Higher of 13 or 14] (b)			1,737.85		2,173.59		6,074.31		8,205.24
17	**Liquidity Coverage Ratio (%) (a/b)**			**522.44%**		**507.01%**		**217.53%**		**176.01%**

Average of all Quarters is simple average of monthly observations for the Quarter

ESAF SMALL FINANCE BANK LIMITED
NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

Liquidity Coverage Ratio (Rs. in Million)

		Three Month period ended 30 June 2018		Three Month period ended 30 September 2018		Three Month period ended 31 December 2018		Three Month period ended 31 March 2019	
High Quality Liquid Assets		Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)	Total Unweighted Value (average)	Total Weighted Value (average)
1	Total High Quality Liquid Assets (HQLA)	5,152.60	5,152.60	6,651.63	6,651.63	7,837.27	7,837.27	7,255.87	7,255.87
Cash Outflows									
2	Retail deposits and deposits from small business customers, of which:								
	i Stable deposits	11,490.93	574.50	15,784.40	789.19	23,288.17	1,164.39	28,561.97	1,428.10
	ii Less stable deposits	1,244.70	124.43	642.33	64.25	1,133.37	113.34	865.10	86.51
3	Unsecured wholesale funding, of which								
	i Operational deposits (all counterparties)	-	-	-	-	-	-	-	-
	ii Non-operational deposits (all	-	-	-	-	-	-	-	-
	iii Unsecured debt	10,221.23	6,958.30	7,382.77	5,862.90	4,524.13	3,370.70	3,516.30	1,913.57
4	Secured wholesale funding	789.37	789.37	413.50	413.50	1,045.10	1,045.10	178.10	178.10
5	Additional requirements, of which		-	-	-	-	-	-	-
	i Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-
	ii Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-
	iii liabilities from maturing ABCP, SIV's, SPV's etc. assignments	677.40	677.40	434.37	434.37	399.10	399.10	345.60	345.60
6	Other contractual funding obligations	1,116.43	1,116.43	1,324.17	1,324.17	839.87	839.87	667.13	667.13
7	Other contingent funding obligations	-	-	-	-	-	-	-	-
8	**Total Cash Outflows**	**25,540.06**	**10,240.43**	**25,981.54**	**8,888.38**	**31,229.74**	**6,932.50**	**34,134.20**	**4,619.01**
Cash Inflows									
9	Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-
10	Inflows from fully performing exposures	3,923.93	1,961.97	5,211.20	2,605.58	5,706.70	2,853.35	5,681.53	2,840.77
11	Other cash inflows	4,298.94	4,298.94	5,750.00	5,750.00	4,268.47	4,268.47	3,738.00	3,738.00
12	**Total Cash Inflows**	**8,222.87**	**6,260.91**	**10,961.20**	**8,355.58**	**9,975.17**	**7,121.82**	**9,419.53**	**6,578.77**
13	Total HQLA (a)	5,152.60	5,152.60	6,651.63	6,651.63	7,837.27	7,837.27	7,255.87	7,255.87
14	Total Net Cash Outflows		3,979.52		532.80		(189.32)		(1,959.76)
15	25% of Total cash flow		2,560.11		2,222.10		1,733.13		1,154.75
16	Total Net Cash inflows [Higher of 13 or 14] (b)		3,979.52		2,222.10		1,733.13		1,154.75
17	**Liquidity Coverage Ratio (%) (a/b)**		**129.48%**		**299.34%**		**452.20%**		**628.35%**

Average of all Quarters is simple average of monthly observations for the Quarter

B. Qualitative disclosure around LCR

The Reserve Bank of India has prescribed monitoring of sufficiency of Bank's liquid assets using Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and the LCR Disclosure Standards" and "Operating Guidelines for Small Finance Banks". The LCR is aimed at measuring and promoting short-term resilience of Banks to potential liquidity disruptions by ensuring maintenance of sufficient high quality liquid assets (HQLAs) to survive an acute stress scenario lasting for 30 days. High Ratio signifies Bank has enough liquid assets which it can use to fulfil its liquidity obligations in acute stress scenario.

The LCR requirement has been introduced in a phased manner with banks required to maintain minimum LCR of 60% till December 2017 and the 70% from January 2018 onwards. The requirement will be increasing by 10% annually to 100% by Jan 2021. LCR requirement is currently at 90% effective January 2019. However on account of COVID Outbreak and in terms of RBI Circular DOR.BP.BC.No.65/21.04.098/2019-20 dated April 17, 2020, banks are permitted to maintain 80% from the date of circular to 30 September 2020, 90% from 1 October 2020 to 31 March 2021 and 100% from 1 April 2021.

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

The Bank has implemented the LCR and has maintained LCR well above the regulatory threshold. As on 31 March 2021, 31 March 2020 and 31 March 2019, the average LCR stood at 170.78%, 176.01% and 628.35% respectively.

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

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

B. OTHER DISCLOSURES:

1. Earnings per Equity Share:

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Net Profit attributable to equity share holders (Rs. in Million)	1,053.96	1,903.90	902.84
Weighted average number of equity shares used in computation of basic and diluted earnings per share (in Million)	427.85	427.80	380.95
Nominal value per share (Rs.)	10.00	10.00	10.00
Basic and diluted earnings per share (Rs.)	2.46	4.45	2.37

2. Segment Reporting:

(Rs. in Million)

As at and year ended 31 March 2021					
Particulars	**Treasury**	**Wholesale Banking**	**Retail Banking**	**Other**	**Total**
Segment Revenue	1,913.87	167.58	15,372.14	219.18	17,672.77
Segment Results	**13.86**	**59.65**	**1,150.42**	**189.81**	**1,413.74**
Income Tax Expenses					359.78
Net Profit					1,053.96
Segment Assets	**36,640.62**	**2,588.40**	**81,824.39**	**-**	**1,21,053.41**
Unallocated Assets					2,333.11
Total Assets					1,23,386.52
Segment Liabilities	**24,889.14**	**10.34**	**83,521.47**	**-**	**1,08,421.05**
Unallocated Liabilities					1,444.83
Share Capital and Reserves and Surplus					13,520.64
Total Liabilities					1,23,386.52

(Rs. in Million)

As at and year ended 31 March 2020					
Particulars	**Treasury**	**Wholesale Banking**	**Retail Banking**	**Other**	**Total**
Segment Revenue	1,816.08	83.43	13,388.82	176.02	15,464.35
Segment Results	**137.57**	**27.63**	**2,245.79**	**151.57**	2,562.56
Income Tax Expenses					658.66
Net Profit					1,903.90
Segment Assets	**25,982.97**	**1,064.83**	**66,236.13**	**-**	**93,283.93**
Unallocated Assets					1,415.79
Total Assets					94,699.72
Segment Liabilities	**14,901.85**	**4.26**	**67,926.74**	**-**	**82,832.85**
Unallocated Liabilities					1,026.06
Share Capital and Reserves and Surplus					10,840.81
Total Liabilities					94,699.72

(Rs. in Million)

As at and year ended 31 March 2019					
Particulars	**Treasury**	**Wholesale Banking**	**Retail Banking**	**Other**	**Total**
Segment Revenue	1,180.69	6.98	10,202.35	17.87	11,407.89
Segment Results	**50.15**	**5.15**	**1,206.01**	**10.50**	**1,271.81**
Income Tax Expenses					368.97
Net Profit					902.84
Segment Assets	**23,082.56**	**310.13**	**46,154.69**	**-**	**69,547.38**
Unallocated Assets					1,036.75
Total Assets					70,584.13
Segment Liabilities	**11,137.54**	**0.12**	**49,547.29**	**-**	**60,684.95**
Unallocated Liabilities					962.27
Share Capital and Reserves and Surplus					8,936.91
Total Liabilities					70,584.13

Segmental information is provided as per the MIS available for internal reporting purposes, which included certain estimates and assumptions, which has been relied upon by the auditors

Part B - Geographical Segments

The business of the Bank is in India only. Accordingly, geographical segment is not applicable.

ESAF SMALL FINANCE BANK LIMITED
NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

3. Lease Disclosures:

The Bank has taken on rent branch premises for periods ranging from 11 months to 120 months. The lease payments recognised in the Restated Profit and Loss Account is as below:

(Rs. in Million)

Particulars	**Year Ended 31 March 2021**	**Year Ended 31 March 2020**	**Year Ended 31 March 2019**
Lease payments	350.65	283.28	232.75

The future minimum lease payments under non cancellable operating leases is given below:

(Rs. in Million)

Particulars	**Year Ended 31 March 2021**	**Year Ended 31 March 2020**	**Year Ended 31 March 2019**
not later than one year	366.10	293.60	252.20
later than one year but not later than five years	1,731.30	1,241.50	1,089.36
later than five years	772.50	977.10	227.16

The terms of renewal and escalation clauses are those normally prevalent in similar agreements. There are no undue restrictions or onerous clauses in the agreement.

4. Deferred Taxes: **(Rs. in Million)**

Particulars	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
Deferred Tax Asset (A)			
Provision for Employee Benefits	21.58	15.24	13.31
Provision for Standard assets and NPA	285.97	53.04	32.02
Fixed Assets : on differences between book balances and tax balance of fixed asset	22.99	10.17	-
Other Provisions	25.76	35.16	14.81
Total A	**356.30**	**113.61**	**60.14**
Deferred Tax Liabilities (B)			
Fixed Assets : on differences between book balances and tax balance of fixed asset	-	-	1.37
Total B	**-**	**-**	**1.37**
Deferred Tax Asset (net) (A)-(B)	**356.30**	**113.61**	**58.77**

The Bank has elected to exercise the option permitted under Section 115 BAA of the Income Tax Act, 1961 as introduced by the Taxation Laws (Amendment) Ordinance 2019. Accordingly, the Bank has recognised Provision for Income Tax year ended 31 March 2020 and re-measured its deferred tax assets based on the rates prescribed in the aforesaid section and recognised the effect of change in the Restated Profit and Loss Account. The re-measurement has resulted in an additional charge to the net profit during the year ended 31 March 2020 and a write down of the net deferred tax assets pertaining to earlier years by Rs. 8.00 Million.

5. Credit card reward points:

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

6. Fixed Assets as per Note 12 include intangible assets relating to purchased software and system development expenditure which are as follows:

(Rs. in Million)

Particulars	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
Gross Block			
At cost on 31 March of the preceding year	151.14	126.28	113.57
Additions during the year	57.04	24.86	12.71
Deductions during the year	-	-	-
Total	**208.18**	**151.14**	**126.28**
Depreciation / Amortization			
As at 31 March of the preceding year	90.51	58.98	29.07
Charge for the year	35.61	31.53	29.91
Deductions during the year	-	-	-
Depreciation to date	**126.12**	**90.51**	**58.98**
Net Block	**82.06**	**60.63**	**67.30**

ESAF SMALL FINANCE BANK LIMITED
NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

7. Related Party Disclosures:#

Related Party	**Nature of Relationship**
ESAF Financial Holdings Private Limited ("erstwhile ESAF Microfinance and Investments Private Ltd.") ("EFHL")	Significant Investor *
CEDAR Retail Private Ltd. ("Cedar Retail")("erstwhile ESAF Retail Private Limited)	Entities in which Key Managerial Person (KMP)is a member (shareholder)
Lahanti Homes and Infrastructure (P) Ltd. [Erstwhile ESAF Homes and Infrastructure Private Ltd] ("Lahanti Homes")	Entities in which Key Managerial Person (KMP) is a member (shareholder)
ESAF Swasraya Producers Company Ltd. ("ESAF Producer Company")	Entities in which Key Managerial Person (KMP) is a member (shareholder)
K. Paul Thomas	Key Managerial Person (MD and CEO)
Mereena Paul	Relative of KMP
Emy Acha Paul	Relative of KMP
Alok Paul Thomas	Relative of KMP
Abhishek Joe Paul	Relative of KMP
Ashish Krish Paul	Relative of KMP
Beena George	Relative of KMP
ESAF Swasraya Multi State Agro Co operative Society Ltd. ("ESCO") ^	Enterprises over which KMP has significant influence through relative (Upto 13 March 2021)
Lahanti Last Mile Service Limited ("LLMS")^	Enterprises over which KMP has significant influence through relative (Upto 15 March 2021)
Evangelical Social Action Forum ("ESAF Society")	Enterprises over which KMP has significant influence along
Prachodhan Development services ("Prachodhan")	Enterprises over which KMP has significant influence through relative

Related parties are identified as per Accounting Standard 18 - Related Party Disclosures specified under Section 133 of the Companies Act, 2013 read with the Companies (Accounts) Rules, 2014.

*EFHL is holding 62.46% , 65.63% and 65.63% of the equity share capital of the Bank for the year ended 31 March 2021, 31 March 2020 and 31 March 2019 respectively. However, since the voting rights of any investor in Banks are restricted to 26% pursuant to the provisions of RBI guidelines, EFHL has been considered as Significant Investor.

^ During the year ended 31 March 2021 effective from 13 March 2021 Ms Mereena Paul and Mr Alok Thomas Paul (Relatives of MD CEO) have resigned as Directors of ESAF Swasraya Multi State Agro Cooperative Society Ltd ESCO) Further effective from 24 January 2021 Ms Emy Acha Paul and Mr Sunny Thomas (Relatives of MD CEO) have relinquished the Directorships as well shareholding in Lahanti Lastmile Services Private Limited (LLMS) and Mr Samu John (Relative of MD CEO) has resigned as director of LLMS on 15 March 2021 Resulting from the above both ESCO and LLMS ceases to be related parties effective from 13 March 2021 and 15 March 2021 respectively. However, the normal business transactions with the said related parties is disclosed for the full financial year. Since the relationship does not exist as on the Balance sheet, Closing balances of the said related parties are not disclosed.

ESAF SMALL FINANCE BANK LIMITED
NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

Transactions during the year with the Related Party

(Rs. in Million)

Nature of Transaction	Related Party	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Liabilities				
Term Deposit placed	Cedar Retail	80.00	85.50	439.14
	ESCO	90.00	452.00	-
	ESAF Society	-	5.00	6.00
	LLMS	22.00	26.00	-
	K. Paul Thomas	4.00	2.50	-
	Emy Acha Paul	-	0.70	-
	Beena George	0.10	0.32	-
Term Deposit Matured	EFHL	-	-	1,333.70
	ESCO	-	416.00	500.00
	Cedar Retail	117.50	71.00	416.14
	Beena George	0.20	*	-
	LLMS	5.00	1.00	-
Transactions in Demand Deposit [Net]	ESCO	1.05	(6.45)	(368.05)
	Cedar Retail	(10.14)	(31.95)	23.51
	EFHL	(12.60)	12.93	(24.65)
	LLMS	22.65	(20.43)	22.50
	ESAF Society	(0.86)	1.23	0.03
	Lahanti Homes	1.91	-	-
	Prachodan	0.40	-	-
Transactions in Savings Deposit (Net)	K. Paul Thomas	(3.67)	*	3.25
	Mereena Paul	(1.70)	1.66	0.60
	ESCO	(130.30)	(603.69)	1,027.62
	Emy Acha Paul	0.13	*	*
	Alok Paul Thomas	*	*	0.02
	Abhishek Joe Paul	*	-	-
	Ashish Krish Paul	*	-	-
	ESAF Society	8.52	5.43	17.37
	Beena George	0.25	0.12	-
	ESAF Producer Company	0.22	-	-
	Prachodhan	9.78	-	-
Interest accrued and due on Deposits (Gross of TDS)	ESCO	27.53	46.00	37.77
	EFHL	52.13	52.34	150.03
	Cedar Retail	0.51	2.55	1.95
	ESAF Society	3.19	3.05	0.81
	K. Paul Thomas	0.69	0.39	0.08
	LLMS	2.41	0.68	-
	Mereena Paul	0.09	0.08	-
	Emy Acha Paul	0.06	*	-
	Alok Paul Thomas	*	*	-
	Beena George	0.05	*	-
	Prachodhan	0.62	-	-
	Abhishek Joe Paul	*	-	-
	Ashish Krish Paul	*	-	-
Subordinate Debt	ESCO	-	-	400.00
Interest Accrued & Payable on PDI	ESCO	62.40	62.40	87.69
Interest Accrued & Payable on Subodrinate Debt	ESCO	95.45	95.76	62.40
Issue of Equity Shares	ESCO	-	-	213.47
	Mareena Paul	0.33	-	-
	Emy Acha Paul	0.13	-	-
	Alok Paul Thomas	0.13	-	-
	Beena George	0.40	-	-
Share Premium	ESCO	-	-	641.90
	Mareena Paul	2.17		
	Emy Acha Paul	0.87		
	Alok Paul Thomas	0.87		
	Beena George	2.60		
Collections as per Agency agreement	Cedar Retail	-	0.10	0.43

(Rs. in Million)

Nature of Transaction	**Related Party**	**Year Ended 31 March 2021**	**Year Ended 31 March 2020**	**Year Ended 31 March 2019**
Payment of Collections as per Agency agreement	Cedar Retail	-	5.00	3.34
Contingent Liability				
Bank Guarantee Given	ESAF	-	5.00	5.90
Assets				
Advance	EFHL	11.04	44.41	35.00
	Cedar Retail	-	16.80	30.00
	Beena George	1.41	7.50	-
Advances - Repaid	Cedar Retail	10.25	6.80	30.00
	Beena George	6.24	0.50	-
Vehicle Purchased	EFHL	-	-	3.54
Rent Deposit Repaid	K Paul Thomas	0.72	-	-
	EFHL	-	-	0.23
Expenses				
Rent paid	Lahanti Homes	20.98	20.98	18.24
	EFHL	-	-	0.41
	K. Paul Thomas	-	1.46	1.44
	ESAF Society	0.21	0.20	0.19
Interest paid on deposits	ESCO	27.53	46.00	37.77
	EFHL	52.13	52.34	150.03
	LLMS	2.41	0.68	-
	Cedar Retail	0.51	2.55	1.95
	K. Paul Thomas	0.69	0.39	0.08
	Mereena Paul	0.09	0.08	*
	Emy Acha Paul	0.06	*	*
	ESAF Society	3.19	3.05	0.81
	Alok Paul Thomas	*	*	*
	Abhishek Joe Paul	*		
	Ashish Krish Paul	*		
	Beena George	0.05	*	-
	Prachodhan	0.62	-	-
Interest paid on PDI	ESCO	62.40	62.40	62.40
Interest paid on Sub Debt	ESCO	95.45	95.76	70.24
Office stationery	Cedar Retail	-	0.18	0.44
Gifts & Conference kit	ESAF Producer Company	-	*	0.26
Business Correspondent expenses (Refer Note A. 7(h) of Note 19)	ESCO	1,950.31	2,415.45	2,349.43
	LLMS	184.75	204.77	-
Corporate Facility Management service charges	ESCO	124.64	97.68	69.22
Remuneration and Sitting Fees	K. Paul Thomas	14.05	13.20	12.89
Reimbursement of expenses	K. Paul Thomas	1.23	-	-
Corporate Social Responsibility Expenses	ESAF Society	32.55	22.70	11.50
	Prachodhan	39.00	6.20	-
Project cost for rebuilding of houses in relation to flood relief	ESAF Society	-	-	4.95
Royalty Expense	ESAF Society	26.85	-	-
Income				
Interest on Advances	Cedar Retail	*	0.10	0.09
	Beena George	0.64	0.20	-
	EFHL	14.38	7.30	-

Figures in brackets indicate net outflow

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

ESAF SMALL FINANCE BANK LIMITED
NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

Balance outstanding : **(Rs. in Million)**

Items/Related Party	Significant Investor			KMP and Enterprises over which KMP/Relative of KMP have control / significant influence		
	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
Liabilities						
Term Deposits	352.61	352.61	352.60	20.53	115.27	29.00
Demand Deposit (Including Savings Deposits)	4.48	17.08	4.15	59.14	586.78	1,240.20
Equity Shares (Including Share Premium)	2,839.00	2,839.00	2,839.00	319.37	1,172.27	1,172.27
Borrowings	-	-	-	-	1,330.00	1,330.00
Other Liabilities	-	-	0.10	27.63	289.53	29.60
Contingent Liability						
Bank Guarantee	-	-	-	10.90	10.90	5.90
Assets						
Advances	90.45	79.40	35.00	-	17.27	-
Others	2.33	-	-	-	15.90	15.90

Maximum Balance outstanding during the year **(Rs. in Million)**

Items/Related Party	Significant Investor			KMP and Enterprises over which KMP/Relative of KMP have control / significant influence		
	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Liabilities						
Term Deposits	352.60	357.04	1,683.70	20.62	601.32	506.00
Demand Deposit (Including Savings Deposits)	44.45	41.34	567.50	83.16	1,298.27	1,240.20
Equity Shares (Including Share Premium)	2,839.00	2,839.00	2,839.00	319.37	1,172.27	1,172.27
Borrowings	-	-	-	-	1,330.00	1,330.00
Assets		-				
Advances	90.45	79.41	35.00	-	24.17	30.00

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

8. Employee Share Based Payments

The Bank has not made any share based payments during the years ended 31 March 2021, 31 March 2020 and 31 March 2019.

9. Advances securitized by the Bank:

(Rs. in Million)

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Book value of advances securitized	-	6,560.07	6,560.07
Number of accounts	-	3,95,389	3,95,389
Sale consideration received for the accounts securitized	-	6,560.07	6,560.07
Interest spread on securitisation during the year	-	86.30	411.22
Credit enhancement, liquidity support provided	-	576.82	576.82
Provision on securitized assets	-	-	16.32
Number of accounts as on date	-	-	1,32,056
Outstanding as on date	-	-	725.79
Nature of post securitization support	-	-	-

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

10. Employee Benefits

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

(Rs. in Million)

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Provident Fund	70.84	59.47	20.57*

* Honourable Supreme Court vide their judgement dated February 28, 2019 clarified the scope of definition of "Basic Salary" for provident fund component. Based on the legal opinion, the Bank believes that the liability on account of this decision is prospective and has provided for the incremental liability with effect from 1 March 2019.

ii. Gratuity

The gratuity plan provides a lump sum payment to vested employees at retirement or on termination of employment based on respective employee's salary and years of employment with the Bank subject to maximum of Rs.2.00 Million.

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

Reconciliation of Defined Benefit Obligation (DBO) (Rs. in Million)

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
Present value of DBO at start of year	56.95	35.44	20.66
Current Service Cost	32.26	20.35	11.02
Interest Cost	3.64	2.55	1.53
Benefits Paid	(1.88)	(0.70)	(0.41)
Past Service Cost	-	-	-
Actuarial (Gain)/Loss	(6.80)	(0.69)	2.64
Present value of DBO at end of year	**84.17**	**56.95**	**35.44**

Reconciliation of Fair Value of Plan Assets (Rs. in Million)

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
Fair value of Plan assets at start of year	**41.90**	**13.07**	**12.52**
Contributions by employer	15.04	28.56	-
Benefits Paid	(1.88)	(0.70)	(0.41)
Expected return on plan assets	3.15	1.98	0.92
Actuarial Gain/(Loss)	0.07	(1.01)	0.04
Fair value of Plan assets at end of year	**58.28**	**41.90**	**13.07**
Actual Return on plan assets	3.22	0.97	0.96
Expected Employer Contributions for the coming Year	25.00	15.00	7.00

ESAF SMALL FINANCE BANK LIMITED
NOTE 19- NOTES TO ACCOUNTS FORMING PART OF RESTATED FINANCIAL INFORMATION

Expense recognized in the Restated Profit and Loss Account **(Rs. in Million)**

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Current Service Cost	32.26	20.35	11.02
Interest Cost	3.64	2.55	1.53
Past Service Cost	-	-	-
Expected return on plan assets	(3.15)	(1.98)	(0.92)
Actuarial (Gain)/Loss	(6.87)	0.32	2.60
Employer Expense/(Income)	**25.88**	**21.24**	**14.23**

Net Liability/(Asset) recognized in the Restated Statement of Assets and Liabilities **(Rs. in Million)**

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
Present value of DBO	84.17	56.95	35.44
Fair value of plan assets	58.28	41.90	13.07
Net liability/(Asset)	**25.89**	**15.05**	**22.37**
Less: Unrecognized Past Service Cost	-	-	-
Liability/(Asset) recognized in the Restated Statement of Assets and Liabilities	**25.89**	**15.05**	**22.37**

Category of Plan Assets

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
Insurer managed fund	99.90%	99.50%	100%
Bank Balance	0.10%	0.50%	0%

Actuarial assumptions used

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019
Salary Growth Rate	7.5% p.a	7.5% p.a	7.5% p.a
Discount Rate	5.5% P.a.	6.4% p.a	7.2% p.a
Withdrawal/Attrition Rate	20% p.a	10% p.a	10% p.a
Expected return on plan assets	6.40% p.a.	7.2% p.a.	7.40% p.a.
Mortality Rate	IALM 2012-14 (Ult)	IALM 2012-14 (Ult)	IALM 2012-14 (Ult)
Expected average remaining working lives of employees	4 Years	7 years	7 years

Experience adjustments **(Rs. in Million)**

Particulars	As at 31 March 2021	As at 31 March 2020	As at 31 March 2019	As at 31 March 2018	As at 31 March 2017
Defined benefit obligation	84.17	56.94	35.44	20.66	12.4
Fair value of Plan assets	58.28	41.86	13.07	12.52	-
Surplus / (Deficit)	(25.89)	(15.08)	(22.37)	(8.14)	(12.40)
Experience adjustment on plan liabilities : (gain)/loss	6.80	(4.20)	2.12	(2.01)	NA
Experience adjustment on plan assets : gain/(loss)	(0.33)	(1.10)	0.09	NA^	NA

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

The estimates of future salary increases, considered in actuarial valuation, take account of inflation, seniority, promotion and other relevant factors.
The overall expected rate of return on assets is determined based on the market prices prevailing on that date, applicable to the period over which the obligation is to be settled.
^ Assets introduced in Financial Year 2017-18

iii. Leave Encashment

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

The Actuarial liability of compensated absences of accumulated privilege leave of the employees of the Bank is given below:

(Rs. in Million)**

Assumptions	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
Privilege leave	30 days	30 days	30 days
Sick leave	30 days	30 days	30 days
Discount rate (Privilege/ Sick leave)	5.50%	6.40%	7.20%
Salary escalation rate (Privilege/ Sick leave)	7.50%	7.50%	7.50%
Attrition Rate (Privilege/ Sick leave)	20%	10%	10%
Actuarial liability - Privilege leave	37.93	24.95	15.09
Charged in Restated Profit and Loss account - Privilege Leave	12.98	9.86	10.72
Actuarial liability - Sick Leave	23.24	21.87	9.57
Charged in Restated Profit and Loss account - Sick leave	1.37	12.30	3.75

* Amounts are below the rounding off limits adopted by the bank
** except days and percentages

The discount rate is based on the prevailing market yields of Government of India securities as at the Restated Statement of Assets and Liabilities date for the estimated term of the obligations.

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

11. Corporate Social Responsibility (CSR)

For the year ended 31 March 2021

Gross Amount required to be spent Rs. 28.60 Million

Details of amount Spent during the year towards CSR are us under **(Rs. in Million)**

Particulars	**Paid**	**Yet to be paid**	**Total ***
i) Construction/ Acquisition of any assets	-	-	-
ii) For purpose other than (i) above	43.91	27.64	71.55

* The Bank has paid Rs. 43.91 Million to the implementing agencies who have actually spent Rs. 31.09 Million as on 31 March 2021.

For the year ended 31 March 2020

Gross Amount required to be spent Rs. 11.50 Million

Details of amount Spent during the year towards CSR are us under **(Rs. in Million)**

Particulars	**Paid**	**Yet to be paid**	**Total ***
i) Construction/ Acquisition of any assets	-	-	-
ii) For purpose other than (i) above	28.90	-	28.90

* The Bank has paid Rs. 28.90 Million to the implementing agencies who have actually spent Rs. 11.90 Million as on 31 March 2020 and balance amount spent during Financial Year 2020-21.

For the Year ended 31 March 2019

Gross Amount required to be spend- Rs. 4.60 Million

Details of amount Spent during the year towards CSR are us under **(Rs. in Million)**

Particulars	**Paid**	**Yet to be paid**	**Total**
i) Construction/ Acquisition of any assets	-	-	-
ii) For purpose other than (i) above	11.50	-	11.50

Refer Note B.7 of Note 19 for the related parties involved in activities relating to Corporate Social Responsibility

12. Subordinated Debt

a The Bank has an outstanding subordinated debt as follows:

(Rs. in Million)

Particulars	**As at 31 March 2021**	**As at 31 March 2020**	**As at 31 March 2019**
Subordinated Debt Outstanding	1,900.00	1,900.00	1,900.00

Out of the above, Rs.650 Million has been taken over by the Bank as per the Business Transfer Agreement (BTA) entered into with ESAF Financial Holdings Private Limited ("erstwhile ESAF Microfinance and Investments Private Ltd.") during the year ended 31 March 2017. This has been considered as part of Tier 2 Capital for capital adequacy computation after subjecting to discounting in accordance with RBI guidelines.

b. Interest Expended-Others includes interest on Subordinated Debt **(Rs. in Million)**

Particulars	**Year Ended 31 March 2021**	**Year Ended 31 March 2020**	**Year Ended 31 March 2019**
Interest on Subordinated Debt	245.25	246.30	237.84

13. Details of payments of audit fees (Exclusive of Goods and Service Tax)

(Rs. in Million)

Particulars	Year Ended 31 March 2021	Year Ended 31 March 2020	Year Ended 31 March 2019
Statutory Audit fees	3.50	4.50	4.50
Other Attestation work	0.50	1.00	2.00
Other Certification	2.10	1.80	1.20
Certification fees relating to Proposed Initial Public Offer	4.00	6.70	-
Out of pocket expenses	0.20	0.40	0.16
Total	**10.30**	**14.40**	**7.86**

14. Description of Contingent Liabilities:
The Bank has contingent liability of Rs. 2.0 Million as at 31 March 2021, Rs. 2.0 Million as at 31 March 2020 and Rs.576.82 Million as at 31 March 2019 for securitization transactions and guarantee given to Pension Fund Regulatory Development Authority (PFRDA) and Rs. 13.04 Million as at 31 March 2021, Rs. 13.04 Million as at 31 March 2020 and Rs.6.44 Million as at 31 March 2019 with respect to guarantees given on behalf of constituents in India.

15. The Bank has a process whereby periodically all long term contracts are assessed for material foreseeable losses. As at 31 March 2021, 31 March 2020 and 31 March 2019 the Bank has reviewed and recorded adequate provision as required under any law /accounting standards for material foreseeable losses on such long term contracts in the books of account and disclosed the same under the relevant notes in the Restated Financial Information.

16.The Bank has received few intimations from "suppliers" regarding their status under the Micro, Small and Medium Enterprises Development Act, 2006. Based on the information received and available with the Bank, there are no reported cases of delays in payments to micro and small enterprises or of interest payments due to delays in such payments during the years ended 31 March 2021, 31 March 2020 and 31 March 2019. Further, there are no outstanding against those suppliers as on 31 March 2021, 31 March 2020 and 31 March 2019, hence disclosures, if any, relating to amounts unpaid as at the year end together with interest paid / payable as required under the said Act have not been given. The above is based on information available with the Bank and relied upon by the Auditors.

17. IPO Expenses
As on 31 March 2021, the Bank has incurred expenses in connection with ongoing Initial Public Offer ("IPO"), which include payments made to Merchant Bankers, Legal Counsel, Statutory Auditors and other incidental expenses amounting to Rs. 70.30 Million and Rs. 54.50 Million respectively. In accordance with the accounting policy approved by the Board, the provisions of the Companies Act, 2013 and Banking Regulation Act, 1949 the Share Issue Expenses are eligible to be drawn from share premium account. As the process of IPO is still in progress, the said expenses are included under "Others" in Other assets (Note 13 [vii]) in the Restated Statement of Assets and Liabilities as on 31 March 2021 and 31 March 2020 respectively, pending adjustment from Share premium account.

18. The figures for the years ended 31 March 2020 and 31 March 2019 were audited by the previous Statutory Auditors.

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

For and on Behalf of Board of Directors

P R Ravi Mohan
Chairman
DIN:08534931

Kadambelil Paul Thomas
Managing Director & CEO
DIN:00199925

Asha Morley
Director
DIN: 02012799

Gireesh C P
Chief Financial Officer
Place: Mannuthy
Date :29 June 2021

Ranjith Raj P
Company Secretary

OTHER FINANCIAL INFORMATION

The accounting ratios required under Clause 11 of Part A of Schedule VI of the SEBI ICDR Regulations are given below:

Accounting Ratios and Certain Financial Measures

(₹ in million other than percentages number of shares and per share values)

Particulars	As at and for Year ended March 31, 2021	As at and for Year ended March 31, 2020	As at and for Year ended 31 March 2019
Basic earnings per share [Refer Note (a)(i) and (c) below]	2.46	4.45	2.37
Diluted earnings per share [Refer Note (a)(i) and (c) below]	2.46	4.45	2.37
Net Worth [Refer Note (e) below] [A]	13,520.64	10,840.81	8,936.91
Return on Net Worth [Refer Note(a)(ii) and (e) below]	7.80%	17.56%	10.10%
Number of Equity Shares [in millions] [B]	449.47	427.79	427.79
Net Asset Value per Equity Share [Refer Note (a)(iii) below] [A/B]	30.08	25.34	20.89
EBITDA [Refer Note (b) and (f) below]	2,849.60	4,153.63	3,364.62

The figures disclosed in this section are derived from the Restated Financial Information

Note

(a) Ratios have been computed as per the following formulas

(i) Basic/ diluted earnings per share = $\frac{\text{Net Profit, as restated, attributable to equity shareholders}}{\text{Weighted average number of Equity Shares outstanding during the year}}$

(ii) Return on Net Worth (%) = $\frac{\text{Net Profit, as restated, attributable to equity shareholders}}{\text{Net worth at the end of the year}}$

(iii) Net asset value per equity share = $\frac{\text{Net worth at the end of the year}}{\text{Total number of Equity Shares outstanding at the end of the year}}$

(b) Earnings before interest, tax, depreciation and amortisation (EBITDA) has been arrived at by adding back depreciation on Bank's property, tax expense and Interest on Reserve Bank of India/Inter Bank Borrowings and Others.

(c) Earnings per share calculations are done in accordance with Accounting Standard 20 "Earnings Per Share" ("**AS 20**") as notified under Section 133 of the Companies Act 2013, read together with paragraph 7 of the Companies (Accounts) Rules 2014.

(d) "Net worth" represents the sum of Capital and Reserves and Surplus.

(e) Return on Net Worth

(₹ in million other than percentages)

Particulars	As at and for the year ended		
	March 31, 2021	March 31, 2020	March 31, 2019
Net Profit [A]	1,053.96	1,903.90	902.84
Capital [B]	4,494.74	4,277.96	4,277.96
Reserves and Surplus			
Statutory Reserve [C]	1,034.57	771.08	295.11
Share Premium [D]	4,887.63	3,478.54	3,478.54
Investment Fluctuation Reserve [E]	41.27	41.27	5.34
Balance in Profit and Loss Account [F]	3,062.43	2,271.96	879.96
Net Worth [G=B+C+D+E+F]	13,520.64	10,840.81	8,936.91
Return on Net Worth % [H=A/G]	**7.80%**	17.56%	**10.10%**

(f) EBITDA

(₹ in million other than percentages)

Particulars	As at and for the year ended		
	March 31, 2021	March 31, 2020	March 31, 2019
Net Profit [A]	1,053.96	1,903.90	902.84
Add:			
Provision made towards current tax expense [B]	602.48	713.50	328.97
Provision made towards deferred tax [C]	(242.71)	(54.84)	40.00
Depreciation on Bank's property [D]	285.73	231.67	169.06
Interest on Reserve Bank of India/inter bank borrowings and others [E]	1,150.14	1,359.40	1,923.75
EBITDA [F=A+B+C+D+E]	**2,849.60**	**4,153.63**	**3,364.62**

(g) Certain non-GAAP financial measures and certain other statistical information relating to our operations and financial performance have been included in this section and elsewhere in this Draft Red Herring Prospectus. We compute and disclose such non-GAAP financial measures and such other statistical information relating to our operations and financial performance as we consider such information to be useful measures of our business and financial performance, and because such measures are frequently used by securities analysts, investors and others to evaluate the operational performance of financial services businesses, many of which provide such non-GAAP financial measures and other statistical and operational information when reporting their financial results. Such non-GAAP measures and other statistical and operational information are not measures of operating performance or liquidity defined by generally accepted accounting principles. These non-GAAP financial measures and other statistical and other information relating to our operations and financial performance may not be computed on the basis of any standard methodology that is applicable across the industry and therefore may not be comparable to financial measures and statistical information of similar nomenclature that may be computed and presented by other banks in India or elsewhere. These non-GAAP financial measures and other statistical and operational information have been reconciled to their nearest GAAP measure in this section.

RELATED PARTY TRANSACTIONS

For details of the related party transactions, as per the requirements under applicable Accounting Standards, i.e., AS 18 'Related Party Disclosures' issued by the Institute of Chartered Accountants of India, read with the SEBI ICDR Regulations, Fiscal 2021, 2020 and 2019, see "*Financial Statements – Note 19(7)*" on page 287.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

To obtain a complete understanding of our Bank, prospective investors should read this section in conjunction with "Risk Factors", "Industry Overview", "Our Business", "Selected Statistical Information", and "Financial Statements" on pages 24, 92, 143, 221 and 240, respectively.

The industry and market data used in this section has been derived from the CRISIL Research Report prepared and released by CRISIL Research and commissioned by and paid for by us in connection with the Offer. None of our Bank, the BRLMs or any other person connected with the Offer has independently verified such information. Unless otherwise indicated, all financial, operational, industry and other related information derived from the CRISIL Research Report and included herein with respect to any particular year refers to such information for the relevant fiscal year.

Our Bank's fiscal year commences on April 1 and ends on March 31 of the immediately subsequent year, and references to a particular Fiscal are to the 12 months ended March 31 of that year. Unless otherwise indicated or the context otherwise requires, the financial information included herein is derived from our Restated Financial Information included in this Draft Red Herring Prospectus.

Certain non-GAAP financial measures and certain other statistical information relating to our operations and financial performance have been included in this section and elsewhere in this Draft Red Herring Prospectus. We compute and disclose such non-GAAP financial measures and such other statistical information relating to our operations and financial performance as we consider such information to be useful measures of our business and financial performance, and because such measures are frequently used by securities analysts, investors and others to evaluate the operational performance of financial services businesses, many of which provide such non-GAAP financial measures and other statistical and operational information when reporting their financial results. Such non-GAAP measures and other statistical and operational information are not measures of operating performance or liquidity defined by generally accepted accounting principles. These non-GAAP financial measures and other statistical and other information relating to our operations and financial performance may not be computed on the basis of any standard methodology that is applicable across the industry and therefore may not be comparable to financial measures and statistical information of similar nomenclature that may be computed and presented by other banks in India or elsewhere. For more details, see "Selected Statistical Information-Certain Non-GAAP Measures" on page 237. All information regarding cost and yield, which are non-GAAP measures, is based on the average of the opening balance at the start of the relevant fiscal year and the closing balance as at quarter end for all quarters in the relevant fiscal year.

This section also contains forward-looking statements that involve risks and uncertainties. Our results could differ materially from such forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Draft Red Herring Prospectus. For details, see "Forward-Looking Statements" on page 23.

Overview

We are one of the leading small finance banks in India in terms of client base size, yield on advances, Net Interest Margin, assets under management CAGR, total deposit CAGR, loan portfolio concentration in rural and semi-urban areas and ratio of micro loan advances to gross advances. (*Source: CRISIL Research Report*).

Along with our Promoters, we have a history of more than 25 years of primarily serving the unserved and underserved, with a focus on financial inclusion. As a small finance bank, we are required to have at least 75.00% of our adjusted net bank credit to the priority sectors. Our business model focuses on the principles of responsible banking, providing customer-centric products and services through the extensive application of technology. As at May 31, 2021, we had 550 Branches, 421 customer service centres (which are operated by our business correspondents), 12 business correspondents, 158 banking agents and 327 ATMs in 21 states and two union territories and we served over 4.68 million customers.

We follow a social business strategy seeking a triple bottom line impact: people; planet; and prosperity. We believe that the social, environmental, and economic outcomes of our business create synergies that have an amplified impact on our stakeholders. The legacy of a mission, fighting the partiality of prosperity (i.e., the drive for inclusion of marginalised sections of society, equal distribution of wealth, and the equity of opportunities) led to the formation of our Bank. Our vision is to be India's leading social bank, that offers equal opportunities through universal financial access and inclusion and livelihood and economic development. We have adopted various policies to implement our triple bottom line approach, including an Environmental, Social and Governance ("**ESG**") policy. Pursuant to the ESG policy, we are 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. We can trace our roots back to 1992, when Kadambelil Paul Thomas, our Managing Director and Chief Executive Officer, along with others, founded ESAF Society, a society focused on the development of microenterprises, community development, and community health development. ESAF Society started its micro loan activities in 1995. In 2006, Kadambelil Paul Thomas along with others acquired our Corporate Promoter. Thereafter, ESAF Society transferred its micro loan business undertaking to our Corporate Promoter in 2008 pursuant to a business transfer agreement dated March 31, 2008. Our Corporate Promoter was awarded NBFC-MFI status in 2014. Our Corporate Promoter transferred its business undertaking, comprising its lending and financing business, to our Bank on March 10, 2017 pursuant to a business transfer agreement dated February 22, 2017. We commenced our business as a small finance bank on March 10,

2017. For more details on our history and our major events and milestones, see "*History and Certain Corporate Matters*" on page 185.

Our asset products comprise (a) micro loans, (b) retail loans, (c) MSME and corporate loans and (d) agricultural loans. As at March 31, 2021, 2020 and 2019, our gross advances were ₹ 84,150.05 million, ₹ 66,065.11 million and ₹ 45,870.63 million, respectively, and the percentage of our gross NPAs to gross advances was 6.70%, 1.53% and 1.61%, respectively. As at March 31, 2021, 2020 and 2019, our gross micro loans were ₹ 71,343.55 million, ₹ 61,389.57 million and ₹ 44,177.86 million, respectively, which represented 84.78%, 92.92% and 96.31% of our gross advances, respectively. We had the highest ratio of micro loan advances to gross advances among our compared peers as at March 31, 2020. *(Source: CRISIL Research Report)*. As at March 31, 2021, 2020 and 2019, our total advances (net of provisions) were ₹ 81,675.86 million, ₹ 65,478.22 million and ₹ 45,482.54 million, respectively, and the percentage of our net NPAs to net advances was 3.88%, 0.64% and 0.77%, respectively. As at March 31, 2021, 2020 and 2019, our provision coverage ratio was 52.77%, 79.93% and 78.45%, respectively. Our Yield on Average Interest-Earning Advances was 20.14%, 22.64% and 23.69% for Fiscals 2021, 2020 and 2019, respectively.

Our liability products comprise current accounts, savings accounts, fixed deposits and recurring deposits. We also serve NRI customers and offer NRE and NRO current accounts, saving accounts, fixed deposits and recurring deposits. Our total deposits were ₹ 89,994.26 million, ₹ 70,283.82 million and ₹ 43,170.08 million as at March 31, 2021, 2020 and 2019, respectively. We had the second highest deposits growth over Fiscals 2019-2021 and the highest share of retail deposits (comprising CASA and retail term deposits) as a percentage of our total deposits as at March 31, 2020 among our compared peers. (*Source: CRISIL Research Report*). Our retail deposits as at March 31, 2021, 2020 and 2019 represented 97.74%, 95.08% and 92.43% of our total deposits as at March 31, 2021, 2020 and 2019, respectively. We began offering NRIs savings bank and term deposits in June 2018 and current accounts in May 2021. Our deposits from NRIs represented 22.71%, 21.15% and 10.83% of our total deposits as at March 31, 2021, 2020 and 2019, respectively.

Further, we distribute third-party life and general insurance policies and government pension products. We also provide foreign exchange services, which include currency exchange and outward and inward remittances.

We deliver our products and services through our business correspondents, customer service centres (which are operated by our business correspondents), Branches, banking agents, ATMs, ATM cum debit cards, mobile banking platforms, SMS alerts, internet banking portals and unified payment interface facilities. We have a strong focus on leveraging technology to deliver products and services.

We use business correspondent entities for sourcing and servicing of customers for micro loans, mortgage loans, vehicle loans, supply chain and MSME finance, select deposit products and select third-party products. As at March 31, 2021, 2020 and 2019, our business correspondents were responsible for sourcing and/or servicing customers for 84.59%, 93.97% and 96.31% of our gross advances, respectively. As at March 31, 2021, 2020 and 2019, our business correspondents were responsible for sourcing customers for 1.66%, 1.79% and 2.55% of our deposits, respectively.

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

Our financial condition, results of operations and cash flows have been, and are expected to be influenced by numerous factors. The following factors are of particular importance.

Expansion of our Business

Since we began our operations on March 10, 2017, we have increased where our products are offered from nine states and one union territory to 21 states and two union territories as at May 31, 2021 and we have increased our Branches and Ultra-Small Branches (combined) and business correspondents from 321 and one, respectively, to 550 and 12, respectively, as at May 31, 2021. For more details, see *"Our Business – Delivery Channels"* on page 155. The expansion of business has enabled us to increase our advances and our deposits. Our advances increased from ₹ 45,482.54 million as at March 31, 2019 to ₹ 81,675.86 million as at March 31, 2021, a CAGR of 34.01%. Our deposits increased from ₹ 43,170.08 million as at March 31, 2019 to ₹ 89,994.26 million as at March 31, 2021, a CAGR of 44.38%. As per the CRISIL Research Report, we had the second highest deposit growth among our compared peers over Fiscals 2019 to 2021 and the highest AUM growth among the compared SFBs over Fiscals 2019 to 2021. We plan to continue expanding our business. For details, see *"Our Business – Our Strategies – Penetrate deeper into our existing geographies"* on page 147.

Performance of our Business Correspondents

Our results of operations and financial condition depends significantly on the performance of our business correspondents and in particular on ESMACO's performance.

Our business correspondent entities are responsible for, among other things, sourcing and servicing of customers for micro loans, select deposit products and select third-party products. As at March 31, 2021, 2020 and 2019, our business correspondents were responsible for sourcing and/or servicing customers for 84.59%, 93.97%, and 96.31% of our gross advances, respectively. As at March 31, 2021, 2020 and 2019, our business correspondents were responsible for sourcing customers for 1.66%, 1.79% and 2.55% of our deposits, respectively.

ESMACO has been acting as a business correspondent for us on a non-exclusive basis since we began our operations. We have an agreement with ESMACO, which is valid until December 31, 2028. As at March 31, 2021, 2020 and 2019, ESMACO was responsible for sourcing and/or servicing customers for 75.12%, 85.55% and 94.02% of our gross advances, respectively. As at March 31, 2021, 2020 and 2019, ESMACO was responsible for sourcing and servicing customers for 1.41%, 1.49% and 2.55% of our deposits, respectively. ESMACO owns 63.49% of the equity shares in our Corporate Promoter, which owns 62.46% of the Equity Shares of the Bank prior to the Offer.

Changes in Interest Rates

Interest rate changes have a significant impact on our profitability. Interest rates are sensitive to many factors, including the RBI's monetary policy, deregulation of the financial services sector in India, domestic and international economic and political conditions and other factors.

In August 2016, the RBI adopted an inflation target of 4% (with an upper limit of 6% and lower limit of 2%) for the next five years under its monetary policy framework. The RBI sets interest rates in an effort to keep inflation within the target range, and Indian banks generally follow the direction of interest rates set by the RBI and adjust both their deposit rates and lending rates upwards or downwards accordingly. The RBI's return to a monetary policy designed to combat inflation and to increase growth has resulted in a decrease in lending rates in line with the declining trend in the inflation.

The following table sets forth the RBI's bank rate, the reverse repo rate and the repo rate as at the dates indicated:

As at	Bank Rate (%)	Reverse Repo Rate (%)	Repo Rate (%)
March 31, 2018	6.25	5.75	6.00
March 31, 2019	6.50	6.00	6.25
March 31, 2020	4.65	4.00	4.40
March 31, 2021	4.25	3.35	4.00

(Source: https://www.rbi.org.in/)

Generally, an increase in interest rates tends to increase our interest earned as a result of higher Yield on Average Interest-Earning Advances, however, such an increase can also adversely affect our Yield on Average Interest-Earning Advances as a result of a decrease in the volume of advances due to reduced overall demand for advances. In addition, an increase in interest rates affect our Cost of Average Borrowings and can adversely affect our profitability if we are unable to pass on our increased funding costs to our customers. Finally, higher interest rates can increase the risk of default by our customers.

Conversely, a decrease in interest rates can reduce our interest earned as a result of lower yields on our advances. This reduction in interest earned may eventually be offset by an increase in the volume of advances that we make due to increased demand for our advances and/or a decrease in our Cost of Average Borrowings.

Net Interest Income

Our results of operations are substantially dependent upon the amount of our net interest income, which we define as interest income earned less interest expended ("**Net Interest Income**"). Our Net Interest Income increased by 38.17% from ₹ 5,733.57 million for Fiscal 2019 to ₹ 7,921.88 million for Fiscal 2020 and increased by 16.33% to ₹ 9,215.91 million for Fiscal 2021.

Our interest income earned is dependent on:

(i) our average interest-earning advances and the yield thereon;

(ii) our average interest-earning investments and the yield thereon; and

(iii) our average interest-earning balance with the RBI and other inter-bank funds and the yield thereon.

Our interest expended is dependent on:

(i) our average total deposits and the cost thereon; and

(ii) our average borrowings and the cost thereon.

For details, see "*Selected Statistical Information - Average Balance Sheet, Interest Earned/Expended and Yield/Cost*" on page 221.

<u>Average Interest-Earning Advances and Yield on Average Interest-Earning Advances</u>

Our Average Interest-Earning Advances increased by 41.66% from ₹ 38,614.43 million for Fiscal 2019 to ₹ 54,702.39 million for Fiscal 2020 and increased by 33.76% to ₹ 73,170.11 million for Fiscal 2021. Our Average Interest-Earning Micro Loans increased by 43.46% from ₹ 37,692.61 million for Fiscal 2019 to ₹ 52,018.86 million for Fiscal 2020 and increased by 25.96% to ₹ 65,523.57 million for Fiscal 2021. Our Average Interest-Earning Other Loans (comprising (a) retail loans, (b) MSME and corporate loans and (c) agricultural loans) increased by 191.11% from ₹ 921.82 million for Fiscal 2019 to ₹ 2,683.53 million for Fiscal 2020 and increased by 184.94% to ₹ 7,646.54 million for Fiscal 2021.

The interest rates on our micro loans are fixed. The interest rates we charge on our retail loans, MSME and corporate loans, and agricultural loans are fixed or floating depending on the product.

With effect from April 1, 2016, RBI guidelines required bank loans in India to be priced by reference to the bank's marginal cost of funds based lending rate ("**MCLR**"). The interest rates on our loans made on or after April 1, 2016 and on or before September 30, 2019 were based on our MCLR. The RBI issued a circular on September 4, 2019 making it mandatory for banks to link all floating rate personal or retail loans and floating rate loans to MSME borrowers to an external benchmark with effect from October 1, 2019. Further, the RBI through its circular dated February 26, 2020 mandated that all new floating rate loans to Medium Enterprises extended by banks from April 1, 2020 shall also be required to be linked to an external benchmark. Banks are free to choose one of the several benchmarks indicated in the circular dated September 4, 2019. Banks are also free to choose their spread over the benchmark rate, subject to the condition that the credit risk premium may undergo a change only when a borrower's credit assessment undergoes a substantial change, as agreed upon in the loan contract. The interest rate of external benchmark linked floating rate loans is required be reset at least once in three months. Our floating rate loans made after September 30, 2019 are based on the RBI's repo rate. Our fixed rate loans are based on our MCLR. Banks must review and publish their MCLR of different maturities every month. The table below sets forth our one-month, three-month, six-month and one-year MCLR rates as at the dates indicated:

(Interest rate per annum)

MCLR	As at March 31, 2021	As at March 31, 2020	As at March 31, 2019
One-month	13.91%	14.89%	15.30%
Three-month	14.00%	14.99%	15.39%
Six-month	14.19%	15.05%	15.39%
One-year	14.48%	15.12%	15.42%

Our Yield on Average Interest-Earning Advances was 20.14%, 22.64% and 23.69% for Fiscals 2021, 2020 and 2019, respectively. Our Yield on Average Interest-Earning Micro Loans was 21.16%, 23.12% and 23.94% for Fiscals 2021, 2020 and 2019, respectively. Our Yield on Average Interest-Earning Other Loans (comprising (a) retail loans, (b) MSME and corporate loans and (c) agricultural loans) was 11.42%, 13.31% and 13.46% for Fiscals 2021, 2020 and 2019, respectively.

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

Our Average Interest-Earning Investments increased by 38.91% from ₹ 12,622.13 million for Fiscal 2019 to ₹ 17,532.82 million for Fiscal 2020 and increased by 10.23% to ₹ 19,326.01 million for Fiscal 2021.

All scheduled commercial banks (other than regional rural banks), including us, are required to comply with the statutory reserve requirements prescribed by the RBI. Currently, scheduled commercial banks are required to maintain a CRR of 4.00% of their demand and time liabilities with the RBI, on which no interest is paid. However, on account of the COVID-19 pandemic, the RBI decreased the minimum CRR by 100 basis points to 3.00% with effect from the reporting fortnight beginning March 28, 2020 to March 26, 2021. The minimum CRR increased to 3.50% from March 27, 2021 and further increased to 4.00% from May 22, 2021. Further, scheduled commercial banks are currently required to maintain a SLR equivalent to 18.00% of their net demand and time liabilities to be invested in cash and Government or other RBI-approved securities. As our demand and time liabilities (excluding inter-bank deposits) have been increasing, the amount of investments we have held to satisfy the SLR requirement have increased. Our Average Investments in Government securities increased by 41.69% from ₹ 8,535.63 million for Fiscal 2019 to ₹ 12,094.41 million for Fiscal 2020 and increased by 47.80% to ₹ 17,875.09 million for Fiscal 2021.

The Yield on Average Interest-Earning Investments was 6.64%, 7.54% and 7.68% for Fiscals 2021, 2020 and 2019, respectively.

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

Our Average Interest-Earning Balances with Reserve Bank of India and other Inter-Bank Funds increased by 102.88% from ₹ 2,914.07 million for Fiscal 2019 to ₹ 5,912.06 million for Fiscal 2020 and increased by 72.23% to ₹ 10,182.48 million for Fiscal 2021.

The Yield on Average Interest-Earning Balances with Reserve Bank of India and other Inter-Bank Funds was 3.86%, 7.23% and 6.90% for Fiscals 2021, 2020 and 2019, respectively.

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

Our interest-bearing liabilities are our savings bank deposits, term deposits and our borrowings. We do not pay interest on demand deposits (current accounts). The cost of our interest-bearing liabilities depend on many external factors, including competitive factors and developments in the Indian credit markets and, in particular, interest rate movements and the existence of adequate liquidity in the inter-bank markets. Internal factors that can affect our Cost of Funds include changes in our credit ratings, available credit limits and our ability to mobilize low-cost deposits, particularly from retail customers, and no cost deposits in the form of current accounts.

Our primary source of funding is our relatively low-cost deposit base, which is primarily derived from retail depositors in India. We currently enjoy a relatively low-cost deposit base achieved through targeted branch network expansion and customized product offerings. Our target depositor base consists of individuals, including women, senior citizens, NRIs, HNIs, trust associations, societies and clubs, children above 10 years, our staff, salaried employees of corporates, farmers and MSMEs. Our distribution network, which includes our branch network, customer services centres (which are operated by business correspondents), business correspondents and alternative delivery channels, provides us with access to these depositors, which in turn allows us to maintain low-cost funding through customer deposits. Our Average Total Deposits increased by 81.09% from ₹ 32,196.81 million for Fiscal 2019 to ₹ 58,303.97 million for Fiscal 2020 and increased by 38.77% to ₹ 80,911.38 million for Fiscal 2021.

The Cost of Average Total Deposits was 7.47%, 8.32% and 8.26% for Fiscals 2021, 2020 and 2019, respectively. We do not pay interest on demand deposits (current accounts). The Cost of Average Savings Bank Deposits was 5.04%, 5.20%, and 4.79% for Fiscals 2021, 2020 and 2019, respectively. The Cost of Average Term Deposits was 8.00%, 8.82% and 8.76% for Fiscals 2021, 2020 and 2019, respectively. While the Cost of Average Total Deposits has largely been driven by interest rate movements, the Cost of Average Total Deposits is lower than it otherwise would have been but for the increasing percentage of our demand accounts and savings accounts ("**CASA**") in relation to total deposits. The ratio of Average CASA to Average Total Deposits, expressed as a percentage, was 15.86%, 12.80%, and 11.67% for Fiscals 2021, 2020 and 2019, respectively. The Cost of Average CASA was 4.67%, 4.90% and 4.43% for Fiscals 2021, 2020 and 2019, respectively. To continue to source low-cost funding through CASA, we must provide customers with convenient banking services that compensate them for the nil returns in the case of demand deposits and lower returns in the case of savings bank deposits. However, the increasing sophistication of customers, competition for funding, increases in interest rates and changes to the RBI's liquidity and reserve requirements may increase the rates we have to pay on our savings bank deposits.

Our borrowings comprised borrowings from the Reserve Bank of India, institutional agencies, subordinated debt, borrowings from other banks and perpetual debt instruments. Our Average Borrowings decreased by 25.84% from ₹ 19,011.69 million for Fiscal 2019 to ₹ 14,100.02 million for Fiscal 2020 and increased by 1.61% to ₹ 14,327.51 million for Fiscal 2021. The Cost of Average Borrowings was 8.03%, 9.64% and 10.12% for Fiscals 2021, 2020 and 2019, respectively.

Non-Performing Advances and Provisioning Policies

Our ability to manage the credit quality of our loans, which we measure in part through NPAs, is a key driver of our results of operations. In addition to requiring us to make a provision on standard assets, the RBI requires us to classify and, depending on the duration of non-payment, make a provision on loans that become NPAs, which are further sub-classified as sub-standard, doubtful and loss assets. For details, see "*Selected Statistical Information – Non-Performing Advances*" on page 232. As the number of our loans that become NPAs increases, the credit quality of our loan portfolio decreases.

As a small finance bank, RBI norms require classifying loans that are over 90 days past due as NPAs, except those loans that were subject to the moratorium. Pursuant to the 'COVID-19 Regulatory Package' on asset classification and provisioning, which was announced by the RBI on March 27, 2020, April 17, 2020 and May 23, 2020, lending institutions, including us, were permitted to grant an effective moratorium of six months on the payment of term loans falling due between March 1, 2020 and August 31, 2020. As such, in respect of all accounts classified as standard as on February 29, 2020, even if overdue, the moratorium period, wherever granted, was excluded by the lending institutions from the number of days past-due for the purpose of asset classification under RBI's income recognition and asset classification norms. We granted a full or partial moratorium on the payment of all loan instalments falling due between March 1, 2020 and August 31, 2020 to all eligible borrowers who requested the moratorium. The respective amounts in SMA/overdue categories, where the moratorium/deferment was extended as at March 31, 2020 was ₹ 881.60 million. The RBI circulars in relation to the moratorium required us to make provisions of up to 10% on loans that are subject to moratorium and that were overdue but standard as at February 29, 2020. Considering the prevailing uncertainty over our business due to the COVID-19 pandemic, we had provisions of ₹ 404.00 million as at March 31, 2021 and ₹ 44.08 million as at March 31, 2020 against the potential impact of COVID-19 as additional provisions on standard assets (other than provisions held for restructuring under COVID-19 norms). These provisions are in excess of the RBI prescribed norms.

As at March 31, 2021, 2020 and 2019, our gross NPAs were ₹ 5,639.97 million, ₹ 1,008.61 million and ₹ 740.14 million, respectively, and our net NPAs were ₹ 3,165.78 million, ₹ 421.70 million and ₹ 352.05 million, respectively. As at March 31, 2021, 2020 and 2019, our gross NPAs were 6.70%, 1.53% and 1.61% of gross advances, respectively, and our net NPAs were 3.88%, 0.64% and 0.77% of net advances, respectively.

As at March 31, 2021, 2020 and 2019, our provision towards NPA/Write offs was ₹ 2,474.19 million, ₹ 586.91 million and ₹ 388.09 million, respectively, which represented 3.38%, 1.07% and 1.01% of our Average Advances, respectively. The COVID-19 pandemic resulted in the material increase in our provision towards NPA/write offs for Fiscal 2021 compared to Fiscal 2020.

We have put in place well documented procedures regarding credit approval and loan disbursement and have instituted ongoing monitoring mechanisms in order to strengthen our credit quality. We have also implemented advanced analytics and automated credit scoring solutions for credit evaluation. For an overview of our credit approval and loan disbursement processes for our different types of loan products, see "*Our Business – Asset Products*" on page 149.

Our micro loans and certain of our retail loans are unsecured and, as such, are at a higher credit risk than secured loans because they are not supported by collateral. Since these advances are unsecured, in the event of defaults by such customers, our ability to realise the amounts due to us would be restricted to initiating legal proceedings for recovery. As at March 31, 2021, 2020 and 2019, our unsecured advances (net of provisions) were ₹ 69,836.01 million, ₹ 61,272.67 million and ₹ 43,986.33 million, respectively, which accounted for 85.50%, 93.58% and 96.71% of our advances (net of provisions), respectively.

The Macroeconomic Environment in India

Our financial condition and results of operations, in the past, have been, and will continue to be, significantly affected by factors influencing the Indian economy, which would include any downturn in the global economy. Any slowdown in economic growth in India could adversely affect our ability to grow our asset portfolio, the quality of our assets and our ability to implement our strategies. The Government's monetary policy is heavily influenced by the condition of the Indian economy, and changes in the monetary policy affect the interest rates of our advances and borrowings. The RBI responds to fluctuating levels of economic growth, liquidity concerns and inflationary pressures in the economy by adjusting monetary policy. For a summary of the recent macroeconomic environment in India, see "*Industry Overview*" on page 92.

In particular, the COVID-19 pandemic and the nation-wide lockdown from March 25, 2020 to May 31, 2020 and the second wave of the COVID-19 pandemic in India had an adverse effect on the macroeconomic environment in India and our business financial condition, results of operations and cash flows. For details, see "*Our Business – Recent Developments-Effects of the COVID-19 Pandemic on our Business and Operations*" and "*Risk Factors – COVID-19 has had and could continue to have an adverse effect on our business, financial condition, results of operations and cash flows*" on pages 164 and 24, respectively.

Operating Expenses

The amount of our operating expenses has a bearing on our net profit. Our operating expenses represented 68.56%, 75.83% and 79.08% of Net Interest Income for Fiscals 2021, 2020 and 2019, respectively. Our operating expenses primarily comprise:

- other expenditure, which includes business correspondent expenses, which represented 37.06%, 47.15% and 53.86% of Net Interest Income for Fiscals 2021, 2020 and 2019, respectively. Our business correspondent expenses represented 25.26%, 35.07% and 41.55% of Net Interest Income for Fiscals 2021, 2020 and 2019, respectively;

- payments to and provisions for employees, which represented 20.38%, 18.19% and 13.45% of Net Interest Income for Fiscals 2021, 2020 and 2019, respectively;

- rent, taxes and lighting, which represented 4.56%, 4.28% and 4.67% of Net Interest Income for Fiscals 2021, 2020 and 2019, respectively; and

- depreciation on Bank's property, which represented 3.10%, 2.92% and 2.95% of Net Interest Income for Fiscals 2021, 2020 and 2019, respectively.

Our material fixed operating expenses are: (i) payments to and provisions for employees, (ii) rent, taxes and lighting and (iii) depreciation on Bank's property. Our business correspondent expenses are primarily variable in nature as we pay our business correspondents a variable fee based on collections, which is the largest part of their compensation, and a fixed fee for the acquisition and maintenance of each customer.

Competition

The Indian finance industry is intensely competitive. We face intense competition in all our principal products and services. For more details, see "*Risk Factors – The Indian finance industry is intensely competitive and if we are unable to compete effectively it would adversely affect our business, financial condition, results of operations and cash flows*" and "*Our Business – Competition*" on pages 35 and 163, respectively.

Changes in Laws, Rules and Regulations or the Introduction of New Laws, Rules and Regulations

We operate in a highly regulated industry and have to adhere to various laws, rules and regulations. For a description of the material laws, rules and regulations applicable to us, see "*Key Regulations and Policies*" on page 169. Any changes in the regulatory environment under which we operate could adversely affect our results of operations and financial condition. In addition, changes in laws and the introduction of new laws applicable to all businesses in India could also adversely affect our results of operation and financial condition. The following has affected our financial condition, results of operation and cash flows.

<u>RBI's 'COVID-19 Regulatory Package' on Asset Classification</u>

For details, see "*-Significant Factors Affecting Our Financial Condition, Results of Operations and Cash Flows - Non-Performing Advances and Provisioning Policies*" on page 301.

<u>GoI Scheme and Supreme Court Ruling with Respect to Compound Interest during the Moratorium</u>

On October 23, 2020, the Ministry of Finance, Government of India announced the scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts, which mandates lending institutions, including our Bank, to make ex-gratia payments to borrowers with less than ₹ 20.00 million in total borrowings at all lending institutions by crediting, on or before November 5, 2020, the difference between simple interest and compound interest for the period between March 1, 2020 and August 31, 2020. Lending institutions could then make claims for reimbursement from the Government on or before December 12, 2020, which we did. Our claim for such reimbursement is ₹ 165.74 million for Fiscal 2021, which had not been paid as at March 31, 2021.

On March 23, 2021, in *Small Scale Industrial Manufactures Association v. Union of India and others*, the Supreme Court directed that there shall not be any charge of interest on interest/compound interest/penal interest for the period during the moratorium and any amount already recovered under the same head, namely, interest on interest/penal interest/compound interest shall be refunded to the concerned borrowers and to be given credit/adjusted in the next instalment of the loan account. In accordance with the instructions in the RBI circular dated April 7, 2021, we shall refund / adjust 'interest on interest' to all borrowers, including those who had availed of working capital facilities, during the moratorium period, irrespective of whether the moratorium had been fully or partially availed, or not availed. Pursuant to these instructions, the methodology for calculation of the amount of such 'interest on interest' was finalised by the Indian Banks Association (the "**IBA**") in consultation with other industry participants/ bodies on April 19, 2021. As at March 31, 2021, we held a provision of ₹ 80.00 million, which was created by debiting interest income, to meet our obligation towards refunding interest on interest to eligible borrowers as prescribed by the RBI.

<u>Reduction of Corporate Income Tax Rate for Fiscal 2020</u>

As we commenced operations on March 10, 2017 and our turnover was below ₹ 2,500.00 million, we were subject to a reduced corporate income tax rate of 29.12% for Fiscal 2019. The Taxation Laws (Amendment) Ordinance 2019 revised downward the corporate income tax rate for domestic companies from 34.94% (including applicable surcharges and cess) for Fiscal 2019 to 25.17% (including applicable surcharges and cess) for Fiscal 2020. Domestic companies had the option to either transition to the new corporate income tax rate of 22.00% (not including applicable surcharges and cess), which is an effective corporate income tax rate of 25.17% (including applicable surcharges and cess), subject to their forgoing certain specified exemptions and deductions or continue to avail the specified exemptions/ deductions and continue to pay tax at earlier rate of 29.12%. The Taxation Laws (Amendment) Ordinance 2019 stipulates that once a company opts for the lower income tax rate, it forgoes the option to claim specified exemptions and deductions. We selected the option of the reduced corporate income tax rate of 22.00% (not including applicable surcharges and cess) available under Section 115BAA of the Income Tax Act, 1961 and our corporate income tax rate was 25.17% (including applicable surcharges and cess) for Fiscals 2021 and 2020.

Accordingly, our Restated Financial Information for Fiscal 2020 was prepared after provision made towards income tax Fiscal 2020 and the deferred tax assets was re-measured as at March 31, 2019 based on the prescribed rate. The re-measurement of accumulated deferred tax asset has resulted in in an additional charge to the net profit for Fiscal 2020 and a write down of the net deferred tax assets pertaining to the earlier years by ₹ 8.00 million.

Increase in Product Offerings

Prior to Fiscal 2018, all of our loans were micro loans. Since then, we have introduced retail advances, MSME and corporate advances and agricultural advances. For more details on our recently introduced asset products, see "*Our Business – Asset Products*" on page 149. We began distributing third party products in Fiscal 2019 when we started distributing the National Pension System, Atal Pension Yojna and third-party general insurance products. In Fiscal 2020, we began distributing third-party life insurance products. In Fiscal 2020, we began offering platinum debit cards. Set forth below is a table showing the income from such products and services introduced since Fiscal 2018 and such income as a percentage of our total income for the fiscal years stated below.

Particulars	**Fiscal 2021**		**Fiscal 2020**		**Fiscal 2019**	
	Income (₹ in million)	**% of Total Income**	**Income (₹ in million)**	**% of Total Income**	**Income (₹ in million)**	**% of Total Income**
Retail loans	716.92	4.06%	292.69	1.89%	115.16	1.01%
MSME and corporate loans	187.98	1.06%	84.02	0.54%	6.95	0.06%
Agricultural loans	2.87	0.02%	0.07	-	0.01	-
Third party products	88.38	0.50%	89.21	0.58%	3.68	0.03%
Platinum debit cards	18.12	0.10%	0.68	-	-	-
Total	**1,014.27**	**5.74%**	**466.67**	**3.02%**	**125.8**	**1.10%**

Auditors' Qualifications, Reservations and Adverse Remarks

There are no reservations, qualifications or adverse remarks highlighted by the respective auditors in their audit reports on our audited financial statements as at and for the years ended March 31, 2021, 2020 and 2019.

The Statutory Auditors have included an emphasis of matters in their audit report on our audited financial statements for Fiscal 2021, noting that the extent to which the COVID-19 pandemic will impact our operations and asset quality will depend on future developments, which are highly uncertain. The Statutory Auditors' opinion has not been modified in respect of this matter.

In addition, the Previous Statutory Auditors have included emphasis of matters in their audit report on our audited financial statements for Fiscal 2020, noting that the extent to which the COVID-19 pandemic will impact our operations and asset quality will depend on future developments, which are highly uncertain. The Previous Statutory Auditors' opinion has not been modified in respect of this matter.

Critical Accounting Policies

The preparation of our financial statements requires our management to make use of estimates and judgments. In view of the inherent uncertainties and a level of subjectivity involved in measurement of items, it is possible that the outcomes in the subsequent financial years/periods could differ from those on which the management's estimates are based. The notes to the Restated Financial Information in "*Financial Statements*" on page 240 contain a summary of our significant accounting policies. Certain of these policies are critical to the portrayal of our financial condition and results of operations, since they require management to make subjective judgments, some of which may relate to matters that are inherently uncertain. Below is a discussion of these critical accounting policies:

Revenue Recognition

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

(i) Interest Income is recognized in the Restated Profit and Loss Account on accrual basis, except in the case of non-performing assets. Interest on non-performing assets is recognized upon realization basis as per the prudential norms issued by the RBI.

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

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

(iv) Dividend on Investments in shares and units of Mutual Funds are accounted when the Bank's right to receive the dividend is established.

(v) Processing Fee/ upfront fee, handling charges or income by way of similar charges collected at the time of sanctioning or renewal of loan/ facility is recognised at the inception/ renewal of loan.

(vi) Other fees and Commission income (including commission income on third party products) are recognised when due, except in cases where the bank is uncertain of ultimate collection.

(vii) Interest income on deposits with banks and other financial institutions are recognised on a time proportion accrual basis taking into account the amount outstanding and the rates applicable.

(viii) Guarantee commission are recognised on a straight line basis over the period of contract.

(ix) Locker rent is recognised on realisation basis.

(x) In accordance with the RBI guidelines on Securitisation Transactions, gains arising from assignment / securitisation are amortised over the life of the underlying portfolio loans. In case of any loss, the same is recognised in the Restated Profit and Loss Account immediately. Income from interest strip (excess interest spread) is recognized in the Restated Profit and Loss Account net of any losses when redeemed in cash in line with the relevant Reserve Bank of India guidelines.

(xi) Fees received on sale of priority sector lending certificates is considered as Miscellaneous income, while fees paid for purchase is expended as other expenses in accordance with the guidelines issued by RBI on the date of sale/purchase on upfront basis.

Investments

i. <u>Classification</u>:

Investments are classified in to three categories: Held to Maturity ("**HTM**"); Available for Sale ("**AFS**"); and Held for Trading ("**HFT**") at the time of purchase as per guidelines issued by RBI. However, for disclosure in the Restated Statement of Assets and Liabilities, for Investments in India are classified under six groups: Government securities; Other Approved Securities; Shares; Debentures and Bonds; and Investments in Subsidiaries / Joint Ventures and Others.

Purchase and sale transactions in securities are recorded under 'Settlement Date' accounting.

ii. Basis of Classification:

- Investments that the Bank intends to hold till maturity are classified as HTM category.
- Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.
- Investments which are not classified in either of the above two categories are classified under AFS category.

iii. Acquisition Cost:

The cost of investments is determined on the weighted average basis. Broken period interest in debt instruments and Government securities is treated as a revenue item. The transaction cost including brokerage commission, etc., paid at the time of acquisition of investments are charged to the Restated Profit and Loss Account.

iv. Disposal of Investments:

Investments classified as HFT or AFS - Profit or loss on sale or redemption is recognised in the Restated Profit and Loss Account. Investments classified as HTM - Profit on sale or redemption of investments is recognised in the Restated Profit and Loss Account and is appropriated to Capital Reserve after adjustments for tax and transfer to Statutory Reserve. Loss on sale or redemption is recognised in the Restated Profit and Loss Account.

v. Valuation:

- HTM securities are carried at their acquisition cost. Any premium on acquisition of Government securities are amortised over the remaining maturity of the security on a straight line basis. Any diminution, other than temporary, in the value of such securities is provided for.
- AFS and HFT securities are valued periodically as per RBI guidelines.
- The market/ fair value for the purpose of periodical valuation of quoted investments included in the AFS and HFT categories are the market price of the scrip as available from the trades/ quotes on the stock exchanges, SGL account transactions, price list of RBI, prices declared by Primary Dealers Association of India jointly with Fixed Income Money Market and Derivatives Association ("**FIMMDA**") / Financials Benchmark India Private Limited ("**FBIL**") as at the year/period end.
- The market/ fair value of other than quoted SLR securities for the purpose of periodical valuation of investments included in the AFS and HFT categories are as per the rates put out by FIMMDA/FBIL.
- The valuation of non-SLR securities, other than those quoted on the stock exchanges, wherever linked to the YTM rates, are taken with a mark-up (reflecting associated credit risk) over the YTM rates for Government securities put out by FIMMDA/FBIL. Securities are valued scrip wise and depreciation/appreciation aggregated for each category. Net appreciation in each basket if any, being unrealised, are ignored, while net depreciation are provided for.
- Treasury bills and Certificate of Deposits being discounted instruments, are valued at carrying cost.
- Pass through Certificates are valued as per RBI guidelines.
- Non-performing investments are identified and valued based on RBI guidelines.
- Transfer of Securities between categories of Investments is accounted as per RBI guidelines.

vi. Repo and Reverse Repo Transactions:

In accordance with the RBI guidelines repo and reverse repo transactions in Government securities are reflected as borrowing and lending transactions, respectively. Borrowing cost on repo transaction is accounted for as interest expense and revenue on reverse repo is accounted for as interest income.

vii. Investment Fluctuation Reserve ("**IFR**")

- With a view to building up of adequate reserves to protect against increase in yields, RBI through circular number RBI/2017-18/147 DBR.No.BP. BC.102/21.04.048/2017-18 dated April 2, 2018, advised all banks to create an IFR with effect from the FY 2018-19.

- Amount transferred to IFR is not less than lower of the following:

    i. net profit on sale of investments during the year or

    ii. net profit for the year less mandatory appropriations, until the amount of IFR is at least 2 percent of the HFT and AFS portfolio, on a continuing basis.

Amount is drawn down from IFR as per the guidelines issued by the RBI.

Advances

- Advances are classified into performing assets ("**Standard**") and non-performing assets ("**NPAs**") as per the RBI guidelines and are stated net of interest in suspense for non-performing advances and specific provisions made towards NPAs. Interest on Non-performing advances is not recognised in Restated Profit and Loss Account and transferred to an unrealised interest account till the actual realisation. Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by the RBI. Provisions for NPAs are made at or above the minimum required level in accordance with the provisioning policy adopted by the Bank and as per the guidelines and circulars of the RBI on matters relating to prudential norms.

- Amounts recovered against debts written off are recognised in the Restated Profit and Loss Account and included under "Other Income".

- Provision for standard advances are made as per the extant RBI guidelines.

- The Bank transfers advances through interbank participation with and without risk. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances and where bank is participating; the aggregate amount of participation is classified under advances. In the case of participation without risk, the aggregate amount of participation issued by the Bank is classified under borrowings and where the bank is participating, the aggregate amount of participation is shown as due from banks under advances.

Retirement and Employee Benefits

<u>Short Term Employee Benefit</u>

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

<u>Long Term Employee Benefit</u>

a. <u>Defined Contribution Plan</u>:

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

b. <u>Defined Benefit Plan</u>:

    Gratuity: The Bank provides for Gratuity, covering employees in accordance with the Payment of Gratuity Act, 1972. The Bank's liability is actuarially determined (using Projected Unit Credit Method) at the Balance Sheet date. The actuarial gain or loss arising during the year is recognised in the Restated Profit and Loss Account.

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

Fixed Assets (Property Plant & Equipment and Intangible) and Depreciation / Amortization

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

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

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

- Depreciation is charged over the estimated useful life of the fixed asset on a straight-line basis. The management believes that the useful life of assets assessed by the Bank, pursuant to the Companies Act, 2013, taking into account changes in environment, changes in technology, the utility and efficacy of the asset in use, fairly reflects its estimate of useful lives of the fixed assets. The estimated useful lives of key fixed assets, based on technical evaluation done by the management are given below:

Class of Asset (Tangible and Intangible)	Estimated useful life as assessed by the Bank (in years)	Estimated useful life specified under Schedule II of the Companies Act, 2013 (in years)
Office Equipments	4-5	5
Computers	2-3	3
Furniture & Fixtures	9-10	10
Motor Vehicles	2-4	8
Servers	5	6

- An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank.

- Intangible assets acquired separately are measured on initial recognition at cost. The cost of an intangible asset comprises its purchase price including after deducting trade discounts and rebates, any directly attributable cost of bringing the item to its working condition for its intended use following initial recognition. Intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

- Intangible assets comprising of software is amortised on straight line basis over a period of four years, unless it has a shorter useful life.

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

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

Leases

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

Transactions involving Foreign Exchange

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

Foreign currency monetary items are reported using the exchange rate prevailing at the Restated Statement of Assets and Liabilities date.

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

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

Securitisation Transactions and Direct Assignments

The Bank transfers its loan receivables through direct assignment and Inter Bank Participation Certificates (IBPC) route as well as transfers to Special Purpose Vehicles (SPV).

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

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

Changes in Significant Accounting Polices

There have been no changes in our significant accounting policies for all periods covered in the Restated Financial Information.

Components of our Profit and Loss Account

Income

- Our income consists of interest earned and other income.
- Interest earned comprises (a) interest or discounts on advances or bills, (b) income on investments and (c) interest on balances with the Reserve Bank of India and other inter-bank funds. Our investments consist of (i) Government securities, and (ii) others (which includes certificate of deposits and pass through certificates).
- Our other income primarily comprises (a) commission, exchange and brokerage, (b) net profit on sale of investments, and (c) miscellaneous income.

Expenditure

- Our total expenditure consists of (a) interest expended, (b) operating expenses and (c) provisions and contingencies.
- Our interest expended comprises (a) interest on deposits and (b) interest on Reserve Bank of India and other inter-bank borrowing and (c) others.
- Our operating expenses primarily comprises (a) payments to and provisions for employees, and (b) other operating expenses, including, among others, (i) expenses related to rent, taxes and lighting, (ii) depreciation on fixed assets, (iii) repairs and maintenance, (iv) insurance, and (v) other expenditure, which includes business correspondent expenses, which are the fees and commissions payable by us to our business correspondents.

Provisions and Contingencies

Our provisions and contingencies consist of (i) provision towards NPAs, (ii) provision towards standard assets, (iii) provisions made towards taxes, and (iv) other provisions and contingencies, which includes provision for overdue rent deposits and sundry receivable overdue for more than six months.

Results of Operations

Fiscal 2021 Compared to Fiscal 2020

The following table sets forth a summary of our Restated Profit and Loss Account for Fiscals 2021 and 2020:

	Fiscal 2021		**Fiscal 2020**	
	Amount (₹ in million)	**% of Total Income**	**Amount (₹ in million)**	**% of Total Income**
Income:				
Interest Earned	16,411.73	92.86%	14,132.45	91.39%
Other Income	1,261.04	7.14%	1,331.90	8.61%
Total Income	**17,672.77**	**100.00%**	**15,464.35**	**100.00%**
Expenditure:				
Interest Expended	7,195.82	40.72%	6,210.57	40.16%
Operating Expenses	6,318.55	35.75%	6,006.77	38.84%
Provisions and Contingencies	3,104.44	17.57%	1,343.11	8.69%
Total Expenditure	**16,618.81**	**94.04%**	**13,560.45**	**87.69%**
Net Profit for the year	**1,053.96**	**5.96%**	**1,903.90**	**12.31%**

Total Income

Our total income increased by ₹ 2,208.42 million, or 14.28%, to ₹ 17,672.77 million for Fiscal 2021 from ₹ 15,464.35 million for Fiscal 2020 as a result of a ₹ 2,279.28 million, or 16.13%, increase in interest earned, which was partially offset by a ₹ 70 .86 million, or 5.32%, decrease in other income.

Interest Earned

The table set forth below shows details in relation to our interest earned for Fiscals 2021 and 2020.

(₹ in million, except percentages)

Particulars	Fiscal 2021	Fiscal 2020	Percentage increase / (decrease)
Interest/discount on advances/bills	14,735.06	12,382.84	19.00%
Income on investments	1,283.26	1,321.98	(2.93%)
Interest on balances with Reserve Bank of India and other inter-bank funds	393.41	427.63	(8.00%)
Total	**16,411.73**	**14,132.45**	**16.13%**

Our interest earned increased by ₹ 2,279.28 million, or 16.13%, to ₹ 16,411.73 million for Fiscal 2021 from ₹ 14,132.45 million for Fiscal 2020. The primary reasons for this increase are discussed below.

- Interest/discount on advances/bills increased by ₹ 2,352.22 million, or 19.00%, to ₹ 14,735.06 million for Fiscal 2021 from ₹ 12,382.84 million for Fiscal 2020.

  - The increase in interest/discount on advances/bills was primarily due to a ₹ 18,467.72 million, or 33.76%, increase in Average Interest-Earning Advances to ₹ 73,170.11 million for Fiscal 2021 from ₹ 54,702.39 million for Fiscal 2020, which increase was primarily due to a ₹ 13,504.71 million, or 25.96%, increase in Average Interest-Earning Micro Loans to ₹ 65,523.57 million for Fiscal 2021 from ₹ 52,018.86 million for Fiscal 2020 and a ₹ 4,963.01 million, or 184.94%, increase in Average Interest-Earning Other Loans to ₹ 7,646.54 million for Fiscal 2021 from ₹ 2,683.53 million for Fiscal 2020. Our interest/discount on advances/bills for Fiscal 2021 was ₹ 80.00 million less than it would have been but for the Supreme Court's ruling on March 23, 2021 in *Small Scale Industrial Manufactures Association v. Union of India and others*, in which the Supreme Court directed that there shall not be any charge of interest on interest/compound interest/penal interest for the period during the moratorium and any amount already recovered under the same head, namely, interest on interest/penal interest/compound interest shall be refunded to the concerned borrowers and to be given credit/adjusted in the next instalment of the loan account.

  - The increase in Average Interest-Earning Advances was partially offset by a decrease in the Yield on Average Interest-Earning Advances to 20.14% for Fiscal 2021 from 22.64% for Fiscal 2020. The Yield on Average Interest-Earning Advances decreased primarily due to the increase in gross NPAs to ₹ 5,639.97 million as at March 31, 2021 from ₹ 1,008.61 million as at March 31, 2020 (we do not book interest/discount on advances/bills that are NPAs) and due to a decrease in the percentage of Average Interest-Earning Micro Loans (which have a higher yield than our other loans) in our Average Interest-Earning Advances to 89.55% for Fiscal 2021 from 95.09% for Fiscal 2020. One of our strategies is to continue to grow our micro loan business while increasing our other categories of advances both in absolute terms and as a percentage of total advances. For details, see "*Our Business-Our Strategies-Continue to grow our micro loan business while increasing our other categories of advances both in absolute terms and as a percentage of total advances*" on page 148. As such, we expect our Yield on Average Interest-Earning Advances to continue to decrease (unless there is a rising interest rate environment). The other reason for the decrease in the Yield on Average Interest-Earning Advances was a declining interest rate environment, with the RBI's repo rate decreasing to 4.00% as at March 31, 2021 from 4.40% as at March 31, 2020. The Yield on Average Interest-Earning Micro Loans decreased to 21.16% for Fiscal 2021 from 23.12% for Fiscal 2020 and the Yield on Average Interest-Earning Other Loans decreased to 11.42% for Fiscal 2021 from 13.31% for Fiscal 2020.

- Income from investments decreased by ₹ 38.72 million, or 2.93%, to ₹ 1,283.26 million for Fiscal 2021 from ₹ 1,321.98 million for Fiscal 2020. This decrease was primarily due to a decrease in the Yield on Average Interest-Earning Investments to 6.64% for Fiscal 2021 from 7.54% for Fiscal 2020, which was partially offset by a ₹ 1,793.19 million, or 10.23%, increase in Average Interest-Earning Investments to ₹ 19,326.01 million for Fiscal 2021 from ₹ 17,532.82 million for Fiscal 2020.

- Interest on balances with RBI and other inter-bank funds decreased by 8.00% to ₹ 393.41 million for Fiscal 2021 from ₹ 427.63 million for Fiscal 2020. This decrease was primarily due to a decrease in the Yield on Average Interest-Earning Balances with RBI and other Inter-Bank Funds to 3.86% for Fiscal 2021 from 7.23% for Fiscal 2020, which was partially offset by a ₹ 4,270.42 million, or 72.23%, increase in Average Interest-Earning Balances with RBI and other Inter-Bank Funds to ₹ 10,182.48 million for Fiscal 2021 from ₹ 5,912.06 million for Fiscal 2020.

Other Income

The table set forth below shows details in relation to our other income for Fiscals 2021 and 2020.

(₹ in million, except percentages)

Particulars	Fiscal 2021	Fiscal 2020	Percentage increase /(decrease)
Commission, exchange and brokerage	645.01	979.79	(34.17%)
Profit on sale of investments (Net)	230.40	64.02	259.89%
Profit/(loss) on sale of land, buildings and other assets (Net)	(23.34)	0.39	(6,084.62%)
Profit on foreign exchange transactions (Net)	5.48	2.38	129.83%

Particulars	Fiscal 2021	Fiscal 2020	Percentage increase /(decrease)
Income earned by way of dividends etc. from companies	1.10	0.04	2,650.00%
Miscellaneous income	402.39	285.28	41.05%
Total	**1,261.04**	**1,331.90**	**(5.32%)**

Our other income decreased by ₹ 70.86 million, or 5.32%, to ₹ 1,261.04 million for Fiscal 2021 from ₹ 1,331.90 million for Fiscal 2020. The primary reason for this decrease was a ₹ 334.78 million, or 34.17%, decrease in income from commission, exchange and brokerage to ₹ 645.01 million for Fiscal 2021 from ₹ 979.79 million for Fiscal 2020, which decrease was primarily due to a decrease in processing fees by ₹ 366.98 million, or 45.67%, to ₹ 436.54 million for Fiscal 2021 from ₹ 803.52 million for Fiscal 2020, which was mainly on account of not charging any processing fees on Covid Care loan products granted to customers during Fiscal 2021, which was partially offset by an increase in services charges collected from deposit customers and income from ATM / UPI transactions by ₹ 36.95 million, or 41.73%, to ₹ 125.50 million for Fiscal 2021 from ₹ 88.55 million for Fiscal 2020.

The decrease in commission, exchange and brokerage income was partially offset by (a) a ₹ 166.38 million, or 259.89% increase in profit on sale of investments (net) to ₹ 230.40 million for Fiscal 2021 from ₹ 64.02 million for Fiscal 2020, which was primarily due to a fall in yields on government securities, which resulted in price appreciation of securities held resulting in higher profits and (b) a ₹ 117.11 million, or 41.05%, increase in miscellaneous income to ₹ 402.39 million for Fiscal 2021 from ₹ 285.28 million for Fiscal 2020, which increase was primarily due to an increase on fees received on the sale of priority sector lending certificates by ₹ 191.00 million, or 636.67%, to ₹ 221.00 million for Fiscal 2021 from ₹ 30.00 million for Fiscal 2020.

Total Expenditure

Our total expenditure increased by ₹ 3,058.36 million, or 22.55%, to ₹ 16,618.81 million for Fiscal 2021 from ₹ 13,560.45 million for Fiscal 2020. The primary reasons for this increase are discussed below:

Interest Expended

Our interest expended increased by ₹ 985.25 million, or 15.86%, to ₹ 7,195.82 million for Fiscal 2021 from ₹ 6,210.57 million for Fiscal 2020. The primary reasons for this increase are discussed below.

- Interest on deposits increased by ₹ 1,194.51 million, or 24.62%, to ₹ 6,045.68 million for Fiscal 2021 from ₹ 4,851.17 million for Fiscal 2020, which was due to a 38.77% increase in Average Interest-Bearing Deposits to ₹ 80,911.38 million for Fiscal 2021 from ₹ 58,303.97 million for Fiscal 2020, which was partially offset by a decrease in the Cost of Average Interest-Bearing Deposits to 7.47% for Fiscal 2021 from 8.32% for Fiscal 2020.

- Interest on Reserve Bank of India / inter-bank borrowings and others decreased by ₹ 209.26 million, or 15.39%, to ₹ 1,150.14 million for Fiscal 2021 from ₹ 1,359.40 million for Fiscal 2020. This was primarily due to a decrease in the Cost of Average Borrowings to 8.03% for Fiscal 2021 from 9.64% for Fiscal 2020, which was partially offset by a ₹ 227.49 million, or 1.61%, increase in Average Borrowings to ₹ 14,327.51 million for Fiscal 2021 from ₹ 14,100.02 million for Fiscal 2020.

Operating Expenses

The table set forth below shows details in relation to our operating expenses for the Fiscal 2021 and Fiscal 2020.

(₹ in million, except percentages)

Particulars	Fiscal 2021	Fiscal 2020	Percentage increase /(decrease)
Payments to and provisions for employees	1,877.84	1,440.65	30.35%
Rent, taxes and lighting	420.39	339.13	23.96%
Printing and stationery	52.91	53.36	(0.84)%
Advertisement and publicity	27.10	34.80	(22.13)%
Depreciation on Bank's Property	285.73	231.67	23.33%
Directors' fees, allowances and expenses	14.04	14.75	(4.81)%
Auditors' fees and expenses	6.30	7.67	(17.86)%
Law charges	2.61	2.02	29.21%
Postage, Telegrams, Telephones etc.	91.68	73.71	24.38%
Repairs and maintenance	15.78	13.12	20.27%
Insurance	108.35	60.77	78.30%
Other expenditure	3,415.82	3,735.12	(8.55)%
Of which:			
Business correspondent expense	2,328.08	2,777.82	(16.19)%
Total	**6,318.55**	**6,006.77**	**5.19%**

Our operating expenses increased by ₹ 311.78 million, or 5.19%, to ₹ 6,318.55 million for Fiscal 2021 from ₹ 6,006.77 million for Fiscal 2020. The primary reasons for this increase are discussed below.

- Payments to and provisions for employees increased by ₹ 437.19 million, or 30.35% to ₹ 1,877.84 million for Fiscal 2021 from ₹ 1,440.65 million for Fiscal 2020, which was primarily due to a 13.96% increase in our number of employees to 3,803 as at March 31, 2021 from 3,337 as at March 31, 2020.

- Rent, taxes and lighting increased by ₹ 81.26 million, or 23.96% to ₹ 420.39 million for Fiscal 2021 from ₹ 339.13 million for Fiscal 2020, which was primarily due to a 21.15% increase in our number of Branches and Ultra-Small Branches (combined) from 454 as at March 31, 2020 to 550 Branches as at March 31, 2021.

- Insurance increased by ₹ 47.58 million, or 78.30% to ₹ 108.35 million for Fiscal 2021 from ₹ 60.77 million for Fiscal 2020, which was primarily due to increase on insurance on deposits paid to Deposit Insurance Credit Guarantee Corporation, which increased by ₹ 48.32 million, or 95.43%, to ₹ 98.95 million for Fiscal 2021 from ₹ 50.63 million for Fiscal 2020 due to the increase in deposits.

The above increases were partially offset by, among other things, a ₹ 319.30 million, or 8.55% decrease in other expenditure to ₹ 3,415.82 million for Fiscal 2021 from ₹ 3,735.12 million for Fiscal 2020, which was primarily due to a ₹ 449.74 million, or 16.19% decrease in business correspondent expense to ₹ 2,328.08 million for Fiscal 2021 from ₹ 2,777.82 million for Fiscal 2020. The decrease in business correspondent expense was primarily due to the non-collection of loan repayments due to the moratorium.

Provisions and Contingencies

The table set forth below shows details in relation to our provisions and contingencies for Fiscal 2021 and Fiscal 2020.

(₹ in million, except percentages)

Particulars	Fiscal 2021	Fiscal 2020	Percentage increase /(decrease)
Provision towards NPA/Write offs	1,887.40	491.51	284.00%
Provision towards Standard Assets	925.52	100.76	818.54%
Provision towards/(write back of provision towards) Depreciation on Investments	(11.44)	18.30	N.C.
Provision made towards income tax:			
Current Tax expense(1)	602.48	713.50	(15.56)%
Deferred Tax charge (credit)	(242.71)	(54.84)	(342.58)%
Total provision made towards income tax	***359.77***	***658.66***	***(45.38)%***
Other Provision and Contingencies	(56.81)	73.88	(176.89)%
Total Provisions and Contingencies	**3,104.44**	**1,343.11**	**131.14%**

Notes:

(1) Net of reversal of provision for earlier years less ₹ 20.00 million during the year ended March 31, 2021.

Our provisions and contingencies increased by ₹ 1,761.33 million, or 131.14%, to ₹ 3,104.44 million for Fiscal 2021 from ₹ 1,343.11 million for Fiscal 2020. The primary reasons for this increase are discussed below.

- Provision towards NPA/write offs increased by ₹ 1,395.89 million, or 284.00%, to ₹ 1,887.40 million for Fiscal 2021 from ₹ 491.51 million for Fiscal 2020. The primary reason for the increase in the provision towards NPA/write offs was a ₹ 1,325.61 million, or 214.17%, increase in additions during the year to ₹ 1,944.55 million for Fiscal 2021 from ₹ 618.94 million for Fiscal 2020, which was due to gross NPAs increasing to ₹ 5,639.97 million as at March 31, 2021 from ₹ 1,008.61 million as at March 31, 2020, which increase was primarily due to the COVID-19 pandemic.

- Provision towards standard assets increased by ₹ 824.76 million to ₹ 925.52 million for Fiscal 2021 compared to ₹ 100.76 million for Fiscal 2020. The primary reasons for this increase were (a) we made a provision of ₹ 359.92 million for Fiscal 2021 against the potential impact of COVID-19 compared to a provision of ₹ 44.08 million for Fiscal 2020 against the potential impact of COVID-19 and (b) a 33.76% increase in our Average Interest-Earning Advances to ₹ 73,170.11 million for Fiscal 2021 from ₹ 54,702.39 million for Fiscal 2020.

The above increases were partially offset by our provision made towards current tax expenses decreasing by ₹ 111.02 million, or 15.56%, to ₹ 602.48 million for Fiscal 2021 from ₹ 713.50 million for Fiscal 2020. The primary reasons for this decrease was a 44.83% decrease in our Net Profit Before Tax (net profit for the year plus provisions made towards income tax) to ₹ 1,413.73 million for Fiscal 2021 from ₹ 2,562.56 million for Fiscal 2020. In addition, we had a deferred tax credit of ₹ 242.71 million for Fiscal 2021 compared to a deferred tax credit of ₹ 54.84 million for Fiscal 2020. Our deferred tax credits in Fiscals 2021 and 2020 were primarily due to provisions towards standard advances. As a result of the foregoing, our total provision made towards income tax decreased by ₹ 298.89 million, or 45.38%, to ₹ 359.77 million for Fiscal 2021 from ₹ 658.66 million for Fiscal 2020. Our total provisions made towards income tax as a percentage of Net Profit Before Tax were 25.45% and 25.70% for Fiscals 2021 and 2020, respectively, compared to the applicable corporate income tax of 25.17% (including applicable surcharges and cess) for Fiscals 2021 and 2020.

Net Profit for the Year

As a result of the above, our net profit for the year decreased by ₹ 849.94 million, or 44.64%, to ₹ 1,053.96 million for Fiscal 2021 from ₹ 1,903.90 million for Fiscal 2020.

Fiscal 2020 Compared to Fiscal 2019

The following table sets forth a summary of our Restated Profit and Loss Account for Fiscals 2020 and 2019:

	Fiscal 2020		Fiscal 2019	
	Amount (₹ in million)	**% of Total Income**	**Amount (₹ in million)**	**% of Total Income**
Income:				
Interest Earned	14,132.45	91.39%	10,316.39	90.43%
Other Income	1,331.90	8.61%	1,091.50	9.57%
Total Income	**15,464.35**	**100.00%**	**11,407.89**	**100.00%**
Expenditure:				
Interest Expended	6,210.57	40.16%	4,582.82	40.17%
Operating Expenses	6,006.77	38.84%	4,533.94	39.74%
Provisions and Contingencies	1,343.11	8.69%	1,388.29	12.17%
Total Expenditure	**13,560.45**	**87.69%**	**10,505.05**	**92.09%**
Net Profit for the year	**1,903.90**	**12.31%**	**902.84**	**7.91%**

Total Income

Our total income increased by ₹ 4,056.46 million, or 35.56%, to ₹ 15,464.35 million for Fiscal 2020 from ₹ 11,407.89 million for Fiscal 2019 as a result of a ₹ 3,816.06 million, or 36.99%, increase in interest earned and a ₹ 240.40 million, or 22.02%, increase in other income.

Interest Earned

The table set forth below shows details in relation to our interest earned for Fiscals 2020 and 2019.

(₹ in million, except percentages)

Particulars	Fiscal 2020	Fiscal 2019	Percentage increase / (decrease)
Interest/discount on advances/bills	12,382.84	9,146.08	35.39%
Income on investments	1,321.98	969.35	36.38%
Interest on balances with Reserve Bank of India and other inter-bank funds	427.63	200.96	112.79%
Total	**14,132.45**	**10,316.39**	**36.99%**

Our interest earned increased by ₹ 3,816.06 million, or 36.99%, to ₹ 14,132.45 million for Fiscal 2020 from ₹ 10,316.39 million for Fiscal 2019. The primary reasons for this increase are discussed below.

- Interest/discount on advances/bills increased by ₹ 3,236.76 million, or 35.39%, to ₹ 12,382.84 million for Fiscal 2020 from ₹ 9,146.08 million for Fiscal 2019.
  - The increase in interest/discount on advances/bills was primarily due to a ₹ 16,087.96 million, or 41.66%, increase in Average Interest-Earning Advances to ₹ 54,702.39 million for Fiscal 2020 from ₹ 38,614.43 million for Fiscal 2019, which increase was due to a ₹ 14,326.25 million, or 38.01%, increase in Average Interest-Earning Micro Loans to ₹ 52,018.86 million for Fiscal 2020 from ₹ 37,692.61 million for Fiscal 2019 and a ₹ 1,761.71 million, or 191.11%, increase in Average Interest-Earning Other Loans to ₹ 2,683.53 million for Fiscal 2020 from ₹ 921.82 million for Fiscal 2019.
  - The increase in Average Interest-Earning Advances was partially offset by a decrease in the Yield on Average Interest-Earning Advances to 22.64% for Fiscal 2020 from 23.69% for Fiscal 2019, which decrease was primarily due to a declining interest rate environment, with the RBI's repo rate decreasing to 4.40% as at March 31, 2020 from 6.25% as at March 31, 2019. The Yield on Average Interest-Earning Micro Loans decreased to 23.12% for Fiscal 2020 from 23.94% for Fiscal 2019 and the Yield on Average Interest-Earning Other Loans decreased to 13.31% for Fiscal 2020 from 13.46% for Fiscal 2019.
- Income from investments increased by ₹ 352.63 million, or 36.38%, to ₹ 1,321.98 million for Fiscal 2020 from ₹ 969.35 million for Fiscal 2019. This increase was primarily due to a ₹ 4,910.69 million, or 38.91%, increase in Average Interest-Earning Investments to ₹ 17,532.82 million for Fiscal 2020 from ₹ 12,622.13 million for Fiscal 2019, which was partially offset by a decrease in the Yield on Average Interest-Earning Investments to 7.54% for Fiscal 2020 from 7.68% for Fiscal 2019.
- Interest on balances with the RBI and other inter-bank funds increased by ₹ 226.67 million, or 112.79%, to ₹ 427.63 million for Fiscal 2020 from ₹ 200.96 million for Fiscal 2019. This increase was primarily due to a ₹ 2,997.99 million,

or 102.88%, increase in Average Interest-Earning Balances with Reserve Bank of India and other Inter-Bank Funds to ₹ 5,912.06 million for Fiscal 2020 from ₹ 2,914.07 million for Fiscal 2019.

Other Income

The table set forth below shows details in relation to our other income for Fiscals 2020 and 2019.

(₹ in million, except percentages)

Particulars	Fiscal 2020	Fiscal 2019	Percentage increase /(decrease)
Commission, exchange and brokerage	979.79	542.16	80.72%
Profit on sale of investments (Net)	64.02	10.04	537.65%
Profit on sale of land, buildings and other assets (Net)	0.39	0.26	50.00%
Profit on foreign exchange transactions (Net)	2.38	0.23	934.78%
Income earned by way of dividends, etc. from companies	0.04	-	N.C.
Miscellaneous income	285.28	538.81	(47.05%)
Total	**1,331.90**	**1,091.50**	**22.02%**

Note:

(1) N.C. means not comparable.

Our other income increased by ₹ 240.40 million, or 22.02%, to ₹ 1,331.90 million for Fiscal 2020 from ₹ 1,091.50 million for Fiscal 2019. The primary reason for this increase was a ₹ 437.63 million, or 80.72%, increase in income from commission, exchange and brokerage to ₹ 979.79 million for Fiscal 2020 from ₹ 542.16 million for Fiscal 2019. This increase was primarily due to (a) a ₹ 330.59 million, or 69.90%, increase in processing fees on advances to ₹ 803.52 million for Fiscal 2020 from ₹ 472.93 million for Fiscal 2019, which was due to the increase in advances and related processing fees thereon, and (b) and increase in services charges collected from deposit customers and income from ATM / UPI transactions, etc., by ₹ 37.00 million or 71.77% to ₹ 88.55 million for Fiscal 2020 from ₹ 51.55 million for Fiscal 2019.

The increase in income from commission, exchange and brokerage was partially offset by a ₹ 253.53 million, or 47.05%, decrease in miscellaneous income to ₹ 285.28 million for Fiscal 2020 from ₹ 538.81 million for Fiscal 2019, which was primarily due to a ₹ 330.62 million, or 79.30%, decrease in interest spread on securitisation and assignment transaction to ₹ 86.30 million for Fiscal 2020 from ₹ 416.92 million for Fiscal 2019, which was primarily due to the closure of three tranches of securitized loans during Fiscal 2020.

Total Expenditure

Our total expenditure increased by ₹ 3,055.40 million, or 29.09%, to ₹ 13,560.45 million for Fiscal 2020 from ₹ 10,505.05 million for Fiscal 2019. The primary reasons for this increase are discussed below:

Interest Expended

Our interest expended increased by ₹ 1,627.75 million, or 35.52%, to ₹ 6,210.57 million for Fiscal 2020 from ₹ 4,582.82 million for Fiscal 2019. The primary reasons for this increase are discussed below.

- Interest on deposits increased by ₹ 2,192.10 million, or 82.44%, to ₹ 4,851.17 million for Fiscal 2020 from ₹ 2,659.07 million for Fiscal 2019, which was due to a ₹ 26,107.16 million, or 81.09%, increase in Average Interest-Bearing Deposits to ₹ 58,303.97 million for Fiscal 2020 from ₹ 32,196.81 million for Fiscal 2019, and an increase in the Cost of Average Interest-Bearing Deposits to 8.32% for Fiscal 2020 from 8.26% for Fiscal 2019.

- Interest on Reserve Bank of India / inter-bank borrowings and others decreased by ₹ 564.35 million, or 29.34%, to ₹ 1,359.40 million for Fiscal 2020 from ₹ 1,923.75 million for Fiscal 2019. This was primarily due to a ₹ 4,911.67 million, or 25.83%, decrease in Average Borrowings to ₹ 14,100.02 million for Fiscal 2020 from ₹ 19,011.69 million for Fiscal 2019 and a decrease in the Cost of Average Borrowings to 9.64% for Fiscal 2020 from 10.12% for Fiscal 2019. The increase in our Average Deposits enabled us to reduce to our Average Borrowings.

Operating Expenses

The table set forth below shows details in relation to our operating expenses for the Fiscals 2020 and 2019.

(₹ in million, except percentages)

Particulars	Fiscal 2020	Fiscal 2019	Percentage increase /(decrease)
Payments to and provisions for employees	1,440.65	771.04	86.85%
Rent, taxes and lighting	339.13	267.83	26.62%
Printing and stationery	53.36	53.60	(0.45)%
Advertisement and publicity	34.80	80.41	(56.72)%
Depreciation on Bank's Property	231.67	169.06	37.03%
Directors' fees, allowances and expenses	14.75	11.50	28.26%

Particulars	Fiscal 2020	Fiscal 2019	Percentage increase /(decrease)
Auditors' fees and expenses	7.67	8.47	(9.45)%
Law charges	2.02	7.22	(72.02)%
Postage, Telegrams, Telephones etc.	73.71	38.60	90.96%
Repairs and maintenance	13.12	12.03	9.06%
Insurance	60.77	25.88	134.81%
Other expenditure	3,735.12	3,088.30	20.94%
Of which:			
Business correspondent expenses	2,777.82	2,382.30	16.60%
Total	**6,006.77**	**4,533.94**	**32.48%**

Our operating expenses increased by ₹ 1,472.83 million, or 32.48%, to ₹ 6,006.77 million for Fiscal 2020 from ₹ 4,533.94 million for Fiscal 2019. The primary reasons for this increase are discussed below.

- Other expenditure increased by ₹ 646.82 million, or 20.94% to ₹ 3,735.12 million for Fiscal 2020 from ₹ 3,088.30 million for Fiscal 2019, which was primarily due a ₹ 395.52 million, or 16.60%, increase in our business correspondent expenses to ₹ 2,777.82 million for Fiscal 2020 from ₹ 2,382.30 million for Fiscal 2019, which was primarily due to a ₹ 14,326.25 million, or 38.01%, increase in our Average Interest-Earning Micro Loans to ₹ 52,018.86 million for Fiscal 2020 from ₹ 37,692.61 million for Fiscal 2019.

- Payments to and provisions for employees increased by ₹ 669.61 million, or 86.85% to ₹ 1,440.65 million for Fiscal 2020 from ₹ 771.04 million for Fiscal 2019, which was primarily due to 53.92% increase in the number of our employees to 3,337 as at March 31, 2020 from 2,168 as at March 31, 2019.

Provisions and Contingencies

The table set forth below shows details in relation to our provisions and contingencies for Fiscals 2020 and 2019.

(₹ in million, except percentages)

Particulars	Fiscal 2020	Fiscal 2019	Percentage increase /(decrease)
Provision towards NPA /Write offs	491.51	919.38	(46.54%)
Provision towards Standard Assets	100.76	92.33	9.13%
Provision towards Depreciation on Investments	18.30	-	N.C.
Provision made towards income tax:			
Current Tax expense	713.50	328.97	116.89%
Deferred Tax charge (credit)	(54.84)	40.00	(237.10%)
Total provision made towards income tax	***658.66***	***368.97***	***78.51%***
Other Provision and Contingencies	73.88	7.61	870.83%
Total Provisions and Contingencies	**1,343.11**	**1,388.29**	**(3.25%)**

Note:

(1) N.C. means not comparable.

Our provisions and contingencies decreased by ₹ 45.18 million, or 3.25%, to ₹ 1,343.11 million for Fiscal 2020 from ₹ 1,388.29 million for Fiscal 2019. The primary reasons for this increase are discussed below.

- Provision made towards current tax expenses increased by ₹ 384.53 million, or 116.89%, to ₹ 713.50 million for Fiscal 2020 from ₹ 328.97 million for Fiscal 2019. The primary reasons for this increase was a 101.49% increase in our Net Profit Before Tax (net profit for the year plus provisions made towards income tax) to ₹ 2,562.56 million for Fiscal 2020 from ₹ 1,271.81 million for Fiscal 2019. We had a deferred tax credit of ₹ 54.84 million for Fiscal 2020 compared to a deferred tax charge of ₹ 40.00 million for Fiscal 2019. Our deferred tax credit for Fiscal 2020 was primarily due to provisions towards standard advances and other provision made for contingencies and wage arrears. As a result of the foregoing, our total provision made towards income tax increased by ₹ 289.69 million, or 78.51%, to ₹ 658.66 million for Fiscal 2020 from ₹ 368.97 million for Fiscal 2019. Our total provisions made towards income tax as a percentage of Net Profit Before Tax was 25.70% and 29.01% for Fiscals 2020 and 2019, respectively, compared to the applicable corporate income tax of 25.17% (including applicable surcharges and cess) and 29.12% (including applicable surcharges and cess) for Fiscals 2020 and 2019, respectively. As we commenced operations on March 10, 2017 and our turnover was below ₹ 2,500.00 million, we were subject to a reduced corporate income tax rate of 29.12% for Fiscal 2019. The Taxation Laws (Amendment) Ordinance 2019 revised downward the corporate income tax rate for domestic companies from 34.94% (including applicable surcharges and cess) for Fiscal 2019 to 25.17% (including applicable surcharges and cess) for Fiscal 2020. Domestic companies had the option to either transition to the new corporate income tax rate of 22.00% (not including applicable surcharges and cess), which is an effective corporate income tax rate of 25.17% (including applicable surcharges and cess), subject to their forgoing certain specified exemptions and deductions or continue to avail the specified exemptions/ deductions and continue to pay tax at earlier rate of 29.12%. The Taxation Laws (Amendment) Ordinance 2019 stipulates that once a company opts for the lower income tax rate, it forgoes the option to claim specified exemptions and deductions. We selected the option of the reduced corporate income tax rate.

- Other provision and contingencies increased by ₹ 66.27 million to ₹ 73.88 million for Fiscal 2020 from ₹ 7.61 million for Fiscal 2019. The primary reason for this increase is that we, on a prudential basis, created a provision of ₹ 48.00 million on an estimated basis towards the possible upward revision in remuneration payable to certain employees due to The Government of Kerala vide extraordinary gazette notification dated January 16, 2020.

- Provision towards standard assets increased by ₹ 8.43 million, or 9.13%, to ₹ 100.76 million for Fiscal 2020 from ₹ 92.33 million for Fiscal 2019. This increase was primarily due to an additional provision of ₹ 44.08 million against the potential impact of COVID-19. In addition, there was also a 41.66% increase in our Average Interest-Earning Advances to ₹ 54,702.39 million for Fiscal 2020 from ₹ 38,614.43 million for Fiscal 2019. This was partially offset by a reversal of a provision of ₹ 25.19 million for loans given to customers affected by widespread flooding in Kerala during Fiscal 2019. As per RBI guidelines, Master Direction – Reserve Bank of India (Relief Measures by Banks in areas affected by Natural Calamities) Directions 2017, we were required to make a higher standard provisioning of 5.00% on those loans as compared to 0.40% on other loans. There was a recovery of ₹ 503.82 million of those loans during Fiscal 2020, resulting in the reversal of a standard provision of ₹ 25.19 million on those loans made during Fiscal 2019.

The above increases were partially offset by the provision towards NPA/write offs decreasing by ₹ 427.87 million, or 46.54%, to ₹ 491.51 million for Fiscal 2020 from ₹ 919.38 million for Fiscal 2019. The primary reasons for the decrease in the provision towards NPA/write-offs was (a) an additional provision of ₹ 807.19 million made during Fiscal 2019 for NPAs classified during June 2017 on account of demonetisation, loan waivers and political intervention in Maharashtra, which provision was not made in Fiscal 2020 and (b) a ₹ 601.03 million decrease in provision withdrawn for technical write-offs during the year for Fiscals 2020 compared to Fiscal 2019, which was partially offset by a ₹ 566.19 million decrease in reductions during the year for Fiscal 2020 compared to Fiscal 2019. In addition, we changed the estimate relating to minimum provision of unsecured substandard assets to incremental additional provision on a quarterly basis during the fourth quarter of Fiscal 2019. The impact by way of additional provision during Fiscal 2019 on account of the above change in estimate is an increase in provision towards NPA of ₹ 76.80 million and a decrease in profit after tax by ₹ 54.50 million for Fiscal 2019.

<u>Net Profit for the Year</u>

As a result of the above, our net profit for the year increased by ₹ 1,001.06 million, or 110.88%, to ₹ 1,903.90 million for Fiscal 2020 from ₹ 902.84 million for Fiscal 2019.

Financial Condition

Statement of Assets and Liabilities

Our assets as at the specified dates are set out below:

(₹ in million)

Particulars	As at March 31,		
	2021	2020	2019
Cash and Balances with the Reserve Bank of India	4,280.72	3,047.72	2,467.41
Balance with Banks and Money at Call and Short Notice	13,910.54	5,980.19	5,347.15
Investments	19,320.69	17,336.25	15,307.50
Advances	81,675.86	65,478.22	45,482.54
Fixed Assets	1,385.12	1,201.07	899.41
Other Assets	2,813.59	1,656.27	1,080.12
Total Assets	**123,386.52**	**94,699.72**	**70,584.13**

<u>Cash and Balances with the Reserve Bank of India</u>

Cash and balances with the Reserve Bank of India increased from ₹ 2,467.41 million as at March 31, 2019 to ₹ 3,047.72 million as at March 31, 2020 primarily due to an increase in cash in hand, from ₹ 202.04 million as at March 31, 2019 to ₹ 761.28 million as at March 31, 2020. Cash and balances with the Reserve Bank of India further increased to ₹ 4,280.72 million as at March 31, 2021 primarily due to an increase in (i) balances with Reserve Bank of India in current accounts from ₹ 2,286.44 million as at March 31, 2020 to ₹ 3,125.39 million as at March 31, 2021; and (ii) cash in hand, from ₹ 761.28 million as at March 31, 2020 to ₹ 1,155.33 million as at March 31, 2021. These increases were primarily due to regulatory requirement of maintaining a CRR balance and an increase in NDTL on account of increases in deposits.

<u>Balances with Banks and Money at Call and Short Notice</u>

Balances with banks and money at call and short notice increased from ₹ 5,347.15 million as at March 31, 2019 to ₹ 5,980.19 million as at March 31, 2020 primarily due to an increase in money at call and short notice with lending under reserve repurchase transactions done with the Reserve Bank of India increasing from ₹ 800.00 million as at March 31, 2019 to ₹ 3,100.00 million as at March 31, 2020 due to the parking of excess cash. Balances with banks and money at call and short notice further increased to ₹ 13,910.54 million as at March 31, 2021 primarily due to an increase in money at call and short notice with lending under reverse repurchase transactions with the Reserve Bank of India from ₹ 3,100.00 million as at March 31, 2020 to ₹ 11,900.00

million as at March 31, 2021 due to the parking of excess cash. This was partially offset by a decrease in balances with banks in other deposit accounts from ₹ 2,517.56 million as at March 31, 2020 to ₹ 3.31 million as at March 31, 2021.

Investments

Our investments increased from ₹ 15,307.50 million as at March 31, 2019 to ₹ 17,336.25 million as at March 31, 2020 primarily due to an increase in Government securities from ₹ 8,864.09 million as at March 31, 2019 to ₹ 15,069.47 million as at March 31, 2020, which was partially offset by a decrease in others (e.g., certificate of deposits, pass through certificates and mutual funds) from ₹ 6,443.41 million as at March 31, 2019 to ₹ 2,231.18 million as at March 31, 2020. Our investments further increased to ₹ 19,320.69 million as at March 31, 2021 primarily due to an increase in Government securities to ₹ 18,889.75 million as at March 31, 2021 from ₹ 15,069.47 million as at March 31, 2020, which was partially offset by a decrease in others from ₹ 2,231.18 million as at March 31, 2020 to ₹ 349.27 million as at March 31, 2021.

Advances

The table below sets forth our advances (net of provisions) by micro loans and other loans (comprising (a) retail loans, (b) MSME and corporate loans and (c) agricultural loans ("**Other Loans**")) as at the dates indicated.

	As at March 31, 2021 (in ₹ million)	% increase / (decrease) from March 31, 2020	As at March 31, 2020 (in ₹ million)	% increase / (decrease) from March 31, 2019	As at March 31, 2019 (in ₹ million)
Micro loans	69,006.54	13.40%	60,852.35	38.79%	43,843.39
Other Loans	12,669.32	173.87%	4,625.97	182.22%	1,639.15
Total	**81,675.86**	**24.74%**	**65,478.22**	**43.96%**	**45,482.54**

Our advances (net of provisions) increased from ₹ 45,482.54 million as at March 31, 2019 to ₹ 65,478.22 million as at March 31, 2020, which increase was primarily due to a ₹ 17,008.96 million, or 38.79%, increase in micro loans. Our advances (net of provisions) further increased to ₹ 81,675.86 million as at March 31, 2021, which increase was due to a ₹ 8,154.19 million, or 13.40%, increase in micro loans and a ₹ 8,043.35 million, or 173.87%, increase in Other Loans. Due to the nation-wide lockdown implemented in response to the COVID-19 pandemic, disbursement activities for all loans were almost stopped entirely during the month of April and were severely curtailed in May 2020. Effective June 1, 2020, loan disbursement activities started functioning again in most of the centres, except in those areas where the effect of COVID-19 was severe and the respective state governments imposed restrictions on various activities. For a table a showing our disbursements for various months and periods, see "*Our Business – Recent Developments–Effects of the COVID-19 Pandemic on our Business and Operations – Advances – Disbursements*" on page 166.

Fixed Assets

Our fixed assets, which primarily comprise office equipment, computers, furniture & fixtures, motor vehicles and servers, increased from ₹ 899.41 million as at March 31, 2019 to ₹ 1,201.07 million as at March 31, 2020 and further increased to ₹ 1,385.12 million as at March 31, 2021. These increases were primarily due to the purchase of office equipment, computers, furniture & fixtures for new Branches and Purchase of IT assets/ Software and other constructions at Corporate office. We had 423 Branches and Ultra-Small Branches (combined) as at March 31, 2019, 454 Branches as at March 31, 2020 and 550 Branches as at March 31, 2021.

Other Assets

Our other assets primarily comprise: (1) interest accrued, (2) tax paid in advance / tax deducted at source (net of provision), (3) deferred tax asset (net) and (4) others (e.g., GST input credit, security deposits, NEFT/RTGS settlement receivable and prepaid expense). Our other assets increased from ₹ 1,080.12 million as at March 31, 2019 to ₹ 1,656.27 million as at March 31, 2020 primarily due to an increase in others from ₹ 533.33 million as at March 31, 2019 to ₹ 803.90 million as at March 31, 2020, which included an increase in GST input credit from ₹ 317.81 million as at March 31, 2019 to ₹ 447.71 million as at March 31, 2020. Our other assets increased from ₹ 1,656.27 million as at March 31, 2020 to ₹ 2,813.59 million as at March 31, 2021 primarily due to an increase in others from ₹ 803.90 million as at March 31, 2020 to ₹ 1,186.51 million as at March 31, 2021, which included an increase in GST input credit from ₹ 447.71 million as at March 31, 2020 to ₹ 619.88 million as at March 31, 2021 and the refund on ex-gratia payments to borrowers receivable from the Government of ₹ 165.74 million as at March 31, 2021. On October 23, 2020, the Ministry of Finance, Government of India announced the scheme for grant of ex-gratia payment of difference between compound interest and simple interest for six months to borrowers in specified loan accounts, which mandates lending institutions, including our Bank, to make ex-gratia payments to borrowers with less than ₹ 20.00 million in total borrowings at all lending institutions by crediting, on or before November 5, 2020, the difference between simple interest and compound interest for the period between March 1, 2020 and August 31, 2020. Lending institutions could then make claims for reimbursement from the Government on or before December 12, 2020, which we did. Our claim for such reimbursement is ₹ 165.74 million for Fiscal 2021, which had not been paid as at March 31, 2021.

Capital and Liabilities

Our capital and liabilities as at the specified dates are set out below:

(*₹ in million*)

Particulars	As at March 31,		
	2021	2020	2019
Capital	4,494.74	4,277.96	4,277.96
Reserves and Surplus	9,025.90	6,562.85	4,658.95
Deposits	89,994.26	70,283.82	43,170.08
Borrowings	16,940.00	12,033.17	17,023.60
Other Liabilities and Provisions	2,931.62	1,541.92	1,453.54
Total Liabilities and Provisions	**123,386.52**	**94,699,72**	**70,584.13**

<u>Capital</u>

During Fiscal 2021, we issued a total of 21.67 million Equity Shares at an issue price of ₹ 75.00 per Equity Share, raising gross proceeds of ₹ 1,625.87 million. As a result of the issuances of the foregoing Equity Shares, our capital increased by ₹ 216.78 million to ₹ 4,494.74 million as at March 31, 2021 from ₹ 4,277.96 million as at March 31, 2020 and share premium in our reserves and surplus increased by ₹ 1,409.09 million to ₹ 4,887.63 million as at March 31, 2021 from ₹ 3,478.54 million as at March 31, 2020.

<u>Reserves and Surplus</u>

The primary reasons for increases in our reserves and surplus were increases in our share premium due to the issuances of the Equity Shares summarised above and increases in the balance in our Restated Profit and Loss Account due to the net profit for the applicable fiscal year.

<u>Deposits</u>

The following table sets forth, as at the dates indicated, deposits by categories of deposits and the percentage increase from the previous year end.

	As at March 31, 2021 (in ₹ million)	% increase / (decrease) from March 31, 2020	As at March 31, 2020 (in ₹ million)	% increase / (decrease) from March 31, 2019	As at March 31, 2019 (in ₹ million)
Demand deposits [A]	1,531.84	164.83%	578.43	70.26%	339.74
Savings bank deposits [B]	15,944.61	76.68%	9,024.42	63.77%	5,510.50
CASA [C= A + B]	**17,476.45**	**81.99%**	**9,602.85**	**64.14%**	**5,850.24**
Retail term deposits(1) [D]	70,487.39	23.19%	57,220.16	68.05%	34,050.92
Total retail deposits [E = C+ D]	**87,963.84**	**31.64%**	**66,823.01**	**67.47%**	**39,901.16**
Bulk term deposits(2) [F]	2,030.42	(41.33)%	3,460.81	5.85%	3,268.92
Term deposits [G = D + F]	72,517.81	19.51%	60,680.97	62.60%	37,319.84
Total deposits [H = E + F]	**89,994.26**	**28.05%**	**70,283.82**	**62.81%**	**43,170.08**

Notes:

(1) *Retail term deposits are single rupee term deposits that are not bulk term deposits. Bulk term deposits are single rupee term deposits of ₹ 20.00 million or more.*

(2) *Bulk term deposits are single rupee term deposits of ₹ 20.00 million or more.*

We have been able to leverage the strength of the "ESAF" brand, which has been built over a period of more than 25 years, to rapidly grow our deposit portfolio since we commenced operations. As per the CRISIL Research Report, we had the highest share of retail deposits as a percentage of our total deposits as at March 31, 2020 among our compared peers. As an NBFC-MFI, our 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 have placed a strong emphasis on increasing our retail deposits, as they have lower rates of interest compared to bulk term deposits. Our total retail deposits have increased to ₹ 87,963.84 million as at March 31, 2021 from ₹ 39,901.16 million as at March 31, 2019, representing a CAGR of 48.48%. As at March 31, 2021, our total retail deposits accounted for 97.74% of our total deposits. CASA tends to provide a stable and low-cost source of deposits compared to term deposits. Our CASA increased to ₹ 17,476.45 million as at March 31, 2021 from ₹ 5,850.24 million as at March 31, 2019, representing a CAGR of 72.84%.

<u>Borrowings</u>

The following table sets forth details of our borrowings as at the years indicated.

(*₹ in million*)

Particulars	As at March 31,		
	2021	2020	2019
Borrowings in India:			

Particulars	As at March 31,		
	2021	2020	2019
Reserve Bank of India	1,460.00	1,630.00	-
Other banks	-	-	859.93
Other institutions and agencies	13,100.00	8,023.17	13,783.67
Subordinated debt	1,900.00	1,900.00	1,900.00
Perpetual debt instrument	480.00	480.00	480.00
Borrowings outside India	-	-	-
Total	**16,940.00**	**12,033.17**	**17,023.60**

Our borrowings decreased from ₹ 17,023.60 million as at March 31, 2019 to ₹ 12,033.17 million as at March 31, 2020 on account of (i) a decrease in borrowings in India from other banks from ₹ 859.93 million as at March 31, 2019 to nil as at March 31, 2020; and (ii) a decrease in borrowings in India from other institutions and agencies from ₹ 13,783.67 million as at March 31, 2019 to ₹ 8,023.17 million as at March 31, 2020, which was partially offset by an increase in borrowings in India from the Reserve Bank of India from nil as at March 31, 2019 to ₹ 1,630.00 million as at March 31, 2020.

Our borrowings increased from ₹ 12,033.17 million as at March 31, 2020 to ₹ 16,940.00 million as at March 31, 2021 primarily on account of an increase in borrowings in India from other institutions and agencies from ₹ 8,023.17 million as at March 31, 2020 to ₹ 13,100.00 million as at March 31, 2021.

Other Liabilities and Provisions

The table below sets forth details of our other liabilities and provisions as at the dates indicated.

(₹ in million)

Particulars	As at March 31,		
	2021	2020	2019
Bills payable	26.26	5.84	7.72
Inter office adjustments (net)	-	-	-
Interest accrued	219.11	188.74	266.91
Provision for standard assets	1,241.42	315.90	215.14
Others (including provisions)	1,444.83	1,031.44	963.77
Total	**2,931.62**	**1,541.92**	**1,453.54**

Other liabilities and provisions increased from ₹ 1,453.54 million as at March 31, 2019 to ₹ 1,541.92 million as at March 31, 2020, and further increased to ₹ 2,931.62 million as at March 31, 2021, which increase was primarily due to (i) a 292.98% increase in provision for standard assets from ₹ 315.90 million as at March 31, 2020 to ₹ 1,241.42 million as at March 31, 2021, which included a provision of ₹ 404.00 million as at March 31, 2021 against the potential impact of COVID-19 compared to ₹ 44.08 million for the same as at March 31, 2020; and a (ii) 40.08% increase in others (including provisions) from ₹ 1,031.44 million as at March 31, 2020 to ₹ 1,444.83 million as at March 31, 2021, which was primarily due to income received in advance included in others of ₹ 210.35 million as at March 31, 2021 compared with nil as at March 31, 2020.

Our Business Segments

We have identified our business segments, segregating into Treasury, Wholesale Banking, Retail Banking and Other Banking Segments after considering the internal business reporting system and guidelines issued by the RBI 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'. We operate in the following business segments:

- *Treasury*. The Treasury segment primarily consists of interest earnings on our investments portfolio, gains or losses on investment operations and earnings from our foreign exchange business. The principal expenses of the segment consist of interest expense allocated on funds borrowed/deposits received and other expenses. The segment also includes allocation of deposits received from customers.

- *Wholesale Banking*. The Wholesale Banking segment provides loans to the corporate segment identified based on RBI guidelines. Revenues from this segment consist of interest earned on loans made to corporate customers and the charges/fees earned from other banking services. The principal expenses of the segment consist of interest expense allocated on funds borrowed/deposits received and other expenses.

- *Retail Banking*. The Retail Banking segment provides loans to non-corporate customers identified based on RBI guidelines and also include deposits from customers. Revenues of this segment consist of interest earned on loans made to non-corporate customers and the charges/fees earned from other banking services. The principal expenses of the segment consist of interest expense allocated on funds borrowed/ deposits received and other expenses.

- *Other Banking Operations*. The Other Banking Operations segment includes income from para banking activities, such as debit cards, third party product distribution and associated costs.

Our segment results and segment revenue for each of our business segments are set forth in the table below for the years indicated:

(₹ in million)

	Treasury		Wholesale Banking		Retail Banking		Other Banking Operations		Total	
	Segment Revenue	Segment Results	Segment Revenue	Segment Results	Segment Revenue	Segment Results	Segment Revenue	Segment Results	Segment Revenue	Segment Results
Fiscal 2021	1,913.87	13.86	167.58	59.65	15,372.14	1,150.42	219.18	189.81	17,672.77	1,413.74
Fiscal 2020	1,816.08	137.57	83.43	27.63	13,388.82	2,245.79	176.02	151.58	15,464.35	2,562.57
Fiscal 2019	1,180.69	50.15	6.98	5.15	10,202.35	1,206.01	17.87	10.50	11,407.89	1,271.81

Due to the immaterially of our Wholesale Banking segment, we have not included a discussion on the segment revenue and segment results of that segment.

Treasury

<u>Fiscal 2021 Compared to Fiscal 2020</u>

The Treasury segment result decreased by ₹ 123.71 million, or 89.93%, to ₹ 13.86 million for Fiscal 2021 from ₹ 137.57 million for Fiscal 2020, which decrease was primarily due an increase in the Average Interest-Earning Balance with the Reserve Bank of India and other Inter-Bank Funds of ₹ 4,270.42 million, or 72.23%, to ₹ 10,182.48 million for Fiscal 2021 from ₹ 5,912.06 million for Fiscal 2020 and the decrease in the Yield on Interest-Earning Balance with the Reserve Bank of India and other Inter-Bank Funds to 3.86% for Fiscal 2021 from 7.23% for Fiscal 2020. Although our Cost of Funds decreased to 7.56% for Fiscal 2021 from 8.58% for Fiscal 2020, this decrease only partially offset the foregoing. The increase in the Average Interest-Earning Balance with the Reserve Bank of India and other Inter-Bank Funds was due to the fact that we had excess liquidity and had to invest that excess liquidity in low yielding money market instruments and Reverse Repo. The excess liquidity was due to the demand for our advances being adversely affected by the nationwide lockdown from March 25, 2020 until May 31, 2020 and the COVID-19 pandemic, which resulted in disbursements decreasing by ₹ 11,407.78 million, or 15.36%, to ₹ 62,863.74 million for Fiscal 2021 from ₹ 74,271.52 million for Fiscal 2020.

<u>Fiscal 2020 Compared to Fiscal 2019</u>

The Treasury segment result increased by ₹ 87.42 million, or 174.32%, to ₹ 137.57 million for Fiscal 2020 from ₹ 50.15 million for Fiscal 2019, which increase was primarily due to an increase in Average Interest-Earning Investments to ₹ 17,532.82 million for Fiscal 2020 from ₹ 12,622.13 million for Fiscal 2019.

Retail Banking

<u>Fiscal 2021 Compared to Fiscal 2020</u>

The Retail Banking segment result decreased by ₹ 1,095.37 million, or 48.77%, to ₹ 1,150.42 million for Fiscal 2021 from ₹ 2,245.79 million for Fiscal 2020, which decrease was primarily due to a ₹ 3,078.69 million, or 27.63%, increase in segment expenditure to ₹ 14,221.72 million for Fiscal 2021 from ₹ 11,143.03 million for Fiscal 2020, which was primarily due to a ₹ 2,045.41 million, or 300.16%, increase in provision on standard assets and provision on NPA/write-off (combined) of the Retail Banking segment to ₹ 2,726.84 million for Fiscal 2021 from ₹ 681.43 million for Fiscal 2020. The increase in expenditure was partially offset by a ₹ 1,983.32 million, or 14.81%, increase in segment revenue to ₹ 15,372.14 million for Fiscal 2021 from ₹ 13,388.82 million for Fiscal 2020, which was primarily due to a 33.20% increase in Average Interest-Earning Advances of the Retail Banking segment to ₹ 72,842.52 million for Fiscal 2021 from ₹ 54,685.37 million for Fiscal 2020.

<u>Fiscal 2020 Compared to Fiscal 2019</u>

The Retail Banking segment result increased by ₹ 1,039.78 million, or 86.22%, to ₹ 2,245.79 million for Fiscal 2020 from ₹ 1,206.01 million for Fiscal 2019. This increase was primarily due to a ₹ 3,186.47 million, or 31.23%, increase in segment revenue to ₹ 13,388.82 million for Fiscal 2020 from ₹ 10,202.35 million for Fiscal 2019, which was primarily due to a 38.83% increase in Average Interest-Earning Advances of the Retail Banking segment to ₹ 54,685.37 million for Fiscal 2020 from ₹ 39,391.53 million for Fiscal 2019. The increase in revenue was partially offset by a ₹ 2,146.69 million, or 23.86%, increase in segment expenditure to ₹ 11,143.03 million for Fiscal 2020 from ₹ 8,996.34 million for Fiscal 2019, which was primarily due to ₹ 909.62 million, or 27.63%, increase in allocated cost of funds to the Retail Banking segment to ₹ 4,201.76 million for Fiscal 2020 from ₹ 3,292.14 million for Fiscal 2019.

Other Banking Operations

<u>Fiscal 2021 Compared to Fiscal 2020</u>

The Other Banking Operations segment result increased by ₹ 38.23 million, or 25.22%, to ₹ 189.81 million for Fiscal 2021 from ₹ 151.58 million for Fiscal 2020. This increase was primarily due to a ₹ 43.16 million, or 24.52%, increase in segment revenue to ₹ 219.18 million for Fiscal 2021 from ₹ 176.02 million for Fiscal 2020.

__Fiscal 2020 Compared to Fiscal 2019__

The Other Banking Operations segment result increased by ₹ 141.08 million to ₹ 151.58 million for Fiscal 2020 from ₹ 10.50 million for Fiscal 2019. This increase was primarily due to a ₹ 158.15 million increase in segment revenue to ₹ 176.02 million Fiscal 2020 from ₹ 17.87 million for Fiscal 2019.

Liquidity and Capital Resources

In the past, we have funded our liquidity and capital requirements primarily through shareholder capital and funds generated from deposits, borrowings from other institutions, subordinated debt, borrowings from other banks and perpetual debt instruments.

Cash Flows

The following table summarizes our statements of cash flows for the years presented:

(₹ in million)

Particulars	Year ended March 31,		
	2021	2020	2019
Net cash flow from / (used in) Operating Activities	11,274.45	10,888.78	(2,391.34)
Net cash flow from / (used in) Investing Activities	(6,379.55)	(6,347.83)	(1,708.96)
Net cash flow from / (used in) Financing Activities	6,532.70	(4,990.43)	4,877.69
Net increase / (decrease) in cash and cash equivalents	**11,427.60**	**(449.48)**	**777.39**

__Operating Activities__

For Fiscal 2021, our operating profit before working capital changes was ₹ 4,305.14 million and our net cash generated from operating activities was ₹ 11,274.45 million, The difference was due to an increase in deposits of ₹ 19,710.44 million, a decrease in investments (other than HTM investments) of ₹ 4,075.38 million, a decrease in fixed deposit with bank (original maturity greater than three months) of ₹ 2,264.25 million and an increase in other liabilities and provisions of ₹ 521.25 million, which was partially offset by an increase in advances of ₹ 18,084.91 million, direct taxes paid of ₹ 1,093.07 million and an increase in other assets of ₹ 424.03 million.

For Fiscal 2020, our operating profit before working capital changes was ₹ 3,449.52 million and our net cash generated from operating activities was ₹ 10,888.78 million. The difference was due to an increase in deposits of ₹ 27,113.74 million and a decrease in investments (other than HTM investments) of ₹ 3,796.59 million, which was partially offset by, among others, an increase in advances of ₹ 20,487.18 million, an increase in fixed deposit with bank (original maturity greater than three months) of ₹ 1,662.83 million, direct taxes paid of ₹ 736.04 million and an increase in other assets of ₹ 498.78 million.

For Fiscal 2019, our operating profit before working capital changes was ₹ 2,471.89 million and our net cash used in operating activities was ₹ 2,391.34 million. The difference was primarily due an increase in advances of ₹ 14,851.06 million, an increase in investments (other than HTM investments) of ₹ 6,673.03 million, a decrease in other liabilities and provisions of ₹ 489.39 million, direct taxes paid of ₹ 406.26 million and an increase in other assets of ₹ 323.34 million, which was partially offset by an increase in deposits of ₹ 17,939.16 million.

__Investing Activities__

Net cash used in investing activities was ₹ 6,379.55 million for Fiscal 2021, which was primarily due to an increase in held to maturity investments of ₹ 5,886.43 million and ₹ 495.01 million used for the purchase of fixed assets.

Net cash used in investing activities was ₹ 6,347.83 million for Fiscal 2020, which was primarily due to an increase in held to maturity investments of ₹ 5,814.89 million and ₹ 533.93 million used for the purchase of fixed assets.

Net cash used in investing activities was ₹ 1,708.96 million for Fiscal 2019, which was primarily due to an increase in held to maturity investments of ₹ 1,327.78 million and ₹ 381.46 million used for the purchase of fixed assets.

__Financing Activities__

Net cash from financing activities was ₹ 6,532.70 million for Fiscal 2021, which was due to an increase in borrowings of ₹ 4,906.83 million and proceeds from the issue of share capital (including share premium) of ₹ 1,625.87 million.

Net cash used in financing activities was ₹ 4,990.43 million for Fiscal 2020, which was due to a decrease in borrowings of ₹ 4,990.43 million.

Net cash from financing activities was ₹ 4,877.69 million for Fiscal 2019, which was primarily due to proceeds from the issue of share capital (including share premium) of ₹ 4,642.13 million and an increase in borrowings of ₹ 277.09 million.

Sources of Funding

Our primary source of funding is our relatively low-cost deposit base, which is primarily derived from retail depositors in India. Other sources of funding comprise subordinated debt, perpetual debt instruments and borrowings from other banks.

The following table sets forth the breakdown of our funding profile as at the dates indicated:

Particulars	**As at March 31,**					
	2021		**2020**		**2019**	
	Amount (₹ in million)	**% of total liabilities**	**Amount (₹ in million)**	**% of total liabilities**	**Amount (₹ in million)**	**% of total liabilities**
Total deposits	89,994.26	72.94	70,283.82	74.22	43,170.08	61.16
Total borrowings	16,940.00	13.73	12,033.17	12.71	17,023.60	24.12
Shareholders' funds(1)	13,520.64	10.96	10,840.81	11.45	8,936.91	12.66
Other liabilities and provisions	2,931.62	2.38	1,541.92	1.63	1,453.54	2.06
Total liabilities	**123,386.52**	**100.00**	**94,699.72**	**100.00**	**70,584.13**	**100.00**

Note:

(1) Shareholders' funds = Capital + Reserves and Surplus.

For more details on our deposits, borrowings and shareholders' funds as the dates in the table above, see "*-Financial Condition-Capital and Liabilities*" on page 317.

Maturity Profile of our Borrowings and Deposits

For the maturity profile of our borrowings and deposits as at March 31, 2021, see "*Selected Statistical Information – Asset Liability Gap*" on page 228.

Subordinated Debt

We obtain funds from the issuance of unsecured non-convertible subordinated debt securities, which qualify as Tier II risk-based capital under the RBI's guidelines for assessing capital adequacy. Our subordinated debt was ₹ 1,900.00 million, ₹ 1,900.00 million and ₹ 1,900.00 million as at March 31, 2021, 2020 and 2019, respectively. We took over ₹ 650.00 million of subordinated debt as per the Business Transfer Agreement. This has been considered as part of Tier II Capital for capital adequacy computation, subject to discounting in accordance with RBI guidelines. The following table sets forth the details of our unsecured non-convertible subordinated debt securities outstanding as at March 31, 2021.

Date of Allotment	**Rate of Interest (%)**	**Date of Redemption**	**Amount (₹ in million)**
December 22, 2015	16.83	December 28, 2021	250.00
December 18, 2015	17.23	December 22, 2021	250.00
March 31, 2016	14.00	March 31, 2023	150.00
September 27, 2017	11.00	September 27, 2024	250.00
November 29, 2017	11.00	November 29, 2024	200.00
June 1, 2018	11.50	June 1, 2025	400.00
December 30, 2017	10.50	December 30, 2024	200.00
March 28, 2018	11.50	March 28, 2025	200.00

Perpetual Debt

We issued perpetual debt of ₹ 480.00 million with an interest rate of 13% per annum on June 27, 2018, which qualifies for Tier I risk-based capital.

Restrictive Covenants

Some of the financing arrangements entered into by us include conditions that require us to obtain respective lenders' consent prior to carrying out certain activities and entering into certain transactions and they also provide the lender the right appoint a nominee on the board of directors of our Bank or to send an observer, in the absence of the nominee to attend meetings of the Board of Directors. Further, under certain financing agreements, we are required to maintain specific credit ratings and if we fail to do so, it would result in an event of default. We are also required to maintain certain financial ratios and ensure compliance with regulatory requirements, such as maintenance of capital adequacy ratio, qualifying asset norms and ensure positive net worth. For more details, see "*Risk Factors-We are required to comply with certain restrictive covenants under our financing agreements. Any non-compliance may lead to, amongst others, accelerated repayment schedule, securitization of assets charged and suspension of further drawdowns, which may adversely affect our business, financial condition, results of operations and cash flows*" on page 43.

We are currently in compliance with the financial covenants contained in our financing agreements.

Financial Instruments and Off-Balance Sheet Arrangements

A bank missing its priority sector lending target is able to reach the target by buying inter-bank participation certificates ("**IBPCs**") issued by other banks that have already exceeded their regulatory targets for priority sector advances. In accordance with the applicable RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by our Bank is reduced from our advances. IBPCs with risk sharing can be issued for 91-180 days and only in respect of advances classified as standard. At the end of the term, the advances sold via IBPCs are sold back to the bank that issued the IBPCs. As at March 31, 2021, 2020 and 2019, our advances sold via risk sharing IBPCs were nil, ₹ 2,000.00 million, ₹ 3,000.00 million, respectively.

For details of our securitized advances as at for the years ended March 31, 2021, 2020 and 2019, see "*–Securitized Advances*" on page 322.

Contingent Liabilities

The components of our contingent liabilities as per AS 29 – 'Provisions, Contingent Liabilities and Contingent Assets' as at the dates indicated are set forth below:

(₹ in million)

Particulars	As at March 31,		
	2021	2020	2019
Claims against the Bank not acknowledged as debts	-	-	-
Liability on account of outstanding forward exchange contracts	-	-	-
Guarantees given on behalf of constituents - in India	13.04	13.04	6.44
Acceptances, endorsements and other obligations	-	-	-
Other items for which the Bank is contingently liable	2.00	2.00	576.82
Total Contingent Liabilities	**15.04**	**15.04**	**583.26**

Capital Expenditures

Our capital expenditures are principally for fixed assets including furniture and fixtures. We incurred capital expenditures (additions to fixed assets including furniture and fixtures) of ₹ 477.91 million, ₹ 534.95 million and ₹ 422.84 million for Fiscals 2021, 2020 and 2019, respectively.

Related Party Transactions

We have engaged in the past, and may engage in the future, in transactions with related parties. For details of our related party transactions as per AS 18 – 'Related Party Disclosures' read with the SEBI ICDR Regulations, see "*Other Financial Information – Related Party Transactions*" on page 296. For a summary of these related party transactions, see "*Offer Document Summary – Summary of related party transactions*" on page 16.

Non-cancellable Operating Lease Obligations

The table below sets forth our non-cancellable operating lease obligations as at March 31, 2021 for payments due in the specified periods.

(₹ in million)

Contractual Obligations	Payments due by period			
	Total	Less than 1 year	1 year to 5 years	More than 5 years
Non-cancellable operating lease obligations	**2,869.90**	366.10	1,731.30	772.50

Securitized Advances

The following table sets forth information regarding our securitized advances as at and for the years ended March 31, 2021, 2020 and 2019.

(₹ in million, except number of accounts)

Particulars	As at and for the year ended March 31,		
	2021	2020	2019
Book value of advances securitized	-	6,560.07	6,560.07
Number of accounts	-	395,389	395,389
Sale consideration received for the accounts securitized	-	6,560.07	6,560.07
Interest spread on securitization during the year	-	86.30	411.22
Credit enhancement, liquidity support provided	-	576.82	576.82
Provision on securitized assets	-	-	16.32
Number of accounts as on date	-	-	132,056
Outstanding as on date	-	-	725.79
Nature of post securitization support	-	-	-

Quantitative and Qualitative Disclosures about Market Risks

We did not have any transactions in derivative instruments for Fiscals 2021, 2020 and 2019. Hence, the disclosure is not applicable. For details of our qualitative disclosure about market risks, see "*Our Business – Risk Management – Market Risk Management*" on page 159.

Qualitative Factors

Unusual or Infrequent Events or Transactions

Except as described in this Draft Red Herring Prospectus, to our knowledge, there have been no unusual or infrequent events or transactions that have in the past or may in the future affect our business operations or future financial performance.

Significant Economic Changes that Materially affect or are likely to affect Total Income

Our business has been subject, and we expect it to continue to be subject, to significant economic changes that materially affect or are likely to affect our total income identified above in "*–Significant Factors Affecting Our Financial Condition, Results of Operations and Cash Flows*" and the uncertainties described in "*Risk Factors*" on pages 298 and 24, respectively.

Known Trends or Uncertainties

Our business has been subject, and we expect it to continue to be subject, to significant economic changes arising from the trends identified above in "*–Significant Factors Affecting Our Financial Condition, Results of Operations and Cash Flows*" and the uncertainties described in "*Risk Factors*" on pages 298 and 24, respectively. To our knowledge, except as discussed in this Draft Red Herring Prospectus, there are no known trends or uncertainties that have or had or are expected to have a material adverse impact on our revenues or income from total income.

Future Relationship between Cost and Revenue

Other than as described in "*Risk Factors*", "*Our Business*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" on pages 24, 143 and 297, respectively, to our knowledge there are no known factors that may adversely affect our business, financial condition, results of operations and cash flows.

New Products or Business Segments

Other than as disclosed in this section and in "*Our Business*" on page 143, there are no new products or business segments that have or are expected to have a material impact on our business, financial condition, results of operations and cash flows.

Dependence on a Few Customers or Suppliers

We depend on our business correspondents and in particular on ESMACO to source and service our micro loan customers. For more details, see "*–Significant Factors Affecting Our Financial Condition, Results of Operations and Cash Flows – Performance of our Business Correspondents*", "*Risk Factors – ESMACO has been acting as a business correspondent for us on a non-exclusive basis since we began our operations and it has sourced a majority of our advances. If ESMACO prefers to promote our competitors' micro loans over our micro loans or the agreement between us and ESMACO is terminated or not renewed, it would adversely affect our business, financial condition, results of operations and cash flows*" and "*Risk Factors – Our business correspondents are responsible for, among other things, sourcing and servicing of customers for micro loans on a non-exclusive basis. If these business correspondents prefer to promote our competitors' loans or our agreements with them are terminated or not renewed it would adversely affect our business, financial condition, results of operations and cash flows*" on pages 298, 27 and 27, respectively.

Seasonality of Business

Our business is not seasonal in nature.

Competitive Conditions

We operate in a competitive environment. See "*Industry Overview*", "*Risk Factors - The Indian finance industry is intensely competitive and if we are unable to compete effectively it would adversely affect our business, financial condition, results of operations and cash flows*" and "*Our Business – Competition*" on pages 92, 35 and 163, respectively, for further information on our industry and competition.

Material Developments after March 31, 2021

Except as noted below, in the opinion of the Directors, no circumstances have arisen since March 31, 2021 that would materially and adversely affect or are likely to affect, within the next 12 months: (a) our trading or profitability; (b) the value of our assets; or (c) our ability to pay our liabilities.

Second Wave of the COVID-19 Pandemic

India has been witnessing a second wave of COVID-19 since the end of February 2021, leading to state governments imposing curfews and lockdowns in an attempt to control the spread of COVID-19. The medical impact of the second wave of the pandemic has been much worse than the first wave, and the impact has been seen across rural and urban areas, unlike the first wave's impact, which was largely urban centric. (*Source: CRISIL Research Report*). Pressure on asset quality is higher as a result of the second wave as compared to the first wave, as borrowers do not have a blanket moratorium this time while their cash flows have been impacted by the second wave. (*Source: CRISIL Research Report*).

For further details, see "*COVID-19 has had and could continue to have an adverse effect on our business, financial condition, results of operations and cash flows*" on page 24. For details of the effect of the second wave of the COVID-19 pandemic on our collection efficiency and the percentage of borrowers who had (a) fully paid their instalments, (b) party paid their instalments and (c) not paid any of their instalments due for payment, see "*Our Business - Recent Developments – Effects of the COVID-19 Pandemic on our Business and Operations*" on page 164.

CAPITALISATION STATEMENT

The following table sets forth our Bank's capitalization as at March 31, 2021 derived from Restated Financial Information, and as adjusted for the Offer. This table should be read in conjunction with the sections titled "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Risk Factors*" on pages 24 and 297, respectively.

(₹ *in million*)

Particulars	Pre-offer as at March 31, 2021	As adjusted for the proposed Offer
Borrowings (A)	**16,940.00**	**[●]**
Capital and Reserves and Surplus		**[●]**
Capital (B)	**4,494.74**	**[●]**
		[●]
Reserves and surplus		**[●]**
1) Statutory reserves	1,034.57	**[●]**
2) Investment fluctuation reserve	41,27	**[●]**
3) Share Premium	4,887.63	**[●]**
4) Balance of profit and loss account	3,062.43	**[●]**
Reserves and surplus (C)	**9,025.90**	**[●]**
Capital and Reserves and Surplus (D=B+C)	**13,520.64**	**[●]**
Borrowings/Capital and Reserves and Surplus (E = A/D)	**1.25**	**[●]**

Note: The corresponding post IPO capitalization data for each of the amounts given in the above table is not determinable at this stage pending the completion of the Book Building process and hence the same have not been provided in the above statement.

FINANCIAL INDEBTEDNESS

Our Bank avails loans in the ordinary course of business for the purposes of onward lending, meeting working capital requirements and for general corporate purposes. Further, in respect of the indebtedness that was transferred to our Bank pursuant to the Business Transfer Agreement, our Bank has entered into certain novation agreements and assumption agreements with our Corporate Promoter and various lenders, trustees or other parties.

Our Shareholders have authorised our Board to borrow such sums of money as may be required for the purpose of the business of the Bank. For details regarding the borrowing powers of our Board, please see "*Our Management – Borrowing Powers of the Board*" on page 196.

Set forth below is a brief summary of our aggregate borrowings as at May 31, 2021:

(*₹ in million*)

Category of borrowing	Sanctioned amount	Outstanding amount
Refinance (unsecured)	19,900.00	9,100.00
Subordinate Debt (unsecured)	150.00	150.00
Subordinated NCDs (unsecured)	1,750.00	1,750.00
Perpetual Debt Instrument	480.00	480.00
Borrowings from Reserve Bank of India (Secured)	1,460.00	1,460.00
Total	**23,740.00**	**12,940.00**

**As certified by A. John Moris & Co., Chartered Accountants pursuant to their certificate dated July 24, 2021*

Principal terms of the subsisting borrowings of our Bank:

1. ***Interest:*** The interest rates for the various facilities availed by our Bank typically ranges from 5.15% per annum to 17.23% per annum. Further, for certain loans availed by our Bank, additional interest rates have been stipulated on the occurrence of certain events such as payment related default, breach of terms and conditions etc.

   Our Bank has (i) 250 rated, listed, unsecured, subordinated redeemable NCDs of face value of ₹1,000,000 each at a coupon rate of 16.83% per annum; (ii) 250 rated, listed, unsecured, subordinated redeemable NCDs of face value of ₹1,000,000 each at a coupon rate of 17.23% per annum; (iii) 200 rated, listed, redeemable, unsecured, Basel III compliant, Tier-II bonds in the form of NCDs of face value of ₹1,000,000 each at a coupon rate of 10.50% semi-annual; (iv) 200 rated, listed, redeemable, unsecured, Basel III compliant, Tier-II bonds in the form of NCDs of face value of ₹1,000,000 each at a coupon rate of 11.50% semi-annual; (v) 450 unsecured, subordinated, fully paid-up, redeemable, Basel III compliant, Tier-II bonds in the form of NCDs of face value of ₹1,000,000 each at a coupon rate of 11.00% per annum; (vi) 400 rated, listed, redeemable, unsecured, Basel III complaint, Tier-II bonds in the form of NCDs of face value of ₹1,000,000 each at a coupon rate of 11.50% semi-annual; and (vii) 480 unsecured, subordinated, fully paid-up, Basel III compliant, perpetual debt instruments in the form of NCDs of face value of ₹1,000,000 each at a coupon rate of 13.00% per annum. The listed NCDs of our Bank are listed on the debt segment of the BSE.

2. ***Tenor:*** The tenor of the facilities availed by our Bank typically ranges from 12 months to seven years. Further, the maturity period in respect of the perpetual debt instruments issued by our Bank is perpetual.

3. ***Security:*** Borrowings from Reserve Bank of India are secured by way of collateral of investment on specified Government securities held under investments.

4. ***Prepayment:*** Certain facilities availed by our Bank have prepayment provisions which allow for prepayment of the outstanding amount by serving notice to the lender or other relevant parties, and subject to payment of such prepayment penalties as may be prescribed. These prepayment penalties as stipulated by the lender from time to time. Further, in certain cases our Bank is restricted from prepaying amounts outstanding without the prior approval of the lender or debenture holders or other parties as specified in the relevant agreements.

5. ***Re-payment:*** The repayment period for the facilities availed by our Bank typically ranges from 12 months to seven years.

6. ***Events of Default:*** Borrowing arrangements entered into by our Bank prescribe events of default, including among others:

   a) Failure or inability to pay amount on due dates;

   b) Failure to pay accrued interest;

   c) Liquidation or dissolution of our Bank;

   d) Cessation of business;

   e) Incorrect, false or misleading information;

f) Cross defaults across other borrowings of our Bank;

g) Breach of any financial covenant in the loan/facility agreement;

h) Violation of any term of the relevant agreement or any other borrowing arrangement;

i) Any other event or circumstance that could have a material adverse effect on the lender.

This is an indicative list and there may be additional terms that may amount to an event of default under the various borrowing arrangements entered into by our Bank.

7. ***Consequences of occurrence of events of default:*** In terms of the facility agreements and sanction letters, the following, among others, are the consequences of occurrence of events of default, whereby the lenders may:

a) Terminate the agreements underlying facility;

b) Cancel the undrawn portion of the loan/facility;

c) Declare any or all amounts under the facility, either whole or in part, as immediately due and payable to the lender;

d) Impose of penal interest over and above the contracted rate on the amount in default;

e) Convert of over dues under the facility into equity capital of our Bank;

f) Accelerate repayments of the loan/ recall of the entire loan or any portion thereof along with interest;

g) Appoint a nominee director on the Board of Directors of our Bank.

8. ***Restrictive Covenants:*** The loans availed by our Bank contain certain restrictive covenants which require prior approval of the lender, or prior intimation to be made to the lender, for certain specified events or corporate actions, including:

a) Change in capital structure of our Bank;

b) Change in the management control of our Bank;

c) Drastic change in the management set-up of our Bank;

d) Dilution of the shareholding of the Promoters in our Bank;

e) Change in the constitutional documents of our Bank;

f) Pledge of shares by the Promoters of our Bank;

g) Declaration or payment of dividends;

h) Undertaking any new project or implementation of any scheme of amalgamation/reconstruction/expansion/diversification or capital expenditure or acquire any fixed assets during any accounting year, except such schemes which have already been approved by the lender.

This is an indicative list and there may be such other additional terms under the various borrowing arrangements entered into by our Bank.

Additionally, one of our lenders namely Small Industries Development Bank of India ("**SIDBI**") has the right to appoint a nominee director on the Board of our Bank and to send an observer, in the absence of the nominee director, to attend the meetings of the Board. While SIDBI has consented to the Offer, please note that SIDBI also has the right to recall the entire outstanding amounts in respect of the facilities availed by our Bank, in the event that SIDBI is not satisfied with the changes proposed or carried out in the capital structure or management control of the Bank, and if in the opinion of SIDBI, such changes could adversely impact our creditworthiness, or adversely affect the interests of SIDBI. As of the date of this Draft Red Herring Prospectus, SIDBI has not exercised these rights.

For the purpose of the Offer, our Bank has obtained necessary consents from its lenders, debenture holders and other parties as required under the relevant facility documentations for undertaking activities relating to the Offer including consequent actions, such as change in the capital structure, change in the board composition and/or change in management control, amendments to the Articles of Association, of our Bank etc.

SECTION VI: LEGAL AND OTHER INFORMATION

OUTSTANDING LITIGATION AND MATERIAL DEVELOPMENTS

*Except as disclosed in this section, there is no outstanding (i) criminal proceeding; (ii) action taken by regulatory or statutory authorities; (iii) claim related to direct and indirect taxes (in a consolidated manner); and (iv) other pending litigation as determined to be material as per the policy dated June 29, 2021, approved by the Board of Directors, in each case involving our Bank, its Promoters and Directors ("**Relevant Parties**"). Further, except as disclosed in this section, there are no disciplinary actions including penalties imposed by SEBI or the Stock Exchanges against our Promoters in the last five financial years including any outstanding action. Further, there are no pending litigation involving our Group Entities which has a material impact on the Bank.*

For the purpose of material litigation in (iv) above, our Board has considered and adopted the following policy on materiality with regard to outstanding litigation pursuant to the Board resolution dated June 29, 2021:

All outstanding litigation, including any litigation involving the Relevant Parties, other than criminal proceedings, actions by regulatory authorities and statutory authorities, disciplinary action including penalty imposed by SEBI or stock exchanges against the Promoters in the last five financial years including any outstanding action and tax matters (direct or indirect), would be considered 'material' if: (i) the monetary amount of claim by or against the entity or person in any such pending proceeding is in excess of 1.00% of the profit after tax/ total revenue of the Bank as per the latest Restated Financial Information (i.e. ₹10.53 million); or (ii) where monetary liability is not quantifiable, , the outcome of any such pending proceedings may have a material bearing on the business, operations, performance, prospects or reputation of the Bank.

It is further clarified that our Bank has initiated recovery proceedings against several borrowers under the SARFAESI Act for recovery of amounts due from them. Given that the underlying loans have been declared as NPAs by the Bank and adequate provisions have been provided for in our Restated Financial Information, disclosures in respect of such matters (including matters where the monetary amount of claim sought by the Bank is in excess of ₹10.53 million) have been made in a consolidated manner.

Except as stated in this section, there are no outstanding material dues to creditors of our Bank. For this purpose, our Board has pursuant to the Board resolution dated June 29, 2021, considered and adopted a policy of materiality for identification of material outstanding dues to creditors. In terms of this materiality policy, outstanding dues to any creditor of the Bank having monetary value which exceed 5% *of the total trade payables of the Bank as on the date of the latest Restated Financial Information of our Bank disclosed in the Offer Documents (including for the stub period, if any), shall be considered as 'material'. Accordingly, as on March 31, 2021, any outstanding dues exceeding ₹9.77 million have been considered as material outstanding dues for the purposes of disclosure in this section. For outstanding dues to any micro, small or medium enterprise, the disclosure shall be based on information available with the Bank regarding the status of the creditor as defined under the Micro, Small and Medium Enterprises Development Act, 2006, as amended read with the rules and notifications thereunder, as has been relied upon by its statutory auditors.*

It is clarified that for the purposes of the above, pre-litigation notices received by the Relevant Parties from third parties (excluding those notices issued by statutory/regulatory/tax authorities or notices threatening criminal action) shall, unless otherwise decided by our Board, not be considered as material until such time that the Relevant Parties, as applicable, is impleaded as defendant in litigation proceedings before any judicial forum.

Litigation involving our Bank

Litigation against our Bank

Civil Litigation

As of the date of this Draft Red Herring Prospectus, there are no material outstanding civil litigation against our Bank which involves a monetary liability of ₹10.53 million or more, nor any outstanding litigation wherein monetary liability is not quantifiable, whose outcome has a material bearing on the business, operations, performance, prospects or reputation of the Bank.

Criminal Litigation

As of the date of this Draft Red Herring Prospectus, there are no outstanding criminal litigation against our Bank.

Actions Taken by Regulatory and Statutory Authorities

Except as disclosed below, as of the date of this Draft Red Herring Prospectus, there are no pending actions by regulatory and statutory authorities against our Bank:

1. Our Bank has received an inspection order dated July 27, 2018 from the office of the Assistant Labour Officer, Thodupuzha ("**ALO**" and such order the "**Order**") pursuant to the inspection of our Bank by the ALO on July 20, 2018, on the grounds that our Bank had, among other things, failed to (i) submit forms, registers and applications, and (ii) maintain wage slips

and registers as required under the provisions of the Kerala Shops and Commercial Establishments Workers Welfare Fund Act, 2006 ("**Kerala S&E Welfare Fund Act**"), the Minimum Wages Act, 1948 ("**MW Act**") and the Kerala Shops and Commercial Establishments Act, 1960 ("**Kerala S&E Act**"). In terms of the Order, our Bank was required to rectify these defects and produce registers and records to the ALO within the prescribed time, for inspection and verification. Our Bank *vide* its letter dated October 25, 2018 responded to the ALO stating the provisions of the Kerala S&E Act are not applicable to the Bank as it is a banking company under the Banking Regulation Act and requesting the ALO to discontinue further proceedings until further orders/intimation from the Labour Commissioner of Kerala. The ALO issued a show cause notice dated November 22, 2018 on the grounds of non-compliance with the order. Our Bank, through its representative, made an oral submission before the ALO stating that the provisions of Kerala S&E Welfare Fund Act, MW Act and Kerala S&E Act are not applicable to our Bank on the grounds that banks are excluded from registration requirements under the provisions of these laws. There has been no further written communication in this regard.

Litigation by our Bank

Civil Litigation

As of the date of this Draft Red Herring Prospectus, there are no material outstanding civil litigation instituted by our Bank which involve a monetary liability of ₹10.53 million or more, nor any outstanding litigation wherein monetary liability is not quantifiable, whose outcome has a material bearing on the business, operations, performance, prospects or reputation of the Bank.

Criminal Litigation

1. Pursuant to a complaint filed by our Bank on November 30, 2017 and December 22, 2017, our Bank has filed a private complaint CMP No. 1308/2018 before the Court of the Judicial Magistrate, First Class, Koyilandi against a previous employee of our Bank, on the grounds that the accused committed criminal breach of trust, falsification of accounts of the Bank and misappropriation of amounts belonging to the Bank and its customers, for personal use and thereby committed offenses punishable under Sections 408 and 477A of the Indian Penal Code, 1860 ("**IPC**"). The misappropriated amount aggregates to ₹0.38 million. The Koyilandi Police has also prepared a first information report no. 0281/2018 dated May 4, 2018 against a previous employee under Sections 408 and 477A of the IPC. The matter is currently under police investigation.

2. Our Bank has filed a complaint dated May 3, 2018 against a previous employee of our Bank before the Cyber Cell, Thrissur on the grounds that he, *inter alia*, (i) dishonestly misappropriated property belonging to the Bank for his personal use; (ii) committed cheating; (iii) hacked into the computer resource of the Bank; (iv) stole ATM cards for the Pattikkad branch of our Bank and misused the same for causing wrongful gain to himself; and (v) committed criminal breach of trust; thereby committing offenses punishable under Sections 405, 408, 420 of the IPC and Sections 65 and 66 of the Information Technology Act, 2000. The Peechi Police has also prepared a first information report no. 0371/2018 dated June 12, 2018 against a previous employee of our Bank under Sections 381 and 408 of the IPC and Sections 65 of the Information Technology Act, 2000 on the grounds that the accused cheated the Bank, misappropriated certain properties belonging to the Bank, committed criminal breach of trust and stole ATM cards from the Pattikkad branch of the Bank for personal use by hacking into the computer resource of the Bank. The misappropriated amounts aggregated to ₹0.27 million. The police has filed a charge sheet no. 488/18 dated October 9, 2018 against the previous employee under Sections 381, 408 and 201of the IPC and Section 65 of the Information Technology Act, 2000, before the Judicial First Class Magistrate, Thrissur and the matter is currently pending.

3. Our Bank has filed a complaint dated May 10, 2019 against one of the gold loan borrowers of our Bank at the Mala Police Station, on the grounds that the gold jewellery pledged by the accused with the Bank did not belong to the accused and was stolen property, thereby committing fraud and criminal breach of trust to an extent of ₹0.85 million, in addition to the interest amount. The Mala Police has also prepared a first information report no. 0201/2021 dated March 16, 2021 against the accused under Sections 415, 417 and 420 of the IPC on the grounds that the accused committed breach of trust and cheating. The matter is currently under police investigation.

4. Our Bank has filed a petition no. 1531/2019 dated September 18, 2019 against a previous employee of our Bank, at the Panruti Police Station, on the grounds that the accused misappropriated amounts aggregating to ₹0.69 million from the accounts of the Bank and absconded thereafter. The Panruti Police has also prepared a first information report no. 2042/2020 dated September 9, 2020 against a previous employee of our Bank under Sections 403, 409, 420 of the IPC on the grounds that the accused committed breach of trust and embezzlement. The matter is currently under police investigation.

5. Our Bank has filed a complaint dated December 7, 2019 against two two-wheeler dealers who availed loan from our Bank, at the Ranny Police Station, on the grounds that the accused after availing loan for their customers did not deliver the vehicles and misappropriated amounts aggregating to ₹0.13 million advanced by our Bank and absconded thereafter. The Ranny Police has also prepared a first information report no. 1384/2019 dated December 16, 2019 against the accused under Section 420 of the IPC on the grounds that the accused committed cheating and criminal breach of trust. The matter is currently under police investigation.

6. Our Bank has filed a complaint dated April 20, 2020 against an unknown person at the Awdhutwadi Police Station, on the grounds that the accused, with the intention of theft, tried to break the ATM machine of our Bank located at Sheetal Plaza Jan Road, Yavatmal, but was unsuccessful. The Awdhutwadi police has prepared a first information report no. 0365/2020 dated April 22, 2020 against the accused under Sections 379, 511 and 427 of the IPC. The matter is currently under police investigation.

7. Our Bank has filed a complaint dated June 4, 2020 against an unknown person at the Tirur Police Station, on the grounds that the accused attempted theft at the ATM premises of our Bank's Tirur Branch. The Tirur Police has also filed a first information report no. 0633/2020 dated June 4, 2020 before the Judicial First Class Magistrate, Tirur, against the accused under Sections 511 and 380 of the IPC on the grounds that the accused attempted to commit theft. The matter is currently under police investigation.

8. Our Bank has filed a complaint dated December 1, 2020 against an unknown person at the Pattiveeranpatti Police Station, on the grounds that the accused attempted theft at the ATM counter of our Bank's Batlagundu Branch and caused damages to the Bank's property. The Pattiveeranpatti Police has also prepared a first information report no. 995/2020 dated December 1, 2020 against the accused under Sections 457 and 511 of the IPC on the grounds that the accused attempted to commit theft. The matter is currently under police investigation.

9. Our Bank has filed a complaint dated December 2, 2020 against a previous employee of our Bank at the Kasaragod Police Station, on the grounds that the accused fraudulently misappropriated amounts belonging to the Bank aggregating to ₹0.05 million by forging the claimed bills under the pretext of business promotion, staff welfare, office stationary, travel allowance etc. without incurring the same. The Kasaragod Police has also filed a first information report no. 1310/2020 dated December 2, 2020 before Chief Judicial Magistrate, Kasargode under Sections 465, 468, 471 and 420 of the IPC on the grounds that the accused committed cheating and forgery. The matter is currently under police investigation.

10. Our Bank has filed a complaint dated February 19, 2021 against one of the gold loan borrowers of our Bank at the Thrissur Police Station, on the grounds that the accused pledged spurious gold articles, thereby making an illegal gain to an extent of ₹0.23 million, in addition to the certain interest earned on that amount. The Thrissur Police has also filed a first information report no. 0236/2021 dated February 22, 2021 against the accused under Section 420 of the IPC on the grounds that the accused committed cheating. The matter is currently under police investigation.

11. Our Bank has filed a complaint dated July 2, 2021 against one of the gold loan borrowers of our Bank at the Mannuthy Police Station, on the grounds that the accused pledged spurious gold articles, thereby defrauding our Bank to an extent of ₹0.16 million, in addition to the certain interest earned on that amount. The Thrissur Police has also filed a first information report no. 0636/2021 dated July 3, 2021 against the accused under Sections 406 and 420 of the IPC. The matter is currently under police investigation.

There are 74 cases filed by our Bank pending before various forums across the country for alleged violation of Section 138 of Negotiable Instruments Act, 1881 and Code of Criminal Procedure, 1973, for recovery of amounts due to our Bank for which cheques issued in favour of our Bank by our customers/debtors have been dishonoured. The total pecuniary value involved in all these matters aggregates to ₹3.77 million.

There are 28 police complaints filed by our Bank against its employees and unknown persons in relation to alleged violations arising in the ordinary course of business operations of the Bank, including, among others, cases filed under the IPC alleging criminal breach of trust, cheating, forgery, misappropriation of money and involved in embezzlement of money etc.

Further, there are also certain instances of frauds committed by the employees of our business correspondents against our Bank. While our Bank accounts for the losses suffered by it in respect of these frauds, the legal action in relation to these frauds are initiated by the relevant business correspondent. Further, our Bank recovers the losses suffered by it from the relevant business correspondent.

Recovery proceedings under the SARFAESI Act

In addition to the matters above, our Bank is presently involved in 82 matters in relation to recovery of amounts under the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 ("**SARFAESI Act**"). Our Bank has filed notices in 82 matters for enforcement of security interest under section 13 of the SARFAESI Act, to exercise the right over secured assets for recovery of amounts due from various borrowers of the Bank ("**Borrowers**"), whose accounts have been classified as non-performing assets, due to default in repayments. The total pecuniary value involved in such matters aggregates to ₹38.78 million, of which the monetary claims in no matter is above ₹10.53 million. The matters are currently pending at various stages.

Litigation involving our Promoters

Pursuant to the Business Transfer Agreement, the business undertaking of our Corporate Promoter comprising its lending and financing business together with inter-alia, all the assets, liabilities, rights, title, interest, obligations, risks and rewards relating to and arising out of the business undertaking was transferred to our Bank on March 10, 2017. Further, as agreed to between our Bank and the Corporate Promoter, all legal proceedings in relation to the said business undertaking, pending as on the *transfer date i.e., March 10, 2017 or in respect of which, the cause of action had arisen on or prior to the transfer date i.e., March 10, 2017, shall continue to be managed by the Corporate Promoter and that all claims, liabilities, obligations etc., arising out of such legal proceedings shall be borne by the Corporate Promoter. Further, all legal proceedings in relation to the said business undertaking, in respect of which, the cause of action has arisen post the transfer date i.e., March 10, 2017, shall be managed by our Bank and all claims, liabilities, obligations etc., arising out of such legal proceedings shall be borne by our Bank. Further, in terms of the Business Transfer Agreement, our Corporate Promoter is liable for all tax liabilities and is entitled to all tax refunds pertaining to the business undertaking which accrue to our Corporate Promoter up to March 9, 2017, (including such sums received by our Bank or the Corporate Promoter post March 9, 2017). Further, as agreed between our Bank and the Corporate Promoter, our Bank is liable for all tax liabilities and is entitled to all tax refunds pertaining to the business undertaking which accrue to our Bank, from (and including) March 10, 2017, in relation to the tax liabilities assumed by our Bank, including service tax.*

Litigation against our Corporate Promoter

Civil Litigation

As of the date of this Draft Red Herring Prospectus, there are no material outstanding civil litigation against our Corporate Promoter which involves a monetary liability of ₹*10.53* million or more, nor any outstanding litigation wherein monetary liability is not quantifiable, whose outcome has a material bearing on the business, operations, performance, prospects or reputation of our Bank.

Criminal Litigation

As of the date of this Draft Red Herring Prospectus, there are no outstanding criminal litigation against our Corporate Promoter.

Actions Taken by Regulatory and Statutory Authorities

Except as mentioned below, as of the date of this Draft Red Herring Prospectus, there are no pending actions by regulatory and statutory authorities against our Corporate Promoter.

1. The Deputy Director, Employees' State Insurance Corporation ("**ESIC**"), passed an order dated May 14, 2018 under Section 45A of the Employees' State Insurance Act, 1948 ("**ESI Act**") on grounds of insufficiency of contribution to the extent that contribution was not paid under the head 'performance incentive' by our Corporate Promoter and directed our Corporate Promoter to pay contribution aggregating to ₹1.65 million in respect of its employees. Our Corporate Promoter responded to such order through its letter dated May 17, 2018, *inter alia*, (i) praying for an order that the Corporate Promoter is not liable to pay the contribution on performance incentive; (ii) stating that contribution has been paid by the Corporate Promoter in respect of the monthly wages paid to its employees; and (iii) clarifying that it had not considered performance incentive for payment of contribution as it is not a regular payment and varies from employee to employee depending on factors such as performance etc. Our Corporate Promoter also filed an appeal under Section 45AA of the ESI Act, before the Additional Commissioner and Regional Director, ESIC ("**Appellate Authority**") for setting aside the order of the Deputy Director, ESIC. However, the Appellate Authority upheld the order passed by the Deputy Director, ESIC and directed our Corporate Promoter to pay ₹1.24 million as balance contribution due from the Corporate Promoter, after appropriating ₹0.41 million paid in respect of the appeal, within 15 days of receipt of its order. Pursuant to this, our Corporate Promoter filed a petition before the Employees Insurance Court ("**EIC**") praying for, *inter alia*, (i) setting aside of the orders passed by the Deputy Director, ESIC and the Appellate Authority, (ii) a declaration that the Corporate Promoter was not liable to pay the amount of contribution, and (iii) a stay on all further proceedings pursuant to the order of the Appellate Authority. The EIC by its order dated November 15, 2018 granted an interim stay on the order passed by the Appellate Authority subject to payment of ₹0.12 million by way of a demand draft in favour of the ESIC and submission of proof of payment on or before February 25, 2019. The same was complied with by our Corporate Promoter. Subsequently, the Deputy Director, ESIC filed an application dated November 21, 2018 before the Recovery Officer, ESIC, for recovery of contribution under Section 45C to 45I of the ESI Act from our Corporate Promoter, aggregating ₹2.21 million. Thereafter, the Recovery Officer, ESIC issued a notice dated December 3, 2018 to our Corporate Promoter in Form No. ESI CP 2 for recovery of ₹2.21 million from our Corporate Promoter. Our Corporate Promoter by its letter dated December 28, 2018 responded to the letter from the Deputy Director, ESIC stating that it has obtained a stay order from the EIC. The matter is currently pending.

2. There have been past instances of delays in the submission of compliance certificates as required under Pension Fund Regulatory and Development Authority (Aggregators) Regulations, 2015. Pursuant to the audit and inspection report for FY 2016-2017 issued by the auditor appointed by national pension system ("**NPS**") Trust and the subsequent letters issued by the NPS Trust, our Corporate Promoter and the Bank were directed to amongst other things compensate 1,771 subscribers for the delay in uploading the subscriber contribution file ("**SCF**") and transferring funds to the trustee bank. Accordingly, our Corporate Promoter was required to compensate its NPS subscribers for an amount aggregating to ₹142,470. Pursuant to letter dated January 2, 2020, our Corporate Promoter has communicated to the NPS Trust that out of the total compensation amount of ₹142,470 payable to 1,771 subscribers, a compensation amount of ₹134,600, pertaining to 1,686 subscribers has been paid by our Corporate Promoter and that the balance amount of ₹7,870 pertaining to 85 subscribers has not been paid owing to technical difficulties, i.e. completion of 60 years of age of certain subscribers or completion of withdrawal process by certain subscribers. Accordingly, our Corporate Promoter has sought guidance

from the NPS Trust on how to complete this process. Based on the approval from the NPS Trust, pursuant to letter dated July 28, 2020, our Corporate Promoter has communicated to the Pension Fund Regulatory and Development Authority ("**PFRDA**") that out of the balance amount of ₹7,870 pertaining to 85 subscribers, a compensation amount of ₹5860 pertaining to 60 subscribers has been transferred. Subsequently, pursuant to letter dated March 24, 2021, the Corporate Promoter has communicated to the NPS Trust that the remaining compensation amount of ₹2,010 pertaining to 25 subscribers has been transferred and withdrawal process has also been completed. There is no written communication from PFRDA in this regard.

Disciplinary action

There are no disciplinary actions including penalty imposed by SEBI or stock exchanges against our Corporate Promoter in the last five financial years including outstanding actions.

Litigation by our Corporate Promoter

Civil Litigation

As of the date of this Draft Red Herring Prospectus, there are no material outstanding civil litigation instituted by our Corporate Promoter which involves a monetary liability of ₹10.53 million or more, nor any outstanding litigation wherein monetary liability is not quantifiable, whose outcome has a material bearing on the business, operations, performance, prospects or reputation of our Bank.

Criminal Litigation

As of the date of this Draft Red Herring Prospectus, there are no outstanding criminal litigation instituted by our Corporate Promoter.

Litigation against Kadambelil Paul Thomas

Civil Litigation

As of the date of this Draft Red Herring Prospectus, there are no material outstanding civil litigation against Kadambelil Paul Thomas which involves a monetary liability of ₹10.53 million or more, nor any outstanding litigation wherein monetary liability is not quantifiable, whose outcome has a material bearing on the business, operations, performance, prospects or reputation of our Bank.

Criminal Litigation

Except as mentioned below, as of the date of this Draft Red Herring Prospectus, there are no outstanding criminal litigation against Kadambelil Paul Thomas:

1. The police officer, Aluva East Police Station (the "**Complainant**"), has filed an FIR no. 1936/2014 against our Individual Promoter, Kadambelil Paul Thomas, in his capacity as the then managing director of our Corporate Promoter, and others, (the "**Accused**"), under Sections 406 and 420 of the IPC, Section 17 of the Kerala Money Lenders Act, 1958 and provisions of the Kerala Prohibition of Charging Exorbitant Interest Act, 2012 on the grounds that the Accused are allegedly engaged in (i) illegal money-lending, and (ii) charging of exorbitant interest rates. Pursuant to a search of the Aluva branch of the Corporate Promoter, conducted by the Complainant, promissory notes, application forms, consent letters, letters of guarantee, registers recording illegal money transactions, passbooks and currency notes of ₹0.29 million, obtained illegally, were found. A charge sheet no. 691/15 dated February 26, 2015 has been filed by the Complainant against the Accused under Sections 406 and 420 of the IPC, Section 17 of the Kerala Money Lenders Act, 1958 and Section 3 of the Kerala Prohibition of Charging of Exorbitant Interest Act, 1958, before the Judicial First Class Magistrate Court-1, Aluva. Subsequently, our Individual Promoter has filed a petition Crl.M. C. No. 2228 of 2015 dated April 6, 2015 under Sections 482 and 483 of the Code of Criminal Procedure, 1973, before the High Court of Kerala, at Ernakulam praying for all further proceedings initiated against our Individual Promoter in Crime No. 1936/2014, to be quashed. The matter is currently pending.

Actions Taken by Regulatory and Statutory Authorities

As of the date of this Draft Red Herring Prospectus, there are no pending actions by regulatory and statutory authorities against Kadambelil Paul Thomas.

Disciplinary action

As of the date of this Draft Red Herring Prospectus, there are no disciplinary actions including penalty imposed by SEBI or stock exchanges against Kadambelil Paul Thomas in the last five financial years including outstanding actions. However, certain directions have been issued by the RBI to our Bank in respect of the office of Kadambelil Paul Thomas as set out below:

Pursuant to RBI letter dated May 28, 2018 read with RBI letter dated March 9, 2017, Kadambelil Paul Thomas was required to divest his shareholding in our Corporate Promoter within a period of one year, i.e., March 8, 2018, before taking charge as Managing Director and Chief Executive Officer in compliance with Section 10B(4) of the Banking Regulation Act. While Kadambelil Paul Thomas transferred majority of his shareholding in our Corporate Promoter on February 22, 2018, the balance equity share holding, which was issued to him as sweat equity was subject to a three-year lock-in period from allotment, i.e., up to September 28, 2018, and accordingly, could not be transferred within the aforementioned timeline. As a result, Kadambelil Paul Thomas was directed by the RBI to step down from his position of Managing Director and Chief Executive Officer. Kadambelil Paul Thomas resigned from his position of Managing Director and Chief Executive Officer on June 2, 2018 and re-joined on October 1, 2018 with the approval of the RBI dated October 1, 2018, post divesture of his shareholding in the Corporate Promoter in compliance with the letters issued by the RBI.

Litigation by Kadambelil Paul Thomas

Civil Litigation

As of the date of this Draft Red Herring Prospectus, there are no material outstanding civil litigation instituted by Kadambelil Paul Thomas which involves a monetary liability of ₹10.53 million or more, nor any outstanding litigation wherein monetary liability is not quantifiable, whose outcome has a material bearing on the business, operations, performance, prospects or reputation of our Bank.

Criminal Litigation

As of the date of this Draft Red Herring Prospectus, there are no outstanding criminal litigation instituted by Kadambelil Paul Thomas.

Litigation involving our Directors

Litigation against our Directors

Civil Litigation

As of the date of this Draft Red Herring Prospectus, there are no material outstanding civil litigation against any of our Directors which involve a monetary liability of ₹10.53 million or more, nor any outstanding litigation wherein monetary liability is not quantifiable, whose outcome has a material bearing on the business, operations, performance, prospects or reputation of the Bank.

Criminal Litigation

Except as mentioned below, as of the date of this Draft Red Herring Prospectus, there are no outstanding criminal litigation against any of our Directors:

1. The Police Officer, Aluva East Police Station, has filed an FIR no. 1936 against our Managing Director and Chief Executive Officer, Kadambelil Paul Thomas, under Sections 406 and 420 of the IPC, Section 17 of the Kerala Money Lenders Act, 1958 and provisions of the Kerala Prohibition of Charging Exhorbitant Interest Act, 2012. For details in relation to this case, see "- *Litigation against Kadambelil Paul Thomas – Criminal Litigation*" on page 332.

Actions Taken by Regulatory and Statutory Authorities

As of the date of this Draft Red Herring Prospectus, there are no pending actions by regulatory and statutory authorities against any of our Directors.

However, certain directions have been issued by the RBI to our Bank in respect of the office of our Managing Director and Chief Executive Officer, Kadambelil Paul Thomas. For further details, see "- *Litigation against Kadambelil Paul Thomas – Disciplinary action*" on page 332.

Litigation by our Directors

Civil Litigation

As of the date of this Draft Red Herring Prospectus, there are no material outstanding civil litigation instituted by any of our Directors.

Criminal Litigation

As of the date of this Draft Red Herring Prospectus, there are no outstanding criminal litigation instituted by any of our Directors.

Litigation involving our Group Entities

As of the date of this Draft Red Herring Prospectus, there are no outstanding litigation involving our Group Entities which has a material impact on our Bank.

Tax Claims

Except as disclosed below, there are no claims related to direct and indirect taxes, involving our Bank, Directors and Promoters.

Nature of case	Number of cases	Amount involved (₹ in million)
Bank		
Direct Tax	2	11.49
Indirect Tax	Nil	Nil
Directors		
Direct Tax	Nil	Nil
Indirect Tax	Nil	Nil
Promoters		
Corporate Promoter		
Direct Tax	2	20.59
Indirect Tax	4	109.41
Kadambelil Paul Thomas		
Direct Tax	Nil	Nil
Indirect Tax	Nil	Nil

Description of certain tax matters involving our Corporate Promoter, above the materiality threshold

Service tax matters

1. The Additional Director General, Directorate General of Central Excise Intelligence (DGCEI), Zonal Unit, Bangalore ("**Authority No.1**") had issued a show cause notice dated March 28, 2013 to our Corporate Promoter on the grounds that our Corporate Promoter had, allegedly, contravened certain provisions of the Finance Act, 1994 read with the Service Tax Rules, 1994, to the extent that our Corporate Promoter, *inter alia*, (i) did not obtain service tax registration under the appropriate taxable service categories as prescribed; (ii) had not paid tax leviable on group mentoring and monitoring charges and microfinance administration revenue along with the service tax and cess at applicable rates, during the years 2008-2009 to 2011-2012; and (iii) did not assess the service tax due on the services provided by them. As per the show cause notice, the aforementioned alleged contraventions resulted in evasion of service tax of ₹15.07 million by our Corporate Promoter. Our Corporate Promoter responded to the show cause notice through its letter dated September 25, 2013 and prayed for the proceedings initiated against it, to be dropped. Based on the aforesaid letter and other hearings Commissioner of Central Excise, Customs & Service Tax, Calicut Commissionerate passed an order on February 6, 2019 confirming demand in the aforesaid show cause notice and imposed a penalty of ₹8,000.00 under Section 77 of the Finance Act, 1994 and Penalty of ₹13.57 million under Section 78 of the Finance Act, 1994 aggregating to total demand of ₹27.15 million. Against the said order Corporate Promoter has filed an appeal before Customs, Excise & Service Tax Appellate Tribunal, Bengaluru, and matter is currently pending.

2. The Principal Commissioner, Central Tax and Central Excise, Cochin ("**Principal Commissioner**") had issued a show cause notice dated November 8, 2017 to our Corporate Promoter on the grounds that our Corporate Promoter had, allegedly, contravened certain provisions of the Finance Act, 1994 read with the Service Tax Rules, 1994, to the extent that our Corporate Promoter, *inter alia*, (i) did not obtain service tax registration under the category "other taxable services"; (ii) failed to pay service tax on the gain on securitisation/ interest spread on securitisation/ income from assignment for the years 2012-13 to 2015-2016; and (iii) did not assess the tax due on the service of "other taxable services" and had not filed the requisite form filings in that regard with the intent to evade payment of tax. As per the show cause notice, the aforementioned alleged contraventions resulted in evasion of service tax of ₹67.64 million by our Corporate Promoter. Our Corporate Promoter responded to the show cause notice through its letter dated March 6, 2018, before the Commissioner of Central GST and Central Excise, Kozhikode, ("**Commissioner**"), and prayed for the proceedings initiated against it, to be dropped. The Commissioner by its order dated July 26, 2018 dropped all the proceedings proposed in the show cause notice and disposed the show cause notice issued by the Principal Commissioner. Against this order, the Principal Commissioner filed an appeal dated December 10, 2018 before the Customs Excise and Service Tax Appellate Tribunal, Bengaluru. Our Corporate Promoter also filed cross objections to the appeal on April 28, 2019, and the matter is currently pending.

Direct tax matters

1. The Deputy Commissioner of Income Tax, Company Circle II(1), Chennai, by its order dated March 18, 2014 under Section 143(3) of the Income Tax Act, 1961, and demand notice dated March 18, 2014 ("**Order No.1**"), directed our Corporate Promoter to pay additional income tax of an amount aggregating ₹0.69 million on the grounds that the income tax paid by the Corporate Promoter was insufficient and that the Corporate Promoter, at the time of filing returns of income for the assessment year 2011-12, had not accounted for (i) interest on non-performing assets; and (ii) disallowance under Section 14A of the Income Tax Act, 1961 read with Rule 8D of the Income Tax Rules, 1962, in the computation of its taxable

income. Against the Order No.1, our Corporate Promoter filed an appeal dated April 19, 2014, before the Commissioner of Income tax Appeals-II, Chennai and prayed for the additions made to its taxable income to be deleted. Pursuant to the appeal, the Commissioner of Income tax (Appeals), by its order dated August 21, 2019, deleted the additions made to the taxable income of our Corporate Promoter. Meanwhile, the Deputy Commissioner of Income Tax, Corporate Circle 2(1), Chennai, by its assessment order dated December 31, 2016 under Section 147 read with Section 143(3) of the Income Tax Act, 1961 and demand notice dated December 31, 2016 ("**Order No.2**") reopened the assessment of the income tax payable by our Corporate Promoter for the assessment year 2011-12 and directed our Corporate Promoter to pay additional income tax of an amount aggregating ₹15.25 million on the grounds that the (i) income tax paid by the Corporate Promoter was insufficient, (ii) gain on assignment transactions were required to be recognised upfront as against the amortisation of gain over the assignment period, as adopted by the Corporate Promoter (ii) provision of standard assets and loan loss was not permissible under the provisions of the Income Tax Act, 1961. Aggrieved by the Order No.2, our Corporate Promoter has filed an appeal dated January 28, 2017 before the Commissioner of Income Tax (Appeals) and the matter is currently pending.

Outstanding dues to Creditors

As at March 31, 2021, the total number of creditors of our Bank was 28 and the total outstanding dues to these creditors by our Bank was ₹195.48million. Our Bank owes an amount of ₹0.22 million to micro, small and medium enterprises ("**MSMEs**") as defined under the Micro, Small and Medium Enterprises Development Act, 2006.

As per the materiality policy, creditors of our Bank to whom an amount exceeding 5% (i.e. ₹9.77 million) of the total dues owed to creditors as on March 31, 2021, were considered 'material' creditors. As at March 31, 2021, there are 2 material creditors to whom our Bank owes an aggregate amount of ₹178.85 million. The details pertaining to net outstanding dues towards our material creditors, along with their names and amount involved in respect of each material creditor, are available on the website of our Bank at https://www.esafbank.com/pdf/List_of_Material_Creditors.pdf. It is clarified that such details available on our website do not form a part of this Draft Red Herring Prospectus and investors should not make any investment decision based on information available on the website of the Bank. Anyone placing reliance on any other source of information, including our Bank's website, would be doing so at their own risk.

Details of outstanding dues owed to MSMEs and other creditors as at March 31, 2021 is set out below:

Types of Creditors	Number of creditors	Amount involved (₹ in million)
Micro, Small and Medium Enterprises	4	0.22
Material creditors	2	178.85
Other creditors	22	16.41
Total Outstanding Dues	**28**	**195.48**

Material Developments

Other than as stated in "*Management's Discussion and Analysis of Financial Condition And Results Of Operations – Material Developments after March 31, 2021*" on page 323, there have not arisen, since the date of the last financial information disclosed in this Draft Red Herring Prospectus, any circumstances which materially affect, or are likely to affect, our trading, our performance or profitability or the value of our assets or our ability to pay our liabilities within the next 12 months.

GOVERNMENT AND OTHER APPROVALS

Our Bank is in possession of all approvals which are considered material and necessary for the purpose of undertaking its business activities. Set out below, is an indicative list of approvals obtained by our Bank. In view of these key approvals, our Bank can undertake this Offer and its business activities. In addition, certain of our key approvals may expire in the ordinary course of business and our Bank has either already made an application to the appropriate authorities for renewal of such key approvals or is in the process of making such renewal applications. For further details in connection with the regulatory and legal framework within which we operate, see "Key Regulations and Policies" beginning on page 169.

I. Incorporation details

1. Certificate of incorporation dated May 5, 2016 issued to our Bank, under the name ESAF Small Finance Bank Limited by the RoC.

2. The CIN of our Bank is U65990KL2016PLC045669.

II. Approvals in relation to the Offer

For details regarding the approvals and authorisations obtained by our Bank in relation to the Offer, see "*Other Regulatory and Statutory Disclosures - Authority for the Offer*" and "*The Offer*" on pages 340 and 56 respectively.

III. Key approvals in relation to our Bank

Regulatory approvals for setting up an SFB

1. The RBI pursuant to the RBI In-Principle Approval granted our Corporate Promoter in-principle approval to establish an SFB in the private sector under Section 22 of the Banking Regulation Act, subject to our Corporate Promoter completing all the relevant formalities within the validity period of eighteen months from the date of approval, to the satisfaction of RBI.

2. The RBI pursuant to the RBI Final Approval, issued to our Bank, license no. 'MUM:124', to carry on the SFB business in terms of Section 22 of the Banking Regulation Act.

3. The RBI has, pursuant to a letter dated December 27, 2018, intimated the Bank of its inclusion in the second schedule to the RBI Act, 1934, vide its notification dated November 12, 2018, published in the Gazette of India dated December 22, 2018 to December 28, 2018.

Regulatory approvals for carrying on business activities as an SFB

1. As at May 31, 2021, we had an aggregate of 550 Branches. The RBI has, pursuant to various letters, permitted our Bank to open 484 Branches. RBI has, pursuant to the notification 'Guidelines for Licensing of Small Finance Banks in Private Sector' dated November 27, 2014 – Modifications to existing norms' dated March 28, 2020, granted general permission to all existing SFBs to open banking outlets subject to adherence to unbanked rural centre norms as per RBI circular on 'Rationalisation of Branch Authorisation Policy - Revision of Guidelines' dated May 18, 2017, as amended from time to time.

2. The RBI has, pursuant to a letter dated November 30, 2016, granted our Bank approval to participate in the Centralised Payment Systems viz. RTGS, NEFT and NECS.

3. The RBI has, pursuant to a letter dated January 30, 2017, granted our bank membership of RTGS System in the 'Type A' category and a RTGS Settlement Account in the name of our Bank has been opened at the banking department, Mumbai. The intra day liquidity limit sanctioned to our Bank is ₹1,100 million.

4. The RBI has, pursuant to a letter dated January 6, 2017, intimated us of the opening of our principal current account with the RBI in the name of our Bank.

5. The RBI has, pursuant to a letter dated January 31, 2017, intimated us of the opening of our subsidiary general ledger account in the name of our Bank.

6. The RBI has, pursuant to an email dated January 25, 2017, allotted primary IFSC ESMF0000001, to our Bank.

7. The RBI has, pursuant to a letter dated May 9, 2018, granted our Bank permission to set up one administrative office at Thrissur, Kerala.

8. The RBI has, pursuant to a letter dated November 18, 2019, granted our Bank permission to set up two administrative offices at Thrissur, Kerala.

9. The RBI pursuant to a letter dated February 5, 2018, informed us that our Bank has been admitted as a member of Bankers' Clearing House at New Delhi for the purposes of participating, with effect from February 6, 2018, in the cheque truncation system ("**CTS**") clearing at Bankers' Clearing House at New Delhi.

10. The RBI pursuant to a letter dated March 21, 2017, informed us that our Bank has been admitted as a member of Western Grid Bankers' Clearing House**.**

11. The RBI pursuant to a letter dated March 23, 2017, informed us that our Bank has been admitted as a direct member of Bankers' Clearing House at Chennai.

12. The RBI through various letters has allotted the MICR code to 551 Banking Branches of our Bank.

13. The RBI has, pursuant to a letter dated December 9, 2016, granted our Bank approval to commence and operate mobile banking services, with flexible channels for registration with customers.

14. The RBI has, pursuant to an email dated April 9, 2020, granted our Bank approval to undertake the business of depository participant.

15. The Central KYC Registry has, pursuant to an email dated December 27, 2017, confirmed the registration of our Bank in the Central KYC registry**.**

16. The Foreign Exchange Department, RBI has, pursuant to certificate dated April 17, 2017, authorised our Bank as an Authorized Dealer – Category II, and by amendment on February 14, 2019, changed the registered office address and approved the undertaking of forex business at 54 additional branches of our Bank.

17. The RBI has, pursuant to a letter dated May 30, 2018, granted our Bank approval to open non-resident rupee accounts in 31 branches.

18. The RBI has, pursuant to a letter dated February 22, 2019, granted our Bank approval to open non-resident rupee accounts in 69 branches.

19. The RBI has, pursuant to a letter dated January 20, 2020, granted our Bank approval to open non-resident rupee accounts in 42 branches.

20. The RBI has, pursuant to an email dated October 26, 2018, granted registration to our Bank as a reporting entity.

21. The NPCI has granted our Bank access to the NACH platform.

22. The RBI has, pursuant to a letter dated December 22, 2016, granted the INFINET membership to our Bank.

23. The CCIL has, pursuant to a letter dated March 25, 2019, granted our Bank membership to the CCIL's Repo Dealing Segment.

24. The Deposit Insurance and Credit Guarantee Corporation has, pursuant to a letter dated April 3, 2017, granted our Bank registration as an insured bank in terms of the Deposit Insurance and Credit Guarantee Corporation Act, 1961.

25. Clearcorp Dealing Systems (India) Limited has, pursuant to a letter dated December 27, 2018, granted our Bank membership of RBI's NDS-Call system.

26. Clearcorp Dealing Systems (India) Limited has, pursuant to a letter dated January 8, 2019, granted our Bank membership of RBI's NDS-OM system.

27. The RBI has, pursuant to a letter dated August 2, 2019 granted our Bank a no-objection for referring our customers for installation of point of sale/electronic data capture machine and related services under a referral arrangement.

28. The RBI has issued a three digit Basic Statistical Return – BSR Code 209, to our Bank.

29. The IRDAI has, issued a certificate of registration to our Bank to act as a Category Corporate Agent (Composite) with effect from January 18, 2018, and renewed certificate of registration effective from January 18, 2021.

30. The NSDL has, pursuant to an email dated March 7, 2019, granted our Bank registration to the Central Record Keeping Agency.

31. Our Bank has been in compliance with the Foreign Account Tax Compliance Act, 2010, pursuant to registration dated January 23, 2019.

32. The RBI has, pursuant to a letter dated December 5, 2017, issued a no-objection certificate to undertake the activity of distribution of insurance products and pension products on a non-risk sharing basis without any commitment of own funds.

33. The RBI has, pursuant to a letter dated December 5, 2017, issued a no-objection certificate to undertake the distribution of pension products on a non-risk sharing basis without any commitment of own funds.

34. The PFRDA has, pursuant to a certificate dated September 14, 2018, granted our Bank registration as a point of presence under the PFRDA Act, 2013 and PFRDA (Point of Presence) Regulations, 2018 to transact in pension schemes and/ or under the National Pension Scheme.

35. The RBI has, pursuant to an email dated November 20, 2018, allotted Depositor Education and Awareness Fund code 2159 to our Bank.

36. The Financial Intelligence Unit, India has granted our Bank registration as a reporting entity.

37. The NPCI has, pursuant to a letter of authority dated February 2, 2017, granted our Bank membership for certain services under the Aadhaar Enabled Payment System.

38. The UIDAI has, pursuant to the email dated January 9, 2020, granted our Bank registration as an Enrolment Agency (Aadhar Seva Kendra).

39. The FIMMDA has, pursuant to a letter dated January 24, 2017, approved our membership in the FIMMDA. The said membership, being an annual subscription, is renewed by our Bank at the beginning of each Financial Year.

40. The Indian Banks' Association has, pursuant to a letter dated May 2, 2017, granted our Bank membership of the Indian Banks' Association with effect from May 2, 2017 as an 'Ordinary Member'.

Tax related approvals

1. The permanent account number of our Bank is AAECE2619Q.

2. The tax deduction account number of our Bank is CHNE02409B.

3. The GST registration number of our Bank is 32AAECE2619Q1ZH, for the state of Kerala.

4. Our Bank has obtained professional tax registrations in the states and union territories where our business operations are located, except in Kerala, Tamil Nadu, Gujarat, Rajasthan, Chhattisgarh, Uttar Pradesh, Chandigarh and Puducherry, where professional tax registration is exempt for our Bank

Labour related approvals

Our Bank has obtained registrations under various employee and labour related laws including the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, the Contract Labour (Regulations and Abolition Act), 1970 and the relevant shops and establishment legislations.

IV. Key approvals obtained for the material Branches of the Bank

Our Bank has obtained registrations in the normal course of business for its Branches across various states in India including authorised dealer certificates issued by RBI, trade licenses issued by relevant municipal authorities under applicable laws, and registration under the Employees Provident Fund and Miscellaneous Provisions Act, 1952. Our Bank has obtained goods and services tax registrations with the relevant authorities for our Branches in the states of Kerala, Jharkhand, New Delhi, Madhya Pradesh, Uttar Pradesh, Haryana, Chhattisgarh, West Bengal, Bihar, Meghalaya, Tamil Nadu, Maharashtra, Karnataka, Andhra Pradesh, Telangana, Assam, Gujarat, Rajasthan, Odisha, Chandigarh and Puducherry. Certain approvals may lapse in their normal course and our Bank has either made an application to the appropriate authorities for renewal of such registration or is in the process of making such applications.

V. Pending Applications

As on the date of this Draft Red Herring Prospectus, there are no pending applications for approvals applied for but not received by our Bank.

VI. Approvals for which renewal applications have been made

Our Bank has made renewal applications for shops and establishments registrations before the relevant municipal authorities under applicable laws in respect of five Branches in the state of Chhattisgarh and union territory of Chandigarh.

VII. Intellectual property

Our Bank has made applications for trademark registration for our corporate logos, i.e., and under class 36 of the Trade Marks Act, 1999, which have been assigned the status 'objected' due to the existence of identical or similar marks of Evangelical Social Action Forum, for which a no objection certificate has been filed by the Evangelical Social Action Forum. Further, our Bank has one trademark registration for the device 'ESAF Small Finance Bank' under Class 36 of the Trade Marks Act, 1999, which is valid up to January 17, 2027.

We have also entered into a licence agreement dated January 5, 2020 with ESAF Society ("**Trademark Agreement**"), pursuant to which we have been granted a licence to use certain trademarks registered in the name of the ESAF Society, for our business activities, as set out in the table below:

S. No.	Trademark/domain name/device	Application number	Application date	Applicant	Validity
1.	ESAF	3459570	January 17, 2017	ESAF Society	January 17, 2027
2.	ESAF	1657304	February 23, 2008	ESAF Society	February 23, 2028
3.	Creating Opportunities	3459573	January 17, 2017	ESAF Society	January 17, 2027
4.		3459572	January 17, 2017	ESAF Society	January 17, 2027
5.		3459571	January 17, 2017	ESAF Society	January 17, 2027
6.	Fighting the partiality of prosperity	3459575	January 17, 2017	ESAF Society	January 17, 2027

Pursuant to the Trademark Agreement, we have also been granted a license to use the following trademark:

S. No.	Trademark/ word mark	Application number	Application date	Applicant	Validity
1.	ESAF (word mark)*	2710339	April 1, 2014	ESAF Society	NA*

**This application has been opposed. The Bank is using the "ESAF" (word mark) under class 36, which has not been opposed. For details, see "Risk Factors - If we fail to successfully enforce our intellectual property rights or are unable to renew our trademark licencing agreement, our business, results of operations and cash flows would be adversely affected." on page 33.*

For further details, see "*Risk Factors – If we fail to successfully enforce our intellectual property rights or are unable to renew our trademark licencing agreement our business, results of operations and cash flows would be adversely affected*" and "*History and Certain Corporate Matters – Key terms of other subsisting material agreements*" on pages 33 and 187, respectively.

OTHER REGULATORY AND STATUTORY DISCLOSURES

Authority for the Offer

Our Board has approved the Offer pursuant to the resolution passed at its meeting held on June 29, 2021 and our Shareholders have approved the Offer pursuant to a resolution passed at the EGM held on July 12, 2021 in terms of Section 62(1)(c) of the Companies Act, 2013. This Draft Red Herring Prospectus has been approved by our Board pursuant to a resolution passed on July 24, 2021.

The Offer for Sale has been authorised by each of the Selling Shareholders as follows:

Sr. No.	Name of the Selling Shareholder	No. of Offered Shares	Date of consent letter	Date of corporate action/board resolution/power of attorney
Promoter Selling Shareholder				
1.	ESAF Financial Holdings Private Limited	[●] Equity Shares aggregating up to ₹1,500.00 million	July 24, 2021	June 26, 2021
Other Selling Shareholders				
2.	PNB MetLife	[●] Equity Shares aggregating up to ₹213.30 million	July 24, 2021	November 9, 2020
3.	Bajaj Allianz Life	[●] Equity Shares aggregating up to ₹174.60 million	July 22, 2021	December 6, 2011
4.	PI Ventures	[●] Equity Shares aggregating up to ₹87.30 million	July 22, 2021	June 25, 2021 and July 20, 2021
5.	John Chakola	[●] Equity Shares aggregating up to ₹2.60 million	June 28, 2021	NA

Our Bank has received in-principle approvals from the BSE and the NSE for the listing of the Equity Shares pursuant to letters dated [●] and [●], respectively.

Pursuant to RBI In Principle Approval and RBI Final Approval, the Equity Shares of our Bank are mandatorily required to be listed within a period of three years from reaching a net worth of ₹5,000 million.

Prohibition by SEBI or other Governmental Authorities

Our Bank, Promoters, members of the Promoter Group, Directors, the persons in control of the Bank and the persons in control of our Promoters are not prohibited from accessing the capital market or debarred from buying, selling or dealing in securities under any order or direction passed by SEBI or any securities market regulator in any other jurisdiction or any other authority/court.

None of the companies with which our Promoters, Directors or persons in control of our Bank are promoters, directors or persons in control have been debarred from accessing capital markets under any order or direction passed by SEBI or any other authorities.

Each Selling Shareholder, severally and not jointly, confirms that it has not been prohibited from accessing the capital market or debarred from buying, selling or dealing in securities under any order or direction passed by SEBI or any other governmental authority in India.

None of our Directors are associated with securities market related business, in any manner and there has been no outstanding actions initiated by SEBI against our Directors in the five years preceding the date of this Draft Red Herring Prospectus.

Our Bank, Promoters or Directors have not been declared as wilful defaulters by any bank or financial institution or consortium thereof in accordance with the guidelines on wilful defaulters issued by the RBI.

Our Individual Promoter or Directors have not been declared as fugitive economic offenders under section 12 of the Fugitive Economic Offenders Act, 2018.

Confirmation under Companies (Significant Beneficial Owners) Rules, 2018

Our Bank, Individual Promoter, members of the Promoter Group, and each of the Selling Shareholders are in compliance with the Companies (Significant Beneficial Owners) Rules, 2018, to the extent applicable, as on the date of this Draft Red Herring Prospectus.

Eligibility for the Offer

Our Bank is eligible for the Offer in accordance with the Regulation 6(1) of the SEBI ICDR Regulations, and is in compliance with the conditions specified therein in the following manner:

- Our Bank has net tangible assets of at least ₹30 million, calculated on a restated and consolidated basis, in each of the preceding three full years (of 12 months each), of which not more than 50% are held in monetary assets;

- Our Bank has an average operating profit of at least ₹150 million, calculated on a restated and consolidated basis, during the preceding three years (of 12 months each), with operating profit in each of these preceding three years;

- Our Bank has a net worth of at least ₹10 million in each of the preceding three full years (of 12 months each), calculated on a restated and consolidated basis; and

- Our Bank has not changed its name in the last one year.

Our Bank's operating profit, net worth and net tangible assets derived from the Restated Financial Information included in this Red Herring Prospectus as at, and for the last three Financial Years are set forth below:

As per Restated Financial Information

(in ₹ million, except % data)

Particulars (Restated Basis)	Financial year ended		
	2021	2020	2019
Restated net tangible assets (Note 1) (A)	121,706.74	94,209.58	70,242.92
Restated monetary assets (Note 2) (B)	18,191.26	9,027.91	7,814.56
% of Restated monetary assets to restated net tangible assets [B/A]	14.95	9.58	11.13
Operating profit (Note 3)	1,053.96	1,903.90	902.84
Net worth (Note 4)	13,164.34	10,727.21	8,878.14

Notes:

Note 1: "Net Tangible Assets" mean the sum of all net assets (net of provision on non-performing advances, provision on tax, provision for depreciation on Fixed Assets and Investments) of the Bank excluding intangible assets as defined in Accounting Standard 26 (AS 26), deferred tax assets as defined in Accounting Standard 22 (AS 22) as prescribed under section 133 of the Companies Act, 2013 and standard asset provision which are not netted off in the restated statement of assets and liabilities.

Note 2: For the purpose of the above computation, "Monetary Assets" is computed by adding "Cash and Balances with Reserve Bank of India" and "Balances with Banks and Money at Call and Short Notice".

Note 3: For the purpose of the above computation, "Operating Profit" is determined by deducting Interest expended, Operating expenses and Provisions and contingencies (including provision for tax), from Interest earned and Other income reported by the Bank as per the Restated Profit and Loss Account for the respective years.

Note 4: "Net worth" means the aggregate value of the paid-up share capital and all reserves created out of the profits and share premium account and credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the Restated Statement of Assets and Liabilities, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

Our Bank is in compliance with the conditions specified in Regulation 5 of the SEBI ICDR Regulations, to the extent applicable. Our Bank confirms that it is also in compliance with the conditions specified in Regulation 7(1) of the SEBI ICDR Regulations, to the extent applicable, and will ensure compliance with the conditions specified in Regulation 7(2) of the SEBI ICDR Regulations, to the extent applicable.

Each Selling Shareholder severally and not jointly confirms, that the Equity Shares being offered by such Selling Shareholder in the Offer have been held by such Selling Shareholder for a period of at least one year prior to the filing of this Draft Red Herring Prospectus with SEBI and are eligible for sale in the offer in accordance with Regulation 8 of the SEBI ICDR Regulations.

Our Bank shall not make an Allotment if the number or prospective allottees is less than one thousand in accordance with Regulation 49(1) of the SEBI ICDR Regulations.

DISCLAIMER CLAUSE OF SEBI

IT IS TO BE DISTINCTLY UNDERSTOOD THAT SUBMISSION OF THIS DRAFT RED HERRING PROSPECTUS TO SEBI SHOULD NOT, IN ANY WAY, BE DEEMED OR CONSTRUED THAT THE SAME HAS BEEN CLEARED OR APPROVED BY SEBI. SEBI DOES NOT TAKE ANY RESPONSIBILITY EITHER FOR THE FINANCIAL SOUNDNESS OF ANY SCHEME OR THE PROJECT FOR WHICH THE OFFER IS PROPOSED TO BE MADE OR FOR THE CORRECTNESS OF THE STATEMENTS MADE OR OPINIONS EXPRESSED IN THIS DRAFT RED HERRING PROSPECTUS. THE BOOK RUNNING LEAD MANAGERS, BEING AXIS CAPITAL LIMITED, EDELWEISS FINANCIAL SERVICES LIMITED, ICICI SECURITIES LIMITED AND IIFL SECURITIES LIMITED ("BRLMs"), HAVE CERTIFIED THAT THE DISCLOSURES MADE IN THIS DRAFT RED HERRING PROSPECTUS ARE GENERALLY ADEQUATE AND ARE IN CONFORMITY WITH THE SEBI ICDR REGULATIONS. THIS REQUIREMENT IS TO FACILITATE INVESTORS TO TAKE AN INFORMED DECISION FOR MAKING AN INVESTMENT IN THE PROPOSED OFFER.

IT SHOULD ALSO BE CLEARLY UNDERSTOOD THAT WHILE THE BANK IS PRIMARILY RESPONSIBLE FOR THE CORRECTNESS, ADEQUACY AND DISCLOSURE OF ALL RELEVANT INFORMATION IN THIS DRAFT RED HERRING PROSPECTUS, THE BRLMs ARE EXPECTED TO EXERCISE DUE DILIGENCE TO

ENSURE THAT THE BANK DISCHARGES ITS RESPONSIBILITIES ADEQUATELY IN THIS BEHALF AND TOWARDS THIS PURPOSE, THE BRLMs HAVE FURNISHED TO SEBI, A DUE DILIGENCE CERTIFICATE DATED JULY 24, 2021 IN THE FORMAT PRESCRIBED UNDER SCHEDULE V(A) OF THE SEBI ICDR REGULATIONS.

THE FILING OF THIS DRAFT RED HERRING PROSPECTUS DOES NOT, HOWEVER, ABSOLVE THE BANK FROM ANY LIABILITIES UNDER THE COMPANIES ACT, 2013, OR FROM THE REQUIREMENT OF OBTAINING SUCH STATUTORY OR OTHER CLEARANCES AS MAY BE REQUIRED FOR THE PURPOSE OF THE OFFER. SEBI FURTHER RESERVES THE RIGHT TO TAKE UP AT ANY POINT OF TIME, WITH THE BRLMS, ANY IRREGULARITIES OR LAPSES IN THIS DRAFT RED HERRING PROSPECTUS.

All legal requirements pertaining to this Offer will be complied with at the time of filing of the Red Herring Prospectus with the Registrar of Companies in terms of Section 32 of the Companies Act, 2013, and the Prospectus with the Registrar of Companies in terms of sections 26, 32, 33(1) and 33(2) of the Companies Act, 2013.

Disclaimer clause of RBI

A license authorizing the Bank to carry on small finance bank business has been obtained from the Reserve Bank of India in terms of Section 22 of the Banking Regulation Act, 1949. It must be distinctly understood, however, that in issuing the license, the Reserve Bank of India does not undertake any responsibility for the financial soundness of the Bank or for the correctness of any of the statements made or opinion expressed in this connection.

Disclaimer from our Bank, our Directors, each of the Selling Shareholders and BRLMs

Our Bank, our Directors, each of the Selling Shareholders and the BRLMs accept no responsibility for statements made otherwise than in this Draft Red Herring Prospectus or in the advertisements or any other material issued by or at our instance and anyone placing reliance on any other source of information, including our Bank's website www.esafbank.com, or the respective websites of our Corporate Promoter or any affiliate of our Bank would be doing so at his or her own risk.

The BRLMs accept no responsibility, save to the limited extent as provided in the Offer Agreement and the Underwriting Agreement to be entered into between the Underwriters, Selling Shareholders and the Bank.

All information shall be made available by our Bank, Selling Shareholders and the BRLMs to the Bidders and the public at large and no selective or additional information would be made available for a section of the investors in any manner whatsoever, including at road show presentations, in research or sales reports, at the Bidding Centres or elsewhere.

None among our Bank, the Promoter Selling Shareholder, Other Selling Shareholders or any member of the Syndicate shall be liable for any failure in (i) uploading the Bids due to faults in any software/ hardware system or otherwise or (ii) the blocking of Bid Amount in the ASBA Account on receipt of instructions from the Sponsor Bank on account of any errors, omissions or non-compliance by various parties involved in, or any other fault, malfunctioning or breakdown in, or otherwise, in the UPI Mechanism.

Bidders will be required to confirm and will be deemed to have represented to our Bank, each of the Selling Shareholders, the Underwriters and their respective directors, partners, designated partners, officers, agents, affiliates, and representatives that they are eligible under all applicable laws, rules, regulations, guidelines and approvals to acquire the Equity Shares and will not issue, sell, pledge, or transfer the Equity Shares to any person who is not eligible under any applicable laws, rules, regulations, guidelines and approvals to acquire the Equity Shares. Our Bank, each of the Selling Shareholders, the Underwriters and their respective directors, partners, designated partners, officers, agents, affiliates, and representatives accept no responsibility or liability for advising any investor on whether such investor is eligible to acquire the Equity Shares.

The BRLMs and their respective associates and affiliates in their capacity as principals or agents may engage in transactions with, and perform services for, our Bank, each of the Selling Shareholders, their respective group companies, affiliates or associates or third parties in the ordinary course of business and have engaged, or may in the future engage, in commercial banking and investment banking transactions with our Bank, each of the Selling Shareholders, and their respective directors, officers, agents, group companies, affiliates or associates or third parties, for which they have received, and may in the future receive, compensation.

Disclaimer in respect of Jurisdiction

Any dispute arising out of this Offer will be subject to the jurisdiction of appropriate court(s) in Mumbai only.

Bidders eligible under Indian law to participate in the Offer

This Offer is being made in India to persons resident in India (who are competent to contract under the Indian Contract Act, 1872, including Indian nationals resident in India, HUFs, companies, other corporate bodies and societies registered under the applicable laws in India and authorised to invest in shares, domestic Mutual Funds, Indian financial institutions, commercial banks, regional rural banks, co-operative banks (subject to RBI permission), or trusts under applicable trust law and who are authorised under their constitution to hold and invest in equity shares, state industrial development corporations, insurance companies registered with IRDAI, provident funds (subject to applicable law) and pension funds, National Investment Fund, insurance funds set up and managed by army, navy or air force of Union of India, insurance funds set up and managed by the Department of Posts, GoI, systemically important NBFCs registered with the RBI) and permitted Non-Residents including FPIs and Eligible NRIs and AIFs that they are eligible under all applicable laws and regulations to purchase the Equity Shares.

In terms of the Banking Regulation Act read with Reserve Bank of India (Prior approval for acquisition of shares or voting rights in private sector banks) Directions, 2015, as updated, no person (along with his relatives, associate enterprises or persons acting in concert with such person) can acquire or hold 5% or more of the total paid-up share capital of our Bank, or be entitled to exercise 5% or more of the total voting rights of our Bank, without prior approval of the RBI. For details, see *"Key Regulations and Policies"* and "*Offer Procedure"* beginning on pages 169 and 364 respectively.

Bidders are advised to ensure that any Bid from them does not exceed investment limits or the maximum number of Equity Shares that can be held by them under applicable law.

Selling and Transfer Restrictions

The Equity Shares offered in the Offer have not been and will not be registered, listed or otherwise qualified in any jurisdiction except India and may not be offered or sold to persons outside of India except in compliance with the applicable laws of each such jurisdiction. Any person into whose possession this Draft Red Herring Prospectus comes is required to inform him or herself about, and to observe, any such restrictions.

This Draft Red Herring Prospectus does not constitute an invitation to subscribe to or purchase the Equity Shares in the Offer in any jurisdiction, including in India. Invitations to subscribe to or purchase the Equity Shares in the Offer will be made only pursuant to the Red Herring Prospectus if the recipient is in India or the preliminary offering memorandum for the Offer, which comprises the Red Herring Prospectus and the preliminary international wrap for the Offer, if the recipient is outside India. **No person outside India is eligible to Bid for Equity Shares in the Offer unless that person has received the preliminary offering memorandum for the Offer, which contains the selling restrictions for the Offer outside India.**

The Equity Shares offered in the Offer have not been and will not be registered under the U.S. Securities Act or the laws of any state of the United States and may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable state securities laws. Accordingly, such Equity Shares are being offered and sold (i) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act; and (ii) to persons reasonably believed to be "qualified institutional buyers" (as defined in Rule 144A ("**Rule 144A**") under the U.S. Securities Act), pursuant to Section 4(a)(2) of the U.S. Securities Act with respect to our Bank and Rule 144A with respect to each of the Selling Shareholders.

Each purchaser of the Equity Shares in the Offer in India shall be deemed to:

- Represent and warrant to our Bank, each of the Selling Shareholders, the BRLMs and the Syndicate Members that it was outside the United States (as defined in Regulation S) at the time the offer of the Equity Shares was made to it and it was outside the United States (as defined in Regulation S) when its buy order for the Equity Shares was originated.

- Represent and warrant to our Bank, each of the Selling Shareholders, the BRLMs and the Syndicate Members that it did not purchase the Equity Shares as a result of any "directed selling efforts" (as defined in Regulation S).

- Represent and warrant to our Bank, each of the Selling Shareholders, the BRLMs and the Syndicate Members that it bought the Equity Shares for investment purposes and not with a view to the distribution thereof. If in the future it decides to resell or otherwise transfer any of the Equity Shares, it agrees that it will not offer, sell or otherwise transfer the Equity Shares except in a transaction complying with Rule 903 or Rule 904 of Regulation S or pursuant to any other available exemption from registration under the U.S. Securities Act.

- Represent and warrant to our Bank, each of the Selling Shareholders, the BRLMs and the Syndicate Members that if it acquired any of the Equity Shares as fiduciary or agent for one or more investor accounts, it has sole investment discretion with respect to each such account and that it has full power to make the foregoing representations, warranties, acknowledgements and agreements on behalf of each such account.

- Represents and warrant to our Bank, each of the Selling Shareholders, the BRLMs and the Syndicate Members that if it acquired any of the Equity Shares for one or more managed accounts, that it was authorized in writing by each such managed account to subscribe to the Equity Shares for each managed account and to make (and it hereby makes) the representations, warranties, acknowledgements and agreements herein for and on behalf of each such account, reading the reference to "it" to include such accounts.

- Agree to indemnify and hold the Bank, each of the Selling Shareholders, the BRLMs and the Syndicate Members harmless from any and all costs, claims, liabilities and expenses (including legal fees and expenses) arising out of or in connection with any breach of these representations, warranties or agreements. It agrees that the indemnity set forth in this paragraph shall survive the resale of the Equity Shares.

- Acknowledge that our Bank, each of the Selling Shareholders, the BRLMs, the Syndicate Members and others will rely upon the truth and accuracy of the foregoing representations, warranties, acknowledgements and agreements.

Further, each Bidder where required must agree in the Allotment Advice that such Bidder will not sell or transfer any Equity Shares or any economic interest therein, including any off-shore derivative instruments, such as participatory notes, issued against the Equity Shares or any similar security, other than in accordance with applicable laws.

Disclaimer Clause of BSE

As required, a copy of this Draft Red Herring Prospectus has been submitted to BSE. The disclaimer clause as intimated by BSE to our Bank, post scrutiny of this Draft Red Herring Prospectus, shall be included in the Red Herring Prospectus and the Prospectus prior to the RoC filing.

Disclaimer Clause of NSE

As required, a copy of this Draft Red Herring Prospectus has been submitted to NSE. The disclaimer clause as intimated by NSE to our Bank, post scrutiny of this Draft Red Herring Prospectus, shall be included in the Red Herring Prospectus and the Prospectus prior to the RoC filing.

Listing

The Equity Shares issued through the Red Herring Prospectus and the Prospectus are proposed to be listed on the BSE and the NSE. Applications will be made to the Stock Exchanges for obtaining permission for listing and trading of the Equity Shares. [●] will be the Designated Stock Exchange with which the Basis of Allotment will be finalised.

Consents

Consents in writing of each the Selling Shareholders, our Directors, our Company Secretary and Compliance Officer, Legal Counsel to our Bank as to Indian Law, Legal Counsel to the Selling Shareholders as to Indian law, Legal Counsel to the BRLMs as to Indian Law, Legal Counsel to the BRLMs as to International Law, Bankers to our Bank, the BRLMs, the Registrar to the Offer, CRISIL Research and A. John Moris & Co., independent chartered accountant; and consents in writing of the Syndicate Members, Escrow Collection Bank(s), Refund Bank(s), and Sponsor Bank to act in their respective capacities, will be obtained and filed along with a copy of the Red Herring Prospectus with the RoC as required under the Companies Act and such consents shall not be withdrawn up to the time of delivery of the Red Herring Prospectus for filing with the RoC.

Expert to the Offer

Except as stated below, our Bank has not obtained any expert opinions:

Our Bank has received written consent dated July 24, 2021 from our Statutory Auditors namely, Deloitte Haskins & Sells, Chartered Accountants, to include their name in this Draft Red Herring Prospectus, as required under section 26 of the Companies Act, 2013, read with SEBI ICDR Regulations, and as an "Expert" as defined under section 2(38) of the Companies Act, 2013, to the extent and in their capacity as an auditor, in respect of the examination report dated June 30, 2021 issued by it on our Restated Financial Information, and the statement of special tax benefits dated July 23, 2021 included in this Draft Red Herring Prospectus and such consent has not been withdrawn as on the date of this Draft Red Herring Prospectus. However, the term "expert" and the consent thereof shall not be construed to mean an "expert" or consent within the meaning as defined under the U.S. Securities Act.

Particulars regarding capital issues by our Bank and listed group entities, subsidiaries or associate entity during the last three years

Except as disclosed in "*Capital Structure*" on page 69, our Bank has not made any capital issues during the three years preceding the date of this Draft Red Herring Prospectus. None of our Group Entities are listed on any stock exchange. Our Bank does not have any subsidiary or associate entity.

Commission and Brokerage paid on previous issues of the Equity Shares in the last five years

No sum has been paid or has been payable as commission or brokerage for subscribing to or procuring or agreeing to procure subscription for any of the Equity Shares in the last five years.

Performance vis-à-vis objects – Public/ rights issue of our Bank

Our Bank has not undertaken any public or rights issue in the five years preceding the date of this Draft Red Herring Prospectus.

Performance vis-à-vis objects – Public/ rights issue of the listed subsidiaries/listed Promoters of our Bank

Our Corporate Promoter is not listed on any stock exchange. Our Bank does not have any subsidiaries.

Price information of past issues handled by the BRLMs

A. Axis Capital Limited

1. Price information of past issues (during current financial year and two financial years preceding the current financial year) handled by Axis Capital Limited

S. No.	Issue name	Issue size (₹ in million)	Issue price (in ₹)	Listing date	Opening price on listing date (in ₹)	+/- % change in closing price, [+/- % change in closing benchmark]- 30th calendar days from listing	+/- % change in closing price, [+/- % change in closing benchmark]- 90th calendar days from listing	+/- % change in closing price, [+/- % change in closing benchmark]- 180th calendar days from listing
1.	Clean Science And Technology Limited	15,466.22	900.00	19-Jul-21	1,755.00	-	-	-
2.	India Pesticides Limited	8,000.00	296.00	5-Jul-21	350.00	-	-	-
3.	Krishna Institute Of Medical Sciences Limited!	21,437.44	825.00	28-Jun-21	1,009.00	-	-	-
4.	Dodla Dairy Limited	5,201.77	428.00	28-Jun-21	550.00	-	-	-
5.	Shyam Metalics And Energy Limited@	9,085.50	306.00	24-Jun-21	380.00	-+40.95%, [+0.42%]	-	-
6.	Macrotech Developers Limited	25,000.00	486.00	19-April-21	436.00	+30.22%, [+5.21%]	+75.43%, [+10.89%]	-
7.	Barbeque – Nation Hospitality Limited	4,528.74	500.00	07-April-21	489.85	+18.77%, [-0.64%]	+76.97%, [+6.85%]	-
8.	Suryoday Small Finance Bank Limited$	5,808.39	305.00	26-Mar-21	292.00	-18.38%, [-1.14%]	-26.87%, [+8.13%]	-
9.	Kalyan Jewellers India Limited#	11,748.16	87.00	26-Mar-21	73.95	-24.60%, [-1.14%]	-7.07%, [+8.13%]	-
10.	Craftsman Automation Limited	8,236.96	1,490.00	25-Mar-21	1,359.00	-13.82%, [+0.11%]	+16.81%, [+10.11%]	-

Source: www.nseindia.com
$ Offer Price was ₹275.00 per equity share to Eligible Employees
 # Offer Price was ₹79.00 per equity share to Eligible Employees
@ Offer Price was₹291.00 per equity share to Eligible Employees
! Offer Price was₹785.00 per equity share to Eligible Employees
Notes:
a. Issue Size derived from Prospectus/final post issue reports, as available.
b. The CNX NIFTY is considered as the Benchmark Index.
c. Price on NSE is considered for all of the above calculations.
d. In case 30th/90th/180th day is not a trading day, closing price on NSE of the previous trading day has been considered.
e. Since 30 calendar days, 90 calendar days and 180 calendar days, as applicable, from listing date has not elapsed for few of the above issues, data for same is not available.

2. Summary statement of price information of past issues (during current financial year and two financial years preceding the current financial year) handled by Axis Capital Limited

Financial Year	Total no. of IPOs	Total funds raised (₹ millions)	Nos. of IPOs trading at discount – as on 30th calendar days from listing date			Nos. of IPOs trading at premium – as on 30th calendar days from listing date			Nos. of IPOs trading at discount – as on 180th calendar days from listing date			Nos. of IPOs trading at premium – as on 180th calendar days from listing date		
			Over 50%	Between 25% - 50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%
2021-2022*	7	88,719.67	-	-	-	-	2	1	-	-	-	-	-	-
2020-2021	11	93,028.90	-	-	6	2	1	2	-	-	-	2	1	1

Financial Year	Total no. of IPOs	Total funds raised (₹ millions)	Nos. of IPOs trading at discount – as on 30th calendar days from listing date			Nos. of IPOs trading at premium – as on 30th calendar days from listing date			Nos. of IPOs trading at discount – as on 180th calendar days from listing date			Nos. of IPOs trading at premium – as on 180th calendar days from listing date		
			Over 50%	Between 25% - 50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%
2019-2020	5	161,776.03	-	1	2	-	-	2	1	1	-	-	-	3

** The information is as on the date of the document*
The information for each of the financial years is based on issues listed during such financial year.
Note: Since 30 calendar days and 180 calendar days, as applicable, from listing date has not elapsed for few of the above issues, data for same is not available.

B. Edelweiss Financial Services Limited

1. Price information of past issues handled by Edelweiss Financial Services Limited

S. No.	Issue name	Issue size (₹ in million)	Issue price (in ₹)	Listing date	Opening price on listing date (in ₹)	+/- % change in closing price, [+/- % change in closing benchmark]- 30th calendar days from listing	+/- % change in closing price, [+/- % change in closing benchmark]- 90th calendar days from listing	+/- % change in closing price, [+/- % change in closing benchmark]- 180th calendar days from listing
1.	Powergrid Infrastructure Investment Trust	77,349.91	100.00	May 14, 2021	104.00	14.00% [7.64%]	Not Applicable	Not Applicable
2.	Macrotech Developers Limited	25,000.00	486.00	April 19, 2021	436.00	30.22% [5.21%]	75.43% [10.89%]	Not Applicable
3.	Stove Kraft Limited	4,126.25	385.00	February 5, 2021	498.00	30.68% [0.09%]	28.92% [-2.05%]	Not Applicable
4.	Indigo Paints Limited^	11,691.24	1,490.00^	February 2, 2021	2,607.50	75.72% [4.08%]	55.40% [-0.11%]	Not Applicable
5.	Burger King India Limited	8,100.00	60.00	December 14, 2020	112.50	146.5% [7.41%]	135.08% [10.86%]	168.25% [16.53%]
6.	Equitas Small Finance Bank Limited	5,176.00	33.00	November 2, 2020	31.10	5.45% [12.34%]	19.55% [16.84%]	68.18% [25.38%]
7.	Mazagon Dock Shipbuilders Limited	4,436.86	145.00	October 12, 2020	214.90	18.90% [5.87%]	52.90% [20.25%]	45.79% [24.34%]
8.	Angel Broking Limited	6,000.00	306.00	October 5, 2020	275.00	-2.32% [2.70%]	10.02% [21.86%]	-3.74% [29.24%]
9.	Route Mobile Limited	6,000.00	350.00	September 21, 2020	717.00	105.81% [5.74%]	231.04% [22.31%]	349.14% [31.05%]
10.	Prince Pipes and Fittings Limited	5,000.00	178.00	December 30, 2019	160.00	0.14% [-1.63%]	-44.33% [-29.34%]	-35.00% [-15.28%]

Source: www.nseindia.com
^ Indigo Paints Limited - A discount of ₹ 148 per equity share was offered to eligible employees bidding in the employee reservation portion. All calculations are based on the offer price of ₹1490 per equity share

Notes

1. *Based on date of listing.*
2. *% of change in closing price on 30th / 90th / 180th calendar day from listing day is calculated vs issue price. % change in closing benchmark index is calculated based on closing index on listing day vs closing index on 30th/ 90th / 180th calendar day from listing day.*
3. *Wherever 30th/ 90th / 180th calendar day from listing day is a holiday, the closing data of the previous trading day has been considered.*
4. *The Nifty 50 index is considered as the benchmark index*
5. *Not Applicable. – Period not completed*

6. *Disclosure in Table-1 restricted to 10 issues.*

2. Summary statement of price information of past issues handled by Edelweiss Financial Services Limited

Fiscal Year	Total no. of IPOs	Total amount of funds raised (₹ Mn.)	No. of IPOs trading at discount – as on 30th calendar days from listing			No. of IPOs trading at premium – as on 30th calendar days from listing			No. of IPOs trading at discount – as on 180th calendar days from listing			No. of IPOs trading at premium – as on 180th calendar days from listing		
			Over 50%	Between 25-50%	Less than 25%	Over 50%	Between 25-50%	Less than 25%	Over 50%	Between 25-50%	Less than 25%	Over 50%	Between 25-50%	Less than 25%
2021-22*	2	102,349.91	-	-	-	-	1	1	-	-	-	-	-	-
2020-21#	7	45,530.35	-	-	1	3	1	2	-	-	1	3	1	-
2019-20	3	23,208.49	-	-	-	-	1	2	-	1	-	1	-	1

The information is as on the date of the document

1. *Based on date of listing.*
2. *Wherever 30th and 180th calendar day from listing day is a holiday, the closing data of the previous trading day has been considered.*
3. *The Nifty 50 index is considered as the Benchmark Index.*

**For the financial year 2021-22- 2 issues have been completed and both have completed 30 calendar days, 1 issue has completed 90 days.*

#For the financial year 2020-21, all issues have completed 30 days and 5 issues have completed 180 calendar days.

C. ICICI Securities Limited

1. Price information of past issues handled by ICICI Securities Limited

S. No.	Issue name	Issue size (₹ in million)	Issue price (in ₹)	Listing date	Opening price on listing date (in ₹)	+/- % change in closing price, [+/- % change in closing benchmark]- 30th calendar days from listing	+/- % change in closing price, [+/- % change in closing benchmark]- 90th calendar days from listing	+/- % change in closing price, [+/- % change in closing benchmark]- 180th calendar days from listing
1.	Indigo Paints Limited	11,691.24	1,490.00(1)	02-Feb-21	2,607.50	+75.72%,[+4.08%]	+55.40%,[-0.11%]	NA*
2.	Home First Finance Company India Limited	11,537.19	518.00	03-Feb-21	618.80	+4.98%,[+1.97%]	-5.64%,[-1.05%]	NA*
3.	Railtel Corporation of India Limited	8,192.42	94.00	26-Feb-21	109.00	+35.64%,[-0.15%]	+37.50%,[+5.32%]	NA*
4.	Kalyan Jewellers India Limited	11,748.16	87.00(2)	26-Mar-21	73.95	-24.60%,[-1.14%]	-7.07%,[+8.13%]	NA*
5.	Suryoday Small Finance Bank Limited	5,808.39	305.00(3)	26-Mar-21	292.00	-18.38%,[-1.14%]	-26.87%,[+8.13%]	NA*
6.	Nazara Technologies Limited	5,826.91	1,101.00(4)	30-Mar-21	1,990.00	+62.57%,[+0.13%]	+37.59%,[+6.84%]	NA*
7.	Macrotech Developers Limited	25,000.00	486.00	19-Apr-21	436.00	+30.22%,[+5.21%]	+75.43%,[+10.89%]	NA*
8.	Shyam Metalics and Energy Limited	9,087.97	306.00(5)	24-Jun-21	380.00	NA*	NA*	NA*
9.	Dodla Dairy Limited	5,201.77	428.00	28-Jun-21	550.00	NA*	NA*	NA*
10.	G R Infraprojects Limited	9,623.34	837.00(6)	19-Jul-21	1,715.85	NA*	NA*	NA*

**Data not available*

(1) *Discount of ₹148 per equity share offered to eligible employees All calculations are based on Issue Price of ₹1,490.00 per equity share.*

(2) *Discount of ₹8 per equity share offered to eligible employees All calculations are based on Issue Price of ₹87.00 per equity share.*

(3) *Discount of ₹30 per equity share offered to eligible employees All calculations are based on Issue Price of ₹305.00 per equity share.*

(4) *Discount of ₹110 per equity share offered to eligible employees All calculations are based on Issue Price of ₹1,101.00 per equity share.*
(5) *Discount of ₹15 per equity share offered to eligible employees All calculations are based on Issue Price of ₹306.00 per equity share.*
(6) *Discount of ₹42 per equity share offered to eligible employees All calculations are based on Issue Price of ₹837.00 per equity share.*

2. Summary statement of price information of past issues handled by ICICI Securities Limited

Financial Year	Total no. of IPOs	Total funds raised (₹ millions)	Nos. of IPOs trading at discount – as on 30th calendar days from listing date			Nos. of IPOs trading at premium – as on 30th calendar days from listing date			Nos. of IPOs trading at discount - as on 180th calendar days from listing date			Nos. of IPOs trading at premium – as on 180th calendar days from listing date		
			Over 50%	Between 25% - 50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%
2021-22*	4	48,913.08	-	-	-	-	1	-	-	-	-	-	-	-
2020-21	14	1,74,546.09	-	-	5	5	2	2	-	-	1	3	2	1
2019-20	4	49,850.66	-	-	2	-	1	1	1	-	-	2	-	1

** This data covers issues upto YTD*

Notes:

1. *All data sourced from www.nseindia.com, except for Computer Age Management Services Limited for which the data is sourced from www.bseindia.com*
2. *Benchmark index considered is NIFTY*
3. *30th, 90th, 180th calendar day from listed day have been taken as listing day plus 29, 89 and 179 calendar days, except wherever 30th, 90th, 180th calendar day is a holiday, in which case we have considered the closing data of the previous trading day*

D. IIFL Securities Limited

1. Price information of past issues handled by IIFL Securities Limited

S. No.	Issue name	Issue size (₹ in million)	Issue price (in ₹)	Listing date	Opening price on listing date (in ₹)	+/- % change in closing price*, [+/- % change in closing benchmark]- 30th calendar days from listing	+/- % change in closing price*, [+/- % change in closing benchmark]- 90th calendar days from listing	+/- % change in closing price*, [+/- % change in closing benchmark]- 180th calendar days from listing
1.	Antony Waste Handling Cell Limited	2,999.85	315.00	January 1, 2021	436.10	-10.27%, [-2.74%]	-23.21%, [+4.80%]	+2.14%, [+12.34%]
2.	MTAR Technologies Limited	5964.14	575.00	March 15, 2021	1,050.00	+69.45%,[-2.84%]	+78.83%, [+5.83%]	N.A.
3.	Anupam Rasayan India Ltd	7,600.00	555.00	March 24, 2021	520.00	-0.11%,[-0.98%]	+30.49%, [+8.23%]	N.A.
4.	Craftsman Automation Limited	8,236.96	1,490.00	March 25, 2021	1,359.00	-13.82%,[+0.11%]	+16.81%, [+10.11%]	N.A.
5.	Suryoday Small Finance Bank Ltd	5,808.39	305.00	March 26, 2021	292.00	-18.38%,[-1.14%]	-26.87%, [-98.46%]	N.A.
6.	Nazara Technologies Ltd	5,826.91	1,101.00	March 30, 2021	1,990.00	+62.57%,[0.13%]	+38.22%, [6.84%]	N.A.
7.	Barbeque-Nation Hospitality Limited	4,528.74	500.00	April 7, 2021	489.85	+18.77%,[-0.64%]	+76.97%, [+6.85%]	N.A.
8.	Macrotech Developers Ltd	25,000.00	486.00	April 19, 2021	436.00	+30.22%,[+5.21%]	+75.43%,[+10.89%]	N.A.
9.	Shyam Metalics and Energy Ltd	9,085.50	306.00	June 24, 2021	380.00	+40.95%,[+0.42%]	N.A.	N.A.
10.	Krishna Institute of Medical Sciences Limited	21,437.44	825.00	June 28, 2021	1,009.00	N.A.	N.A.	N.A.

Source: www.nseindia.com

Note: Benchmark Index taken as CNX NIFTY. Price on NSE is considered for all of the above calculations. The 30th, 90th and 180th calendar day from listed day have been taken as listing day plus 29, 89 and 179 calendar days, except wherever 30th /90th / 180th calendar day from listing day is a holiday, the closing data of the previous trading day has been considered. % change taken against the Issue Price in case of the Issuer. The Nifty 50 index is considered as the benchmark index. NA means Not Applicable.

2. Summary statement of price information of past issues handled by IIFL Securities Limited

Financial Year	Total no. of IPOs	Total funds raised (₹ millions)	Nos. of IPOs trading at discount – as on 30th calendar days from listing date			Nos. of IPOs trading at premium – as on 30th calendar days from listing date			Nos. of IPOs trading at discount – as on 180th calendar days from listing date			Nos. of IPOs trading at premium – as on 180th calendar days from listing date		
			Over 50%	Between 25% - 50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%	Over 50%	Between 25%-50%	Less than 25%
2019–20	5	65,827.61	-	-	2	-	1	2	1	1	1	-	-	2
2020-21	8	47,017.65	-	-	4	2	1	1	-	-	-	1	1	1
2021-22	4	60,051.68	-	-	-	-	2	1	-	-	-	-	-	-

Source: www.nseindia.com

Note: Data for number of IPOs trading at premium/discount taken at closing price on NSE on the respective date. In case any of the days falls on a non-trading day, the closing price on the previous trading day has been considered. NA means Not Applicable.

Stock Market Data of Equity Shares

This being an initial public offer of Equity Shares of our Bank, the Equity Shares are not listed on any stock exchange and accordingly, no stock market data is available for the Equity Shares.

Mechanism for Redressal of Investor Grievances

The Registrar Agreement provides for retention of records with the Registrar to the Offer for a period of at least eight years from the date of listing and commencement of trading of the Equity Shares on the Stock Exchanges, in order to enable the investors to approach the Registrar to the Offer for redressal of their grievances.

All grievances in relation to the Bidding process may be addressed to the Registrar to the Offer with a copy to the relevant Designated Intermediary to whom the Bid cum Application Form was submitted. The Bidder should give full details such as name of the sole or first Bidder, Bid cum Application Form number, Bidder DP ID, Client ID, PAN, date of the submission of Bid cum Application Form, address of the Bidder, number of the Equity Shares applied for the name and address of the Designated Intermediary where the Bid cum Application Form was submitted by the Bidder and ASBA Account number (for Bidders other than RIBs bidding through the UPI Mechanism) in which the amount equivalent to the Bid Amount was blocked or UPI ID in case of RIBs applying through the UPI Mechanism.

The Registrar to the Offer shall obtain the required information from the SCSBs and Sponsor Banks for addressing any clarifications or grievances of ASBA Bidders. Our Bank, the BRLMs and the Registrar to the Offer accept no responsibility for errors, omissions, commission or any acts of the Designated Intermediaries including any defaults in complying with its obligations under applicable SEBI ICDR Regulations. Investors can contact our Company Secretary and Compliance Officer or the Registrar to the Offer in case of any pre-Offer or post-Offer related problems such as non-receipt of letters of Allotment, non-credit of allotted Equity Shares in the respective beneficiary account, non-receipt of refund intimations and non-receipt of funds by electronic mode.

Anchor Investors are required to address all grievances in relation to the Offer to the BRLMs.

Further, the Bidder shall also enclose a copy of the Acknowledgment Slip duly received from the concerned Designated Intermediary in addition to the information mentioned hereinabove.

In terms of SEBI circular SEBI/HO/CFD/DIL2/CIR/P/2018/22 dated February 15, 2018, SEBI circular SEBI/HO/CFD/DIL2/CIR/P/2021/2480/1/M dated March 16, 2021, as amended pursuant to SEBI circular SEBI/HO/CFD/DIL2/P/CIR/2021/570 dated June 2, 2021 and subject to applicable law, any ASBA Bidder whose Bid has not been considered for Allotment, due to failure on the part of any SCSB, shall have the option to seek redressal of the same by the concerned SCSB within three months of the date of listing of the Equity Shares. SCSBs are required to resolve these complaints within 15 days, failing which the concerned SCSB would have to pay interest at the rate of 15% per annum for any delay beyond this period of 15 days. Further, the investors shall be compensated by the SCSBs at the rate higher of ₹ 100 or 15% per annum of the application amount in the events of delayed or withdrawal of applications, blocking of multiple amounts for the same UPI application, blocking of more amount than the application amount, delayed unblocking of amounts for non-allotted/partially-allotted applications for the stipulated period. In an event there is a delay in redressal of the investor grievance in relation to unblocking of amounts, the Book Running Lead Managers shall compensate the investors at the rate higher of ₹ 100 or 15% per annum of the application amount.

Our Bank has not received investor complaints during the period of three years preceding the date of the Draft Red Herring Prospectus, hence no investor complaint in relation to our Bank is pending as on the date of filing of the Draft Red Herring Prospectus.

The Bank has obtained authentication on the SCORES and shall comply with the SEBI circular (CIR/OIAE/1/2014) dated December 18, 2014 in relation to redressal of investor grievances through SCORES.

Our Bank has also appointed Ranjith Raj P, Company Secretary of our Bank, as the Compliance Officer for the Offer. For details, see "*General Information*" on page 62.

Our Bank has constituted a Stakeholders' Relationship Committee comprising Joseph Vadakkekara Antony, Kadambelil Paul Thomas, Alex Parackal George and Saneesh Singh, as members. For details, see "*Our Management*" on page 190.

Our Group Entities are not listed on any stock exchange.

Disposal of Investor Grievances by our Bank

Our Bank estimates that the average time required by our Bank or the Registrar to the Offer or the SCSB in case of ASBA Bidders, for the redressal of routine investor grievances shall be 10 Working Days from the date of receipt of the complaint. In case of non-routine complaints and complaints where external agencies are involved, our Bank will seek to redress these complaints as expeditiously as possible.

CERTAIN UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a general description of certain material United States federal income tax consequences to U.S. Holders (as defined below) under present law of an investment in the Equity Shares. This summary applies only to investors that hold the Equity Shares as capital assets (generally, property held for investment). This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Equity Shares by particular investors, and does not address state, local, foreign or other tax laws. This discussion is based on the tax laws of the United States as in effect on the date of this Draft Red Herring Prospectus and on U.S. Treasury regulations in effect or, in some cases, proposed, as of the date of this Draft Red Herring Prospectus, as well as judicial and administrative interpretations thereof available on or before such date. All of the foregoing authorities are subject to change, which change could apply retroactively and could affect the tax consequences described below.

The following discussion does not address alternative minimum tax considerations or state, local, non-United States or other tax laws, or the tax consequences to any particular investor or to persons in special tax situations such as:

- banks;
- certain financial institutions;
- insurance companies;
- dealers in stocks, securities, currencies or notional principal contracts;
- U.S. expatriates and former long-term residents of the United States;
- regulated investment companies and real estate investment trusts;
- tax-exempt entities;
- U.S. Holders that have a functional currency other than the U.S. dollar
- persons holding Equity Shares as part of a straddle, hedging, conversion or integrated transaction;
- persons that actually or constructively own 10% or more of (1) our Bank's voting stock or (2) the total value of all classes of stock of our Bank;
- persons who acquired Equity Shares pursuant to the exercise of any employee share option or otherwise as consideration; or
- persons holding Equity Shares through partnerships or other pass-through entities.

PROSPECTIVE PURCHASERS ARE URGED TO CONSULT THEIR TAX ADVISORS REGARDING THE APPLICATION OF THE UNITED STATES FEDERAL TAX RULES TO THEIR PARTICULAR CIRCUMSTANCES AS WELL AS THE STATE AND LOCAL, FOREIGN AND OTHER TAX CONSEQUENCES TO THEM OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF EQUITY SHARES.

For purposes of this summary, a "**U.S. Holder**" is a beneficial owner of Equity Shares that is for United States federal income tax purposes,

- an individual who is a citizen or resident of the United States;
- a corporation organised under the laws of the United States, any state thereof or the District of Columbia;
- an estate whose income is subject to United States federal income taxation regardless of its source; or
- a trust that (1) is subject to the primary supervision of a court within the United States and the control of one or more U.S. persons for all substantial decisions of the trust, or (2) has a valid election in effect under the applicable U.S. Treasury regulations to be treated as a U.S. person.

If a partnership (including for this purpose any entity treated as a partnership for United States federal income tax purposes) holds Equity Shares, the U.S. tax treatment of a partner in the partnership generally will depend on the partner's status and the activities of the partnership. Prospective purchasers that are partnerships or partners in a such a partnership should consult their own tax advisers concerning the U.S. federal income tax consequences of the acquisition, ownership and disposition of Equity Shares by the partnership.

Taxation of Distributions on the Equity Shares

Subject to the Passive Foreign Investment Company Rules discussed below, the gross amount of distributions to you with respect to the Equity Shares generally will be included in your gross income in the year received as foreign source ordinary dividend income, but only to the extent that the distribution is paid out of our Bank's current or accumulated earnings and profits (as determined under United States federal income tax principles). To the extent that the amount of the distribution exceeds our Bank's current and accumulated earnings and profits, it will be treated first as a tax-free return of your tax basis in your Equity Shares, and to the extent the amount of the distribution exceeds your tax basis, the excess will be taxed as capital gain. However, our Bank does not intend to calculate its earnings and profits under United States federal income tax principles. Therefore, a U.S. Holder should expect that a distribution will generally be treated as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

Subject to applicable limitations, with respect to non-corporate U.S. Holders (including individual U.S. Holders), dividends may constitute "qualified dividend income" that is taxed at the lower applicable capital gains rate provided that (1) our Bank is not a PFIC (as discussed below) for either the taxable year in which the dividend is paid or the preceding taxable year, (2) such dividend is paid on Equity Shares that have been held by you for at least 61 days during the 121-day period beginning 60 days before the ex-dividend date, and (3) our Bank is eligible for the benefits of the Convention Between the Government of the United States of America and the Government of the Republic of India for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (the "**U.S. - India Treaty**"). Our Bank expects to be eligible for the benefits of the U.S.-India Treaty.

The amount of any distribution paid by our Bank in a currency other than U.S. dollars (a "**foreign currency**") will be equal to the U.S. dollar value of such foreign currency on the date such distribution is received by the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars at that time. If the foreign currency so received is converted into U.S. dollars on the date of receipt, a U.S. Holder generally will not recognise foreign currency gain or loss on such conversion. If the foreign currency so received is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Gain or loss, if any, realised on the subsequent sale or other disposition of such foreign currency will generally be U.S. source ordinary income or loss. The amount of any distribution of property other than cash will be the fair market value of such property on the date of distribution.

For foreign tax credit purposes, dividends distributed with respect to Equity Shares will generally constitute "passive category income" but could, in the case of certain U.S. Holders, constitute "general category income". A U.S. Holder will not be able to claim a U.S. foreign tax credit for Indian taxes for which our Bank is liable and must pay with respect to distributions on Equity Shares. The rules relating to the determination of the U.S. foreign tax credit are complex and U.S. Holders should consult their tax advisors to determine whether and to what extent a credit would be available in their particular circumstances.

Taxation of a Disposition of Equity Shares

Subject to the Passive Foreign Investment Company rules discussed below, you generally will recognise capital gain or loss on any sale or other taxable disposition of Equity Shares purchased in the Offer equal to the difference between the U.S. dollar value of the amount realised for the Equity Shares and your tax basis (in U.S. dollars) in the Equity Shares. If you are a non-corporate U.S. Holder (including an individual U.S. Holder) who has held the Equity Shares for more than one year, capital gain on a disposition of the Equity Shares generally will be eligible for reduced federal income tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss that you recognise generally will be treated as U.S. source income or loss for foreign tax credit limitation purposes.

Under the U.S. - India Treaty, India may generally tax capital gains in accordance with the provisions of its domestic law. U.S. Holders should consult their Indian tax advisors concerning the Indian tax consequences of capital gains arising from the sale or other disposition of their Equity Shares. If Indian tax is imposed on a U.S. Holder's capital gain on the sale or other disposition of Equity Shares, a foreign tax credit may be available for U.S. federal income tax purposes with respect to such Indian tax. U.S. Holders should consult their U.S. tax advisors concerning the U.S. tax treatment of any such Indian tax.

A U.S. Holder that receives foreign currency from the sale or disposition of Equity Shares generally will realise an amount equal to the U.S. dollar value of such foreign currency on the date of sale or disposition or, if such U.S. Holder is a cash basis or electing accrual basis taxpayer and the Equity Shares are treated as being traded on an "established securities market" for this purpose, the settlement date. If the Equity Shares are so treated and the foreign currency received is converted into U.S. dollars on the settlement date, a cash basis or electing accrual basis U.S. Holder will not recognise foreign currency gain or loss on the conversion. If the foreign currency received is not converted into U.S. dollars on the settlement date, the U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the settlement date. Gain or loss, if any, realised on the subsequent conversion or other disposition of such foreign currency will generally be U.S. source ordinary income or loss.

Passive Foreign Investment Company

In general, a non-U.S. corporation is considered to be a passive foreign investment company, or a PFIC, for any taxable year if either:

- at least 75% of its gross income is passive income, or
- at least 50% of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

Passive income for these purposes generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions, However, under proposed U.S. Treasury Regulations and a notice from the IRS, special rules apply to income derived in the active conduct of a banking business. For the purposes of determining whether our Bank is a PFIC, our Bank will be treated as owning its proportionate share of the assets and earning its proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock.

If a corporation is a PFIC for any taxable year during which a U.S. Holder holds shares in the corporation, then the corporation generally will continue to be treated as a PFIC with respect to the holder's shares, even if the corporation no longer satisfies either the passive income or passive asset tests described above, unless the U.S. Holder terminates this deemed PFIC status by electing to recognize gain, which will be taxed under the Regular PFIC Rules described below as if such shares had been sold on the last day of the last taxable year for which the corporation was a PFIC.

Based on the current and expected composition of our Bank's income and assets, our Bank expects that it will not be treated as a PFIC in the current taxable year and subsequent taxable years. However, this determination is dependent upon a number of factors, some of which are beyond our Bank's control, including the amount and nature of our Bank's income, as well as on the market valuation of our Bank's assets. In addition, the manner in which the PFIC rules governing banks apply to our Bank is unclear in some respects. Some of the administrative guidance governing the application of the PFIC rules to banks is in the form of proposed U.S. Treasury Regulations and may change significantly when finalised, and new or revised regulations or pronouncements interpreting or clarifying the application of the PFIC rules to banks may be forthcoming. Therefore, there can be no assurance that our Bank will not be classified as a PFIC in any taxable year.

If our Bank is a PFIC at any time during a U.S. Holder's holding period of Company stock, such U.S. Holder will be subject to either the regular PFIC rules (the "**Regular PFIC Rules**") or, if a "mark-to-market" election is available and made, the special mark-to-market PFIC rules (the "**Mark-To-Market Rules**"), both of which are described below. U.S. Holders cannot make a "qualified electing fund" election (which is a special election applicable to certain PFICs) because our Bank does not intend to provide the information required under the qualified electing fund rules.

Regular PFIC Rules

Under the Regular PFIC Rules, U.S. Holders of Equity Shares would be subject to special rules and a variety of potentially adverse tax consequences under the Internal Revenue Code of 1986, as amended. Under those rules, (a) any gain realised on a sale or other disposition of the Equity Shares and any "excess distribution" (generally the excess amount of any distribution during a taxable year in which distributions to the U.S. Holder on the Equity Shares exceed 125% of the average annual distributions the U.S. Holder received on the Equity Shares during the preceding three taxable years or, if shorter, the U.S. Holder's holding period for the Equity Shares) would be treated as realised rateably over the U.S. Holder's holding period for the Equity Shares, (b) the amount allocated to the taxable year in which the gain or excess distribution is realised and to taxable years before the first day on which our Bank became a PFIC would be treated as ordinary income (and not as capital gain), (c) the amount allocated to each prior year in which our Bank was a PFIC would be subject to U.S. federal income tax at the highest rate in effect for that year and (d) the interest charge generally applicable to underpayments of U.S. federal income tax would be imposed in respect of the tax attributable to each prior year in which our Bank was a PFIC. If, at any time, our Bank had non-U.S. subsidiaries that were classified as PFICs, the U.S. Holder could incur liability for the deferred tax and interest charge described above if either (1) our Bank received a distribution from, or disposed of all or part of our Bank's interest in, a lower-tier PFIC or (2) the U.S. Holder disposed of all or part of its Equity Shares.

Mark-to-Market Rules

Under the Mark-to-Market Rules, a U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock to elect out of the Regular PFIC Rules discussed above, although it is possible the mark-to-market election may not apply or be available with respect to the shares in our Bank's subsidiaries to the extent they are PFICs that you may be deemed to own if our Bank is treated as a PFIC, as discussed above. If you make a valid mark-to-market election for the Equity Shares, you will include in income each year an amount equal to the excess, if any, of the fair market value of the Equity Shares as of the close of your taxable year over your adjusted basis in such Equity Shares. You are allowed a deduction for the excess, if any, of the adjusted basis of the Equity Shares over their fair market value as of the close of the taxable year. However, deductions are allowable only to the extent of any net mark-to-market gains on the Equity Shares included in your income for prior taxable years. Amounts included in your income under a mark-to-market election, as well as gain on the actual sale or other disposition of the Equity Shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the Equity Shares, as well as to any loss realised on the actual sale or disposition of the Equity Shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such Equity Shares. Your basis in the Equity Shares will be adjusted to reflect any such income or loss amounts. If you make such an election, the tax rules that apply to distributions by corporations that are not PFICs generally would apply to distributions by our Bank, except that the lower applicable capital gains rate with respect to qualified dividend income (discussed above) would not apply.

The mark-to-market election is available only for "marketable stock", which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable U.S. Treasury regulations. Under applicable U.S. Treasury regulations, a "qualified exchange" includes a foreign exchange that is regulated by a governmental authority in the jurisdiction in which the exchange is located and in respect of which certain other requirements are met. U.S. Holders of Equity Shares should consult their own tax advisors as to whether the Equity Shares would qualify for the mark-to-market election.

Medicare Tax

A United States person that is an individual, estate or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% surtax on the lesser of (1) such person's "net investment income" for the relevant taxable year and (2) the excess of such person's modified adjusted gross income for the taxable year over a certain threshold (which in the case of an individual will be between US$125,000 and US$250,000, depending on the individual's circumstances). A United States person's net investment income will generally include its dividend income and its net gains from the disposition of Equity Shares, unless such dividend income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities).

Information Reporting and Backup Withholding

Dividend payments with respect to Equity Shares and proceeds from the sale, exchange or redemption of Equity Shares may be subject to information reporting to the Internal Revenue Service and possible U.S. backup withholding. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding. U.S. Holders who are required to establish their exempt status generally must provide such certification on Internal Revenue Service Form W-9. U.S. Holders should consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against your United States federal income tax liability, and you may obtain a refund of any excess amounts withheld under the backup withholding rules by timely filing the appropriate claim for refund with the Internal Revenue Service and furnishing any required information.

U.S. Holders that hold Equity Shares in any year in which our Bank is a PFIC may be required to file Internal Revenue Service Form 8621 regarding distributions received on the Equity Shares and any gain realised on the disposition of the Equity Shares. In addition, U.S. Holders may be required to file additional information with respect to their ownership of Equity Shares.

Foreign Account Tax Compliance Act ("FATCA")

U.S. return disclosure obligations (and related penalties) apply to U.S. Holders that hold certain specified foreign financial assets in excess of US$50,000. The definition of specified foreign financial assets includes not only financial accounts maintained in foreign financial institutions, but also, unless held in accounts maintained by a financial institution, any stock or security issued by a non-U.S. person, any financial instrument or contract held for investment that has an issuer or counterparty other than a U.S. person and any interest in a foreign entity. U.S. Holders may be subject to these reporting requirements unless their Equity Shares are held in an account at a U.S. domestic financial institution. Penalties for failure to file certain of these information returns are substantial. U.S. Holders should consult their own tax advisors regarding the potential application of the FATCA rules to their Equity Shares.

SECTION VII: OFFER INFORMATION

TERMS OF THE OFFER

The Equity Shares being offered and Allotted pursuant to the Offer shall be subject to the provisions of the Companies Act, SEBI ICDR Regulations, SCRA, SCRR, the Banking Regulation Act, the SFB Licensing Guidelines, the MoA, AoA, Listing Regulations, RBI Final Approval, RBI In-Principle Approval, the terms of the Red Herring Prospectus, the Prospectus, the abridged prospectus, Bid cum Application Form, the Revision Form, the CAN/Allotment Advice and other terms and conditions as may be incorporated in the Allotment Advice and other documents/certificates that may be executed in respect of the Offer. The Equity Shares shall also be subject to laws as applicable, guidelines, rules, notifications and regulations relating to the issue of capital, Offer for Sale and listing and trading of securities issued from time to time by SEBI, the Government of India, the Stock Exchanges, the RBI, RoC and/or other authorities, as in force on the date of the Offer and to the extent applicable or such other conditions as may be prescribed by the SEBI, the RBI, the Government of India, the Stock Exchanges, the RoC and/or any other authorities to the extent applicable or such other conditions as maybe prescribed by such governmental and/or regulatory authority while granting its approval for the Offer.

Ranking of the Equity Shares

The Allottees upon Allotment of Equity Shares under the Offer, will be entitled to dividend and other corporate benefits, if any, declared by our Bank after the date of Allotment. The Equity Shares being offered and Allotted in the Offer shall be *pari passu* with the existing Equity Shares in all respects including dividends and other corporate benefits. For further details, see "*Description of Equity Shares and Terms of Articles of Association*" on page 381.

Mode of Payment of Dividend

Our Bank shall pay dividends, if declared, to the Shareholders in accordance with the provisions of the Companies Act, the Memorandum and Articles of Association and provisions of the SEBI Listing Regulations and any other guidelines or directions which may be issued by the Government in this regard. Dividends, if any, declared by our Bank after the date of Allotment (pursuant to the transfer of Equity Shares from the Offer for Sale), will be payable to the Allottees, for the entire year, in accordance with applicable laws. For further details, in relation to dividends, see "*Dividend Policy*" and "*Description of Equity Shares and Terms of Articles of Association*" beginning on pages 220 and 381, respectively.

Face Value, Offer Price and Price Band

The face value of each Equity Share is ₹10. The Floor Price is ₹[●] per Equity Share and Cap Price is ₹[●] per Equity Share. The Anchor Investor Offer Price is ₹[●] per Equity Share and the Offer Price is ₹ [●] per Equity Share.

The Price Band, Employee Discount and the minimum Bid Lot size for the Offer will be decided by our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, and advertised in [●] editions of [●], a widely circulated English national daily newspaper, [●] editions of [●], a widely circulated Hindi national daily newspaper and [●] editions of [●], a widely circulated Malayalam newspaper, Malayalam being the regional language of Kerala, where our Registered and Corporate Office is located, at least two Working Days prior to the Bid/Offer, each with wide circulation and shall be made available to the Stock Exchanges for the purpose of uploading on their respective websites. The Price Band, along with the relevant financial ratios calculated at the Floor Price and at the Cap Price, shall be pre-filled in the Bid cum Application Forms available on the respective websites of the Stock Exchanges.

At any given point of time, there shall be only one denomination for the Equity Shares.

The Offer

The Offer comprises a Fresh Issue and an Offer for Sale by each of the Selling Shareholders.

Expenses for the Offer shall be shared amongst our Bank and each of the Selling Shareholders in the manner specified in "*Objects of the Issue - Offer Expenses*" on page 81.

Compliance with Disclosure and Accounting Norms

Our Bank shall comply with all disclosure and accounting norms as specified by the SEBI from time to time.

Rights of the Shareholders

Subject to applicable laws, rules, regulations and guidelines and the Articles of Association, our Shareholders shall have the following rights:

- Right to receive dividends, if declared;
- Right to attend general meetings and exercise voting rights, unless prohibited by law;

- Right to vote on a poll either in person or by proxy or e-voting, in accordance with the provisions of the Companies Act;
- Right to receive offers for rights shares and be allotted bonus shares, if announced;
- Right to receive surplus on liquidation, subject to any statutory and preferential claim being satisfied;
- Right of free transferability of their Equity Shares, subject to applicable laws including any RBI rules and regulations; and
- Such other rights, as may be available to a shareholder of a listed public company under the Companies Act, Banking Regulation Act, the Listing Regulations and the Articles of Association of our Bank and other applicable laws.

For a detailed description of the main provisions of the Articles of Association of our Bank relating to voting rights, dividend, forfeiture and lien, transfer, transmission and/or consolidation/splitting, see "*Description of Equity Shares and Terms of Articles of Association*" on page 381.

Allotment only in dematerialised form

Pursuant to Section 29 of the Companies Act, 2013 and the SEBI ICDR Regulations, the Equity Shares shall be Allotted only in dematerialised form. As per the SEBI ICDR Regulations and the Listing Regulations, the trading of the Equity Shares shall only be in dematerialised form on the Stock Exchanges. In this context, two agreements have been entered into amongst our Bank, the respective Depositories and Registrar to the Offer:

- Tripartite agreement dated March 31, 2017 amongst our Bank, NSDL and Registrar to the Offer.
- Tripartite agreement dated January 20, 2017 amongst our Bank, CDSL and Registrar to the Offer.

Market Lot and Trading Lot

Since trading of the Equity Shares is in dematerialised form, the tradable lot is one Equity Share. Allotment in this Offer will be in multiples of one Equity Share subject to a minimum Allotment of [•] Equity Shares. For the method of basis of allotment, see "*Offer Procedure*" on page 364.

Joint Holders

Subject to the provisions of the Articles of Association, where two or more persons are registered as the holders of the Equity Shares, they will be deemed to hold such Equity Shares as joint tenants with benefits of survivorship.

Nomination facility to investors

In accordance with Section 72 of the Companies Act, 2013, read with the Companies (Share Capital and Debentures) Rules, 2014, the sole Bidder, or the first Bidder along with other joint Bidders, may nominate any one person in whom, in the event of the death of sole Bidder or in case of joint Bidders, death of all the Bidders, as the case may be, the Equity Shares Allotted, if any, shall vest to the exclusion of the other persons, unless the nomination is varied or cancelled in the prescribed manner. A person, being a nominee, entitled to the Equity Shares by reason of the death of the original holder(s), shall be entitled to the same advantages to which he or she would be entitled if he or she were the registered holder of the Equity Share(s). Where the nominee is a minor, the holder(s) may make a nomination to appoint, in the prescribed manner, any person to become entitled to Equity Share(s) in the event of his or her death during the minority. A nomination shall stand rescinded upon a sale/transfer/alienation of Equity Share(s) by the person nominating. A buyer will be entitled to make a fresh nomination/cancel nomination in the manner prescribed. Fresh nomination can be made only on the prescribed form available on request at our Registered and Corporate Office or to the registrar and transfer agents of our Bank.

Any person who becomes a nominee by virtue of the provisions of Section 72 of the Companies Act, 2013 shall upon the production of such evidence as may be required by the Board, elect either:

a) to register himself or herself as the holder of the Equity Shares; or

b) to make such transfer of the Equity Shares, as the deceased holder could have made.

Further, our Board may at any time give notice requiring any nominee to choose either to be registered himself or herself or to transfer the Equity Shares, and if the notice is not complied with within a period of 90 days, the Board may thereafter withhold payment of all dividends, bonuses or other monies payable in respect of the Equity Shares, until the requirements of the notice have been complied with.

Since the Allotment of Equity Shares in the Offer will be made only in dematerialized mode, there is no need to make a separate nomination with our Bank. Nominations registered with respective Depository Participant of the Bidder would prevail. If the Bidder wants to change the nomination, they are requested to inform their respective Depository Participant.

Our Bank shall comply with such disclosure and accounting norms as may be specified by SEBI from time to time.

Bid/Offer Programme

BID/OFFER OPENS ON	[●][(1)]
BID/OFFER CLOSES ON	[●][(2)]

(1) Our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, may consider participation by Anchor Investors. The Anchor Investor Bid/Offer Period shall be one Working Day prior to the Bid/Offer Opening Date in accordance with the SEBI ICDR Regulations

(2) Our Bank may and the Promoter Selling Shareholder, in consultation with the BRLMs may, consider closing the Bid/Offer Period for QIBs one day prior to the Bid/Offer Closing Date in accordance with the SEBI ICDR Regulations. The UPI mandate end time and date [●] on [●].

An indicative timetable in respect of the Offer is set out below:

Event	Indicative Date
Bid/Offer Closing Date	[●]
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about [●]
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account*	On or about [●]
Credit of Equity Shares to demat accounts of Allottees	On or about [●]
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about [●]

**In case of any delay in unblocking of amounts in the ASBA Accounts (including amounts blocked through the UPI Mechanism) exceeding four Working Days from the Bid/Offer Closing Date, the Bidder shall be compensated at a uniform rate of ₹ 100 per day for the entire duration of delay exceeding four Working Days from the Bid/Offer Closing Date by the intermediary responsible for causing such delay in unblocking. The Book Running Lead Managers shall, in their sole discretion, identify and fix the liability on such intermediary or entity responsible for such delay in unblocking. For the avoidance of doubt, the provisions of the SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2021/2480/1/M dated March 16, 2021, as amended pursuant to SEBI circular no. SEBI/HO/CFD/DIL2/P/CIR/2021/570 dated June 2, 2021 shall be deemed to be incorporated in the deemed agreement of the Bank with the SCSBs to the extent applicable.*

The above timetable, other than the Bid/Offer Closing Date, is indicative and does not constitute any obligation or liability on our Bank, our Selling Shareholders or the BRLMs.

Whilst our Bank shall ensure that all steps for the completion of the necessary formalities for the listing and the commencement of trading of the Equity Shares on the Stock Exchanges are taken within six Working Days of the Bid/Offer Closing Date, or such other period as may be prescribed by the SEBI, the timetable may be extended due to various factors, such as extension of the Bid/Offer Period by our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, revision of the Price Band or any delay in receiving the final listing and trading approval from the Stock Exchanges. The commencement of trading of the Equity Shares will be entirely at the discretion of the Stock Exchanges and in accordance with the applicable laws. Each of the Selling Shareholders, severally and not jointly, confirm that they shall extend such reasonable support and co-operation required by our Bank and the BRLMs for completion of the necessary formalities for listing and commencement of trading of the Equity Shares at the Stock Exchanges within six Working Days from the Bid/Offer Closing Date or such other period as may be prescribed by SEBI.

SEBI is in the process of streamlining and reducing the post issue timeline for IPOs. Any circulars or notifications from SEBI after the date of the Draft Red Herring Prospectus may result in changes to the above mentioned timelines. Further, the offer procedure is subject to change to any revised SEBI circulars to this effect.

In terms of the UPI Circulars, in relation to the Offer, the BRLMs will submit reports of compliance with T+6 listing timelines and activities, identifying non-adherence to timelines and processes and an analysis of entities responsible for the delay and the reasons associated with it.

Submission of Bids (other than Bids from Anchor Investors):

Bid/Offer Period (except the Bid/Offer Closing Date)	
Submission and Revision in Bids	Only between 10.00 a.m. and 5.00 p.m. (Indian Standard Time (“**IST**”)
Bid/Offer Closing Date	
Submission and Revision in Bids	Only between 10.00 a.m. and 3.00 p.m. IST

On the Bid/ Offer Closing Date, the Bids shall be uploaded until:

(i) 4.00 p.m. IST in case of Bids by QIBs and Non-Institutional Bidders, and

(ii) until 5.00 p.m. IST or such extended time as permitted by the Stock Exchanges, in case of Bids by RIBs or Eligible Employees under the Employee Reservation Portion.

On Bid/Offer Closing Date, extension of time may be granted by Stock Exchanges only for uploading Bids received by Retail Individual Bidders and Eligible Employees Bidding after taking into account the total number of Bids received and as reported by the BRLMs to the Stock Exchanges.

It is clarified that Bids not uploaded on the electronic bidding system or in respect of which the full Bid Amount is not blocked by SCSBs or not blocked under the UPI Mechanism in the relevant ASBA Account, as the case may be, would be rejected.

Due to limitation of time available for uploading the Bids on the Bid/ Offer Closing Date, Bidders are advised to submit their Bids one day prior to the Bid/ Offer Closing Date, and in any case no later than 3:00 p.m. IST on the Bid/ Offer Closing Date. Any time mentioned in this Draft Red Herring Prospectus is IST. Bidders are cautioned that, in the event a large number of Bids are received on the Bid/ Offer Closing Date, some Bids may not get uploaded due to lack of sufficient time. Such Bids that cannot be uploaded will not be considered for allocation under this Offer. Bids will be accepted only during Working Days, during the Bid/ Offer Period. Bids will be accepted only during Monday to Friday (excluding any public holiday), during the Bid/Offer period.

Neither the Selling Shareholders, nor our Bank, nor any member of the Syndicate are liable for any failure in (i) uploading the Bids due to faults in any software/ hardware system or otherwise; and (ii) the blocking of Bid Amount in the ASBA Account on receipt of instructions from the Sponsor Bank on account of any errors, omissions or non-compliance by various parties involved in, or any other fault, malfunctioning or breakdown in, or otherwise, in the UPI Mechanism.

Our Bank and the Promoter Selling Shareholder in consultation with the BRLMs, reserve the right to revise the Price Band during the Bid/ Offer Period in accordance with the SEBI ICDR Regulations. The revision in the Price Band shall not exceed 20% on either side, i.e., the Floor Price can move up or down to the extent of 20% of the Floor Price and the Cap Price will be revised accordingly. The Floor Price will not be less than the face value of the Equity Shares. In all circumstances, the Cap Price shall be less than or equal to 120% of the Floor Price. **In case of revision in the Price Band, the Bid/ Offer Period shall be extended for at least three additional Working Days after such revision, subject to the Bid/ Offer Period not exceeding 10 Working Days. In cases of force majeure, banking strike or similar circumstances, our Bank and the Promoter Selling Shareholder in consultation with the BRLMs, for reasons to be recorded in writing, extend the Bid/ Offer Period for a minimum of three Working Days, subject to the Bid/ Offer Period not exceeding 10 Working Days. Any revision in Price Band, and the revised Bid/ Offer Period, if applicable, shall be widely disseminated by notification to the Stock Exchanges, by issuing a public notice and also by indicating the change on the websites of the BRLMs terminals of the Syndicate Members and by intimation to the Designated Intermediaries. In case of revision of price band, the Bid lot shall remain the same.** In case of discrepancy in data entered in the electronic book vis-vis data contained in the Bid cum Application Form for a particular Bidder, the details as per the Bid file received from the Stock Exchanges shall be taken as the final data for the purpose of Allotment.

Minimum Subscription

If our Bank does not receive the minimum subscription in the Offer as specified under Rule 19(2)(b) of the SCRR or the minimum subscription of 90% of the Fresh Issue on the date of closure of the Offer; or withdrawal of applications; or after technical rejections; or if the listing or trading permission is not obtained from the Stock Exchanges for the Equity Shares so offered under the offer document, our Bank shall forthwith refund the entire subscription amount received. If there is a delay beyond four days, our Bank and our Directors, who are officers in default, shall pay interest at the rate of 15% per annum.

In the event of an undersubscription in the Offer, Equity Shares offered pursuant to the Fresh Issue shall be allocated in the Fresh Issue prior to the Equity Shares offered pursuant to the Offer for Sale. However, after receipt of minimum -subscription of 90% of the Fresh Issue, the Offered Shares shall be allocated proportionately prior to the Equity Shares offered pursuant to the Fresh issue.

Each of the Selling Shareholders shall, severally and not jointly, reimburse, in proportion to their respective Offered Sha res, any expenses and interest incurred by our Bank on behalf of the Selling Shareholders for any delays in making refunds as required under the Companies Act and any other applicable law, provided that no Selling Shareholders shall be responsible or liable for payment of such expenses or interest, unless such delay is solely and directly attributable to an act or omission of such Selling Shareholder.

Further, in terms of Regulation 49(1) of the SEBI ICDR Regulations, our Bank shall ensure that the number of Bidders to whom the Equity Shares will be Allotted will be not less than 1,000.

Arrangements for Disposal of Odd Lots

There are no arrangements for disposal of odd lots since our Equity Shares will be traded in dematerialised form only and market lot for our Equity Shares will be one Equity Share.

Option to receive Equity Shares in dematerialized form

Allotment of Equity Shares to successful Bidders will only be in the dematerialized form. Bidders will not have the option of Allotment of the Equity Shares in physical form. The Equity Shares on Allotment will be traded only in the dematerialized segment of the Stock Exchanges.

Restrictions, if any on Transfer and Transmission of Equity Shares

Except for lock-in of the pre-Offer capital of our Bank, lock-in of the Promoters' minimum contribution and the Anchor Investor lock-in as provided in "*Capital Structure*" on page 69 and except as provided under the Banking Regulation Act and the rules and regulations made thereunder and the Articles of Association, there are no restrictions on transfer of the Equity Shares. Further, there are no restrictions on transmission of any shares/debentures of our Bank and on their consolidation or splitting, except as provided in the Articles of Association. For details, see "*Description of Equity Shares and Terms Of Articles of Association*" beginning on page 381.

In accordance with Section 12B of the Banking Regulation Act read with Reserve Bank of India (Prior approval for acquisition of shares or voting rights in private sector banks) Directions, 2015, no person (along with his relatives, associate enterprises or persons acting in concert with such person) can acquire or hold 5% or more of the total paid-up share capital of our Bank, or be entitled to exercise 5% or more of the total voting rights of our Bank, without prior approval of the RBI. For further details, see *"Key Regulations and Policies"* and "*Offer Procedure*" on pages 169 and 364, respectively.

OFFER STRUCTURE

Offer of up to [●] Equity Shares for cash at price of ₹[●] per Equity Share (including a premium of ₹[●] per Equity Share) aggregating up to ₹9,977.80 million comprising a Fresh Issue of up to [●] Equity Shares aggregating up to ₹8,000.00 million by our Bank and an Offer for Sale of up to [●] Equity Shares aggregating up to ₹1,977.80 million, comprising up to [●] Equity Shares aggregating up to ₹1,500.00 million by the Promoter Selling Shareholder, up to [●] Equity Shares aggregating up to ₹213.30 million by PNB MetLife, up to [●] Equity Shares aggregating up to ₹174.60 million by Bajaj Allianz Life, up to [●] Equity Shares aggregating up to ₹87.30 million by PI Ventures, and up to [●] Equity Shares aggregating up to ₹2.60 million by John Chakola in the Offer.

Our Bank in consultation with the BRLMs, may consider a Pre-IPO Placement for an aggregate amount up to ₹3,000 million. The Pre-IPO Placement, if undertaken, will be at a price to be decided by our Bank, in consultation with the BRLMs and the Pre-IPO Placement will be completed prior to filing of the Red Herring Prospectus with the RoC. If the Pre-IPO Placement is undertaken, the amount raised from the Pre-IPO Placement will be reduced from the Fresh Issue, subject to the minimum Offer Size constituting at least 10% of the post-Offer paid-up Equity Share capital of our Bank. The face value of the Equity Shares is ₹10 each.

The Offer shall constitute [●]% of the post-Offer paid-up Equity Share capital of our Bank. The Offer includes a reservation of up to [●] Equity Shares, aggregating up to ₹[●] million, for subscription by Eligible Employees. The Employee Reservation Portion shall not exceed 5.00% of our post-Offer paid-up equity share capital. The Offer less the Employee Reservation Portion is the Net Offer. The Offer and Net Offer shall constitute [●]% and [●]% of the post-Offer paid-up equity share capital of our Bank, respectively.

The Offer is being made through the Book Building Process.

Particulars	Eligible Employees#	QIBs(1)	Non-Institutional Bidders	Retail Individual Bidders
Number of Equity Shares available for Allotment/ allocation (2)	Up to [●] Equity Shares##	Not more than [●] Equity Shares	Not less than [●] Equity Shares available for allocation or Net Offer less allocation to QIB Bidders and Retail Individual Bidders	Not less than [●] Equity Shares available for allocation or Net Offer less allocation to QIB Bidders and Non-Institutional Bidders
Percentage of Offer size available for Allotment/ allocation	The Employee Reservation Portion shall constitute up to [●]% of the post-Offer paid-up Equity Share capital of our Bank	Not more than 50% of the Net Offer shall be available for allocation to QIBs. However, 5% of the QIB Portion (excluding the Anchor Investor Portion) shall be available for allocation proportionately to Mutual Funds only. Mutual Funds participating in the Mutual Fund Portion will also be eligible for allocation in the remaining balance QIB Portion (excluding the Anchor Investor Portion). The unsubscribed portion in the Mutual Fund Portion will be available for allocation to other QIBs	Not less than 15% of the Net Offer or the Net Offer less allocation to QIBs and Non-Institutional Bidders will be available for allocation subject to valid Bids being received from them at or above the Offer Price	Not less than 35% of the Net Offer or Net Offer less allocation to QIBs and Retail Individual Bidders will be available for allocation, on a proportionate basis
Basis of Allotment/ allocation if respective category is oversubscribed	Proportionate	Proportionate as follows (excluding the Anchor Investor Portion): (a) up to [●] Equity Shares shall be available for allocated on a proportionate basis to Mutual Funds only; and (b) [●] Equity Shares shall be allotted on a proportionate basis to all QIBs, including Mutual Funds receiving	Proportionate	Allotment to each Retail Individual Investor shall not be less than the minimum Bid lot, subject to availability of Equity Shares in the Retail Portion and the remaining available Equity Shares if any, shall be on a proportionate, basis. For details, see "*Offer Procedure*" beginning on page 364.

Particulars	Eligible Employees#	QIBs(1)	Non-Institutional Bidders	Retail Individual Bidders
		allocation as per (a) above. Up to 60% of the QIB Portion Equity Shares may be allocated on a discretionary basis to Anchor Investors of which one-third shall be available for allocation to Mutual Funds only, subject to valid Bid received from Mutual Funds at or above the Anchor Investor Allocation Price		
Minimum Bid	[●] Equity Shares	Such number of Equity Shares and in multiples of [●] Equity Shares so that the Bid Amount exceeds ₹200,000	Such number of Equity Shares and in multiples of [●] Equity Shares so that the Bid Amount exceeds ₹200,000	[●] Equity Shares
Maximum Bid	Such number of Equity Shares and in multiples of [●] Equity Shares, so that the maximum Bid Amount by each Eligible Employee in Eligible Employee Portion does not exceed ₹500,000, less Employee Discount, if any	Such number of Equity Shares in multiples of [●] Equity Shares so that the Bid does not exceed the size of the Net Offer, subject to applicable limits	Such number of Equity Shares in multiples of [●] Equity Shares so that the Bid does not exceed the size of the Net Offer (excluding the QIB portion), subject to applicable limits	Such number of Equity Shares in multiples of [●] Equity Shares so that the Bid Amount does not exceed ₹200,000
Mode of Allotment	Compulsorily in dematerialized form			
Bid Lot	[●] Equity Shares and in multiples of [●] Equity Shares thereafter			
Allotment Lot	A minimum of [●] Equity Shares and thereafter in multiples of one Equity Share For Retail Individual Bidders, [●] Equity Shares and in multiples of one Equity Share thereafter, subject to availability in the Retail Portion			
Trading Lot	One Equity Share			
Who can apply(3) (4)	Eligible Employees	Public financial institutions as specified in Section 2(72) of the Companies Act, scheduled commercial banks, Mutual Funds, FPIs (other than individuals, corporate bodies and family offices), VCFs, AIFs, FVCIs registered with SEBI, multilateral and bilateral development financial institutions, state industrial development corporation, insurance companies registered with IRDAI, provident funds (subject to applicable law) with minimum corpus of ₹250 million, pension funds with minimum corpus of ₹250 million, National Investment Fund set up by the Government of India, the insurance funds set up and managed by army, navy or air force of the Union of India, insurance funds set up and managed by the	Resident Indian individuals, Eligible NRIs, HUFs (in the name of the karta), companies, corporate bodies, scientific institutions societies and trusts, and FPIs who are individuals, corporate bodies and family offices and registered with SEBI	Resident Indian individuals, Eligible NRIs and HUFs (in the name of karta)

Particulars	Eligible Employees#	QIBs(1)	Non-Institutional Bidders	Retail Individual Bidders
		Department of Posts, India and Systemically Important NBFCs.		
Terms of Payment	**In case of Anchor Investors:** Full Bid Amount shall be payable by the Anchor Investors at the time of submission of their Bids(3) **In case of all other Bidders:** Full Bid Amount shall be blocked by the SCSBs in the bank account of the ASBA Bidder or by the Sponsor Bank through the UPI Mechanism (other than Anchor Investors) that is specified in the ASBA Form at the time of submission of the ASBA Form			
Mode of Bidding	Only through the ASBA process (except for Anchor Investors).			

\# *Eligible Employees Bidding in the Employee Reservation Portion can Bid up to a Bid Amount of ₹500,000. However, a Bid by an Eligible Employee in the Employee Reservation Portion will be considered for allocation, in the first instance, for a Bid Amount of up to ₹200,000. In the event of under-subscription in the Employee Reservation Portion, the unsubscribed portion will be available for allocation and Allotment, proportionately to all Eligible Employees who have Bid in excess of ₹200,000, subject to the maximum value of Allotment made to such Eligible Employee not exceeding ₹500,000. An Eligible Employee Bidding in the Employee Reservation Portion (subject to Bid Amount being up to ₹200,000) can also Bid in the Retail Portion, and such Bids shall not be considered multiple Bids. However, Bids by Eligible Employees Bidding in the Employee Reservation Portion and in the Non Institutional Portion shall be treated as multiple Bids. The unsubscribed portion if any, in the Employee Reservation Portion shall be added back to the Net Offer. In case of under-subscription in the Net Offer, spill-over to the extent of such under-subscription shall be permitted from the Employee Reservation Portion.*

\## *Our Bank and the Promoter Selling Shareholder in consultation with the BRLMs, may offer a discount of up to [●]% (equivalent of ₹[●] per Equity Share) to the Offer Price to Eligible Employees Bidding in the Employee Reservation Portion and which shall be announced at least two Working Days prior to the Bid/ Offer Opening Date.*

(1) *Our Bank and the Promoter Selling Shareholder may, in consultation with the BRLMs, allocate up to 60% of the QIB Portion to Anchor Investors on a discretionary basis in accordance with the SEBI ICDR Regulations. One-third of the Anchor Investor Portion shall be reserved for domestic Mutual Funds, subject to valid Bids being received from domestic Mutual Funds at or above the price Anchor Investor Allocation Price. In the event of under-subscription or non-Allotment in the Anchor Investor Portion, the balance Equity Shares in the Anchor Investor Portion shall be added to the Net QIB Portion. For details, see "Offer Structure" on page 360*

(2) *Subject to valid Bids being received at or above the Offer Price. This is an Offer in terms of Rule 19(2)(b) of the SCRR in compliance with Regulation 6(1) of the SEBI ICDR Regulations*

(3) *Full Bid Amount shall be payable by the Anchor Investors at the time of submission of the Anchor Investor Application Forms, provided that any difference between the price at which Equity Shares are allocated to the Anchor Investors and the Anchor Investor Offer Price, shall be payable by the Anchor Investor Pay-in Date as mentioned in the CAN. For details of terms of payment of applicable to Anchor Investors, see General Information Document available on the website of the Stock Exchanges and the BRLMs.*

(4) *In case of joint Bids, the Bid cum Application Form should contain only the name of the First Bidder whose name should also appear as the first holder of the beneficiary account held in joint names. The signature of only such First Bidder is required in the Bid cum Application Form and such First Bidder will be deemed to have signed on behalf of the joint holders. The Bank reserves the right to reject, in its absolute discretion, all or any multiple Bids in any or all categories. Further, a Bidder Bidding in the Employee Reservation Portion may also Bid under the Net Offer and such Bids shall not be treated as multiple Bids. To clarify, an Eligible Employee Bidding in the Employee Reservation Portion above ₹[●] (net of Employee Discount, if any) shall not be allowed to Bid in the Net Offer as such Bids shall be treated as multiple Bids.*

Any unsubscribed portion remaining in the Employee Reservation Portion shall be added to the Net Offer. Allotment to an Eligible Employee in the Employee Reservation Portion may not exceed ₹ 200,000 in value (net of Employee Discount).

Only in the event of an under-subscription in the Employee Reservation Portion, post the initial Allotment, such unsubscribed portion may be Allotted on a proportionate basis to Eligible Employees Bidding in the Employee Reservation Portion, subject to the total Allotment to an Eligible Employee not exceeding ₹ 500,000 in value (net of Employee Discount).

Subject to valid Bids being received at or above the Offer Price, under-subscription, if any, in the Non-Institutional Portion, the Retail Portion or the Employee Reservation Portion would be allowed to be met with spill-over from other categories or a combination of categories at the discretion of our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs and the Designated Stock Exchange, on a proportionate basis. However, under-subscription, if any, in the QIB Portion will not be allowed to be met with spill-over from other categories or a combination of categories. For further details, see "*Terms of the Offer*" on page 355.

In terms of the Banking Regulation Act read with Reserve Bank of India (Prior approval for acquisition of shares or voting rights in private sector banks) Directions, 2015, no person either by himself or with his relative, associate enterprise or acting in concert with any other person can acquire, directly or indirectly, or hold 5% or more of the total paid-up share capital of our Bank, or be entitled to exercise 5% or more of the total voting rights of our Bank, without prior approval of the RBI. Accordingly, it is the responsibility of each Bidder to seek RBI approval, if the Bids submitted by such Bidder for such number of Equity Shares as may result in the shareholding of a Bidder (along with his relatives, associate enterprises or persons acting in concert with such Bidder ("**Other Persons**") aggregate to 5% or more of the post-Offer paid-up share capital of our Bank. It may be noted that in the event an approval from RBI is not obtained by any Bidder, it shall not be allotted 5% or more of the post-Offer paid-up share capital of our Bank.

Our Bank, the BRLMs and the Registrar to the Offer will rely strictly and solely on the RBI approvals received from Bidders for making any Allotment of Equity Shares to such Bidders and to the Other Persons, if any, that results in such Bidder, either individually or on an aggregate basis with the Other Persons associated with such Bidder, holding Equity Shares equal to or in excess of 5% of the post-Offer paid-up share capital of our Bank thereafter, after considering their existing aggregate shareholding in our Bank, if any. Our Bank, the Registrar to the Offer and BRLMs will not be responsible for identifying the Other Persons associated with any Bidder, or for the consequences of any Bidder and the Other Persons holding Equity Shares, which together with their existing shareholding amount to 5% or more of the post-Offer paid-up share capital of our Bank pursuant to the Allotment made without a valid and subsisting RBI approval.

A clearly legible copy of the RBI approval in the name(s) of the Bidders together with the application submitted for obtaining such RBI approval must be submitted by the Bidders with the Bid cum Application Form as well as to the Registrar to the Offer at any time prior to the date falling one day before the date for finalisation of the Basis of Allotment. Such RBI approval should clearly mention the name(s) of the entities which propose to Bid in the Offer, the aggregate shareholding of the Bidder and the Other Persons in the pre-Offer paid-up share capital of our Bank and the maximum permitted holding of Equity Shares by the Other Persons. All allotments to such Bidders and the Other Persons, shall be in accordance with and subject to the conditions contained in such RBI approval.

An 'associate enterprise' has the same meaning assigned to it in Explanation 1(a) to Section 12B of Banking Regulation Act, 1949. A 'person acting in concert" has the same meaning as stated in Explanation1(c) to Section 12B of Banking Regulation Act, 1949. A 'relative' has the same meaning as defined in Section 2(77) of the Companies Act, 2013 and rules made thereunder.

Withdrawal of the Offer

Our Bank and each of the Selling Shareholders, in consultation with the BRLMs, reserves the right not to proceed with the Fresh Issue and each Selling Shareholder, severally and not jointly, reserves the right not to proceed with the Offer for Sale, in whole or in part thereof, to the extent of their respective portion of the Offered Shares, after the Bid/ Offer Opening Date but before the Allotment. In such an event, our Bank would issue a public notice in the newspapers in which the pre-Offer advertisements were published, within two days of the Bid/ Offer Closing Date or such other time as may be prescribed by SEBI, providing reasons for not proceeding with the Offer and inform the Stock Exchanges promptly on which the Equity Shares are proposed to be listed. The BRLMs, through the Registrar to the Offer, shall notify the SCSBs and the Sponsor Bank, to unblock the bank accounts of the ASBA Bidders within one Working Day from the date of receipt of such notification and also inform the Bankers to the Offer to process refunds to the Anchor Investors, as the case may be. The notice of withdrawal will be issued in the same newspapers where the pre-Offer advertisements have appeared and the Stock Exchanges will also be informed promptly.

If our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs withdraws the Offer after the Bid/ Offer Closing Date and thereafter determines that it will proceed with an issue of the Equity Shares, our Bank shall file a fresh draft red herring prospectus with SEBI. Notwithstanding the foregoing, this Offer is also subject to obtaining (i) the final listing and trading approvals of the Stock Exchanges, which our Bank shall apply for after Allotment; and (ii) the filing of the Prospectus with the RoC.

OFFER PROCEDURE

*All Bidders should read the General Information Document for Investing in Public Issues prepared and issued in accordance with the circular no. SEBI/HO/CFD/DIL1/CIR/P/2020/37 dated March 17, 2020 and the UPI Circulars (the "**General Information Document**") which highlights the key rules, processes and procedures applicable to public issues in general in accordance with the provisions of the Companies Act, the SCRA, the SCRR and the SEBI ICDR Regulations which is part of the abridged prospectus accompanying the Bid cum Application Form. The General Information Document is available on the websites of the Stock Exchanges and the BRLMs. Please refer to the relevant provisions of the General Information Document which are applicable to the Offer, especially in relation to the process for Bids by RIBs through the UPI Mechanism. The investors should note that the details and process provided in the General Information Document should be read along with this section.*

Additionally, all Bidders may refer to the General Information Document for information in relation to (i) Category of investors eligible to participate in the Offer; (ii) maximum and minimum Bid size; (iii) price discovery and allocation; (iv) Payment Instructions for ASBA Bidders/applicant; (v)Issuance of CAN and allotment in the Offer; (vi) General instructions (limited to instructions for completing the Bid cum Application Form);(vii) submission of Bid cum Application Form; (viii) other instructions (limited to joint bids in cases of individual, multiple bids and instances when an application would be rejected on technical grounds); (ix) applicable provisions of the Companies Act, 2013 relating to punishment for fictitious applications; (x) mode of making refunds; (xi) Designated Date; (xii) interest in case of delay in allotment or refund; and (xiii) disposal of application.

*SEBI through the UPI Circulars, has introduced an alternate payment mechanism using Unified Payments Interface ("**UPI**") and consequent reduction in timelines for listing in a phased manner. From January 1, 2019, the UPI Mechanism for RIBs applying through Designated Intermediaries was made effective along with the existing process and existing timeline of T+6 days. ("**UPI Phase I**"). The UPI Phase I was effective till June 30, 2019.*

*With effect from July 1, 2019, SEBI vide its circular no. SEBI/HO/CFD/DIL2/CIR/P/2019/76 dated June 28, 2019, read with circular bearing number SEBI/HO/CFD/DIL2/CIR/P/2019/85 dated July 26, 2019 with respect to Bids by RIBs through Designated Intermediaries (other than SCSBs), issued by SEBI, the existing process of physical movement of forms from such Designated Intermediaries to SCSBs for blocking of funds has been discontinued and only the UPI Mechanism for such Bids with existing timeline of T+6 days will continue for a period of three months or launch of five main board public issues, whichever is later ("**UPI Phase II**"). Subsequently, however, SEBI vide its circular no. SEBI/HO/CFD/DCR2/CIR/P/2019/133 dated November 8, 2019 extended the timeline for implementation of UPI Phase II till March 31, 2020. However, given the prevailing uncertainty due to the COVID-19 pandemic, SEBI vide its circular no. SEBI/HO/CFD/DIL2/CIR/P/2020/50 dated March 30, 2020, has decided to continue with the UPI Phase II till further notice. The final reduced timeline of T+3 days for the UPI Mechanism for applications by RIBs ("**UPI Phase III**"), and modalities of the implementation of UPI Phase III maybe notified and made effective subsequently as may be prescribed by SEBI. The Offer will be undertaken pursuant to the processes and procedures under UPI Phase II, subject to any circulars, clarification or notification issued by the SEBI from time to time. Further, SEBI vide its circular no. SEBI/HO/CFD/DIL2/CIR/P/2021/2480/1/M dated March 16, 2021 as amended pursuant to SEBI circular no. SEBI/HO/CFD/DIL2/P/CIR/2021/570 dated June 2, 2021, has introduced certain additional measures for streamlining the process of initial public offers and redressing investor grievances. This circular shall come into force for initial public offers opening on/or after May 1, 2021, except as amended pursuant to SEBI circular SEBI/HO/CFD/DIL2/P/CIR/2021/570 dated June 2, 2021, and the provisions of this circular, are deemed to form part of this Draft Red Herring Prospectus*

In case of any delay in unblocking of amounts in the ASBA Accounts (including amounts blocked through the UPI Mechanism) exceeding four Working Days from the Bid/Offer Closing Date, the Bidder shall be compensated at a uniform rate of ₹100 per day for the entire duration of delay exceeding four Working Days from the Bid/Offer Closing Date by the intermediary responsible for causing such delay in unblocking. The BRLMs shall, in their sole discretion, identify and fix the liability on such intermediary or entity responsible for such delay in unblocking. Further, SEBI vide its circular no. SEBI/HO/CFD/DIL1/CIR/P/2021/47 dated March 31, 2021, has reduced the timelines for refund of Application money to four days.

Our Bank, each of the Selling Shareholders and the BRLMs do not accept any responsibility for the completeness and accuracy of the information stated in this section and the General Information Document and are not liable for any amendment, modification or change in the applicable law which may occur after the date of this Draft Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that their Bids are submitted in accordance with applicable laws and do not exceed the investment limits or maximum number of the Equity Shares that can be held by them under applicable law or as specified in this Draft Red Herring Prospectus, the Red Herring Prospectus and the Prospectus.

Further, our Bank, the Selling Shareholders and the members of the Syndicate do not accept any responsibility for any adverse occurrences consequent to the implementation of the UPI Mechanism for application in the Offer.

Book Building Procedure

The Offer is being made in terms of Rule 19(2)(b) of the SCRR through the Book Building Process in accordance with Regulation 6(1) of the SEBI ICDR Regulations wherein not more than 50% of the Net Offer shall be allocated on a proportionate basis to QIBs, provided that our Bank and the Promoter Selling Shareholder may, in consultation with the BRLMs, allocate up to 60% of the QIB Portion to Anchor Investors on a discretionary basis in accordance with the SEBI ICDR Regulations, of which one-third shall be reserved for domestic Mutual Funds, subject to valid Bids being received from domestic Mutual Funds at or above the Anchor Investor Allocation Price. In the event of under-subscription, or non-allotment in the Anchor Investor Portion, the balance Equity Shares shall be added to the Net QIB Portion. Further, 5% of the Net QIB Portion shall be available for allocation on a proportionate basis only to Mutual Funds, and the remainder of the Net QIB Portion shall be available for allocation on a proportionate basis to all QIBs (other than Anchor Investors), including Mutual Funds, subject to valid Bids being received at or above the Offer Price. Further, not less than 15% of the Net Offer shall be available for allocation on a proportionate basis to Non-Institutional Investors and not less than 35% of the Net Offer shall be available for allocation to Retail Individual Bidders in accordance with the SEBI ICDR Regulations, subject to valid Bids being received at or above the Offer Price.

The Offer includes a reservation of up to [●] Equity Shares, aggregating up to ₹[●] million, for subscription by Eligible Employees. The Employee Reservation Portion shall not exceed 5.00% of our post-Offer paid-up equity share capital subject to valid Bids being received at or above the Offer Price, net of Employee Discount, if any.

Under-subscription, if any, in any category, except in the QIB Portion, would be allowed to be met with spill over from any other category or combination of categories of Bidders at the discretion of our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs and the Designated Stock Exchange subject to receipt of valid Bids received at or above the Offer Price. Under-subscription, if any, in the QIB Portion, would not be allowed to be met with spill-over from any other category or a combination of categories.

The Equity Shares, on Allotment, shall be traded only in the dematerialized segment of the Stock Exchanges.

Investors should note that the Equity Shares will be Allotted to all successful Bidders only in dematerialised form. The Bid cum Application Forms which do not have the details of the Bidders' depository account, including DP ID, Client ID, PAN and UPI ID, as applicable, shall be treated as incomplete and will be rejected. Bidders will not have the option of being Allotted Equity Shares in physical form. However, they may get the Equity Shares rematerialised subsequent to Allotment of the Equity Shares in the Offer.

Phased implementation of UPI Mechanism

SEBI has issued the UPI Circulars in relation to streamlining the process of public issue of *inter alia*, equity shares. Pursuant to the UPI Circulars, the UPI Mechanism has been introduced in a phased manner as a payment mechanism (in addition to mechanism of blocking funds in the account maintained with SCSBs under ASBA) for applications by RIBs through Designated Intermediaries with the objective to reduce the time duration from public issue closure to listing from six Working Days to up to three Working Days. Considering the time required for making necessary changes to the systems and to ensure complete and smooth transition to the UPI payment mechanism, the UPI Circulars have introduced the UPI Mechanism in three phases in the following manner:

Phase I: This phase was applicable from January 1, 2019 until March 31, 2019 or floating of five main board public issues, whichever was later. Subsequently, the timeline for implementation of Phase I was extended till June 30, 2019. Under this phase, an RIB had the option to submit the ASBA Form with any of the Designated Intermediary and use his/ her UPI ID for the purpose of blocking of funds. The time duration from public issue closure to listing continued to be six Working Days.

Phase II: This phase has become applicable from July 1, 2019. Under this phase, submission of the ASBA Form without UPI by RIBs to Designated Intermediaries (other than SCSBs) for blocking of funds will be discontinued. However, the time duration from public issue closure to listing would continue to be six Working Days during this phase. SEBI vide its circular no. SEBI/HO/CFD/DCR2/CIR/P/2019/133 dated November 8, 2019 extended the timeline for implementation of UPI Phase II till March 31, 2020. Further, pursuant to SEBI circular dated March 30, 2020, this phase has been extended till further notice.

Phase III: The commencement period of Phase III is yet to be notified. In this phase, the time duration from public issue closure to listing would be reduced to three Working Days.

All SCSBs offering facility of making application in public issues shall also provide facility to make application using UPI. Our Bank will be required to appoint one of the SCSBs as a sponsor bank to act as a conduit between the Stock Exchanges and NPCI in order to facilitate collection of requests and / or payment instructions of the Retail Individual Bidders using the UPI.

Pursuant to the UPI Circulars, SEBI has set out specific requirements for redressal of investor grievances for applications that have been made through the UPI Mechanism. The requirements of the UPI Circular include, appointment of a nodal officer by the SCSB and submission of their details to SEBI, the requirement for SCSBs to send SMS alerts for the blocking and unblocking of UPI mandates, the requirement for the Registrar to submit details of cancelled, withdrawn or deleted applications, and the requirement for the bank accounts of unsuccessful Bidders to be unblocked no later than one Working Day from the date on which the Basis of Allotment is finalised. Failure to unblock the accounts within the timeline would result in the SCSBs being penalised under the relevant securities law

For further details, refer to the General Information Document available on the websites of the Stock Exchanges and the BRLMs.

Bid cum Application Form

Copies of the Bid cum Application Form (other than for Anchor Investors) and the abridged prospectus will be available with the Designated Intermediaries at the Bidding Centres, and our Registered and Corporate Office. An electronic copy of the Bid cum Application Form will also be available for download on the websites of NSE (www.nseindia.com) and BSE (www.bseindia.com) at least one day prior to the Bid/Offer Opening Date.

Copies of the Anchor Investor Application Form will be available at the offices of the BRLMs.

All Bidders (other than Anchor Investors) shall mandatorily participate in the Offer only through the ASBA process. RIBs are mandatorily required to use the UPI Mechanism for submitting their bids to Designated Intermediaries and are allowed to use ASBA Process by way of ASBA Forms to submit their bids directly to SCSBs. Anchor Investors are not permitted to participate in the Offer through the ASBA process.

RIBs bidding using the UPI Mechanism must provide the UPI ID in the relevant space provided in the Bid cum Application Form and the Bid cum Application Form that does not contain the UPI ID are liable to be rejected.

ASBA Bidders (including Bidders using UPI Mechanism) must provide bank account details and authorisation to block funds in their respective ASBA Accounts in the relevant space provided in the ASBA Form and the ASBA Forms that do not contain such details are liable to be rejected or the UPI ID, as applicable, in the relevant space provided in the ASBA Form. Applications made using third party bank account or using third party linked bank account UPI ID are liable for rejection. RIBs using the UPI Mechanism may also apply through the mobile applications using the UPI handles as provided on the website of the SEBI.

ASBA Bidders shall ensure that the Bids are made on ASBA Forms bearing the stamp of the Designated Intermediary, submitted at the Bidding Centres only (except in case of electronic ASBA Forms) and the ASBA Forms not bearing such specified stamp are liable to be rejected. RIBs using UPI Mechanism, may submit their ASBA Forms, including details of their UPI IDs, with the Syndicate, Sub-Syndicate members, Registered Brokers, RTAs or CDPs. RIBs authorising an SCSB to block the Bid Amount in the ASBA Account may submit their ASBA Forms with the SCSBs. ASBA Bidders must ensure that the ASBA Account has sufficient credit balance such that an amount equivalent to the full Bid Amount can be blocked by the SCSB or the Sponsor Bank, as applicable, at the time of submitting the Bid.

The prescribed colour of the Bid cum Application Form for the various categories is as follows:

Category	Colour of Bid cum Application Form*
Resident Indians, including resident QIBs, Non-Institutional Investors, Retail Individual Bidders and Eligible NRIs applying on a non-repatriation basis	[●]
Eligible NRIs, FVCIs, FPIs and registered bilateral and multilateral development financial institutions applying on a repatriation basis	[●]
Anchor Investors	[●]
Eligible Employees bidding in the Employee Reservation Portion	[●]

* *Excluding electronic Bid cum Application Forms*

Notes:

(1) Electronic Bid cum Application forms and the abridged prospectus will also be available for download on the website of NSE (www.nseindia.com) and BSE (www.bseindia.com)

(2) Bid cum Application Forms for Anchor Investors shall be available at the offices of the BRLMs

In case of ASBA forms, the relevant Designated Intermediaries shall capture and upload the relevant bid details (including UPI ID in case of ASBA Forms under the UPI Mechanism) in the electronic bidding system of the Stock Exchanges. For RIBs using UPI Mechanism, the Stock Exchanges shall share the Bid details (including UPI ID) with the Sponsor Bank on a continuous basis to enable the Sponsor Bank to initiate UPI Mandate Request to RIBs for blocking of funds. For ASBA Forms (other than RIBs) Designated Intermediaries (other than SCSBs) shall submit/ deliver the ASBA Forms to the respective SCSB where the Bidder has an ASBA bank account and shall not submit it to any non-SCSB bank or any Escrow Collection Bank.

Stock Exchanges shall validate the electronic bids with the records of the CDP for DP ID/Client ID and PAN, on a real time basis through API integration and bring inconsistencies to the notice of the relevant Designated Intermediaries, for rectification and re-submission within the time specified by Stock Exchanges. Stock Exchanges shall allow modification of either DP ID/Client ID or PAN ID , bank code and location code in the Bid details already uploaded.

For RIBs using UPI Mechanism, the Stock Exchanges shall share the Bid details (including UPI ID) with the Sponsor Bank on a continuous basis through API integration to enable the Sponsor Bank to initiate UPI Mandate Request to RIBs for blocking of funds. The Sponsor Bank shall initiate request for blocking of funds through NPCI to RIBs, who shall accept the UPI Mandate Request for blocking of funds on their respective mobile applications associated with UPI ID linked bank account. For all pending UPI mandate requests, the Sponsor Bank shall initiate requests for blocking of funds in the ASBA Accounts of relevant Bidders with a confirmation cut-off time of 12:00 pm on the first Working Day after the Bid/Offer Closing Date ("Cut-Off Time"). Accordingly, RIBs Bidding using through the UPI Mechanism should accept UPI mandate requests for blocking of funds prior to the Cut-Off Time and all pending UPI mandate requests at the Cut-Off Time shall lapse. For ensuring timely information to investors, SCSBs shall send SMS alerts as specified in SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2021/2480/1/M dated March 16, 2021, as amended pursuant to SEBI circular no. SEBI/HO/CFD/DIL2/P/CIR/2021/570 dated June 2, 2021.

The Sponsor Bank will undertake a reconciliation of Bid responses received from Stock Exchanges and sent to NPCI and will also ensure that all the responses received from NPCI are sent to the Stock Exchanges platform with detailed error code and description, if any. Further, the Sponsor Bank will undertake reconciliation of all Bid requests and responses throughout their lifecycle on daily basis and share reports with the BRLMs in the format and within the timelines as specified under the UPI Circulars. Sponsor Bank and issuer banks shall download UPI settlement files and raw data files from the NPCI portal after every settlement cycle and do a three way reconciliation with Banks UPI switch data, CBS data and UPI raw data. NPCI is to coordinate with issuer banks and Sponsor Banks on a continuous basis.

For ASBA Forms (other than RIBs using UPI Mechanism) Designated Intermediaries (other than SCSBs) shall submit/ deliver the ASBA Forms to the respective SCSB where the Bidder has an ASBA bank account and shall not submit it to any non-SCSB bank or any Escrow Collection Bank.

In terms of the Banking Regulation Act read with Reserve Bank of India (Prior approval for acquisition of shares or voting rights in private sector banks) Directions, 2015, no person either by himself or with his relative, associate enterprise, or acting in concert with any other person can acquire, directly or indirectly, or hold 5% or more of the total paid-up share capital of our Bank, or be entitled to exercise 5% or more of the total voting rights of our Bank, without prior approval of the RBI. Accordingly, it is the responsibility of each Bidder to seek RBI approval, if the Bids submitted by such Bidder for such number of Equity Shares as may result in the shareholding of a Bidder (along with his relatives, associate enterprises or persons acting in concert with such Bidder (“**Other Persons**”) aggregate to 5% or more of the post-Offer paid-up share capital of our Bank. It may be noted that in the event an approval from RBI is not obtained by any Bidder, it shall not be allotted 5% or more of the post-Offer paid-up share capital of our Bank.

Our Bank, the BRLMs and the Registrar to the Offer will rely strictly and solely on the RBI approvals received from Bidders for making any Allotment of Equity Shares to such Bidders and to the Other Persons, if any, that results in such Bidder, either individually or on an aggregate basis with the Other Persons associated with such Bidder, holding Equity Shares equal to or in excess of 5% of the post-Offer paid-up share capital of our Bank thereafter, after considering their existing aggregate shareholding in our Bank, if any. Our Bank, the Registrar to the Offer and BRLMs will not be responsible for identifying the Other Persons associated with any Bidder, or for the consequences of any Bidder and the Other Persons holding Equity Shares, which together with their existing shareholding amount to 5% or more of the post-Offer paid-up share capital of our Bank pursuant to the Allotment made without a valid and subsisting RBI approval.

A clearly legible copy of the RBI approval in the name(s) of the Bidders together with the application submitted for obtaining such RBI approval must be submitted by the Bidders with the Bid cum Application Form as well as to the Registrar to the Offer at any time prior to the date falling one day before the date for finalisation of the Basis of Allotment. Such RBI approval should clearly mention the name(s) of the entities which propose to Bid in the Offer, the aggregate shareholding of the Bidder and the Other Persons in the pre-Offer paid-up share capital of our Bank and the maximum permitted holding of Equity Shares by the Other Persons. All allotments to such Bidders and the Other Persons, shall be in accordance with and subject to the conditions contained in such RBI approval.

An ‘associate enterprise’ has the same meaning assigned to it in Explanation 1(a) to Section 12B of Banking Regulation Act, 1949. A ‘person acting in concert” has the same meaning as stated in Explanation 1(c) to Section 12B of Banking Regulation Act, 1949. A ‘relative’ has the same meaning as defined in Section 2(77) of the Companies Act, 2013 and rules made thereunder.

Accordingly, in case of Bids for such number of Equity Shares, as may result in the shareholding of a Bidder (along with his relatives, associate enterprises or persons acting in concert with such person) exceeding 5% or more of the total paid-up share capital of our Bank or entitles him to exercise 5% or more of the voting rights in our Bank, such Bidder is required to submit the approval obtained from the RBI with the Registrar to the Offer, at least one Working Day prior to the finalisation of the Basis of Allotment. In case of failure by such Bidder to submit the approval obtained from the RBI within the above time period, our Bank may Allot maximum number of Equity Shares, as adjusted for the Bid Lot (and in case of over-subscription in the Offer, after making applicable proportionate allocation for the Equity Shares Bid for), that will limit the aggregate shareholding of the Bidder (along with his relatives, associate enterprises or persons acting in concert with such person and including existing shareholding, if any) to less than 5% of the post-Offer paid-up Equity Share capital of our Bank.

A clearly legible copy of the RBI approval in the name(s) of the Bidders together with the application submitted for obtaining such RBI approval must be submitted by the Bidders with the Bid cum Application Form as well as to the Registrar to the Offer at any time prior to the date falling one day before the date for finalisation of the Basis of Allotment. Such RBI approval should clearly mention the name(s) of the entities which propose to Bid in the Offer, the aggregate shareholding of the Bidder and the Other Persons in the pre-Offer paid-up share capital of our Bank and the maximum permitted holding of Equity Shares by the Other Persons. All allotments to such Bidders and the Other Persons, shall be in accordance with and subject to the conditions contained in such RBI approval.

Electronic registration of Bids

a) The Designated Intermediary may register the Bids using the on-line facilities of the Stock Exchanges. The Designated Intermediaries can also set up facilities for off-line electronic registration of Bids, subject to the condition that they may subsequently upload the off-line data file into the on-line facilities for Book Building on a regular basis before the closure of the Offer.

b) On the Bid/Offer Closing Date, the Designated Intermediaries may upload the Bids till such time as may be permitted by the Stock Exchanges and as disclosed in this Red Herring Prospectus.

c) Only Bids that are uploaded on the Stock Exchanges Platform are considered for allocation/Allotment. The Designated Intermediaries are given till 1:00 pm on the next Working Day following the Bid/Offer Closing Date to modify select fields uploaded in the Stock Exchange Platform during the Bid/Offer Period after which the Stock Exchange(s) send the bid information to the Registrar to the Offer for further processing.

The Sponsor Bank shall host a web portal for intermediaries (closed user group) from the date of Bid/ Offer Opening Date till the date of listing of the Equity Shares with details of statistics of mandate blocks/ unblocks, performance of apps and UPI handles, down-time/network latency (if any) across intermediaries and any such processes having an impact/ bearing on the Offer Bidding process.

Participation by Promoters and members of the Promoter Group of the Bank, the BRLMs and the Syndicate Members

The BRLMs and the Syndicate Members shall not be allowed to purchase Equity Shares in this Offer in any manner, except towards fulfilling their underwriting obligations. However, the associates and affiliates of the BRLMs and the Syndicate Members may Bid for Equity Shares in the Offer, either in the QIB Portion or in the Non-Institutional Portion as may be applicable to such Bidders, where the allocation is on a proportionate basis and such subscription may be on their own account or on behalf of their clients. All categories of investors, including associates or affiliates of the BRLMs and Syndicate Members, shall be treated equally for the purpose of allocation to be made on a proportionate basis.

Neither (i) the BRLMs or any associates of the BRLMs (except Mutual Funds sponsored by entities which are associates of the BRLMs or insurance companies promoted by entities which are associate of BRLMs or AIFs sponsored by the entities which are associate of the BRLMs or FPIs other than individuals, corporate bodies and family offices sponsored by the entities which are associates of the BRLMs); nor (ii) any "person related to the Promoter or Promoter Group" shall apply in the Offer under the Anchor Investor Portion.

For the purposes of this section, a QIB who has any of the following rights shall be deemed to be a "person related to the Promoter/Promoter Group": (a) rights under a shareholders' agreement or voting agreement entered into with the Promoter or Promoter Group; (b) veto rights; or (c) right to appoint any nominee director on our Board.

Further, an Anchor Investor shall be deemed to be an associate of the BRLMs, if: (a) either of them controls, directly or indirectly through its subsidiary or holding company, not less than 15% of the voting rights in the other; or (b) either of them, directly or indirectly, by itself or in combination with other persons, exercises control over the other; or (c) there is a common director, excluding a nominee director, amongst the Anchor Investor and the BRLMs.

The Promoters and members of the Promoter Group will not participate in the Offer, except participation of our Promoter in the Offer for Sale.

Bids by Mutual Funds

With respect to Bids by Mutual Funds, a certified copy of their SEBI registration certificate must be lodged along with the Bid cum Application Form. Failing this, our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, reserve the right to reject any Bid without assigning any reason thereof.

Bids made by asset management companies or custodians of Mutual Funds shall specifically state names of the concerned schemes for which such Bids are made.

In case of a Mutual Fund, a separate Bid can be made in respect of each scheme of the Mutual Fund registered with SEBI and such Bids in respect of more than one scheme of the Mutual Fund will not be treated as multiple Bids provided that the Bids clearly indicate the scheme concerned for which the Bid has been made.

No Mutual Fund scheme shall invest more than 10% of its net asset value in equity shares or equity related instruments of any single company provided that the limit of 10% shall not be applicable for investments in case of index funds or sector or industry specific schemes. No Mutual Fund under all its schemes should own more than 10% of any company's paid-up share capital carrying voting rights.

Further, the Banking Regulation Act requires any person to seek prior approval of the RBI to acquire or agree to acquire, directly or indirectly, shares or voting rights of a bank, by itself or with persons acting in concert, wherein such acquisition (taken together with shares or voting rights held by such person or associate enterprise or persons acting in concert with the concerned person) results in aggregate shareholding of such person to be 5% or more of the paid-up capital of a bank or entitles him to exercise 5% or more of the voting rights in a bank. For details, see "*Key Regulations and Policies*" beginning on page 169.

For details of investment by NRIs, see "*Restrictions on Foreign Ownership of Indian Securities*" on page 380. Participation of Eligible NRIs shall be subject to FEMA Regulations

Bids by Eligible NRIs

Eligible NRIs may obtain copies of Bid cum Application Form from the Designated Intermediaries. Only Bids accompanied by payment in Indian Rupees or freely convertible foreign exchange will be considered for Allotment. Eligible NRI Bidders bidding on a repatriation basis by using the Non-Resident Forms should authorize their respective SCSB or confirm or accept the UPI Mandate Request (in case of Retail Individual Investors Bidding through the UPI Mechanism) to block their Non-Resident External ("**NRE**") accounts (including UPI ID, if activated), or Foreign Currency Non-Resident ("**FCNR**") Accounts, and eligible NRI Bidders bidding on a non-repatriation basis by using Resident Forms should authorize their respective SCSB confirm or accept the UPI mandate request (in case of RIBs using the UPI Mechanism) to block their Non-Resident Ordinary ("**NRO**") accounts for the full Bid Amount, at the time of the submission of the Bid cum Application Form. NRIs applying in the Offer through the UPI Mechanism are advised to enquire with the relevant bank, whether their account is UPI linked, prior to submitting a Bid cum Application Form.

Eligible NRIs Bidding on non-repatriation basis are advised to use the Bid cum Application Form for residents ([●] in colour). Eligible NRIs Bidding on a repatriation basis are advised to use the Bid cum Application Form meant for Non-Residents ([●] in colour).

Participation by Eligible NRIs in the Offer shall be subject to the FEMA Non-Debt Instruments Rules. Only Bids accompanied by payment in Indian rupees or fully converted foreign exchange will be considered for Allotment.

In accordance with the FEMA Non-Debt Instruments Rules, the total holding by any individual NRI, on a repatriation basis, shall not exceed 5% of the total paid-up equity capital on a fully diluted basis or shall not exceed 5% of the paid-up value of each series of debentures or preference shares or share warrants issued by an Indian company and the total holdings of all NRIs and OCIs put together shall not exceed 10% of the total paid-up equity capital on a fully diluted basis or shall not exceed 10% of the paid-up value of each series of debentures or preference shares or share warrant. Provided that the aggregate ceiling of 10% may be raised to 24% if a special resolution to that effect is passed by the general body of the Indian company.

Our Bank has, pursuant to a Board resolution dated June 29, 2021 and Shareholders resolution dated July 12, 2021, has increased the limit of investment of NRIs to up to 24% of the paid-up equity share capital of the Bank, provided that the shareholding of each NRI in the Bank shall not exceed 5% of the equity share capital or such other limit as may be stipulated by the RBI.

For further details, see "*Restrictions on Foreign Ownership of Indian Securities*" on page 380.

Bids by HUFs

Hindu Undivided Families or HUFs, should be made in the individual name of the *Karta*. The Bidder/Applicant should specify that the Bid is being made in the name of the HUF in the Bid cum Application Form/Application Form as follows: "Name of sole or first Bidder/Applicant: XYZ Hindu Undivided Family applying through XYZ, where XYZ is the name of the *Karta*". Bids/Applications by HUFs will be considered at par with Bids/Applications from individuals.

Bids by FPIs

In terms of the SEBI FPI Regulations, the investment in Equity Shares by a single FPI or an investor group (which means multiple entities registered as FPIs and directly or indirectly having common ownership of more than 50% or common control) must be below 10% of our post-Offer equity share capital. Further, in terms of the FEMA Non-Debt Instruments Rules, the total holding by each FPI or an investor group shall be below 10% of the total paid-up equity share capital of our Bank and the total holdings of all FPIs put together can be up to the sectoral cap applicable to the sector in which our Bank operates (i.e., up to 74%), as prescribed under the FEMA Non-Debt Instruments Rules.

With effect from April 1, 2020, the aggregate limit for FPI investments shall be the sectoral caps applicable to our Bank (i.e. automatic up to 49% and government route beyond 49% and up to 74%).

In case the total holding of an FPI increases beyond 10% of the total paid-up equity share capital, on a fully diluted basis or 10% or more of the paid-up value of any series of debentures or preference shares or share warrants issued that may be issued by our Bank, the total investment made by the FPI will be re-classified as FDI subject to the conditions as specified by SEBI and the RBI in this regard and our Bank and the investor will be required to comply with applicable reporting requirements.

In case of Bids made by FPIs, a certified copy of the certificate of registration issued under the SEBI FPI Regulations is required to be attached to the Bid cum Application Form, failing which our Bank and the Promoter Selling Shareholder, in consultation with the Book Running Lead Managers, reserves the right to reject any Bid without assigning any reason. FPIs who wish to participate in the Offer are advised to use the Bid cum Application Form for Non-Residents ([●] in colour).

To ensure compliance with the above requirement, SEBI has, pursuant to its circular dated July 13, 2018, directed that at the time of finalisation of the Basis of Allotment, the Registrar shall (i) use the PAN issued by the Income Tax Department of India for checking compliance for a single FPI; and (ii) obtain validation from Depositories for the FPIs who have invested in the Offer to ensure there is no breach of the investment limit, within the timelines for issue procedure, as prescribed by SEBI from time to time.

Subject to compliance with all applicable Indian laws, rules, regulations, guidelines and approvals in terms of Regulation 21 of the SEBI FPI Regulations, an FPI, may issue, subscribe to or otherwise deal in offshore derivative instruments (as defined under the SEBI FPI Regulations as any instrument, by whatever name called, which is issued overseas by a FPI against securities held by it in India, as its underlying) directly or indirectly, only in the event (i) such offshore derivative instruments are issued only by persons registered as Category I FPIs; (ii) such offshore derivative instruments are issued only to persons eligible for registration as Category I FPIs; (iii) such offshore derivative instruments are issued after compliance with 'know your client' norms; and (iv) such other conditions as may be specified by SEBI from time to time.

An FPI issuing offshore derivate instruments is also required to ensure that any transfer of offshore derivative instrument is made by, or on behalf of it subject to, *inter alia*, the following conditions:

(a) such offshore derivative instruments are transferred to persons subject to fulfilment of SEBI FPI Regulations; and

(b) prior consent of the FPI is obtained for such transfer, except when the persons to whom the offshore derivative instruments are to be transferred to are pre-approved by the FPI.

Bids by FPIs submitted under the multiple investment managers structure with the same PAN but with different beneficiary account numbers, Client ID and DP ID including the following cases may not be treated as multiple Bids:

- FPIs which utilise the multi investment manager structure;
- Offshore derivative instruments which have obtained separate FPI registration for ODI and proprietary derivative investments;
- Sub funds or separate class of investors with segregated portfolio who obtain separate FPI registration;
- FPI registrations granted at investment strategy level/sub fund level where a collective investment scheme or fund has multiple investment strategies/sub-funds with identifiable differences and managed by a single investment manager;
- Multiple branches in different jurisdictions of foreign bank registered as FPIs;
- Government and Government related investors registered as Category 1 FPIs; and
- Entities registered as collective investment scheme having multiple share classes.

The FPIs who wish to participate in the Offer are advised to use the Bid cum Application Form for non-residents.

Further, Bids received from FPIs bearing the same PAN will be treated as multiple Bids and are liable to be rejected, except for Bids from FPIs that utilize the multiple investment manager structure in accordance with the Operational Guidelines for Foreign Portfolio Investors and Designated Depository Participants which were issued in November 2019 to facilitate implementation of SEBI FPI Regulations (such structure "**MIM Structure**") provided such Bids have been made with different beneficiary account numbers, Client IDs and DP IDs. Accordingly, it should be noted that multiple Bids received from FPIs, who do not utilize the MIM Structure, and bear the same PAN, are liable to be rejected. In order to ensure valid Bids, FPIs making multiple Bids using the same PAN, and with different beneficiary account numbers, Client IDs and DP IDs, are required to provide a confirmation along with each of their Bid cum Application Forms that the relevant FPIs are making multiple Bids utilize the MIM Structure and indicate the names of their respective investment managers in such confirmation. In the absence of such confirmation from the relevant FPIs, such multiple Bids will be rejected.

All non-resident investors should note that refunds (in case of Anchor Investors), dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and commission.

Bids by SEBI registered VCFs, AIFs and FVCIs

The SEBI VCF Regulations and the SEBI FVCI Regulations prescribe, among other things, the investment restrictions on VCFs and FVCIs registered with SEBI. While the SEBI VCF Regulations have since been repealed, the funds registered as VCFs under the SEBI VCF Regulations continue to be regulated by such regulations till the existing fund or scheme managed by the fund is wound up. The holding in any company by any individual VCF or FVCIs registered with SEBI should not exceed 25% of the corpus of the VCF of FVCI. Further, VCFs and FVCIs can invest only up to 33.33% of the investible funds in various prescribed instruments, including in public offering.

Further, the SEBI AIF Regulations prescribe, among other things, the investment restrictions on AIFs. Category I and II AIFs cannot invest more than 25% of the investible funds in one investee company. A category III AIF cannot invest more than 10%

of the investible funds in one investee company. A VCF registered as a category I AIF, as defined in the SEBI AIF Regulations, cannot invest more than one-third of its investible funds by way of subscription to an initial public offering of a venture capital undertaking. Additionally, the VCFs which have not re-registered as an AIF under the SEBI AIF Regulations shall continue to be regulated by the SEBI VCF Regulations until the existing fund or scheme managed by the fund is wound up.

All non-resident investors should note that refunds (in case of Anchor Investors), dividends and other distributions, if any, will be payable in Indian Rupees only and net of bank charges and commission.

Our Bank, the Selling Shareholders or the BRLMs will not be responsible for loss, if any, incurred by the Bidder on account of conversion of foreign currency

Bids by Eligible Employees

The Bid must be for a minimum of [●] Equity Shares and in multiples of [●] Equity Shares thereafter so as to ensure that the Bid Amount payable by the Eligible Employee does not exceed ₹500,000. The Allotment in the Employee Reservation Portion will be on a proportionate basis. Eligible Employees under the Employee Reservation Portion may Bid at Cut-off Price provided that the Bid does not exceed ₹500,000.

However, Allotments to Eligible Employees in excess of ₹ 200,000 shall be considered on a proportionate basis, in the event of undersubscription in the Employee Reservation Portion, subject to the total Allotment to an Eligible Employee not exceeding ₹ 500,000 (which will be less Employee Discount). Subsequent undersubscription, if any, in the Employee Reservation Portion shall be added back to the Net Offer. Eligible Employees Bidding in the Employee Reservation Portion may Bid at the Cut-off Price.

Bids under Employee Reservation Portion by Eligible Employees shall be:

(a) Made only in the prescribed Bid cum Application Form or Revision Form (i.e. [●] colour form).

(b) The Bidder should be an Eligible Employee as defined. In case of joint bids, the first Bidder shall be an Eligible Employee.

(c) Only Eligible Employees would be eligible to apply in this Offer under the Employee Reservation Portion.

(d) Only those Bids, which are received at or above the Offer Price, net of Employee Discount, if any would be considered for Allotment under this category.

(e) Eligible Employees can apply at Cut-off Price.

(f) If the aggregate demand in this category is less than or equal to [●] Equity Shares at or above the Offer Price, full allocation shall be made to the Eligible Employees to the extent of their demand.

(g) Under-subscription, if any, in the Employee Reservation Portion will be added back to the Net Offer.

In case of under-subscription in the Net Offer, spill over to the extent of under-subscription shall be permitted from the Employee Reservation Portion. If the aggregate demand in this category is greater than [●] Equity Shares at or above the Offer Price, the allocation shall be made on a proportionate basis.

Please note that any individuals who are directors, employees or promoters of (a) the BRLMs, Registrar to the Offer, or the Syndicate Members, or of the (b) 'associate companies' (as defined in the Companies Act, 2013, as amended) and 'group companies' of such BRLMs, Registrar to the Offer or Syndicate Members are not eligible to bid in the Employee Reservation Portion.

Bids by limited liability partnerships

In case of Bids made by limited liability partnerships registered under the Limited Liability Partnership Act, 2008, a certified copy of certificate of registration issued under the Limited Liability Partnership Act, 2008, must be attached to the Bid cum Application Form. Failing this, our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs reserves the right to reject any Bid without assigning any reason thereof.

Bids by banking companies

In case of Bids made by banking companies registered with RBI, certified copies of: (i) the certificate of registration issued by RBI, and (ii) the approval of such banking company's investment committee are required to be attached to the Bid cum Application Form, failing which our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs reserve the right to reject any Bid without assigning any reason.

The investment limit for banking companies in another banking company as per the Banking Regulation Act, and the Reserve Bank of India (Financial Services provided by Banks) Directions, 2016 (the "**Financial Services Directions**"), as updated, is 10% of the paid up share capital of the investee company, not being its subsidiary engaged in non-financial services or 10%

of the bank's own paid-up share capital and reserve, whichever is lower. However, a banking company would be permitted to invest in excess of 10% but not exceeding 30% of the paid-up share capital of such investee company if (i) the investee company is engaged in non-financial activities permitted for banks in terms of Section 6(1) of the Banking Regulation Act, or (ii) the additional acquisition is through restructuring of debt/corporate debt restructuring/strategic debt restructuring, or to protect the bank's interest on loans/investments made to a company. The bank is required to submit a time-bound action plan for disposal of such shares within a specified period to the RBI. A banking company would require a prior approval of the RBI to *inter alia* make (i) investment in a subsidiary and a financial services company that is not a subsidiary (with certain exceptions prescribed under 5(b)(i) of the Financial Services Directions), and (ii) investment in a non-financial services company in excess of 10% of such investee company's paid-up share capital as stated in 5(a)(v)(c)(i) of the Financial Services Directions. Further, the aggregate investment by a banking company in subsidiaries and other entities engaged in financial and non-financial services company cannot exceed 20% of the investee company's paid-up share capital and reserves.

In terms of the Master Circular on Basel III Capital Regulations dated July 1, 2014, as amended (i) a bank's investment in the capital instruments issued by banking, financial and insurance entities should not exceed 10% of its capital funds; (ii) banks should not acquire any fresh stake in a bank's equity shares, if by such acquisition, the investing bank's holding exceeds 5% of the investee bank's equity capital; (iii) equity investment by a bank in a subsidiary company, financial services company, financial institution, stock and other exchanges should not exceed 10% of the bank's paid-up share capital and reserves; (iv) equity investment by a bank in companies engaged in non-financial services activities would be subject to a limit of 10% of the investee company's paid-up share capital or 10% of the bank's paid-up share capital and reserves, whichever is less; and (v) a banking company is restricted from holding shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is less. For details in relation to the investment limits under Master Direction – Ownership in Private Sector Banks, Directions, 2016, see "*Key Regulations and Policies*" beginning on page 169.

Bids by SCSBs

SCSBs participating in the Offer are required to comply with applicable law including the terms of the SEBI circulars (Nos. CIR/CFD/DIL/12/2012 and CIR/CFD/DIL/1/2013) dated September 13, 2012 and January 2, 2013. Such SCSBs are required to ensure that for making applications on their own account using ASBA, they should have a separate account in their own name with any other SEBI registered SCSBs. Further, such account shall be used solely for the purpose of making application in public issues and clear demarcated funds should be available in such account for such applications.

Bids by insurance companies

In case of Bids made by insurance companies registered with the IRDAI, a certified copy of certificate of registration issued by IRDAI must be attached to the Bid cum Application Form. Failing this, our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs reserve the right to reject any Bid without assigning any reason thereof.

The exposure norms for insurers, prescribed under the Insurance Regulatory and Development Authority of India (Investment) Regulations, 2016, as amended, are broadly set forth below:

(a) equity shares of a company: the lower of 10%* of the outstanding equity shares (face value) or 10% of the respective fund in case of life insurer or 10% of investment assets in case of general insurer or reinsurer;

(b) the entire group of the investee company: not more than 15% of the respective fund in case of a life insurer or 15% of investment assets in case of a general insurer or reinsurer or 15% of the investment assets in all companies belonging to the group, whichever is lower; and

(c) the industry sector in which the investee company operates: not more than 15% of the fund of a life insurer or a general insurer or a reinsurer or 15% of the investment asset, whichever is lower.

The maximum exposure limit, in the case of an investment in equity shares, cannot exceed the lower of an amount of 10% of the investment assets of a life insurer or general insurer and the amount calculated under (a), (b) and (c) above, as the case may be.

* *The above limit of 10% shall stand substituted as 15% of outstanding equity shares (face value) for insurance companies with investment assets of ₹2,500,000 million or more and 12% of outstanding equity shares (face value) for insurers with investment assets of ₹500,000 million or more but less than ₹2,500,000 million.*

Insurance companies participating in this Offer shall comply with all applicable regulations, guidelines and circulars issued by IRDAI from time to time.

Bids by provident funds/pension funds

In case of Bids made by provident funds/pension funds, subject to applicable laws, with minimum corpus of ₹250 million, a certified copy of a certificate from a chartered accountant certifying the corpus of the provident fund/pension fund must be attached to the Bid cum Application Form. Failing this, our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs reserves the right to reject any Bid, without assigning any reason thereof.

Bids under Power of Attorney

In case of Bids made pursuant to a power of attorney or by limited companies, corporate bodies, registered societies, Eligible FPIs, Mutual Funds, insurance companies, insurance funds set up by the army, navy or air force of the India, insurance funds set up by the Department of Posts, India or the National Investment Fund and provident funds with a minimum corpus of ₹250 million (subject to applicable law) and pension funds with a minimum corpus of ₹250 million, a certified copy of the power of attorney or the relevant resolution or authority, as the case may be, along with a certified copy of the memorandum of association and articles of association and/or bye laws must be lodged along with the Bid cum Application Form. Failing this, our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs reserve the right to accept or reject any Bid in whole or in part, in either case, without assigning any reason thereof.

Our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs in their absolute discretion, reserve the right to relax the above condition of simultaneous lodging of the power of attorney along with the Bid cum Application Form subject to the terms and conditions that our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs may deem fit.

Bids by Systemically Important Non-Banking Financial Companies

In case of Bids made by Systemically Important NBFCs registered with RBI, certified copies of: (i) the certificate of registration issued by RBI, (ii) certified copy of its last audited financial statements on a standalone basis and a net worth certificate from its statutory auditor, and (iii) such other approval as may be required by the Systemically Important NBFCs, are required to be attached to the Bid cum Application Form. Failing this, our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, reserves the right to reject any Bid without assigning any reason thereof. Systemically Important NBFCs participating in the Offer shall comply with all applicable regulations, guidelines and circulars issued by RBI from time to time.

The investment limit for Systemically Important NBFCs shall be as prescribed by RBI from time to time.

The above information is given for the benefit of the Bidders. Our Bank, each of the Selling Shareholders and the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may occur after the date of this Draft Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that any single Bid from them does not exceed the applicable investment limits or maximum number of the Equity Shares that can be held by them under applicable law or regulation or as specified in the Draft Red Herring Prospectus, Red Herring Prospectus and the Prospectus.

In accordance with existing regulations issued by the RBI, OCBs cannot participate in this Offer.

General Instructions

***Do's*:**

1. Check if you are eligible to apply as per the terms of the Red Herring Prospectus and under applicable law, rules, regulations, guidelines and approvals. All Bidders (other than Anchor Investors) should submit their Bids through the ASBA process only;

2. Ensure that you have Bid within the Price Band;

3. Read all the instructions carefully and complete the Bid cum Application Form, as the case may be, in the prescribed form;

4. Ensure that you (other than in the case of Anchor Investors) have mentioned the correct ASBA Account number if you are not an RIB bidding using the UPI Mechanism in the Bid cum Application Form and if you are an RIB using the UPI Mechanism ensure that you have mentioned the correct UPI ID (with maximum length of 45 characters including the handle), in the Bid cum Application Form;

5. Ensure that your Bid cum Application Form bearing the stamp of a Designated Intermediary is submitted to the Designated Intermediary at the Bidding Centre (except electronic Bids) within the prescribed time;

6. Ensure that you have funds equal to the Bid Amount in the ASBA Account maintained with the SCSB, before submitting the ASBA Form to any of the Designated Intermediaries;

7. If you are an ASBA Bidder and the first applicant is not the ASBA Account holder, ensure that the Bid cum Application Form is signed by the account holder. Ensure that you have mentioned the correct bank account number in the Bid cum Application Form;

8. Ensure that the signature of the First Bidder in case of joint Bids, is included in the Bid cum Application Forms;

9. Ensure that you request for and receive a stamped acknowledgement counterfoil of the Bid cum Application Form for all your Bid options from the concerned Designated Intermediary;

10. Ensure that the name(s) given in the Bid cum Application Form is/are exactly the same as the name(s) in which the beneficiary account is held with the Depository Participant. In case of joint Bids, the Bid cum Application Form should contain only the name of the First Bidder whose name should also appear as the first holder of the beneficiary account held in joint names. Ensure that the signature of the First Bidder is included in the Bid cum Application Forms;

11. RIBs bidding in the Offer to ensure that they shall use only their own ASBA Account or only their own bank account linked UPI ID (only for RIBs using the UPI Mechanism) to make an application in the Offer and not ASBA Account or bank account linked UPI ID of any third party;

12. Ensure that you submit the revised Bids to the same Designated Intermediary, through whom the original Bid was placed and obtain a revised acknowledgement;

13. Ensure that you have correctly signed the authorisation/undertaking box in the Bid cum Application Form, or have otherwise provided an authorisation to the SCSB or Sponsor Bank, as applicable, via the electronic mode, for blocking funds in the ASBA Account equivalent to the Bid Amount mentioned in the Bid cum Application Form, as the case may be, at the time of submission of the Bid. In case of RIBs submitting their Bids and participating in the Offer through the UPI Mechanism, ensure that you authorise the UPI Mandate Request raised by the Sponsor Bank for blocking of funds equivalent to Bid Amount and subsequent debit of funds in case of Allotment;

14. Except for Bids (i) on behalf of the Central or State Governments and the officials appointed by the courts, who, in terms of the SEBI circular no. MRD/Dop/Cir-20/2008 dated June 30, 2008, may be exempt from specifying their PAN for transacting in the securities market, (ii) submitted by investors who are exempt from the requirement of obtaining/specifying their PAN for transacting in the securities market, and (iii) Bids by persons resident in the state of Sikkim, who, in terms of a SEBI circular dated July 20, 2006, may be exempted from specifying their PAN for transacting in the securities market, all Bidders should mention their PAN allotted under the IT Act. The exemption for the Central or the State Government and officials appointed by the courts and for investors residing in the State of Sikkim is subject to (a) the Demographic Details received from the respective depositories confirming the exemption granted to the beneficiary owner by a suitable description in the PAN field and the beneficiary account remaining in "active status"; and (b) in the case of residents of Sikkim, the address as per the Demographic Details evidencing the same. All other applications in which PAN is not mentioned will be rejected;

15. Ensure that the Demographic Details are updated, true and correct in all respects;

16. Ensure that thumb impressions and signatures other than in the languages specified in the Eighth Schedule to the Constitution of India are attested by a Magistrate or a Notary Public or a Special Executive Magistrate under official seal;

17. Ensure that the category and the investor status is indicated;

18. Ensure that in case of Bids under power of attorney or by limited companies, corporates, trust, etc., relevant documents are submitted;

19. Ensure that Bids submitted by any person resident outside India is in compliance with applicable foreign and Indian laws;

20. Ensure that the Bidder's depository account is active, the correct DP ID, Client ID, the PAN, UPI ID, if applicable, are mentioned in their Bid cum Application Form and that the name of the Bidder, the DP ID, Client ID, the PAN and UPI ID, if applicable, entered into the online IPO system of the Stock Exchanges by the relevant Designated Intermediary, as applicable, matches with the name, DP ID, Client ID, PAN and UPI ID, if applicable, available in the Depository database;

21. Ensure that when applying in the Offer using UPI, the name of your SCSB appears in the list of SCSBs displayed on the SEBI website which are live on UPI. Further, also ensure that the name of the app and the UPI handle being used for making the application is also appearing in Annexure 'A' to the SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2019/85 dated July 26, 2019;

22. RIBs who wish to revise their Bids using the UPI Mechanism, should submit the revised Bid with the Designated Intermediaries, pursuant to which RIBs should ensure acceptance of the UPI Mandate Request received from the Sponsor Bank to authorise blocking of funds equivalent to the revised Bid Amount in the RIB's ASBA Account;

23. Ensure that you have accepted the UPI Mandate Request received from the Sponsor Bank prior to 12:00 p.m. of the Working Day immediately after the Bid/ Offer Closing Date;

24. RIBs shall ensure that details of the Bid are reviewed and verified by opening the attachment in the UPI Mandate Request and then proceed to authorize the UPI Mandate Request using his/her UPI PIN. Upon the authorization of the mandate using his/her UPI PIN, an RIB may be deemed to have verified the attachment containing the application details of the RIB in the UPI Mandate Request and have agreed to block the entire Bid Amount and authorized the Sponsor Bank to block the Bid Amount mentioned in the Bid Cum Application Form; and

25. Ensure that while Bidding through a Designated Intermediary, the Bid cum Application Form (other than for Anchor Investors and RIBs bidding using the UPI Mechanism) is submitted to a Designated Intermediary in a Bidding Centre and that the SCSB where the ASBA Account, as specified in the ASBA Form, is maintained has named at least one branch at that location for the Designated Intermediary to deposit ASBA Forms (a list of such branches is available on the website of SEBI at www.sebi.gov.in).

The Bid cum Application Form is liable to be rejected if the above instructions, as applicable, are not complied with. Application made using incorrect UPI handle or using a bank account of an SCSB or SCSBs which is not mentioned in the Annexure 'A' to the SEBI circular no. SEBI/HO/CFD/DIL2/CIR/P/2019/85 dated July 26, 2019 is liable to be rejected.

Don'ts:

1. Do not Bid for lower than the minimum Bid size;
2. Do not Bid for a Bid Amount exceeding ₹200,000 (for Bids by Retail Individual Bidders);
3. Do not pay the Bid Amount in cheques, demand drafts or by cash, money order, postal order or by stock invest;
4. Do not send Bid cum Application Forms by post; instead submit the same to the Designated Intermediary only;
5. Do not Bid at Cut-off Price (for Bids by QIBs and Non-Institutional Bidders);
6. Do not instruct your respective banks to release the funds blocked in the ASBA Account under the ASBA process;
7. Do not submit the Bid for an amount more than funds available in your ASBA account.
8. Do not submit Bids on plain paper or on incomplete or illegible Bid cum Application Forms or on Bid cum Application Forms in a colour prescribed for another category of a Bidder;
9. In case of ASBA Bidders, do not submit more than one ASBA Forms per ASBA Account;
10. If you are a RIB and are using UPI mechanism, do not submit more than one ASBA Form for each UPI ID;
11. Anchor Investors should not Bid through the ASBA process;
12. Do not submit the ASBA Forms to any Designated Intermediary that is not authorised to collect the relevant ASBA Forms or to our Bank;
13. Do not Bid on a Bid cum Application Form that does not have the stamp of the relevant Designated Intermediary;
14. Do not submit the General Index Register (GIR) number instead of the PAN;
15. Do not submit incorrect details of the DP ID, Client ID, PAN and UPI ID, if applicable, or provide details for a beneficiary account which is suspended or for which details cannot be verified by the Registrar to the Offer;
16. Do not submit a Bid in case you are not eligible to acquire Equity Shares under applicable law or your relevant constitutional documents or otherwise;
17. Do not Bid if you are not competent to contract under the Indian Contract Act, 1872 (other than minors having valid depository accounts as per Demographic Details provided by the depository);
18. Do not submit a Bid/revise a Bid Amount, with a price less than the Floor Price or higher than the Cap Price;
19. Do not submit your Bid after 3.00 pm on the Bid/Offer Closing Date;
20. If you are a QIB, do not submit your Bid after 3:00 pm on the QIB Bid/Offer Closing Date;
21. Do not Bid on another ASBA Form after you have submitted a Bid to any of the Designated Intermediaries;
22. Do not Bid for Equity Shares in excess of what is specified for each category;
23. Do not fill up the Bid cum Application Form such that the Equity Shares Bid for, exceeds the Offer size and/or investment limit or maximum number of the Equity Shares that can be held under applicable laws or regulations or maximum amount permissible under applicable laws or regulations, or under the terms of the Red Herring Prospectus;
24. Do not submit the Bid without ensuring that funds equivalent to the entire Bid Amount are available for blocking in the relevant ASBA Account or in the case of Retail Individual Bidders Bidding using the UPI Mechanism, in the UPI-linked bank account where funds for making the Bid are available;

25. Do not withdraw your Bid or lower the size of your Bid (in terms of quantity of the Equity Shares or the Bid Amount) at any stage, if you are a QIB or a Non-Institutional Bidder.

26. Do not submit Bids to a Designated Intermediary at a location other than the Bidding Centres;

27. If you are an RIB which is submitting the ASBA Form with any of the Designated Intermediaries and using your UPI ID for the purpose of blocking of funds, do not use any third party bank account or third party linked bank account UPI ID;

28. Do not Bid if you are an OCB;

29. Do not link the UPI ID with a bank account maintained with a bank that is not UPI 2.0 certified by the NPCI in case of Bids submitted by RIBs using the UPI Mechanism;

30. Do not submit more than one Bid cum Application Form for each UPI ID in case of RIBs Bidding using the UPI Mechanism;

31. Do not submit a Bid cum Application Form with a third party UPI ID or using a third party bank account (in case of Bids submitted by Retail Individual Bidders using the UPI Mechanism); and

32. RIBs Bidding through the UPI Mechanism using the incorrect UPI handle or using a bank account of an SCSB or a bank which is not mentioned in the list provided in the SEBI website is liable to be rejected; and

The Bid cum Application Form is liable to be rejected if the above instructions, as applicable, are not complied with.

Further, in case of any pre-Offer or post Offer related issues regarding share certificates/demat credit/refund orders/unblocking etc., investors shall reach out the Company Secretary and Compliance Officer. For details of Company Secretary and Compliance Officer, see "*General Information*" on page 62 and "*Our Management*" on page 190.

For helpline details of the Book Running Lead Managers pursuant to the SEBI/HO.CFD.DIL2/CIR/P/2021/2480/1/M dated March 16, 2021, see "*General Information*" on page 62.

Further, helpline details of the BRLMs pursuant to the SEBI/HO/CFD/DIL2/CIR/P/2021/2480/1/M dated March 16, 2021 are set forth in the table below:

Sr. No.	Name of BRLM	E-mail	Telephone
1.	Axis Capital Limited	esaf.ipo@axiscap.in	+91 22 4325 2183
2.	Edelweiss Financial Services Limited	esaf.ipo@edelweissfin.com	+91 22 4009 4400
3.	ICICI Securities Limited	esafsfb.ipo@icicisecurities.com	+91 22 2288 2460
4.	IIFL Securities Limited	esaf.ipo@iiflcap.com	+91 22 4646 4600

Names of entities responsible for finalising the basis of allotment in a fair and proper manner

The authorised employees of the Designated Stock Exchange, along with the BRLMs and the Registrar, shall ensure that the basis of allotment is finalised in a fair and proper manner in accordance with the procedure specified in SEBI ICDR Regulations.

Method of allotment as may be prescribed by SEBI from time to time

Our Bank will not make any allotment in excess of the Equity Shares through the Offer document except in case of oversubscription for the purpose of rounding off to make allotment, in consultation with the Designated Stock Exchange. Further, upon oversubscription, an allotment of not more than one per cent of the Offer may be made for the purpose of making allotment in minimum lots.

The allotment of Equity Shares to applicants other than to the Retail Individual Bidders and Anchor Investors shall be on a proportionate basis within the respective investor categories and the number of securities allotted shall be rounded off to the nearest integer, subject to minimum allotment being equal to the minimum application size as determined and disclosed.

The allotment of Equity Shares to each Retail Individual Bidders shall not be less than the minimum bid lot, subject to the availability of shares in Retail Individual Bidders Portion, and the remaining available Equity Shares, if any, shall be allotted on a proportionate basis.

Payment into Escrow Account(s) for Anchor Investors

Our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs, in their absolute discretion, will decide the list of Anchor Investors to whom the CAN will be sent, pursuant to which the details of the Equity Shares allocated to them in their respective names will be notified to such Anchor Investors. Anchor Investors are not permitted to Bid in the Offer through the ASBA process. Instead, Anchor Investors should transfer the Bid Amount (through direct credit, RTGS, NACH or NEFT) to the Escrow Accounts. For Anchor Investors, the payment instruments for payment into the Escrow Account(s) should be drawn in favour of:

(a) In case of resident Anchor Investors: "[●]"

(b) In case of non-resident Anchor Investors: "[●]"

Anchor Investors should note that the escrow mechanism is not prescribed by SEBI and has been established as an arrangement between our Bank, each of the Selling Shareholders and the Syndicate, the Escrow Collection Bank and the Registrar to the Offer to facilitate collections of Bid amounts from Anchor Investors.

Pre-Offer Advertisement

Subject to Section 30 of the Companies Act, 2013, our Bank shall, after filing the Red Herring Prospectus with the RoC, publish a pre- Offer advertisement, in the form prescribed by the SEBI ICDR Regulations, in: (i) [●] editions of [●], a widely circulated English national daily newspaper, (ii) [●] editions of [●], a widely circulated Hindi national daily newspaper, and (iii) [●] editions of [●], a widely circulated Malayalam newspaper, Malayalam being the regional language of Kerala, where our Registered and Corporate Office is located.

In the pre-Offer advertisement, we shall state the Bid/Offer Opening Date and the Bid/ Offer Closing Date. This advertisement, subject to the provisions of Section 30 of the Companies Act, 2013, shall be in the format prescribed in Part A of Schedule X of the SEBI ICDR Regulations.

Allotment Advertisement

Our Bank, the BRLMs and the Registrar shall publish an advertisement in relation to Allotment before commencement of trading, disclosing the date of commencement of trading of the Equity Shares, in (i) [●] editions of [●], a widely circulated English national daily newspaper, (ii) [●] editions of [●], a widely circulated Hindi national daily newspaper, and (iii) [●] editions of [●], a widely circulated Malayalam newspaper, Malayalam being the regional language of Kerala, where our Registered and Corporate Office is located.

The above information is given for the benefit of the Bidders/applicants. Our Bank, each of the Selling Shareholders and the members of the Syndicate are not liable for any amendments or modification or changes in applicable laws or regulations, which may occur after the date of this Draft Red Herring Prospectus. Bidders/applicants are advised to make their independent investigations and ensure that the number of Equity Shares Bid for do not exceed the prescribed limits under applicable laws or regulations.

Signing of the Underwriting Agreement and filing of the Red Herring Prospectus and Prospectus with the RoC

(a) Our Bank, each of the Selling Shareholders and the Syndicate intend to enter into an Underwriting Agreement on or immediately after the finalisation of the Offer Price but prior to the filing of Prospectus.

(b) After signing the Underwriting Agreement, an updated Red Herring Prospectus will be filed with the RoC in accordance with applicable law, which then would be termed as the 'Prospectus'. The Prospectus will contain details of the Offer Price, the Anchor Investor Offer Price, Offer size, and underwriting arrangements and will be complete in all material respects.

Depository Arrangements

The Allotment of the Equity Shares in the Offer shall be only in a dematerialised form, (i.e., not in the form of physical certificates but be fungible and be represented by the statement issued through the electronic mode). For more information, see "*Terms of the Offer*" on page 355.

Undertakings by our Bank

Our Bank undertakes the following:

- adequate arrangements shall be made to collect all Bid cum Application Forms submitted by Bidders (including Anchor Investor Application Form from Anchor Investors);
- the complaints received in respect of the Offer shall be attended to by our Bank expeditiously and satisfactorily;
- all steps for completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges where the Equity Shares are proposed to be listed shall be taken within six Working Days of the Bid/Offer Closing Date or such other period as may be prescribed by SEBI;
- if Allotment is not made within the prescribed time period under applicable law, the entire subscription amount received will be refunded/unblocked within the time prescribed under applicable law. If there is delay beyond the

prescribed time, our Bank shall pay interest prescribed under the Companies Act, 2013, the SEBI ICDR Regulations and applicable law for the delayed period;

- the funds required for making refunds/unblocking (to the extent applicable) as per the mode(s) disclosed shall be made available to the Registrar to the Offer by our Bank;

  where refunds (to the extent applicable) are made through electronic transfer of funds, a suitable communication shall be sent to the unsuccessful Bidder within six Working Days from the Bid/ Offer Closing Date or such other prescribed under applicable law, giving details of the bank where refunds shall be credited along with amount and expected date of electronic credit of refund; and

- Except for Equity Shares that may be allotted pursuant to the conversion of vested employee stock options, if any granted under the ESAF ESOP Plan 2019, the Pre-IPO Placement, the sweat equity shares which may be allotted to the Managing Director and Chief Executive Officer, subject to approval from the RBI as disclosed in "*Our Management - Terms of appointment of Directors - Remuneration paid to the Executive Director*" on page 193, and the Equity Shares allotted pursuant to the Offer, no further issue of the Equity Shares shall be made till the Equity Shares offered through the Red Herring Prospectus are listed or until the Bid monies are unblocked in ASBA Account/refunded on account of non-listing, under-subscription, etc.

Undertakings by each of the Selling Shareholders

Each Selling Shareholder undertakes severally and not jointly confirms as applicable in respect of itself as a Selling Shareholder and its respective portion of the Equity Shares offered by it in the Offer for Sale that:

- It is the legal and beneficial owner of the Offered Shares, and holds clear and marketable title to such Equity Shares;

- the Equity Shares offered for sale by each of the Selling Shareholders in the Offer are eligible for being offered in the Offer for Sale in terms of Regulation 8 of the SEBI ICDR Regulations;

- the Equity Shares being offered for sale by each of the Selling Shareholders pursuant to the Offer are free and clear of any pre-emptive rights, liens, mortgages, charges, pledges or any other encumbrances and shall be in dematerialized form at the time of transfer;

- it shall deposit its Equity Shares offered for sale in the Offer in an escrow demat in accordance with the share escrow agreement to be executed between the parties to such share escrow agreement;

- that it shall provide such reasonable assistance to our Bank and the BRLMs in redressal of such investor grievances that pertain to the Equity Shares held by it and being offered pursuant to the Offer;

- it shall provide such reasonable cooperation to our Bank in relation to their respective portion of the Equity Shares offered by it in the Offer for Sale for the completion of the necessary formalities for listing and commencement of trading at the Stock Exchange; and

- it shall not have recourse to the proceeds of the Offer until final approval for trading of the Equity Shares from the Stock Exchanges has been received.

The decisions with respect to the Price Band, Employee Discount, the minimum Bid lot, revision of Price Band will be taken by our Bank and the Promoter Selling Shareholder, in consultation with the BRLMs. The Offer Price will be decided by our Bank and the Selling Shareholders, in consultation with the BRLMs, on the Pricing Date in accordance with the Book Building Process and the Red Herring Prospectus.

Only the statements and undertakings in relation to each of the Selling Shareholders and their portion of the Equity Shares offered in the Offer for Sale which are specifically "confirmed" or "undertaken" by each of the Selling Shareholders in this Draft Red Herring Prospectus, shall be deemed to be "statements and undertakings specifically confirmed or undertaken" by each of the Selling Shareholders severally and not jointly. All other statements and/ or undertakings in this Draft Red Herring Prospectus shall be statements and undertakings made by our Bank even if the same relate to any one or more of the Selling Shareholders.

Utilisation of Offer Proceeds

Our Board of Directors certifies and declares that:

- all monies received out of the Fresh Issue shall be credited/transferred to a separate bank account other than the bank account referred to in sub-section (3) of Section 40 of the Companies Act, 2013;

- details of all monies utilised out of the Offer shall be disclosed, and continue to be disclosed till the time any part of the Fresh Issue proceeds remains unutilised, under an appropriate head in the balance sheet of our Bank indicating the purpose for which such monies have been utilised; and

- details of all unutilised monies out of the Fresh Issue, if any shall be disclosed under an appropriate separate head in the balance sheet indicating the form in which such unutilised monies have been invested. The Bank and each of the Selling Shareholders, severally and not jointly, specifically confirm and declare that all monies received out of the Offer shall be transferred to a separate bank account other than the bank account referred to in sub-section 3 of Section 40 of the Companies Act, 2013.

Impersonation

Attention of the Bidders is specifically drawn to the provisions of sub-section (1) of Section 38 of the Companies Act, 2013 which is reproduced below:

"*Any person who—*

(a) *makes or abets making of an application in a fictitious name to a company for acquiring, or subscribing for, its securities; or*

(b) *makes or abets making of multiple applications to a company in different names or in different combinations of his name or surname for acquiring or subscribing for its securities; or*

(c) *otherwise induces directly or indirectly a company to allot, or register any transfer of, securities to him, or to any other person in a fictitious name,*

shall be liable for action under Section 447."

The liability prescribed under Section 447 of the Companies Act, 2013 for fraud involving an amount of at least ₹ 1 million or 1% of the turnover of the company, whichever is lower, 'includes imprisonment for a term which shall not be less than six months extending up to 10 years and fine of an amount not less than the amount involved in the fraud, extending up to three times such amount (provided that where the fraud involves public interest, such term shall not be less than three years.) Further, where the fraud involves an amount less than ₹ 1 million or one per cent of the turnover of the company, whichever is lower, and does not involve public interest, any person guilty of such fraud shall be punishable with imprisonment for a term which may extend to five years or with fine which may extend to ₹ 5 million or with both.

RESTRICTIONS ON FOREIGN OWNERSHIP OF INDIAN SECURITIES

Foreign investment in Indian securities is regulated through the Industrial Policy, 1991 of the Government of India and FEMA. While the Industrial Policy, 1991 prescribes the limits and the conditions subject to which foreign investment can be made in different sectors of the Indian economy, FEMA regulates the precise manner in which such investment may be made. Under the Industrial Policy, unless specifically restricted, foreign investment is freely permitted in all sectors of the Indian economy up to any extent and without any prior approvals, but the foreign investor is required to follow certain prescribed procedures for making such investment. The RBI and the concerned ministries/departments are responsible for granting approval for foreign investment. The Government has from time to time made policy pronouncements on foreign direct investment ("**FDI**") through press notes and press releases. The DPIIT, issued the Consolidated FDI Policy Circular of 2020 ("**FDI Policy**"), which, with effect from October 15, 2020, subsumes and supersedes all press notes, press releases, clarifications on FDI that were in force and effect as on August 27, 2017.

The transfer of shares between an Indian resident and a non-resident does not require the prior approval of the RBI, provided that (i) the activities of the investee company are under the automatic route under the FDI policy and transfer does not attract the provisions of the Takeover Regulations; (ii) the non-resident shareholding is within the sectoral limits under the FDI policy; and (iii) the pricing is in accordance with the guidelines prescribed by the SEBI/RBI.

As per the existing policy of the Government of India, OCBs cannot participate in this Offer.

Further, in accordance with Press Note No. 3 (2020 Series), dated April 17, 2020 issued by the DPIIT and the FEMA Non-Debt Instruments Rules, any investment, subscription, purchase or sale of equity instruments by entities of a country which shares land border with India or where the beneficial owner of an investment into India is situated in or is a citizen of any such country, will require prior approval of the Government of India, as prescribed in the FDI Policy and the FEMA Non-Debt Instruments Rules. Further, in the event of transfer of ownership of any existing or future foreign direct investment in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the aforesaid restriction/ purview, such subsequent ownership of any existing or future foreign direct investment in an entity in India, directly or indirectly, resulting in the beneficial ownership falling within the aforesaid restriction/purview, such subsequent change in the beneficial ownership will also require approval of the Government of India. Each Bidder should seek independent legal advice about its ability to participate in the Offer. In the event such prior approval of the Government of India is required, and such approval has been obtained, the Bidder shall intimate our Bank and the Registrar in writing about such approval along with a copy thereof within the Bid/ Offer Period.

Foreign Investment Laws

The foreign investment in our Bank is governed by, *inter alia,* the FEMA, as amended, the FEMA Regulations, the FDI Policy issued and amended by way of press notes.

In terms of the FDI Policy and SFB Licensing Guidelines, the aggregate foreign investment in an SFB is allowed up to a maximum of 74% of the paid-up capital of the SFB (automatic up to 49% and approval route beyond 49% up to 74 %). At all times, at least 26% of the paid-up capital will have to be held by residents. In the case of FPIs, individual FPI holding is restricted to below 10% of the total paid-up capital on a fully diluted basis.

In the case of NRIs, the individual holding is restricted to 5% of the total paid-up capital both on a repatriation and a non-repatriation basis and aggregate limit cannot exceed 10% of the total paid-up capital both on a repatriation and a non-repatriation basis.

The FEMA Non-debt Instruments Rules was enacted on October 17, 2019 in supersession of the FEMA Regulations, except with respect to things done or omitted to be done before such supersession.

The above information is given for the benefit of the Bidders. Our Bank and the BRLMs are not liable for any amendments or modification or changes in applicable laws or regulations, which may occur after the date of this Draft Red Herring Prospectus. Bidders are advised to make their independent investigations and ensure that the number of Equity Shares Bid for do not exceed the applicable limits under laws or regulations.

SECTION VIII: DESCRIPTION OF EQUITY SHARES AND TERMS OF ARTICLES OF ASSOCIATION

Capitalized terms used in this section have the meanings that have been given to such terms in the Articles of Association of our Bank. Pursuant to the SEBI ICDR Regulations, the main provisions of the Articles of Association of our Bank are detailed below.

Authorised share capital

The authorized share capital of ESAF Small Finance Bank Limited (the "**Bank**") shall be such as given in Clause V of the Memorandum from time to time, with the power to increase or reduce the capital and to issue any part of its capital original or increased with or without any priority or special privilege, subject to the provisions of the 1949 Act, the Act, the Guidelines or any other rules under Applicable Law.

Alteration of capital

The Bank shall have the power to increase or reduce the authorised capital and to issue any part of its capital original or increased with or without any priority or special privilege subject to compliance with the 1949 Act, the Act, the Guidelines or any other rules under Applicable Law, or subject to any postponement of rights or to any conditions or restrictions so that unless the conditions of issue otherwise prescribe such issue shall be subject to the provisions herein contained.

The Bank in its General Meeting may, from time to time, increase the capital by the creation of new shares of such amount as may be deemed expedient.

Subject to the provisions of Section 43 of the Act and Section 12 of the 1949 Act and the Guidelines, the new shares shall be issued upon such terms and conditions and with such rights and privileges as the Bank in General Meeting shall prescribe, and in particular, such shares may be issued, subject to the 1949 Act and circulars that may be issued by the RBI from time to time, with a special or qualified right to dividend and in the distribution of assets of the Bank.

Any issue of shares which results in a Person (by himself or acting in concert with any other Person) acquiring 5% or more of the paid-up Equity Share capital or voting rights of the Bank shall be made with prior approval of the RBI.

Power to sub- divide and consolidate

The Bank may, by ordinary resolution, from time to time, subject to Section 61 of the Act, alter the conditions of Memorandum as follows:

a. Consolidate and divide all or any its share capital into shares of larger amount than its existing shares;

b. Convert all or any one its fully paid-up shares into stock, and reconvert that stock into fully paid-up shares of any denomination;

c. Sub- divide its existing shares or any of them into shares of smaller amount than is fixed by Memorandum. However, while undertaking the sub-division, the proportion between the amount paid and the amount unpaid on each reduced share shall be the same as it was in the case of the share from which the reduced share is derived; and

d. Cancel shares which, at the date of the passing of the resolution in that behalf, have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled

Allotment of shares

Subject to the provisions of the Act, 1949 Act and these Articles the shares in the capital of the Bank for the time being shall be under the control of the Directors who may issue, allot or otherwise dispose of the same or any of them to such persons, in such proportion and on such terms and conditions and either at a premium or at par or at a discount and at such times as they may from time to time think fit and proper, and with full power with the sanction of the Bank in General Meeting, to give to any person the option or right to call for or be allotted shares of any class of the Bank either at par or at premium such option being exercisable at such time and for such consideration as the Directors think fit and may issue and allot shares in the capital of the Bank on payment in full or part of any property sold and transferred or for any services rendered to the Bank in the conduct of its business and any shares which may be so allotted may be issued as fully paid-up or partly paid-up shares, as the case may be. Provided that the option or right to call for shares shall not be given to any person or persons without the sanction of the Bank in the General Meeting.

Forfeiture and lien

If any Member fails to pay any call or instalment of a call on or before the day appointed for the payment of the same or any such extension thereof as aforesaid, the Board may, at any time thereafter if the call or instalment remains unpaid, give notice to him requiring him to pay the same together with any interest that may have accrued and all expenses that may have been incurred by the Bank by reason of such non-payment. The provisions of forfeiture shall apply in the case of non- payment of any sum which, by the terms of issue of a share, becomes payable at a fixed time, whether on account of the nominal value of the share or by way of premium, as if the same had been payable by virtue of a call duly made and notified.

The Bank shall have no lien on its fully paid-up shares.

The Bank shall have a first and paramount lien (i) on every share to the extent of all moneys called or payable at a fixed time in respect of such shares and (ii) on all shares/ debentures (not being fully paid-up) standing registered in the name of a single person, for all monies presently payable by him or his estate to the Bank.

Shares

When at any time the Bank proposes to increase the subscribed capital of the Bank by the issue of new shares, then subject to any decision which may be taken by the Bank in General Meeting, such new shares shall be offered to such persons as specified in the Act and these Articles.

Nothing in this Article shall apply to the increase of the subscribed capital of the Bank caused by the exercise of an option as a term attached to the debentures issued or loans raised by the Bank to convert such debentures or loans into shares of the Bank or subscribe to shares of the Bank in accordance with the provisions of the 1949 Act and guidelines issued by the RBI from time to time. Provided that the terms of issue of such debentures or loan containing such an option have been approved before the issue of such debentures or the raising of loan by a Special Resolution passed by the Bank in a General Meeting.

Subject to the provisions of the Act, 1949 Act and these Articles the shares in the capital of the Bank for the time being (including any shares forming a part of any increased capital of the Bank) shall be under the control of the Directors who may issue, allot or otherwise dispose of the same or any of them to such persons, in such proportion and on such terms and conditions and either at a premium or at par (and subject to compliance with applicable law) at a discount and at such times as they may from time to time think fit and proper, and with full power with the sanction of the Bank in General Meeting, to give to any person the option or right to call for or be allotted shares of any class of the Bank either at par or at premium during such time and for such consideration as the Directors think fit and may allot shares in the capital of the Bank on payment in full or part of any property sold and transferred or for any services rendered to the Bank in the conduct of its business and any shares which may be so allotted may be issued as fully paid-up or partly paid-up shares, as the case may be. Provided that the option or right to call for shares shall not be given to any person or persons without the sanction of the Bank in the General Meeting.

Any application signed by the applicant for shares in the Bank, followed by an allotment of any shares therein, shall on acceptance of the shares by him within the meaning of these Articles; and every person who thus or otherwise accepts any shares and whose name is on the Register shall, for the purposes of the Act and these Articles, be a Member of the Bank.

Every Member, or his heirs, executors or administrator shall pay to the Bank the portion of the capital represented by his share or shares which may, for the time being remain unpaid thereof, in such amounts, at such time or times and in such manner as the Board of Directors shall from time to time, in accordance with these Articles, require or fix for the payment thereof.

The Bank shall cause to be kept a Register of Members, an index of Members, a register of debenture holders and an index of debenture holders in accordance with Section 88 of the Act.

Subject to Section 89 of the Act and save as herein otherwise provided, the Bank shall be entitled to treat the person whose name appears on the Register of Members as the holder of any share as the absolute owner thereof.

Certificate

The certificates of title to shares shall be issued under the Companies (Share Capital and Debentures) Rules, 2014 and other relevant provisions under Applicable Law.

Unless where the shares are issued in dematerialized form, every Member or allottee of shares shall be entitled, without payment, to receive within 2 months after incorporation, in case of subscribers to the Memorandum or within 2 months from the date of allotment or within 1 month after the application for the registration of transfer, transmission, subdivision, consolidation or renewal of any of its shares or within such other period as the conditions of issue shall be provided:

(a) One certificate for all his shares without payment of any charge; or

(b) Several certificates, each for one or more of his shares, upon payment of twenty rupees for each certificate after the first.

On listing of the shares of the Bank on a recognised stock exchange, the share certificates shall be generally issued in marketable lots and where share certificates are issued in lots other than marketable lots, subdivision, and consolidation of share certificates into marketable lots shall be done by the Bank free of charge.

Every certificate shall specify the name of the person in whose favour it is issued. Every share shall be under the Seal of the Bank and signed by two Directors or by a Director and the Company Secretary and shall specify the number and distinctive numbers of shares in respect of which it is issued and amount paid-up thereon.

No certificate of any share or shares shall be issued either in exchange for those which are sub-divided or consolidated or where the pages on the reverse for recording transfers have been duly utilized, unless the certificate in lieu of which it is issued is surrendered to the Bank. Duplicate share certificates may be issued in lieu of those that are lost or destroyed or in replacement of those which are defaced, torn, old, decrepit, worn out or if there be no further space on the back for endorsement of transfer, with the prior consent of the Board and on such reasonable terms, as the Board may think fit. The Bank shall make entry of such share certificates issued in the register of renewed and duplicate share certificates in such manner and within such timeframe prescribed in the Act.

In respect of any share or shares held jointly by several persons, the Bank shall not be bound to issue more than one share certificate. The certificates of shares registered in the names of two or more persons shall be delivered to any one of such persons named in the Register, which shall be sufficient delivery to all such holders.

The provisions above shall *mutatis mutandis* apply to debentures of the Bank.

Transfer and transmission of shares

No transfer shall be registered unless a proper instrument of transfer has been delivered to the Bank. Every such instrument of transfer shall be duly stamped and executed both by the transferor and transferee and duly attested. The instrument of transfer of any share shall be in the prescribed form and in accordance with the requirements of Section 56 of the Act. The transferor shall be deemed to remain as the holder of such share until the name of the transferee shall have been entered in the Register in respect thereof.

The Board may decline to recognise any instrument of transfer unless: (a) the instrument of transfer is in the form as prescribed under Section 56 and in the rules made under sub-section (1) of section 56; (b) the instrument of transfer is accompanied by the certificate of the shares to which it relates, and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; and (c) the instrument of transfer is in respect of only one class of shares.

Any issue / acquisition of shares which results in a person holding (by himself or acting in concert with any other person) 5% or more of the paid-up Equity Share capital or voting rights of the Bank shall be made only with prior approval of RBI. No person/ group of persons shall acquire or agree to acquire directly or indirectly by himself or acting in concert with any other person, any shares of the Bank or voting rights therein, in contravention of the provisions of the 1949 Act or the Guidelines.

If the Board of Directors refuses to register a transfer of any shares, they shall, within 30 days from the date on which the transfer was lodged with the Bank, send to the transferee and the transferor or person giving intimation of such transmission, notice of the refusal along with the reasons for refusal

The legal heir, nominee, executors or administrators of a deceased Member shall be the only persons recognised by the Bank as having any title to his share except in cases of joint holders, in which case the surviving holder or holders or the executors or administrators of the last surviving holders shall be the only persons entitled to be so recognised; but nothing herein contained shall release the estate of a deceased joint holder from any liability in respect of any share jointly held by him. The Bank shall not be bound to recognise such executor or administrator, unless he shall have obtained probate or letters of administration or other legal representation, as the case may be, from a competent court in India. Provided nevertheless that in cases, which the Board in its discretion considers to be special cases and in such cases only, it shall be lawful for the Board to dispense with the production of probates or letters of administration or such other legal representations upon such terms as to indemnity, publication of notice or otherwise as the Board may deem fit.

Every transmission of a share shall be verified in such manner as the Board of Directors may require and the Bank may refuse to register any such transmission until the same be so verified or until or unless an indemnity be given to the Bank with regard to such registration which the Directors at their discretion shall consider sufficient, provided nevertheless that there shall not be any obligation of the Bank or the Board of Directors to accept any indemnity.

The provisions of these Articles shall *mutatis mutandis* apply to the transfer of debentures and other securities of the Bank or transmission thereof by operation of law.

Buyback

Subject to the provisions of Section 68 to 70 of the Act, provisions of 1949 Act and guidelines issued by the RBI from time to time, FEMA and any other Applicable Law for the time being in force, the Bank may purchase its own shares or specified securities in such manner as may be prescribed.

Borrowing powers

The Board of Directors may, from time to time, by a resolution passed at a meeting of the Board, borrow money for the purposes of the Bank. Subject to the provisions of the Act, the 1949 Act and guidelines issued by the RBI from time to time, and these Articles, the Board may raise or secure the repayment of such sum or sums in such manner and upon such terms and conditions in all respects as they think fit. Provided that the Board of Directors shall not borrow money except with the approval of the Bank in General Meeting by Special Resolution, where money to be borrowed together with the money already borrowed by the Bank, apart from temporary loans obtained in its ordinary course of business and except as otherwise provided hereafter, shall exceed the aggregate of the paid-up capital of the Bank and its free reserves or limits as set under the Act.

Provided that nothing contained herein above shall apply to: (i) any sums of money borrowed by the Bank from any other banking companies or from the RBI, or any other scheduled banks established by or under any law for the time being in force; and (ii) acceptance by the Bank in the ordinary course of business of deposits of money from the public, repayable on demand or otherwise and withdrawable by cheque, draft, order or otherwise.

Issue of Bonus Shares

The Bank may issue fully paid-up bonus shares to its Members in accordance with the provisions of Section 63 of the Act, 1949 Act and Applicable Laws subject to such terms and conditions as may be prescribed from time to time.

General Meetings

General Meeting means either an Extraordinary General Meeting or Annual General Meeting of the Bank's shareholders.

Meetings of Directors

The Directors may meet together at a Board for the dispatch of business from time to time, and at least 4 such meetings shall be held in every year with a time gap of not more than 120 days. The Directors may adjourn and otherwise regulate their meetings and proceedings as they may think fit. Notice of every meeting of the Board of Directors shall be given in writing to every Director at his usual address in India and, in the case of any Director residing abroad, such notice shall also be given by fax to such Director's fax number abroad or sent by electronic mail. A notice of the Board meeting may also be served electronically.

Subject to Section 174 of the Act, the quorum for a meeting of the Board of Directors shall be 1/3rd of its total strength, or two Directors, whichever is higher, provided that where at any time the number of interested Directors exceeds or is equal to 2/3rd of the total strength of the number of the remaining Directors, that is to say, the number of Directors who are not interested and present at the meeting being not less than two, shall be the quorum during such time. Subject to the Act, participation of the Directors by video conferencing or by other audio visual means shall also be counted for the purposes of quorum. If a meeting of the Board cannot be held for want of quorum, then the meeting shall stand adjourned to such day, time and place as the Director or Directors present at the meeting may fix.

A meeting of the Board for the time being at which a quorum is present shall be competent to exercise all authority, powers and discretions which by or under the Act or the Articles of the Bank are for the time being vested in or exercisable by the Board of Directors generally.

The Board of Directors may constitute such committees of Directors as may be required under the Act or 1949 Act or other Applicable Laws as may be applicable from time to time. The Directors may subject to the provisions of the Act and the 1949 Act, delegate any of their powers to committees consisting of such member or members of their body as they think fit and they may from time to time revoke such delegation. Any committee so formed shall in the exercise of the powers so delegated, conform to any regulations that may from time to time be imposed on it by the Directors.

The Bank shall cause minutes of the proceedings of every meeting of the Board of Directors and of every committee of the Board to be recorded in accordance with the relevant provisions of Section 118 of the Act, within 30 days of the conclusion of every such meeting and the minutes shall contain the matters specified in the said section.

The Bank shall maintain such registers, books and documents as may be required under the Act and 1949 Act.

Managing Director

Subject to requisite approval from RBI and other Applicable Laws, a Managing Director may be appointed by the Board for such term, at such remuneration and upon such conditions as it may think fit and may be removed by means of a resolution of the Board.

As long as EFHPL and Kadambelil Paul Thomas continue to be the Promoters of the Bank, EFHPL has the right to appoint a maximum of three Directors on the Board of the Bank and Kadambelil Paul Thomas has the right to appoint a maximum of two (including himself if he choose to be one) Directors on the Board of the Bank. Any such appointment, shall to the extent required by Applicable Laws, be subject to the consent of the RBI. The right of the Promoters in this regard shall be subject to the receipt of shareholders' approval, in the first general meeting of the Bank held after successful listing and trading pursuant to completion of the initial public offer by the Bank. In the event any Directors nominated by EFHPL or its shareholders to the Board of the Bank are not accepted by RBI, the same will not be appointed to the Board and will not constitute any breach of obligations by EFHPL with any of its shareholders.

As long as EFHPL and Kadambelil Paul Thomas continue to be the Promoters of the Bank, the Promoters shall nominate the Chairman and Managing Director & CEO of the Bank, subject to the approval of the Board and prior approval of the RBI. The right of the Promoters in this regard shall be subject to the receipt of shareholders' approval, in the first general meeting of the Bank held after successful listing and trading pursuant to completion of the initial public offer by the Bank.

A Managing Director whose term of office has come to an end, either by reason of his resignation or by reason of expiry of the period of his office, shall, subject to the approval of the RBI, continue in office until his successor assumes office. Further, a Managing Director shall not, while he continues to hold that office, be subject to retirement by rotation under the Act or these Articles but he shall, subject to the provisions of any contracts between him and the Bank, be subject to the same provisions as to resignation and removal as the other Directors of the Bank and he shall *ipso facto* immediately cease to be a Managing Director if he ceases to hold the office of Director for any cause.

Subject to the superintendence, control and direction of the Board of Directors, the Board may from time to time entrust to and confer upon a Managing Director, save as prohibited in the Act and other Applicable Laws, such of the powers exercisable under these presents by the Directors as they may think fit and may confer such powers for such time and to be exercised for such objects and purposes and upon such terms and conditions and with such restrictions as they think fit expedient and they may subject to the provisions of the Act, other Applicable Laws and these Articles confer such powers, either collaterally with or to the exclusion of or in substitution for all or any of the powers of the Directors in that behalf, and may from time to time revoke, withdraw, alter or vary all or any of such powers.

Appointment of Directors

(a) Until otherwise determined by the General Meeting, the number of Directors on the Board of the Bank shall not be less than 3 (three) or more than 15 (fifteen). Majority of the Board members shall be Independent Directors.

(b) Majority of the Board of Directors shall include persons with professional and other experience as required under the 1949 Act. The Bank shall appoint such number of Independent Directors and woman Director as may be required under the Act, 1949 Act or any other Applicable Law for the time being in force. Subject to Sections 152, 160 and other applicable provisions of the Act and 1949 Act, one third of the total number of Directors of the Bank may be non-retiring Directors.

(c) Subject to the provisions of the Securities and Exchange Board of India (Debenture Trustee) Regulations, 1993 and Applicable Laws, if it is provided by any trust deed, securing or otherwise, in connection with any issue of debentures of the Bank, that any person or persons shall have powers to nominate a Director of the Bank, then in the case of any and every such issue of debentures, the person or persons having such power may exercise, such power from time to time and appoint a Director accordingly. Any Director so appointed is herein referred to as a "Debenture Director". A Debenture Director may be removed from office at any time by the person or persons in whom for the time being is vested the power under which he was appointed and another Director may be appointed in his place. A Debenture Director shall not be bound to hold any qualification shares nor shall he be liable to retire by rotation.

Extra-ordinary general meeting

The Board may, whenever it thinks fit, call an Extra-Ordinary General Meeting.

Votes of Members

Subject to the provisions of the Act, votes may be given either personally or by an attorney or by Proxy or, in the case of a body corporate, by a representative duly authorised under Section 113 of the Act. A Member may exercise his vote at a meeting by electronic means in accordance with section 108 and shall vote only once.

Subject to any rights or restrictions for the time being attached to any class or classes of shares, (i) on a show of hands, every Member present in person shall have one vote; and (ii) on a poll, the voting rights of Members shall be in proportion to his share in paid-up equity share capital. Provided however that the voting rights shall be subject to the restrictions imposed under Section 12 of the 1949 Act.

A body corporate (whether a company within the meaning of the Act or not) may if it is duly authorised by a resolution of its directors or other governing body, appoint a person to act as its representative at any meeting in accordance with the provisions of section 113 of the Act. The production at the meeting of a copy of such resolution duly signed by one Director of such body corporate or by a Member of its governing body and certified by him as being a true copy of the resolution shall on production at the meeting be accepted by the Bank as sufficient evidence of the validity of his appointment.

Any Member of the Bank entitled to attend and vote at a meeting of the Bank shall be entitled to appoint any other person (whether a Member or not) as his Proxy to attend and vote instead of himself, but a Proxy so appointed shall not have any right to speak at the meeting.

No Member shall be entitled to vote at any General Meeting either personally or by Proxy or as Proxy for another Member or be reckoned in a quorum while any call or other sum shall be due and payable to the Bank in respect of any of the shares of such Member or in respect of any shares on which the Bank has or had exercised any right of lien.

Dividend

No dividend shall be declared or paid by the Bank for any Financial Year, unless requirement of Sections 15, 17 and other applicable provisions, if any, of the 1949 Act are complied with.

Subject to the provisions of Section 123 of the Act, the Board may from time to time pay interim dividends as they deem fit and justified by the profits of the Bank.

The Bank may in General Meeting subject to Sections 123 and other applicable provisions of the Act and 1949 Act, declare dividends, to be paid to Members according to their respective right but no dividend shall exceed the amount recommended by the Board of Directors. No dividend shall be paid otherwise than out of profits of the year or any other undistributed profits or otherwise than in accordance with the provisions of Sections 123 of the Act or any other law for the time being in force and no dividend shall carry interest as against the Bank unless required by law. All dividends shall be apportioned and paid proportionately to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid but if any share is issued on terms providing that it shall rank for dividends as from a particular date such shares shall rank for dividend accordingly.

Unpaid or Unclaimed Dividend

Unclaimed / unpaid dividend shall not be forfeited by the Board before the claim becomes barred by law. However, if it remains unclaimed / unpaid for a period beyond that specified under the Act, the same shall be transferred to the Investor Education and Protection Fund under Section 125 of the Act.

Where a dividend has been declared by the Bank but has not been paid or claimed within 30 days from the date of the declaration, the Bank shall, within 7 days from the date of expiry of the said period of 30 days, transfer the total amount of dividend which remains unpaid / unclaimed to a special account to be opened by the Bank in that behalf in any Scheduled Bank to be called "Unpaid Dividend Account of ESAF Small Finance Bank Limited." and all the other provisions of Sections 123 and 124 of the Act in respect of any such unpaid dividend or any part thereof shall be applicable, observed, performed and complied with.

No dividend shall be payable except in cash; Provided that nothing in this Article shall be deemed to prohibit the capitalisation of profits of the Bank for the purpose of issuing fully paid-up bonus shares or paying up any amount for the time being unpaid on any shares held by the Members of the Bank.

No dividend shall bear interest against the Bank.

Winding Up

Subject to the provisions of 1949 Act and the Act and the rules made thereunder:

(1) If the Bank shall be wound up, the liquidator may, with the sanction of a shareholders resolution as necessary and any other sanction required by the Act, divide amongst the Members, in specie or kind, the whole or any part of the assets of the Bank, whether they shall consist of property of the same kind or not.

(2) For the purpose aforesaid, the liquidator may set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as among the Members or different classes of Members.

(3) The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the contributories if he considers necessary, but so that no Member shall be compelled to accept any shares or other securities whereon there is any liability.

Indemnity

Every officer or agent for the time being of the Bank shall be indemnified out of the funds of the Bank against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted or in connection with any application under Section 463 of the Act in which relief is granted to him by the Court or the Tribunal.

Subject to the provisions of Section 197 of the Act, no Director, Managing Director & CEO or whole time Director or other officer of the Bank shall be liable for the acts, receipts, neglects or defaults of any other Director or officer or for joining in any respect of other act for conformity or for any loss or expenses happening to the Bank through the insufficiency or deficiency of title to any property acquired by order of the Directors in or upon which any of the moneys of the Bank shall be invested or for any loss or damage arising from the bankruptcy, insolvency or tortuous act of any person, company or corporation with whom any moneys, securities or effects shall be entrusted or deposited or for any loss occasioned by any error of judgment, omission or default or oversight on his part or for any other loss or damage or misfortune whatever which shall happen in the execution of the duties of his office or in relation thereto unless the same happens through his own dishonesty.

SECTION IX: OTHER INFORMATION

MATERIAL CONTRACTS AND DOCUMENTS FOR INSPECTION

The copies of the following contracts which have been entered or are to be entered into by our Bank (not being contracts entered into in the ordinary course of business carried on by our Bank or contracts entered into more than two years before the date of this Draft Red Herring Prospectus) which are or may be deemed material will be attached to the copy of the Red Herring Prospectus/ Prospectus which will be delivered to the RoC for filing. Copies of the contracts and also the documents for inspection referred to hereunder, may be inspected at the Registered and Corporate Office between 10 a.m. and 5 p.m. on all Working Days from date of the Red Herring Prospectus until the Bid/ Offer Closing Date.

A. Material Contracts for the Offer

a) Offer Agreement dated July 24, 2021 between our Bank, the Selling Shareholders and the BRLMs.

b) Registrar Agreement dated July 22, 2021 between our Bank, the Selling Shareholders and the Registrar to the Offer.

c) Cash Escrow and Sponsor Bank Agreement dated [●] between our Bank, the Selling Shareholders, the Registrar to the Offer, the BRLMs, the Syndicate Members, the Escrow Collection Bank(s), Sponsor Bank, Public Offer Account Bank and the Refund Bank(s).

d) Share Escrow Agreement dated [●] between the Selling Shareholders, our Bank and the Share Escrow Agent.

e) Syndicate Agreement dated [●] between our Bank, the Selling Shareholders, the BRLMs, and Syndicate Members.

f) Underwriting Agreement dated [●] between our Bank, the Selling Shareholders and the Underwriters.

B. Material Documents

a) Certified copies of the updated Memorandum and Articles of Association of our Bank as amended from time to time.

b) Certificate of incorporation dated May 5, 2016 issued by the RoC to our Bank, in the name of ESAF Small Finance Bank Limited.

c) RBI letter dated October 7, 2015 bearing no. DBR.PSBD.NBC(SFB-ESAF). No. 4917/16.13.216/2015-16, pursuant to which the RBI granted our Corporate Promoter an in-principal approval to establish an SFB in the private sector under Section 22 of the Banking Regulation Act

d) RBI letter dated November 18, 2016 bearing no. DBR.NBD(SFB-ESAF) No. 5654/16.13.216/2016-17, pursuant to which the RBI granted license no. MUM:124 to our Bank to carry on the SFB business in terms of Section 22 of the Banking Regulation Act

e) RBI letter bearing no. DBR.No.Ret.BC.16/12.06.152/2018-19 dated December 27, 2018 with respect to the inclusion of our Bank in the second schedule of the RBI Act.

f) RBI letter bearing no. DBS. ARS. No. 7115/08.58.005/2018-19 dated June 21, 2019 approving the appointment of S. R. Batliboi & Associates LLP, Chartered Accountants as the Statutory Auditors of our Bank for the Fiscal 2020 for their fourth year.

g) RBI letter bearing no. Ref DOS. ARG. NoAS-10/08.61.005/2019-20 dated May 8, 2020 approving the appointment of Deloitte Haskins & Sells, Chartered Accountants as the Statutory Auditors of our Bank for the Fiscal 2021.

h) RBI letter bearing no. DBR. Appt. No. 10346/29.44.005/2016-17 dated March 9 2017 approving the appointment of the Directors on the Board.

i) RBI letter bearing no DoR Appt. No. 4898/29.44.005/2019-20 dated December 19, 2019 approving the appointment of our Part-Time Chairman.

j) RBI letter bearing no. DBR. Appt. No. 2655/29.44.005/2018-19 dated October 1, 2018 approving the appointment of our Managing Director and Chief Executive Officer.

k) RBI letter bearing no. DBR. Appt. No. 6532/29.44.005/2016-17 dated December 8, 2016 approving the constitution of our Board, read with RBI letter bearing no. DBR. Appt. No. 10346/29/44.005/2016-17 dated March 9, 2017, RBI letter bearing no. DBR. Appt. No. 14103/29.44.005/2016-17 dated May 30, 2017 and RBI letter bearing no. DBR. Appt. No. 10611/29.44.005/29.44.005/2017-18 dated May 28, 2018

l) RBI letter bearing no. DBR.PSBD.NBC.(SFB-ESAF).No.11089/16.13.216/2015-16 dated March 3, 2016 approving the Memorandum of Association and Articles of Association of our Bank.

m) RBI letter bearing no. DBR.NBD3403/16.02.005/2019-20 dated October 31, 2019 approving the amendment to our Memorandum of Association to increase the authorised share capital of our Bank.

n) Contract of employment dated October 1, 2018 entered into between the Bank and Kadambelil Paul Thomas

o) Shareholders agreement dated July 27, 2018 entered into between PNB MetLife India Insurance Company Limited, Bajaj Allianz Life Insurance Company Limited, Muthoot Finance Limited, PI Ventures LLP, our Promoters and our Bank, read along with the deeds of adherence, each dated September 27, 2018, signed by ESMACO, ICICI Lombard General Insurance Company Limited, Yusuffali Musaliam Veettil Abdul Kader, respectively and waiver cum amendment agreement dated July 9, 2021.

p) Shareholders agreement dated December 23, 2019 entered into amongst our Corporate Promoter, Kadambelil Paul Thomas, ESAF Staff Welfare Trust, ESMACO, SIDBI Trustee Company Limited, Dia Vikas Capital Private Limited, as amended by the amendment agreement to the Corporate Promoter SHA dated March 29, 2021 and the letter amendment agreement dated July 13, 2021

q) Deed of assignment dated February 16, 2017 entered into between the Corporate Promoter and ESAF Enterprise Development Finance Limited.

r) Deposit transfer agreement dated March 7, 2017 entered into between ESMACO and our Bank.

s) Deed of assignment dated March 9, 2017 entered into between ESMACO and our Bank.

t) Trademark licensing agreement dated January 5, 2020 entered into between Evangelical Social Action Forum and our Bank.

u) Agreement to sell business undertaking dated February 22, 2017 entered into between our Corporate Promoter and our Bank.

v) Subscription agreement dated July 27, 2018 entered into between our Bank and PNB MetLife India Insurance Company Limited.

w) Subscription agreement dated July 27, 2018 entered into between our Bank and Muthoot Finance Limited.

x) Subscription agreement dated July 27, 2018 entered into between our Bank and Bajaj Allianz Life Insurance Company Limited.

y) Subscription agreement dated July 27, 2018 entered into between our Bank and PI Ventures LLP.

z) Subscription agreement dated September 27, 2018 entered into between our Bank and ICICI Lombard General Insurance Company Limited.

aa) Subscription agreement dated September 27, 2018 entered into between our Bank and ESMACO.

bb) Subscription agreement dated September 27, 2018 entered into between our Bank and Yusuffali Musaliam Veettil Abdul Kader.

cc) Deed of assignment dated February 16, 2017 entered into between EFHPL and ESAF Enterprise Development Finance Limited

dd) Resolutions of the Board of Directors dated June 29, 2021, authorising the Offer and other related matters.

ee) Shareholders' resolution dated July 12, 2021, in relation to this Offer and other related matters.

ff) Copies of the annual reports of our Bank for the Fiscals 2020, 2019 and 2018.

gg) The examination report of the Statutory Auditors, on our Bank's Restated Financial Information, included in this Draft Red Herring Prospectus

hh) The Restated Financial Information

ii) The statement of special tax benefits dated July 23, 2021 from the Statutory Auditors.

jj) Board resolutions/ authorisations and consents from the Selling Shareholders as disclosed in "*Other Regulatory and Statutory Disclosures*" on page 340.

kk) Written consent of the Directors, the BRLMs, the Syndicate Members, Legal Counsel to our Bank as to Indian Law, Legal Counsel to the Selling Shareholders as to Indian law, Legal Counsel to the BRLMs as to Indian Law, Legal Counsel to the BRLMs as to International Law, Selling Shareholders, Bankers to the Bank, Registrar to the Offer, Escrow Collection Bank(s), Public Offer Account Bank(s), Refund Bank(s), Sponsor Bank, Company Secretary and Compliance Officer as referred to in their specific capacities.

ll) Written consent dated July 24, 2021 from our Statutory Auditors namely, Deloitte Haskins & Sells, Chartered Accountants, to include its name in this Draft Red Herring Prospectus, as required under section 26 of the Companies Act, 2013, read with SEBI ICDR Regulations, and as an "Expert" as defined under section 2(38) of the Companies Act, 2013, to the extent and in their capacity as an auditor, in respect of the examination report dated June 30, 2021 issued by it on our Restated Financial Information, and the statement of special tax benefits dated July 23, 2021 included in this Draft Red Herring Prospectus and such consent has not been withdrawn as on the date of this Draft Red Herring Prospectus. However, the term "expert" and the consent thereof shall not be construed to mean an "expert" or consent within the meaning as defined under the U.S. Securities Act.

mm) Report titled "*Small Finance Banks in India*" dated July 2021, issued by CRISIL Limited.

nn) Board resolution dated July 24, 2021 approving the Draft Red Herring Prospectus.

oo) Due diligence certificate dated July 24, 2021 addressed to SEBI from the BRLMs.

pp) In principle listing approvals dated [●] and [●], issued by BSE and NSE, respectively.

qq) SEBI observation letter dated [●].

rr) Tripartite agreement dated March 31, 2017 between our Bank, NSDL and the Registrar to the Offer.

ss) Tripartite agreement dated January 20, 2017, between our Bank, CDSL and the Registrar to the Offer.

Any of the contracts or documents mentioned in this Draft Red Herring Prospectus may be amended or modified at any time if so required in the interest of our Bank or if required by the other parties, without notice to the shareholders subject to compliance of the provisions contained in the Companies Act and other relevant laws.

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTOR OF OUR BANK

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Ravimohan Periyakavil Ramakrishnan
Part-Time Chairman and Non-Executive Independent Director

Place: ERNAKULAM

Date: July 24, 2021

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTOR OF OUR BANK

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Kadambelil Paul Thomas
Managing Director and Chief Executive Officer

Place: THRISSUR

Date: July 24, 2021

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTOR OF OUR BANK

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Joseph Vadakkekara Antony
Non-Executive Independent Director

Place: ERNAKULAM

Date: July 24, 2021

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTOR OF OUR BANK

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Thomas Jacob Kalappila
Non-Executive Independent Director

Place: THIRUVANANTHAPURAM

Date: July 24, 2021

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTOR OF OUR BANK

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Asha Morley
Non-Executive Independent Director

Place: KOTTAYAM

Date: July 24, 2021

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTOR OF OUR BANK

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Alex Parackal George
Non-Executive Independent Director

Place: THRISSUR

Date: July 24, 2021

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTOR OF OUR BANK

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Saneesh Singh
Non-Executive Nominee Director

Place: Gurgram

Date: July 24, 2021

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE DIRECTOR OF OUR BANK

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Mohan Chandanathil Pappachan
Non-Executive Nominee Director

Place: THRISSUR

Date: July 24, 2021

DECLARATION

I hereby certify and declare that all relevant provisions of the Companies Act and the guidelines/regulations/rules issued by the Government of India or the guidelines/regulations issued by SEBI, established under section 3 of the SEBI Act, as the case may be, have been complied with and no statement made in this Draft Red Herring Prospectus is contrary to the provisions of the Companies Act, 2013, the SCRA, the SCRR, the SEBI Act or rules made or guidelines or regulations issued thereunder, as the case may be. I further certify that all statements in this Draft Red Herring Prospectus are true and correct.

SIGNED BY THE CHIEF FINANCIAL OFFICER OF OUR BANK

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Gireesh C. P
Chief Financial Officer

Place: THRISSUR

Date: July 24, 2021

DECLARATION BY SELLING SHAREHOLDER

The undersigned Selling Shareholder hereby confirms that all statements, disclosures and undertakings made or confirmed by it in this Draft Red Herring Prospectus about or in relation to itself, as one of the Selling Shareholders and its portion of the Offered Shares, are true and correct. The undersigned Selling Shareholder assumes no responsibility for any other statements, disclosures and undertakings, including any statements, disclosures and undertakings, made by, or relating to the Bank or any other Selling Shareholder or any person(s) in this Draft Red Herring Prospectus.

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Signed for and on behalf of **ESAF Financial Holdings Private Limited**

Name: Mereena Paul

Designation: Chairperson and Managing Director

Date: July 24, 2021

Place: Thrissur

DECLARATION BY SELLING SHAREHOLDER

The undersigned Selling Shareholder hereby confirms that all statements, disclosures and undertakings made or confirmed by it in this Draft Red Herring Prospectus about or in relation to itself, as one of the Selling Shareholders and its portion of the Offered Shares, are true and correct. The undersigned Selling Shareholder assumes no responsibility for any other statements, disclosures and undertakings, including any statements, disclosures and undertakings, made by, or relating to the Bank or any other Selling Shareholder or any person(s) in this Draft Red Herring Prospectus.

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Signed for and on behalf of **PNB Metlife India Insurance Company Limited**

Name: Mr. Sanjay Kumar

Designation: Chief Investment Officer

Date: July 24, 2021

Place: Mumbai

DECLARATION BY SELLING SHAREHOLDER

The undersigned Selling Shareholder hereby confirms that all statements, disclosures and undertakings made or confirmed by it in this Draft Red Herring Prospectus about or in relation to itself, as one of the Selling Shareholders and its portion of the Offered Shares, are true and correct. The undersigned Selling Shareholder assumes no responsibility for any other statements, disclosures and undertakings, including any statements, disclosures and undertakings, made by, or relating to the Bank or any other Selling Shareholder or any person(s) in this Draft Red Herring Prospectus.

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Signed for and on behalf of **Bajaj Allianz Life Insurance Company Limited**

Name: Mr. Sampath Reddy

Designation: Chief Investment Officer

Date: July 24, 2021

Place: Pune

DECLARATION BY SELLING SHAREHOLDER

The undersigned Selling Shareholder hereby confirms that all statements, disclosures and undertakings made or confirmed by it in this Draft Red Herring Prospectus about or in relation to itself, as one of the Selling Shareholders and its portion of the Offered Shares, are true and correct. The undersigned Selling Shareholder assumes no responsibility for any other statements, disclosures and undertakings, including any statements, disclosures and undertakings, made by, or relating to the Bank or any other Selling Shareholder or any person(s) in this Draft Red Herring Prospectus.

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Signed for and on behalf of **PI Ventures LLP**

Name: OJAS PAREKH

Designation: DESIGNATED PARTNER

Date: July 24, 2021

Place: MUMBAI

DECLARATION BY SELLING SHAREHOLDER

The undersigned Selling Shareholder hereby confirms that all statements, disclosures and undertakings made or confirmed by it in this Draft Red Herring Prospectus about or in relation to itself, as one of the Selling Shareholders and its portion of the Offered Shares, are true and correct. The undersigned Selling Shareholder assumes no responsibility for any other statements, disclosures and undertakings, including any statements, disclosures and undertakings, made by, or relating to the Bank or any other Selling Shareholder or any person(s) in this Draft Red Herring Prospectus.

JOHN CHAKOLA

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Date: July 24, 2021

Place: THRISSUR