



give more  
serve more  
get more  
innovate more

driven by the

# power of more

# contents

## I-73

### Corporate Overview

The Power to More	1
From the Chairman's desk	8
From the desk of MD & CEO	12
Board of Directors	15
Our Leadership Team	16
About Fincare	18
Our product basket	23
Our touch points	27
Key Performance Indicators	30
Our big achievements	32
<b>Our business lines</b>	34
Retail banking	36
Rural banking	38
Loan against gold	40
Loan against property	41
Institutional finance	42
Business correspondents	43
Mobile banking	44
Digital banking	47
101 Account	47
<b>Our support functions</b>	48
Branch operations	49
Facilities	50
Central processing centre	52
Customer connect	54
Technology	56
People power	60
Marketing	64
Finance function	65
Secretarial and corporate	66
legal function	69
Risk management	69
Internal audit	70
Compliance	70
Our social DNA	72

## 76-141

### Statutory Reports

Directors' Report	76
Corporate Governance Report	97
Management Discussion and Analysis	126
Pillar III - Disclosure	132

## 146-206

### Financial Statements

Independent Auditor's Report	146
Financial Statements	154



At Fincare Small  
Finance Bank, the  
**power of  
more**  
has been the primary catalyst of our  
growth journey.

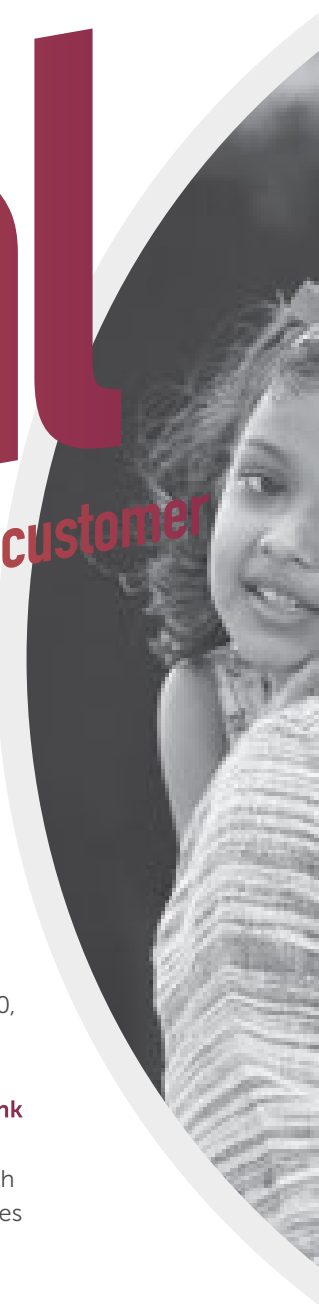
# the power of digital

Enhancing the customer experience

With WhatsApp emerging as one of the most popular communication tools, more than 400 million Indians, cutting across all socio-economic and cultural classes, have logged into the platform.

**Fincare Small Finance Bank introduced WhatsApp Banking in October 2019.** It is a very convenient way of banking and offers a host of services like mini statement and Balance enquiry. The human-like interactions in local languages provide the customer a lot more than they

could imagine. **This service has a Multilingual Chatbot which can converse in Hindi, English & Hinglish.** Between October 2019 and March 2020, the number of users on the platform has increased from 1,498 to 28,603 users. **The Bank also offers 101 Account – an online savings account,** which can be opened in a few minutes anytime and anywhere with access benefits available to digital / self-service customers. As of 31<sup>st</sup> March, 2020, total number of active accounts are 95,631.





# the power of more

## Expanding the Product Bouquet

The Bank has tailored its offerings to suit the varying needs and affordability of its customers.

**The Bank bridged the gap between the dream and reality of people in semi-urban markets by introducing the Affordable Home Loan product.** This product was launched in the state of Tamil Nadu in April 2019. The product has variants like Construction loans, Purchase loans, Improvement & Extension loans & Balance transfer facility.

Targeted at salaried and self-employed customers, the loan can be customized with ticket size up to ₹25 Lakh and tenures of up to 20 years. **As on 31<sup>st</sup> March 2020, AHL book stood at ₹20 Crore with nearly zero delinquency.**

**Personal vehicle is a necessity in rural India. The Bank entered the vehicle loan market with two-wheeler loans. As on 31<sup>st</sup> March 2020, the book stood at ₹10-Crore with a customer base of 2,194 and over 99% repayment rate.**





# the power of identity

Connecting the dots with  
Aadhaar centers

The Bank leveraged its reach through 400 hubs, catering to 20,000 villages through this initiative. **Between December 2019 and March 2020, 99 active Aadhaar centres completed 29,292 rectification cases and 1,313 enrolments.**

The bank has now drawn up a

comprehensive blueprint for its Aadhaar services for the way ahead.



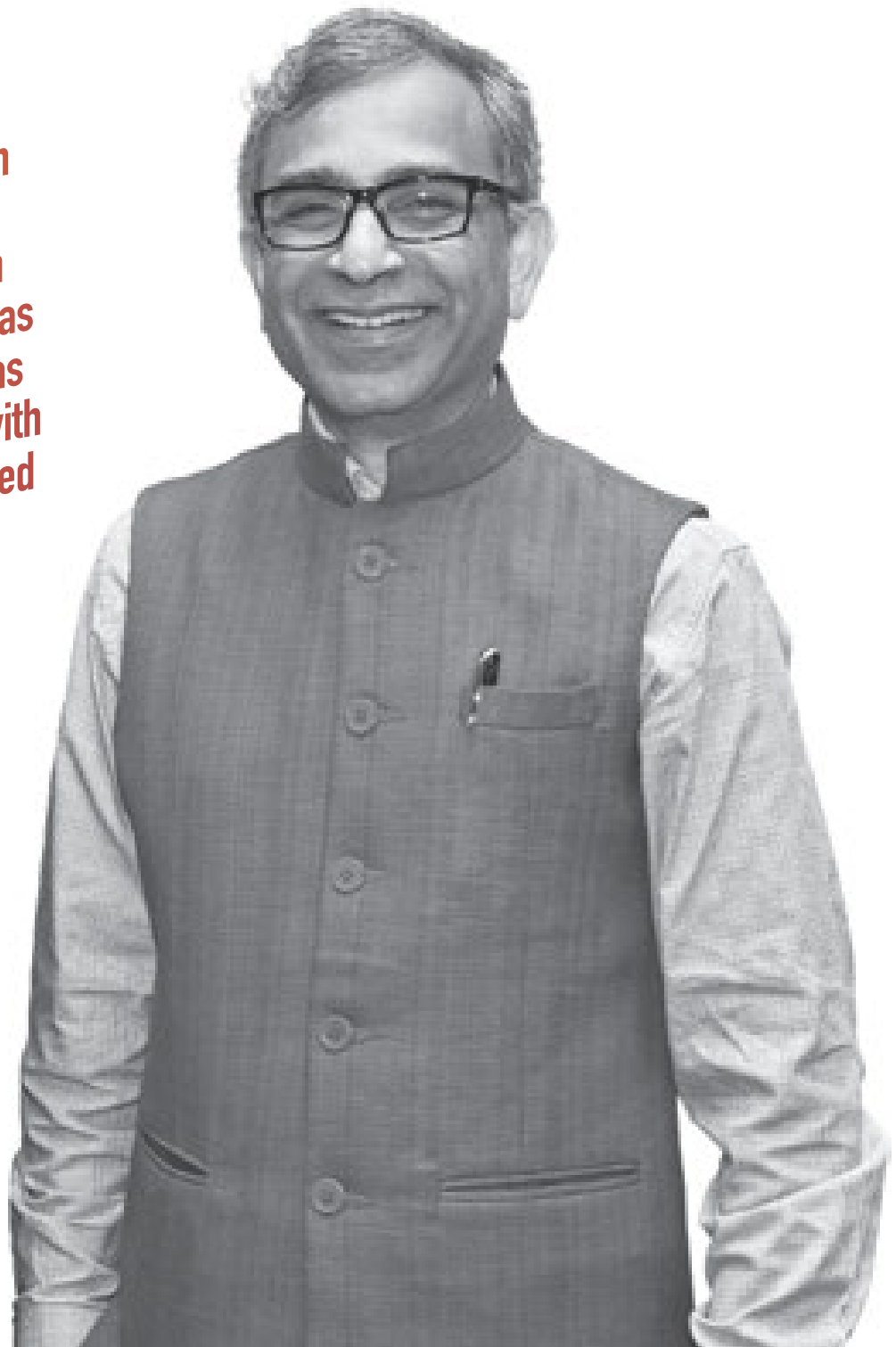




Annual Report  
2019-20

# From the chairman's desk

**FY20 was an important milestone in the journey as the Bank was conferred with the Scheduled Status.**



*Dear Friends*

FY20 was a year of many milestones for the Bank. **In the quest for building a best in class bank, the Bank registered impressive growth in all key financial and operating metrics during FY20.**

### STAKEHOLDER SYNERGY IS KEY

An important variable in this growth journey is the support of the key stakeholders and it is heartening to note that the Bank has benefitted from the undaunting support of the Board, the resolute leadership of the management team and the constructive confidence of the shareholders. **This well-aligned trio of board, management and shareholders has helped the Bank establish its position as a customer-centric, digital-first and good-governance oriented institution.** As a result, the Bank enjoys the goodwill of the regulator, other statutory bodies, customers, vendors, and the society at large.

### BUSINESS MATRIX

At the onset, let me make a mention of the overall

performance. I am pleased to share that **the Bank's total business grew to ₹9,996 Crore** during the year under review. The Bank expanded geographical reach across **19 states and Union Territories through a network of 711 banking outlets.** The Bank's net NPAs stood at 0.41% in FY20 showcasing the effectiveness of the Bank's robust processes and business practices.

FY20 was an important milestone in the Bank's journey. In the first quarter of FY20, Fincare Small Finance Bank was **included in the Second Schedule to the Reserve Bank of India Act, 1934, published in the Gazette of India.** I consider this to be an inflection point for the Bank as it expands its lines of funding and liquidity.

Consequent to the scheduled status, the Bank could issue certificates of deposits and get access to interbank borrowings at competitive interest rates, enabling it to bring down its cost of funds. It also managed to get deposits from **new sources such as government, public sector undertakings, corporate, mutual funds, insurance companies and other market participants.** This status also enabled the bank to lend funds vide Reverse Repo and

TREPS (Tri-Party Repo) which helped the Bank in efficient liquidity management. I believe that this will go a long way in sustaining the Bank's growth momentum over the coming years.

### POWER OF MORE

The 'Power of More' has been the driving force of the Bank as it builds a strategy for the future. The ecosystem of products, processes and channels of the Bank is built around this credo. The quest for More continues to power the team to ideate and implement products and services that address the growing needs and aspirations of our customers. On the ground, the Bank **launched products such as Affordable Housing Loan, Two-Wheeler Loan – which are particularly relevant for its customers.** The response to these additions has been heartening.

During FY20, the Bank has made **significant progress in the technology and digital space** to enable speed, convenience and access to banking services for customers. During the year several initiatives such as UPI, Bill Pay, WhatsApp Banking, Website Chat Bot and inhouse developed tab-based, digitized loan origination and loan collection applications such as

mCare and mServe saw light of the day, instantly putting the Bank on the digital banking leadership map. Several of these innovations received accolades from the external world as well.

#### Notable developments:

##### 1. Agency Banking Channel:

Added to add greater reach to the Rural Banking vertical. This allowed the Bank to deepen its presence in rural locales.

##### 2. Aadhaar enrolment and updation services:

Launched at designated branches across India. This initiative provides greater convenience to the customers.

##### 3. Self Service Portal (SSP):

Introduced on mobile banking platform and web portal. This initiative shall enable transition for customers from assisted banking model to self-banking model.

##### 4. WhatsApp Banking:

Launched in order to connect with the customers through the popular social media application. The Bank also introduced banking services via a multilingual conversational BOT on WhatsApp, multilingual ATM screens and multilingual Mobile App.

##### 5. Financial Inclusion: Financial

Inclusion is the fulcrum of the business and is evident in the fact that Microloans constituted more than 80% of the Bank's Gross Loan portfolio and empowered 19 Lakhs women borrowers by opening their Bank accounts.

##### 6. Scaling up Automation:

The Bank took multiple automation initiatives during the year and leap frogged further in its automation journey. Many of the internal systems such as P&L statement are fully automated.

#### LOOKING AT TOMORROW

The year FY21 may be a bumpy ride for many businesses due to the Covid-19 pandemic. Such trying time calls for a concerted effort and immense confidence in order to stay the course. I know that **the Bank is made up of very resilient matter and a very passionate family of Fincarers, strong enough to cross the hurdle.**

The Bank will continue to invest in **nurturing its intellectual capital**, increasing its product and service offering and building the digital strength in order to scale newer heights in the years to come.

In the next few months, our

focus will be on ensuring safety and well-being of our staff as well as **connecting with our customers and supporting them in re-building their livelihood and income.**

We also remain committed to ensure the highest standards in customer-centricity, compliance, fairness and transparency in our business activities. Lastly, we remain firm in our mission to support the financial inclusion of low-income households in rural and semi-urban India through the active participation of the more affluent customer segments.

As we continue the journey of being better by doing more every day, I would like to take this opportunity to **thank all the investors, stake holders, and valued customers**, for their continued belief and support provided throughout our journey.

Without your faith in us, this journey could never be so rewarding. I solicit your continued support.

Warm regards,

**Pramod Kabra**  
Chairman



From the desk of  
**MD&CEO**

*The Bank is  
on the move  
and aims to  
establish a strong  
presence in the  
country's banking  
ecosystem.*



*Dear Shareholders*

More. That's been the driving force for the last one year or so for a small bank with big dreams like us to stay on course to becoming a best in class digital bank.

We closed the year FY20 at a rather upbeat note. **Not only did we secure the Scheduled Bank status from the regulator, we also achieved impressive business growth despite several headwinds for the financial sector at large.**

**The bank remained committed to the financial inclusion agenda** through the period. Small finance banks like us have begun gaining greater prominence in the overall economic landscape, with the regulator issuing guidelines for on-tap licensing of SFBs.

Our financial offerings for the unbanked/underbanked sections of the society are getting recognised as genuine vehicles of change. With the government pushing the Make-in-India initiative, **micro, small and medium enterprises are likely to get further impetus**

and Small Finance Banks are in a position to assist them for their niche credit needs in a value accretive manner.

The year FY21 began with an unprecedented crisis with the Covid-19 pandemic threatening many aspects of our lives and livelihood and will take some time to recover from.

The importance of Banks such as Fincare, came to the fore at this juncture as they became the **supply line for credit to small business units, small and marginal farmers, micro and small industries, and other unorganised sector** entities leveraging their high-technology-low-cost operations. At the Bank, we are working hard to live up to the expectations of the authorities and keep up the momentum we have achieved over the last few years.

Let's take a look at how we paved our way towards becoming a best-in-class bank in India.

### **ASSETS ON A STEADY GROWTH CURVE**

We continued to grow our assets business at a robust pace of 60% between 31<sup>st</sup> March, 2017 and 31<sup>st</sup> March, 2020., While we grew swiftly, we stayed firm in

maintaining the asset quality and brought down our Gross NPA to 0.92%. This number reflects our quality segment targeting, robust under writing and strong risk management mechanism. The growth in advances was backed by diversification of our product portfolio, which led to the **secured mix changing from 6% to 22% between the last three fiscal years.**

### **DEPOSITS TAKE A LEAP**

The Bank has ramped up its deposit base significantly from ₹727 Crore as on 31<sup>st</sup> March, 2018 to ₹4,654 Crore as on 31<sup>st</sup> March, 2020. **Retail deposits and CASA formed 77% and 11.9% of the deposit base as at the end of FY20**, making a significant surge from 57% and 10.9%, respectively, a year ago. Our credit-to-deposit ratio moved from 136% to 104% during the year.

### **CAPITAL BASE STAYS ROBUST**

The Bank remained well-capitalised through the year under consideration with CRAR being maintained well above the regulatory requirement of 15% for Small Finance Banks. **Our net worth, as on 31<sup>st</sup> March, 2020, was ₹904 Crore with a CRAR of 29.3%.**



### COST-EFFICIENCY MAKES US EFFICIENT

The bank has successfully contained its cost structures and implemented measures to improve staff productivity and operational efficiencies, leading to significant improvement in metrics such as cost to income ratio and opex to business ratio. The cost to income ratio reduced from 79% in FY17 to 56% in FY20. During the same period, **opex to business ratio improved from 9.5% to 5.5%**.

### WIDER REACH MAKES US MORE ACCESSIBLE

The Bank has diversified its geographical presence over the last few years. From eight states/UTs in West and South India through 247 banking outlets in 2017, we have expanded operations across **19 states/UTs through 711 outlets in 2020**.

### FINANCIAL INCLUSION DRIVES GROWTH

The bank continued its focus on financial literacy and encouraged its microloan borrowers to open savings accounts with easy accessibility using debit cards. Fincare had opened over **19 Lakh savings accounts** in this segment at the end of FY20. It also introduced products like two-wheeler loans and affordable housing loans.

### TECHNOLOGY AS A TOOL FOR CUSTOMER DELIGHT

We went **live on UPI** as one of the few banks in India to be launched on the UPI 2.0 platform of NPCI. We floated **WhatsApp Banking** as an additional channel for non-financial transactions and introduced **mobile banking in 11 languages and set up ATMs in seven languages**. We undertook multiple analytics and automation initiatives in FY20 and implemented the data lake project to integrate data sources and automate multiple risk, compliance, and regulatory reports. Our **Core Banking System was beefed up with new liability and asset products** that included recurring deposit, NRE/NRO savings accounts, FD accounts, demand draft and passbook printing, affordable housing loans, two-wheeler loans and rural loan against property.

### 'MORE' IS THE WAY AHEAD

We believe that the philosophy of "More" is going to drive the business for Fincare in FY21 and beyond. We floated a **brand campaign last year – Wish More. Get More**. The proposition is woven around the concept of higher return on deposits, greater access to need-based products, safer and more secure transactions,

more fairness in bank charges, easier accessibility, smoother processes and so on. During the year, we have benefitted immensely in building a stronger brand among the target audience and enhancing our reach to newer segments. More power to "the power of more"!

During the year, the bank also received several accolades. Fincare was **conferred with several coveted awards** in recognition of its achievements in business, our technology initiatives, and our firm focus on customer-centricity. All the appreciation has only bolstered our efforts in building a safer, smarter bank and greater pride for all stakeholders.

In the year FY21, we will continue to stay committed to serve our customers and address their evolving needs in order to remain their **preferred banking partner**.

We will be even more cognizant of our **fiduciary responsibility as well as that of a responsible employer** and corporate citizen and take the Bank to greater success.

Look forward to your blessings and best wishes as always.

Thank you.

**Rajeev Yadav**  
MD & CEO



15

Board of  
**directors**



**Pramod Kabra**  
Non Executive Chairman  
Partner, True North



**Rajeev Yadav**  
MD & CEO



**Alok Prasad**  
Independent Director  
Former CEO, MFIN



**Ravindran A. L.**  
Nominee Director  
General Manager, SIDBI



**Sameer Nanavati**  
Nominee Director  
Founder, Disha Microfin



**Sunil Gulati**  
Independent Director  
Former CRO, RBL Bank,  
Yes Bank



**Susan Thomas**  
Independent Director  
Faculty at IGIDR; Economist



**Varun Sabhlok**  
Independent Director  
Former VP-Asia, Citibank



**Vinay Baijal**  
Independent Director  
Sr. Advisor, KPMG;  
Former CGM, RBI

Our Leadership Team

# business



**Ashish Chhabra**  
Chief Operating Officer  
Retail Banking -West



**Ashish Misra**  
Chief Operating Officer  
Retail Banking



**Deepabh Jain**  
Chief Operating Officer  
Mortgages



**Kishore Mangalvedhe**  
Chief Operating Officer  
Rural Banking -South



**Ravish Chandra**  
Chief Operating Officer  
Rural Banking - West



**Soham Shukla**  
Chief Operating Officer  
Rural Banking



**Virender Sharma**  
Head Alternate Channels,  
Rural Banking

Our Leadership Team

# corporate



**Chandar Rao V**  
 Chief Technology Officer



**Devika Praveen**  
 Head - Compliance



**Keyur Doshi**  
 Chief Financial Officer



**Mahender Chawla**  
 Chief Operating Officer  
 - Operations & Loan  
 Against Gold



**Nilesh Sangoi**  
 Chief Digital Officer &  
 Head - Data Analytics



**Pankaj Gulati**  
 Chief People &  
 Marketing Officer



**Prakash Sundaram**  
 Chief Strategy Officer



**Rakesh Das**  
 Head - Credit



**Shashi Kumar T**  
 Head - IT Projects



**Venkata Jayaraman M**  
 Chief Risk Officer

About us  
**the more we care  
the more we grow**

Fincare Small Finance Bank is a retail bank with 'Rurban' focus built on trust, technology, and transparency.



**Our presence**

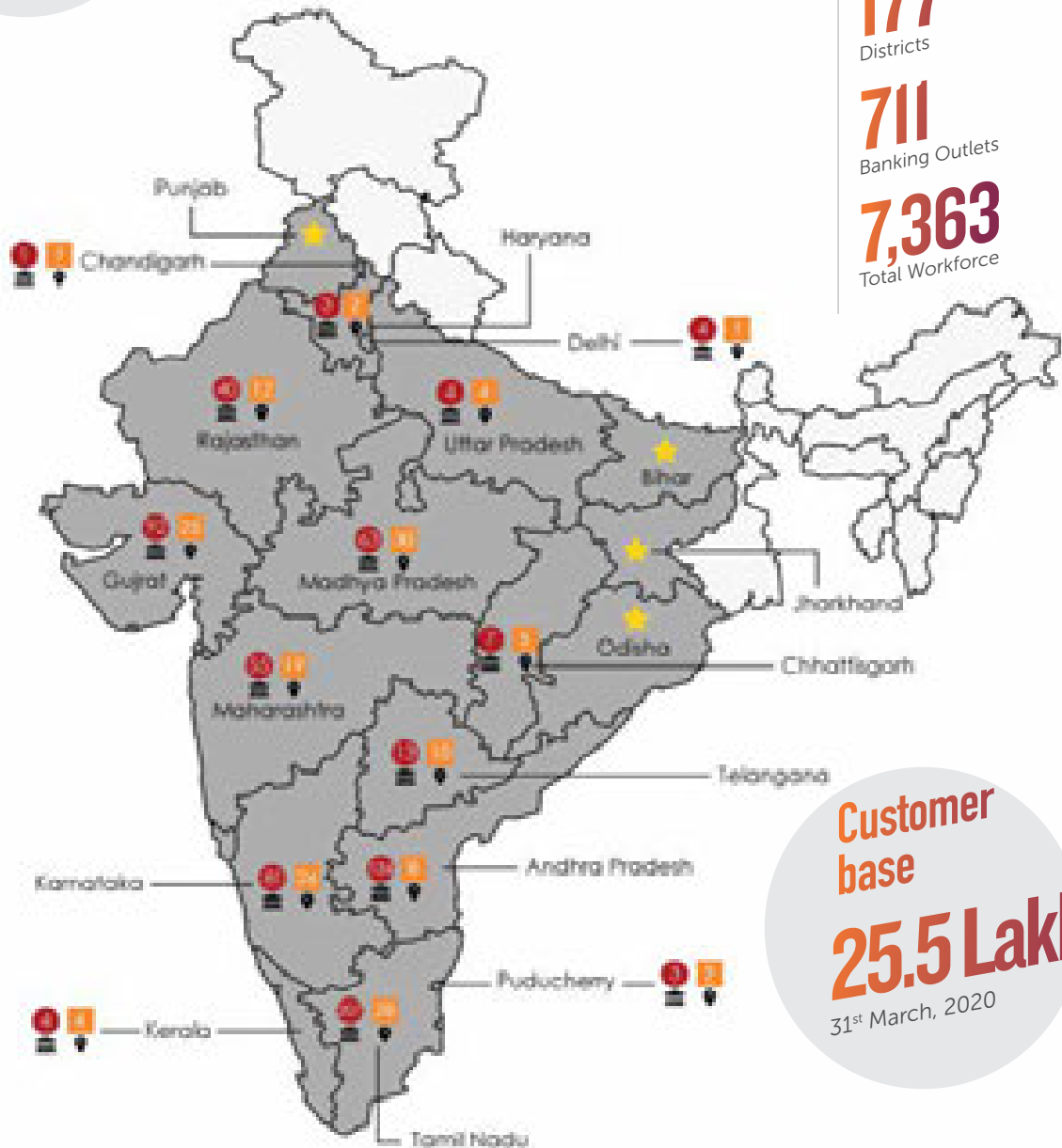
**Our touchpoints**

**19**  
States/UT

**177**  
Districts

**711**  
Banking Outlets

**7,363**  
Total Workforce



**Customer base**

**25.5 Lakh+**

31<sup>st</sup> March, 2020

20

Annual Report  
2019-20

Corporate Overview | Statutory Reports | Financial Statements

**vision**

**“To facilitate financial inclusion of the unbanked and under-banked households in India with active participation of the more affluent customer segments”**



# mission



**“To build a best-in-class digital bank delivering value to all stakeholders”**

The Fincare way  
**the unwavering  
commitment**  
to how we do things



Passionate  
about Values



Rurban  
Approach



Think Customer  
Delight



Win-Win  
Partnerships



Compliance in  
Letter & Spirit



Deliver  
Predictable  
Results



Imagine the  
Future



Technology Led  
Processes



Our product basket

# more aligned more services

## 1. Deposit products

### Savings Account



**6%\***

Balance up to ₹1 Lakh  
Instant Account Opening

**7%\***

For balances over ₹5 Crore

**Interest is paid monthly.**

**11,06,741**

Customers added in  
FY20

**20,96,924**

Account holders as  
on 31<sup>st</sup> March, 2020

### 101 Savings Account



**6%\***

For balances up to ₹1 Lakh

**7%\***

Balance above ₹5 Lakh  
Instant Account Opening

**Interest is paid monthly.**

**83,497**

Customers added in  
FY20

**95,631**

Account holders as  
on 31<sup>st</sup> March, 2020

## Current Account



**24/7**

Cash deposit anytime, anywhere at Fincare ATM

Minimum Balance Requirement

**100**

Free transactions across NEFT, RTGS & IMPS for premium variant

**15**

Free transactions per month

**2,118**

Customers added in FY20

**2,921**

Account holders as on 31<sup>st</sup> March, 2020

## Recurring Deposit



Minimum Deposits: ₹500

Flexible Tenure: 6 – 60 months

**46,131**

Customers added in 2019-20

**47,273**

Account holders as on 31<sup>st</sup> March, 2020

## Retail Term Deposit



Ticket Size:

₹5,000 upto ₹2 Crore High

Rates of Interest (7.5%\*)

**21,550**

Customers added in 2019-20

**75,235**

Account holders as on 31<sup>st</sup> March, 2020

\*Interest rates as on 31<sup>st</sup> March, 2020

## 2. Loan products

### Micro Loans



Loan ticket Size:  
 ₹15,000- ₹45,000  
 Tenure: 24 months  
 Income generation loan for  
 women micro-entrepreneurs

**7.2** Lakh  
 Customers added in  
 FY20

₹ **4,022** Crore  
 Disbursement in  
 FY20

₹ **4,285** Crore  
 Outstanding GLP\* as  
 on 31<sup>st</sup> March, 2020

### Loan against property



Loan ticket Size:  
 ₹50,000- ₹50,0000  
 Tenure: 36-120 Months  
 Business loan for micro and  
 small business owners

**4,643**  
 Customers added in  
 FY20

₹ **292** Crore  
 Disbursement in  
 FY20

₹ **533** Crore of  
 Outstanding GLP\* as  
 on 31<sup>st</sup> March, 2020

### Loan against gold



Ticket Size:  
 ₹5,000 to ₹25,00,000  
 Tenure: 3-24 Months  
 Bridge loan for micro  
 enterprises and self-employed

**6,052**  
 Customers added in  
 FY20

₹ **337** Crore  
 Disbursement in  
 FY20

₹ **184** Crore of  
 Outstanding GLP\* as on  
 31<sup>st</sup> March, 2020

## Institutional Finance



Loan ticket Size:  
₹1 crore - 15 Crore  
Tenure: 6-36 Months  
Loans for NBFCs for onward lending

**11**

Customers added in FY20

₹ **229** Crore  
Disbursement in FY20

₹ **255** Crore of  
Outstanding GLP as on 31<sup>st</sup> March, 2020

## Affordable Housing Loans



Loan ticket Size: Upto ₹25 Lakh  
Tenure: Upto 20 years  
Home Purchase Loan for salaried and self-employed

**331**

Customers added in FY 20

₹ **20.85** Crore  
Total disbursement

₹ **20.34** Crore  
Outstanding GLP as on 31<sup>st</sup> March, 2020

## Two Wheeler Loans



Loan ticket Size:  
₹22,000- ₹75000  
Tenure: 24-36 months  
Loan for captive customers for purchase of two wheeler

**2,100**

Customers added in FY20

₹ **12** Crore  
Disbursement in FY20

₹ **10** Crore of  
Outstanding GLP as on 31<sup>st</sup> March, 2020

Our touch points  
**more suited... to our  
 customers' comfort**

<b>711 Total touchpoints (31<sup>st</sup> March, 2020)</b>				
	<b>Micro Banking Outlet</b>	<b>Basic Banking Outlet</b>	<b>Full-Service Banking Outlet</b>	<b>BC Outlets</b>
Location	Taluka headquarters	District/Taluka headquarters	Tier I & Metro locations	District / Taluka Headquarters
Customer segment	Focused largely on Microloans customers	Focused on existing and new to bank customers	Focused largely on new to bank customers	Focused Bank customers from low income groups
Products and services	Microloans, Two-Wheeler Loans and Loans Against Gold	Microloans, Loans Against Property, Loans Against Gold, Two-Wheeler Loans, Savings Accounts, Current Accounts, Fixed Deposits, Recurring Deposits	Offer a full range of banking products and services and are equipped with cash recycler machines.	Similar to Micro and Basic outlets
<b>New outlets added in FY20</b>	<b>64</b>	<b>6</b>	<b>21</b>	<b>50</b>
<b>Outlets as on 31<sup>st</sup> March, 2020</b>	<b>315</b>	<b>108</b>	<b>86</b>	<b>202</b>

The big picture  
**the power of more...  
...and more in store**



**5,345**  
Gross Loan  
Portfolio  
(₹ Crore)



**4,654**  
Total Deposits  
(₹ Crore)



**4,963**  
Total Disbursement  
(₹ Crore)



**1216**  
Total Income  
(₹ Crore)



**619**  
Net Interest Income  
(₹ Crore)



**143**  
Net Profit  
(₹ Crore)



**0.9**  
Gross NPA  
(%)



**0.4**  
Net NPA  
(%)



**55.8**  
Cost-to-Income  
ratio (%)



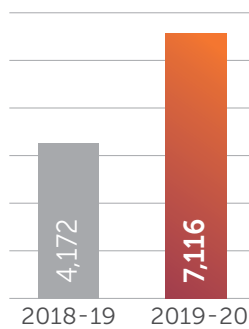
**10.2**  
Net Interest Margin  
(%)



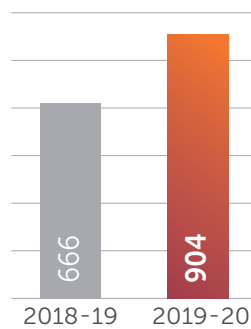
**29.3**  
Capital Adequacy  
Ratio (%)

## Key Performance Indicators reflection... of the power of more

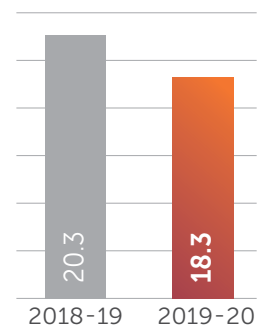
**Balance Sheet size**  
(₹ Crore)



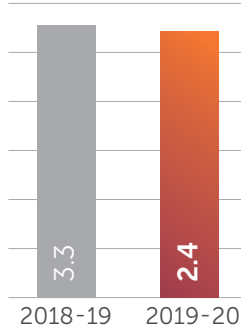
**Networth**  
(₹ Crore)



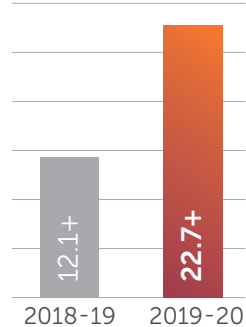
**Return on Equity**  
(%)



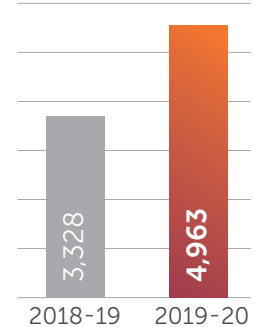
**Return on Assets**  
(%)



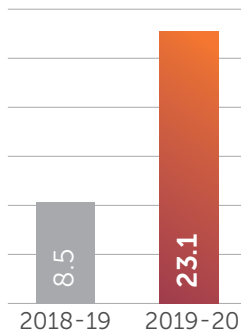
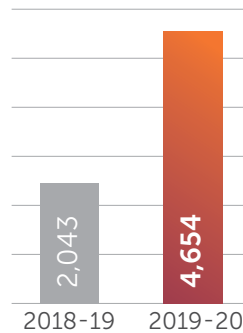
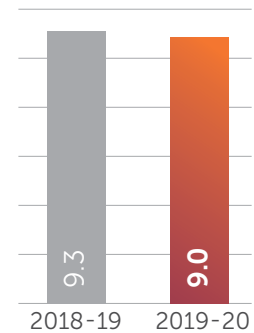
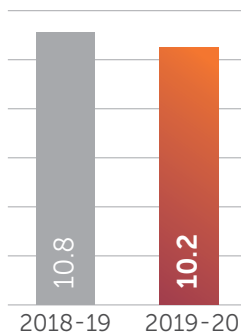
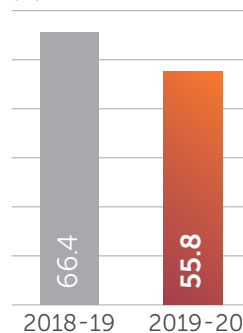
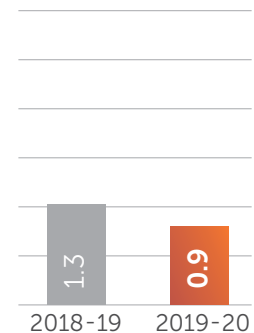
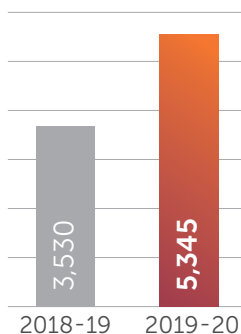
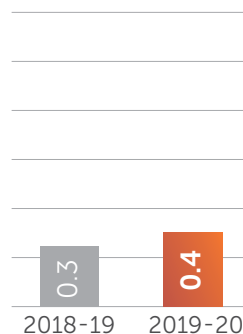
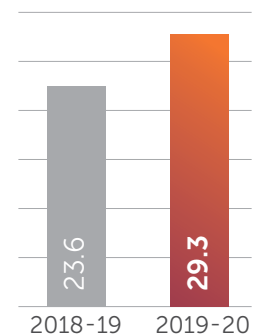
**Active loan accounts**  
(No. in Lakh)



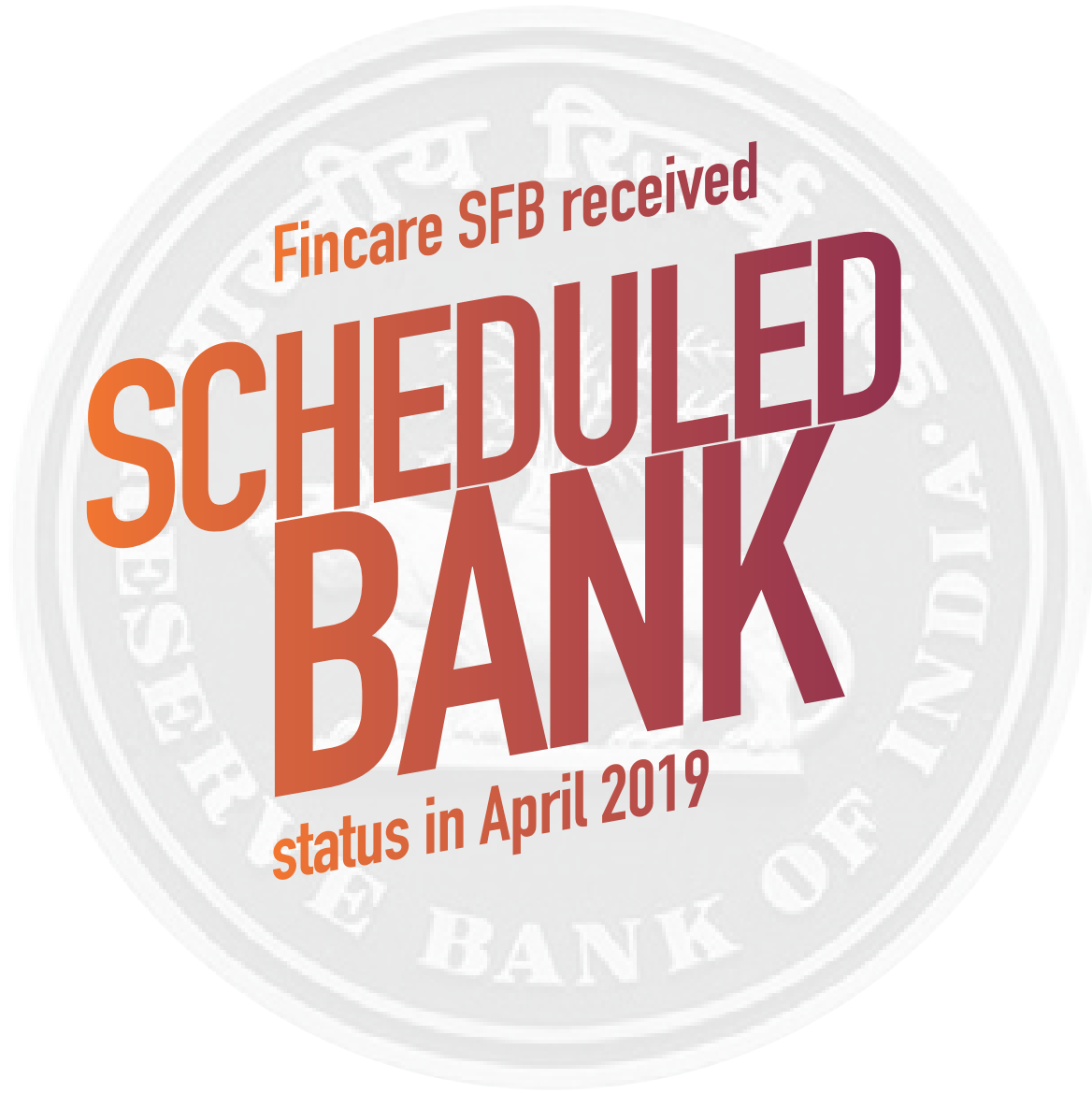
**Total disbursements**  
(₹ Crore)





**Active deposit accounts**  
 (No. in Lakh)

**Total deposits**  
 (₹ Crore)

**Cost of Funds**  
 (%)

**Net Interest Margin**  
 (%)

**Cost-to-income ratio**  
 (%)

**Gross Non-Performing Assets**  
 (%)

**Loan Assets under Management**  
 (₹ Crore)

**Net Non-Performing Assets**  
 (%)

**Capital Adequacy Ratio**  
 (%)


Our big achievements  
**more milestones**



Fincare SFB received

**SCHEDULED  
BANK**

status in April 2019

*Awards & Accolades*  
**growing passion...  
 more recognition**



India Banking Reforms  
 Conclave & BFSI Awards for  
 Digital Banking



World AI Show BFSI 2019  
 for Mcare



Dun and Brad RBL Bank  
 Business Excellence Award  
 – Mcare



CMO Asia  
 - CMO Award



Economic times BFSI  
 Innovation Tribe Awards/  
 Summit – LAP D.Lite



World BFSI Leader  
 - CFO Award

## Our business lines retail banking



Retail Banking is a high-touch high-connect business, wherein the Bank interacts with thousands of customers from diverse segments, having diverse financial goals. The Retail Banking unit is also a flagbearer of the brand salience of the Bank and its efficiency and effectiveness is the key to success of the Small Finance Bank model.

During the year, the Bank continued to widen its product spectrum in order to provide a pleasant banking experience and build a long-term relationship with customers for realising their financial goals. The Fincare Retail Banking vertical serves a wide range of customers, including middle income, affluent and high net-worth individuals, senior citizens, non-resident individuals, small and medium enterprises, trusts/ associations/ societies/ clubs (TASC) and financial institutions, offering them liability products ranging from savings accounts, current accounts, salary accounts as well as retail and institutional term-deposits.

During FY20, the Bank launched an interesting array of products and services to cater to the requirement of the diverse customer segments. The widened product basket was complemented by widening the service matrix. During the year, the Bank introduced corporate internet banking for Non-

Individual customers, Point of Sale (PoS) Machines for cashless transactions, Multilingual WhatsApp Banking, Multilingual Mobile banking App and UPI. The multi-lingual mobile banking app was developed to target the rural customers and senior citizens in particular. The mobile banking app is available in 11 languages. The Bank also developed a Nano Banking App, which simplified the account opening process and helped improve the customer's on-boarding experience.

During the year, the Bank enhanced focus on CASA (Current Account & Savings Account) offerings. The Bank continued to be an interest rate leader in the segment with delightfully high interest rates in CASA products.



"I have been banking with Fincare for the last three years and there is nothing to complain. Their services are very good and the products are wonderfully crafted. The kind of services they extended during the lockdown days was amazing. And I felt happy and satisfied every time I spoke to their representatives. They are cordial, warm and extremely efficient."

**Dr. Ramachandran**

Chennai,  
Customer

## True to the 'Give More, Get More' slogan

Product	Customer segment	The More promise		Total customer base	Total Deposit (₹ Crore)
NR Savings Account	Non-Resident Indians	Higher interest rate	➤	585*	22.67
Tax-Saver FDs	Resident individuals	Tax benefit for the customer			
Pro-Priority	Doctors & Chartered Accountants	Exclusive benefit of savings account with no minimum balance			

\* Sum of NR Savings account , Tax Saver FDs and Pro Priority



### Why Fincare Small Finance Bank

- Category leader in interest rates on deposits
- Internet and mobile banking facilities to connect with account 24/7
- WhatsApp banking facility

## Our business lines rural banking



The Rural Banking unit of the Bank offers a platform to unbanked and underbanked masses to fulfil their financial aspirations. Financial inclusion is the fulcrum of the business and is evident in the fact that Microloans constituted more than 80% of the Bank's Gross Loan Portfolio as on 31<sup>st</sup> March, 2020.

The Rural Banking portfolio includes Micro Loans (Joint Liability Group), Loan against

Gold, Loan against Property, Two-wheeler Loans, Savings Accounts, Term Deposits and Credit Life Insurance.

FY20 has been a year of good progress for the Rural Banking unit. The efforts made towards going deeper into untapped districts and villages in the states where it is already present yielded positive results in terms of customer addition. The business also expanded its footprints in Chhattisgarh and Haryana. During the year, the Bank opened 89 microloan-focused outlets to widen its coverage.

The microloans customer base increased from 15.02 Lakh under-banked customers in FY19 to 20.87 Lakh in FY20. The Bank disbursed over 13,55,776 microloans amounting to ₹4022 Crore with an outstanding loan book of ₹4,285 Crore as on 31<sup>st</sup> March, 2020. The microloans portfolio registered a 51 percent growth over the previous year.

The Bank initiated multiple financial literacy drives across its geographies to evangelise

formal credit as a means to a better financial future for the unbanked and underbanked, low income masses. It encouraged customers to open savings accounts with easy accessibility through a debit card. This was a fairly successful initiative. During the year, the Bank opened savings accounts for over 13.55 Lakh microloan customers and disbursed loans directly to their accounts. With this initiative, the Bank has reached the milestone of 19 Lakh accounts till 31<sup>st</sup> March, 2020.

Also, the BSBDA (basic savings bank deposit account) product, which was launched in the previous year for furthering the objective of financial inclusion, gained increasing acceptance – it reached 1,537 accounts as on 31<sup>st</sup> March, 2020.

The Bank ensured that the Portfolio quality continued to be stable, and credit discipline was maintained. The team managed to maintain recovery rate above 99% through the financial year. This enabled the Bank to report Gross level NPA at 0.92%.

## Our service coverage

(as on 31<sup>st</sup> March, 2020)

**12**

States and Union Territories

**148**

Districts

**1,48,380**

Hamlets

**14**

Clients per hamlet




"Today, I can proudly say that my family is happy and prosperous. I have 18 cows today but it was not the same a few years back when there were only two. It would fetch not more than ₹3,000-4,000 a month. We suffered a lot of pain with such meagre income. We had to think whether we should keep some milk for the children at home or sell it in the market. There was a new problem every day. It was around this time when I got a loan from Fincare Bank. I tried to expand my business with the money. And I began making Progress. Today, we have a tractor, motorbikes, and the children go to school. I also received the best farmer award from the government. It was only because of the support I got from Fincare."

### Dharmistha

Gujarat,  
Customer

## True to the 'Give More, Get More' slogan

Initiatives	Purpose	Launch		Addition to customer base
Recurring Deposit Product (Stree Dhan)	Inculcate the habit of saving small amounts at regular intervals among micro loans customers	February, 2020		48,667 accounts opened in FY20
Mid-term Loan (MTL)	Aimed at providing small ticket size as a top-up loan for meeting the short-term needs of the existing customers with good track records	May, 2019		₹145.04 Crore was disbursed to 96,698 accounts in FY20.
Direct Benefit Transfer (DBT) facility	Enabled across all banking outlets in order to provide a complete range of financial services	February, 2019		4.61 Lakh clients (22% of total microloans clients) who opted for DBT linkage
Business Correspondent Channel	Extended the Bank's reach to the underprivileged pockets	June, 2019		Spread to 6 states with 7 BC partners which added 65,463 borrowers resulting in disbursement of ₹193.24 Crore.



### Why Fincare Small Finance Bank

- Instant credit decisions and quick turnaround time
- Paperless loan origination
- Cashless disbursements

# Our business lines loan against gold



Loan against Gold was designed to meet the short-term liquidity needs of microenterprises, small businessmen, traders, and self-employed individuals in rural, semi-urban and urban markets. The interesting feature of this product is that it uses the existing assets – the distribution network and technology framework without adding significantly to the Bank's cost structure.

FY20 witnessed a consistent build-up of the AUM throughout the year. The Bank managed to mitigate the price fluctuation risk by introducing short-tenure loans and also managing the Loan-to-Value margin very carefully. Discipline in business processes and controls ensured there were no write-offs on the account of spurious gold or auction losses. The Non-Performing Assets (NPA) in the product declined to 0.07% as on 31<sup>st</sup> March, 2020 as against 0.26% of the previous fiscal primarily due to the Bank's efforts in recovery practices.

Gold in India is much more than just jewelry. It is a family asset that carries a legacy and acts as a security in times of distress. Fincare Small Finance Bank has been quick to spot the opportunity in the very first year of commencing operations.

The product has opened an opportunity for cross-sell to the existing micro-loans consumers. It is based on an EMI model and combined with the convenience of doorstep collection model, It offers Immense value for rural customers.



**Our position**  
(as on 31<sup>st</sup> March, 2020)

**14**  
States and Union Territories

**203**  
Districts

**184**  
GLP  
(₹ Crore)


**16,007**  
Customers



"I visited a number of lenders to keep my gold jewellery on mortgage to get cash that I could invest in my business. I zeroed in on Fincare because of the flat rate of interest they charge. It's easier for middle-class people like me to budget my monthly expenses if the outgo is fixed."

**Sunder Babu**  
Bangalore  
Customer

## True to the 'Give More, Get More' slogan

New introduction		.. and its impact.
Extended tenure from 6 months to 9 months with bullet repayment option.		Two- fold increase in AUM in the third year of operations with growth increased by 107% from the previous financial Year.  5,739 new customers added; disbursements stood at ₹531.06 Crore in FY20.
Extended availability of this product to 54 new locations.		
Top-up loans introduced to provide the benefit of maximum loan to value.		



### Why Fincare Small Finance Bank

- Paperless origination using a tab through Aadhaar-based e-KYC
- Maximum permissible loan to value; safety and insurance for gold
- Competitive interest rates, no step-up interest, no hidden charges, NIL gold appraisal charges
- Competitive Processing fee ranging from 0-0.35%
- One-time repayment of principal and interest at end of tenure

## Our business lines loan against property



Fincare

Small Finance

Bank aims to provide the full range of banking services to the unbanked and underbanked customer segments. While unsecured

loans have been the mainstay of the Bank, for a few years now, it has started building a niche secured loan portfolio, comprising Loan against Property and Affordable Housing Loans.

The Bank's Loan Against Property is offered to both existing microloans customers, as well as open market customers engaged in agri-allied activities, small trade such as kirana store operator, wholesaler/distributor, small manufacturers etc.

The product offers flexibility in ticket size and its disbursement. It can be availed as a term loan or as a combination of term loan and an overdraft facility

based on the customer's need. The loan can be customised with ticket sizes ranging from ₹1.5 Lakh to ₹50 Lakh and tenure up to 120 months.

As on 31<sup>st</sup> March 2020, the product is available at 142 branches in Tamil Nadu, Gujarat, Karnataka, Andhra Pradesh, Rajasthan and Pondicherry. The tab-based (LAP D Lite) sourcing and underwriting solutions (launched in FY19) together with other flexibilities have seen high degree of acceptance among the target customer segments.

The portfolio stood at ₹533 Crore as on 31<sup>st</sup> March, 2020 – a growth of 66% YoY – and the gross NPA stood at 3.46%.

### True to the 'Give More, Get More' slogan

Service	Purpose		Addition to customer base
Launched "2-hour Loan Sanction" Service for customers	Faster disbursement leading to superior customer experience		5,100+ loans give with cumulative disbursement of ₹292 Crore during the year –20% growth over the previous year

# Our business lines institutional finance

The Bank introduced Institutional Finance (IF) as a product line in August 2017 to diversify the portfolio by adding corporate clients as a customer segment.

The product is targeted at select NBFCs, primarily those engaged in microfinance, SME finance, Loan against Property (LAP) and vehicle finance. All loans are backed by hypothecation of portfolio receivables.

For Fincare Small Finance Bank, it is a diversification of the

overall portfolio and provides the opportunity to expand into the corporate lending space.

FY20 witnessed reasonable growth in Institutional Finance portfolio. The Bank closed the year with a book of ₹255 Crore. A total of ₹229 Crore was disbursed during the year.

As on 31<sup>st</sup> March 2020, the Bank had 36 active NBFC partners – 13 in Microfinance, 9 in MSME and LAP Businesses, 9 in Vehicle Financing, 2 in Fintech space, 2



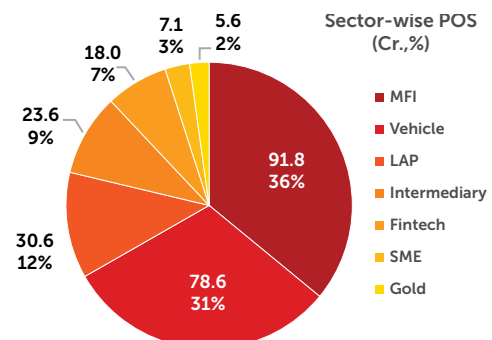
in the intermediary segment and 1 in Gold financing, spread across 25 states and one Union Territory.

## True to the 'Give More, Get More' mantra

New introduction		.. and its impact.
Added three new sectors to the asset portfolio – Gold, Fintech and Intermediary		11 new NBFC partners added  Disbursements stood at ₹229 Crore in FY20

## Sectoral diversification

– as at 31<sup>st</sup> March 2020



# Our business lines business correspondents



During the year, the Bank took the Agency Channel route to extend its customer outreach in an efficient and cost-effective manner. In FY19, the Bank had introduced the Business Correspondents model in the states of Andhra Pradesh and Telangana with considerable success.

In FY20, the Bank extended the Agency channel to its Rural Banking arm. Riding on the back of this new channel, the Bank commenced business operations in seven new states of Punjab, Haryana,

Uttar Pradesh, Bihar, Orissa, Jharkhand, & Telangana, thereby expanding its Micro loans operations to 13 states. During FY20, 10% of fresh acquisition of new Micro Loans business was contributed by the Agency channel.

The Bank also increased its Unbanked Rural Centre (URC) BC outlets to 202 (152 in FY19) across Andhra Pradesh & Telangana and widened the product basket, – offering savings account, cash-in cash-out, Term Deposits and Loan against Gold through these outlets.

## True to the 'Give More, Get More' slogan

Product	Customer segment	Giving More		Getting More
URC BC	Urban and semi-urban customers	50 new outlets across 2 States	➤	14,867 customers added
Micro Loans BC	Rural customer segment	Presence in 7 States		65,381 new customers Total disbursement ₹193 Crore

# Our business lines

# mobile banking

## - New Initiatives

The sharp drop in prices of smart phones and mobile tariffs and multitude of freebies has only accelerated the digital drive sweeping the Indian landmass. In today's day and age, the mobile has become everything – a bank, an entertainment box, an information kiosk, a knowledge device, among others... and yes, a communication tool.

In keeping with this transformation, the Bank launched mobile-banking for its retail and rural customers – also addressing the nation's clarion call for a 'Digital India.' The effectiveness of the service is reflected in a fivefold increase within one year in the number of devices using the Fincare Mobile App.

### MOBILE BANKING APP

The Fincare Mobile Banking service is operated through a secure and user-friendly app through which the customer can transact from anywhere and anytime.

The features include:

- View/operate savings and current accounts
- Open FDs
- Transfer funds instantly – 24x7 across 365 days a year
- Manage cards and cheques

Fincare Mobile Banking support two main customer segments viz. Retail and Corporate.

#### Retail Internet Banking:

This enables retail customers to transaction online.

The services include fund transfers, deposit creation and closure of accounts and card management.

#### Corporate Internet Banking:

The application offers all features of Retail Internet Banking and additionally provides for bulk disbursements like salaries and vendor payments which ensures security of transactions.

The Bank also launched a Self-Service Portal (SSP) that is accessible through its mobile



banking app

as well as standalone web portals The Bank designed this feature in order to transition its customers from assisted banking model to self-empowered banking.

### SHIFTING TO APP-BASED BANKING

In the coming year, the Bank shall migrate its Nano Banking, Tab Banking, DLite and other tab-based applications to help its users bank with ease. The Bank has introduced the concept of BYOD to make mobile banking a success. It educates its customers through a host of awareness programmes at banking outlets and regular messaging through emails, WhatsApp and social media channels.

# Our business lines digital banking



Over the last few years, the paradigm of 'Banking' has undergone a sea change – from brick-and-mortar to swipe-and-click. This is the age of digital where technology has become core to customer interfacing processes. Today, a customer in almost every sphere of life, including banking, has the ability and increasingly the willingness to do almost everything from the comfort of their home or office.

It is imperative for every bank looking towards acquiring/retaining customers to adapt to the disruption sweeping across the financial world. Fincare Small Finance Bank has kept pace with the new-age, digital paradigm of banking by making a significant investment of time and money to build systems and processes in order to make banking frictionless and a delightful experience for customers.

The Bank has embraced the 3A philosophy - Automation, Analytics and Algorithms – with a view to enhance customer experience, people efficiency and process. It has a dedicated Digital vertical, for ensuring that all its products and channels continue to remain relevant to its customers in the wake of rapidly evolving banking and technology space.

#### Digital by Design

- Designed and built to enable mass transactions, reduce human intervention, maximize customer satisfaction.

- Integrated multiple systems through Application Programming Interface (APIs), adding power to the core banking system, and enabling faster rollout of offerings.
- Tab Banking Solution, allowing the Bank to deliver an array of services through the digital medium, reaching customers who may not be very comfortable with the use of technology but want to avail banking services.
- With the help of intuitive UX, mobile-first thinking and cloud-powered systems, the Bank has created a dynamic way of banking in order to offer superior customer experience and allow real-time user feedback.

#### SMART BANK

This tab-based solution completely transforms the experience of a retail banking customer by enabling the entire array of services at their convenience. This application is integrated with UIDAI for Aadhaar based e-KYC, AML system and multiple payment



"I'm happy with the various features and services provided by Fincare like sweep account facility in current account, cash deposit facility and corporate net banking facility. They have given me the real ease of doing business."

**Dinesh Kumar Mahendru**

Noida,  
Customer

systems, for instant account opening and activation. The solution also provides instant activation of pre-generated debit cards allowing customers to start transacting through internet and mobile banking within 30 minutes of opening the account.

#### **PROVIDING MORE...**

In FY20, the Bank added features which promise to elevate the customer experience.

- The complete flow of the on-boarding process was revamped to intelligently capture all KYC-mandated details; as such no further documentation is required at the time of full KYC.
- The solution enables the customer to book full-KYC appointment at his/her convenience; the Bank has partnered with third-party e-KYC vendors for initiating

full KYC services at the customer's doorstep.

- The payment gateway has been added to let the customer fund the account while opening the account itself.

#### **D.LITE FOR LAP AND AHL**

True to its name, the tab-based loan origination solution for Loan against Property (LAP) has been a sheer delight for customers. The number of applications processed through this solution increased to 21,792 in FY20 as against 16,094 a year ago.


Being integrated with the UIDAI and multiple credit bureaus, this in-house application was developed to provide instant credit profiling of every potential

customer and help reduce turnaround time (TAT). The average TAT declined from 13.47 days in FY19 to 10.24 days in FY20.

Also, the algorithm-based credit scoring system, without seeking any documents, helped widen the customer acquisition opportunity canvas. This GPStagging feature was especially useful in controlling on-field operations and audit.

In FY20, the Bank enhanced the relevance of this loan-origination solution with new products and also allowed its agency partners to utilise this solution in generating opportunities for its LAP vertical.

## Providing More...

Features and products		The benefit
Allowed BC Partners to source loans through D.Lite		Generated ₹3 Crore business in FY20
Launched a new product 'Express BT' in Sep'19 which helped in fast tracking the disbursement process - the disbursement TAT reduced to 9.4 days in FY20 from 13.3 days In FY19		Increased the disbursement amount (LAP) by 194% in FY20
Added new products to this solution namely Express GST, Express RTR, pre-approved top-up loans		Generated disbursement amounting to ₹5 Crore in FY20

### DIGITAL LOS

This tab-based solution is designed for the Bank's Loan against Gold product. This is a comprehensive solution that allows customer onboarding, loan creation and disbursement by the banking outlet staff. Also, cash-based collection for LAG repayments can be done through the CashOps module.

### ONLINE PAYMENT GATEWAYS

The Bank partnered with multiple gateways in FY20 to strengthen its online banking offering to its customers.

**UPI:** The Bank commenced UPI operation on 5th July 2019 as an issuer and all the PSPs on-boarded by the Bank for UPI operations. It was implemented to facilitate customer transactions instantly through mobile phone. In Jul'19, the Bank registered 39,982 successful transactions which jumped to 11,71,872 in Mar'20.

**Bill Desk:** This is one of the leading payment gateways in India. The Bank is live with Bill Desk for net banking transactions of its customers. The project was launched in October 2019 and has registered an average transaction volume of ₹14 Lakh per month.

**Razor Pay:** Razor Pay is one of India's largest payment gateways. The Bank provided its 101 account holders with the facility of funding their accounts using the Razor Pay gateway. It was the first bank to provide this facility. Launched in Feb'20, the project started to gain traction from April'20 with an average 50 accounts being funded every day with a total volume of ₹9.31 Lakh as upto 31<sup>st</sup> March, 2020.

**AePS (Aadhaar-enabled Payment System)** is a BC and branch staff-assisted model where customers can transact using Aadhaar number and biometrics. It was launched to boost transactions for our rural

customer segments.

### INTERNAL PROCESSES

In FY20, the Bank adopted Robotic Process Automation (RPA) tools for select business processes. It rolled out these high-tech solutions in the form of Bots in order to boost the compliance position, generating reports for regulator reporting, and for areas/processes that need to run 365 days without exception. Besides stronger compliance, this adoption has also helped in running leaner and more efficient internal operations.



## Our business lines **101 account**

The online savings account is designed for the tech-savvy customer. The 101 Account is ideal for those looking to cut out the time and hassle of a branch visit for account opening and operations. With the Fincare 101 Account, a customer can open a Bank account online in a few minutes anytime and anywhere, and access benefits available to digital / self-service customers.

The Bank's online savings account offering is differentiated in terms of convenience of opening standalone Fixed Deposits online, while enjoying the market-leading deposit rates.

The 101 Account has two variants – the Zero Monthly Average Balance variant (101 First) with all benefits of a

normal savings account, and the ₹25,000 Monthly Average Balance variant (101 Priority) with offers, benefits, and free transactions.

Launched in February 2018, Fincare 101 Account has emerged as a channel of scale for the Bank. As on 31<sup>st</sup> March, 2020 the number of 101 accounts grew by 683%. The new accounts were sourced online through digital marketing campaigns on Facebook, Instagram, and Google.



"Fincare gave me an easy way to open my 101 Priority Account through the online platform. The best part of this was I got the maximum rate of interest on my FD and savings account. This was a lot more than I could imagine."

**Kritika Khosla**  
Kanpur,  
Customer



Differentiators		.. and its impact.
<p>High deposit rates</p> <p>Convenience of opening online Fixed Deposits</p> <p>Doorstep KYC service.</p>		<p>Generated ₹61.5 Crore deposits as on 31<sup>st</sup> March, 2020.</p>

Our support functions

# branch operations



The Branch Operations unit is the critical link for the everyday functioning of the banking outlets, with the responsibility for customer service, deposits and loan documentation, security, local administration, and safety procedures.

In line with the vision to build the best-in-class digital bank delivering value to all stakeholders of the Bank, the Branch Operations unit stepped up efforts to digitalize many banking activities for a better experience for the customer.

### AT A GLANCE: FY20

Highlights	Initiatives
<ul style="list-style-type: none"> <li>• Ensured operational excellence across all processes.</li> <li>• Improved service levels to the customers and enhanced customer relationship value.</li> <li>• Improved customer relationship to sign up more customers.</li> <li>• Controlled, funded, and upgraded ATMs to make them smarter and cost-effective.</li> </ul>	<ul style="list-style-type: none"> <li>• Aadhaar desk across 99 locations covering North, West and South Zones.</li> <li>• CRM tool for customer support services on phone banking and branch banking.</li> <li>• Cash ops module and account opening through Nano BI App.</li> <li>• Gold loan processing through tab banking and Nano BI App.</li> </ul>

# Our support functions facilities

**Addition to the Network**

**99**  
Banking Outlets

**6**  
Basic Banking Outlet

**72**  
Micro Banking Outlet

**21**  
Full Service Banking Outlet

The Facilities framework has been designed and upgraded, keeping in mind the changing business dynamics, and widening customer segments. The Facilities team is tasked to manage the Assets of the Bank including allocation, scrapping, movement and disposal, procurement, negotiations, and processing of Purchase Orders. The Facilities team has also been instrumental in organizing various events and meets, both Internal and external.

During FY20, the Bank rolled out swift and cost-effective branch infrastructure without compromising on the quality aspects. The Bank forayed into



three new states/ Union Territories viz. Chhattisgarh, Chandigarh, and Punjab. Further, 99 banking outlets were opened and operationalised during the year.

## AT A GLANCE: FY20

Highlights	Initiatives
<ul style="list-style-type: none"> <li>509 Banking Outlets Pan-India (86 Full-service Banking Outlet, 108 Basic Banking Outlet &amp; 315 Micro Banking Outlet)</li> <li>400+ Staff quarters.</li> <li>53K+ assets PAN India (12K IT assets).</li> <li>77 - upgrades from Micro Banking to Basic Banking outlets</li> <li>Bangalore - back office facility with 160 seating capacity.</li> </ul>	<ul style="list-style-type: none"> <li>P2P initiative for managing all assets of the Bank.</li> <li>54 banking outlets - Infra set-up for Aadhaar Enrolment centers.</li> <li>509 outlets - Increased safety measures, including installation of Fire extinguishers.</li> </ul>

# 50

Annual Report  
2019-20

Corporate Overview | Statutory Reports | Financial Statements

## Our support functions central processing centre



### THE CPC PHILOSOPHY

- Achieve operational excellence
- Intensify customer focus
- Ensure strict adherence to audit and compliance
- Drive Cost savings at every step
- Deliver Hassle-free services related to payments channel

The Central Processing Centre (CPC) is designed to standardise customer-related back-end processes in order to deliver a uniform and delightful customer experience. The CPC manages the backend for the entire suite of assets, liabilities, and third-party products. It supports completion of the overall end-of-day activities with respect to financial and business operations.

CPC assists all critical processes related to Payment and Transaction Management System (PTMS), which is designed to facilitate the efficient functioning of all payment channels of the Bank. The unit covers CTS (Cheque Truncation System), RTGS, NEFT and all electronic payments. It also covers term deposits, loan disbursement and reconciliation through ATMs, PoS, IMPS, utility bill pay and settlement of GL (gold loan) accounts.

The CPC is structured in such a way to provide an efficient coverage of multiple geographies. Apart from payment channels, the CPC unit houses the TPP (Third Party Payment) operations – Insurance Processing Unit – in order to manage on-boarding of customers and settlement of claims with the Bancassurance partners.

During FY20, the Bank introduced several services aligned to the CPC framework.

**Demand Drafts:** Issuance of demand drafts has been an important milestone for the Bank. This was made available to walk-in-customers at banking outlets and through phone banking.

**Brown-label ATMs:** The brown-label ATMs are off-site ATMs.

The Bank had five brown-label ATMs as on 31<sup>st</sup> March 2020 in locations such as Haryana, Uttar Pradesh and Delhi and with real-time accounting.

**IMPS & UPI:** The product was developed to serve the customer's needs and in order to value add the relationship with the Bank

**Bill Desk:** The Bank developed this feature to enable an online platform for payment of bills and thereby enhance convenience for our customers.

**Foreign Exchange Retail Outward Remittance (AD-II):** The product was developed for our current account holders and

NRI customers wanting to transfer funds from abroad.

CPC continued to drive automation across all products and processes and enhanced controls on collateral management. The system has been devised and updated to ensure error-free processing.



### AT A GLANCE: FY20

Highlights	Initiatives
<ul style="list-style-type: none"> <li>Managed 3,600 deals across all treasury products with over ₹900-Crore of average liquidity on a daily basis.</li> </ul>	<ul style="list-style-type: none"> <li>Implemented Re-KYC for high-risk accounts.</li> </ul>
<ul style="list-style-type: none"> <li>Reduced costs by ₹87.99 Lakh in areas such as paper, courier, Micro Loans and LAP process re-engineering.</li> </ul>	<ul style="list-style-type: none"> <li>Introduced Quality controls for Fincare 101 account and nano-banking</li> </ul>

# Our support functions customer connect



In banking, customer service is a key differentiator in the continuity of the relationship for the long term.

The service quotient has assumed increased significance in the digital era.

“The customer connect team of the bank, supported by the digital channels has delivered on the motto “the highest standards of service with speedy and comprehensive resolution of customer requirements”

The multi-channel interaction platform of the Bank enables it to seamlessly service its diverse and large customer base comprising tech-savvy urban customers at one end and rural and ultra-rural segments at the other.

The Bank provides the following channels for interaction to its customers

## 1) CALL CENTRE

The Bank has a Toll-free, multi-site call center that handles inbound and outbound calls in 8 language options as per customer preference. All calls are recorded for monitoring and quality control purposes. A customer relationship management software has been installed to ensure that all queries, requests and complaints are recorded, correctly routed and rapidly resolved.

During FY20, the center handled 1.95 Lakh calls with the 88% First Call Resolution Rate. As a part of our customer management process, the Bank runs a Net Promoter Score (NPS)

measurement system to analyze customer satisfaction. During FY20, the Bank recorded an average NPS score of 57%.

## 2) CHAT

In order to enhance customer accessibility, the Bank, in March 2020, introduced a chat option on its website. The feature elicited a favourable response from the customers and the daily count of chats started rising in just a few days of launch. At the end of FY20, the run rate of these chats was approximately 150 per day

## 3) WhatsApp BANKING

In our constant endeavour to enhance connect with the customers and serve them even better, the Bank introduced banking services via a multilingual conversational BOT on WhatsApp. At the end of FY20, 28,603 customers got activated on the WhatsApp banking channel.

## 4) E-MAIL

The Bank provides all its customers the option to contact

the Bank through e-mail directly or through the website. During the year, the Bank received above 5,500 e-mails from customers and the average TAT on resolution was 1.5 days

## 5) CUSTOMER CONNECT MEETINGS AT BANKING OUTLETS - MILAAP

The Bank institutionalised its flagship 'Milaap' program across its entire network of banking outlets. Under this program, every outlet organises monthly meetings with 15 customers with the objective of promoting financial literacy, educating them about relevant government schemes and obtaining feedback on products, services and other banking channels. Relevant MIS is provided to the leadership team for identifying and implementing relevant initiatives. During FY20, 12 such meetings were held in each of the 509 banking outlets.



**Addition  
to the  
Network**

**88%**

First Call  
Resolution Rate

**5,500**

Email received  
and resolved in  
1-2 days

**90,000**

Customers  
attended 'Milaap'

# Our support functions technology



In today's banking ecosystem, Technology is the backbone, as millions of transactions happen every minute through invisible communication channels. In keeping with this reality, the Bank has made significant investments in cutting-

edge IT and InfoSec solutions that not only place it at par with larger peers in the banking space but also enable 'high tech, right touch' as the smarter way of banking. The outcome of the advancement in IT systems is that the Bank has become leaner, stronger and more robust.

## LOOKING BACK AT FY20

- The Bank strengthened its Core Banking System with addition of modules for recurring deposit for select segment (Rural Banking), NRE/NRO Savings Bank and FD accounts, asset products such as affordable housing loans, two-wheeler loans and rural loans against property and implemented need-based features like Demand Draft Module and passbook printing for the Rural Banking vertical.
- The Bank implemented new applications such as Fraud Risk Management System, Identity and Access Management (IDAM) solution and Customer KYC Update with Central KYC Registry.
- The Bank launched client-focused features such as International Debit Card for use at ATMs/ Point of Sales terminals and customised Cash dispensation at ATMs.



- The Bank improved its retail internet banking system, introduced corporate internet banking and mobile banking and payment channels such as UPI and AePS.
- The Bank has enhanced its digitised loan sourcing and disbursement application called m-CARE to a significant level which would lead to easing of field operations, optimising overall turnaround time for loan disbursement and thereby creating customer delight. This system has also won two awards for its uniqueness and innovation.
- During the year, the Bank successfully rolled out a digitised loan collection application called m-Serve.

### **BANKING ON TECHNOLOGY**

The Bank seamlessly migrated and stabilised its entire Rural Banking (RUB) portfolio, comprising a customer base of 1.5 million, into the Core Banking System. This makes it one of the first small finance banks to

successfully migrate a legacy system to a more integrated, stable and scalable platform.

The Bank manages the data residing in its CBS and surround systems through a highly secure, Tier-IV data center with a real-time Disaster Recovery (DR) site. The home-grown applications of the bank have also been migrated to the Tier-4 data center. The Bank has been successful in the execution of two DR drills during FY20.

### **SAFEGUARDING THE INFORMATION**

Information security is of paramount importance in the banking business. The Bank has implemented security monitoring system in line with guidelines laid out by the regulators towards securing the customer data and technology. The bank has also implemented Network Access Control solution to secure access to its network, end point security and Data Loss Prevention solutions and Network zoning towards securing its information assets.

The Bank has built a team of specialists for efficient network and infra management.

The IT platform of the Bank has contributed to boosting business performance and efficiency, bringing greater functional integration, improving information management, securing a superior outreach, and thus delivering value to customers as well as other stakeholders.



Our support functions

# people power: our human capital



In FY20, the Bank made remarkable progress in building a best-in-class institution driven by its most treasured capital – its people.

The Bank stayed the course with its aim to be a safe and friendly workplace, adhering to Fincare Way and the Fincare Values Charter. From a microloans institution to a digital retail bank – it is people who have powered the Bank to the scale and stature at which the Bank is recognised for its intellectual and digital quotient. Today, 7,300-plus passionate Fincarerers are engaged in building a Digital bank that serves the banking needs of diverse sections of the society.

The People function of the Bank provides multiple services to its internal customers, ranging from talent acquisition to talent engagement, training & development, performance management, compensation and benefits, HR helpdesk. A robust HR portal combined with a mobile App, helps drive majority of the HR processes such as attendance and leave management, recruitment and onboarding activities, performance

ratings, view/download pay slips, IT statements, disciplinary actions management as well as a majority of HR reports & metrics. The HR team is committed to fairness and transparency in HR processes and continuously engages with all functional heads in providing speedy and quality HR support.

The People Team is focussed on ensuring involvement of every team member to make a positive impact on the dual goal of commercial success and social impact. The department fosters an environment of ownership, accountability and positive intent in the team.

### DEVELOPING HUMAN CAPITAL

In FY20 the Bank's headcount increased from 5,537 to 7,363. The workforce is categorised as business and corporate functions, with Business functions accounting for 77% of staff during the year.

The Bank lays emphasis on providing employment to local youth. In FY20, it recruited a total of 3,090 people with no prior work experience. The recruits were handpicked from areas proximate to their placement location, Thus joining the mission of 'going local'.

This local-hiring strategy enhances our ability to serve our customers at their doorstep and in the language that makes them feel comfortable. The

young fleet brings new energy and passion into their work and the establishment.

Our recruitment philosophy is reflected in the following statistics:

- More than 64% of the workforce is below 30 years of age.
- More than 90% of the team is frontline workforce .
- More than 50% of the workforce comprises of undergraduates.
- Women constituted 5% of the workforce at the Bank as on 31<sup>st</sup> March, 2020. This ratio is low primarily due to the extensive field-work and long-distance travel involved in our rural business. In corporate i.e. non-field roles, the gender diversity was 27% and in the mid-senior management, it was 11%.

As of 31<sup>st</sup> March, 2020, the average vintage of people in business functions was 21 months, while in corporate functions, it was 27 months. In terms of roles, the average vintage in field roles was 22 months and in non-field roles it was 31 months. From an organisation vintage point of view, 51% of total bank staff had a vintage below 12 months, 29% had vintage of 2-3 years and 21% had vintage above 3 years. All the age and vintage metrics have seen an improvement over the years.

### REWARDING THE EFFORT

Fincare has a well-defined band-grade structure along with a clearly communicated promotion policy for the workforce. During the year, 1,079 staff were promoted, underlining its principle of rewarding performance as well as potential.

The Bank has a well-established STAR Awards programme, a platform for rewarding and recognising the people who demonstrated organisational values and delivered above and beyond their routine work. During FY20, a STAR Award was accorded to 738 people from different categories.

There are several department-level rewards and recognition programs. During the year, over 574 colleagues were beneficiaries of these programs.

All the awardees receive a certification and the honours list is widely circulated in Internal forums for fostering a 'rewarding' culture.

### CONNECTING & UPGRADING PEOPLE

As an engagement initiative, the Bank conducts HR Days across all offices, banking outlets. Such forums are a means for communicating culture, spreads awareness about employment benefits, policies and practices, rewards and recognition programmes. code of conduct and career progression, among other things.

The Bank invests in enhancing knowledge and skill through training programmes – both internal and external, both through classroom and e-learning channels – and hosting business immersion and field visits.

In FY20, the training department organised 21,330 sessions across products, processes, compliance and skill enhancement. In addition, people in specialised functions such as risk and treasury participated in training programmes hosted by organisations such as NIBM, CAB and CAFRAL.

At the Bank, considerable emphasis is laid on e-learning programs, particularly in the areas of Information Security, Prevention of Sexual Harassment awareness, AML-KYC, besides managerial development.

Fincare is an institutional member of the Indian Institute of Banking and Finance (IIBF) and encouraged its staff members to enrol and undertake various courses.

Shiksha Diwas, a unique initiative, was launched across micro-banking outlets with the objective of providing a short, refresher module on products and processes.

During the year, 90% of the staff participated in at least 1 training session.

## GETTING TOGETHER

As a continued tradition, the Bank organised Sampark, an annual meet for celebrating key milestones as well as recognising and rewarding high performers. In FY20, 2,376 staff, representing 41% of the total workforce, received on-stage awards across various categories. The event also showcased in-house talent in music, dance and drama. It was held across eight centres with 100% coverage.

## A SOUND BODY & A SOUND MIND

Fincare Cup, a much-awaited in-house cricket event, was hosted to bring out the competitive spirit among the staff. More than 900 colleagues participated in various avatars, making this multi-city event a must-do in the annual calendar.

In FY20, over 500 Fincareers participated in a marathon event. The participation spanned events like the Goa River Marathon, Cochin Marathon and Coorg Barefoot Marathon. The leadership team was well represented in these events, showcasing their commitment to fitness.

Keeping health as a priority, general health and eye check-up camp were organised at the administrative offices at Ahmedabad and Bangalore during the year. Special sessions to commemorate International Women's Day and on International Yoga Day were



organised.

In addition, chess tournaments, dart games, treasure hunts and movie screenings were organised at various locations. Key festival-related events and National Day celebrations saw flash mobs, jamborees with active participation of members along with their families. All, in order to strengthen the familial bond, a sense of togetherness and mutual respect for culture and values.



## Our support functions **marketing**



The Small Finance Banks are on a 2-horse journey viz. Commercial Success combined with Social Impact. On one hand, Small Finance Banks reach out to low Income households in rural & semi-urban India and provide financial assistance for their

livelihood, and on the other, target the mass market, mass affluent and high net worth Individuals in urban and metro markets, to address their savings and Investment needs. To add a dimension, Small Finance Banks, backed by their new-age technology platforms, are also increasingly reaching out to the modern, tech-savvy new-gen customers. Thus, the interesting marketing opportunity for Small Finance Banks is to create a balance between these diverse customer segments and direct the marketing spends in an appropriate manner.

During the year, Fincare Small Finance Bank redefined its brand positioning with the launch of the 'Wish More, Get More' campaign. With this theme, the Bank positioned itself as the, friendly, wise, trust-worthy service provider, who understands the importance of financial goals, helps access products and services suited to one's needs, runs operations in a smooth, efficient and compliant manner, is fair and transparent in dealings and on top of that, has good tech-understanding and finally, all of it comes together in the form of a helping hand that lets you achieve your financial goals. During the year, the Bank added more than

10 Lakh customers in a seamless manner reflecting the execution of this mantra of 'More'...

### WISH MORE, GET MORE

The idea of 'MORE' stemmed from the people's aspirations for getting more in every endeavor. The wish list for MORE is simple – Higher returns, safer investments, easier processing, fairer charges, faster decisions, smoother accessibility, smarter systems and so on. The desire was to build MORE brand salience with customers. 'Wish More Get More' has since become the tag line for brand-Fincare and is reflected in all collaterals.

Grandmaster Viswanathan Anand, who has been endorsing the Bank since its inception, played the brand ambassador for the 'Wish More, Get More' campaign too. The TVC stressed on the concept of 'more' by communicating what the Bank offered – more returns on depositors' money and more convenience.



### 'MORE' THE MARKETING MANTRA

The success of the campaign inspired the Bank to widen its product basket and make the best use of its digital edge. The Bank's marketing campaigns played a significant role in deepening the customer connect using multiple platforms.

- **Banking Outlet:** This is a grand affair for the Bank, with a slew of marketing activities such as floating campaigns, roadshows, PR outreaches, kiosk campaigns, customer connect programmes lined up with the launch of every outlet. This helped in creating



a buzz in the local market through print, radio, transit and advertorials and, to top it all, building the brand awareness.

- Product/Service Launch:** These involve campaigns, PR outreach, customer awareness programmes, advertorials in the print media, social media and radio. During the year, 9 product/service launches were covered by marketing activities..
- Below The Line (BTL) Activities:** These involve activities in catchment zones for generating leads, conducting door-to-door campaigns, hosting festival-linked contests, community get-togethers and wellness campaigns. During the year 136 BTL activities were undertaken across India.
- Creatives & Videos:** In order to put the customer value proposition in perspective, various marketing and promotional creatives were designed for generating enthusiasm for the launches. Multiple video-based messages were sent out to promote products and services among the target segment and these were well received on social media platforms. During the year, more than 350 creatives and videos were released across platforms.
- Social Media:** The 'Wish More, Get More' campaign and associated brand positioning were publicized on all social media platforms. Updates about launch of banking outlets, posts on smart banking products, promotional and informational videos, safe banking tips, fraud prevention etc. gave a boost to both brand salience as well as lead generation efforts across verticals. The Bank observed 164% YoY growth in engagement levels in FY20.
- Public relations:** The Bank, with its various PR initiatives, aspires to build a positive connect to the Bank, with the general public, industry observers etc. In FY20, 163 PR activities related to branch/product launch and other activities were conducted.
- Blog Management:** Regular blogs and online content on topical matters such as cyber security, financial planning etc. were put out in order to build thought leadership on these subjects. The content was fairly well received by the consumers.
- Multi-lingual Collaterals:** All customer-oriented collaterals were created in multiple languages in order to build superior customer connect and awareness. In FY20, more than 200 collaterals across

8 languages were released.

- Brand Ambassador engagement:** Besides Brand and product films, in FY20, the bank hosted a book launch event at Mumbai for our Brand Ambassador, Mr Viswanathan Anand. He also graced our Corporate office and participated in an Employee engagement event, much to the delight of the team.

- Above the Line Branding:** During FY20, the Bank got an opportunity to explore airport media for branding. The Bank launched a digital ad campaign at Delhi, Mumbai & Ahmedabad airports drawing significant visibility and mileage among the target audience.





63



**wish more  
get more**  
Fresh brand campaign

# finance function

The Finance function is the fulcrum of smooth business operations of the Bank and involves a broad range of activities supporting internal stakeholders and external stakeholders.

At the Bank, the Finance function ensures efficient and effective day to day Finance Operations, Regulatory Reporting, Statutory Compliances, Management Reporting, Direct and Indirect Taxation, Financial Planning and Analysis, Treasury Management, Funds Raising, Cashflow Management and Investor Relations. The Bank has a well-defined Finance Function structure with dedicated teams to manage respective activities.

At the Bank, both Automation and Digitalization initiatives have been used extensively for all the back-end processes. The adoption of data analytics and emergent technologies has enabled the Bank to increase its operational efficiencies, resulting in a positive impact on its financial reporting. The Bank generates its Internal P&L by 1st of every month with emphasis on First-time : Zero-defect : On-time Reporting philosophy adopted by the Finance function. The Digital transition has helped the Bank in significant reduction of costs, optimization of revenue, delivery of higher productivity and reduction in turn-around times.

As part of digitization drive, Finance team also worked on P2P, a web-based procurement and payable management application that enables a process-driven ecosystem with strong controls through automated approval workflow & digitised document management. The application encompasses managing Purchase Order & Agreement-based Invoice Processing, Asset management, Staff travel claim management & petty cash management, with functionality of initiation to closure, accounting entries and Core Banking file integration.

The Finance Function performs regular operations, prepares and reviews the periodical financial statements with an endeavour to make continuous process improvements, with adherence to all required accounting policies, practices, compliance and regulatory guidelines. During the year, Finance Function ensured compliance to statutory and regulatory requirements by catering to the required reporting to RBI, SLBCs and other regulatory bodies, thereby keeping the Bank compliant at all times.

The Finance function also provides Data, MIS, Analytics and actionable intelligence to Management on regular basis.

Treasury team under Finance

function, focuses on overall funds management for the bank, including fund raising and a host of other investment activities. The Treasury team performs transactions in Money Market Lending/Borrowing (LAF Repo/Reverse Repo, TREPS, Call, Fixed income - SLR (AFS, HFT and HTM) and LTRO (Long Term Repo Operations) etc to make the best use of funds available in hand. The total volume generated through these transactions in FY20 was an astounding Rs. 2,00,000+ Crore. In FY20, the Bank sold PSLCs (Priority Sector Lending Certificate) and generated PSLC income of Rs. 43.38 Crore.

In FY20, Treasury Front Office raised funds amounting to Rs 1413 Crore through various instruments such as IBPC (Interbank Participatory Certificate), Refinance, Term Loan, Committed Line of Credit, Certificate of Deposits, Tier II Bonds (capital instruments) at competitive rates with maturities ranging from 6 months to 6 years.

Overall, the Treasury Function ensured adequate liquidity with robust cashflows and managed the relationship with prospective lenders and remained focused on a proper mix between borrowing and lendin

# secretarial and corporate legal function



The over-arching responsibility of the Company Secretary and Secretarial team is to ensure that the institution is being run in full compliance with all the applicable laws and regulations and protect interest of all its stakeholders through strong governance standards. The stakeholders view sound corporate governance

as an essential to the Bank's performance. At the Bank, this team supports the board to perform timely governance reviews and also assists the Board of Directors in these efforts, provides information on the practices followed in the sector and helps tailor the corporate governance principles / practices to fit the needs and expectations of the stakeholders. A parallel but no less important responsibility is to ensure that all meetings of the shareholders, Board of Directors and various committees are being run in accordance with the law and their various charters.

In an endeavor for continuous improvement, the Bank introduced DESS Digital Meetings, a document management and collaboration solution, in order to enhance automation in Governance. The Solution provides hassle free meetings with high levels of encryption and secure access. Inter alia, it provides features such as paperless meetings

with complete pre, during and post meeting features, multiple levels of controls for current and upcoming agenda as well as past meeting archives, effortless communication through email, text message and notification alerts, voting and approvals of directives, resolutions, motions and minutes.

During the year, Secretarial function ensured compliance to all statutory and regulatory requirements by filing all necessary documents/ forms/reports with various authorities/ internal and external stakeholders on time.

The Corporate Legal function plays an equally challenging role in understanding the pressure points, strategy and objectives of the Bank and effectively communicating the risks and legal issues involved in any decision to the management, thereby enabling the management to make informed choices with acceptable legal risk profile.

# risk management



Risk Management is integral to the core philosophy and working for Fincare Small Finance Bank. Prediction and mitigation of risks attain higher significance in case of a bank where trust of the people is the core capital.

Fincare Small Finance Bank has an effective risk management framework to manage all material risks consistent with its risk appetite.

The Board is entrusted with the ultimate responsibility for the Bank's risk management framework. It is responsible for approving enhancement in risk-taking abilities or risk appetite, risk tolerance and related strategies and policies. To ensure a sound system of risk management and internal controls, a dedicated Risk Management Committee of the Board (RMCB) has been set up.

The Committee monitors the appetite, policies, procedures, strategies and controls. It also reviews various limits being considered by the Board, and reviews portfolio composition and impaired credits for wholesale lending.

A summary of the various risks faced by the Bank and their mitigation is highlighted below.

## **CREDIT RISK**

Credit Risk is all about the Bank's approach to approving and managing credit decisions. Credit Risk Management aims to make the

systems and controls more effective to avoid decision errors.

#### **Mitigation framework**

The Credit Risk Management unit identifies, measures, monitors, and reports all types of credit risks.

The Credit Risk Policy provides a framework for managing credit risks to promote quality assets, profitable relationships and prudent growth, by leveraging the Bank's strong franchise, loyal client base in key geographies and by taking into account the diverse customer segments, increased competition and the reduced spreads.

The Credit function being independent of it is the first line of defence and responsible for the day-to-day management of credit risk. The unit formulates internal controls to ensure adherence to risk management policies, procedures, and guidelines.

The Credit Risk Management unit defines risk assessment systems, monitors quality of loan portfolio, develops MIS and undertakes loan review. The unit, through the Credit Risk Management Committee (CRMC), provides information to the top management on the composition of the credit portfolio, including concentration risks.

The unit also enforces, and monitors compliance of risk parameters and prudential limits

set by the Risk Management Committee. A system of Board-approved delegation of powers exist for various products. The credit sanctions are subject to review by the next higher authority to ensure proper matrix oversight and review. The credit underwriting in the wholesale segment is subject to approval of the Credit Committee and has a separate delegation matrix approved by the Board.

**Retail Segment:** The retail portfolio comprised of Micro Loans, Loan against Gold, Two-wheeler Loan, Affordable Housing Loan and Loan against Property. Micro Loans are tagged as a low-ticket-size product with standard underwriting norms catering to the base-of-the-pyramid segment. For the other products, dedicated credit teams perform systematic credit assessment and valuation of collateral. The underwriting norms for each product are well-defined in relevant policies and embedded in credit procedures.

**Wholesale Segment:** A separate vertical handles the Wholesale Corporate Loans. A detailed underwriting standard approved by the Board is in place for this segment. A centralised credit team, independent of the business team, performs the assessment and provides recommendations. Sanctions are done by the independent credit committee.

#### **MARKET RISK**

Market risk refers to losses in 'On and Off-Balance Sheet' positions arising from movement in market price, as well as their volatility, which may impact the Bank's earnings and capital.

#### **Mitigation framework**

The Bank's investments in government securities and mutual funds are subject to market risks. Such risks are monitored by the Market Risk Unit, which independently reviews the Bank's investments and trading portfolios in terms of risk limits stipulated in the Market Risk Management Policy and compliance with the Board-approved market risk appetite. It reports deviations, if any, to the appropriate authorities as laid down in the policy.

The Bank utilises both statistical as well as non-statistical measures for the management of market risk in its trading and investment portfolios. The tools, models and underlying risk factors are reviewed periodically to enhance their effectiveness.

The unit also supports the Asset-Liability Management (ALM) of the Bank.

The Asset Liability Management Committee (ALCO) is responsible for integrated Balance Sheet risk management from a risk-return perspective, including strategic management of interest rate and liquidity risks.

**OPERATIONAL RISK**

Operational risks arise from inadequate or failed internal processes, people and systems as well as from external events.

**Mitigation framework**

A panel of senior management personnel – Operational Risk Management Committee – is responsible for overseeing the implementation of Board-approved policy and framework specified for these risks.

The Bank has a structured reporting system for operational losses and issues relating to operational risks for addressing any gaps.

The bank monitors operational risk exposures regularly and periodically reviews them in order to ensure effective implementation. Control and mitigation guidelines are part of various products, process operation manual and documents of the Bank. The Bank covers risks on account of natural disaster through appropriate insurance.

The Bank has in place a robust information technology system with disaster recovery capability for critical components apart from an Integrated Business Continuity Plan (BCP) for business operations. The BCP committee oversees the strategy and implementation of disaster recovery mechanism and business continuity framework of the Bank.

**INFORMATION SECURITY RISK**

Information security risk is identified as a material risk for the Bank, given our core strategy of being a 'Digital' Bank.

**Mitigation framework**

The information security unit is responsible for information security and works towards adoption of improved technology for cyber security, information risk management, effective data privacy, protection of customer information, review of new and existing applications, and continuous gap analysis, in order to ensure effective implementation of all the

recommendations of the Gopalakrishna Committee.

In FY20, the Bank introduced various tools and adopted best-in-class security practices such as End-point Data Leakage Prevention (DLP), Red Team exercise, Phishing exercise, Hardening Scan/ Configuration Audits of Servers and N/W devices, Implementation of SOC and Security Review of all Infra and Application changes. The Bank also conducted VA/ PT and secure code review of all applications used / developed by the Bank.



# internal audit



The internal audit function is designed for enhancing effectiveness of the Bank's internal control mechanism. The central bank guidelines have made risk-based audits an extremely important part of risk management and control. The internal audit team predicts potential risks and deploys optimum mitigation strategy to counter such threats.

The Internal Audit Department at the Bank is aligned to deliver on the promise of having a 3rd line of defence for mitigating risks.

The key roles have been split into sections, namely:

1. Credit Audit - covers specific loan accounts, credit process audits, credit risk management, Micro Loans audit, among others.
2. Business Audit - covers financial audits, treasury audits and market risk management audits.
3. Branch Audit - covers activities at all the branches.
4. Business Process Audit - covers centralised activities and corporate management functions,

including operations risk and compliance, special audit, and retail banking audit.

5. Information Security Audit - covers IT management processes, applications, IT infrastructure (network/ operating system/ databases/ middleware) and IT & project governance.

The ambit of Internal Audit also spans several other processes that are integral to the business activities. All these mechanisms were firmly in place during FY20 review and they performed in harmony to ensure smooth functioning of the Bank.

## CONCURRENT AUDIT

Concurrent audits are in place for Central Processing Centre, Treasury and Loan against Gold verticals.

## PERFORMANCE HIGHLIGHTS

The Bank carried out audit at all banking outlets that disbursed microloans and all urban branches during the year under review.

In FY20, the Bank used the Microsoft Kaizala application

as the core tool to audit rural branches which disburse microloans and reports were issued using tools built in Kaizala.

The Internal Audit team also covered Capital Adequacy and Stress Testing, Liquidity Risk Management, Office General Ledger Accounts, Operational Risk Management, HR Payroll, HR Exits, Thematic audit on KYC (Current Accounts), Revenue Audit, Vendor Management and all asset products such as JLG Credit process, Loan against Gold, Institutional Finance, Loan against Property, Rural Loan against Property, Two-Wheeler Loans and Affordable Housing Loans.

During the year, Information System audits covered application audits of Cash Operations Module, HRMS, Data Centre, Business Continuity Plan, Disaster Recovery and IT Governance.

In addition, the audit team performed audits of Data Centre at Mumbai, Identity and Access Management, Change and Patch Management, IT Outsourcing, smart devices, end-point security and vulnerability management.

# compliance



The Bank has an independent Compliance function tasked to ensure adherence of banking operations with the guidelines laid down by various regulators, upkeep of the institution's reputation and resolution of regulatory risks.

The Bank's comprehensive compliance framework is aligned to the required rules and guidelines, thus allowing the Bank to operate seamlessly in a tightly regulated environment. For the Bank, Compliance is the second line of defence. As such, the department keeps an oversight on, and carries out an unbiased review of the activities of the first line of defence.

**The three major focus areas for Compliance function are:**

- Strengthening the culture of compliance within the Bank.
- Managing all compliances with RBI regulations and internally laid-down policies.
- Assessing compliance risk in all aspects of day to day functioning.

The department is the single point of contact for all regulatory agencies. The department functions as the focal point of the institution for responding to the banking watchdog on various issues, approaching for required approvals, seeking clarifications, including co-ordinating with RBI inspectors and submitting data under Risk Based Supervision (RBS) framework. It



ensures timely submission of quality compliance studies with respect to the Annual Financial Inspection Report of the RBI, in coordination with all the departments of the bank.

The Compliance Function is responsible for all aspects of regulatory issues across the Bank. There are dedicated resources deployed to focus on areas like KYC and AML, besides reviewing, monitoring, and providing guidance on regulatory issues to the line functions. The compliance framework, approved by the Board, broadly sets out the compliance risk management processes and tools to be used by businesses, management, and Compliance Officers for managing its risks. The compliance team supports the top management, supervises the compliance framework and provides assistance to the business and corporate functions on compliance matters.

The Compliance Department ensures that the applicable regulatory prescriptions, apart from Anti-Money Laundering / Combating Financing of Terrorism / KYC aspects, are applied to the new products / processes and all new products / processes or modifications to the existing product / processes are approved only after



satisfying compliance with the regulations, not only of the RBI but also SEBI, IRDAI and PFRDA. The head of the compliance department is a member of various internal committees, which enables monitoring and addressing compliance risks more effectively.

The Bank uses knowledge management tools such as IC+, CERMO+ for monitoring compliance with applicable regulations across branches, businesses, functions, connected to both, changes in existing regulations as well as new regulations. The department disseminates changes in guidelines by sending out Compliance alerts to all Staff.

The Bank takes care to impart periodical training on compliance matters to all its team members. The Compliance Department keeps the management and the Board informed about important compliance related matters through quarterly and annual compliance reviews.

# social DNA at the fore



The Bank believes in a holistic growth of business and rides the dual goals of commercial success combined with social impact. The Bank has a dedicated team committed to the social goals of

the bank, who carry out various developmental activities in order to make a difference to the communities we serve.

The Social Initiatives of the Bank center around 3 key themes viz. health and hygiene, literacy and livelihood and community welfare.

## LITERACY & LIVELIHOOD

The Bank worked towards spread of literacy and generation of livelihood. The programmes covered a cross section of the communities, both adults and children.

### Financial Literacy Programme:

The initiative covered three aspects – government savings/ pension/ insurance-related schemes, digital transaction and importance of timely repayment and Credit Bureau. In FY20, The Bank organised 903 Financial Literacy Camps covering 29,614 beneficiaries. Around 90% of the participants were women. Several programmes were also hosted in partnership with leading developmental Institutions s.a. NABARD and ISMW.

**Child Education Programme:**

This program was designed primarily for school children. Under this initiative, representatives from the Bank visited schools, interacted with the teachers and students to understand their primary needs. Thereafter, the after school, study sessions were devised and organised after obtaining consent of the school heads. In these sessions, gaming activities were used to teach the students about savings, in an entertaining manner. At these events, the

Bank distributed bags, copies, pens, lunch boxes and water bottles among the students.

**ENVIRONMENTAL PROTECTION**

The Bank carried out afforestation drives by distributing and planting saplings.

**RELIEF AND REHABILITATION**

The Bank distributed food items in various flood-affected areas. It also distributed warm clothing

among the economically disadvantaged communities during the winter months.

**MISSION HEALTH**

Fincare conducted numerous health camps in FY20 and the community at large benefited from this. The Bank selected the villages, interacted with the people to understand their healthcare needs and then invited senior doctors for day-long medical camps.

**A summary of the activities carried out across the year are as under:**

Total Activities  
**1,446**

Total Beneficiary  
**65,821**



**HEALTH & HYGIENE**

**128**

Activities

**14,050**

Beneficiary



**LITERACY & LIVELIHOOD**

**1,215**

Activities

**47,467**

Beneficiary



**COMMUNITY WELFARE & ENVIRONMENT PROTECTION**

**8**

Activities

**830**

Beneficiary



**DISASTER RELIEF**

**95**

Activities

**3,474**

Beneficiary

**Wish More  
Get More**



75

# statutory reports

# Directors' Report

To  
The Members,  
**FINCARE SMALL FINANCE BANK  
LIMITED ("THE BANK")**

Your Directors take pleasure in presenting the 25th Annual Report on business and operations of the Bank together with the Audited Financial Statements for FY 20.

Having laid the foundation of a 'Small Finance Bank', the Management has achieved reasonable success in positioning the Bank as a new generation Bank with focus on enabling financial inclusion of unbanked and underbanked sections of society, as well as offering high-tech and high-touch bank offering modern, innovative banking services to the more affluent customers

As of 31<sup>st</sup> March, 2020, the Bank had 421 Banking Outlets (BO) in rural & 86 Banking Outlets (BO) in Urban / Semi-Urban areas covering 13 States & 2 UT's viz. Andhra Pradesh, Chandigarh (UT), Chhattisgarh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Puducherry (UT), Rajasthan, Tamil Nadu, Telangana & Uttar Pradesh.

As a new-age Bank, it is striving hard

to set new standards in customer experience with extensive use of technology and commitment to customer delight. With the objective of serving the financial needs of multiple customer segments, the Bank added new products to the existing suite of Savings Accounts, Term Deposits, Loan Against Gold, Loan Against Property, Micro Loans and Institutional Finance, in order to engage and onboard new customer segments. This included Current Account, Digital 101 Savings Account,

Affordable Housing Loans and Two-wheeler Loans

Details of operations are given in the 'Management Discussion and Analysis' which forms part of the Annual Report.

Some of the key developments in the FY 20 are highlighted in this report.

## 1. FINANCIAL HIGHLIGHTS FY20

The financial performance for FY 20 as compared to previous year is summarized in the following table.

(₹ in Lakh)		
Particulars	2019-20	2018-19
Interest Income	107,026	60,515
Other Income	14,546	6,973
Interest expended	45,150	22,907
Operating expenses	42,613	29,581
Provision and contingencies	19,464	4,802
Profit before Tax	20,273	11,030
Profit after Tax	14,345	10,198
Surplus brought forward	(618)	(7,955)
Amount available for appropriation	13,727	2,243
Appropriation have been made as under:		
Transfer to Statutory Reserve	3,587	2,550
Transfer to Other Reserves	433	311
Surplus carried to Balance Sheet	9,707	(618)
<b>EPS (₹)</b>	<b>24.43</b>	<b>22.41</b>

## 2. DIVIDEND

In order to strengthen the Bank's financial position as well as to support ongoing expansion, the Directors do not recommend any dividend for the year under review.

## 3. AMOUNTS TRANSFERRED TO RESERVES

During the year under review, the Bank has transferred a sum of ₹3,587 Lakh to Statutory Reserves and ₹433 Lakh to other reserves.

#### 4. CHANGE IN NATURE OF BUSINESS

There has been no change in the nature of business of the Bank during the year under review.

#### 5. CREDIT RATING

During the period under review and till the date of Board's report, the Bank has been assigned CARE A (Stable) and ICRA A (Stable) from CARE RATINGS and ICRA respectively for its Long term facilities. The Bank has also been assigned IND A – (Stable) credit rating by India Ratings & Research and CARE A Stable Rating from CARE RATINGS for its Unsecured Sub-ordinated Debt/ Non-Convertible Debentures. Further the Bank has been assigned MA+ (Stable) credit rating for its Fixed Deposits by ICRA and for Certificate of Deposits it has been assigned Crisil A1+ rating from CRISIL.

#### 6. TRANSFER OF UNCLAIMED DIVIDEND TO INVESTOR EDUCATION AND PROTECTION FUND

During the year under review, the Bank did not have any outstanding amount that was otherwise required to be transferred to the Investor Education and Protection Fund in pursuance of provisions of section 125 of the Companies Act, 2013.

#### 7. THE STATE OF BANK'S AFFAIRS

The Bank continues to be categorized as a 'Small Finance Bank' under the RBI Regulations and during the year it continued to carry on business as 'Small Finance Bank'. The Bank is in compliance with all the licensing and operating guidelines of RBI as amended from time to time. As an evolving 'Small Finance Bank', the management has been focusing on investing in the digital banking franchise. The Bank's digital products and services aim to enhance customer convenience and expand its reach. The Bank launched the Aadhaar Service Centres in January 2020 and was able to meet the target set by UIDAI for all the 3 months of January, February and March 2020. The Bank launched these Centres across the Micro Banking and Basic Banking Outlets to enable the Micro Loans Customers update their Aadhaar details at a reasonable rates as compared to those charged by other players in the same market.

Some of the key highlights of the Bank's operations during FY20 in comparison to FY19 are as follows:

Particulars	FY20	FY19
Gross disbursements (₹ in Crore)	4,980	3,238
Gross Loan (₹ in Crore)	5,345	3,530
No. of banking outlets	711	569
No. of Re-cyclers / ATMs	83 Re-cyclers and 25 ATMs (including 5 Brown Label ATMs)	63 Re-cyclers and 8 ATMs
No. of Branches	509	417
No. of Customers	25.5 Lakh	15.35 Lakh+
No. of Staff	7,363	5,498

#### 8. CAPITAL STRUCTURE OF THE BANK

During the year, there was no increase in the Authorized Share Capital of the Bank. The Authorized Share Capital of the Bank as on 31<sup>st</sup> March, 2020 was ₹100,00,00,000 (Rupees One Hundred Crore) divided into 10,00,00,000 (Ten Crore) Equity Shares of ₹10 (Rupees Ten) each.

The issued, subscribed and paid up capital of the Bank as on 31<sup>st</sup> March, 2020 stood at ₹63,61,04,810 (Rupees Sixty-Three Crore Sixty-One Lacs Four Thousand Eight Hundred and Ten) divided into 6,36,10,481 (Six Crore Thirty-Six Lacs Ten Thousand Four Hundred and Eighty One) Equity Shares of ₹10 (Rupees Ten) each.

During FY 20, the Bank has not issued any shares with differential rights, sweat equity shares, and Bonus shares. The Bank has not bought back any of its securities.

In addition, grant of 2,50,000 options pertaining to FY18 and 2,90,000 options pertaining FY19 to Mr. Rajeev Yadav, Managing Director and Chief Executive Officer of the Bank at a grant/ exercise price of ₹265/- (Rupees Two Hundred and Sixty Five) and ₹291/- (Rupees Two hundred and Ninety One) per share respectively, was approved at the Board Meeting held on 22<sup>nd</sup> January, 2020. The Board had earlier approved a quantum of 3,11,000 options to be granted to Mr. Rajeev Yadav for FY19, subject to RBI approval,

## Fincare Small Finance Bank Limited – Directors' Report

at its meeting held on 10th May, 2019. Subsequently the Board approved a revised quantum as above at its meeting held on 22<sup>nd</sup> January, 2020. Further, it may be noted that the grant of 290,000 options to Mr. Rajeev Yadav is subject to approval of RBI and members.

### 9. ANNUAL RETURN

The extract of Annual Return in form MGT-9 pursuant to the provisions of Section 92 (3) read with Rule 12 (1) of the Companies (Management and Administration) Rules, 2014 is furnished as Annexure I forming part of

this report. The same is also available on bank's website [www.fincarebank.com](http://www.fincarebank.com).

### 10. NUMBER OF MEETINGS OF THE BOARD DURING THE FY20

The Board of Directors of the Bank met 16 times in the FY20. The maximum interval between any two Meetings did not exceed 120 days and the Minutes of all the Board Meetings were duly recorded in the Minutes Book as prescribed in the Companies Act, 2013. The details of the meeting held during the year are mentioned hereunder:-

Quarter 1 (April – June)	Quarter 2 (July – September)	Quarter 3 (October- December)	Quarter 4 (January- March)
23 <sup>rd</sup> April, 2019	18 <sup>th</sup> July, 2019	11 <sup>th</sup> November, 2019	22 <sup>nd</sup> January, 2020
18 <sup>th</sup> May, 2019	22 <sup>nd</sup> August, 2019	19 <sup>th</sup> November, 2019	31 <sup>st</sup> January, 2020
24 <sup>th</sup> May, 2019	17 <sup>th</sup> September, 2019	13 <sup>th</sup> December, 2019	11 <sup>th</sup> February, 2020
-	26 <sup>th</sup> September, 2019	-	24 <sup>th</sup> March, 2020
-	-	-	28 <sup>th</sup> March, 2020
-	-	-	31 <sup>st</sup> March, 2020

The Details of Attendance of Directors are cited in the Corporate Governance Report Annexed as Annexure II to this report

### 11. PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS MADE UNDER SECTION 186 OF THE COMPANIES ACT, 2013

Being a Bank, disclosure of information pertaining to loans extended, guarantees given, securities provided, acquisition of securities etc. are not required to be made.

Details of Investments are given in Schedule 8 to the Financial Statements forming part of the Annual Report

### 12. PARTICULARS OF CONTRACTS OR ARRANGEMENTS MADE WITH RELATED PARTIES

Pursuant to Section 134(3)(h) of the Companies Act, 2013 read with Rule 8(2) of the Companies (Accounts) Rules 2014, there are no related party transactions to

be reported under section 188(1) of the Companies Act, 2013 in Form AOC-2. The requisite disclosure as per Accounting Standard-18 has been made under Schedule 18 of the notes forming part of the audited financial statements for the year ended 31<sup>st</sup> March, 2020

### 13. APPOINTMENT OF AUDITORS

#### A. STATUTORY AUDITORS

The present term of one year of Walker Chandiook & Co LLP (Firm Registration No. 001076N), Chartered Accountants, the Auditor of the Bank has been completed and in pursuance of provisions of section 141 of the Companies Act, 2013 they have confirmed their eligibility to be Auditor of the Bank for the next year. The Board of Directors at the recommendation of the Audit Committee propose to re-appoint them for FY21. Their re-appointment, however, is subject to approval of members and the Reserve Bank of India.



## Fincare Small Finance Bank Limited – Directors' Report

### B. SECRETARIAL AUDITOR:

Pursuant to the provisions of section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Bank had appointed Mr. Tushar Shridharani, Practising Company Secretary as the Secretarial Auditor of the Bank to conduct Secretarial Audit for the FY20. The Secretarial Audit Report for FY20 is appended as Annexure III to the Board's Report.

The Board has re-appointed him as Secretarial Auditor for FY21 at its meeting held on 7<sup>th</sup> July, 2020, upon recommendation of the Audit Committee

### C. INTERNAL AUDITOR:

Mr. Subash V., holding a Masters in Business Administration, Certified Associate of Indian Institute of Bankers, and a Bachelors degree Science- Mathematics, Physics and Chemistry, was appointed as the Internal Auditor of the Bank w. e. f. 17<sup>th</sup> September, 2019 and has performed Internal Audit for FY20. Pursuant to the recommendation of the Audit Committee, the Board has re-appointed him as Internal Auditor for FY21 at their meeting held on 7<sup>th</sup> July, 2020 .

### 14. EXPLANATION OR COMMENTS ON QUALIFICATIONS, RESERVATIONS OR ADVERSE REMARKS OR DISCLAIMERS MADE BY THE AUDITORS AND THE PRACTICING COMPANY SECRETARY IN THEIR REPORTS

There is no qualification, reservation, disclaimer or adverse remark made either by the Statutory Auditors or by the Secretarial Auditors in their reports, which otherwise would have required the Board to provide explanation in their report.

### 15. MATERIAL CHANGES AND COMMITMENT IF ANY AFFECTING THE FINANCIAL POSITION OF THE BANK OCCURRED BETWEEN THE END OF THE FINANCIAL YEAR TO WHICH THIS FINANCIAL STATEMENTS RELATE AND THE DATE OF THE REPORT

There are no material changes and commitments, affecting the financial position of the Bank that have occurred between the end of the financial year of the Bank i.e. 31<sup>st</sup> March, 2020 and the date of Boards' Report i.e. 7<sup>th</sup> July, 2020.

However, the Novel Coronavirus (Covid-19) pandemic (declared as such by the World Health Organization on 11<sup>th</sup> March, 2020), has contributed to a significant decline and volatility in the economic activity, in global and Indian markets. The Government of India announced a 40-day nation-wide lockdown to contain the spread of the virus till 3<sup>rd</sup> May, 2020, which was further extended till 31<sup>st</sup> May, 2020. This has significantly impacted the livelihood of individuals and various business operations, consequently impacting the Bank's regular operations including lending and collection activities due to restrictions on the movement of employees across different states to reach the borrowers.

Further, the Bank has made a provision amounting to ₹268 Lakh as per the RBI guideline – "COVID 19 Regulatory Package–Asset Classification and Provisioning" dated 17<sup>th</sup> April, 2020. Further, the Bank has made an additional provision amounting to ₹8,250 Lakh owing to the probable impact of Covid-19 based on the information available as on date.

### 16. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO IN THE MANNER AS PRESCRIBED IN RULE 8(3) OF THE COMPANIES (ACCOUNTS) RULES, 2014:

**(A) Conservation of Energy and technology absorption:** Since the Bank does not own any manufacturing facility, requirements of furnishing of particulars relating to conservation of energy and technology absorption are not applicable.

(B) The Foreign Exchange earnings and outgo:

Particulars	₹ (FY20)	₹ (FY19)
Foreign Exchange Inflow	Nil	Nil
Foreign Exchange outflow	12,72,991	13,45,619



# Fincare Small Finance Bank Limited – Directors' Report

## 17. SUBSIDIARIES, JOINT VENTURES AND ASSOCIATE COMPANIES

The Bank does not have any Subsidiaries, Joint Ventures and Associate Companies. Hence, Form AOC-1 as specified under Companies Act, 2013 is not applicable to the Bank.

## 18. RISK MANAGEMENT POLICY

Your Bank has in place a comprehensive Risk Management framework supported by detailed policies and processes for management of Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Reputational Risk and various other Risks. The Board is supported by the Risk Management Committee, which is chaired by an Independent Director. It is also supported by various management committees as part of the Risk Governance framework. The design and implementation of a sound risk process is largely the responsibility of Chief Risk Officer supported by Risk Department of the Bank. At present there are no risks identified which threatens the existence of the bank

## 19. DEPOSITS

The Company being a Bank, requirements on disclosures of information in pursuance of Rule 8(5)(v) & (vi) of the Companies (Accounts) Rules, 2014, read with Sections 73 and 74 of the Companies Act, 2013 are not applicable

## 20. DIRECTORS

The Bank's Board consists of professionals who are having knowledge and experience required in the banking industry. The responsibilities of the Board include, inter alia, formulation of policies, taking new initiatives, reviewing performance, monitoring plans and pursuing policies and procedures, and ensuring that the Bank operates within the regulatory framework laid down by the regulator.

### A) CHANGE IN DIRECTORS

During the year under review, there was no change in the composition of the Board of Directors and the

Bank is in compliance with the requirements of RBI guidelines with respect to Small Finance Banks.

Mr. Pramod Kabra, Chairman and Non- Executive Director of the Bank who retired by rotation in Annual General Meeting held on 30th September, 2019, was re-appointed on the same date. Further, Ms. Susan Thomas whose first term of 5 years expired was re-appointed by the members at the 24th Annual General Meeting of the Bank held on 30th September, 2019, for a second term of 5 years till the conclusion of 29th Annual General meeting of the members of the Bank.

### B) CHANGES IN KEY MANAGERIAL PERSONNEL

During the period under review, there has been no change in the KMP of the Bank.

## 21. DETAILS OF SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE REGULATORS OR COURTS OR TRIBUNALS IMPACTING THE GOING CONCERN STATUS AND BANK'S OPERATIONS IN FUTURE:

There are no material orders passed by the Regulators/ Courts/Tribunals during FY20, which would impact the going concern status of the Bank and its future operations. The Bank has complied with the applicable requirements and no penalties were imposed on the Bank by Stock Exchanges and SEBI during the year under review. However, during the year ended 31<sup>st</sup> March, 2020, the Reserve Bank of India had imposed penalty of ₹1 Lakh for bouncing of Subsidiary General Ledger (SGL) for ₹10 Crore in the month of December, 2019.

## 22. UPDATE ON INTERNAL FINANCIAL CONTROL OVER FINANCIAL REPORTING

In respect of adequacy of Internal Financial Controls (IFC) with reference to the Financial Statements, the Board has adopted the policies and procedures for ensuring the orderly and efficient conduct of its business, including adherence to the Bank's policies, the safeguarding of its assets, the timely prevention and detection of frauds and errors, the accuracy and completeness of the accounting records and the timely

## Fincare Small Finance Bank Limited – Directors' Report

preparation of reliable financial information. Further, the management regularly reviews the controls for any possible changes and takes appropriate actions

### 23. DECLARATION OF INDEPENDENT DIRECTORS

The Independent Directors have submitted their disclosures to the Board that they fulfil all the requirements as stipulated in section 149(6) of the Companies Act, 2013 so as to qualify themselves to be appointed as Independent Directors under the provisions of the Companies Act, 2013 and the relevant rules

### 24. DETAILS OF POLICY DEVELOPED AND IMPLEMENTED BY THE BANK ON ITS CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

In compliance with section 135 of the Companies Act, 2013 read with the Companies (Corporate Social Responsibility Policy) Rules, 2014, the Bank has adopted a Corporate Social Responsibility Policy. The CSR policy of the Bank is framed in line with the Guidelines on Corporate Social Responsibility for Private and Public enterprises.

Statutory disclosures with respect to the CSR Committee and a Report on CSR Activities forms part of this Report as Annexure IV

### 25. COMMITTEES OF THE BOARD

The Board has constituted various Committees to take informed decisions in the interest of the Bank and to establish best corporate governance practices. The Board Committees deal with specific matters as per powers delegated and monitor the activities falling under different functional areas of the Bank in acquiescence of provisions of Companies Act, 2013, the relevant rules made thereunder, Banking Regulation Act, 1949 other guidelines issued by RBI from time to time and the Articles of Association of the Bank.

Details of Composition of various committees are specified in the Corporate Governance Report forming part of this report as Annexure II.

Further there were no instances when Board had not accepted any recommendation of the Audit Committee.

### 26. STATEMENT INDICATING THE MANNER IN WHICH FORMAL ANNUAL EVALUATION HAS BEEN MADE BY THE BOARD OF ITS OWN PERFORMANCE AND THAT OF ITS COMMITTEES AND INDIVIDUAL DIRECTORS

The Directors had carried out evaluation of the Board as a whole, its Committees and the Directors (Executive, Non-Executive & Independent Directors). Performance evaluation procedures as recommended by the Nomination and Remuneration Committee (Nomination Committee) for evaluation of performance of (i) Board/ Committees (ii) Directors such as Board Composition, level of involvement, performance of duties, attendance etc. The Directors are updated by the Nomination Committee on various evaluation attributes. The Nomination Committee found the performance of all the Directors to be satisfactory and the Board's overall functioning as well as that of its Committees was effective

#### EVALUATION OF THE BOARD

The Board evaluated its performance as a whole and was satisfied with its performance and composition of independent and non-independent directors. Further, the Board appreciated that it comprised of professionals from diverse backgrounds which brings different diversity of thinking and inputs to the table for effective functioning.

#### EVALUATION OF THE COMMITTEES OF THE BOARD

The Board evaluated its various committees and was satisfied with their composition, functioning, frequency of meetings and the performance of all its Committees.

#### EVALUATION OF THE DIRECTORS BY THE BOARD:

The Board reviewed the individual performance of all the Directors of the Bank including Executive,

## Fincare Small Finance Bank Limited – Directors' Report

Non-Executive and Independent Directors and noted that the performance of each Director met the expectations of the Bank. The Board further discussed that it is advisable to continue with the existing terms of appointment of the Independent Directors.

### 27. SEPARATE MEETING OF INDEPENDENT DIRECTORS:

The Independent Directors of the Bank have met separately without the presence of other directors and / or management team members as required under Schedule IV of the Companies Act, 2013 and other applicable provisions of the Act.

### 28. DETAILS OF ESTABLISHMENT OF VIGIL MECHANISM FOR DIRECTORS AND EMPLOYEES

The Bank has established the Whistle Blower Policy pursuant to which Directors and employees of the Bank can report their concerns on unethical and/or improper behavior, practices, actual or suspected fraud or violation of the Bank's Code of Conduct or any other wrongful conduct in the Bank or of its staff. There were no complaints during the year under review.

### 29. DISCLOSURE UNDER THE SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013

The Bank has in place a Policy in line with the requirements of The Sexual Harassment of Women at the Workplace (Prevention, Prohibition & Redressal) Act, 2013. Internal Complaints Committee has been set up to redress complaints received regarding sexual harassment. All employees are covered under the policy. During FY 20, four complaints were investigated and resolved/disposed of, details of which are mentioned below:

No. of Complaints Pending at the Beginning of the year	1
No. of Complaints received during the year	3

No. of Complaints resolved during the year	4
No. of Complaints Pending at the End of the year	0

### 30. MANAGEMENT DISCUSSION & ANALYSIS

The Management Discussion and Analysis report is annexed to this report in Annexure V.

### 31. DIRECTORS RESPONSIBILITY STATEMENT

In accordance with the provisions of section 134(5) of the Companies Act, 2013, the Board hereby submits its responsibility Statement:

- in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit of the Bank for that period;
- the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;
- the Directors had prepared the annual accounts on a going concern basis; and
- the Directors had laid down internal financial controls to be followed by the Bank and that such internal financial controls are adequate and were operating effectively; and
- the Directors had devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

# Fincare Small Finance Bank Limited – Directors' Report

## 32. HUMAN RESOURCE

The Bank continued to talent, both freshers and experienced hires in order to support its business and expansion goals. With ongoing efforts in transforming the bank, the Bank provided employment opportunities across business, corporate and control functions. During FY20, the Bank expanded its workforce to 7,363 employees as on 31<sup>st</sup> March, 2020 as against 5,498 employees as on 31<sup>st</sup> March, 2019.

The disclosures pursuant to section 197 of the Companies Act, 2013 read with Rule 5 of Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are specified in the Corporate Governance Report forming part of this report as Annexure II.

## 33. COMPLIANCE

The Bank has established a strong compliance culture and framework in line with its strategic goals of transparency and trust, among all its stakeholders. The Bank has a dedicated Compliance Department for ensuring regulatory compliance, across all its businesses and operations. The key functions of this department include, dissemination of key regulatory updates affecting the various businesses of the Bank, review of new products and processes from a regulatory compliance perspective, provide guidance on compliance-related matters among others. The Bank has also put in place a 'Know Your Customer' and 'Anti-Money Laundering Policy' approved by the Board of Directors and transaction monitoring procedures, in accordance with the RBI guidelines.

## 34. CORPORATE GOVERNANCE REPORT

A Report on Corporate Governance is attached as Annexure II and forms part of the Directors' Report. Details on number of Meetings of Board and Committees and composition of various Committees of the Board are given in the Corporate Governance Report.

## 35. COMPLIANCE OF SECRETARIAL STANDARDS

The Bank has a dedicated Secretarial Department which ensures compliances of the Secretarial Standards issued by the Institute of Company Secretaries of India, along with the other requirements of the Companies Act, 2013 and other applicable provisions.

## 36. DISCLOSURE ON MAINTAINANCE OF COST RECORDS

The maintenance of cost records as specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013, is not applicable to the Bank and hence the same is not maintained.

## 37. POLICY ON DIRECTORS APPOINTMENT AND REMUNERATION

Pursuant to the provisions of Section 134 and 178 of the Companies Act, 2013, the Bank has formulated and adopted the policy on appointment and remuneration of Directors and Key Managerial Personnel, a copy of which is placed on the website of the Bank [www.fincarebank.com](http://www.fincarebank.com).

## 38. RBI GUIDELINES

The Bank has complied and is committed to comply with all the licensing and operating guidelines of RBI as amended from time to time and the provisions of Banking Regulation Act, 1949.

## 39. ACKNOWLEDGMENTS

The Directors place on record their sincere thanks to the Reserve Bank of India, Securities and Exchange Board of India, Ministry of Corporate Affairs, Indian Banks' Association (IBA), Unique Identification Authority of India (UIDAI), the Bank's Customers, Depositors, Bankers and other Lenders, Shareholders, Registrar and Transfer Agent, Debenture holders, Debenture Trustees and other stakeholders for their continued support and faith reposed in the Bank. The Directors would also like to thank the BSE Limited, National Securities Depository

Annual Report  
2019-20

## Fincare Small Finance Bank Limited – Directors' Report

Limited, Central Depository Services (India) Limited and the Credit Rating Agencies for their continued co-operation. The Board of Directors appreciates their support and is grateful for the confidence that they have placed in the Board of Directors and the Bank's

management. The Board also places on record its deep appreciation for the dedication and commitment of the staff at all levels as their hard work, co-operation and support enabled the Bank to achieve its corporate goals.

### FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

**Sd/-**

**Pramod Kabra**

Chairman and Non-Executive Director

**DIN:** 02252403

**Add:** 2101, Floor 21, Plot 30, Tower No.4, Strata Planet Godrej, Keshavrao, Khadymarg, Saat Rasta, Jacob Circle, Mumbai - 400011 Maharashtra

**Sd/-**

**Rajeev Yadav**

Managing Director & Chief Executive Officer

**DIN:** 00111379

**Add:** Villa 578, Phase 3, Adarsh Palm Retreat, Outer Ring Road, Devarabeesanahalli, Bellandur, Bangalore-560103, Karnataka

**Date:** 7th July, 2020

**Place:** Bangalore

## Annexure I – Extract of Annual Return

### FORM NO. MGT 9

#### EXTRACT OF ANNUAL RETURN

As on financial year ended 31<sup>st</sup> March 2020

Pursuant to Section 92 (3) of the Companies Act, 2013 and rule 12(1) of the Company (Management & Administration) Rules, 2014.

#### I REGISTRATION & OTHER DETAILS:

i	CIN	U67120GJ1995PLC025373
ii	Registration Date	05/04/1995
iii	Name of the Company	Fincare Small Finance Bank Limited
iv	Category/Sub-category of the Company	PUBLIC COMPANY LIMITED BY SHARES
v	Address of the Registered office & contact details	301-306, 3 <sup>rd</sup> Floor, Abhijeet V, Opp. Mayor's Bunglow, Law Garden Road, Mithakhali, Ahmedabad-380006, Gujarat. Tel: 079-40011000, E-mail- sfbcompsec@fincarebank.com
vi	Whether listed company	Yes (Debt securities are listed)
vii	Name, Address & contact details of the Registrar & Transfer Agent, if any.	KFin Technologies Private Limited Selenium Tower B, Plot 31-32, Gachibowli, Financial District, Nanakramguda, Hyderabad – 500 032

#### II PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

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

SL No	Name & Description of main products/services	NIC Code of the Product /service	% to total turnover of the company"
	Banking and Financial Services	64191	100

#### III PARTICULARS OF HOLDING , SUBSIDIARY & ASSOCIATE COMPANIES

Sl No	Name & Address of the Company	CIN/GLN	Holding/ Subsidiary/ Associate	% of Shares held	Applicable Section
1	Fincare Business Services Limited	U74900KA2014PLC075614	Holding	88.07%	2(46)





## Annexure I – Extract of Annual Return

Category of Shareholders	No. of Shares held at the beginning of the year				No. of Shares held at the end of the year				% change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
<b>(2) Non Institutions</b>									
a) Bodies corporates									
i) Indian	2186109	0	2186109	3.87	2556407	0	2556407	4.02	0.15
ii) Overseas	20,55,352	0	20,55,352	3.64	20,55,352	0	20,55,352	3.23	-0.41
b) Individuals									
i) Individual shareholders holding nominal share capital upto ₹1 Lakh	6	0	6	0	6	0	6	0	0
ii) Individuals shareholders holding nominal share capital in excess of ₹1 Lakh	0	0	0	0	0	0	0	0	0
c) Others (specify)	0	0	0	0	0	0	0	0	0
<b>SUB TOTAL (B)(2):</b>	<b>42,41,467</b>	<b>0</b>	<b>42,41,467</b>	<b>7.51</b>	<b>46,11,765</b>	<b>0</b>	<b>46,11,765</b>	<b>7.25</b>	<b>0</b>
<b>Total Public Share-holding (B)= (B)(1)+(B)(2)</b>	<b>42,41,467</b>	<b>0</b>	<b>42,41,467</b>	<b>7.51</b>	<b>46,11,765</b>	<b>0</b>	<b>46,11,765</b>	<b>7.25</b>	<b>0</b>
C. Shares held by Custodian for GDRs & ADRs	0	0	0	0	0	0	0	0	0
<b>Grand Total (A+B+C)</b>	<b>5,64,35,981</b>	<b>0</b>	<b>5,64,35,981</b>	<b>100</b>	<b>6,36,10,481</b>	<b>0</b>	<b>6,36,10,481</b>	<b>100</b>	<b>0.00</b>



Annual Report  
2019-20

## Annexure I – Extract of Annual Return

### (ii) \*SHARE HOLDING OF PROMOTERS

Sl No.	Shareholders Name	Shareholding at the beginning of the year			Shareholding at the end of the year			% change in share holding during the year
		No of shares	% of total shares of the company	% of shares pledged encumbered to total shares	No of shares	% of total shares of the company	% of shares pledged encumbered to total shares	
1	Fincare Business Services Private Limited	5,02,77,221	89.09	0	5,60,19,976	88.07	9.50	-1.02
2	Lok Management Services Private Limited*	19,17,293	3.4	0	29,78,740	4.68		1.28
	<b>Total</b>	<b>5,21,94,514</b>	<b>92.48</b>	<b>0</b>	<b>5,89,98,716</b>	<b>92.75</b>	<b>9.50</b>	<b>0.27</b>

\*Lok Management Services Private Limited has merged with Fincare Business Services Limited vide order of Regional Director, Hyderabad dated 5<sup>th</sup> March, 2020.

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

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>1</b>	<b>Fincare Buisness Services Limited</b>				
	At the beginning of the year	5,02,77,221	89.09	5,02,77,221	89.09
	<b>Allotment of 57,42,755 Equity Shares of ₹10 each on 05-12-2019</b>	57,42,755	-	5,60,19,976	88.93
	At the end of the year			5,60,19,976	88.07

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>2</b>	<b>Lok Management Services Private Limited</b>				
	At the beginning of the year	19,17,293	3.4	19,17,293	3.4
	<b>Allotment of 490975 Equity Shares of ₹10 each on 05-12-2019</b>	4,90,975	-	24,08,268	3.82
	<b>Allotment of 570472 Equity shares of ₹10 each on 31-12-2019</b>	5,70,472	-	29,78,740	4.68
	At the end of the year			29,78,740	4.68

### (iv) Shareholding Pattern of top ten Shareholders (other than Directors, Promoters & Holders of GDRs & ADRs)

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>1</b>	<b>True North Fund V LLP</b>				
	At the beginning of the year	21,86,109	3.87	21,86,109	3.87
	<b>Allotment of 325706 Equity Shares of ₹10 each on 05-12-2019</b>	3,25,706	-	25,11,815	3.99
	<b>Allotment of 44592 Equity shares of ₹10 each on 31-12-2019</b>	44,592	-	25,56,407	4.02
	At the end of the year			25,56,407	4.02

## Annexure I – Extract of Annual Return

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>2</b>	<b>Indium IV (Mauritius) Holdings Limited</b>				
	At the beginning of the year	16,65,296	2.95	16,65,296	2.95
	<b>No changes during the year</b>				
	At the end of the year			16,65,296	2.62

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>3</b>	<b>Silver Leaf Oak (Mauritius) Limited</b>				
	At the beginning of the year	3,90,056	0.69	3,90,056	0.69
	<b>No changes during the year</b>				
	At the end of the year			3,90,056	0.61

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>4</b>	<b>Mr. Keyur Doshi</b>				
	At the beginning of the year	1	0	1	0
	<b>No changes during the year</b>				
	At the end of the year			1	0

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>5</b>	<b>Mr. Soham Shukla</b>				
	At the beginning of the year	1	0	1	0
	<b>No changes during the year</b>				
	At the end of the year			1	0

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>6</b>	<b>Mr. Vivek Kothari</b>				
	At the beginning of the year	1	0	1	0
	<b>No changes during the year</b>				
	At the end of the year			1	0

## Annexure I – Extract of Annual Return

Sl. No.	Particulars of Shareholder	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total shares of the company	No of shares	% of total shares of the company
<b>7</b>	<b>Mr. Dasaratha Gunnamreddy</b>				
	At the beginning of the year	1	0	1	0
	<b>No changes during the year</b>				
	At the end of the year			1	0

### (v) Shareholding of Directors & KMP

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>1</b>	<b>Mr. Sameer Nanavati-Nominee Director</b>				
	At the beginning of the year	1	0	1	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	1	0	1	0

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>2</b>	<b>Mr. Pramod Kabra - Chairman and Non-Executive Director</b>				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	0	0	0	0

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>3</b>	<b>Mr. Ravindran Lakshmanan-Nominee Director</b>				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	0	0	0	0

## Annexure I – Extract of Annual Return

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>4</b>	<b>Mr. Sunil Gulati-Independent Director</b>				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	0	0	0	0

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>5</b>	<b>Mr. Varun Sabhlok-Independent Director</b>				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	0	0	0	0

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>6</b>	<b>Ms. Susan Thomas-Independent Director</b>				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	0	0	0	0

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>7</b>	<b>Mr. Alok Prasad-Independent Director</b>				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	0	0	0	0

## Annexure I – Extract of Annual Return

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>8</b>	<b>Mr. Vinay Baijal-Independent Director</b>				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	0	0	0	0

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>9</b>	<b>Mr. Rajeev Yadav- Managing Director &amp; CEO</b>				
	At the beginning of the year	1	0	1	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	1	0	1	0

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>10</b>	<b>Mr. Keyur Doshi-CFO</b>				
	At the beginning of the year	1	0	1	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	1	0	1	0

Sl. No		Shareholding at the end of the year		Cumulative Shareholding during the year	
		No. of shares	% of total shares of the company	No of shares	% of total shares of the company
<b>11</b>	<b>Ms. Shefaly Kothari - CS</b>				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Share holding during the year specifying the reasons for increase/decrease (e.g. allotment/transfer/bonus/sweat equity etc)	0	0	0	0
	At the end of the year	0	0	0	0

## Annexure I – Extract of Annual Return

### V INDEBTEDNESS

Indebtedness of the Company including interest outstanding/accrued but not due for payment (Amount in Lakh)

	Secured Loans (excluding deposits )	Unsecured Loans	Deposits (FD)	Total Indebtedness
<b>Indebtness at the beginning of the financial year (1<sup>st</sup> April 2019)</b>				
i) Principal Amount	9,476	1,18,832	1,81,949	3,10,257
ii) Interest due but not paid	-	25	153	178
iii) Interest accrued but not due	101	777	-	878
<b>Total (i+ii+iii) A</b>	<b>9,577</b>	<b>1,19,634</b>	<b>1,82,102</b>	<b>3,11,313</b>
<b>Change in Indebtedness during the financial year</b>				
Additions	10,300	52,500	4,78,926	5,41,726
Reduction	19,052	35,240	2,50,988	3,05,280
<b>Net Change (B)</b>	<b>-8,752</b>	<b>17,260</b>	<b>2,27,938</b>	<b>2,36,446</b>
<b>Indebtedness at the end of the financial year 31<sup>st</sup> March 2020</b>				
i) Principal Amount	724	1,36,092	4,09,887	5,46,703
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	59	476	46	581
<b>Total (i+ii+iii) C</b>	<b>783</b>	<b>1,36,568</b>	<b>4,09,933</b>	<b>5,47,284</b>

Annual Report  
2019-20

## Annexure I – Extract of Annual Return

### VI REMUNERATION OF DIRECTORS AND KEY MANAGERIAL PERSONNEL

#### A. Remuneration to Managing Director, Whole time director and/or Manager:

Sl.No	Particulars of Remuneration	Name of the MD/WTD/Manager*	Total Amount
1	<b>Gross salary</b>	<b>Rajeev Yadav (MD &amp; CEO)</b>	
	(a) Salary as per provisions contained in section 17(1) of the Income Tax, 1961.	₹390.35 Lakh	₹390.35 Lakh
	(b) Value of perquisites u/s 17(2) of the Income tax Act, 1961	0	0
	(c) Profits in lieu of salary under section 17(3) of the Income Tax Act, 1961	0	0
2	Stock option	0	0
3	Sweat Equity	0	0
4	Commission	0	0
	as % of profit	0	0
	others (specify)	0	0
5	Others, please specify	0	0
	<b>Total (A)</b>	<b>₹390.35 Lakh</b>	<b>₹390.35 Lakh</b>
	<b>Ceiling as per the Act</b>	As per Schedule V of the Companies Act, 2013	

\* Remuneration paid in the capacity of Director

#### B. Remuneration to other directors:

Sl. No	Particulars of Remuneration	Name of the Directors						Total Amount
		Mr. Alok Prasad	Ms Susan Thomas	Mr Vinay Bajjal	Mr. Sunil Gulati	Mr. Varun Sabhlok	Mr. Sameer Nanavati	
1	<b>Independent Directors</b>							
	(a) Fee for attending board committee meetings	16,00,000	7,50,000	16,00,000	16,00,000	16,00,000	N.A	71,50,000
	(b) Commission	0	0	0	0	0		N.A
	(c) Others, please specify	0	0	0	0	0		
	<b>Total (1)</b>	<b>16,00,000</b>	<b>7,50,000</b>	<b>16,00,000</b>	<b>16,00,000</b>	<b>16,00,000</b>	<b>-</b>	<b>71,50,000</b>
2	<b>Other Non Executive Directors</b>							
	(a) Fee for attending board committee meetings						16,00,000	16,00,000
	(b) Commission				N.A		0	0
	(c) Others, please specify.						0	0
	<b>Total (2)</b>						<b>16,00,000</b>	<b>16,00,000</b>
	<b>Total (B)=(1+2)</b>	<b>16,00,000</b>	<b>7,50,000</b>	<b>16,00,000</b>	<b>16,00,000</b>	<b>16,00,000</b>	<b>16,00,000</b>	<b>87,50,000</b>
	<b>Total Managerial Remuneration</b>	<b>16,00,000</b>	<b>7,50,000</b>	<b>16,00,000</b>	<b>16,00,000</b>	<b>16,00,000</b>	<b>16,00,000</b>	<b>87,50,000</b>
	Overall Ceiling as per the Act							



## Annexure I – Extract of Annual Return

### C. REMUNERATION TO KEY MANAGERIAL PERSONNEL OTHER THAN MD/MANAGER/WTD

Sl. No.	Particulars of Remuneration	CFO	CS	Total
1	Gross Salary			
	(a) Salary as per provisions contained in section 17(1) of the Income Tax Act, 1961.	₹124.52 Lakh	₹22.20 Lakh	₹146.72 Lakh
	(b) Value of perquisites u/s 17(2) of the Income Tax Act, 1961	₹0.22 Lakh	0	₹0.22 Lakh
	(c) Profits in lieu of salary under section 17(3) of the Income Tax Act, 1961	0	0	0
2	Stock Option	0	0	0
3	Sweat Equity	0	0	0
4	Commission	0	0	0
5	as % of profit	0	0	0
6	others, specify	0	0	0
7	Others, please specify	0	0	0
	<b>Total</b>	<b>₹124.74 Lakh</b>	<b>₹22.20 Lakh</b>	<b>₹146.94 Lakh</b>

## Annexure I – Extract of Annual Return

### VII PENALTIES/PUNISHMENT/COMPOUNDING OF OFFENCES

Type	Section of the Companies Act	Brief Description	Details of Penalty/ Punishment/ Compounding fees imposed	Authority (RD/ NCLT/Court)	Appeal made if any (give details)
<b>A. COMPANY</b>					
Penalty					
Punishment			NIL		
Compounding					
<b>B. DIRECTORS</b>					
Penalty					
Punishment			NIL		
Compounding					
<b>C. OTHER OFFICERS IN DEFAULT</b>					
Penalty					
Punishment			NIL		
Compounding					

### FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

**Sd/-****Pramod Kabra**

Chairman and Non-Executive Director

**DIN:** 02252403**Add:** 2101, Floor 21, Plot 30, Tower No.4, Strata Planet Godrej, Keshavrao, Khadymarg, Saat Rasta, Jacob Circle, Mumbai - 400011 Maharashtra**Sd/-****Rajeev Yadav**

Managing Director &amp; Chief Executive Officer

**DIN:** 00111379**Add:** Villa 578, Phase 3, Adarsh Palm Retreat, Outer Ring Road, Devarabeesanahalli, Bellandur, Bangalore-560103, Karnataka**Date:** 7<sup>th</sup> July, 2020**Place:** Bangalore

## Annexure II – Corporate Governance Report

### REPORT ON CORPORATE GOVERNANCE

Fincare Small Finance Bank has put in place a Corporate Governance process that aims to meet stakeholders' aspirations and societal expectations. It is not a discipline imposed by a regulator, but is a culture that guides the Board, Management and Staff to function towards best interest of stakeholders. The Corporate Governance philosophy stems from the belief that Corporate Governance is a key element in improving efficiency and growth as well as enhancing investor confidence. The Bank strongly believes in ethical values and self-discipline to achieve higher standard of Corporate Governance and continues to strive for excellence in business operations through transparency and accountability to its stakeholders.

### BANK'S PHILOSOPHY ON CORPORATE GOVERNANCE:

The Bank's Corporate Governance Philosophy is based on the phrase "Total commitment to ethical practices in the conduct of business." At the core of its Corporate Governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the Bank. The Bank believes that an active, well informed and independent Board is necessary to ensure the highest standards of Corporate Governance. The Bank's Corporate Governance practices are aimed at meeting the Corporate Governance requirements as per the Reserve Bank of India ("RBI"), Securities Exchange Board of India ("SEBI") and other Regulators besides good practices either recommended by professional bodies or practiced by leading Banks/ Companies in India.

### CODE OF CORPORATE GOVERNANCE:

The Bank has adopted and implemented Corporate Governance Policy which empowers the Board with necessary authority and practices in place to review and evaluate its operations. This Policy allows the Board to make decisions that are independent of the Management. The Board may change this Policy from time to time to effectively achieve Bank's stated objectives.

### BOARD OF DIRECTORS:

The Bank has optimal combination of Executive Director, Non-Executive Chairman, Non-Executive Directors and Independent Directors in compliance with the provisions of the Companies Act, 2013, the Banking Regulation Act, 1949 and the Directions issued by the Reserve Bank of India (RBI) for Small Finance Banks from time to time. The Board's actions and decisions are aligned with the Bank's best interests. It is committed to the goal of sustainably elevating Bank's value creation. The Board critically evaluates Bank's strategic direction, management policies and their effectiveness. In terms of the Corporate Governance philosophy; all statutory and other significant material information is placed before the Board to enable it to discharge its responsibility of strategic supervision of the Bank as trustees of the Shareholders.

## Annexure II – Corporate Governance Report

### 1. Composition of the Board and directorships held during the FY 20:

Category	Name of Director	Date of Appointment	Date of Cessation	No. of Board Meetings attended	No. of Committee Meetings attended	Attendance at last AGM	Other Directorships* (As on 29/06/2020)
Executive Director	<b>Mr. Rajeev Yadav</b> Managing Director and Chief Executive Officer	17.07.2017	-	16	13	Yes	0
Non-Executive Directors	<b>Mr. Pramod Kabra</b> Chairman and Non-Executive Director (Designated as Chairman w.e.f 24-Jun-2017)	19.09.2013	-	13	18	No	6
	<b>Mr. Ravindran Lakshmanan</b> Nominee Director	19.05.2018	-	7	6	No	1
	<b>Mr. Sameer Nanavati,</b> Nominee Director	24.06.2017	-	11	11	Yes	3
Independent Directors	<b>Mr. Alok Prasad</b> Independent Director	20.07.2017	-	14	13	No	4
	<b>Mr. Sunil Gulati</b> Independent Director	20.07.2017	-	13	26	No	11
	<b>Ms. Susan Thomas</b> Independent Director	2.09.2014	-	5	5	No	4
	<b>Mr. Varun Sabhlok</b> Independent Director	31.08.2017	-	12	15	No	0
	<b>Mr. Vinay Baijal</b> Independent Director	25.02.2017	-	14	16	No	1

Note: Ms. Susan Thomas was re-appointed by the members at the 24th Annual General Meeting of the Bank held on 30th September, 2019, for a second term of 5 years till the conclusion of 29th Annual General meeting of the members of the Bank.

### 2. Disclosure of relationships between directors inter-se:

The Directors do not have any relationship inter-se.

### 3. Number of shares and convertible instruments held by non-executive directors:

Mr. Sameer Nanavati, Nominee Director representing Fincare Business Services Limited holds 1 equity share of the Bank amounting to negligible percentage of total paid-up equity share capital of the Bank.

Apart from the above, none of the other Non-executive Directors of the Company holds any shares in the Company.

## Annexure II – Corporate Governance Report

### BOARD MEETINGS:

The Board of Directors of the Company met 16 (Sixteen) times in the FY20. The maximum interval between any two Meetings did not exceed 120 days

and the Minutes of all the Board Meetings were duly recorded in the Minutes Book as prescribed in the Companies Act, 2013. The details of the meetings held in the year are mentioned hereunder :-

Sr No.	Quarter 1 (April-June)	Quarter 2 (July-Sept)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-March)
1.	23 <sup>rd</sup> April, 2019	18 <sup>th</sup> July, 2019	11 <sup>th</sup> November, 2019	22 <sup>nd</sup> January, 2020
2.	18 <sup>th</sup> May, 2019	22 <sup>nd</sup> August, 2019	19 <sup>th</sup> November, 2019	31 <sup>st</sup> January, 2020
3.	24 <sup>th</sup> May, 2019	17 <sup>th</sup> September, 2019	13 <sup>th</sup> December, 2019	11 <sup>th</sup> February, 2020
4.	-	26 <sup>th</sup> September, 2019		24 <sup>th</sup> March, 2020
5.	-	-	-	28 <sup>th</sup> March, 2020
6.				31 <sup>st</sup> March, 2020

The minutes of all the Board Meetings were duly recorded in the Minutes Book.

Prior to each meeting of Board of Directors, agenda items along with detailed background information were circulated to the Board Members in compliance with Secretarial Standards (SS-1) and applicable provisions of the Companies Act, 2013. Presentations were also made to the Board by different functional heads on important matters. In addition to items which were required to be placed before the Board for its noting and / or approval, information on various other significant items was also provided.

### COMMITTEES OF THE BOARD:

During the period under review, the Board had 8 (Eight) Committees, namely,



**Audit Committee**



**IT Strategy  
Committee**



**Customer Service  
Committee**



**Risk Management  
Committee**



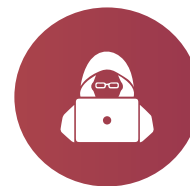
**Credit Approval  
Committee**



**Nomination and  
Remuneration  
Committee**



**Corporate Social  
Responsibility  
Committee**



**Fraud Monitoring  
Committee**

## Annexure II – Corporate Governance Report

The Committees assist the Board of Directors by focusing on specific responsibilities in greater detail than what is achievable for the Board as a whole, reporting to the Board and making any necessary recommendations.

### AUDIT COMMITTEE:

#### Composition:

The Audit Committee ("the ACB") has been constituted in accordance with provisions of section 177 of the Companies Act, 2013 and RBI regulations applicable to the Bank.

The composition of the Audit Committee as on 31<sup>st</sup> March, 2020 is as follows:

1.	<b>Mr. Vinay Baijal</b> - Chairperson and Independent Director
2.	<b>Mr. Alok Prasad</b> - Independent Director
3.	<b>Mr. Pramod Kabra</b> - Chairman of Board and Non-Executive Director
4.	<b>Mr. Sameer Nanavati</b> – Nominee Director
5.	<b>Mr. Sunil Gulati</b> - Independent Director
6.	<b>Mr. Varun Sabhlok</b> - Independent Director

The Audit Committee of the Board met 7 (Seven) times during the year under review:

S.No.	Quarter 1 (April-June)	Quarter 2 (July-Sept)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-March)
1.	18 <sup>th</sup> May, 2019	17 <sup>th</sup> July, 2019	19 <sup>th</sup> October, 2019	21 <sup>st</sup> January, 2020
2.	24 <sup>th</sup> June, 2019	17 <sup>th</sup> September, 2019	11 <sup>th</sup> November, 2019	-

#### Audit Committee Meeting Attendance:

Name	Nature of Directorship	No of meetings attended
Mr. Vinay Baijal	Chairperson of the Audit Committee and Independent Director	6
Mr. Alok Prasad	Independent Director	5
Mr. Pramod Kabra	Chairman of Board and Non-Executive Director	5
Mr. Sameer Nanavati	Nominee Director	6
Mr. Sunil Gulati	Independent Director	7
Mr. Varun Sabhlok	Independent Director	6

#### Functioning of the Audit Committee:

The Board of Directors has formed and approved a charter for the Audit Committee setting out the roles, responsibilities and functioning of the Committee. In addition to adherence to the provisions of the Companies Act, 2013, applicable guidelines of the Reserve Bank of India and all other applicable regulatory requirements,

## Annexure II – Corporate Governance Report

the terms of reference of the Audit Committee is covered by its charter. Its functioning inter alia broadly includes the following:

### **Audit-related functions:**

- Recommend the Board, the appointment, re-appointment, terms of reference and, if required, the replacement or removal of the statutory auditor and the fixation of audit fees.
- Discuss with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern.
- Review and monitoring the statutory and internal auditors' independence, performance and effectiveness of audit process.
- Approve payment to statutory auditors for any other services rendered by the statutory auditors.
- Review compliance with the inspection and audit reports of Reserve Bank of India, review of the findings of internal investigations, discussion on the scope of audit with external auditors and examination of reasons for substantial defaults. To investigate any activity within its terms of reference.
- Review consolidated cases of fraud, dacoity, robbery, etc., detected during the year containing information such as area of operations where such attempts were made, effectiveness of new processes and procedures put in place during the year, trend of such cases during the last three years, need for further change in processes and procedures, if any etc. as on 31<sup>st</sup> March every year should be put up to the Committee within 3 months of the end of the relative year

### **Financial statements:**

- Review the management, the annual financial statements before submission to the Board for approval, with particular reference to:
  - i. Matters required to be included in the Director's Responsibility Statement to be included in the Board's report in terms of clause (c) of sub-section 3 of section 134 of the Companies Act, 2013 ;
  - ii. Changes, if any, in accounting policies and practices and reasons for the same;
  - iii. Major accounting entries involving estimates based on the exercise of judgment by management;
  - iv. Significant adjustments made in the financial statements arising out of audit findings;
  - v. Compliance with legal requirements relating to financial statements;
  - vi. Disclosure of any related party transactions;
  - vii. Qualifications in draft Audit report.
- Review with the management, the quarterly financial statements
- Review with the management, the half-yearly financial statements before submission to the Board for approval

## Annexure II – Corporate Governance Report

### Internal audit related functions:

- Review management the adequacy of the internal control systems.
- Review adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit.
- Discuss with internal auditors any significant findings and follow up there on.
- Review findings of any internal investigations by the internal auditors 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.

### Related Party Transactions:

- Approve any subsequent modification of transactions of the Bank with related parties;

### Disclosure:

- Oversee the Bank's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible.
- Note the required disclosures on significant changes in internal controls over financial reporting during the year.

### Others:

- Monitor the end use of funds raised through public offers and related matters.
- Evaluate internal financial controls and risk management systems;
- Appoint valuers for valuation of any property, stocks, shares, debentures, securities or goodwill or any other assets or net worth of a Bank or liability of the Bank under the provision of the Companies Act, 2013.
- Undertake and / or approve of valuation of undertakings or assets of the Bank, wherever it is necessary;
- Scrutinize inter-Bank loans and investments;
- Review guidelines for investing surplus funds of the Bank.
- Review investment proposals before submission to the Board of Directors
- Review proposal for mergers, demergers, acquisitions, carve-outs, sale, transfer of business / real estate and its valuation report and fairness opinion, if any, thereof.
- Pre-approve any subsequent modification of transactions of the Bank with related parties
- Ensure proper system of storage, retrieval, display, or printout of the electronic record.
- Look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors.



## Annexure II – Corporate Governance Report

- Review the functioning of the Whistle Blower / vigil mechanism. The procedures should ensure adequate safeguards against victimization of persons using such mechanism and make provision for direct access to the chairperson of the Audit Committee in appropriate or exceptional cases.
- Review findings and report of Fraud Monitoring Committee on periodic basis on the cases of attempted fraud and any other findings.
- Review the KYC/Anti-Money Laundering (AML) / Counter – Financing of Terrorism (CFT) policy annually and review the implementation of the Companies AML / CFT programme.
- Perform any other duties and responsibilities that are consistent with the Committee's purpose, Articles of Association as the Board or Committee

### The Audit Committee should mandatorily review the following information:

- a. Management discussion and analysis of financial condition and results of operations; Statement of significant related party transactions, (as defined by the Audit Committee), submitted by management;
- b. Management letters/ letters of internal control weaknesses issued by the statutory auditors;
- c. Internal audit reports relating to internal control weaknesses;
- d. Appointment, removal and terms of remuneration of the chief internal auditor
- e. The financial statements of unlisted subsidiary companies, in particular, the investments made by unlisted subsidiary companies.

### NOMINATION AND REMUNERATION COMMITTEE:

The Nomination and Remuneration Committee ("the NRC") has been constituted in accordance with provisions of section 178 of the Companies Act, 2013 and RBI regulations applicable to the Bank.

#### Composition:

The Nomination and Remuneration Committee consisted of the following members as at 31<sup>st</sup> March, 2020:

- |    |  |
|----|--|
| 1. | Ms. Susan Thomas – Chairperson of the NRC and Independent Director |
| 2. | Mr. Alok Prasad - Independent Director                             |
| 3. | Mr. Pramod Kabra – Chairman of Board and Non-Executive Director    |
| 4. | Mr. Sunil Gulati – Independent Director                            |
| 5. | Mr. Vinay Bajjal - Independent Director                            |

## Annexure II – Corporate Governance Report

The Nomination and Remuneration Committee of the Board met 9 (Nine) times during the year under review:

S. No.	Quarter 1 (April-June)	Quarter 2 (July-Sept)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-March)
1.	23 <sup>rd</sup> April, 2019	18 <sup>th</sup> July, 2019	-	21 <sup>st</sup> January, 2020
2.	30 <sup>th</sup> April, 2019	17 <sup>th</sup> September, 2019	-	23 <sup>rd</sup> March, 2020
3.	4 <sup>th</sup> May, 2019	-	-	31 <sup>st</sup> March, 2020
4.	24 <sup>th</sup> May, 2019	-	-	-

### Nomination and Remuneration Committee Meeting Attendance:

Name	Nature of Directorship	No of meetings attended
Ms. Susan Thomas	Chairperson of the NRC and Independent Director	3
Mr. Alok Prasad	Independent Director	5
Mr. Pramod Kabra	Chairman of Board and Non-Executive Director	7
Mr. Sunil Gulati	Independent Director	9
Mr. Vinay Bajjal	Independent Director	7

The Board of Directors has formed and approved a charter for the Nomination and Remuneration Committee setting out the roles, responsibilities and functioning of this Committee. In addition to adherence to the provisions of the Companies Act, 2013 and applicable RBI guidelines, the terms of reference of Nomination and Remuneration Committee is covered by its Charter and its functioning broadly inter alia includes the following:

- While formulating the policy ensure that –
  - a) The level and composition of remuneration is reasonable and sufficient to attract, retain and motivate directors of the quality required to run the Bank successfully;
  - b) Relationship of remuneration to performance is clear and meets appropriate performance benchmarks; and
  - c) Remuneration to directors, key managerial personnel and Senior Management involves a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the working of the Bank and its goals and is in compliance to RBI norms.
- Determine the Bank's policy on specific remuneration packages for Whole-time Directors / Executive Directors including pension rights and any compensation payment.
- Decide the actual Salary, Salary Grades, Overseas Allowance, Perquisites, Retirals and Increment of Whole-time Directors.
- Define and implement the performance linked incentive scheme and evaluate the performance and determine the amount of incentive of the Whole-time Directors for that purpose.
- Decide the amount of commission payable to each Executive and Non-Executive Director.
- Periodically review and suggest revision of the total remuneration package of the Whole-time Directors

## Annexure II – Corporate Governance Report

keeping in view performance of the Bank, standards prevailing in the industry, Norms specified by RBI , statutory guidelines, etc.

- Abide by any other requirement in accordance with the applicable provisions of, Companies Act, 2013 and / or applicable RBI Guidelines / Regulations, or any re-enactment, amendment or modification thereto from time to time.
- Plan for CEO/ Senior Management succession including plans for interim succession in the event of an unexpected occurrence and submit a report to the Board to nominate potential successors to CEO/ Senior Management personnel.
- Oversee the Director succession planning process for ensuring the right mix of Directors on the Board.
- In cases where Director provides any services to the Bank in any other capacity, evaluating whether the Director possesses the requisite qualification for the practice of such profession
- Keep abreast of external remuneration trends and market conditions
- Develop an Orientation (new Directors) and Continuing Education Program (CEP) for the Board and individual Directors so as to keep abreast of changes in the Bank and the environment in which it operates.
- Co-ordinate and oversee the annual self-review of the performance of the Board, its Committees and of the Individual Directors (including Independent Directors) in the governance of the Bank.
- Review the performance of each existing Director of the Bank.
- Ensure that a Deed of Covenant and a declaration and undertaking in Bank's favor, as may be specified by RBI is obtained from every Director.
- Ensure that an annual declaration is obtained from its Directors that the information provided has not undergone change and where there is any change, requisite details from them has been obtained forthwith
- Scrutinize Deed of Covenant and declaration and undertaking submitted by each of its Directors and on a continuing basis perform due diligence in respect of each of its Directors and shall report to the Reserve Bank if any of its directors fails to fulfill the 'fit and proper' criteria as specified by Reserve Bank from time to time. The Committee shall review and assess its performance on an annual basis.

### **RISK MANAGEMENT COMMITTEE:**

The Bank has formed Risk Management Committee ("the RMCB") of the Board for assisting the Board to establish a risk culture and risk governance framework in the organization. The function of the Committee is to identify management of risk inherent in all the products and services across the Bank and to ensure that the established risk culture is adopted across all levels.

The Risk Management Committee consisted of the following members as at 31<sup>st</sup> March, 2020:

- |    |   |
|----|---|
| 1. | Mr. Sunil Gulati – Chairperson of RMCB and Independent Director     |
| 2. | Mr. Pramod Kabra – Chairman of the Board and Non-Executive Director |
| 3. | Mr. Rajeev Yadav – Managing Director and Chief Executive Officer    |
| 4. | Mr. Ravindran Lakshmanan – Nominee Director                         |
| 5. | Mr. Varun Sabhlok – Independent Director                            |

## Annexure II – Corporate Governance Report

The Risk Management Committee of the Board met 4 times during the year under review:

Sr. No.	Quarter 1 (April-June)	Quarter 2 (July-Sept)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-March)
1.	28 <sup>th</sup> June, 2019	7 <sup>th</sup> September, 2019	5 <sup>th</sup> November, 2019	21 <sup>st</sup> January, 2020

Risk Management Committee Meeting Attendance:

Name	Nature of Directorship	No of meetings attended
Mr. Sunil Gulati	Chairperson of the RMCB and Independent Director	4
Mr. Pramod Kabra	Chairman of Board and Non-Executive Director	3
Mr. Rajeev Yadav	Managing Director and CEO	4
Mr. Ravindran Lakshmanan	Nominee Director	3
Mr. Varun Sabhlok	Independent Director	4

The Board of Directors has formed and approved a charter for the Risk Management Committee setting out the roles, responsibilities and functioning of the Committee. In addition to the applicable RBI guidelines, the terms of reference of Risk Management Committee is covered by its Charter and its functioning broadly inter alia includes the following:

### A. Risk Management

- Identify, monitor and measure the risk profile of the Bank (including market risk, operational risk, transactional risk and credit risk)
- Oversee its integrated risk measurement system
- Oversee the risk management policy for approval by the Board.
- Develop Bank's credit and market risk policies and procedures
- Verify adherence to various risk parameters and prudential limits for treasury operations and to review its risk monitoring system.
- Develop an integrated framework for charting / categorizing various types of loans, to determine implications on quality and review of returns and reports to the Reserve Bank of India pertaining to the Risk Monitoring function.
- Review management's formulation of procedures, action plans and strategies to mitigate risks on short term as well as long term basis;
- Oversee promotion of awareness of a risk-based culture and achieving a balance between risk minimization and reward for risks accepted.
- Liaise, as necessary, with other Board Committees, especially where there is a perceived or actual overlapping of responsibilities regarding particular risk and compliance issues.
- Verify models that are used for preparing complex products; review models as development takes place in the markets and also identify new risks

## Annexure II – Corporate Governance Report

- Monitor compliance of various risk parameters by operating departments
- Design stress scenarios to measure the impact of unusual market conditions and monitor variance between actual volatility of portfolio value and that predicted by risk measures
- Review the credit and liquidity stress test results on a quarterly basis.
- Ensure that the Bank's credit exposure to any one group or industry does not exceed the internally set limits and that the risk is prudently diversified.
- The Committee shall have direct access to, and complete and open communication with the Bank's management and may obtain advice and assistance from legal, risk or other advisors. The Bank shall provide for appropriate funding, as determined by the Committee, for the payment of (i) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties and responsibilities and (ii) compensation to independent legal, risk and other advisors retained by the Committee.
- Review adequacy of insurance policies taken by Management to cover risks/ transfer risk exposures.
- Carry out any other function as is referred by the Board from time to time or enforced by any statutory notification / amendment or modification as may be applicable.

### **B. Liquidity Risk Management**

- Ensure compliance with Banks Group policy and regulatory requirement
- Set local targets and review assumptions used for forecasting cashflows
- Review and approve contingency plans for liquidity and realizability assumption
- Review and manage concentration risk arising from both borrowers and depositors
- Ensure business activity is consistent with the structural integrity of the balance sheet, including capital consumption
- Ensure that risks inherent in local payment systems are evaluated, quantified and managed

### **CORPORATE SOCIAL RESPONSIBILITY COMMITTEE:**

The Corporate Social Responsibility Committee (the "CSR Committee") has been constituted in accordance with Section 135 of the Companies Act, 2013 read with applicable rules as amended from time to time. The Committee consisted of the following members as at 31<sup>st</sup> March, 2020:

- 
1. Mr. Alok Prasad – Chairperson of CSR Committee and Independent Director
  2. Mr. Ravindran Lakshmanan - Nominee Director
  3. Mr. Sameer Nanavati - Nominee Director
  4. Ms. Susan Thomas – Independent Director
  5. Mr. Varun Sabhlok - Independent Director
-

## Annexure II – Corporate Governance Report

The Corporate Social Responsibility Committee of the Board met - twice during the year under review.

S. No.	Quarter 1 (April-June)	Quarter 2 (July-Sept)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-March)
1.	-	18th July, 2019	-	23 <sup>rd</sup> March, 2020

### CSR Committee Meeting Attendance:

Name	Nature of Directorship	No of meetings attended/ approval granted
Mr. Alok Prasad	Independent Director	1
Mr. Ravindran Lakshmanan	Nominee Director	1
Mr. Sameer Nanavati	Nominee Director	2
Ms. Susan Thomas	Independent Director	2
Mr. Varun Sabhlok	Independent Director	1

The Bank has spent a total amount of ₹34,77,893/- towards CSR activities for FY 20 in the areas specified in Schedule VII of the Companies Act, 2013

A detailed Report on Corporate Social Responsibility (CSR) Activities for FY 20 is enclosed as Annexure IV

The CSR Committee has acted as per the policy laid down by the Board. The Board has approved the Charter of the CSR Committee setting out the responsibilities, roles of the Committee, the terms of reference of the Committee which inter-alia includes the following:

#### To consider, review and decide the following:

- Formulate and recommend to the Board the CSR Policy, Strategy & Goals.
- Recommend the activities and expenditure to be undertaken by the Bank under the CSR Policy.
- Recommend to the Board, the amount of expenditure to be incurred on the activities pertaining to CSR. (Prescribed in Schedule VII) and monitor the same.
- Review and monitor the corporate social responsibility activities of the Bank on behalf of the Board to ensure that the Bank is in compliance with appropriate laws and legislations.
- Formulate a transparent monitoring mechanism for implementation of CSR Projects or programs or activities undertaken by the Bank
- Regularly report to the Board on the CSR initiatives and status, provide reasons to the Board if the amount earmarked for CSR initiatives has not been spent and action steps for the same.
- Review management position on key stakeholder expectations involving corporate social responsibility and provide perspectives for Board's consideration.
- Review on a continuous basis the Bank's communication strategies relating to CSR.
- Review the Bank's annual CSR report prior to its issuance.

## Annexure II – Corporate Governance Report

- Review and assess the remit and reports of any audit process to gain assurance over the CSR activities.
- Review management-identified opportunities to optimize the use of technology for the use of CSR activities.

The Corporate Social Responsibility Committee regularly report to the Board on all significant matters it has addressed and with respect to such other matters that are within its responsibilities or such other items/matters prescribed under applicable law or prescribed by the Board in compliance with applicable law from time to time.

The Committee may issue guidelines, procedures, formats, reporting mechanism and manuals in supplement and for better implementation of its policy as considered appropriate.

### FRAUD MONITORING COMMITTEE:

Pursuant to the directives issued by Reserve Bank of India, the Bank has set up and formed Special Committee for Fraud Monitoring ("FMC") at the meeting of the Board of Directors held on 24-June-2017 for monitoring and follow up on cases amounting to ₹1 crore and above. The Committee identifies the systemic lacunae, if any, that facilitate perpetration of the fraud and put in place measures to plug the same and also evaluate existing systems and procedures for fraud detection and prevention.

The Fraud Monitoring Committee as at 31<sup>st</sup> March, 2020 comprised of the following members

1.	Mr. Sameer Nanavati – Chairperson of FMC and Nominee Director
2.	Mr. Alok Prasad - Independent Director
3.	Mr. Rajeev Yadav – Managing Director and Chief Executive Officer
4.	Ms. Susan Thomas – Independent Director
5.	Mr. Vinay Bajjal - Independent Director

The Fraud Monitoring Committee of the Board met thrice during the year under review.

S. No.	Quarter 1 (April-June)	Quarter 2 (July-Sept)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-March)
1.	-	17 <sup>th</sup> July, 2019	19 <sup>th</sup> October, 2019	21 <sup>st</sup> January, 2020

Fraud Monitoring Committee Meeting Attendance:

Name	Nature of Directorship	No of meetings attended/ approval granted
Mr. Sameer Nanavati	Chairperson of FMC and Nominee Director	3
Mr. Alok Prasad	Independent Director	2
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer	3
Ms. Susan Thomas	Independent Director	0
Mr. Vinay Bajjal	Independent Director	2



## Annexure II – Corporate Governance Report

The terms of reference in addition to the regulatory requirements is governed by the charter, which inter alia includes the following:

- Identify the system lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same;
- Identify the reasons for delay in detection, if any and report to top management of the Bank and RBI (if any);
- Monitor progress of Central Bureau of Investigation / Police Investigation and recovery position;
- Ensure that staff accountability is examined at all levels in all the cases of frauds and staff side action, if required, is completed quickly without loss of time;
- Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls;
- Put in place other measures as may be considered relevant to strengthen preventive measures against frauds;
- Update Audit committee on periodic basis on the cases of attempted fraud and action taken on them.

### IT STRATEGY COMMITTEE MEETING:

IT Strategy Committee was formed by the Board of Directors at their meeting held on 24th June, 2017 in order to Assist the Board in overseeing the IT functions of the Bank, besides providing inputs, reviewing and amending the aligned corporate and IT strategy.

The IT Strategy Committee consisted of the following members as at 31<sup>st</sup> March, 2020:

1. Mr. Varun Sabhlok – Chairperson of IT Strategy Committee and Independent Director
2. Mr. Pramod Kabra – Chairman of the Board and Non-Executive Director
3. Mr. Rajeev Yadav – Managing Director and Chief Executive Officer
4. Mr. Sunil Gulati – Independent Director

The IT Strategy Committee of the Board met 4 Times during the year under review.

S. No.	Quarter 1 (April-June)	Quarter 2 (July-Sept)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-March)
1.	-	18 <sup>th</sup> July, 2019	5 <sup>th</sup> November, 2019	22 <sup>nd</sup> January, 2020
2.	-	-	-	24 <sup>th</sup> March, 2020

IT Strategy Committee Meeting Attendance:

Name	Nature of Directorship	No of meetings attended/ approval granted
Mr. Varun Sabhlok	Chairperson of the Committee and Independent Director	4
Mr. Pramod Kabra	Chairman of the Board and Non-Executive Director	3
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer	4
Mr. Sunil Gulati	Independent Director	4





## Annexure II – Corporate Governance Report

Terms of reference in addition to the regulatory requirements is governed by the charter which broadly includes the following:

- Approve IT strategy and policy documents
- Ensure that the management has put an effective strategic planning process in place;
- Ratify that the business strategy is indeed aligned with IT strategy
- Ensure that the IT Organizational structure complements the business model and its direction;
- Ascertain that management has implemented processes and practices that ensure that the IT delivers value to the business
- Ensure IT investments represent a balance of risks and benefits and that budgets are acceptable;
- Monitor the method that management uses to determine the IT resources needed to achieve strategic goals and provide high-level direction for sourcing and use of IT resources
- Ensure proper balance of IT investments for sustaining Bank's growth
- Gain exposure towards IT risks and controls and evaluating effectiveness of management's monitoring of IT risks
- Assess Senior Management's performance in implementing IT strategies
- Issue high-level policy guidance (e.g. related to risk, funding, or sourcing tasks)
- Review IT or business architecture is to be designed, so as to derive the maximum business value from IT
- Evaluate effectiveness of management's monitoring of IT risks and overseeing the aggregate funding of IT at the Bank level;
- Review IT performance and contribution of IT to businesses (i.e. delivering the promised value).

### **CUSTOMER SERVICE COMMITTEE:**

Customer Service Committee was constituted by the Board of Directors of the Bank at their meeting held on 24th June, 2017 to assist the Board and the Bank in monitoring the quality of services rendered to the customers and to ensure implementation of directives received from the Reserve Bank of India in this regard.

The Customer Service Committee consisted of the following members as at 31<sup>st</sup> March, 2020:

- |    |   |
|----|---|
| 1. | Mr. Ravindran Lakshmanan – Chairperson of the Customer Service Committee and Nominee Director |
| 2. | Mr. Rajeev Yadav – Managing Director and Chief Executive Officer                              |
| 3. | Mr. Sunil Gulati – Independent Director   |
| 4. | Ms. Susan Thomas – Independent Director   |
| 5. | Mr. Vinay Bajjal - Independent Director   |

## Annexure II – Corporate Governance Report

The Customer Service Committee of the Board met twice during the year under review.

S. No.	Quarter 1 (April-June)	Quarter 2 (July-Sept)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-March)
1.	-	17 <sup>th</sup> July, 2019	-	22 <sup>nd</sup> January, 2020

Customer Service Committee Meeting Attendance:

Name	Nature of Directorship	No of meetings attended/ approval granted
Mr. Ravindran Lakshmanan	Nominee Director	2
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer	2
Mr. Sunil Gulati	Independent Director	2
Ms. Susan Thomas	Independent Director	0
Mr. Vinay Bajjal	Independent Director	1

Terms of reference of the Committee are governed by the charter, which inter-alia includes the following:

- Formulate comprehensive deposit policy incorporating the issues arising out of the demise of a depositor for operation of his account, the product approval process, the annual survey of depositor satisfaction and the triennial audit of such services.
- Monitor implementation of awards under the Banking Ombudsman Scheme.
- Ensure customer are treated fairly all the times and complaints raised by them is dealt with courtesy and in time.
- Evaluate feedback on quality of customer service and to oversee implementation of commitments towards customers as per the directions received from BCSBI.
- Ensure that all regulatory instructions regarding customer service are followed by the Bank.
- Review and approve customer service policies and customer communication strategies of the Bank
- Review the performance of Standing Committee on Customer Service.

### **CREDIT APPROVAL COMMITTEE:**

Credit Approval Committee of the Board was constituted by the Board members at their meeting held on 24th June, 2017 in order to assist the Board to approve credit exposures, which are beyond the powers delegated to the executives of Bank. This facilitates quick response to the needs of the customers and speedy disbursement of loans.

## Annexure II – Corporate Governance Report

The Credit Approval Committee consisted of the following members as at 31<sup>st</sup> March, 2020:

1.	Mr. Pramod Kabra – Chairman of Board and Non-Executive Director
2.	Mr. Rajeev Yadav – Managing Director and Chief Executive Officer
3.	Mr. Sameer Nanavati – Nominee Director
4.	Mr. Sunil Gulati - Independent Director
5.	Mr. Vinay Bajjal - Independent Director

The Credit Approval Committee is required to meet as and when required. Since there was no such requirement, the committee did not meet during the year under review.

Terms of reference of the Committee are governed by the charter, which inter-alia includes the following:

- Formulate clear policies on standards for presentation of credit proposals ,financial covenants, rating standards and benchmarks, delegation of credit approving powers, prudential limits on large credit exposures, asset concentrations, standards for loan collateral, portfolio management, loan review mechanism, risk concentrations, risk monitoring and evaluation, pricing of loans, provisioning, regulatory/legal compliance, etc.
- Approve credit exposures which are beyond the powers delegated to executives of the Bank.
- Implement effective loan review mechanism and portfolio management.

### GENERAL BODY MEETINGS:

#### a) Annual General Meeting:

Annual General Meetings (AGM) is the principal forum for interaction with shareholders, where the Board answers specific queries raised by the shareholders. The Board acknowledges its responsibility towards its shareholders and therefore encourages open and active dialogue with all its shareholders – be it individuals, domestic institutional investors or foreign investors.

The Annual General Meeting for the FY 18-19 was held on 30<sup>th</sup> September, 2019 at the Registered Office of the Company situated at 301-306, 3<sup>rd</sup> Floor, Abhijeet-V Opp. Mayor’s Bungalow, Law Garden Road, Mithakhali, Ahmedabad – 380006, Gujarat.

Annual Forms were filed in time with the Registrar of Companies, Gujarat.

Form No.	Type of Form	Relevant section	Date of filing/ submission
MGT-7	Annual Return	92(1)	28-Dec-2019
AOC-4	Balance Sheet and Profit and loss A/c	137	30-Nov-2019

#### b) Extra-Ordinary General Meeting:

During the Year, 5(Five) Extra-Ordinary General Meetings were held on 10<sup>th</sup> May, 2019, 6<sup>th</sup> June, 2019, 27<sup>th</sup> September, 2019, 1<sup>st</sup> October, 2019 and 14<sup>th</sup> November, 2019.

No special resolution has been passed through postal ballot during the last year.

No Special resolution is proposed to be passed through Postal Ballot.

## Annexure II – Corporate Governance Report

### SUBSIDIARY COMPANY:

The Bank does not have any subsidiary.

### MEETING OF INDEPENDENT DIRECTORS:

The Independent Directors of the Bank met on 22<sup>nd</sup> January, 2020 without any Non-Independent Directors in attendance

### PERFORMANCE EVALUATION OF DIRECTORS:

The Bank has followed objective based approach for carrying out performance evaluation of Directors. Performance Evaluation of the Board collectively, Board level Committees, Independent Directors and Non-Independent Directors was done in accordance with the relevant provisions of the Companies Act, 2013 read with relevant rules made thereunder.

### REMUNERATION OF NON- EXECUTIVE DIRECTORS:

The remuneration to the Non-Executive Directors as approved by Board is paid in the form of only sitting fees only. The RBI vide Circular No. DBR. No.BC.97/29.67.001/2014-15 dated 1<sup>st</sup> June, 2015 issued Guidelines on Compensation of Non-Executive Directors of Private Sector Banks emphasizing that in order to enable Banks to attract and retain professional Directors, it is essential that such Directors are appropriately compensated. At the Bank, Sitting fees of ₹1,00,000/- and ₹50,000/- was paid to Non-Executive Directors (as approved by Board) for every Board and Committee meeting attended by them. However, the total amount paid to each such during a financial year did not exceed ₹16,00,000/- and were within the limits prescribed under the provisions of Companies Act, 2013.

None of the Non-Executive Directors have any pecuniary relationship or transaction with the Bank apart from receiving sitting fee.

The details of sitting fees paid to Non-Executive Directors are mentioned herein below:

Name of Director	Sitting Fees Paid (In ₹)
Mr. Alok Prasad	16,00,000
Mr. Sameer Nanavati	16,00,000
Mr. Sunil Gulati	16,00,000
Ms. Susan Thomas	7,50,000
Mr. Varun Sabhlok	16,00,000
Mr. Vinay Bajjal	16,00,000

### CREDIT RATINGS:

During the period under review and till the date of Board's report, the Bank has been assigned CARE A (Stable) and ICRA A (Stable) from CARE RATINGS and ICRA respectively for its Long Term facilities. The Bank has also been assigned IND A – (Stable) credit rating by India Ratings & Research and CARE A Stable Rating from CARE RATINGS for its Unsecured Sub-ordinated Debt/ Non-Convertible Debentures. Further the bank has been assigned MA+ (Stable) credit rating for its fixed deposits by ICRA and for certificate of deposits it has been assigned Crisil A1+ credit rating from CRISIL.

## Annexure II – Corporate Governance Report

### CODE OF CONDUCT:

The Company has a Code of Conduct policy in place and all staff and senior management have adhered compliance to the same.

### FAIR PRACTICES CODE:

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

### DISCLOSURE REGARDING MANAGERIAL REMUNERATION:

Sr. No.	Particulars	Remarks
1	Designation	Mr. Rajeev Yadav, Managing Director and Chief Executive Director
2	Remuneration received	390.35 Lakh
3	Nature of employment, whether contractual or otherwise	Whole-time employee
4	Qualifications and experience of the employee	B. Tech and PGDM with experience of more than 24 years
5	Date of commencement of employment*	24th June, 2017
6	The percentage of equity shares held by the employee in the company	0.00

**\*Mr. Rajeev Yadav was appointed as Additional Director at the Board Meeting held on 24th June, 2017, to hold the office upto ensuing general meeting. The members of the Bank regularized appointment of Mr. Rajeev Yadav as Managing Director and Chief Executive Officer at their meeting held on 10th July, 2017. The Reserve Bank of India approved his appointment as Managing Director and Chief Executive Officer with effect from 17th July, 2017.**

**Disclosure pursuant to Rule 5(1) & 5(2) of The Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014:**

**Disclosure pursuant to Rule 5(1):**

#### Median Info:

(i) the ratio of the remuneration of each director to the median remuneration of the employees of the company for the financial year; ( median means the numerical value separating the higher half of a population from the lower half and the median of a finite list of numbers may be found by arranging all the observations from lowest value to highest value and picking the middle one, if there is an even number of observations, the median shall be the average of the two middle values)	154:1
(ii) the percentage increase in remuneration of each director, Chief Financial Officer, Chief Executive Officer, Company Secretary or Manager, if any, in the financial year;	CEO-17% CFO-14% CS- 20%

## Annexure II – Corporate Governance Report

(iii) the percentage increase in the median remuneration of employees in the financial year;	8%
(iv) the number of permanent employees on the rolls of company	7363
(v) average percentile increase already made in the salaries of employees other than the managerial personnel in the last financial year and its comparison with the percentile increase in the managerial remuneration and justification thereof and point out if there are any exceptional circumstances for increase in the managerial remuneration	(i) Average percentile increase in salaries of employees other than managerial Personnel: 11% (ii) Average percentile increase in salaries of managerial Personnel: 17%
(vi) affirmation that the remuneration is as per the remuneration policy of the company	Yes

Information with respect to Rule 5(2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 is available for inspection at the registered office of the Bank during business hours on working days of the Bank. If any member is interested in obtaining a copy, such member may right to the Company Secretary in this regard.

Related Party Disclosure pursuant to Part A of Schedule V of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation, 2015:

Nature of transaction	Relationship	31 <sup>st</sup> March, 2020 (₹ In Lakh)	31 <sup>st</sup> March, 2019 (₹ In Lakh)
<b>Issue of equity shares</b>			
Fincare Business Services Limited	Holding company	574	1,615
Lok Management Services Private Limited	Entities under common control and shareholder	106	192
<b>Securities premium on equity shares</b>			
Fincare Business Services Limited	Holding company	6,976	14,890
Lok Management Services Private Limited	Entities under common control and shareholder	1,289	4,908
<b>Managerial remuneration/remuneration for KMP</b>			
Mr. Rajeev Yadav	MD&CEO-Key management personnel	391	302
Mr. Keyur Doshi	CFO-Key management personnel	125	107
Ms. Shefaly Kothari	CS-Key management personnel	22	20
<b>Term deposits made with the Bank</b>			
Fincare Business Services Limited	Holding Company	-	7,384

## Annexure II – Corporate Governance Report

Nature of transaction	Relationship	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019
		(₹ In Lakh)	(₹ In Lakh)
Lok Management Services Private Limited	Entities under common control and shareholder	1	12,965
Mr. Rajeev Yadav	Key management personnel	6	-
Mr. Keyur Doshi	Key management personnel	-	-
Ms. Shefaly Kothari	Key management personnel	-	3
Relative of key management personnel	Relative of key management personnel	84	28
<b>Term deposits matured</b>			
Fincare Business Services Limited	Holding Company	-	7,384
Lok Management Services Private Limited	Entities under common control and shareholder	1	14,992
Mr. Rajeev Yadav	Key management personnel	6	-
Mr. Keyur Doshi	Key management personnel	-	-
Ms. Shefaly Kothari	Key management personnel	3	14
Relative of key management personnel	Relative of key management personnel	23	-

### WHISTLE BLOWER POLICY:

The Company has established the Whistle Blower Policy pursuant to which Directors, employees and vendors of the Company can report their concerns on unethical and/or improper behavior, practices, actual or suspected fraud or violation of the Company's Code of Conduct or any other wrongful conduct in the Company or of its employees. Details of complaints received and the action taken on the complaints were reviewed by the Audit Committee of the Board.

### VIGIL MECHANISM

Vigilance is an inseparable part of management. It promotes clean business transactions, professionalism, productivity, promptness and transparent practices and ensures putting in place systems and procedures to curb opportunities for corruption which results in improving efficiency and effectiveness of the personnel as well as the organization. Anti-corruption measures of the banks are a responsibility of the disciplinary authority identified in the bank and it has the over-all responsibility of looking into the acts of misconduct alleged against, or committed by, the employees within its control and to take appropriate punitive action. It is also required to take appropriate preventive measures so as to prevent commission of misconducts/ malpractices by the employees under its control and jurisdiction. Vigilance functions are performed by Vigilance and Ethics Officer which would be wide ranging and include collecting intelligence about the corrupt practices committed, or likely to be committed, by the Bank staff; investigating or causing an investigation to be made into verifiable allegations reported to him; processing investigation reports for further consideration of the disciplinary authority concerned; referring the matters to the MD&CEO of the bank for advice wherever necessary, taking steps to prevent commission of improper practices/misconducts, etc

## Annexure II – Corporate Governance Report

### FINANCIALS CIRCULATION:

Financial Results of the half year ended 30th September 2019 and 31<sup>st</sup> March 2020 were published in newspaper having nationwide circulation on 12<sup>th</sup> November 2019 and 9<sup>th</sup> June 2020 respectively in accordance with the requirements of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

### OTHER DISCLOSURES:

Disclosures on transactions with related parties, as required under the Indian Accounting Standard 18, have been incorporated in the Notes to the Accounts, being part of the Annual Report.

There are no instances on non-compliance by the company, penalties or structures imposed by any Regulatory Authority. There are no materially significant related party transactions with the Bank's Promoters, directors, key managerial personnel or their relatives, which may have potential conflict with the interest of the Bank at large.

### GENERAL SHAREHOLDER INFORMATION:

Shareholding pattern as on 31<sup>st</sup> March, 2020

Sr. No.	Name of Shareholder(s)	No. of Shares	Shareholding %
1	Indium IV (Mauritius) Holdings Limited	16,65,296	2.62
2	Fincare Business Services Limited	5,60,19,976	88.07
3	True North Fund V LLP	25,56,407	4.02
4	Sameer Nanavati	1	0
5	Soham Shukla	1	0
6	Vivek Kothari	1	0
7	Keyur Doshi	1	0
8	Rajeev Yadav	1	0
9	G. Dasarathareddy	1	0
10	Silver Leaf Oak (Mauritius) Limited	3,90,056	0.61
11	Lok Management Services Private Limited	29,78,740	4.68
<b>Total</b>		<b>6,36,10,481</b>	<b>100.00</b>

Non Convertible Debentures (NCDs) of the Company have been issued in dematerialized form and have been listed on the Bombay Stock Exchange.

### Registrar and Transfer Agent

KFin Technologies Private Limited  
Selenium Tower B, Plot 31-32, Gachibowli,  
Financial District, Nanakramguda, Hyderabad – 500032  
Phone: +91 40 6716 1604



## Annexure II – Corporate Governance Report

### Debenture Trustee

CATALYST TRUSTEESHIP LIMITED  
(Erstwhile GDA Trusteeship Limited)  
Windsor, 6th Floor,  
Office No. 604, C.S.T. Road,  
Kalina, Santacruz (East),  
Mumbai - 400098 Phone : 022-49220525  
www.catalysttrustee.com

### Dematerialization:

The shares of the Company are dematerialized through KFin Technologies Private Limited.

### Registered Office and Corporate Office:

The Registered office of the Company is located in Ahmedabad at 301-306, 3<sup>rd</sup> Floor, Abhijeet V, Law Garden Road, Mithakhali, Ahmedabad-380006 and Corporate office of the Company is located in Bengaluru at 5th Floor, Bren Mercury, Kaikondanahalli, Sarjapur Main Road, Bengaluru – 560035, Karnataka.

### FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Sd/-

**Pramod Kabra**

Chairman and Non-Executive Director

**DIN:** 02252403

**Add:** 2101, Floor 21, Plot 30, Tower No.4, Strata Planet Godrej, Keshavrao, Khadymarg, Saat Rasta, Jacob Circle, Mumbai - 400011 Maharashtra

Sd/-

**Rajeev Yadav**

Managing Director & Chief Executive Officer

**DIN:** 00111379

**Add:** Villa 578, Phase 3, Adarsh Palm Retreat, Outer Ring Road, Devarabeesanahalli, Bellandur, Bangalore-560103, Karnataka

**Date:** 7<sup>th</sup> July, 2020

**Place:** Bangalore

## Annexure III – Secretarial Audit Report

**TUSHAR SHRIDHARANI**  
**B. Com., LL.B., F.C.S.**

---

Tel. : (022) 2208 5764 / 2208 5765

Email : tushar@tusharshri.com

Web. : www.tusharshri.com

---

10, New Marine Lines  
417, Jolly Bhavan No. 1  
Mumbai – 400 020

### FOR THE FINANCIAL YEAR ENDED ON 31<sup>st</sup> MARCH, 2020

[Pursuant to section 204(1) of the Companies Act, 2013 and rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To,

The Members

Fincare Small Finance Bank Limited

301-306, 3<sup>rd</sup> Floor, ABHIJEET -V

Opp. Mayor's Bungalow

Law Garden Road, Mithakhali

Ahmedabad – 380 006

I have conducted the Secretarial Audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by Fincare Small Finance Bank Limited ("the Company"). Secretarial Audit was conducted in a manner that provided me a reasonable basis for evaluating the corporate conducts / statutory compliances and expressing my opinion thereon.

Based on my verification of the Company's books, papers, minute books, forms and returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorized representatives during the conduct of Secretarial Audit, I hereby report that in my opinion, the Company has, during the period covering the financial year ended on 31<sup>st</sup> March, 2020 ("Audit Period"), complied with the statutory provisions listed hereunder and also that the Company has proper Board-processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter.

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on 31<sup>st</sup> March, 2020 according to the provisions of:

- (i) The Companies Act, 2013 ("the Act") and the rules made thereunder;
- (ii) The Securities and Exchange board of India (Depositories and Participants) Regulations, 2018;
- (iii) Foreign Exchange Management Act, 1999 and the rules and regulations made thereunder to the extent applicable to the Foreign Direct Investment;
- (iv) The Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- (v) Secretarial Standards issued by The Institute of Company Secretaries of India.

During the period under review the Company has complied with the provisions of the Act, Rules, Regulations, Guidelines, Standards, etc. as mentioned above.

## Annexure III – Secretarial Audit Report

I further report that, having regard to the compliance system prevailing in the Company and on examination of the relevant documents and records in pursuance thereof, to the extent applicable, on test check basis, the Company has complied with the following regulations/laws applicable specifically to the Company.

- (i) The Banking Regulation Act, 1949;
- (ii) RBI Guidelines / Directions applicable to Small Finance Banks.

I further report that:

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

Adequate notice is given to all directors to schedule the Board Meetings, agenda and detailed notes on agenda were generally sent at least seven days in advance; and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.

During the Audit Period, all decisions at Board Meetings and Committee Meetings were carried out unanimously.

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

I further report that during the Audit Period the Company had no specific event/action having a major bearing on the Company's affairs in pursuance of the above referred laws, rules, regulations, guidelines, standards etc.

**Sd/-**

**(Tushar Shridharani)**

Practicing Company Secretary

FCS: 2690 / COP: 2190

UDIN – F002690B000417907

Place: Mumbai

Date: 6<sup>th</sup> July, 2020

Note: This report is to be read with my letter of even date which is annexed herein next as Annexure A and forms an integral part of this report.

## Annexure III – Secretarial Audit Report

### Annexure A

To,  
The Members  
Fincare Small Finance Bank Limited  
301-306, 3<sup>rd</sup> Floor, ABHIJEET -V  
Opp. Mayor's Bungalow  
Law Garden Road, Mithakhali  
Ahmedabad – 380 006

This letter is an integral part of the Secretarial Audit Report of even date for F.Y. 2019-20 submitted to the Fincare Small Finance Bank Limited ("the bank") in pursuance of provisions of section 204(1) of the Companies Act, 2013 and rule 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014.

Members of the Bank are informed as follow.

- The compliance of provisions of all laws, rules, regulations, standards applicable to the Bank is the responsibility of the management of the Bank. My examination was limited to the verification of records and procedures on test check basis for the purpose of issue of the present Secretarial Audit Report.
- Maintenance of the secretarial and other records of applicable laws is the responsibility of the management of the Bank. My responsibility is to issue Secretarial Audit Report, based on the examination of the relevant records maintained and furnished to us by the Bank, along with explanations where so required.
- I have followed the audit practices and processes as were appropriate to obtain reasonable assurance about the correctness of the contents of the secretarial and other legal records, legal compliance mechanism and corporate conduct. The verification was done on test check basis to ensure that correct facts as reflected in secretarial and other records produced to us. I believe that the processes and practices that I followed, provide a reasonable basis for my opinion for the purpose of issue of the Secretarial Audit Report.
- I have not verified the correctness and appropriateness of financial records and Books of Accounts of the Bank.
- Wherever required, I have obtained the management representation about list of applicable laws, compliance of laws, rules and regulations and major events during the audit period.
- The Secretarial Audit Report is neither an assurance as to the future viability of the Bank nor of the efficacy or effectiveness with which the management has conducted the affairs of the Bank.

**Sd/-**

**(Tushar Shridharani)**

Place: Mumbai  
Date: 6<sup>th</sup> July, 2020

Practicing Company Secretary  
FCS: 2690 / COP: 2190

## Annexure IV

### REPORT ON CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES FOR FY20

The Corporate Social Responsibility Policy (CSR Policy) of the Bank sets out the broad framework guiding the Bank's CSR activities. The Policy also sets out the principles and the rules that need to be adhered while taking up and implementing CSR activities as specified in Schedule VII of the Companies' Act, 2013 (excluding the activities pursued in the normal course of business) and the expenditure thereon.

The CSR policy encompasses the Bank's philosophy for delineating its responsibility as a corporate citizen and lays down the guidelines and mechanism for undertaking socially useful programs for welfare & sustainable development of the community at large.

#### Composition of CSR Committee as on 31<sup>st</sup> March, 2020:

1	Mr. Alok Prasad, Chairperson
2	Ms. Susan Thomas
3.	Mr. Sameer Nanavati
4.	Mr. Varun Sabhlok
5.	Mr. Ravindran Lakshmanan

1. Average net profit of the Bank for last three (3) financial years: ₹11,17,67,775/-
2. Prescribed CSR Expenditure (two percent (2%) of the amount as in item 3 (above): ₹22,35,356/-
3. Details of CSR spend for the financial year: 2019-20
  - a. Total amount spent for the financial year: ₹34,77,893/-
  - b. Amount unspent, if any: NIL
  - c. Manner in which the amount spent during the financial year is detailed below:

## Annexure IV

Sl. No.	CSR Activity	Sector in which the project is covered	Project or programs 1. Local Area 2. Specify the state and district where CSR project was under taken.	Amount outlay (budget) project or program wise.	Amount spent	Cumulative expenditure up to the reporting period.	Amount spent : Direct or through implementing agency.
1	Eradicating Hunger, Poverty, malnutrition and promoting health care -General Medical Camp -BP and Diabetes Testing Camp -Heart Check-up Camp -Eye Camp -Dental Camp	Clause i-Eradicating hunger, poverty and malnutrition, 'promoting health care including preventive health care and sanitation including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of sanitation and making available safe drinking water	Tamil Nadu, Karnataka, Pondicherry and Maharashtra	8,87,000	10,94,305	10,94,305	Direct
2	Promoting education -Child Education Support Program -Financial Literacy Program -Financial Literacy Video	Clause ii- Promoting education, including special education and employment enhancing vocational skills especially among children, women, elderly and the differently abled and livelihood enhancement projects.	Gujarat, Madhya Pradesh, Rajasthan, Andhra Pradesh, Karnataka, Tamil Nadu and Maharashtra	8,95,367	13,46,985	24,41,290	Direct
3	Environment -Organic Farming	Clause iv-ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agroforestry, conservation of natural resources and maintaining quality of soil, air and water including contribution to the Clean Ganga Fund set-up by the Central Government for rejuvenation of river Ganga.	Karnataka, Gujarat and Maharashtra	4,17,633	10,36,603	34,77,895	Direct
<b>Total</b>				<b>22,00,000</b>	<b>34,77,893</b>	<b>34,77,893</b>	

## Annexure IV

5. The CSR Committee has implemented and monitored the CSR Expenditure as per the CSR objectives and Policy of the Bank.

6. In case company has failed to spend the two per cent of the average net profit of the last three Financial Years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.

Not Applicable

7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy is in compliance with CSR objectives and Policy of the Bank:

We hereby declare that implementation and monitoring of the CSR policy are in compliance with CSR objectives and policy of the Bank.

### For Fincare Small Finance Bank Limited

Sd/-

**Mr. Pramod Kabra**

Chairman and Non-Executive Director

DIN:02252403

Sd/-

**Mr. Rajeev Yadav**

Managing Director and Chief Executive Officer

DIN:00111379

Sd/-

**Mr. Alok Prasad**

Chairperson of CSR Committee and Independent Director

DIN: 00080225

## Annexure V – Management Discussion and Analysis

### Macro View

In keeping with the larger trend, India's GDP growth declined for another year to 4.2% in 2019-20 from 6.1% in 2018-19; this is the lowest growth in more than a decade. Despite the slowdown, India ranks among the top seven economies with a GDP of US \$ 2.73 trillion. On the output front, agri (3.7% growth) and mining sectors seemed to have held ground. Putting the agri sector performance in perspective - when you look at a 3.7% growth at current price level, then growth rate comes to 11.3%, which is 60% more than the growth rate of the non-agriculture sector. Industrial output for fiscal 19-20 contracted by 0.7% compared with a growth rate of 3.8% in 2018-19. India's Foreign direct investment (FDI) receipts grew by 13% to a record US\$ 49.97 billion in 2019-20 (US\$44.36 in 2018-19). This is owing to the nation's consistent upward progress in the World Bank's Ease of Doing Business ranking- India jumped 14 places to 63<sup>rd</sup> position in the World Bank's Ease of Doing Business 2020 report.

As per the Department for Promotion of Industry and Internal Trade (DPIIT) data, sectors which attracted maximum foreign inflows during 2019-20 include services (US\$ 7.85 billion), computer software and hardware (US\$ 7.67 billion), telecommunications (US\$ 4.44 billion), trading (US\$ 4.57 billion), automobile (US\$ 2.82 billion) and construction (US\$ 2 billion)

India continued to make steady progress in GST collections. In the last four months—November 2019-February 2020—GST collection surpassed the ₹1 Lakh Crore mark, although in March 2020, the collections slipped below this benchmark. For FY20, GST for domestic transactions grew by 8% over the previous year. GST from import on goods reduced by 8% as compared to last year. Overall, gross GST revenues grew by 4% over the previous year.

### Indian Banking Review:

Banking has witnessed a significant change in recent times. Owing to the increasing consumer expectancies, regulations, economic changes and constant competition, modern banking has

embraced technology in a big way. Digital platforms, mobile, internet banking, and payments bank have revolutionised the sector in a substantial way. "The Digital India Moment" has also given the much-needed impetus to the digitisation efforts in the banking sector.

As per the Reserve Bank of India, India's banking sector is sufficiently capitalised and well regulated. Credit, market and liquidity risk studies have shown that Indian Banking system is robust and has withstood the global slump. The Digital payments system has evolved the most among the 25 countries.

The total deposits held by Banks in India grew at a CAGR of 11.11% and reached US\$1.86 trillion by FY19. The Banking sector is poised to grow in future and it's growth hinges on infrastructure, quick execution of projects and slew of government reforms.

### Small Finance Bank Opportunity

Financial inclusion got further impetus with the Pradhan Mantri Jan Dhan Yojana (PMJDY) which aims to provide at least one bank account for every household. As statistics speak, in India, approximately one-third of the adult population has an account with a formal financial institution. **Total bank accounts opened under Pradhan Mantri Jan Dhan Yojna (PMJDY) reached 373.4 million accounts as on 31<sup>st</sup> August 2019.**

While the group-based lending approach of MFIs helped, the lack of deposit taking limited its impact. To facilitate banking penetration and financial inclusion in India, the RBI granted Small Finance Bank (SFB) licenses to 10 entities in September 2015, and by end of FY18, all of them commenced operations.

In FY19, most of the SFBs had sharpened their efforts to expand their banking network for garnering retail deposits, diversified their loan book and leveraged technology to reduce operational cost and bring in customer delight. Successful transformation to an SFB has allowed these players to operate in a different regulatory regime. The Small Finance Banks are geared to serve the rural markets where they have operated in their earlier avatar. The tapping of opportunity in under-



## Annexure V – Management Discussion and Analysis

penetrated rural zones is possible through customer-centric products that are being loaded onto low-cost delivery platforms.

True to the purpose of financial inclusion, Small Finance Banks are aiding banking presence in unserved and under-served markets. Moreover, small businesses, un-organized sector, low income households and farmers are finding their credit and savings fulfilled. Target segments of small businesses, un-organized sector, low income households and farmers are finding their credit and savings needs fulfilled. SFBs lapping up the opportunity to get a foothold in the ₹30 Lakh Crore market, or roughly 40% of the Indian banking sector.

As SFBs continue their journey, the Indian economy and financial system will witness a new revolution. This paradigm shift is likely due to the following factors:

**Diversification** - SFBs offer a range of products comprising savings and credit, as well as third party products such as insurance, pension, mutual funds, payment/remittance facilities and access to ATMs. SFBs can now be part of the payment and settlement system as a direct member or a sub member of a sponsor bank. The 360-degree product suite, including savings, is likely to boost customer loyalty and reduce delinquency.

**Low cost** - SFBs, previously as NBFCs have perfected the art of low cost operations. This is due to low-cost infrastructure combined with high staff productivity. SFBs can utilize their low cost structures to attain efficiency and scale. This is due to lower cost infrastructure and high productivity of staff. Thus, SFBs can utilize their low-cost structure to rapidly attain profitability.

**Branding** - Being an SFB with a dual purpose of commercial success and social impact, SFBs can create a niche positioning and differentiated brands and in the process leverage these to create long term customer loyalty.

**Funding base** - In the long run, mobilizing savings and offering customer-centric products will help SFBs lower their funding costs. SFBs are capable of meeting the unmet demand for savings in rural areas.

**Vertical penetration** - SFBs, in their previous avatars, gained reasonable success in helping low income clients with micro entrepreneurship and livelihood generation activities. In the present avatar, they have the opportunity to help these clients connect to a larger ecosystem of semi-urban and urban market ecosystems.

**Dealing with New Challenges** - Having said, Small Finance Banks have to innovate to address 3 key challenges - garnering retail deposits, preparing their staff and using technology.

Garnering retail liabilities is a key driver of the SFB business model. Small Finance Banks are not only directly dealing with competition from the already established banks, but also striving hard to use the trust and transparency levers. This is where ease of understanding products and financial literacy will play a big role.

The business model of SFBs is different and hence managing human resources requires a special approach. As banks, SFBs are working towards making staff become much more customer-oriented while at the same time training them with technology to leverage the changing banking environment. SFBs are making significant investment in training their teams.

Lastly, technology is both a differentiator and a disruptor. SFBs aim to deliver consistent and seamless customer service. Thus, they are adopting technology keeping in mind the needs of customers and the dynamic need of the business. Thus, investments are being made in IT infrastructure and a hyper-connected banking institution built to last for many years to come.

### Fincare SFB – 3<sup>rd</sup> Year as a Bank

FY 19-20 was an important milestone in the Bank's journey. In the first quarter of FY20, Fincare Small Finance Bank was included in the Second Schedule to the Reserve Bank of India Act, 1934. The Bank's total business grew to ₹5,342 Crore during the year under review. The Bank expanded geographical reach across 19 states and Union Territories through a network of 711 banking outlets.

## Annexure V – Management Discussion and Analysis

The Bank's net NPAs stood at 0.41% in FY19-20 showcasing the effectiveness of the Bank's robust processes and business practices. The growth in advances was backed by diversification of the Bank's product portfolio, which led to the secured mix changing from 6% to 22% between the last two fiscal years. The Bank remained well-capitalised with CRAR being maintained well above the regulatory requirement of 15% for Small Finance Banks. The Bank's net worth, as on 31<sup>st</sup> March, 2020, was ₹904 Crore with a CRAR of 29.3%.

The Bank continued its focus on financial literacy and encouraged its microloan borrowers to open savings accounts with easy accessibility using debit cards. Fincare opened over 19 Lakh savings accounts in this segment at the end of FY20. It also introduced products like two-wheeler loans and affordable housing loans.

During FY20, the Bank made significant progress in the technology and digital space to enable speed, convenience, and access to banking services for customers. During the year, several initiatives such as m-Care, m-Serve, UPI, BillPay, WhatsApp banking, Website Chatbot, among others, saw the light of the day.

A strong believer of people power, Fincare ensured that the 7000+ strong workforce delivered outcomes consistent with its business vision. The aim was to offer a challenging and rewarding work environment making it a happy place to work.

### Eventful FY20

**Asset Quality** -As on 31<sup>st</sup> March 2020, the Gross NPA of the Bank stood at 0.9% and the Net NPA at 0.4%. The Provision coverage Ratio (including technical write offs) stood at 91.14%.

**Converting Crisis into Opportunity** - The Bank converted the liquidity crunch in the overall economy into an opportunity, by way of greater emphasis on retail liability raise.

**Capital Adequacy Ratio** - CRAR of the Bank, computed as per Basel II guidelines stood at 29.3% as on 31<sup>st</sup> March

2020. The Net Worth of the Bank was ₹904 Crore as on 31<sup>st</sup> March, 2020.

**Digital First** - With no paper-based banking legacy, the Bank gave #SmartBanking a major push and adopted the latest technology platforms to consolidate its Digital First approach to banking.

**Awards** - The Bank secured several accolades during FY20. The good work done in the field of financial inclusion and digital banking was well received by customers and consequently was acknowledged by several forums and organizations. Such third-party acknowledgement is a great confidence booster and the Bank will continue to strive towards customer-centricity and innovation.

### FY20 FINANCIAL HIGHLIGHTS

The total business of the Bank grew 97% Y-o-Y from ₹4,808 Crore as on 31<sup>st</sup> March, 2019 to ₹9,470 Crore as on 31<sup>st</sup> March, 2020.

With respect to credit growth, gross advances rose to ₹4,841 Crore as on 31<sup>st</sup> March 2020 from ₹2,791 Crore as on 31<sup>st</sup> March, 2019, registering a growth of 73%.

The Bank's microloans portfolio grew by 80% Y-o-Y to reach ₹3,796 Crore as on 31<sup>st</sup> March, 2020 from ₹2,109 Crore as on 31<sup>st</sup> March, 2019. The secured loans portfolio registered a growth of 56% from ₹671 Crore as on 31<sup>st</sup> March, 2019 to ₹1,046 Crore as on 31<sup>st</sup> March, 2020.

Total gross loan portfolio including Securitization, Inter Bank Participation Certificate and Direct Assignment grew by 51% from ₹3,530 Crore as on 31<sup>st</sup> March, 2019 to ₹5,345 Crore as on 31<sup>st</sup> March, 2020.

Deposits recorded a growth of 128% to reach ₹4,654 Crore as on 31<sup>st</sup> March, 2020 from ₹2,043 Crore as on 31<sup>st</sup> March, 2019. The Bank's CASA deposits grew 148% to reach ₹555 Crore as on 31<sup>st</sup> March, 2020. Retail deposits accounted for 51% of the overall deposit base.

## Annexure V – Management Discussion and Analysis

**The Bank recorded its highest ever annual net profit of ₹143.45 Crore**

### Governance

The Bank's Corporate Governance Philosophy is based on the phrase "Total commitment to ethical practices in the conduct of business." At the core of its Corporate Governance practice is the Board, which oversees how the management serves and protects the long-term interests of all the stakeholders of the Bank.

The Corporate Governance philosophy stems from the belief that Corporate Governance is a key element in improving efficiency and growth as well as enhancing investor confidence. The Bank strongly believes in ethical values and self-discipline to achieve higher standard of Corporate Governance and continues to strive for excellence in business operations through transparency and accountability to its stakeholders.

The Bank believes that an active, well informed and independent Board is necessary to ensure the highest standards of Corporate Governance. The Bank's Corporate Governance practices are aimed at meeting the Corporate Governance requirements as per the Reserve Bank of India ("RBI"), Securities Exchange Board of India ("SEBI") and other Regulators besides good practices either recommended by professional bodies or practiced by leading Banks/ Companies in India.

### Information Technology

The Bank has made significant investments in cutting-edge IT systems and solutions that not only place it at par with larger peers in the banking space but also enable 'high tech, right touch' as the smarter way of banking. The outcome of the advancement in IT systems is that the Bank has become leaner, stronger and more robust. The Bank seamlessly migrated and stabilised its entire rural micro- loan (RML) portfolio, comprising a customer base of 1.3 million, into the Core Banking System. This makes us one of the first small finance banks to successfully migrate a legacy system to a more integrated system.

The Bank manages the data residing in its CBS and surround systems through a highly secure, Tier-IV data center in Mumbai with a real-time Disaster Recovery (DR) unit in Hyderabad. The Bank has been successful in the execution of two DR drills during FY20. The homegrown applications of the bank have also been migrated to the Tier-IV data center at Amaravati (Andhra Pradesh) with the disaster recovery (DR) unit at Kochi.

### Marketing

During the year Fincare Small Finance Bank redefined its brand positioning with the launch of the 'Wish More, Get More' campaign. With this theme, the bank positioned itself as the, friendly, wise, trust-worthy service provider, who understands the importance of financial goals, helps access products services suited to one's needs, runs his operations in a smooth, efficient and compliant manner, is fair and transparent In dealings and on top of that, has good tech-understanding and finally, all of it comes together In the form of a helping hand that lets you achieve your financial goals. During the year, the bank added more than 10 Lakh customers in a seamless manner reflecting the execution of this mantra of 'More'.

Grandmaster Viswanathan Anand, who has been endorsing the Bank since its inception, played the brand ambassador for the 'Wish More Get More' campaign too. The TVC stressed on the concept of 'more' by communicating what the Bank offered – more returns on depositors' money and more convenience. The success of the campaign inspired the Bank to widen its product basket and make the best use of its digital edge. The Bank's marketing campaigns played a significant role in deepening the customer connect using multiple platforms.

### People Power

The Bank stayed the course with its ambition to be a safe and friendly workplace, adhering to the Fincare Way and the Fincare Values Charter. From a microloan institution to a digital retail bank – it is people who have powered the Bank to the scale and stature at which the Bank is recognized for its intellectual and digital quotient.

## Annexure V – Management Discussion and Analysis

In FY20, Fincare Small Finance Bank made a remarkable transformation driven by its most treasured capital – its people. Today, 7300-plus passionate Fincarers are engaged in building a champion bank that serves the banking needs of diverse sections of the society.

In FY20 the Bank's headcount increased from 5,537 to 7,363. The workforce is categorized as business and corporate functions, with business functioning accounting for 77% of staff during the year.

At the bank, a lot of emphasis is laid on e-learning programs, particularly in the areas of Information Security, Prevention of Sexual Harassment awareness, AML-KYC, besides managerial development.

In FY20, the training department organised 21330 sessions, covering all 7300 plus employees across products, processes, compliance, and skill enhancement. In addition, people in specialised functions such as Risk and Treasury participated in training programmes hosted by organisations such as NIBM, CAB and CAFRAL.

### Risk, Audit & Compliance

Risk Management is integral to the core philosophy and working for Fincare Small Finance Bank. Prediction and mitigation of risks attain higher significance in case of a bank where trust of the people is the core capital.

The Board is entrusted with the ultimate responsibility for the Bank's risk management framework. It is responsible for approving enhancement in risk-taking abilities or risk appetite, risk tolerance and related strategies and policies. To ensure a sound system of risk management and internal controls, a dedicated Risk Management Committee of the Board (RMCB) has been set up. The Committee monitors the appetite, policies, procedures, strategies and controls. It also reviews various limits being considered by the Board, and reviews portfolio composition and impaired credits for wholesale lending.

The Internal Audit function is designed for effective controls. The guidelines from the RBI have made the risk-based audits an important part of the risk

management and control. The Internal Audit team acts as the third line of defence for mitigating risks. Internal Audit structure comprises Credit Audit, Business audit, Branch Audit, Business Process Audit and Information Security Audit. The ambit also spans processes and concurrent audit of Central Processing Center, Treasury etc. The Internal Audit team uses Microsoft Kaizala as the tool for recoding audit observations.

The Bank has an independent Compliance function tasked to ensure adherence of banking operations with the guidelines laid down by various regulators, upkeep of the institution's reputation and resolution of regulatory risks.

The Bank's comprehensive compliance framework is aligned to the required rules and guidelines, thus allowing the Bank to operate seamlessly in a tightly regulated environment. For the Bank, Compliance is the second line of defence. As such, the department keeps an oversight on, and carries out an unbiased review of the activities of the first line of defence.

### Treasury Funding

Treasury team mainly focusses on liquidity, interest rates and ALM management. The Bank has maintained optimum liquidity throughout the year and has invested in liquid securities so as to have a fairly liquid portfolio, against which the funding can be easily raised through Repo or secondary market transactions. Bank's asset liability is being managed under the guidelines of ALCO by investing and borrowing in appropriate buckets and efficiently managing the liquidity gaps and interest rate sensitive gaps which are key areas for Structural Liquidity Statements (SLS) and Interest Rate Structure (IRS) calculations whereas, Management Investment Committee and Management Borrowing Committee provides guidance on effective investment strategies and borrowing decisions. The Bank's treasury raises refinance from various institutions like SIDBI, NABARD and MUDRA, by issuance of Certificate of Deposits and also by issuance of Interbank Participation Certificates (IBPC) which also help in liquidity management. The Treasury team has further strengthened the Bank's liquidity options by developing relationships with

## Annexure V – Management Discussion and Analysis

major Private Sector (PSB) and PSU banks and created contingency funding lines.

During FY20, the Bank received the Scheduled status, which enabled the Treasury team to participate in LAF (REPO/Reverse REPO ) operations, which are conducted by Reserve Bank of India. This helped the Bank in efficient liquidity management on day to day basis. The Bank also participated in Long term Repo operations conducted by the RBI and generated long term funds at prevailing repo rate. The Bank commenced trading desk with an objective to generate income by anticipating interest rate movements, within a conservative risk management framework. The Bank treasury also integrated various trading and lending platforms (NDS OM, TREPS, NDS CALL ) with the treasury software (Quantum) and thus reducing the operations risk. Overall, Bank's Treasury operations are supported by IT.

### Cautionary Statement

Statements made in this MD&A describing the Bank's objectives, projections, estimates, general market trends, expectations etc., constitute 'forward looking statements' within the ambit of applicable laws and regulations. These 'forward looking statements' involve a number of risks, uncertainties and other factors that could cause actual results to differ materially from those suggested by the 'forward looking statements'.

These risks and uncertainties include, but are not limited to our ability to successfully implement our strategies, future levels of non-performing advances, our growth and expansion, the adequacy of our allowance for credit losses, our provisioning policies, technological changes, investment income, cash flow projections, our exposure to market risks or other risks.

### For Fincare Small Finance Bank Limited

Sd/-

**Mr. Pramod Kabra**

Chairman and Non-Executive Director  
DIN:02252403

Sd/-

**Mr. Rajeev Yadav**

Managing Director and Chief Executive Officer  
DIN:00111379

**Date:** July 7th,2020

**Place:** Bangalore

## Pillar III Disclosure

### DF-1- Scope of Application

The framework of disclosures applies to Fincare Small Finance Bank Limited (hereinafter referred to as the Bank) which started Banking Operations on 21<sup>st</sup> July, 2017. Disclosure are made as a standalone entity since the Bank does not have any subsidiary.

#### a) Capital Structure

As per Reserve Bank of India (RBI) capital adequacy norms, capital funds are classified into Tier-1 and Tier-2 capital. Tier-1 capital of the Bank consists of paid-up share capital, share premium, statutory reserves, revenue and other free reserves. Tier-2 capital consists of sub-debts, general provisions and standard assets provisions. First loss credit enhancement in the form of cash collaterals and book debt collaterals reduced from Tier I and II capital as per RBI norms.

#### b) Equity Capital

As on 31<sup>st</sup> March, 2020, the Bank has authorized share capital of ₹10,000 Lakh, comprising of 10,00,00,000 equity shares of ₹10 each and has subscribed and paid up capital of ₹6,361 Lakh comprising of fully paid up 6,36,10,481 shares of ₹10 each.

#### c) Capital Funds:

The capital fund position for the year ended 31<sup>st</sup> March 2020 and 31<sup>st</sup> March 2019 are:

Particulars (₹ Lakh)	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Tier I Capital	84,858	62,201
Tier II Capital	21,033	6,238
Total Capital Fund (Tier I + Tier II)	1,05,891	68,439

### DF-2- Capital Adequacy

Fincare Small Finance Bank Limited (hereinafter to be referred as the Bank) is subject to RBI Master Circular on Basel III Capital Regulations issued on 1<sup>st</sup> July, 2015 and amendments thereto issued from time to time by RBI.

The revised framework consists of three mutually reinforcing Pillars viz.

- Minimum Capital Requirement.
- Supervisory review of Capital Adequacy.
- Market Discipline.

The Bank has adopted standardized approach for Credit Risk for computation of Capital Adequacy Ratio (CAR). As per RBI guidelines on SFB, currently the Bank is not considering capital charge for Market Risk and Operational Risk.

#### Minimum Capital requirement

As per the operating guidelines for Small Finance Bank, the Bank is required to maintain minimum Capital Adequacy Ratio of 15% with minimum Tier 1 at 7.5%. As on 31<sup>st</sup> March, 2020, the Bank has a healthy Capital Adequacy Ratio

## Pillar III Disclosure

of 29.28% which is well above the minimum capital adequacy requirement. The Tier 1 Capital Adequacy Ratio is 23.46% which is above the requirement of 7.5%.

### Assessment of adequacy of Capital to support current and future activities

The Bank has a policy on Internal Capital Adequacy Assessment Process (ICAAP) which is approved by the Board of Directors. Under ICAAP, the Bank determines whether it has adequate level of capital to meet regulatory norms, current and future business needs, including stress scenarios. The Bank's ICAAP evaluates and documents all risks and substantiates appropriate capital allocation for Pillar I and Pillar 2 risks.

ICAAP enables the Bank to evaluate the adequacy of capital to take care of the future business growth and various other risks that the Bank is exposed to, so that the minimum capital required is maintained on a continuous basis. The Bank considers both quantifiable and non-quantifiable risks while assessing capital requirements. The Bank evaluates the following risks while assessing its capital requirements:

- Credit Risk
- Credit Concentration Risk
- Compliance Risk
- Residual Risk of Securitisation
- Interest Rate Risk in banking Book
- Business Risk
- Reputation Risk
- Liquidity Risk
- Strategic Risk
- Loss of Key Personnel

### Monitoring and Reporting

The Board of Directors of the Bank maintains an active oversight over the Bank's capital adequacy levels periodically. On a quarterly basis, an analysis of the capital adequacy position, the risk weighted assets and an assessment of the various aspects of capital monitoring as stipulated by RBI, are reported to the Board.

### Common Equity Tier I , Tier I and Total Capital Ratio

Particulars	As at 31 <sup>st</sup> March 2020	As at 31 <sup>st</sup> March 2019
Common Equity Tier 1 Capital Ratio	23.46%	21.48%
Tier I capital ratio	23.46%	21.48%
Tier II capital ratio	5.82%	2.15%
Total Capital Ratio (CRAR)	29.28%	23.63%

### DF-3: Credit Risk: General Disclosures for All Banks

#### Qualitative Disclosures

Credit Risk Management at a holistic level encapsulates the Bank's approach to approving and managing credits and aims at making the systems and controls effective. The Board of directors is overall responsible for Risk management within the Bank, including credit risk. The Risk Management Committee of the Board (RMCB) oversees the functioning of Credit Risk Management Department (CRMD) which drives identification, measurement, monitoring and reporting of Credit Risk within the Bank. CRMD is an independent Department headed by Chief Risk Officer (CRO). The CRO reports to the RMCB and administratively to MD & CEO.

The Board approved Credit Risk Policy of the Bank provides a framework for managing credit risks so as to promote quality assets, profitable relationships and prudent growth by leveraging on our Bank's strong franchise and traditional client base in key geographies.



## Pillar III Disclosure

Independent Business and Credit functions are first line of defence and responsible for day-to-day management of credit risk. The respective units formulate various internal controls to ensure adherence to various risk management policies, procedures and guidelines.

The CRMD estimates and recommends overall credit risk appetite of the Bank, which is reviewed and approved by the Board. The department defines the risk assessment systems, monitor quality of loan portfolio, develop MIS and undertake loan review. The Risk MIS to top management provides adequate information on the composition of the credit portfolio, including identification of any concentration of risk. The Department monitors compliance of the risk parameters and prudential limits set by the Risk Management Committee of the Board.

### Credit Risk Measurement, Mitigation, Monitoring & Reporting Systems

- **Credit Origination, underwriting**

**Retail:** The retail portfolio consists of JLG Microfinance Loans, Loan against Gold, Two-wheeler loans, Affordable Housing Loans and Loan against property. The JLG Microfinance Loans has standard underwriting norms for serving the base of the pyramid segment of customers. Other products such as Loan against Gold, Two-wheeler, Affordable Housing Loans and Loan against property have dedicated credit teams performing systematic credit assessment and valuation of collateral. The underwriting norms for each product are well defined in relevant policies and embedded in credit procedures.

**Wholesale Segment:** There is a separate vertical handling wholesale Corporate Loans. Detailed Board approved Underwriting standards exist for this segment. A centralised credit team, which is independent of business team, performs the assessment and provides recommendations. The sanction is done by independent credit committee.

**Treasury Counterparties:** Limits to counterparties for money market products are assessed by Treasury Mid-office team and approved as per norms.

Exposures beyond certain threshold will be reviewed and approved by the Credit Committee as per delegation of powers defined for each product.

- **Delegation of Powers**

Board approved delegation of powers exist for various products and it covers various exceptions and deviations approval as well. The credit sanctions are subject to review by the next higher authority to ensure proper matrix oversight and review. The credit underwriting in wholesale segment is subject to approval of Credit Committee and has a separate delegation matrix approved by the Board.

- **Post Sanction Review and Monitoring**

Given that the health of the Bank's asset book is the aggregate of the performance of individual credits, monitoring of individual credits through follow up and management of entity level risks on an on-going basis through periodic reviews, assessing early warning signals, ensuring end use of funds, security monitoring, LTV tracking, tracking of all exceptions, deviations, etc. contribute to maintaining credit portfolio health. In addition, monitoring of macro-economic factors and market conditions are also done.

Risk based Field monitoring framework has been put in place to monitor the JLG portfolio. Additionally, detailed Credit Risk dashboard is published monthly which cover critical aspects such as product-wise asset quality and



## Pillar III Disclosure

delinquencies in various buckets: 1+ days, 30+ days, 60+ days, NPA and write off. Static pool analysis is done to identify delinquency trends and same is studied for various products and geographies to enable timely action. The Loan to Value (LTV) and collateral values are also closely monitored and initiated necessary action like margin calls. Early warning exercise is also carried out periodically for proactive management of such accounts.

For wholesale customers, detailed tracking of company performance, any external credit rating migration, reporting of delinquencies by other banks via Central Repository of Information on Large Credits (CRILC) reporting, etc. are done by credit risk department to ensure timely detection of developments.

- **Recovery & Write off Guidelines**

The Bank has collection and recovery guidelines and the objective is to ensure efficient collection and recovery practices in a cost effective and ethical manner. The teams focus on soft collection efforts in early delinquency buckets while effectively identifying and managing serious delinquency behaviour. The Bank has well defined legal processes including initiating action under SARFEASI Act.

- **Periodic Reviews**

Independent Internal audit team which conducts annual audits and thematic audits.

- **Definition and Classification of Non-Performing Assets (NPAs)**

The Bank is guided by RBI prescribed Income recognition & Asset classification (IRAC) guidelines.

Advances are classified into performing and non-performing advances ('NPA') based on the RBI guidelines. Further, NPAs are classified into sub-standard, doubtful and loss assets based on NPA classification and provisioning policy of the Bank, subject to the minimum classification and provisioning level prescribed by the RBI under the Income Recognition and Asset Classification norms.

'Overdue' refers to interest and / or instalment remaining unpaid from the day it became receivable.

The above classification is based on Management's estimates which are more prudent and conservative than the classification and provision norms as per RBI's Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances, issued on 1<sup>st</sup> July, 2015 and other applicable circulars further issued by RBI.

In order to ensure the financial health of borrowers (individuals and business owners) during the Covid-19 pandemic crisis, RBI has permitted all Financial Institutions to allow loan moratorium for a period of 6 months from March 2020 to August 2020.

In respect of accounts classified as standard as on 29<sup>th</sup> February, 2020, even if overdue, the moratorium period, wherever granted in respect of term loans, shall be excluded by the Bank from the number of days past-due for the purpose of asset classification under the IRAC norms. The asset classification for such accounts shall be determined on the basis of revised due dates and the revised repayment schedule. Similarly, in respect of working capital facilities sanctioned in the form of cash credit/overdraft ("CC/OD"), where the account is classified as standard, including SMA, as on 29<sup>th</sup> February, 2020, the deferment period, wherever granted shall be excluded for the determination of out of order status.

Annual Report  
2019-20

## Pillar III Disclosure

### Quantitative Disclosures

#### Fund based and Non-Fund based Exposure as on 31<sup>st</sup> March, 2020

Exposure	Credit Exposure (₹ Lakh)
Gross Advances*	4,84,055
Investments *	1,00,696
All other assets	1,29,374
<b>Total Fund based Exposure</b>	<b>7,14,125</b>
<b>Non-Fund based Exposure#</b>	<b>6,973</b>
<b>Total Fund based and Non-Fund based Exposures</b>	<b>7,21,098</b>

\*Gross Advances is net of IBPC and includes NPA Provisions. Investments are taken at Book value.

#Non-fund based exposure represents the securitized portfolio and guarantee provided for such transactions

#### Geographic Distribution of Exposures as on 31<sup>st</sup> March, 2020

Exposures (₹ Lakh)	Domestic	Overseas	Total
Fund based Exposure	7,14,125	Nil	7,14,125
Non-Fund based Exposure	6,973	Nil	6,973
Total Fund and Non-Fund based Exposures	7,21,098	Nil	7,21,098

### Residual Contractual Maturity Breakup of Assets

#### Break up as on 31<sup>st</sup> March, 2020 (₹ Lakh)

Time Buckets	Advances	Investments
Day 1	-	27,819
2 to 7 days	179	1,462
8 to 14 days	117	927
15 to 30 Days	1,363	2,926
31 days to 2 months	1,725	2,146
2 months to 3 months	23,869	1,618
over 3 months & Up to 6 Month	81,078	12,750
Over 6 Month & Up to 1 Year	1,46,184	10,172
Over 1 year & Up to 3 years	1,93,080	37,867
Over 3 years & Up to 5 years	19,372	1,515
Over 5 years	14,591	1,494
<b>Total</b>	<b>4,81,558</b>	<b>1,00,696</b>

## Pillar III Disclosure

### \*Total Net Advances / NPA Ratios / NPA Movement

Particulars	As at 31 <sup>st</sup> March, 2020 (₹ Lakh)
<b>(i) Gross NPAs to Net Advances (%)</b>	<b>0.92%</b>
<b>(ii) Net NPAs to Net Advances (%)</b>	<b>0.41%</b>
<b>(iii) Movement of NPAs (Gross)</b>	
(a) Opening balance	3,589
(b) Additions during the year	7,433
(c) Reductions during the year	6,550
(d) Closing balance	4,472
<b>(iv) Movement of Net NPAs</b>	
(a) Opening balance	950
(b) Additions during the year	4,538
(c) Reductions during the year	3,513
(d) Closing balance	1,975
<b>(v) Movement of provisions for NPAs (excluding provision on standard assets)</b>	
(a) Opening balance	2,640
(b) Provision made during the year	4,846
(c) Write off/ write back of excess provision	4,989
(d) Closing balance	2,497

### Write Off & Recoveries

Particulars	As at 31 <sup>st</sup> March, 2020 (₹ Lakh)
<b>Gross NPA's as on 1<sup>st</sup> April 2019 (Opening Balance)</b>	<b>3,589</b>
Additions (Fresh NPAs) during the year	7,433
<b>Sub-total (A)</b>	<b>11,022</b>
(i) Upgradations	1,593
(ii) Recoveries (excluding recoveries made from upgraded accounts)	413
(iii) Technical / Prudential Write offs	4,544
(iv) Write offs other than those under (iii) above	-
<b>Sub-total (B)</b>	<b>6,550</b>

## Pillar III Disclosure

Particulars	As at 31 <sup>st</sup> March, 2020 (₹ Lakh)
Gross NPAs as on 31 <sup>st</sup> March, 2020 (closing balance) (A-B)	4,472
Opening balance of Technical / Prudential written off accounts as at 1 <sup>st</sup> April, 2019	13,433
Add: Technical / Prudential write offs during the year	4,544
<b>Sub-total (A)</b>	<b>17,977</b>
Less: Recoveries made from previously technical / prudential written off accounts during the year (B)	163
<b>Closing balance as at 31<sup>st</sup> March, 2020 (A-B)</b>	<b>17,814</b>

Note: Non-performing assets include only non-performing advances as on 31<sup>st</sup> March, 2020.

### DF-4: Credit Risk: Disclosures for Portfolios Subject to the Standardized Approach

#### Quantitative Disclosures

Bank's exposure after risk mitigation subject to the standardized approach in the following four major risk buckets as well as those that are deducted:

Particulars	As at 31 <sup>st</sup> March, 2020 (₹ Lakh)
- At 0% risk weight	2,31,856
- Below 100% risk weight	4,24,124
- 100% risk weight	54,652
- More than 100% risk weight	1,300
- Deducted (Intangible Assets, Deferred tax assets and first loss credit enhancement in the form of cash collaterals and book debt collaterals)	5,258

### DF-5- Credit Risk Mitigation for Standardised Approach

#### Qualitative Disclosures:

#### Application of Credit Risk Mitigants

The Bank uses number of techniques to mitigate the credit risks, it is exposed to. Credit Risk Mitigants have the effect of reducing the net exposure for application of risk weights. Credit Risk Mitigation techniques classified as eligible for reduction in the net exposure include:

- i. Eligible financial collateral
- ii. Guarantees
- iii. On-balance sheet netting
- iv. Application of Risk Weights

## Pillar III Disclosure

The Bank adheres to the RBI guidelines defined under the RBI Circular viz., Basel III Capital Regulation dated 1<sup>st</sup> July, 2015 for application of risk weights for credit risk measurement and capital computation purposes.

Market risk element in collateral: Gold is a commodity and is subject to price fluctuations. The Bank has a system of calculating daily mark-to-market and necessary actions are initiated such as margin calls are made in case of shortfall. Thus, minimum LTV thresholds are ensured.

Guarantors and credit worthiness: The Bank has not taken any benefit of guarantors while computing capital charge.

### Quantitative Disclosures:

Credit Risk Portfolio covered by the eligible financial collateral after the application of haircut

Particulars	As at 31 <sup>st</sup> March, 2020 (₹ Lakh)
Loan Against Gold	18,382
Overdraft against Fixed Deposit	1,544

### DF-6- Securitisation Exposures: Disclosure for Standardised Approach

#### Qualitative Disclosures:

The Bank's primary objective of securitisation activities is to increase the efficiency of capital and enhance the return on capital employed by diversifying sources of funding.

The Bank has adopted Securitisation Policy which is in alignment with the revised guidelines on securitisation dated 7<sup>th</sup> May, 2012, 21<sup>st</sup> August, 2012 and 24<sup>th</sup> March, 2014 and any further circulars and guidelines issued by the Reserve Bank of India on Securitisation.

The said guidelines define the Assets eligible for securitisation, Minimum Holding Period (MHP), Minimum Retention Requirement (MRR), Limit on Total Retained Exposures, booking of profit for the PAR and Premium securitisation transactions, Deduction of Securitisation Exposures from Capital funds, True Sale and Disclosures by the Originating Banks.

The Bank undertakes securitisation transactions mainly as an originator and undertake the transaction with the following scope as:

1. Structurer: Structuring appropriately in a form and manner suitably tailored to meet investor requirements, while being compliant with extant regulations.
2. Provider of credit enhancement facilities: Addressing delinquencies associated with the underlying assets, i.e. bridging the gaps arising out of credit considerations between cash flows received/collected from the underlying assets and the fulfilment of repayment obligations to the beneficiaries.
3. Provider of collection and processing services: Collecting and/or managing receivables from underlying obligations, contribution from the investors to securitisation transactions, making payments to counterparties/

## Pillar III Disclosure

appropriate beneficiaries, reporting the collection efficiency and other performance parameters and providing other services relating to collections and payments as may be required for the purpose of the transactions

4. Provider of Cash Collateral and Book Debts/Guarantees to the extent to be agreed to between the contracting parties.

### Accounting Policy on transfer and servicing of Assets

The accounting treatment of the securitisation transactions in the books of the Bank is as per the guidance note issued by the ICAI and as prescribed by the RBI guidelines.

The Bank transfers loans through securitisation transactions. The transferred loans are de-recognised when the Bank surrenders the right of benefits specified in the underlying securitised loan contracts.

Cash profit arising at the time of securitisation/assignment of loan portfolio (Premium loan transfer transactions) is amortised over the life of the underlying loan portfolio and the unamortised amount is disclosed as Deferred Income within 'Other liabilities' on the balance sheet.

Contractual rights to receive a portion of interest ('Unrealised profits') arising at the time of securitisation/assignment of loan portfolio (PAR transactions) is recorded at its present value and disclosed as 'Interest strip on securitisation/ assignment of loan portfolio' within 'Other assets' on the balance sheet. The unrealised profits in respect of securitised/ assigned loan portfolio that is not due for collection is recorded at its present value and disclosed as 'Interest strip on securitisation/ assignment of loan portfolio' within 'Other liabilities' on the balance sheet. Income from interest strip (excess interest spread) is recognised in the statement of profit and loss, net of any losses, when redeemed in cash.

### Quantitative Disclosures:

Particulars	As at 31 <sup>st</sup> March, 2020 (₹ Lakh)
a) No of SPVs sponsored by the bank for securitisation transactions (Nos.)	11
b) Total amount of securitised assets as per books of the SPVs sponsored by the bank	6,668
c) Securitised Losses booked during the year	-
d) Amount of assets intended to be securitised within a year	-
e) Of (d), amount of assets originated within a year before securitisation.	-
f) Total amount of exposures retained by the bank to comply with MRR as on the date of balance sheet	-
i) Off-balance sheet exposures	-
First loss	305
Others	-
ii) On-balance sheet exposures	-
First loss	1,054
Others	-

## Pillar III Disclosure

Particulars	As at 31 <sup>st</sup> March, 2020 (₹ Lakh)
Amount of exposures to securitisation transactions other than MRR	
a) Off-balance sheet exposures	-
(i) Exposures to own securitisation	
First loss	-
Others	-
(ii) Exposures to third party securitisation	
First loss	-
Others	-
b) On-balance sheet exposures	
(i) Exposures to own securitisation	
First loss	-
Others	477
(ii) Exposures to third party securitisation	
First loss	-
Others	-
g) Aggregate amount of securitisation exposures that are deducted entirely from Tier 1 capital	484

### DF-7- Market Risk in Trading Book

#### Qualitative Disclosures:

Market Risk in Trading Book ('Held for Trading' and 'Available for Sale' categories) covers potential impact due to interest rate risks and equity price risk. At present, the Bank does not deal in foreign exchange and hence exchange risk is not applicable.

The investment activities are governed mainly by Investment Policy, Market Risk Policy and ALM Policy. These policies define the overall risk appetite, various risk and loss limits such as stop loss, Mduration thresholds, PV01 thresholds, Product limits, Credit rating hurdle rates for Non-SLR investments.

These parameters are monitored by Treasury Mid-Office and reported to ALCO, RMCB and Board at prescribed intervals. The Investment Committee oversees the trading and investment activities of the Bank.

#### Quantitative Disclosures:

Since Small Finance Banks need not provide capital charge towards market risk, no separate capital charge has been provided as on 31<sup>st</sup> March 2020. The same has been qualitatively assessed under Pillar 2 in ICAAP exercise.

## Pillar III Disclosure

### DF-8- Operational Risk

The Operational Risk Management covers all risks other than credit and market risk. It includes risks arising from people, process, products and external environment. The Bank is governed by Board approved Operational Risk Management Policy.

Information security and Cyber security aspects are also covered therein, however considering their vast coverage, relevant aspects are covered by separate policies and monitored by dedicated Information Security Committee.

The Operational Risk Management function is managed by Operational Risk Management Group (ORMG). ORMG reports to Chief Risk Officer. Operational Risk Management Committee is headed by CRO and meets once in two months. ORMC reports into Risk Management Committee of the Board (RMCB).

**Risk Identification:** ORMG uses Risk and Control Self-Assessment (RCSA) tool and incident management activity to systematically identify various risks that the Bank is exposed to.

**Risk Measurement & Monitoring:** Given the Bank has large retail portfolio, dedicated field monitoring team monitors JLG activities. ORMG also conducts periodic key control testing to assess the effectiveness of various controls.

Small Finance Banks are currently exempt from providing capital charge towards Operational risk. Therefore, operational risk has been qualitatively assessed

### DF-9- Interest Rate Risk in the Banking Book (IRRBB)

#### Qualitative Disclosures:

Interest rate risk refers to the potential impact on earnings and market value of equity due to changes in interest rates. The earning of assets and the cost of liabilities are now closely related to market interest rate volatility as interest rates are de-regularized. Any mismatch in the cash flows or re-pricing dates, therefore, will have an impact on net interest income and net interest margin.

IRRBB refers to interest rate risk pertaining to entire balance sheet other than trading book. Board of Directors are responsible for overall management of IRRBB. It has delegated it to RMCB which in turn oversees the functioning of Asset Liability Management Committee (ALCO). ALCO is a management level committee chaired by MD & CEO and is a decision-making unit responsible for balance sheet planning from risk-return perspective including strategic management of interest rate and liquidity risks.

Management of interest rate risk is governed by Board approved ALM Policy, Investment Policy and Market Risk Policy. The framework covers measurement, monitoring and management of IRRBB. The measures include gap analysis – Traditional & Duration Gap analysis. Board approved thresholds are defined for various gaps and monitored by ALCO. Stress testing is also performed semi-annually covering scenarios such as parallel and non-parallel shifts in yield curve to assess the likely impact of interest rate changes on banking book.

IRRBB was also assessed under Pillar 2 assessment under ICAAP. Since the changes in MVE for prescribed shock levels were well within defined norms, no capital allocation was made towards the same.



## Pillar III Disclosure

### Quantitative Disclosures:

#### Changes in EaR and MVE for 100 bps parallel shift in yield curve as on 31<sup>st</sup> March, 2020

(₹ Lakh)	+ 100 bps parallel shift	-100 bps parallel shift
Market value of Equity-MVE	63	(63)
Earnings at Risk- EaR	1075	(1075)

#### DF-10- General Disclosure for Exposures Related to Counterparty Credit Risk

Disclosures: The Bank does not have any exposures to derivatives and hence no specific disclosure is provided.

#### DF-16- Equities – Disclosure for Banking Book Positions

##### Qualitative Disclosures

- Bank has Board approved policy on investments in equity.
- Bank is permitted to hold such investments in Held for trading and Available for sale categories.
- Any investment in equities will be approved by Investment committee and will be in line with prudential Guidelines relating to capital market exposures.
- The equity holdings will be valued as per guidelines outlined in the accounting policy of the Bank and regulatory guidelines.

##### Quantitative Disclosures

The Bank has nil exposure to equities during the year ended 31<sup>st</sup> March, 2020.

#### DF – 17 - Summary Comparison of Accounting Assets and Leverage Ratio Exposure measure

Sl No	Particulars	As at 31 <sup>st</sup> March, 2020 (₹ Lakh)
1	Total consolidated assets as per published financial statements	7,11,627
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	305
7	Other adjustments	-7,152
8	Leverage ratio exposure	7,04,780

## Pillar III Disclosure

### DF – 18 Leverage Ratio

Sl No	Particulars	As at 31 <sup>st</sup> March, 2020 (₹ lakhs)
1	On-balance sheet items (excluding derivatives and SFTs but including collateral)	7,09,250
2	Balance sheet assets deducted from Tier 1 capital and not reckoned for exposure measure above	4,775
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1) and 2))	7,04,475
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	-
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	<b>Total securities financing transaction exposures (sum of lines 12 to 15)</b>	-
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amount	305
18	(Adjustments for conversion to credit equivalent amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	305
<b>Capital and total exposures</b>		
20	<b>Tier 1 capital</b>	<b>84,858</b>
21	<b>Total exposures (sum of lines 3, 11, 16 and 19)</b>	<b>7,04,780</b>
<b>Leverage ratio</b>		
22	<b>Basel III leverage ratio (%)</b>	<b>12.04%</b>

145

# financial statements

# Independent Auditor's Report

## To the Members of Fincare Small Finance Bank Limited

### Report on the Audit of the Financial Statements

#### Opinion

1. We have audited the accompanying financial statements of Fincare Small Finance Bank Limited ('the Bank'), which comprise the Balance Sheet as at 31<sup>st</sup> March, 2020, the Profit and Loss Account and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.
2. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 2013 ('Act') and circulars and guidelines issued by the Reserve Bank of India, in the manner so required for banking companies and give a true and fair view, in conformity with the accounting principles generally accepted in India including the Accounting Standards prescribed under section 133 of the Act, read with rule 7 of the Companies (Accounts) Rules, 2014 (as amended), of the state of affairs of the Bank as at 31<sup>st</sup> March, 2020, and its profit and its cash flows for the year ended on that date.

#### Basis for Opinion

3. We conducted our audit in accordance with the Standards on Auditing specified under section 143(10) of the Act. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India ('ICAI') together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained, is sufficient and appropriate to provide a basis for our opinion.

#### Emphasis of Matter

4. We draw attention to Schedule 17, Note 2.1 (ii) to the accompanying financial statements, which describes the economic and social disruption the Bank is facing as a result of COVID-19 pandemic including the moratorium period offered to borrowers as directed by the Reserve Bank of India. The full extent of impact of the events on the Bank's operations and financial metrics will depend on future developments which are uncertain at this time.

Our opinion is not modified in respect of this matter.

#### Key Audit Matters

5. Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.
6. We have determined the matters described below to be the key audit matters to be communicated in our report.

## Independent Auditor's Report

Key audit matter	How our audit addressed the key audit matter
<p><b>Information Technology system for the financial reporting process</b></p> <p>The Bank is highly dependent on its information technology (IT) systems for carrying on its operations which require large volume of transactions to be processed daily at numerous locations. Further, the Bank's accounting and financial reporting processes are dependent on the automated controls enabled by IT systems which impacts key financial accounting and reporting items such as loans, interest income, provision on loans, deposits, interest expense on deposits, investments, income on investments amongst others. The controls implemented by the Bank in its IT environment determine the integrity, accuracy, completeness and validity of data that is processed by the applications and is ultimately used for financial reporting.</p> <p>Our areas of audit focus included user access management, developer access to the production environment and changes to the IT environment across applications, networks, database and operating systems. Further, we also focused on key automated controls relevant for financial reporting.</p> <p>Accordingly, since our audit strategy included focus on key IT systems and automated controls due to pervasive impact on the financial statements; we have determined the same as a key audit matter for the current year audit.</p>	<p>We included specialized IT auditors as part of our audit team to perform audit procedures which included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Obtained an understanding of the Bank's IT related control environment and conducted risk assessment and identified IT applications, networks, databases and operating systems that are relevant to our audit. Also, obtained an understanding of the changes that were made to the identified IT applications during the audit period and tested those changes that had a significant impact on financial reporting;</li> <li>• Tested the design and operating effectiveness of the Bank's IT controls over the IT applications as identified above;</li> <li>• Tested IT general controls particularly, logical access, changes management and aspects of IT operational controls. Tested that requests for access to systems were appropriately reviewed and authorized; tested controls around Bank's periodic review of access rights; inspected requests of changes to systems for appropriate approval and authorization.</li> <li>• Tested related interfaces, configurations and other application layer controls identified during our audit and report logic for system generated reports relevant to the audit mainly for loans, interest income, provision for loan assets, deposits, interest expense on deposits, investments, interest income on investments amongst others, for evaluating completeness and accuracy;</li> <li>• Where deficiencies were identified, tested compensating controls or performed alternative procedures.</li> </ul>
<p>Provision for non-performing assets (NPAs)</p> <p>Refer note 2.4 for the accounting policy and note 18.16 for the related disclosures in the financial statements.</p> <p>As at 31<sup>st</sup> March, 2020; the Bank reported total gross advances (gross of NPA provision) of ₹4,84,055 Lakh, total gross- non-performing advances (NPAs) of ₹4,472 Lakh and a provision for NPAs of ₹2,497 Lakh. The provision coverage ratio as at 31<sup>st</sup> March, 2020 is 91.14%.</p>	<p>Our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> <li>• Assessed the design and tested the operating effectiveness of the key controls over completeness and accuracy of the loan provision computations;</li> <li>• Tested the automated controls to ensure timely identification of NPAs in line with the RBI IRAC norms;</li> </ul>

## Independent Auditor's Report

The provisioning for NPAs is made in accordance with the policy as set out in note 2.4 to the accompanying financial statements; higher than the RBI Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances ('RBI IRAC norms'). Based on our risk assessment; following significant factors are considered in the assessment for provision of NPAs:

- Completeness and timing of recognition of defaults in accordance with the criteria set out in the RBI IRAC norms;
- Measurement of provision is dependent on the ageing of overdue balances, secured/unsecured status of advances and valuation of collaterals.

During the current year, the Bank has revised its accounting estimate on loan write-offs for Joint Liability Group loan product. For the year ended 31<sup>st</sup> March, 2020; the loan write-off on account of such a change in estimate amounted to ₹1,750 Lakh.

Owing to the ongoing COVID-19 pandemic, the regulatory packages announced by the RBI on 27<sup>th</sup> March, 2020, 17<sup>th</sup> April, 2020 and 23<sup>rd</sup> May, 2020 ('Regulatory Packages') require the banks to grant moratorium on the instalments falling due during the period specified in the Regulatory Packages and accordingly exclude such moratorium period wherever extended by the banks from the number of days past due for the purpose of asset classification even if overdue. Further, the Regulatory Packages have also mentioned additional provisioning requirements on the accounts where moratorium and asset classification benefit has been granted.

Accordingly, the Bank has made a provision amounting to ₹268 Lakh as per requirement of the Regulatory Packages and an additional provision amounting to ₹8,250 Lakh owing to the probable impact of COVID-19 based on the information available as on date.

Considering the significance of the above matters to the financial statements and significant auditor attention required to test the management estimates these have been identified as key audit matters for current year audit.

- Re-performed the provision on NPAs calculation for all loan portfolios including verification of completeness of the data and compared such outcome to that prepared by the management and investigated the differences, if any;
- Recomputed the ageing of advances on a sample basis to ascertain its completeness and accuracy captured in the system generated reports;
- Tested the classification of the advances on sample basis, in accordance with the Bank's policy and compared such outcome to that prepared by the management and investigated the differences, if any;
- Verified on a sample basis that the loan write-offs during the year were in line with the approved Board policy;
- Assessed the appropriateness, adequacy and presentation of disclosures against the relevant accounting standards and the RBI requirements relating to NPAs;
- Obtained an understanding of the Board approved Moratorium policy of the Bank for its various loan products;
- Verified on a sample basis that the moratorium granted to the customers is in accordance with the Board approved policy for various products;
- Ensured that the asset classification standstill benefit has been extended to all accounts classified as standard as on 29<sup>th</sup> February, 2020, even if overdue in accordance with the Regulatory Packages announced by the RBI;
- Re-performed the calculations for additional general provisions made in accordance with the Regulatory packages announced by the RBI; and
- Obtained the management analysis for the additional provision recognised during the year owing to the potential impact of COVID-19 and verified the appropriateness of the management estimates and assumptions used therein

### Information other than the Financial Statements and Auditor's Report thereon

7. The Bank's Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report including the Pillar III Disclosure under the New Capital Adequacy Framework (Basel II disclosures), but does not include the financial statements and our auditor's report thereon.

## Independent Auditor's Report

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

8. The Bank's Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect to the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards prescribed under section 133 of the Act read with rule 7 of the Companies (Accounts) Rules, 2014 (as amended) and provisions of section 29 of the Banking Regulation Act, 1949 and circulars and guidelines issued by Reserve Bank of India ('RBI') from time to time. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.
9. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.
10. Those Board of Directors are also responsible for overseeing the Banks's financial reporting process.

### Auditor's Responsibilities for the Audit of the Financial Statements

11. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
12. As part of an audit in accordance with Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:
  - Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

## Independent Auditor's Report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for explaining our opinion on whether the Bank has adequate internal financial controls with reference to financial statements and the operating effectiveness of such controls.
  - Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
  - Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
13. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
14. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
15. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### Report on Other Legal and Regulatory Requirements

16. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of section 29 of the Banking Regulation Act, 1949 and section 133 of the Act read with rule 7 of the Companies (Rules), 2014 (as amended).
17. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
- a) we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;
  - b) the transactions of the Bank, which have come to our notice, have been within the powers of the Bank;
  - c) the financial accounting systems of the Bank are centralised, and therefore, accounting returns for the purpose of preparing the financial statements are not required to be submitted by the branches. We have however visited 25 branches during the course of our audit.
18. With respect to the matter to be included in the auditor's report under section 197(16) of the Act, we report that since the Bank is a banking company, as defined under the Banking Regulation Act, 1949; the reporting



## Independent Auditor's Report

under section 197(16) in relation to whether the remuneration paid by the Bank is in accordance with the provisions of section 197 of the Act and whether any excess remuneration has been paid in accordance with the aforesaid section is not applicable.

19. Further, as required by section 143 (3) of the Act, based on our audit, we report, to the extent applicable, that:
- a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit of the accompanying financial statements;
  - b) in our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
  - c) the financial statements dealt with by this report are in agreement with the books of account;
  - d) in our opinion, the aforesaid financial statements comply with Accounting Standards prescribed under section 133 of the Act, read with rule 7 of the Companies (Accounts) Rules, 2014 (as amended), to the extent they are not inconsistent with the accounting policies prescribed by RBI;
  - e) on the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31<sup>st</sup> March, 2020 from being appointed as a director in terms of section 164(2) of the Act;
  - f) we have also audited the internal financial controls with reference to the financial statements of the Bank as on 31<sup>st</sup> March, 2020 in conjunction with our audit of the financial statements of the Bank for the year ended on that date and our report dated 08 June 2020 as per Annexure I expressed unmodified opinion; and
  - g) with respect to the other matters to be included in the Auditor's Report in accordance with rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our information and according to the explanations given to us:
    - i. the Bank does not have any pending litigations which would impact its financial position as at 31<sup>st</sup> March, 2020;
    - ii. the Bank did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses as at 31<sup>st</sup> March, 2020;
    - iii. there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank during the year ended 31<sup>st</sup> March, 2020; and
    - iv. the disclosure requirements relating to holdings as well as dealings in specified bank notes were applicable for the period 8 November 2016 to 30 December 2016, which are not relevant to these financial statements. Hence, reporting under this clause is not applicable.

For **Walker Chandiok & Co LLP**  
Chartered Accountants  
Firm's Registration No.: 001076N/N500013

**Sd/-**  
**Manish Gujral**  
Partner  
Membership No.: 105117  
UDIN: 20105117AAAACE4642

**Place:** Mumbai  
**Date:** 08 June 2020

# Annexure I to Audit Report

**Annexure I to the Independent Auditor's Report of even date to the members of Fincare Small Finance Bank Limited on the financial statements for the year ended 31<sup>st</sup> March, 2020.**

**Independent Auditor's Report on the internal financial controls with reference to the financial statements under Clause (i) of Sub-section 3 of Section 143 of the Companies Act, 2013 ('the Act')**

1. In conjunction with our audit of the financial statements of Fincare Small Finance Bank Limited ('the Bank') as at and for the year ended 31<sup>st</sup> March, 2020, we have audited the internal financial controls with reference to financial statements of the Bank as at that date.

## **Responsibilities of Management and Those Charged with Governance for Internal Financial Controls**

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

## **Auditor's Responsibility for the Audit of the Internal Financial Controls with Reference to Financial Statements**

3. Our responsibility is to express an opinion on the Bank's internal financial controls with reference to financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the ICAI prescribed under Section 143(10) of the Act, to the extent applicable to an audit of internal financial controls with reference to financial statements, and the Guidance Note on Audit of Internal Financial Controls Over Financial Reporting ('the Guidance Note') issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls with reference to financial statements were established and maintained and if such controls operated effectively in all material respects.
4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls with reference to financial statements and their operating effectiveness. Our audit of internal financial controls with reference to financial statements includes obtaining an understanding of such internal financial controls, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls with reference to financial statements .

## **Meaning of Internal Financial Controls with Reference to Financial Statements**

6. A bank's internal financial controls with reference to financial statements is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements

## Annexure I to Audit Report

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

### **Inherent Limitations of Internal Financial Controls with Reference to Financial Statements**

7. Because of the inherent limitations of internal financial controls with reference to financial statements, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls with reference to financial statements to future periods are subject to the risk that the internal financial controls with reference to financial statements may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Opinion**

8. In our opinion, the Bank has, in all material respects, adequate internal financial controls with reference to financial statements and such controls were operating effectively as at 31<sup>st</sup> March, 2020, based on the internal financial controls with reference to financial statements criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the ICAI.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm's Registration No.: 001076N/N500013

**Sd/-**

**Manish Gujral**

Partner

Membership No.: 105117

UDIN: 20105117AAAACE4642

**Place:** Mumbai

**Date:** 08 June 2020

Annual Report  
2019-20

# Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Particulars	Schedule	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>Capital and liabilities</b>			
Capital	1	6,361	5,644
Reserves and surplus	2	84,016	60,956
Deposits	3	4,65,393	2,04,321
Borrowings	4	1,36,816	1,28,307
Other liabilities and provisions	5	19,041	17,946
<b>Total Capital and Liabilities</b>		<b>7,11,627</b>	<b>4,17,174</b>
<b>Assets</b>			
Cash and balances with Reserve Bank of India	6	1,05,853	14,191
Balances with banks and money at call and short notice	7	2,437	37,967
Investments	8	1,00,696	70,086
Advances	9	4,81,558	2,76,469
Fixed assets	10	4,036	3,307
Other assets	11	17,047	15,154
<b>Total Assets</b>		<b>7,11,627</b>	<b>4,17,174</b>
Contingent liabilities	12	1,837	11,475
Bills for collection		-	-
Significant accounting policies and notes to accounts	17 & 18		

Schedules referred above form an integral part of the Balance Sheet

**As per our report of even date**

**For Walker Chandiook and Co. LLP**  
Chartered Accountants  
Firm Registration No: 001076N/N500013

**Sd/-  
Manish Gujral**  
Partner  
Membership No.: 105117  
Mumbai  
08 June 2020

For and on behalf of the Board of Directors of  
**Fincare Small Finance Bank Limited**  
(formerly Disha Microfin Limited)

**Sd/-  
Rajeev Yadav**  
MD and CEO  
DIN: 00111379  
Bengaluru  
08 June 2020

**Sd/-  
Pramod Kabra**  
Director  
DIN: 02252403  
Mumbai  
08 June 2020

**Sd/-  
Sameer Nanavati**  
Director  
DIN: 00157693  
Ahmedabad  
08 June 2020

**Sd/-  
Keyur Doshi**  
Chief Financial Officer  
Bengaluru  
08 June 2020

**Sd/-  
Shefaly Kothari**  
Company Secretary  
M No. F7698  
Bengaluru  
08 June 2020

## Profit and Loss Account

for the year ended 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Particulars	Schedule	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
<b>I. Income</b>			
Interest earned	13	1,07,026	60,515
Other income	14	14,546	6,973
<b>Total Income</b>		<b>1,21,572</b>	<b>67,488</b>
<b>II. Expenditure</b>			
Interest expended	15	45,150	22,907
Operating expenses	16	42,613	29,581
Provision and contingencies (refer note 18.16)		19,464	4,802
<b>Total Expenditure</b>		<b>1,07,227</b>	<b>57,290</b>
<b>III. Profit/(loss)</b>			
Net profit for the year		14,345	10,198
(Loss) brought forward		(618)	(7,955)
<b>Total Profit</b>		<b>13,727</b>	<b>2,243</b>
<b>IV. Appropriation/transfers</b>			
Transfer to statutory reserves		3,587	2,550
Transfer to other reserves		433	311
Transfer to Government/proposed dividend		-	-
Balance carried over to the balance sheet for 31 <sup>st</sup> March, 2020		-	(618)
<b>Total</b>		<b>13,727</b>	<b>2,243</b>
Significant accounting policies and notes to accounts	17 & 18		
<b>Earnings per equity share of ₹10 each (refer note 18.33)</b>			
Basic and diluted (₹)		24.43	22.41
Face value per share (₹)		10	10

Schedules referred above form an integral part of the Profit and Loss Account

### As per our report of even date

**For Walker Chandiook and Co. LLP**  
Chartered Accountants  
Firm Registration No: 001076N/N500013

For and on behalf of the Board of Directors of  
**Fincare Small Finance Bank Limited**  
(formerly Disha Microfin Limited)

**Sd/-**  
**Manish Gujral**  
Partner  
Membership No.: 105117  
Mumbai  
08 June 2020

**Sd/-**  
**Rajeev Yadav**  
MD and CEO  
DIN: 00111379  
Bengaluru  
08 June 2020

**Sd/-**  
**Pramod Kabra**  
Director  
DIN: 02252403  
Mumbai  
08 June 2020

**Sd/-**  
**Sameer Nanavati**  
Director  
DIN: 00157693  
Ahmedabad  
08 June 2020

**Sd/-**  
**Keyur Doshi**  
Chief Financial Officer  
Bengaluru  
08 June 2020

**Sd/-**  
**Shefaly Kothari**  
Company Secretary  
M No. F7698  
Bengaluru  
08 June 2020

Annual Report  
2019-20

# Cash Flow Statement

for the year ended 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>A. Cash flows from/(used in) operating activities:</b>		
<b>Profit before tax</b>	<b>20,273</b>	<b>11,030</b>
<b>Adjustments for :</b>		
Depreciation and amortisation expenses	1,690	1,219
Amortisation of premium on SLR investments in HTM category	160	56
Loss on disposal of fixed assets	7	3
Share/debenture issue expenses	-	38
Goodwill written down	-	471
Loan portfolio written off	4,544	1,016
Provision on portfolio loans	9,210	2,765
Provision for other contingencies	(153)	(1,732)
Provision/depreciation - Investments	(8)	-
(Profit) on sale of investment in SLR securities	(18)	(28)
Loss on sale of investment in SLR securities	13	26
(Profit) on sale of investment in mutual funds	(106)	(131)
<b>Operating profits before working capital changes</b>	<b>35,612</b>	<b>14,733</b>
Movement in working capital:		
Increase in deposits	2,61,072	1,31,611
(Decrease)/increase in other liabilities	(7,613)	5,831
(Increase) in investments (net)	(30,757)	(42,869)
(Increase) in advances	(2,09,490)	(1,16,760)
Decrease/(increase) in fixed deposits	6,427	(12,622)
(Increase) in other assets	(847)	(4,629)
<b>Cash generated from / (used in) operating activities</b>	<b>54,404</b>	<b>(24,705)</b>
Taxes on income paid, net	(7,466)	(2,760)
<b>Net cash generated from / (used in) operating activities</b>	<b>46,938</b>	<b>(27,465)</b>
<b>B. Cash flows generated from / (used in) investing activities:</b>		
Purchase of fixed assets	(2,433)	(2,307)
Proceeds from sale of fixed assets	7	8
Purchase of investments in mutual funds	(48,000)	(1,91,951)
Proceeds from sale of investments in mutual funds	48,106	1,92,082
Proceeds from term money lending	8,999	-
<b>Net cash generated from / (used in) investing activities</b>	<b>6,679</b>	<b>(2,168)</b>

# Cash Flow Statement

for the year ended 31<sup>st</sup> March, 2020 (Cont'd)

(All amounts in ₹ Lakh except otherwise stated)

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>C. Cash flows generated from / (used in) financing activities:</b>		
Proceeds from issue of equity shares	9,432	22,647
Share/debenture issue expenses	-	(38)
Proceeds from borrowing under the LAF segment	10,300	-
Proceeds from loans availed from banks and financial institutions	42,500	65,000
Repayment of loans availed from banks and financial institutions	(50,041)	(42,591)
Proceeds from issue of non-convertible debentures	10,000	-
Redemption of non-convertible debentures	(4,250)	(1,000)
<b>Net cash generated from / (used in) financing activities</b>	<b>17,941</b>	<b>44,018</b>
<b>Net increase in cash and cash equivalents during the year (A+B+C)</b>	<b>71,558</b>	<b>14,385</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>35,968</b>	<b>21,583</b>
<b>Cash and cash equivalents at the end of the year<sup>1</sup></b>	<b>1,07,526</b>	<b>35,968</b>

<sup>1</sup>Includes cash and bank balances with Reserve Bank of India [refer Schedule 6], balances with Banks in current account and money at call and short notice [refer Schedule 7(i)(a) and 7(ii)(b)] as on 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

## Components of cash and cash equivalents

Cash and balances with Reserve Bank of India	1,05,853	14,191
Balances with banks and money at call and short notice	1,673	21,777
	<b>1,07,526</b>	<b>35,968</b>

## As per our report of even date

**For Walker Chandniok and Co. LLP**  
Chartered Accountants  
Firm Registration No: 001076N/N500013

**Sd/-**  
**Manish Gujral**  
Partner  
Membership No.: 105117  
Mumbai  
08 June 2020

For and on behalf of the Board of Directors of  
**Fincare Small Finance Bank Limited**  
(formerly Disha Microfin Limited)

**Sd/-**  
**Rajeev Yadav**  
MD and CEO  
DIN: 00111379  
Bengaluru  
08 June 2020

**Sd/-**  
**Pramod Kabra**  
Director  
DIN: 02252403  
Mumbai  
08 June 2020

**Sd/-**  
**Sameer Nanavati**  
Director  
DIN: 00157693  
Ahmedabad  
08 June 2020

**Sd/-**  
**Keyur Doshi**  
Chief Financial Officer  
Bengaluru  
08 June 2020

**Sd/-**  
**Shefaly Kothari**  
Company Secretary  
M No. F7698  
Bengaluru  
08 June 2020

Annual Report  
2019-20

# Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Schedule 1 - Capital	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>Authorised capital</b>		
10,00,00,000 (31 <sup>st</sup> March, 2019: 10,00,00,000 ) equity shares of ₹10 each	10,000	10,000
<b>Issued, subscribed and fully paid-up capital</b>		
6,36,10,481 (31 <sup>st</sup> March, 2019: 5,64,35,981) equity shares of ₹10 each	6,361	5,644
<b>Total Capital</b>	<b>6,361</b>	<b>5,644</b>

## Notes

### 1 Rights and preference of equity shareholders

Each holder of an equity share is entitled to one vote per share. The Bank declares and pays dividend in Indian Rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting, except interim dividend. In the event of liquidation of the Bank, the holders of equity shares will be entitled to receive the remaining assets of the Bank, after distribution of all preferential amounts, if any. The distribution will be in proportion to the number of equity shares held by the shareholders.

Schedule 2 - Reserves and surplus	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>I. Statutory reserve</b>		
(Created pursuant to Section 17(2) of Banking Regulation Act, 1949)		
Opening balance	3,000	450
Additions during the year	3,587	2,550
Deductions during the year	-	-
	<b>6,587</b>	<b>3,000</b>
<b>II. Share premium</b>		
Opening balance	58,262	37,513
Additions during the year	8,715	20,749
Deductions during the year	-	-
	<b>66,977</b>	<b>58,262</b>
<b>III. General reserves</b>		
Opening balance	1	1
Additions during the year	-	-
Deductions during the year	-	-
	<b>1</b>	<b>1</b>
<b>IV. Investment fluctuation reserve</b>		
Opening balance	311	-
Additions during the year	433	311
Deductions during the year	-	-
	<b>744</b>	<b>311</b>
<b>V. Balance in profit and loss account</b>	<b>9,707</b>	<b>(618)</b>
<b>Total Reserves and surplus</b>	<b>84,016</b>	<b>60,956</b>



## Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Schedule 3 - Deposits	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>A. I. Demand deposits</b>		
i) From banks	76	-
ii) From others	2,919	732
	<b>2,995</b>	<b>732</b>
<b>II. Savings bank deposits</b>	<b>52,511</b>	<b>21,640</b>
<b>III. Term deposits</b>		
i) From banks	1,67,023	74,376
ii) From others	2,42,864	1,07,573
	<b>4,09,887</b>	<b>1,81,949</b>
<b>Total Deposits</b>	<b>4,65,393</b>	<b>2,04,321</b>
<b>B. I. Deposits of branches in India</b>	4,65,393	2,04,321
<b>II. Deposits of branches outside India</b>	-	-
<b>Total Deposits</b>	<b>4,65,393</b>	<b>2,04,321</b>

Schedule 4 - Borrowings	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>I. Borrowings in India</b>		
i) Reserve Bank of India	10,300	-
ii) Other banks <sup>1</sup>	3,000	12,318
iii) Other institutions and agencies	-	-
a) Government of India	-	-
b) Financial Institutions <sup>1</sup>	1,03,516	1,01,739
iv) Borrowings in the form of bonds and debentures <sup>1</sup> (excluding sub-ordinated debts)	-	4,250
v) Unsecured redeemable debentures/bonds (sub-ordinated debt included in Tier 2 capital)	20,000	10,000
<b>Total Borrowings in India</b>	<b>1,36,816</b>	<b>1,28,307</b>
<b>II. Borrowings outside India</b>	-	-
<b>Total Borrowings</b>	<b>1,36,816</b>	<b>1,28,307</b>

<sup>1</sup>Secured borrowings included in I above is ₹724 Lakh (31<sup>st</sup> March, 2019: ₹5,836 Lakh)

Schedule 5 - Other liabilities and provisions	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
I. Bills payable	-	-
II. Inter-office adjustments (net)	-	-
III. Interests accrued	582	1,385
IV. General provision for standard assets (Refer schedule 18.4 E)	10,610	1,257
V. Others (including provisions) <sup>1</sup>	7,849	15,304
<b>Total Other liabilities and provisions</b>	<b>19,041</b>	<b>17,946</b>

## Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

### Schedule 5 - Other liabilities and provisions (Cont'd)

(All amounts in ₹ Lakh except otherwise stated)

1 Others (including provisions)	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Interest strip on securitisation/assignment of portfolio loans	477	2,822
Payable towards securitisation/assignment of loans	34	5,304
Provision for other contingencies	301	454
Tax deducted at source payable	539	348
Statutory liability payable	325	342
Accrued expenses	1,986	1,040
Accrued employee expenses	1,467	1,067
Provision for gratuity (Refer schedule 18.15 A)	411	468
Provision for compensated absences (Refer schedule 18.15 C)	755	452
Other liabilities	1,554	3,007
	<b>7,849</b>	<b>15,304</b>

Schedule 6 - Cash and balances with Reserve Bank of India	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
I. Cash in hand (Including foreign currency notes) <sup>1</sup>	1,807	759
II. Balances with Reserve Bank of India		
i) in current account	12,246	13,432
ii) in other accounts	91,800	-
<b>Total Cash and balances with Reserve Bank of India</b>	<b>1,05,853</b>	<b>14,191</b>

<sup>1</sup>The Bank does not have any foreign currency note balances as on 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

Schedule 7 - Balances with banks and money at call and short notice	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>I. In India</b>		
i) Balances with banks		
a) In current accounts	1,673	5,280
b) In other deposit accounts <sup>1</sup>	764	16,190
ii) Money at call and short notice		
a) With banks	-	9,500
b) With other institutions	-	6,997
<b>Total</b>	<b>2,437</b>	<b>37,967</b>
<b>II. Outside India</b>		
i) In current accounts	-	-
ii) In other deposit accounts	-	-
<b>iii) Money at call and short notice</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>-</b>	<b>-</b>
<b>Total balances with Banks and money at call and short notice</b>	<b>2,437</b>	<b>37,967</b>

<sup>1</sup>Includes ₹250 Lakh (31<sup>st</sup> March, 2019: ₹476 Lakh) under lien marked towards term loans availed from banks and financial institutions and cash collateral amounting to ₹408 Lakh (31<sup>st</sup> March, 2019: ₹2,514 Lakh) placed in connection with assignment / securitisation of advances.

## Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Schedule 8 - Investments	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>I. Investment in India in</b>		
i) Government securities	1,00,696	70,086
ii) Other approved securities	-	-
iii) Shares	-	-
iv) Debentures and bonds	-	-
v) Subsidiaries and/or joint ventures	-	-
vi) Others	-	-
<b>Total investments in India<sup>1</sup></b>	<b>1,00,696</b>	<b>70,086</b>
<b>II. Investment outside India in</b>		
i) Government securities (including local authorities)	-	-
ii) Subsidiaries and/or joint ventures abroad	-	-
iii) Others	-	-
<b>Total investments outside India</b>	<b>-</b>	<b>-</b>
<b>Total investments<sup>1</sup></b>	<b>1,00,696</b>	<b>70,086</b>
<b>III. Investments</b>		
<b>A. Investments in India</b>		
Gross value of investments	1,00,704	70,086
Less: Aggregate of provision/depreciation/(appreciation)	(8)	-
<b>Net investments</b>	<b>1,00,696</b>	<b>70,086</b>
<b>B. Investments outside India</b>		
Gross value of investments	-	-
Less: Aggregate of provision/depreciation/(appreciation)	-	-
<b>Net investments</b>	<b>-</b>	<b>-</b>
<b>Total investments<sup>1</sup></b>	<b>1,00,696</b>	<b>70,086</b>

<sup>1</sup>Refer schedule 18.2 A - Investments

Annual Report  
2019-20

## Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Schedule 9 - Advances (net of provisions)	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>A.</b> i) Bill purchased and discounted	-	-
ii) Cash credits, overdrafts and loans repayable on demand <sup>1</sup>	1,661	852
iii) Term loans <sup>1</sup>	4,79,897	2,75,617
<b>Total advances</b>	<b>4,81,558</b>	<b>2,76,469</b>
<b>B.</b> i) Secured by tangible assets (including advances against book debts)	1,04,599	67,124
ii) Covered by banks/Government guarantees	-	-
iii) Unsecured	3,76,959	2,09,345
<b>Total advances</b>	<b>4,81,558</b>	<b>2,76,469</b>
<b>C. I.</b> Advances in India		
i) Priority sectors	4,03,868	2,22,251
ii) Public sector	-	-
iii) Banks	-	-
iv) Others	77,690	54,218
<b>Total advances in India</b>	<b>4,81,558</b>	<b>2,76,469</b>
<b>II.</b> Advances outside India		
i) Dues from banks	-	-
ii) Dues from others	-	-
a) Bills purchased and discounted	-	-
b) Syndicate loans	-	-
c) Others	-	-
<b>Total advances outside India</b>	<b>-</b>	<b>-</b>
<b>Total advances</b>	<b>4,81,558</b>	<b>2,76,469</b>

<sup>1</sup>net of provision for non-performing assets aggregating to ₹2,497 Lakh (31<sup>st</sup> March, 2019: ₹2,640 Lakh) and Inter-Bank Participation Certificate (IBPC) sold and outstanding as at 31<sup>st</sup> March, 2020 of ₹43,680 Lakh (31<sup>st</sup> March, 2019: ₹38,750 Lakh).

Schedule 10 - Fixed assets	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>A. Premises</b>		
<b>Gross block</b>		
Opening balance	-	-
Additions during the year	-	-
Deductions during the year	-	-
<b>Closing balance</b>	<b>-</b>	<b>-</b>
Less: Depreciation to date	-	-
<b>Net Block</b>	<b>-</b>	<b>-</b>

## Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Schedule 10 - Fixed assets (Cont'd...)	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>B. Other fixed assets (including furniture and fixtures)</b>		
<b>Gross block</b>		
Opening balance	5,584	3,296
Additions during the year	2,433	2,307
Deductions during the year	(41)	(19)
<b>Closing balance</b>	<b>7,976</b>	<b>5,584</b>
<b>C. Accumulated depreciation</b>		
Opening balance	2,277	1,066
Charge for the year	1,690	1,219
Deductions during the year	(27)	(8)
<b>Closing balance</b>	<b>3,940</b>	<b>2,277</b>
<b>Net Block<sup>1</sup></b>	<b>4,036</b>	<b>3,307</b>
<b>Total fixed assets</b>	<b>4,036</b>	<b>3,307</b>

<sup>1</sup> Including capital work-in progress and intangible assets amounting to Nil and ₹272 Lakh, respectively (31<sup>st</sup> March, 2019: ₹3 Lakh and ₹289 Lakh respectively)

Schedule 11 - Other assets	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>I. Inter-office adjustments (net)</b>	-	-
<b>II. Interest accrued</b>	9,637	4,577
III. Tax paid in advance / tax deducted at source (net)	23	476
IV. Stationery and stamps	-	-
V. Non-banking assets acquired in satisfaction of claims	-	-
VI. Others <sup>1</sup>	7,387	10,101
	<b>17,047</b>	<b>15,154</b>

<sup>1</sup> Others	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Loans given as collateral towards securitisation transactions	647	3,439
Interest strip on securitisation / assignment of loans	477	2,822
Deferred tax asset (refer schedule 18.29)	4,019	969
MAT credit entitlement	-	1,059
Security deposits	1,132	881
Goods & Services Tax input credit	321	303
Other receivables	791	628
	<b>7,387</b>	<b>10,101</b>

Annual Report  
2019-20

## Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Schedule 12 - Contingent liabilities	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
I. Claims against the bank not acknowledged as debts - taxes	-	-
II. Claims against the bank not acknowledged as debts - others <sup>2</sup>	1,837	11,475
III. Liability for partly paid investments	-	-
IV. Liability on account of outstanding forward exchange contracts	-	-
V. Guarantees given on behalf of constituents	-	-
a) In India	-	-
b) Outside India	-	-
VI. Acceptances, endorsements and other obligations	-	-
VII. Other items for which the bank is contingently liable	-	-
<b>Total contingent liabilities</b>	<b>1,837</b>	<b>11,475</b>

<sup>1</sup>The Hon'ble Supreme Court had, in its decision dated 28 February 2019, ruled that special allowance would form part of basic wages for computing the Provident Fund (PF) contribution. The management has obtained a legal opinion to ascertain whether this is applicable to the Bank basis its wage structure and believes that it will not have any material adverse effect on the financial position and results of its operations.

<sup>2</sup> Claims against the bank not acknowledged as debts-others	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
i) Cash collateral	408	2,514
ii) Unfunded guarantee	305	2,700
iii) Principal subordination	647	3,439
iv) Interest subordination	477	2,822
	<b>1,836</b>	<b>11,475</b>

Schedule 13 - Interest earned	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
I. Interest/discount on advances/bills	94,458	51,993
II. Income on investments	4,994	3,060
III. Interest on balances with Reserve Bank of India and other inter-bank funds	3,432	593
IV. Others <sup>1</sup>	4,142	4,869
<b>Total interest earned</b>	<b>1,07,026</b>	<b>60,515</b>

<sup>1</sup> Others	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
Income from securitisation/assignment of loans	3,186	4,604
Interest income on money market instruments	213	253
Interest income on fixed deposit	-	3
Interest income on Tri Party Repo lending	741	9
Others	2	-
	<b>4,142</b>	<b>4,869</b>

## Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Schedule 14 - Other income	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
I. Commission, exchange and brokerage	5,661	3,522
II. Profit on sale of investments	124	159
(Less): Loss on sale of investments	(13)	(26)
III. Profit on revaluation of investments	-	-
(Less): Loss on revaluation of investments	-	-
IV. Profit on sale of land, buildings and other assets [ March 2019 : ₹48,694]	2	0
(Less): Loss on sale of land, buildings and other assets	(9)	(3)
V. Profit on exchange/derivative transactions	-	-
(Less): Loss on exchange/derivative transactions	-	-
VI. Income earned by way of dividends from subsidiaries, companies and/or joint ventures abroad/in India	-	-
VII. Miscellaneous income <sup>1</sup>	8,781	3,321
<b>Total other income</b>	<b>14,546</b>	<b>6,973</b>

<sup>1</sup> Miscellaneous income	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
Income from sale of Priority Sector Lending Certificate	4,338	761
Recovery against loans written off	276	467
Debit card issue/maintenance charges	3,483	1,837
Others	684	256
	<b>8,781</b>	<b>3,321</b>

Schedule 15 - Interest expended	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
I. Interest on deposits	30,195	11,716
II. Interest on Reserve Bank of India/Inter-bank borrowings	4,081	3,813
III. Others	10,874	7,378
<b>Total interest expended</b>	<b>45,150</b>	<b>22,907</b>

## Schedules forming part of the Balance Sheet

as at 31<sup>st</sup> March, 2020

(All amounts in ₹ Lakh except otherwise stated)

Schedule 16 - Operating expenses		Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
I.	Payments to and provisions for employees	25,993	18,066
II.	Rent, taxes and lighting (refer schedule 18.30)	2,835	1,712
III.	Printing and stationery	906	661
IV.	Advertisement and publicity	1,029	648
V.	Depreciation on Bank's property	1,690	1,219
VI.	Directors' fees, allowances and expenses	97	77
VII.	Auditors' fees and expenses	84	53
VIII.	Law charges	24	27
IX.	Postage, telegrams, telephones, etc.	1,230	797
X.	Repairs and maintenance	698	801
XI.	Insurance	215	89
XII.	Professional fee	2,453	2,025
XIII.	Goodwill written down	-	471
XIV.	Other expenditure <sup>1</sup>	5,359	2,935
<b>Total operating expenses</b>		<b>42,613</b>	<b>29,581</b>

<sup>1</sup> Other expenditure	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
Travelling and conveyance	993	884
Communication expenses	264	138
Contribution towards CSR expenses (refer schedule 18.35)	38	1
Bank charges	137	8
Loss on securitisation	-	600
ATM recycler charges	1,217	624
Credit Bureau charges	817	87
Business correspondence commission	552	15
Miscellaneous expense	1,341	578
	<b>5,359</b>	<b>2,935</b>



## Schedule 17 – Significant accounting policy forming part of the financial statements

for the year ended 31<sup>st</sup> March, 2020

### 1 Overview

Pursuant to the resolution passed by the shareholders at the Extra-Ordinary General Meeting held on 19<sup>th</sup> May 2017 and the issue of small finance bank license by the Reserve Bank of India ("RBI") on 12<sup>th</sup> May 2017, Disha Microfin Limited ("the Company") commenced its operations as a small finance bank with effect from 21<sup>st</sup> July 2017. Accordingly, the name of the Company was changed to Fincare Small Finance Bank Limited ("the Bank"). The Bank is a Banking Company governed by the Banking Regulation Act, 1949.

The Bank has been accorded the Scheduled Bank status by Reserve Bank of India vide Notification No. DBR.NBD. (SFB-Fincare). No.8140/16/13.216/2018-19 dated 28<sup>th</sup> March, 2019 and published in the Gazette of India on 13<sup>th</sup> April 2019.

The Bank's operation includes retail and wholesale banking activities. These activities primarily include micro finance lending activities to provide financial assistance to women borrowers of economically weaker society, who are organized as joint liability groups ('JLG'), with a view of enhancement of their livelihoods in a financially viable manner, primarily in the rural areas of India. Further, the Bank is engaged in providing financial assistance to the borrowers to use the money to augment the household income through loan against property. In addition, the Bank offers other products, including institutional finance, gold loan, two wheeler loans, affordable housing loans and overdraft facility against fixed deposits or properties. The Bank operates in the states of Gujarat, Rajasthan, Madhya Pradesh, Maharashtra, Karnataka, Tamil Nadu, Andhra Pradesh, Haryana, Kerala, Telangana, Uttar Pradesh, Chattisgarh and the Union Territory of Puducherry, Chandigarh and Delhi.

### 2 Summary of significant accounting policies

#### 2.1(i) Basis of preparation of financial statements

The financial statements have been prepared in accordance with requirements prescribed under the Third Schedule of the Banking Regulation Act, 1949. The accounting and reporting policies of the Bank

used in the preparation of these financial statements conform to Generally Accepted Accounting Principles in India (Indian GAAP), the guidelines issued by Reserve Bank of India (RBI) from time to time and the Accounting Standards notified under Section 133 of the Companies Act, 2013 read together with paragraph 7 of the Companies (Accounts) Rules, 2014 to the extent applicable and practices generally prevalent in the banking industry in India. The Bank follows the historical cost convention and accrual method of accounting, except in the case of interest and other income on non-performing assets (NPAs) where it is recognised upon realisation.

#### 2.1(ii) Impact of COVID 19

- (i) The Novel Coronavirus (Covid-19) pandemic (declared as such by the World Health Organization on 11<sup>th</sup> March, 2020), has contributed to a significant decline and volatility in the economic activity, in the global and Indian markets. The Government of India announced a 40-day nation-wide lockdown to contain the spread of the virus till 03<sup>rd</sup> May 2020, which was further extended till 31<sup>st</sup> May 2020. This has significantly impacted the livelihood of individuals and various business operations, consequently impacting the Bank's regular operations including lending and collection activities due to restrictions on the movement of employees across different states to reach the borrowers.
- (ii) Pursuant to the Reserve Bank of India circular dated 27<sup>th</sup> March, 2020 and 23<sup>rd</sup> May 2020 allowing lending institutions (including banks) to offer moratorium to borrowers, the Bank has extended moratorium to its borrowers in accordance with its Board approved policy. The moratorium period wherever extended, shall be excluded from the number of days past-due for the purpose of asset classification in respect of all accounts classified as standard as on 29<sup>th</sup> February 2020.
- (iii) In management's view providing moratorium to borrowers at a mass scale based on RBI directives, by itself is not considered to result in a significant

**Schedule 17 – Significant accounting policy forming part of the financial statements**for the year ended 31<sup>st</sup> March, 2020

to continued...

increase in credit risk for such borrowers. The Bank has made a provision amounting to ₹268 Lakh as per the RBI guideline – “COVID 19 Regulatory Package–Asset Classification and Provisioning” dated 17<sup>th</sup> April 2020. Further, the Bank has made an additional provision amounting to ₹8,250 Lakh owing to the probable impact of Covid-19 based on the information available as on date. Given the unique nature and scale of the economic impact of this pandemic, and its timing being close to the year-end, the additional provision is based on various assumptions.

The full extent of impact of the pandemic on the Bank’s operations and financial metric (including impact on provision for loan portfolio) will depend on future developments including governmental and regulatory measures and the Bank’s responses thereto, which are uncertain at this time.

Further, in view of the matters mentioned in notes (i) and (ii) above, the Bank has assessed the impact of the Covid-19 pandemic on its liquidity and ability to repay its obligations as and when they are due. With the gradual relaxation of lockdown rules, as well as resumption of commercial activities by borrowers in majority of the geographies in which the Bank operates, the management is confident that collections will resume, though at a lower level than earlier. In this regard, the Bank has readiness with optimal workforce to deal with normal business operations, while continuing to comply with regulatory guidelines on businesses, social distancing etc. The Bank staff has also commenced field visits to meet its customers and expect the resumption of the JLG borrower meetings, post the lockdown period. Based on the foregoing and necessary stress tests considering various scenarios, the management believes that the Bank will be able to fulfill its obligations as and when these become due in the foreseeable future. (Refer Schedule 18.4 E)

**2.2 Use of estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets

and liabilities and the disclosure of contingent liabilities at the date of the financial statements and the results of operations during the reporting periods. Although these estimates are based upon management’s best knowledge of current events and actions, actual results could differ from those estimates. Significant estimates used by the management in the preparation of these financial statements include estimates of the economic useful lives of fixed assets, deferred tax, accrual for employee benefits and provision for standard and non-performing assets. Difference between the actual results and estimates are recognised in the period in which the results are known/materialized. Any revision to accounting estimates is recognised prospectively in the current and future periods. (Refer Schedule 18.4 E)

**2.3 Revenue recognition**

- (i) Interest income on loans is recognised in the Profit and Loss Account as it accrues by applying the rate of interest as per the agreement. Interest income on non-performing asset is recognised only when realised. Any such income recognised before the asset became non-performing and remaining unrealized as on the date of being classified as non-performing asset is reversed, as per the income recognition and asset classification norms of RBI.
- (ii) Interest on discounted instruments is recognised over the tenure of the instrument on a constant Yield to Maturity method.
- (iii) Loan processing fees is recognised on an upfront basis when it becomes due.
- (iv) The fees charged on debit card issuance is recognised on an upfront basis.
- (v) The Bank enters into transactions for the sale of Priority Sector Lending Certificates (PSLCs). In the case of sale transaction, the Bank sells the fulfillment of priority sector obligation through the RBI trading platform. There is no transfer of risks or loan assets. The fee received for the sale of PSLCs is recognised under Miscellaneous Income within

## Schedule 17 – Significant accounting policy forming part of the financial statements

for the year ended 31<sup>st</sup> March, 2020

Other income on a straight-line basis over the tenure of the certificate.

- (vi) Interest income on deposits with banks and financial institutions is recognised on a time proportion accrual basis taking into account the amount outstanding and the rate applicable.
- (vii) Dividend income is recognised when the right to receive payment is established on the balance sheet date.
- (viii) All other fees and income are accounted for as and when they become due.

### 2.4 Advances

#### Classification

Advances are classified into performing and non-performing advances ('NPA') based on the RBI guidelines and are stated net of specific provisions made towards NPAs. Further, NPAs are classified into sub-standard, doubtful and loss assets based on NPA classification and provisioning policy of the Bank, subject to the minimum classification and provisioning level prescribed by the RBI under the Income Recognition and Asset Classification ('IRAC') norms.

As per IRAC norms prescribed by RBI, a loan or an advance is classified as NPA where, the interest and/ or instalment of principle remains overdue for a period of more than 90 days in respect of a term loan or the account remains "out of order" in respect of an overdraft/cash credit (OD/CC) facility.

"Overdue" refers to interest and / or instalment remaining unpaid from the day it became receivable.

In case of micro-finance loans, rural micro enterprise loans, loan against gold, two wheeler loans, staff loans and CASA accounts with debit balances, NPAs are classified as sub-standard assets as per RBI guidelines. Further, such NPAs which become overdue for more than 180 days are classified as loss assets.

In case of secured institutional finance and secured overdraft against property, NPAs are classified as sub-

standard and doubtful assets as per RBI guidelines. However, NPAs overdue for more than 820 days are classified as loss assets.

In case of loan against property with registered mortgage and secured affordable housing loans, NPAs are classified as sub-standard and doubtful assets as per RBI guidelines. However, NPAs overdue for more than 1,185 days are classified as loss assets.

#### Provisioning

General provision for standard assets made in accordance with RBI Guidelines is included under "Other Liabilities & Provisions-Others".

Further, provision for sub-standard, doubtful and loss assets in case of loan portfolio are provided based on management's best estimates, subject to minimum provisioning level prescribed by RBI under IRAC norms.

Loan loss provisions in respect of NPAs are charged to the Profit and Loss Account and included under Provisions and Contingencies.

NPAs which have been fully provided for, are written off, based on management estimate and as per the NPA Provisioning and Write off Policy of the Bank.

Recoveries from bad debts written-off are recognized in the Profit and Loss Account and included under Miscellaneous income within Other Income.

#### Provision policy for securitised loans

Provision for losses arising in respect of securitisation/ assignment of micro finance portfolio loan is made in accordance with the provisioning policy for micro finance own portfolio and in case of other securitized portfolio loans, it is made in accordance with the provisioning policy for loan against property own portfolio, subject to maximum guarantee (including cash collaterals and unfunded guarantee) given in respect of these arrangements.

### 2.5 Inter-bank participation certificate ('IBPC')

The Bank enters into inter-bank participation with risk sharing as issuing bank and the aggregate amount of

**Schedule 17 – Significant accounting policy forming part of the financial statements**for the year ended 31<sup>st</sup> March, 2020

participation are reduced from aggregate advance outstanding.

**2.6 Investments****Classification**

In accordance with the RBI guidelines on investment classification and valuation, investments are classified on the date of purchase into "Held for Trading" ('HFT'), "Available for Sale" ('AFS') and "Held to Maturity" ('HTM') categories (hereinafter called 'categories'). Subsequent shifting amongst the categories is done in accordance with the RBI guidelines. Under each of these categories, investments are further classified under six groups (hereinafter called 'groups') –

(a) Government Securities, (b) Other Approved Securities, (c) Shares, (d) Debentures and Bonds, (e) Investments in Subsidiaries/Joint Ventures and (f) Other Investments.

Purchase and sale transactions in respect of all securities are recorded under 'Settlement Date' of accounting,

**Basis of classification**

Investments that are held principally for resale within 90 days from the date of purchase are classified under HFT category.

Investments which the Bank intends to hold till maturity are classified as HTM securities. Investments which are not classified in either of the above categories are classified under AFS category.

**Acquisition cost**

Brokerage, commission and broken period interest on debts instruments are recognised in the Profit and Loss Account and are not included in the cost of acquisition.

**Disposal of investments**

Profit/loss on sale of investments under the aforesaid three categories is recognised in the Profit and Loss Account. Cost of investments is based on the weighted average cost method. The profit from sale of investment under HTM category, net of taxes and transfer to statutory reserve, is appropriated from the Profit and

Loss Account to Capital Reserve in accordance with the RBI Guidelines.

**Valuation**

Investments classified under AFS and HFT categories are marked to market as per the RBI guidelines.

Traded investments are valued based on the trades / quotes on the recognised stock exchanges, price list of RBI or prices declared by Primary Dealers Association of India ('PDAI') jointly with Fixed Income Money Market and Derivatives Association ('FIMMDA')/Financial Benchmark India Private Limited ('FIBL'), periodically.

The market value of unquoted government securities which qualify for determining the Statutory Liquidity Ratio ('SLR'), included in the AFS and HFT categories, is computed as per the Yield-to-Maturity ('YTM') rates published by FIMMDA/FIBL.

Units of mutual funds are valued at the latest repurchase price / net asset value declared by the mutual fund.

Treasury bills, commercial papers and certificate of deposits being discounted instruments, are valued at carrying cost.

Net depreciation in the value, if any, compared to the acquisition cost, in any of the groups, is charged to the Profit and Loss Account. The net appreciation, if any, in any of the groups is not recognised except to the extent of depreciation already provided.

Investments classified under HTM category are carried at their acquisition cost and not marked to market. Any premium on acquisition is amortised over the remaining maturity period of the security on a constant yield-to-maturity basis. Such amortisation of premium is adjusted against interest income under the head Income from investments as per the RBI guidelines.

Non-performing investments are identified and depreciation / provision are made thereon based on the RBI guidelines. The depreciation / provision on such non-performing investments are not set off against the appreciation in respect of other performing

## Schedule 17 – Significant accounting policy forming part of the financial statements

for the year ended 31<sup>st</sup> March, 2020

securities. Interest on non-performing investments is not recognised in the Profit and Loss Account until received.

### 2.7 Transfer and servicing of assets

The Bank transfers loans through securitization/direct assignment transactions. The transferred loans are de-recognised when the Bank surrenders the rights to benefits specified in the underlying securitized/direct assignment loan contract.

Cash profit arising at the time of securitisation/assignment of loan portfolio (Premium loan transfer transactions) is amortised over the life of the underlying loan portfolio and the unamortised amount is disclosed as Deferred Income within 'Other liabilities' on the balance sheet.

Contractual rights to receive a portion of interest ('Unrealised profits') arising at the time of securitisation/assignment of loan portfolio (PAR transactions) is recorded at its present value and disclosed as 'Interest strip on securitisation/assignment of loan portfolio' within 'Other assets' on the balance sheet. In accordance with RBI guidelines, the unrealised profits in respect of securitised/assigned loan portfolio that is not due for collection is recorded at its present value and disclosed as 'Interest strip on securitisation/assignment of loan portfolio' within 'Other liabilities' on the balance sheet. Income from interest strip (excess interest spread) is recognised in the profit and loss account, net of any losses, when redeemed in cash.

### 2.8 Fixed assets

Fixed assets, capital work-in progress are stated at their original cost of acquisition less accumulated depreciation. Cost comprises purchase price and any attributable cost of bringing the asset to its working condition for its intended use.

Subsequent expenditure related to an item of property, plant and equipment is added to its book value only if it increases the future benefits from the existing asset beyond its previously assessed standard of performance. All other expenses on existing property,

plant and equipment, including day-to-day repair and maintenance expenditure and cost of replacing parts, are charged to the profit and loss account for the period during which such expenses are incurred.

Advances paid towards the acquisition of tangible assets outstanding at each Balance Sheet date are disclosed as capital advances under Other Assets. The cost incurred towards tangible assets, but not ready for their intended use before each Balance Sheet date is disclosed as capital work-in-progress, if any.

Gains or losses arising from de-recognition of tangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the Profit and Loss Account when the asset is derecognized.

### 2.9 Intangible assets

Intangible assets are amortized over their estimated useful lives on a straight-line basis, commencing from the date the asset is available to the Bank for its use. Intangible assets include computer software, which is acquired, capitalized and amortized on a straight-line basis over the estimated useful life.

### 2.10 Depreciation and amortization

Depreciation on tangible assets is calculated on a straight-line basis using the rates arrived at based on the useful lives estimated by the management. The Bank has used the following rates to provide depreciation on its tangible assets:

Tangible asset description	Useful life
Office equipments	5 years
Computer equipments	3 years
Furniture and fixtures	10 years
Leasehold improvements	Over the period of lease

Intangible assets are amortised, on a straight line basis, commencing from the date the asset is available for its use, over their respective individual estimated useful lives as estimated by the management:

**Schedule 17 – Significant accounting policy forming part of the financial statements**for the year ended 31<sup>st</sup> March, 2020

Intangible asset description	Useful life
Computer software	3 years

Depreciation / amortisation is charged on a proportionate basis for all assets purchased and sold during the year.

**2.11 Impairment of assets**

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) net selling price and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining net selling price, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

Impairment losses of continuing operations are recognised in the profit and loss account. After impairment, depreciation is provided on the revised carrying amount of the asset over its remaining useful life.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the bank estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment

loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years.

**2.12 Employee benefits**

Expenses and liabilities in respect of employee benefits are recorded in accordance with Accounting Standard 15 Employee Benefits.

**Provident fund**

The Bank contributes to the statutory provident fund of the Regional Provident Fund Commissioner, in accordance with the Employees' Provident Fund and Miscellaneous Provisions Act, 1952. The plan is a defined contribution plan and contribution paid or payable is recognised as an expense in the period in which services are rendered by the employee.

**Gratuity**

Gratuity is a post-employment benefit and is a defined benefit plan. The liability recognised in the Balance Sheet represents the present value of the defined benefit obligation at the Balance Sheet date less the fair value of plan assets (if any), together with adjustments for unrecognised actuarial gains or losses and past service costs. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds and reductions in future contributions to the plan. Independent actuaries using the Projected unit credit method calculate the defined benefit obligation annually.

Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the Profit and Loss Account in the year in which such gains or losses arises.

**Compensated absences**

Liability in respect of compensated absences becoming due or expected to be availed within one year from the balance sheet date is recognised on the basis of undiscounted value of estimated amount required to



## Schedule 17 – Significant accounting policy forming part of the financial statements

for the year ended 31<sup>st</sup> March, 2020

be paid or estimated value of benefit expected to be availed by the employees. Liability/Asset in respect of earned leave becoming due or expected to be availed more than one year after the balance sheet date is estimated on the basis of actuarial valuation as at the balance sheet date in a manner similar to gratuity liability.

### Other short-term benefits

Expense in respect of other short-term benefits including performance incentive is recognised on the basis of amount paid or payable for the period for which the employee render services.

### 2.13 Taxes on income

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 enacted in India.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income originating during the current year and reversal of timing differences of the earlier years. Deferred tax is measured based on the tax rates and the tax laws enacted or substantively enacted as at the reporting date.

Deferred tax liabilities are recognized for all taxable timing differences. Deferred tax assets are recognized for deductible timing differences only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realized. In situations where the Bank has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognized only if there is virtual certainty supported by convincing evidence that they can be realized against future taxable profits.

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.

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 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.

### 2.14 Foreign currency transactions

#### Initial recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and the foreign currency at the date of the transaction.

#### Conversion

Foreign currency monetary items are reported using the closing rate as at the Balance Sheet date. Non-monetary items which are carried in terms of historical cost denominated in a foreign currency are reported using the exchange rate at the date of the transaction.

#### Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting Bank's 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 as expenses in the year in which they arise.

### 2.15 Provisions and contingent liabilities

A provision is recognised when an enterprise has a

**Schedule 17 – Significant accounting policy forming part of the financial statements**for the year ended 31<sup>st</sup> March, 2020

present obligation as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation and in respect of which a reliable estimate can be made. Provisions are not discounted to their present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates.

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 recognised 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 recognised because it cannot be measured reliably. The Bank does not recognize a contingent liability but discloses its existence in the financial statements.

**2.16 Borrowing costs**

Borrowing costs that are attributable to the acquisition and/or construction of qualifying assets are capitalised as part of the cost of such assets, in accordance with Accounting Standard (AS) 16, Borrowing Costs. A qualifying asset is one that necessarily takes a substantial period of time to get ready for its intended use. All other borrowing costs are charged to the profit and loss account as incurred.

**2.17 Earnings per share**

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

For the purpose of calculating diluted earnings per

share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

**2.18 Transaction cost**

Transaction costs (including loan origination costs) are incremental costs that are directly attributable to the acquisition of share capital and financial liabilities. Transaction cost includes fees paid to advisors and levies by regulatory agencies, including taxes and duties. Transaction costs incurred towards:

- i. Issuance of share capital and debentures is expensed to the profit and loss account.
- ii. Acquisition of borrowings is expensed to the profit and loss account in the year in which they are incurred.

**2.19 Leases****Operating leases**

Leases where the lessor effectively retains substantially all the risks and benefits of ownership of the leased term, are classified as operating leases. Operating lease payments are recognised as an expense in the Profit and Loss Account on a straight-line basis over the lease term.

**2.20 Cash and cash equivalents**

Cash and cash equivalents for the purposes of cash flow statement comprises of cash in hand, balances with RBI, balances with other banks and money at call and short notice.

**2.21 Segment reporting**

The disclosure relating to segment information is in accordance with AS-17, Segment Reporting and as per guidelines issued by RBI.

Business segments have been identified and reported taking into account, the customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the guidelines prescribed by RBI. The Bank operates in the following segments:



## Schedule 17 – Significant accounting policy forming part of the financial statements

for the year ended 31<sup>st</sup> March, 2020

### a) Treasury

The treasury segment primarily consists of entire investment portfolio of the Bank.

### b) Corporate/Wholesale banking

Wholesale banking includes all advances to companies and statutory bodies, which are not included under Retail banking.

### c) Retail banking

The retail banking segment serves retail customers through the branch network. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of

product, granularity of the exposure and the quantum thereof. Revenues of the retail banking segment are primarily derived from interest and fees earned on retail loans, interest on deposits placed as collateral with banks and financial institutions. Expenses of this segment primarily comprise interest expense on borrowings, deposits, infrastructure and premises expenses for operating the branch network, personnel costs and other direct overheads.

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

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.1 - Capital

#### A. Capital to Risk Weighted Asset Ratio (CRAR)

The following table sets forth, for the year indicated, computation of capital adequacy as per RBI guidelines (under Basel II)

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
Common equity tier 1 capital ratio (%)	23.46%	21.48%
Tier 1 capital ratio (%)	23.46%	21.48%
Tier 2 capital ratio (%)	5.82%	2.15%
<b>Total Capital Ratio (CRAR) (%)</b>	<b>29.28%</b>	<b>23.63%</b>
Amount of equity capital raised (including share premium)	9,432	22,647
<b>Amount of Additional Tier 1 capital raised; of which:</b>		
Perpetual Non Cumulative Preference Shares (PNCPS)	-	-
Perpetual Debt Instruments (PDI)	-	-
<b>Amount of Tier 2 capital raised; of which:</b>		
Debt capital instruments (discounted value) <sup>1</sup>	17,000	7,500
Preference Share Capital Instruments: [Perpetual Cumulative Preference Shares (PCPS)/ Redeemable Non Cumulative Preference Shares (RNCPS)/ Redeemable Cumulative Preference Shares (RCPS)]	-	-

<sup>1</sup>Subordinated debt (considered in Tier 2 capital) outstanding as at 31<sup>st</sup> March, 2020 is ₹20,000 Lakh (31<sup>st</sup> March, 2019: ₹7,500 Lakh).

#### B. Capital infusion

During the year ended 31<sup>st</sup> March, 2020, the Bank has allotted 71,74,500 equity shares through rights issue (31<sup>st</sup> March, 2019: 1,89,76,627). Details of movement in the paid up equity share capital are as below:

	As at 31 <sup>st</sup> March, 2020		As at 31 <sup>st</sup> March, 2019	
	Equity Shares	Amount (₹)	Equity Shares	Amount (₹)
Equity shares at the beginning of the year	5,64,35,981	5,644	3,74,59,354	3,746
Addition pursuant to equity shares issued during the year	71,74,500	717	1,89,76,627	1,898
<b>Equity shares outstanding at the end of the year</b>	<b>6,36,10,481</b>	<b>6,361</b>	<b>5,64,35,981</b>	<b>5,644</b>

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.2 - Investments

The following table sets forth, for the periods indicated, the details of investments and the movement in provision held towards depreciation on investments of the Bank.

#### A. Particulars of Investments and movement in provision held towards depreciation on Investments

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>a) Value of investments:</b>		
i) Gross value of investments		
a) In India	1,00,704	70,086
b) Outside India	-	-
	<b>1,00,704</b>	<b>70,086</b>
ii) Provision for depreciation		
a) In India	(8)	-
b) Outside India	-	-
	<b>(8)</b>	<b>-</b>
iii) Net value of investments		
a) In India	1,00,696	70,086
b) Outside India	-	-
	<b>1,00,696</b>	<b>70,086</b>
<b>b) Movement of provisions held towards depreciation on investments:</b>		
i) Opening balance	-	-
ii) Add: Provision made during the year	8	-
iii) Less: Write-off /write back of excess provision during the year	-	-
<b>iv) Closing balance</b>	<b>8</b>	<b>-</b>

#### Category wise details of investments (net of provision for depreciation):

Particulars	As at 31 <sup>st</sup> March, 2020		As at 31 <sup>st</sup> March, 2019	
	HTM	AFS	HTM	AFS
i) Government securities	58,164	42,532	28,653	41,433
ii) Other approved securities	-	-	-	-
iii) Shares	-	-	-	-
iv) Debentures and bonds	-	-	-	-
v) Subsidiaries and/or joint ventures	-	-	-	-
vi) Others	-	-	-	-

Annual Report  
2019-20

## Schedule 18 – Notes to the financial statements

*(All amounts in ₹ Lakh except otherwise stated)*

### 18.2 – Investments (cont'd)

#### B. Repurchase transactions Tri - Party Repo / Reverse Repo

Particulars	Minimum outstanding during the year 2019-20	Maximum outstanding during the year 2019-20	Daily Average outstanding during the year 2019-20	Outstanding as on 31 <sup>st</sup> March, 2020
<b>Securities sold under reverse repo<sup>1</sup></b>				
i. Government securities	-	34,342	8,047	9,887
ii. Corporate debt securities	-	-	-	-
<b>Securities purchased under reverse repo<sup>1</sup></b>				
i. Government securities	-	1,15,530	61,387	85,908
ii. Corporate debt securities	-	-	-	-

Particulars	Minimum outstanding during the year 2018-19	Maximum outstanding during the year 2018-19	Daily Average outstanding during the year 2018-19	Outstanding as on 31 <sup>st</sup> March, 2019
<b>Securities sold under reverse repo<sup>1</sup></b>				
i. Government securities	1,051	1,051	1,051	-
ii. Corporate debt securities	-	-	-	-
<b>Securities purchased under reverse repo<sup>1</sup></b>				
i. Government securities	503	7,001	4,299	7,001
ii. Corporate debt securities	-	-	-	-

<sup>1</sup>Amount reported are based on the value of securities under Repo and Reverse Repo.

#### Qualitative disclosure

The Bank applied for the segment of Repo/Reverse repo post receipt of scheduled bank license from the RBI and received the approval for the said segment. The Bank has commenced the Repo and Reverse repo operation w.e.f. 1<sup>st</sup> August, 2019 after requisite collateral and default funds were in place.

The Bank applied for the segment of Tri Party Repo ('TREP's) on 30<sup>th</sup> November, 2018 and received the membership approval on 5<sup>th</sup> March, 2019. The Bank has commenced the Treps borrowing and lending w.e.f. 18<sup>th</sup> March, 2019 after requisite collateral and default funds were in place. The Bank was a participant in the segment for a total of 13 days in FY19.

The Bank has pledged the security of 7.72% Government securities 2025 as collateral for limit setting in the segment of TREPs/LAF. The securities provided/alloted to the Bank till date for reverse repo transactions are all issued by Government of India in the form of government securities, floating rate bonds and T-Bills.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.2 - Investments (cont'd)

#### C. Non-SLR investment portfolio

##### a) Issuer composition of Non-SLR investments

As at the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019; there are no outstanding Non - SLR investments.

##### b) Non-performing Non-SLR investments

During the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019; there are no non performing Non - SLR investments.

#### D. Sale and Transfer to/from HTM Category

During the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019, there was no sale and transfer to/from HTM category.

### 18.3 - Derivatives

During the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019; the Bank has not undertaken any derivative transaction and there is no outstanding position as at the year end. Hence, disclosure related to forward rate agreement / interest rate swap and exchange traded interest rate derivatives are not provided.

### 18.4 - Asset quality

#### A. Non-performing assets<sup>1</sup>

The following table sets forth, for the periods indicated, the details of movement of gross non-performing assets (NPAs), net NPAs and provisions

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>(i) Net NPAs to Net Advances (%)</b>	0.41%	0.34%
<b>(ii) Movement of NPAs (Gross)</b>		
(a) Opening balance	3,589	1,722
(b) Additions during the year	7,433	4,356
(c) Reductions during the year	6,550	2,489
<b>(d) Closing balance</b>	<b>4,472</b>	<b>3,589</b>
<b>(iii) Movement of Net NPAs</b>		
(a) Opening balance	950	1,317
(b) Additions during the year	4,538	2,499
(c) Reductions during the year	3,513	2,866
<b>(d) Closing balance</b>	<b>1,975</b>	<b>950</b>
<b>(iv) Movement of provisions for NPAs (excluding provision on standard assets)</b>		
(a) Opening balance	2,640	405
(b) Provision made during the year	4,846	4,007
(c) Write off/ write back of excess provision	4,989	1,772
<b>(d) Closing balance</b>	<b>2,497</b>	<b>2,640</b>

<sup>1</sup> Non performing assets include only non performing advances as on 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

# Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

## 18.4 - Asset quality (cont'd)

### B. Particulars of accounts restructured for the F.Y. 2019-20

Type of Restructuring	Under CDR Mechanism				Under SME Debt Restructuring Mechanism				Others				Total		
	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
<b>Restructured Accounts as on April 1 of the FY (opening figures)</b>	No. of borrowers	-	-	-	-	-	164	-	-	164	-	-	-	-	164
	Amount Outstanding	-	-	-	-	-	16	-	-	16	-	-	-	-	16
	Provision there-on	-	-	-	-	-	8	-	-	8	-	-	-	-	8
<b>Fresh restructuring during the year</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Upgradations to restructured standard category during the year</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Restructured standard advances which cease to attract higher provisioning and / or additional risk weight at the end of the year and hence need not be shown as restructured standard advances at the beginning of the next year</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Downgradations of restructured accounts during the FY</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	15	-	-	-	15
	Amount Outstanding	-	-	-	-	-	-	-	-	-	1	-	-	-	1
	Provision there-on	-	-	-	-	-	-	-	-	-	1	-	-	-	1
<b>Write-offs of restructured accounts during the FY</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	23	-	-	-	23
	Amount Outstanding	-	-	-	-	-	-	-	-	-	2	-	-	-	2
	Provision there-on	-	-	-	-	-	-	-	-	-	1	-	-	-	1
<b>Restructured Accounts as on 31<sup>st</sup> March of the FY (closing figures)</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	49	-	15	64	15
	Amount Outstanding	-	-	-	-	-	-	-	-	-	3	-	1	3	1
	Provision there-on	-	-	-	-	-	-	-	-	-	1	-	1	2	1

# Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

## 18.4 – Asset quality (cont'd)

### B. Particulars of accounts restructured for the FY. 2018-19

Type of Restructuring	Under CDR Mechanism				Under SME Debt Restructuring Mechanism				Others				Total		
	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total	Standard	Sub-Standard	Doubtful	Loss	Total
<b>Asset Classification</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Restructured Accounts as on April 1 of the FY (opening figures)</b>	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Fresh restructuring during the year</b>	No. of borrowers	-	-	-	-	-	164	-	-	164	-	164	-	-	164
	Amount Outstanding	-	-	-	-	-	16	-	-	16	-	16	-	-	16
	Provision there-on	-	-	-	-	-	8	-	-	8	-	8	-	-	8
<b>Upgradations to restructured standard category during the year</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Restructured standard advances which cease to attract higher provisioning and / or additional risk weight at the end of the year and hence need not be shown as restructured standard advances at the beginning of the next year</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Downgradations of restructured accounts during the FY</b>	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Write-offs of restructured accounts during the FY</b>	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Restructured Accounts as on 31<sup>st</sup> March of the FY (Closing figures)</b>	No. of borrowers	-	-	-	-	-	164	-	-	164	-	164	-	-	164
	Amount Outstanding	-	-	-	-	-	16	-	-	16	-	16	-	-	16
	Provision there-on	-	-	-	-	-	8	-	-	8	-	8	-	-	8

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.4 – Asset quality (cont'd)

#### C. Details of financial assets sold to securitisation / reconstruction company for asset reconstruction

The Bank has not sold any financial assets during the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019 to securitisation / reconstruction company for asset reconstruction.

#### D. Details of non-performing financial assets purchased / sold

The Bank has not purchased or sold any non performing financial assets during the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

#### E. (i) Provisions towards standard assets

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Provisions towards standard assets	10,610	1,257
	<b>10,610</b>	<b>1,257</b>

#### (ii) General provision for COVID 19 deferment cases as per the RBI COVID 19 Regulatory package

In accordance with the RBI guidelines relating to COVID-19 Regulatory Package dated 27<sup>th</sup> March, 2020 and 17<sup>th</sup> April, 2020, and clarification issued by the RBI through Indian Bankers Association, dated 6<sup>th</sup> May 2020 the Bank is granting moratorium on the payment of installments and/or interest, as applicable, falling due between 1<sup>st</sup> March, 2020 and 31<sup>st</sup> May, 2020 ('moratorium period') to eligible borrowers classified as Standard, even if overdue, as on 29<sup>th</sup> February, 2020. In accordance with the RBI guidelines, the moratorium period, wherever granted, is excluded by the Bank from the number of days past-due for the purpose of asset classification under the RBI's Income Recognition and Asset Classification norms. The Bank holds provisions as at 31<sup>st</sup> March, 2020 as per the COVID 19 Regulatory Package and the details for such accounts and provisions made by the Bank are as following:

Particulars	As at 29 <sup>th</sup> February 2020			
	SMA 0	SMA 1	SMA 2	Total
Advances outstanding in SMA/overdue categories, where the moratorium/deferment was extended as per COVID 19 Regulatory Package	3,212	1,219	928	5,359
Advances outstanding where the asset classification benefits is extended upto 31 <sup>st</sup> March, 2020	-	-	659	659
Provisions made as per para 5 of the COVID 19 Regulatory Package for the financial year ended 31 <sup>st</sup> March, 2020	161	58	49	268
Provisions adjusted during the financial year ended 31 <sup>st</sup> March, 2020	NA	NA	NA	NA
Residual provisions in terms of paragraph 6 of the COVID 19 Regulatory Package as at 31 <sup>st</sup> March, 2020	161	58	49	268

#### (iii) Higher provision for COVID 19

As at 31<sup>st</sup> March, 2020, the Bank has made a provision of ₹8,250 Lakh owing to the probable impact of COVID -19 based on the information available as on date. This additional provision made is over and above the requirement as per the RBI guideline - "COVID 19 Regulatory Package – Asset Classification and Provisioning" dated 17<sup>th</sup> April 2020 amounting to ₹268 Lakh as mentioned in note (ii) above.



## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.5 - Provisioning coverage ratio

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
The provisioning coverage ratio of the Bank computed in terms of the RBI guidelines after considering technical write off	91.14%	94.42%

### 18.6 - Business ratios

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
(i) Interest income as a percentage to working funds <sup>1</sup>	18.18%	19.74%
(ii) Non interest income as a percentage to working funds <sup>1</sup>	2.47%	2.27%
(iii) Operating profit <sup>2</sup> as a percentage to working funds <sup>1</sup>	5.74%	4.89%
(iv) Return on assets (average) <sup>3</sup>	2.44%	3.33%
(v) Business <sup>3</sup> per employee <sup>4</sup>	96	62
(vi) Profit per employee <sup>4</sup>	2	2

<sup>1</sup>For the purpose of computing the ratio, working funds represent the monthly average of total assets computed for reporting dates of Form X submitted to the RBI under Section 27 of the Banking Regulation Act, 1949.

<sup>2</sup>Operating profit is net profit for the year before provisions and contingencies.

<sup>3,4</sup> Business is monthly average of advances and deposits (net of inter bank deposits) as reported to the RBI in Form X under section 27 of the Banking Regulation Act, 1949.

<sup>5</sup>Productivity ratios are based on average employee number.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.7 - Asset liability management (ALM)

Assets and liabilities are classified in the maturity buckets as per the guidelines issued by the RBI. The following table sets forth, the maturity pattern of assets and liabilities of the Bank as at 31<sup>st</sup> March, 2020.

	Day 1	2 to 7 days	8 to 14 days	15 to 30 days	31 days to 2 months	2 months to 3 months	Over 3 month & up to 6 month	Over 6 Month & up to 1 year	Over 1 year & up to 3 years	Over 3 years & up to 5 years	Over 5 years	Total
Deposits	1,122	6,963	5,231	8,630	9,535	17,833	84,471	63,473	2,61,692	6,422	21	4,65,393
Advances <sup>2,4</sup>	-	179	117	1,363	1,725	23,869	81,078	1,46,184	1,93,080	19,372	14,591	4,81,558
Investments	27,819	1,462	927	2,926	2,146	1,618	12,750	10,172	37,867	1,515	1,494	1,00,696
Borrowings <sup>1</sup>	-	-	3,675	-	-	2,438	16,104	18,986	62,113	23,500	10,000	1,36,816
Foreign currency assets	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Foreign currency liabilities	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

The following table sets forth, the maturity pattern of assets and liabilities of the Bank as at 31<sup>st</sup> March, 2019.

	Day 1	2 to 7 days	8 to 14 days	15 to 30 days	31 days to 2 months	2 months to 3 months	Over 3 month & up to 6 month	Over 6 Month & up to 1 year	Over 1 year & up to 3 years	Over 3 years & up to 5 years	Over 5 years	Total
Deposits	1,200	2,747	2,023	3,390	4,825	8,638	17,536	53,852	1,10,020	71	19	2,04,321
Advances <sup>3,4</sup>	462	2,298	3,303	7,366	14,094	14,304	45,341	77,496	93,363	11,389	7,053	2,76,469
Investments	33,451	1,660	889	1,363	1,418	1,022	3,413	8,805	16,326	550	1,189	70,086
Borrowings <sup>1</sup>	88	-	2,675	721	1,732	3,419	14,662	22,072	48,001	27,437	7,500	1,28,307
Foreign currency assets	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Foreign currency liabilities	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA

#### Notes:

<sup>1</sup> The above borrowings exclude interest accrued and due and interest accrued but not due.

<sup>2</sup> The advances comprise of portfolio loan and does not include interest accrued and not due.

<sup>3,4</sup> The advances comprise of portfolio loan and does not include interest accrued.

Includes interest bearing loans only and excluding loans pledged as collateral.

<sup>5</sup> In view of the COVID-19 pandemic, the Reserve Bank of India announced measures to support the economy and the financial system. The measures permit banks to offer a moratorium or deferment on all term loans or working capital facilities outstanding as on 1<sup>st</sup> March, 2020. As a prudent measure, in view of the potential relief to borrowers, for ALM purposes, the contractual inflows on borrower accounts have been suitably adjusted for the moratorium given to customers by the Bank upto 31 May 2020, based on the information available upto a point in time.

<sup>6</sup> Classification of assets and liabilities under the different maturity buckets is based on the estimates and assumptions used by the Bank for compiling the structural liquidity statement submitted to the RBI. This has been relied upon by the auditor.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.8 - Segment reporting

Business segments have been identified and reported taking into account, the customer profile, the nature of products and services, the differing risks and returns, the organisation structure and the guidelines prescribed by the RBI. The Bank operates in the following segments:

#### a) Treasury

The treasury segment primarily consists of entire investment portfolio of the Bank.

#### b) Corporate/Wholesale banking

Wholesale banking includes all advances to companies and statutory bodies, which are not included under Retail banking.

#### c) Retail banking

The retail banking segment serves retail customers through the branch network. Exposures are classified under retail banking taking into account the status of the borrower (orientation criterion), the nature of product, granularity of the exposure and the quantum thereof. Revenues of the retail banking segment are primarily derived from interest and fees earned on retail loans, interest on deposits placed as collateral with banks and financial institutions. Expenses of this segment primarily comprise interest expense on borrowings, deposits, infrastructure and premises expenses for operating the branch network, personnel costs and other direct overheads.

#### d) Other banking operations

Other Banking operations include other items not attributable to any particular business segment.

#### e) Unallocated

All items which are reckoned at an enterprise level are classified under this segment. This includes other unallocable assets and liabilities.

#### Geographical segments

The business operations of the Bank are concentrated in India hence the Bank is considered to operate only in domestic segment.

Business segments	Treasury		Corporate / Wholesale Banking		Retail Banking		Other Banking Operations		Total	
	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019
Revenue	9,492	4,052	3,316	2,231	1,08,764	61,205	-	-	1,21,572	67,488
Result	3,005	(574)	1,730	1,078	25,968	20,964	-	-	30,703	21,468
Unallocated expenses									10,430	10,438
<b>Operating profit</b>									<b>20,273</b>	<b>11,030</b>
Income taxes									5,928	832
<b>Net profit</b>									<b>14,345</b>	<b>10,198</b>
<b>Other information:</b>										
Segment assets	2,10,342	1,22,632	25,601	25,741	4,67,657	2,63,397	-	-	7,03,600	4,11,770
Unallocated assets									8,027	5,404
<b>Total assets</b>									<b>7,11,627</b>	<b>4,17,174</b>
Segment liabilities	57,230	70,638	10,307	14,972	5,43,525	2,62,492	-	-	6,11,062	3,48,102
Unallocated liabilities									1,00,565	69,072
<b>Total liabilities</b>									<b>7,11,627</b>	<b>4,17,174</b>

**Note:** In computing the above disclosure, certain assumptions and estimates are made by the management which have been relied upon by the auditor.

Annual Report  
2019-20

## Schedule 18 – Notes to the financial statements

*(All amounts in ₹ Lakh except otherwise stated)*

### 18.9 - Related party disclosure

Description of relationship	Nature of relationship
<b>i) Parties where control exists</b>	
Fincare Business Services Limited	Holding Company
<b>ii) Key management personnel</b>	
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer
Mr. Keyur Doshi	Chief Financial Officer
Ms. Shefaly Kothari	Company Secretary
<b>iii) Other related parties</b>	
Lok Management Services Private Limited	Entities under common control and shareholder
Mr. Rakesh Rai, Ms. Komal Keyur Doshi, Mr. Parth Keyur Doshi, Mr. Gopalbhai Doshi, Ms. Sarojben Doshi, Dr. Poonam Yadav, Mr. Viraj Yadav, Ms. Nysa Yadav, Ms. Saroj Khola and Mr. H S Khola.	Relatives of key management personnel

#### iv) The transactions with related parties during the year :

Nature of transaction	Relationship	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019
<b>Issue of equity shares</b>			
Fincare Business Services Limited	Holding company	574	1,615
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	106	192
<b>Securities premium on equity shares</b>			
Fincare Business Services Limited	Holding company	6,976	14,890
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	1,289	4,908
<b>Managerial remuneration/remuneration for KMP</b>			
Mr. Rajeev Yadav	Key management personnel	391	302
Mr. Keyur Doshi	Key management personnel	125	107
Ms. Shefaly Kothari	Key management personnel	22	20
<b>Term deposits made with the Bank</b>			
Fincare Business Services Limited	Holding Company	-	7,384
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	1	12,965
Mr. Rajeev Yadav	Key management personnel	6	-
Mr. Keyur Doshi	Key management personnel	-	-
Ms. Shefaly Kothari	Key management personnel	-	3
Relative of key management personnel	Relative of key management personnel	84	28
<b>Term deposits matured</b>			
Fincare Business Services Limited	Holding Company	-	7,384
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	1	14,992
Mr. Rajeev Yadav	Key management personnel	6	-
Mr. Keyur Doshi	Key management personnel	-	-
Ms. Shefaly Kothari	Key management personnel	3	14
Relative of key management personnel	Relative of key management personnel	23	-

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.9 - Related party disclosure (cont'd)

Nature of transaction	Relationship	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019
<b>Interest expense on term deposits</b>			
Fincare Business Services Limited	Holding Company	-	31
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	-	105
Mr. Rajeev Yadav [(2019: ₹51,987)]	Key management personnel	1	1
Mr. Keyur Doshi [(₹11,395(2019: ₹10,456))]	Key management personnel	0	0
Ms. Shefaly Kothari [(₹19,885 (2019: ₹29,562))]	Key management personnel	0	0
Relative of key management personnel	Relative of key management personnel	10	2
<b>Interest expense on Sub Debts</b>			
Fincare Business Services Limited	Holding Company	316	607
<b>Professional services</b>			
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	-	85
<b>Receipt towards other receivable</b>			
Fincare Business Services Limited	Holding Company	-	12
<b>v) Closing balance of the transactions with related parties :</b>			
Nature of transaction	Relationship	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March 2019
<b>Other receivable</b>			
Fincare Business Services Limited	Holding Company	-	-
Deposit balance (savings and term deposit)			
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	-	-
Mr. Rajeev Yadav	Key management personnel	8	8
Mr. Keyur Doshi	Key management personnel	2	3
Ms. Shefaly Kothari	Key management personnel	2	9
Relative of key management personnel	Relative of key management personnel	198	75
<b>Interest expense payable on deposit balance (savings and term deposit)</b>			
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	-	-
Mr. Rajeev Yadav [32,100 (2019: ₹ Nil)]	Key management personnel	-	-
Mr. Keyur Doshi [(₹9,237(2019: ₹ Nil))]	Key management personnel	-	-
Ms. Shefaly Kothari (2019: ₹ Nil)	Key management personnel	-	-
Relative of key management personnel	Relative of key management personnel	-	-
<b>Sub-debt payable</b>			
Fincare Business Services Limited	Holding Company	1,869	2,884
<b>Interest payable on Sub-debt</b>			
Fincare Business Services Limited	Holding Company	5	8
<b>Current account balance</b>			
Fincare Business Services Limited	Holding Company	2	539
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	1	51

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.9 - Related party disclosure (cont'd)

#### vi) Maximum outstanding during the year:

Nature of transaction	Relationship	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019
<b>Deposit balance (savings and term deposit)</b>			
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	1	4,426
Fincare Business Services Limited	Holding Company	-	4,486
Mr. Rajeev Yadav	Key management personnel	25	44
Mr. Keyur Doshi	Key management personnel	30	102
Ms. Shefaly Kothari	Key management personnel	17	23
Relative of key management personnel	Relative of key management personnel	264	555
<b>Interest expense payable on deposit balance (savings and term deposit)</b>			
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	-	26
Fincare Business Services Limited	Holding Company	-	2
Mr. Rajeev Yadav (2019: ₹15,123)	Key management personnel	0	0
Mr. Keyur Doshi (₹9,237 (2019: ₹8,185))	Key management personnel	0	0
Ms. Shefaly Kothari (₹19,885 (2019: ₹13,075))	Key management personnel	0	0
Relative of key management personnel	Relative of key management personnel	0	3
<b>Sub-debt payable</b>			
Fincare Business Services Limited	Holding Company	2,884	7,500
<b>Interest on Sub-debt payable</b>			
Fincare Business Services Limited	Holding Company	162	8
<b>Current account balance</b>			
Fincare Business Services Limited	Holding Company	8,733	14,044
Lok Management Services Private Limited <sup>1</sup>	Entities under common control and shareholder	51	5,151

#### Note:

<sup>1</sup>Lok Management Services Private Limited (LMSPL) had applied to the Regional Director (South East Region), Ministry of Corporate Affairs (MCA), Hyderabad for amalgamation with Fincare Business Services Limited with an appointed date of 1<sup>st</sup> April, 2019. On obtaining the order dated 5<sup>th</sup> March, 2020 from the Regional Director (South East Region), MCA, LMSPL ceased to exist and has been merged with Fincare Business Services Limited.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.10 - Concentration of deposits, advances, exposures and NPAs

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>A. Concentration of deposits</b>		
Particulars		
Total deposits of twenty largest depositors	84,019	62,298
Percentage of deposits of twenty largest depositors to total deposits of the Bank	18.05%	30.49%

### B. Concentration of advances

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Total advances to twenty largest borrowers	20,789	21,866
Percentage of advances to twenty largest borrowers to total advances of the Bank	3.94%	6.88%

### C. Concentration of exposures

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Total exposure to twenty largest borrowers / customers	20,789	21,866
Percentage of exposures to twenty largest borrowers / customers to total exposure of the Bank on borrowers / customers	3.94%	6.88%

### D. Concentration of NPAs

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Total exposure to top four NPA accounts	100	53

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.10 - Concentration of deposits, advances, exposures and NPAs (Cont'd)

#### E. Movement of non-performing assets<sup>1</sup>

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
<b>(i). Movement of non-performing assets (Gross)</b>		
Opening Balance	3,589	1,722
Additions: Fresh NPAs during the year	7,433	4,356
<b>Sub total (A)</b>	<b>11,022</b>	<b>6,078</b>
Less :		
(i) Upgradations	1,593	1,216
(ii) Recoveries (excluding recoveries made from upgraded accounts)	413	257
(iii) Technical / Prudential Write offs	4,544	1,016
(iv) Write offs other than those under (iii) above	-	-
<b>Sub-total (B)</b>	<b>6,550</b>	<b>2,489</b>
Closing balance (A-B)	4,472	3,589
<b>(ii). Movement in technical /prudential write off</b>		
Opening balance of Technical / Prudential written off accounts as at 1 <sup>st</sup> April	13,433	12,853
Add : Technical / Prudential write offs during the year	4,544	1,016
<b>Sub total (A)</b>	<b>17,977</b>	<b>13,869</b>
Less : Recoveries made from previously technical / prudential written off accounts during the year (B)	163	436
<b>Closing balance as at 31<sup>st</sup> March (A-B)</b>	<b>17,814</b>	<b>13,433</b>

<sup>1</sup>Non performing assets include only non performing advances as on 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.



# Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

## 18.11 - Sector-wise advances

Sector <sup>1</sup>	Year ended 31 <sup>st</sup> March, 2020			Year ended 31 <sup>st</sup> March, 2019		
	Outstanding Total Advances	Gross NPAs	Percentage of Gross NPAs to total advances in that sector	Outstanding Total Advances	Gross NPAs	Percentage of Gross NPAs to total advances in that sector
<b>A. Priority Sector</b>						
Agriculture and allied activities	2,79,526	2,089	0.75%	1,43,971	1,001	0.70%
Small & Marginal Farmer	2,38,561	1,135	0.5%	1,02,038	259	0.25%
Agriculture-Others	40,965	954	2.33%	41,933	742	1.77%
Advances to industries sector eligible as priority sector lending	105	27	25.71%	-	-	-
Services	95,583	847	0.89%	58,675	833	1.42%
Personal loans and others	30,916	305	0.99%	21,838	886	4.06%
<b>Sub-total (A)</b>	<b>4,06,130</b>	<b>3,268</b>		<b>2,24,484</b>	<b>2,720</b>	
<b>B. Non Priority Sector</b>						
Agriculture and allied activities	7	-	-	-	-	-
Industry	143	5	3.50%	-	-	-
Services	1,030	29	2.82%	26,538	-	0.00%
Personal loans	76,745	1,170	1.52%	28,087	869	3.09%
<b>Sub-total (B)</b>	<b>77,925</b>	<b>1,204</b>		<b>54,625</b>	<b>869</b>	
<b>Total (A+B)</b>	<b>4,84,055</b>	<b>4,472</b>		<b>2,79,109</b>	<b>3,589</b>	

<sup>1</sup>Gross of provision on Gross NPA ₹2,497 Lakh (31<sup>st</sup> March, 2019: ₹2,640 Lakh)

# Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

## 18.12 - Liquidity coverage ratio

Quantitative information on Liquidity coverage ratio (LCR) is given below:

Particulars	Quarted ended 30 <sup>th</sup> June, 2019			Quarted ended 30 <sup>th</sup> September, 2019			Quarted ended 31 <sup>st</sup> December, 2019			Quarted ended 31 <sup>st</sup> March, 2020			Quarted ended 31 <sup>st</sup> March, 2019		
	Total Unweighted Value* (average)	Weighted Value* (average)	Total	Total Unweighted Value* (average)	Weighted Value* (average)	Total	Total Unweighted Value* (average)	Weighted Value* (average)	Total	Total Unweighted Value* (average)	Weighted Value* (average)	Total	Total Unweighted Value* (average)	Weighted Value* (average)	Total
1) Total High Quality Liquid Assets (HQLA)	NA	85,475	NA	1,41,821	NA	1,42,221	NA	1,42,221	NA	1,41,872	NA	1,41,872	NA	1,41,872	57,269
<b>Cash outflows</b>															
2) Retail deposits and deposits from small business customers, of which:															
- Stable deposits	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
- Less stable deposits	95,772	9,577	1,25,522	12,552	1,61,268	16,127	2,08,637	20,864	70,185	7,018	2,08,637	20,864	70,185	7,018	
3) Unsecured wholesale funding, of which:															
- Operational deposits (all counter parties)	27,166	27,166	39,162	39,162	44,786	44,786	56,374	56,374	29,163	29,163	56,374	56,374	29,163	29,163	
- Non operational deposits (all counterparties)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
- Unsecured debt	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
4) Secured wholesale funding	8,498	8,458	5,714	5,350	29,191	7,886	16,603	5,010	NA	2,180	16,603	5,010	NA	2,180	
5) Additional requirements, of which															
- Outflows related to derivative exposures and other collateral requirements	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
- Outflows related to loss of funding on debt products	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
- Credit and liquidity facilities	3,229	2,589	2,680	1,926	3,330	990	2,647	576	3,209	2,725	2,647	576	3,209	2,725	
6) Other contractual funding obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
7) Other contingent funding obligations	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
<b>8) Total Cash Outflows</b>	<b>N.A.</b>	<b>47,790</b>	<b>N.A.</b>	<b>58,990</b>	<b>N.A.</b>	<b>69,789</b>	<b>N.A.</b>	<b>82,824</b>	<b>N.A.</b>	<b>41,086</b>	<b>N.A.</b>	<b>82,824</b>	<b>N.A.</b>	<b>41,086</b>	
Cash Inflows															
9) Secured lending (e.g. reverse repos)	17,856	-	75,669	-	92,385	-	73,102	-	-	-	-	73,102	-	-	
10) Inflows from fully performing exposures	14,835	7,418	18,454	9,227	21,129	10,564	25,776	12,888	11,697	5,848	25,776	12,888	11,697	5,848	
11) Other cash inflows	19,105	19,105	9,878	9,878	16,590	16,590	5,876	5,876	13,722	13,722	104,754	18,764	25,419	19,570	
<b>12) Total Cash Inflows</b>	<b>51,796</b>	<b>26,523</b>	<b>1,04,001</b>	<b>19,105</b>	<b>1,30,104</b>	<b>27,154</b>	<b>1,04,754</b>	<b>18,764</b>	<b>25,419</b>	<b>19,570</b>	<b>1,04,754</b>	<b>18,764</b>	<b>25,419</b>	<b>19,570</b>	
<b>13) Total HQLA</b>	<b>N.A.</b>	<b>85,475</b>	<b>N.A.</b>	<b>1,41,821</b>	<b>N.A.</b>	<b>1,42,221</b>	<b>N.A.</b>	<b>1,41,872</b>	<b>N.A.</b>	<b>57,269</b>	<b>N.A.</b>	<b>1,41,872</b>	<b>N.A.</b>	<b>57,269</b>	
<b>14) Total Net Cash Outflows</b>	<b>N.A.</b>	<b>21,267</b>	<b>N.A.</b>	<b>39,885</b>	<b>N.A.</b>	<b>42,635</b>	<b>N.A.</b>	<b>64,060</b>	<b>N.A.</b>	<b>21,516</b>	<b>N.A.</b>	<b>64,060</b>	<b>N.A.</b>	<b>21,516</b>	
<b>15) Liquidity Coverage Ratio (%)</b>	<b>N.A.</b>	<b>401.91%</b>	<b>N.A.</b>	<b>355.57%</b>	<b>N.A.</b>	<b>333.58%</b>	<b>N.A.</b>	<b>221.47%</b>	<b>N.A.</b>	<b>266.17%</b>	<b>N.A.</b>	<b>221.47%</b>	<b>N.A.</b>	<b>266.17%</b>	

\*The disclosure is arrived taking into account simple average of each of the line item of LCR components over 90 days of each quarter of year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019. In computing the above information, certain assumptions and estimate have been made by the management which have been relied upon by the auditor.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.12 - Liquidity coverage ratio (cont'd)

#### Qualitative Disclosure around LCR (cont'd)

##### (a) the main drivers of their LCR results and the evolution of the contribution of inputs to the LCR's calculation over time

The Bank has adopted the Basel III framework on liquidity standards as prescribed by the RBI for reporting LCR. The objective of LCR is to ensure that the Bank maintains an adequate stock of unencumbered HQLA to survive a significant liquidity stress lasting for a period of 30 days.

##### (b) intra period changes as well as changes over time

The LCR is calculated by dividing the amount of High Quality Liquid unencumbered Assets (HQLA) by the estimated net cash outflows over a stressed 30 calendar day period as per RBI Guidelines. Minimum LCR requirement for small finance banks is 80% with effect from 1<sup>st</sup> January, 2019. The minimum LCR was 70% for previous calendar year 2018.

The excess SLR has been reckoned in HQLA over and above the mandatory basis market value with effect from 1<sup>st</sup> October, 2018 on a conservative basis. Prior to this date, excess SLR has been reckoned basis book value of eligible SLR securities.

##### (c) the composition of HQLA

HQLA comprises of cash in hand, excess CRR, excess SLR securities, maximum liquidity facility allowed by RBI under Marginal Standing Facility (MSF) and Facility to Avail Liquidity for Liquidity Coverage Ratio (FALLCR).

The net cash outflows are calculated by applying RBI prescribed outflow factors to the various categories of liabilities (deposits, borrowings including grandfathered borrowings), as well as contingent liabilities, partially offset by inflows from assets maturing within 30 days.

##### (d) concentration of funding sources

The major sources of funding is term deposits by retail customers as well as corporate and financial institutions, refinance borrowings, securitization and IBPC.

Reason for LCR in excess of minimum regulatory requirement are as follows:

The LCR percentage is above the minimum threshold prescribed for Small Finance Banks which indicates comfortable liquidity profile.

\* As per the RBI guidelines, the minimum LCR required to be maintained by small finance bank shall be implemented in a phased manner from 1<sup>st</sup> January, 2018 as given below:

Year	Till 31 <sup>st</sup> December, 2017	By 1 <sup>st</sup> January, 2018	By 1 <sup>st</sup> January, 2019	By 1 <sup>st</sup> January, 2020	By 1 <sup>st</sup> January, 2021
Min LCR	60%	70%	80%	90%	100%

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.12 - Liquidity coverage ratio (cont'd)

#### (e) derivative exposures and potential collateral calls

Not applicable

#### (f) currency mismatch in the LCR

Not applicable

#### (g) a description of the degree of centralisation of liquidity management and interaction between the group's units

Not applicable

#### (h) other inflows and outflows in the LCR calculation that are not captured in the LCR common template but which the institution considers to be relevant for its liquidity profile

Not applicable

### 18.13 - Exposures

#### A. Exposure to Real Estate Sector

The Bank has an exposure of ₹2,034 Lakh as at 31<sup>st</sup> March, 2020 (31<sup>st</sup> March, 2019 : Nil) to Real Estate Sector.

#### B. Exposure to capital market

As at 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019, the Bank does not have any exposure to capital market.

#### C. Risk category wise country exposure

The Bank's exposures are concentrated in India only, hence country risk exposure as at 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019 is 'Nil'.

#### D. Details of single borrower limit (SGL) / group borrower limit (GBL) exceeded by the bank

During the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019, the Bank's credit exposures to single borrowers and group borrowers were within the limits prescribed under extant RBI guidelines.

#### E. Unsecured advances

The Bank has not extended any advances where the collateral is an intangible asset such as a charge over rights, licenses, authorizations, etc. The unsecured advances of ₹376,959 Lakh (31<sup>st</sup> March, 2019: ₹209,345 Lakh) disclosed in Schedule 9B (iii) are without any collateral or security.

#### F. Intra group exposure

The Bank does not have any intra group advances, hence intra group exposure as at 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019 is 'Nil'.

### 18.14 - Disclosure of Penalties imposed by the RBI

A penalty of ₹1 Lakh had been levied on the Bank by the RBI vide penalty order PDO.NDS.Bounce 980/08.03.000/2019-20 dated 26<sup>th</sup> December, 2019, on account of a single instance of SGL bounce occurred on 10<sup>th</sup> December, 2019. No such penalty has been imposed by the RBI for the year ended 31<sup>st</sup> March, 2019. Appropriate control measures have been taken by the Bank internally to prevent such instances from reoccurrence.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.15 - Employee benefits

#### A. Gratuity

The Bank has a defined benefit gratuity plan. Every employee who has completed five years or more of service is eligible for gratuity on cessation of employment and it is computed at 15 days salary (last drawn salary) for each completed year of service. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following tables summarise the components of net benefit expense recognised in the Profit and Loss account and the funded status and amounts recognised in the balance sheet for the gratuity plan.

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
<b>The amounts recognised in the Profit and Loss account are as follows:</b>		
Service cost	317	192
Interest cost	45	23
Expected return on plan assets	(29)	(10)
Net actuarial loss on plan assets	109	86
Past service cost	1	12
<b>Expense recognised in the Profit and Loss account</b>	<b>443</b>	<b>303</b>

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
The amounts recognised in the Balance Sheet are as follows:		
Present value of the obligation as at the end of the year	1,058	611
Fair value of plan assets as at the end of the year	647	143
<b>Net liability recognised in the Balance Sheet</b>	<b>411</b>	<b>468</b>

<b>Changes in the present value of defined benefit obligation:</b>		
Defined benefit obligation at the beginning of the year	611	327
Service cost	317	192
Interest cost	45	23
Actuarial loss	118	86
Benefits paid	(33)	(17)
<b>Defined benefit obligation at the end of the year</b>	<b>1,058</b>	<b>611</b>

<b>Changes in the fair value of plan assets:</b>		
Fair value at the beginning of the year	143	144
Expected return on plan assets	29	10
Actuarial gain/(loss)	9	1
Contributions	500	17
Benefits paid	(33)	(17)
Admin expenses /taxes paid from plan assets	(1)	(12)
<b>Fair value as at the end of the year</b>	<b>647</b>	<b>143</b>

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.15 - Employee benefits (Cont'd)

#### Assumptions used in the above valuations are as under:

Discount rate	6.03%	7.62%
Expected return on plan assets	7.62%	7.21%
Future salary increase	11.00%	11.00%
Attrition rate	30.00%	30.00%
Retirement age (years)	60 Yrs	60 Yrs

#### Experience adjustments:

Particulars	Year ended	Year ended	Year ended	Year ended	Year ended
	31 <sup>st</sup> March, 2020	31 <sup>st</sup> March, 2019	31 <sup>st</sup> March, 2018	31 <sup>st</sup> March, 2017	31 <sup>st</sup> March, 2016
Defined benefit obligation	1,058	611	327	200	35
Plan assets	647	143	144	135	35
Excess/(Deficit)	411	468	183	65	-
Experience adjustments on liabilities - gain / (loss)	1	(12)	30	(33)	(1)
Experience adjustments on assets - (gain) / loss	(9)	1	(7)	(1)	0

#### B. Defined contribution plan

The Bank makes contributions to the statutory provident fund as per the Employees' Provident Funds and Miscellaneous Provisions Act, 1952. This is a defined contribution plan as per Accounting Standard (AS) 15. Contributions made during the year ended 31<sup>st</sup> March, 2020 amounted to ₹1,067 Lakh (31<sup>st</sup> March, 2019: ₹664 Lakh).

#### C. Compensated absences

The actuarial liability in respect of privilege leave granted to employees of the Bank and outstanding as at 31<sup>st</sup> March, 2020 is ₹755 Lakh (31<sup>st</sup> March, 2019: ₹452 Lakh).

Assumptions used in the above valuations are as under:	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Discount rate	6.03%	7.62%
Future salary increase	11.00%	11.00%

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.16 - Provision and contingencies

Provision and contingencies recognised in the Profit and Loss account comprise:

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
<b>Provision for income tax</b>		
- current tax	7,919	2,860
- deferred tax (credit)/charge (refer schedule 18.29)	(3,050)	(969)
- MAT credit entitlement	1,059	(1,059)
Provision for standard assets	9,353	530
"Provision for non-performing assets (includes bad debts written off <sup>1</sup> ₹4.544 Lakh (31 <sup>st</sup> March, 2019: ₹1,016 Lakh))"	4,407	3,243
Provision for depreciation in value of investments	-	-
Provision for restructured assets (refer schedule 18.4B)	(6)	8
Provision for unhedged foreign currency exposure	-	-
Provision for country risk	-	-
Provision for other contingencies	(218)	189
	<b>19,464</b>	<b>4,802</b>

<sup>1</sup>During the year ended 31<sup>st</sup> March, 2020, the Bank has revised the accounting estimate for writing off loan portfolio in accordance with the resolution passed by the Board of Directors. As a result, the loans written off during the year ended 31<sup>st</sup> March, 2020 is higher by ₹1,750 Lakh. However, the same does not have an impact on the results for the year.

### 18.17 - Floating provision

During the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019, the Bank has not created any floating provision.

### 18.18 - Draw down from reserves

During the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019, there were no drawdown from reserves.

### 18.19 - Disclosure of complaints

#### A. Customer compliants

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
(a) No. of complaints pending at the beginning of the year	7	2
(b) No. of complaints received during the year	501	197
(c) No. of complaints redressed during the year	469	192
(d) No. of complaints pending at the end of the year	39	7

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.19 - Disclosure of complaints (cont'd)

#### B. Awards passed by the Banking Ombudsman

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
(a) No. of unimplemented awards at the beginning of the year	-	-
(b) No. of awards passed by the Banking Ombudsmen during the year	-	-
(c) No. of awards implemented during the year	-	-
(d) No. of unimplemented awards at the end of the year	-	-

#### C. ATM related complaints

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
(a) No. of complaints pending at the beginning of the year	-	-
(b) No. of complaints received during the year	104	28
(c) No. of complaints redressed during the year	102	28
(d) No. of complaints pending at the end of the year	2	-

The above information is as certified by the Management and relied upon by the auditors.

### 18.20 - Letter of comfort

The Bank has not issued letter of comfort during the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

### 18.21 - Insurance business

The fees or commission earned in respect of insurance/mutual fund broking business.

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Income for selling life insurance policies	596	237
Income from selling non-life insurance policies	31	1
Income from selling Mutual Fund Product	-	-

### 18.22 - Overseas Assets, NPAs and Revenue

The Bank does not hold any overseas assets / NPAs as at 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019 and also no overseas operations were undertaken during the year. Hence revenue from overseas operation in 'Nil'.

### 18.23 - Off Balance Sheet SPVs Sponsored (which are required to be consolidated as per accounting norms

There are no off balance sheet SPVs sponsored by the Bank, which needs to be consolidated as per accounting norms as on 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.



## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.24 - Disclosure on Remuneration

#### A) Qualitative Disclosures

##### (a) Information relating to the composition and mandate of the Remuneration Committee.

The Nomination and Remuneration Committee (NRC) of the Board is the main body that sets the principles, parameters and governance framework of the remuneration policy and also assist the Board to fulfil its responsibility to ensure that remuneration policy and practices, reward, fairly and responsibly, in relation to the Bank and individual performance.

As on 31<sup>st</sup> March, 2020, the NRC had five members of which four are Independent Directors. The functions of the Committee include recommendation of appointment of Directors to the Board, evaluation of the performance of the Directors, approve remuneration for Directors, Key Management Personnel (KMP) viz. Managing Director & Chief Executive Officer, Chief Financial Officer and Company Secretary, as well as Senior Management Personnel viz. Leadership team of the Bank.

##### External consultants whose advice has been sought, the body by which they were commissioned, and in what areas of the remuneration process

The Bank did not take any advise from an external consultant on any area of remuneration for the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

##### Scope of the Bank's remuneration policy (e.g. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches

The Compensation Policy of the Bank, approved by the Board on 23 January 2019, pursuant to the guidelines issued by the RBI, to cover all employees of the Bank.

##### Type of employees covered and number of such employees

All permanent employees of the Bank are covered. The total number of permanent employees of the Bank as at 31<sup>st</sup> March, 2020 were 7,131 (31<sup>st</sup> March, 2019: 5,296).

##### (b) Information relating to the design and structure of remuneration processes.

Key features and objectives of remuneration policy: The Bank has, under the guidance of the Board and the NRC, followed remuneration practices intended to drive meritocracy and performance based on a prudent risk management framework

##### The Remuneration policy of the Bank is designed with a view to

- i. ensure that the level and composition of remuneration is in line with other banks in the industry, sufficient to attract and retain right talent, at all levels and keep them motivated enough to meet the organizational objectives.
- ii. ensure that a reasonable balance is maintained in terms of composition of remuneration, both,
  - a. performance-linked - fixed and variable components
  - b. time horizon linked – immediate and long term retention components

Effective governance of compensation: The NRC has oversight over compensation to key management personnel as well as senior management.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.24 - Disclosure on Remuneration (Cont'd)

**Alignment of compensation philosophy with prudent risk taking:** While the Bank seeks to achieve a mix of fixed and variable remuneration that is prudent, it currently has predominantly a fixed remuneration structure along with non-guaranteed bonuses.

Also, the remuneration of employees in financial and risk control functions is not linked to business outcomes and solely depends on their individual/department quality and performance goals. The Bank seeks to align remuneration with financial and non-financial performance indicators.

**Whether the remuneration committee reviewed the Bank's remuneration policy during the past year, and if so, an overview of any changes that were made:** The Board/NRC has been apprised of the Bank's remuneration practices.

**Discussion of how the Bank ensures that risk and compliance employees are remunerated independently of the businesses they oversee:** The remuneration of employees in control functions such as Risk and Compliance depends solely on their individual/department performance and is not linked to any business outcomes.

#### c) Description of the ways in which current and future risks are taken into account in the remuneration processes

**Overview of the key risks that the Bank takes into account when implementing remuneration measures:** The Board approves the overall risk management policy including risk framework, limits, etc. The Bank conducts all its business activities within this framework. The NRC while assessing the performance of the Bank and senior management shall consider adherence to the policies and accordingly make its recommendations to the Board.

**Overview of the nature and type of key measures used to take account of these risks, including risks difficult to measure:** The evaluation process shall incorporate both qualitative and quantitative aspects including asset quality, provisioning, increase in stable funding sources, refinement/improvement of the risk management framework, effective management of stakeholder relationships and continuity of key members of the top and senior management.

**Discussion of the ways in which these measures affect remuneration:** In order to ensure alignment of remuneration with prudent practices, the NRC takes into account adherence to the risk framework in addition to business performance.

#### Discussion of how the nature and type of these measures have changed over the past year and reasons for the changes, as well as the impact of changes on remuneration.

There have been no changes in these measures during the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

#### d) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration

**Overview of main performance metrics for the Bank, top level business lines and individuals:** The main performance metrics include reasonable profitability targets, business growth, asset quality, productivity and efficiency metrics, compliance and customer service.

**Discussion of how amounts of individual remuneration are linked to the Bank-wide and individual performance:** The assessment of employees shall be based on their performance with respect to their key result areas and shall include the metrics mentioned above.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.24 - Disclosure on Remuneration (Cont'd)

**Discussion of the measures the Bank will in general implement to adjust remuneration in the event that performance metrics are weak, including the Bank's criteria for determining weak performance metrics:** The variable compensation paid to KMP and Senior Management is linked to achievement of overall objectives and in case of performance being weak on one or more of the metrics, the variable compensation payout can be adjusted.

**Description of the ways in which the Bank seeks to adjust remuneration to take account of the longer term performance**

**Discussion of the Bank's policy on deferral and vesting of variable remuneration and, if the fraction of variable remuneration that is deferred differs across employees or groups of employees, a description of the factors that determine the fraction and their relative importance:** As per the Bank's compensation policy, In case the variable pay is significant in a financial year i.e. 50% or more of the fixed pay, a proportion of the variable pay would be deferred, with pro-rata vesting of the deferred portion over the next 3 years.

**Discussion of the Bank's policy and criteria for adjusting deferred remuneration before vesting and (if permitted by national law) after vesting through claw back arrangements:**

As per the Bank's compensation policy, a portion or all of the deferred payment may be subject to Malus/claw back arrangements, taking into account relevant statutory and regulatory stipulations. Under the malus arrangement, all or part of deferred remuneration will be held by the Bank in the event of deterioration in performance of any specific criteria laid down by the NRC. The NRC would take this into consideration for the macroeconomic environment, industry performance and internal performance indicators and accordingly decide on prevention of vesting of all or part of the amount of a deferred compensation. The deferred compensation will be released only after a decision by NRC and board based on review of all available information. The malus arrangement covers future vesting only and does not reverse vesting after it has already occurred.

Under the claw-back arrangement, in the event of wilful and deliberate misrepresentation or misreporting of the financial performance of the Bank, which comes to light in the subsequent three years and such act is attributable to the concerned Whole Time Director / Managing Director, the incumbent is obligated to return previously paid or vested variable remuneration. The decision on quantum of claw back of previously paid or vested remuneration would be taken by the NRC and the Board based on a review of the event.

**e) Description of the different forms of variable remuneration that the Bank utilises and the rationale for using these different forms**

Overview of the forms of variable remuneration offered. A discussion of the use of different forms of variable remuneration and, if the mix of different forms of variable remuneration differs across employees or group of employees, a description of the factors that determine the mix and their relative importance:

**The forms of variable remuneration used by the Bank are:**

- a. Business incentives – used for rewarding Business teams for focus on portfolio quality, route efficiency, customer retention (Loan verticals)
- b. Performance Pay – used for rewarding performance against quarterly and annual performance goals for the individual/teams
- c. Long Term Retention Bonus (LTRB) – a tool for retention and improved morale - While short-term retention bonus plan continues to be in use, Long-term Retention Bonus Plan is discontinued w.e.f. 1<sup>st</sup> March, 2019.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.24 - Disclosure on Remuneration (Cont'd)

#### B) Quantitative Disclosures

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
a) i - Number of meetings held by the Remuneration Committee during the financial year	Nine	Seven
ii - remuneration paid to its members.		
b) Number of employees having received a variable remuneration award during the financial year.	1,105 employees received ( quarterly Performance pay) while 469 employees received Annual Performance pay [234 employees are included in both annual and quarterly payouts]	895 employees received ( quarterly Performance pay) while 339 employees received Annual Performance pay [176 employees are included in both annual and quarterly payout]
c) Number and total amount of sign on awards made during the financial year.	-	-
d) Details of guaranteed bonus, if any, paid as joining / sign on bonus	2.70 Lakh	4.89 Lakh
e) Details of severance pay, in addition to accrued benefits, if any.	11.65 Lakh	-
f) Total amount of outstanding deferred remuneration, split into cash, shares and share linked instruments and other forms.	Outstanding (Provision made) Deferred Remuneration in the form of LTRB – 173 employees totalling ₹193 Lakh	Outstanding (Provision made) Deferred Remuneration in the form of LTRB – 268 employees totalling ₹208 Lakh
g) Total amount of deferred remuneration paid out in the financial year.	Deferred Remuneration (paid) in form of LTRB – 92 employees Totalling ₹181 Lakh	Deferred Remuneration (paid) in the form of LTRB – 62 employees totaling ₹215 Lakh
h) Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non deferred.		
- Fixed pay	18,888	13,418
- Variable pay	3,526	2,153
- Non deferred	-	-
- Deferred	181	215
i) Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	-	-
j) Total amount of reductions during the financial year due to ex post explicit adjustments.	-	-
k) Total amount of reductions during the financial year due to ex post implicit adjustments.	-	-

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.25 - Disclosures relating to securitisation

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
a) No of SPVs sponsored by the Bank for securitisation transactions	11	20
b) Total amount of securitised assets as per books of the SPVs sponsored by the bank	6,668	31,132
c) Total amount of exposures retained by the bank to comply with MRR as on the date of balance sheet		
i) Off-balance sheet exposures		
First loss	305	1,736
Others	-	-
ii) On-balance sheet exposures		
First loss	1,054	5,953
Others	-	-
d) Amount of exposures to securitisation transactions other than MRR		
a) Off-balance sheet exposures		
(i) Exposures to own securitisation		
First loss	-	964
Others	-	-
(ii) Exposures to third party securitisation		
First loss	-	-
Others	-	-
b) On-balance sheet exposures		
(i) Exposures to own securitisation		
First loss	-	-
Others	477	2,822
(ii) Exposures to third party securitisation		
First loss	-	-
Others	-	-

### 18.26 - Credit Default Swaps

The Bank has not transacted in credit default swaps during the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

### 18.27 - Depositor Education and Awareness Fund

During the year ended 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019 no amount has been transferred to Depositor Education and Awareness Fund.

### 18.28 - Unhedged Foreign currency Exposure

The Bank does not have any unhedged foreign currency exposure as at 31<sup>st</sup> March, 2020 and 31<sup>st</sup> March, 2019.

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.29 - Deferred tax assets

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Deferred tax asset arising on:		
Depreciation and amortisation	333	241
Provision for employee benefits:		
Compensated absences	190	132
Gratuity	103	136
Long Term Retention Bonus (LTRB)	49	61
Deferred rent	1	8
Provision on portfolio loans	3,299	364
Others	44	27
	<b>4,019</b>	<b>969</b>
	<b>4,019</b>	<b>969</b>

### 18.30 - Operating leases

The Bank's significant leasing arrangements are in respect of operating leases for office premises which are renewable on mutual consent at agreed terms. The aggregate lease rentals payable are charged to the Profit and Loss Account.

Head office, registered office and branch office premises are obtained on operating lease. The branch office premises are generally rented on cancellable term ranging from twelve months to thirty six months with escalation clause; however none of the branch lease agreement carries non-cancellable lease periods. There are no restrictions imposed by lease arrangements. There are no subleases. Certain offices of the Bank have non-cancellable lease arrangements and the minimum lease payments for such arrangements during the non-cancellable period have been disclosed below.

Lease payments during the year are charged to the Profit and Loss Account.

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
Lease payments recognised in the profit and loss account.	2,236	1,339

The details of lease commitments in terms of minimum lease payments within the non-cancellable period are as follows:

Payments falling due	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Within one year	149	305
Later than one year but not later than five years	213	395
Later than five years	28	35

## Schedule 18 – Notes to the financial statements

(All amounts in ₹ Lakh except otherwise stated)

### 18.31 - Micro small and medium enterprises

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
i) Principal amount remaining unpaid (but within due date as per the MSMED Act)	46	17
ii) Interest due thereon remaining unpaid	-	-
iii) Interest paid by the Bank in terms of Section 16 of the Micro, Small and Medium Enterprises Development Act, 2006, along-with the amount of the payment made to the supplier beyond the appointed day during the period.	-	-
iv) Interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the period) but without adding interest specified under the Micro, Small and Medium Enterprises Act, 2006	-	-
v) Interest accrued and remaining unpaid	-	-
vi) Interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises	-	-

There are no delays in payments to micro and small enterprises as required to be disclosed under 'The Micro, Small and Medium Enterprises Development Act, 2006'. The determination has been made to the extent such parties were identified by the management based on the information available and are relied upon by the auditor.

### 18.32 - Disclosure of provision for fraud

Particulars	As at 31 <sup>st</sup> March, 2020	As at 31 <sup>st</sup> March, 2019
Number of frauds reported during the year to the RBI	47	37
Amount involved in such frauds	48	69
Provision made during the year (net of recovery)	38	47
Unamortised provision debited from other reserves	-	-

### 18.33 - Earnings per equity share

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
Net profit attributable to equity shareholders	14,345	10,198
Weighted average number of shares outstanding during the year used for computing basic and diluted earnings per share (nos)	5,87,05,378	4,54,98,832
Basic and diluted earnings per share	24.43	22.41

### 18.34 - Inter-Bank Participation Certificate (IBPC) transactions

During the year, the Bank has sold its advances through IBPCs. The details are as follows:

Particulars	Year ended 31 <sup>st</sup> March, 2020	Year ended 31 <sup>st</sup> March, 2019
i) Aggregate value of IBPCs transaction during the year <sup>1</sup>	82,780	56,250
ii) Aggregate consideration received	82,780	56,250
iii) Aggregate gain recorded	-	-
iv) IBPCs outstanding	43,680	38,750

<sup>1</sup>aggregate value of the own portfolio pool identified for IBPC transaction ₹2,06,950 Lakh (2019 : ₹1,40,625 Lakh).

Annual Report  
2019-20

## Schedule 18 – Notes to the financial statements

*(All amounts in ₹ Lakh except otherwise stated)*

### 18.35 - Corporate social responsibility (CSR)

a) Gross amount required to be spent by the Bank during the year ended 31<sup>st</sup> March, 2020 is ₹22 Lakh (31<sup>st</sup> March, 2019: ₹ Nil) under section 135 of the Companies Act, 2013.

#### b) Amount spent during the year on:

Particulars	In cash	Yet to be paid in cash	Total
i) Construction /acquisition of asset	-	-	-
ii) On purpose other than (i) above	38	-	38
	38	-	38

#### c) Amount spent during the previous year on:

Particulars	In cash	Yet to be paid in cash	Total
i) Construction /acquisition of asset	-	-	-
ii) On purpose other than (i) above	1	-	1
	1	-	1

### 18.36 - Priority Sector Lending Certificate (PSLC) Income

During the year ended 31<sup>st</sup> March, 2020, the Bank sold PSLCs amounting to ₹20,000 Lakh (2019 : ₹10,000 Lakh) under agriculture category, ₹2,35,200 Lakh (2019: ₹69,000 Lakh) under small and marginal farmers category and ₹10,100 Lakh under Micro enterprises category. The income earned on the PSLCs sold during the year is ₹4,338 Lakh (2019 : ₹761 Lakh).

18.37 - Previous year's figures have been reclassified/ regrouped to confirm with the current year's presentation wherever applicable.

#### As per our report of even date

**For Walker Chandiook and Co. LLP**  
Chartered Accountants  
Firm Registration No: 001076N/N500013

**Sd/-**  
**Manish Gujral**  
Partner  
Membership No.: 105117  
Mumbai  
08 June 2020

For and on behalf of the Board of Directors of  
**Fincare Small Finance Bank Limited**  
(formerly Disha Microfin Limited)

**Sd/-**  
**Rajeev Yadav**  
MD and CEO  
DIN: 00111379  
Bengaluru  
08 June 2020

**Sd/-**  
**Pramod Kabra**  
Director  
DIN: 02252403  
Mumbai  
08 June 2020

**Sd/-**  
**Sameer Nanavati**  
Director  
DIN: 00157693  
Ahmedabad  
08 June 2020

**Sd/-**  
**Keyur Doshi**  
Chief Financial Officer  
Bengaluru  
08 June 2020

**Sd/-**  
**Shefaly Kothari**  
Company Secretary  
M No. F7698  
Bengaluru  
08 June 2020







---

The Annual Report is a voluminous document and every year, substantial efforts are made to ensure that the data provided is accurate, transparent and relevant. Despite our best efforts, it is possible that minor typographical or other errors exist within the document . Please excuse any such oversights and we request the reader to draw our attention to these errors by mailing us at [marketing@fincarebank.com](mailto:marketing@fincarebank.com)

---





**REGISTERED OFFICE**

301-306, 3rd Floor, Abhijeet - V  
Opposite Mayor Bungalow  
Near Law Garden, Mithakhali  
Ahmedabad - 380006  
+91-79-40011000

**CORPORATE OFFICE**

5th Floor, Bren Mercury  
Sarjapur Main Road  
Kaikondanahalli  
Bangalore - 560035  
+91-80-42504444