

BANKING

THE SMART WAY



THE SMART
EXECUTION PARADIGM

Corporate Overview 4-62

1. The Journey - Building a Smart Foundation	04
2. Our Milestones - Smart Growth	06
3. Our Differentiators - The Smart Edge	08
4. Smart Growth - The Year in Perspective	09
5. Awards & Accolades	13
6. Message from Chairman	16
7. Message from MD & CEO	19
8. Board of Directors	21
9. Our Management Team	22
10. Our Product Portfolio	24
11. Our Touchpoints	27
12. Our Business Lines - A Smart Portfolio	
- Retail Banking	30
- Rural Banking	31
- Loan Against Property	33
- Loan Against Gold	34
- Institutional Finance	35
- Agency Banking	36
- Digital Banking	37
- 101 Account	41
13. Our Support Functions - The Smart Backbone	
- Operations	44
- Facilities	45
- Centralized Processing Centre	46
- Contact Centre	47
- Customer Service	48
- Technology	49
- People	51
- Marketing	55
14. Risk, Compliance, Audit - The Smart Controls	58
15. Working with Communities - The Smart Touch	62

Statutory Reports 68-141

16. Directors' Report (Annexures I,II,III,IV)	68
17. Management Discussion and Analysis	130
18. Pillar III Disclosure	141

Financial Statements 157-167

19. Independent Auditor's Report	157
20. Financials and Schedules	167

THE JOURNEY - BUILDING A SMART FOUNDATION

We live in a world where Wow today, rapidly becomes ordinary tomorrow and the forces of business leadership change in the blink of an eye. Constant innovation and adaptability is the new normal.

The journey of Fincare Small Finance Bank was the process of coming together of 2 NBFC Micro Finance Institutions, Future Financial Services and Disha Microfin, which commenced operations in two different parts of the country in 2007 and 2009 respectively. Over the years, this platform has been built with the contribution of the promoters, investors and the management team, culminating in the opportunity to participate in the larger financial ecosystem of the country through a license to convert to a Small Finance Bank.

The Bank commenced banking operations on 21st July, 2017, with a vision to enable the financial inclusion of the unbanked and underbanked base of the pyramid, mass retail and micro and small enterprise segments with the active participation of the affluent.

The Bank has grown steadily in scale and scope, offering a more comprehensive suite of financial products and services. Serving the banking needs across metro, urban, and semi urban markets, as on 31st March, 2019, the Bank caters to over 15 Lakh customers in 13 states/UT.



THE JOURNEY - BUILDING A SMART FOUNDATION

The Bank has a deep digital focus and we leverage technology and deep understanding of target customer segments in making banking faster, simpler and more secure for our customers. Today, the Bank offers compelling value in both deposit and loan products, ranging from Savings and Current Accounts, Fixed and Recurring Deposits, NRI Banking, Loan Against Property and Gold, Microloans and Institutional Finance.

The biggest assets of the Bank are customer trust and long-standing relationships, encouraging us to constantly evolve and improve our products and services. We are reaching out to millions of customers in India, and contributing to their financial progress in a meaningful way.

THE DIGITAL OUTLOOK

Since inception, the digital paradigm has always been the force multiplier that would enable us to emerge as a best-in-class player in the banking landscape in India.

We recognize digital as the currency that is going to radically change India's future and in particular, banking. With a 3D approach viz. Digital, Doorstep and Delightful rates, we are confident of becoming a force to reckon and a 'Smart Bank of Choice' in India.



OUR MILESTONES - SMART GROWTH

FACILITATING INCLUSIVE FINANCE



2007

Future Financial Services Private Limited commences Microfinance operations in **Andhra Pradesh, Karnataka and Tamil Nadu.**



2009

Disha Microfin starts Microfinance operations in **Gujarat.**



2010

FFSPL and Disha Microfin receive funding from True North (formerly India Value Fund).



2013

Microloans business expands in South and West India. Loan Against Property business introduced.



2014

FFSPL and Disha Microfin come together under brand name Fincare.

OUR MILESTONES - SMART GROWTH

FACILITATING INCLUSIVE FINANCE



2015

Disha Microfin receives in-principle approval from RBI to set up a Small Finance Bank. Banking transformation starts.



2016

Business of FFSPIL integrates with Disha Microfin.



2017

RBI gives final license to Disha Microfin. Disha Microfin converts to, and commences operations as Fincare Small Finance Bank. Loan Against Gold, Institutional Finance, Deposits and payments businesses launched.



2018

Stabilization of Banking Processes, People and Technology, expansion of branch footprint, launch of new products - salary accounts, NR deposits, insurance, two wheeler-loans.



2019

Crosses ₹ 3,500 Crore of GLP and ₹ 2,000 Crore of Deposits in 2019. Customer Base crosses 15 Lakh. Affordable housing loans launched. RBI grants Scheduled Commercial Bank status.

OUR DIFFERENTIATORS - THE SMART EDGE



LEGACY

Superior understanding of customers - a strong legacy in Microfinance and deep penetration in rural markets.



BRAND

Positive brand appeal - association with Chess Grandmaster Viswanathan Anand.



INSTANT

Instant gratification - instant, paperless account opening and servicing, and instant credit decisioning.



DIGITAL

Assisted banking - tab based solutions across all retail businesses. 24X7 Banking through Internet Banking and Mobile Banking.



VALUE PROPOSITION

Attractive product suite - LAP and LAG for micro and small businesses at competitive rates, and quick turnaround.



CONVENIENT

Convenient, Doorstep Banking - relationship teams equipped with tabs.



SIMPLE

Simplified banking – simple products, easy documentation and straight through processes.



RATES

Superior rates on Savings and Fixed Deposit products – amongst the highest in the industry.



MULTI-LINGUAL

Customer centricity - multilingual, toll free call center.



ACCESS

Enhanced access - 569 banking outlets, 71 Cash Recyclers/ ATMs in 13 states/UT.

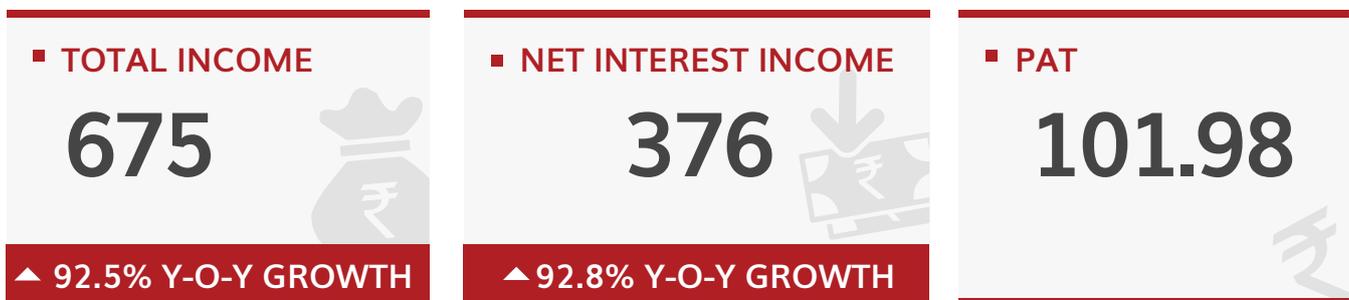
SMART GROWTH - THE YEAR IN PERSPECTIVE

(In ₹ Crore)

In July 2017, Fincare Small Finance Bank commenced Banking operations. With time, Fincare Small Finance Bank has grown stronger as a retail bank. The Bank has been carefully built on the foundation of transparency, trust and technology. This has helped speed up the quest for making Smart Banking a reality in the communities we serve.

Fincare Small Finance Bank offers a curated range of smart financial products covering the gamut of Credit, Savings, Insurance and Payments needs of its customers. Powered by digital initiatives, the Bank's smart products and services enable customers to enjoy the convenience of banking 24X7, 365 days a year.

FY19 P&L HIGHLIGHTS (In ₹ Crore)

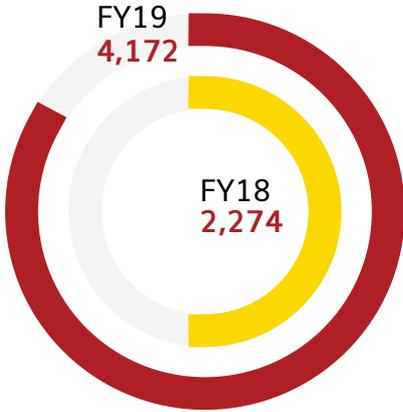


OPERATIONAL HIGHLIGHTS



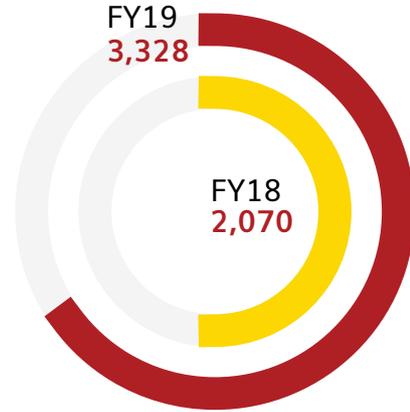
BALANCE SHEET TOTAL

▲ 83% Growth



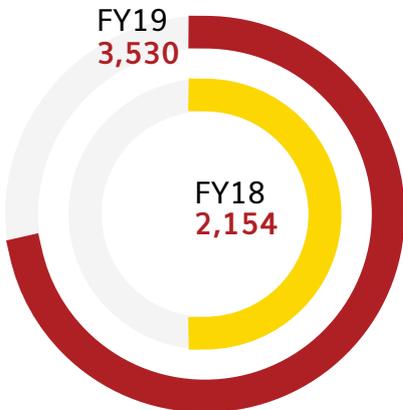
TOTAL DISBURSEMENTS

▲ 56% Y-O-Y growth



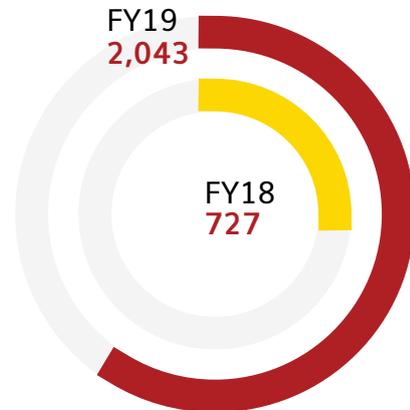
TOTAL ADVANCES

▲ 64% Y-O-Y growth

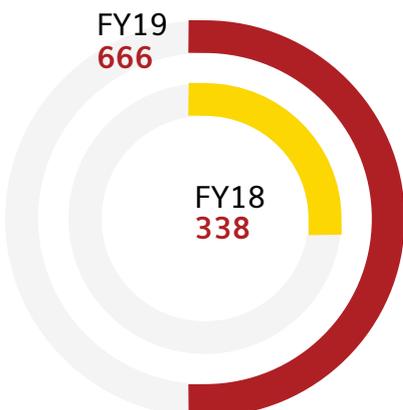


TOTAL DEPOSITS

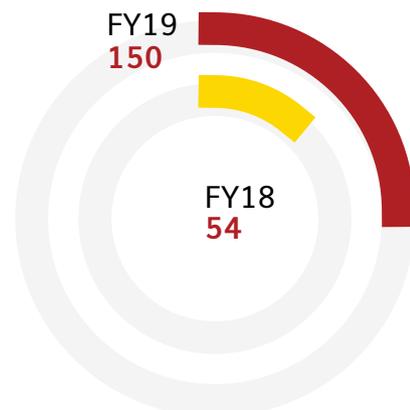
▲ 181% Y-O-Y growth



NET WORTH



PRE PROVISION OPERATING PROFIT

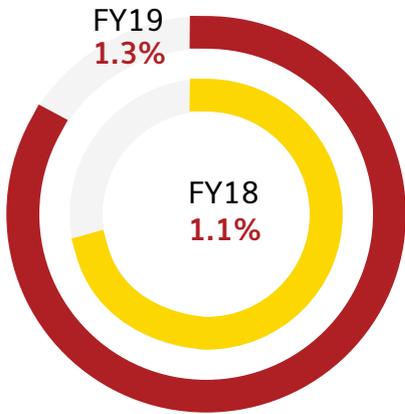




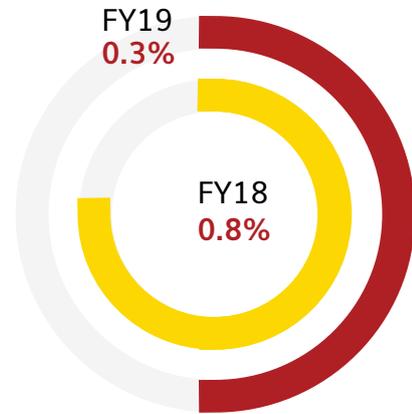
SMART GROWTH - THE YEAR IN PERSPECTIVE

(In ₹ Crore)

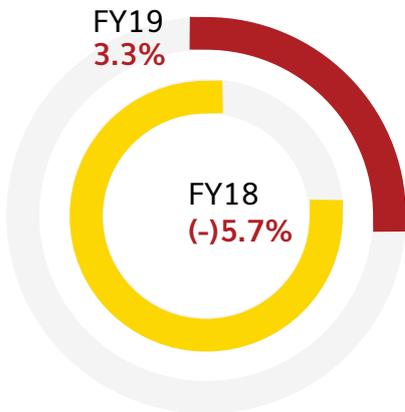
GROSS NON-PERFORMING ASSETS



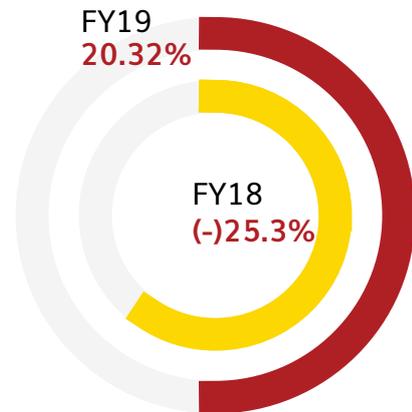
NET NON-PERFORMING ASSETS



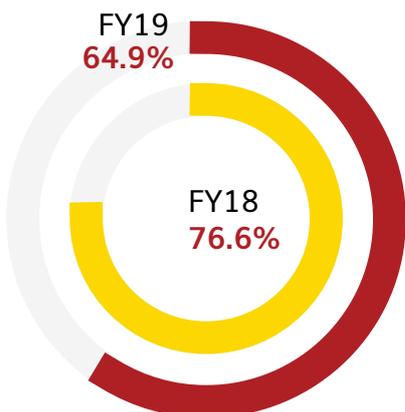
RETURN ON ASSETS



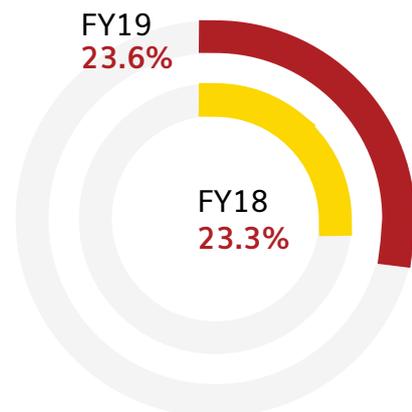
RETURN ON EQUITY



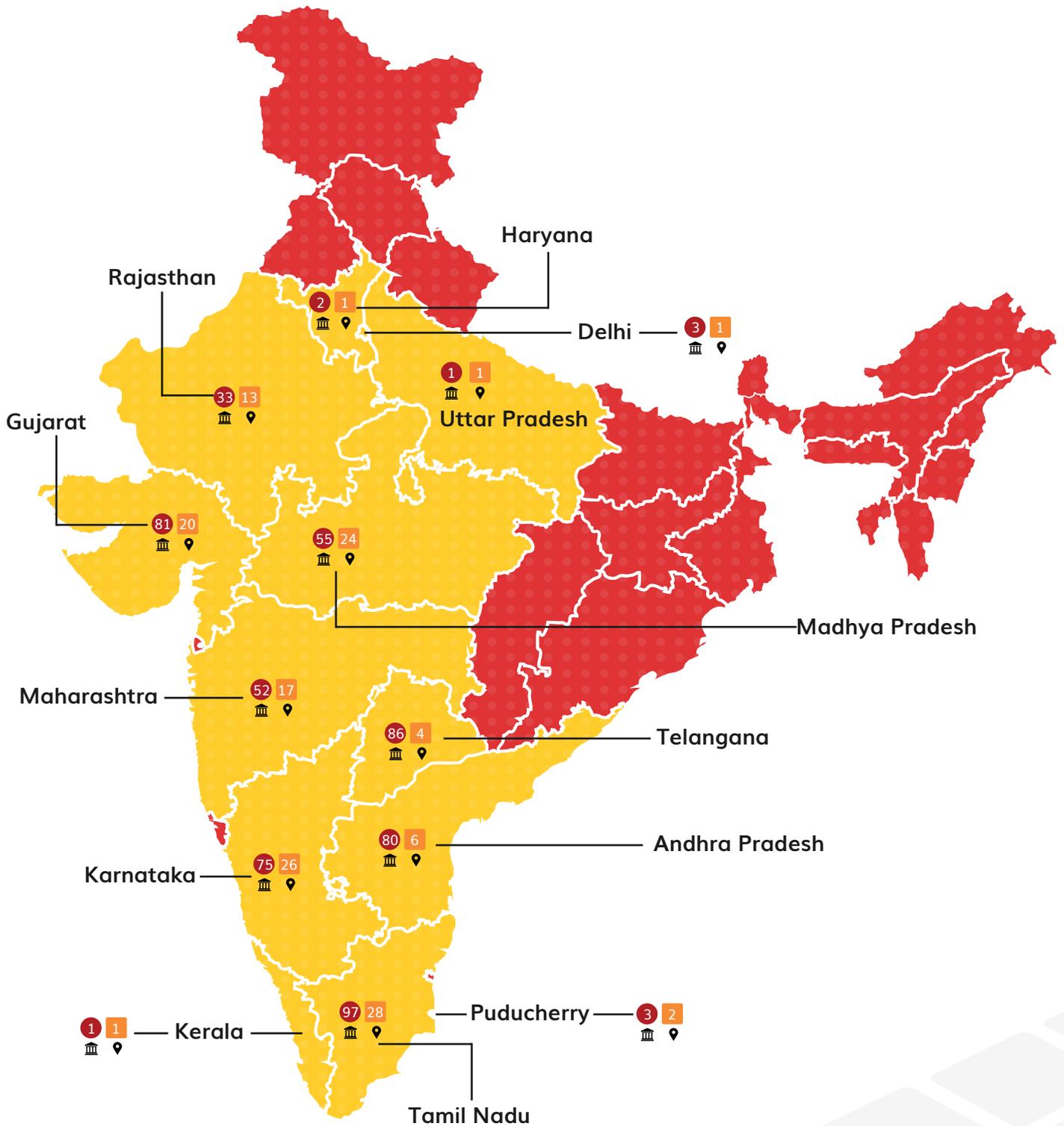
COST TO INCOME RATIO



CAPITAL ADEQUACY RATIO



SMART GROWTH - THE YEAR IN PERSPECTIVE



Banking Outlets
Districts

 **569** Banking Outlets
 **12** States
1 UT
144 Districts

CELENT MODEL BANK 2019 AWARD

Fincare Small Finance Bank received the prestigious Celent Model Bank 2019 Award in the category of Financial Inclusion, for LAP D.Lite, a tab-based solution designed and developed in-house by Fincare SFB for origination and instant underwriting of Loans against Property targeted at micro and small enterprises. Fincare is the first Small Finance Bank in India to get this global recognition.

Celent is a research, advisory and consulting firm focused on financial services technology, and is a part of the Oliver Wyman Group, a wholly owned subsidiary of Marsh & McLennan Companies.



GUJARAT BEST BRAND AWARDS 2018

Fincare Small Finance Bank was awarded the Best Emerging Brand in Gujarat on 27th September, 2018 by ABP News Gujarat Best Brand Awards, 2018.



ABP NEWS - BFSI AWARDS FOR EXCELLENCE IN BANKING, FINANCIAL SERVICES & INSURANCE

Fincare Small Finance Bank bagged awards in two categories on 28th November, 2018.



Innovative initiative in rural sector – for m-Care, a tab-based microloans origination system



Bank with best technology orientation – for digital banking solutions



SKOCH ORDER-OF-MERIT

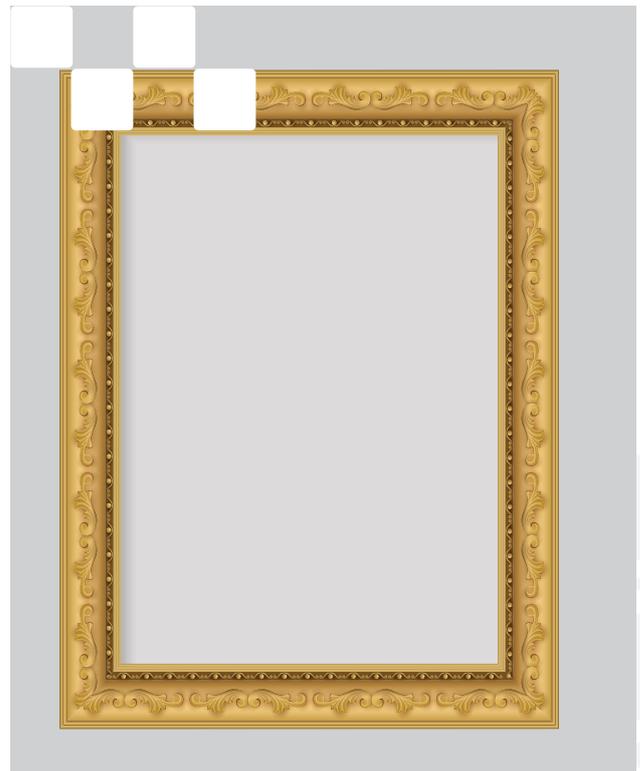
Fincare Small Finance Bank was awarded in two categories on 22nd December, 2018.



Top Ranking Banking & Finance Projects in India (Technology/Apps) – LAP D.LITE



Top Ranking Banking & Finance Projects in India (Pragati Movie) – Capacity Building and Financial Literacy





THE FINCARE WAY DELIVERING ON PROMISES



Passionate
about Values



Think Customer
Delight



Compliance in
Letter & Spirit

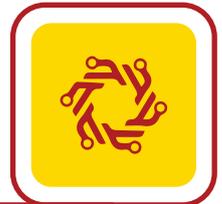


Imagine the
Future

Rurban
Approach



Win-Win
Partnerships



Deliver Predictable
Results



Technology led
Processes





Fincare Small Finance Bank has navigated through the second year of its operations, rather successfully. FY19 has been a year of milestones with calibrated steps and measured caution in the face of environmental and business headwinds. While the first year of the Bank was all about focussing on the transition, the second year was about delivering sustained business performance and navigating the path of profitable growth, diversification and putting on track, the vision of a Digital Bank.

I am happy to report that in the first quarter of FY20, Fincare Small Finance Bank was included in the Second Schedule to the Reserve Bank of India Act, 1934. By virtue of this, our Bank is now a Scheduled Commercial Bank, a status that reflects the highest degree of trust and good governance. This also opens a world of opportunities for us, in terms of access to additional sources of funding.

Our Bank has made significant progress during the year in growing its secured asset business and building a strong liability franchise. **Secured assets now comprise nearly 20% of the Bank's gross loan portfolio**, I am also delighted to report that deposits registered a growth of over 180% during the year. **The Bank also registered a net profit of ₹ 102 Crore.**

Over time, Fincare has demonstrated adaptability as a winning trait and learning and imbibing the art of survival and growth to become bigger, bolder and better, each day. The Bank remains steadfast in its commitment to serve the unbanked and underbanked customer segments, both individual and micro-enterprises and work towards financial inclusion. Further, it has gained a strong foothold in the mass affluent, retired and HNI customer segments, as a bank of choice, for high-yield savings and deposit products. The Bank is also engaging with tech-savvy consumers through digital channels and I am sure that this segment would become a significant contributor to the Bank's business in times to come.

With the foundation of a proven business model, a skilled management team, robust process and technology orientation, financial inclusion backbone and a strong compliance framework, our Bank is committed to further the cause of Smart Banking in India.

Despite the fundamental challenges of liquidity in the overall economy during the second half of the year, with credit growth slowing down and market sentiment becoming tepid, our Bank remained focussed on deepening our engagement with our core customer segments. With a well-capitalized balance sheet and high levels of customer engagement, the Bank continued to build a strong loan book while also expanding its suite of products and markets.

Key areas where Fincare Small Finance Bank has shown exemplary progress:

■ DRIVING THE DIGITAL STRATEGY

The Bank's Digital Philosophy is built on drivers such as user experience, seamlessness across channels and scale. At our Bank, every aspect of banking operations, including customer onboarding, backend process workflows, risk management and compliance is driven by a digital-first philosophy. The 101-account offering from our Bank places us among the frontrunners in the Banking sector, offering the convenience of savings account services through the digital channel.



■ GAINING DEPOSITORS' TRUST

I am glad to report that, our Bank has quickly emerged as an attractive deposit destination for customers. Deposits recorded a growth of 181% in FY19, reaching ₹ 2,043 Crore as on 31st March, 2019. Our CASA ratio has grown to 11%.

■ EXPANDING THE PRODUCT BASKET

Our bank has forged ahead from a micro-loans business and built a product basket linked to the needs of varied target segments including the underbanked base of the pyramid, the mass retail, the micro and small enterprise segments and digitally savvy customers.

On the assets side, GLP of the Loan against Property product has witnessed a growth of over 160% during the year, with controlled delinquencies. Further, Loan against Gold, a slow GLP building product, has witnessed a 3.5-fold rise in GLP in FY19, with no write offs on account of spurious gold or auction losses. Further, Two-wheeler Loan was introduced as a new product in FY19.

In the Retail Banking segment, our Bank introduced two variants of Current Accounts, Salary Account, Recurring Deposits, NR Deposits, and Life and Health insurance products, in line with our commitment to offer broader financial services to target customer segments.

I conclude by saying that the Bank is witnessing sustainable growth opportunities for a wide range of financial services products and is constantly exploring newer opportunities. My sincere thanks to the Board members who have, individually and collectively, contributed immensely to this journey with their considerable wisdom and experience.

On behalf of the Board, I would like to take this opportunity to thank all the investors, stakeholders and valued customers for their continued belief in The Fincare Story as it moves towards an exciting and challenging path ahead.

Warm Regards,

Pramod Kabra

Chairman



During FY19, Fincare Small Finance Bank continued to focus on building a bank aligned to the evolving needs of our existing and potential customers. The Bank is on the move and aims to establish a strong presence in the country's banking ecosystem.

FY19 was a year of capitalizing on the foundation built in the preceding period of banking transformation. The Bank has made significant progress across key variables. I am taking the opportunity to share a few highlights.

Scheduled Status – The Bank was included in the Second Schedule to the Reserve Bank of India Act, 1934, thus crossing a major milestone in its journey.

Governance and compliance culture - The Bank strengthened its Management and Board Committee framework and documentation processes during the year, to ensure better governance standards. We also implemented CERMO+, an online tool for monitoring and driving a compliance culture.

Geographical expansion – In FY19, the Bank continued expansion of its geographical footprint with the total network of 569 banking outlets spread across 12 states and 1 UT. This year, the Bank witnessed the entry into new states and regions such as the National Capital Region, Telangana, Kerala etc.

Liabilities franchise – In the second half of the year, while the economy witnessed a liquidity crisis, the Bank directed its efforts towards building a granular deposit base. As a result, the Bank successfully reduced its dependence on high value bulk deposits, building a base of smaller bulk deposits. The Bank also ended the year with a 56% share of retail deposits. Further, the Bank has opened over 8 Lakh savings accounts for its microloans customers, a step further in their financial inclusion journey.

Rating upgrade - Despite a challenging macro-economic environment, the Bank received a rating upgrade of its long term credit facilities from multiple Credit Rating Agencies. This is another testimony to the Bank's robust governance and sustainable business model.

Full suite of offerings – During FY19, various new products and services, including variants were added to the overall basket of offerings, which helped the bank in building a comprehensive portfolio to serve the needs of diverse customer segments. In FY19, Fincare Small Finance Bank signed corporate agency agreements with two life insurance companies (Kotak Mahindra Life Insurance Company Limited and Edelweiss Tokio Life Insurance Company Limited) and one health insurance company (Religare Health Insurance Company Limited) to add insurance products to the customer offerings.

Digital & Automation focus – The Bank continued to place digital at the core of its business. The Bank migrated 100% of existing microloans data to the core banking system, initiated new projects such as data lake, undertook automation of reports and development of systems for sourcing two-wheeler loans and rural loan against property.

Management team – The Bank added 15 members to the Leadership and Executive Management Teams during the year. With this, the Bank boasts of a well-rounded and comprehensive senior management team to steer the future course of the bank.

Great Place to Work – The Bank acknowledges that the core ingredient of its success and growth are its employees and continues its quest for building a great workplace culture. With a GPTW Trust Index score of 86 in FY19, the Bank continues to focus on an engaged workforce, ethical conduct, compliance and accountability, integrity and transparency in its endeavour to become a certified great place to work.



As we look forward to the coming years, we are confident of doing our best to enhance our customer experience by providing comprehensive banking services.

On this note, I would like to thank our customers for their trust, confidence and support for the Bank. With a strong and capable management team, Fincare Small Finance Bank is poised to set higher performance benchmarks in the years to come.

Keeping the entire spectrum of customers at the core, we are looking forward to another year of Smart Banking!

Yours faithfully,
Rajeev Yadav
MD & CEO

BOARD OF DIRECTORS



Pramod Kabra

Chairman
Partner, True North



Rajeev Yadav

MD & CEO



Sameer Nanavati

Director
Founder, Disha Microfin



Ravindran A. L.

Nominee Director
General Manager, SIDBI



Alok Prasad

Independent Director
Former CEO, MFIN



Sunil Gulati

Independent Director
Former CRO, RBL Bank,
Yes Bank



Susan Thomas

Independent Director
Faculty at IGIDR;
Economist



Varun Sabhlok

Independent Director
Formerly Citibank, PayPal



Vinay Bajjal

Independent Director
Sr. Advisor, KPMG;
Former CGM, RBI

With a rich and varied experience in banking, financial inclusion, rural economy and regulatory matters, Fincare SFB board comprises of stalwarts and veterans.

OUR MANAGEMENT TEAM - BUSINESS



Rajeev Yadav

MD & CEO



Ashish Misra

Chief Operating Officer
Retail Banking



Dr. Ashish Chhabra

Chief Operating Officer
Retail Banking - West



Deepabh Jain

Chief Operating Officer
Mortgages



Kishore Mangalvedhe

Chief Operating Officer
Rural Banking - South



Mahender Chawla

Chief Operating Officer -
Operations & Loan
Against Gold



Prakash Sundaram

Chief Strategy & Digital
Innovation Officer



Ravish Chandra

Chief Operating Officer
Rural Banking - West



Soham Shukla

Chief Operating Officer
Rural Banking



Suresh Krishnamurthy

Chief Operating Officer
Retail Banking - South



Virender Sharma

Head Alternate Channels,
Rural Banking

OUR MANAGEMENT TEAM - FUNCTIONAL



Chandar Rao V

Chief Technology Officer



Kavya Shetty

Head - Strategic Initiatives



Keyur Doshi

Chief Financial Officer



Pankaj Gulati

Chief People & Marketing
Officer



Raghavendra Rao T S

Chief Compliance Officer



Rakesh Das

Head - Credit



Sandeep Bhalla

Head - CEO Office



Shashi Kumar T

Head - IT Projects



Venkata Jayaraman M

Chief Risk Officer



During the year, the Bank laid emphasis on making the portfolio more diverse and granular, easier to access and available in both digital and physical formats.

Loan Products

MICROLOANS

Income generation loans primarily for women customers from low income rural households. Ticket size ranges from ₹ 15,000 to ₹ 45,000 with a tenure of 24 months.

FY19 Highlight

₹ 2,577 Crore disbursed to over 11,76,000 customers with outstanding GLP of ₹ 2,842 Crore as on 31st March, 2019.

LOAN AGAINST PROPERTY

Business loans primarily for micro and small business owners in semi-urban and urban markets and used for business expansion, asset purchase and debt consolidation. Ticket size ranges from ₹ 1,50,000 to ₹ 50,00,000 with a tenure of 36-120 months.

FY19 Highlight

₹ 268 Crore disbursed to over 4,300 customers with outstanding GLP of ₹ 342 Crore.

LOAN AGAINST GOLD

Short-term liquidity loans, primarily for micro-enterprises and self-employed individuals in semi-urban and urban markets. Ticket size ranges from ₹ 5,000 to ₹ 25,00,000 with a tenure of 3-24 months.

FY19 Highlight

₹ 164 Crore disbursed to over 24,000 customers with outstanding GLP of ₹ 89 Crore as on 31st March, 2019.

INSTITUTIONAL FINANCE

Loans backed by hypothecation of receivables, primarily targeted at NBFCs and NBFC-MFIs for onward lending, and MSMEs. Ticket size ranges from ₹ 1 Crore to ₹ 15 Crore with a tenure of 6-36 months.

FY19 Highlight

₹ 227 Crore disbursed to 29 customers with outstanding GLP of ₹ 257 Crore as on 31st March, 2019.

TWO-WHEELER LOAN

Loan for purchase of two-wheeler, primarily for existing Microloans customers. Ticket size ranges from ₹ 22,000 to ₹ 75,000 for a tenure of 24-36 months.

FY19 Highlight

₹ 88 Lakh disbursed to 163 customers with outstanding GLP of ₹ 72 Lakh as on 31st March, 2019.





Deposit Products

SAVINGS ACCOUNT

The account offers interest rate of 6% p.a. for balances up to ₹ 1 Lakh, 7% p.a. for balances over ₹ 1 Lakh, 7.25% p.a. for balances over ₹ 5 Crore and 7.5% p.a. for balances over ₹ 20 Crore. Interest is paid monthly. The offering is targeted at retail mid and affluent segments, small businesses, TASC segment and microloan customers.

101 SAVINGS ACCOUNT

A digital savings account with two variants: 101 First and 101 Priority. The account offers interest rate of 6% p.a. for balances up to ₹ 1 Lakh, 7% p.a. for balances over ₹ 1 Lakh. Interest is paid monthly. The offering is targeted at Digital Savvy, High Earners, Not Rich Yet (HENRY) segment.

CURRENT ACCOUNT

Current account offers facilities like 24/7 cash deposit anytime, anywhere at Fincare ATM, Up to 100 free transactions across NEFT, RTGS & IMPS for premium variant, 15 free transaction per month across all ATM and Unlimited cash transactions at branch for premium variant and sweep facility. It is targeted towards small and medium businesses.

RECURRING DEPOSIT

Recurring deposit offers interest rate of 9% p.a. The minimum deposit amount starts at ₹ 500 and the tenure of the deposit can vary from 6 months to 5 years.

RETAIL TERM DEPOSIT

The product offers interest rates up to 9% p.a. with additional 0.5% p.a. for senior citizens. The ticket size is upto ₹ 2 Crore. Interest is paid on monthly/quarterly basis or reinvested. The product is targeted at retail mid and affluent customers.

INSTITUTIONAL DEPOSITS

The product is targeted at corporates, institutional and high net-worth individual investors. Ticket size is ₹ 2 Crore and above. Interest is paid on monthly/quarterly basis or reinvested. The product is targeted at corporates, institutional and high net-worth individual investors.



Micro Banking Outlets

Erstwhile Microfinance offices located at Taluk headquarters and converted to banking outlets in FY18. These outlets, focused largely on Microloans customers, offer primarily Microloans, Two-Wheeler Loans and Loans Against Gold, as well as basic banking services such as Account Opening, Cash Deposits and Withdrawals.

Basic Banking Outlets

Erstwhile Microfinance offices typically located at Taluk/District headquarters, and converted to with banking outlets with upgraded infrastructure. These outlets, focused on both existing and new to bank customers, offer Microloans, Loans Against Property, Loans Against Gold, Two-Wheeler Loans, Savings Accounts, Current Accounts, Fixed Deposits, Recurring Deposits and other banking services.



Full-Service Banking Outlets

New, full service banking outlets located at commercial hubs in Tier-1/metro locations, operationalized post bank commencement. These outlets, focused largely on new to bank customers, offer a full range of banking products and services and are equipped with cash recycler machines.



Agency Banking Outlets

Business Correspondent outlets providing last mile reach, through multiple storefronts, set up from July 2018. These outlets, targeted at new to bank customers from lower income groups, in unbanked rural centres, offer basic banking services.



BANKING OUTLETS

569



SERVING

30,865 villages across 144 districts



LOCATIONS

12 States, 1 Union Territory

As of 31st March, 2019



OUR CHANNELS

Branch
Banking



Internet
Banking



Mobile
Banking



OUR
CHANNELS



Tab
Banking



Multilingual
Toll-free
Call Centre



Cash Recycler
Machines/ ATMs



OTHER SERVICES

IMPS



NEFT/RTGS



NACH



OTHER SERVICES



Bill Pay



Rupay Debit Cards



Lockers

OUR BUSINESS LINES - A SMART PORTFOLIO

- RETAIL BANKING

During the year, the Bank registered impressive growth in the Retail Banking segment.

In FY19, the Bank focused on offering a wide spectrum of products and need-based solutions, which ensured a rewarding experience for customers and helped build long term relationships with customers. The overall liability book grew rapidly as the Bank ventured into multiple geographies.

The Retail Banking unit 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 liabilities products ranging from Savings Accounts, Current Accounts, Retail and Institutional Term Deposits and Salary Accounts.

During the year, in terms of partnership products, the Bank was granted the Certificate of Registration to act as a Corporate Agent (Composite) by the IRDAI. Following this, the Bank signed Corporate Agency agreements with Edelweiss Tokio Life Insurance Company Limited, Kotak Mahindra Life Insurance Company Limited and Religare



Health Insurance Company Limited. Through these partnerships, the Bank offers a bouquet of life and health insurance products to its existing and new to banking customers.

Following the Supreme Court verdict in September 2018 on Aadhaar validity, the Bank developed an application for on-boarding customers using a tab without the biometric authentication and using an alternate KYC while maintaining the quick turnaround time (TAT) of the earlier process. With the instant account opening facility, the Bank offers an Insta-kit containing instant non-personalized debit card and cheque book, eliminating the challenges in delay and non-delivery of personalized account collaterals and thereby helping customers to transact instantly. Overall, a delightful and seamless banking experience delivered.

As on 31st March 2019, the Bank had a deposit base of ₹ 2,043 Crore, with over 8 Lakh accounts. The Bank's CASA ratio was 11.3%.

FINCARE DIFFERENTIATORS



Attractive interest rates



Full range of offerings for different customer segments



Technology-enabled processes and seamless cross-channel experience

The Bank aims to foster trust, transparency and technology-led banking through best-in-class services and products while providing a safe and secure environment.

RURAL BANKING

Rural is core to the DNA of the Bank and the Rural Banking unit deals with the largest customer base of the Bank. The current offerings to rural customers include Micro Loans (Joint Liability Group), Loan against Gold, Loan against Property, Two-wheeler Loans, Savings Accounts, Term Deposits and Credit Life Insurance. The Bank will continue to expand this product suite in the future based on the needs of this segment.

As of 31st March, 2019, microloans constituted 81% of the Bank's Gross Loan Portfolio.

THE CHALLENGES

In FY19, the Bank witnessed two key challenges, first - absorbing the impact of demonetization and second - maintaining business as usual in the backdrop of migration of microloans data to the Core Banking system. Other IT applications in ensuing from the banking transformation. Even during this transition, the microloans portfolio continued its growth streak, given the sharp focus on credit selection, process simplification and geographical expansion.

THE OUTCOMES

- a). In FY19, the Bank opened 32 new microloans focused banking outlets in existing states of operations. As on 31st March, 2019, Rural Banking offered services in 126 Districts, with an average of 50 clients per village across 30,865 villages, spread across 8 states and 1 UT.
- b). The microloans customer base increased from 10.4 Lakh under-banked customers in FY18 to 15.02 Lakh during FY19. In FY19, the portfolio grew 53%, fuelled by higher branch footprint and enhanced productivity, thanks to several automation initiatives.
- c). In FY19, the Bank offered cross sell of products such as – Two-Wheeler loans, Rural Loan Against Property, Rural Loan Against Gold to Joint Lending Group (JLG) customers.

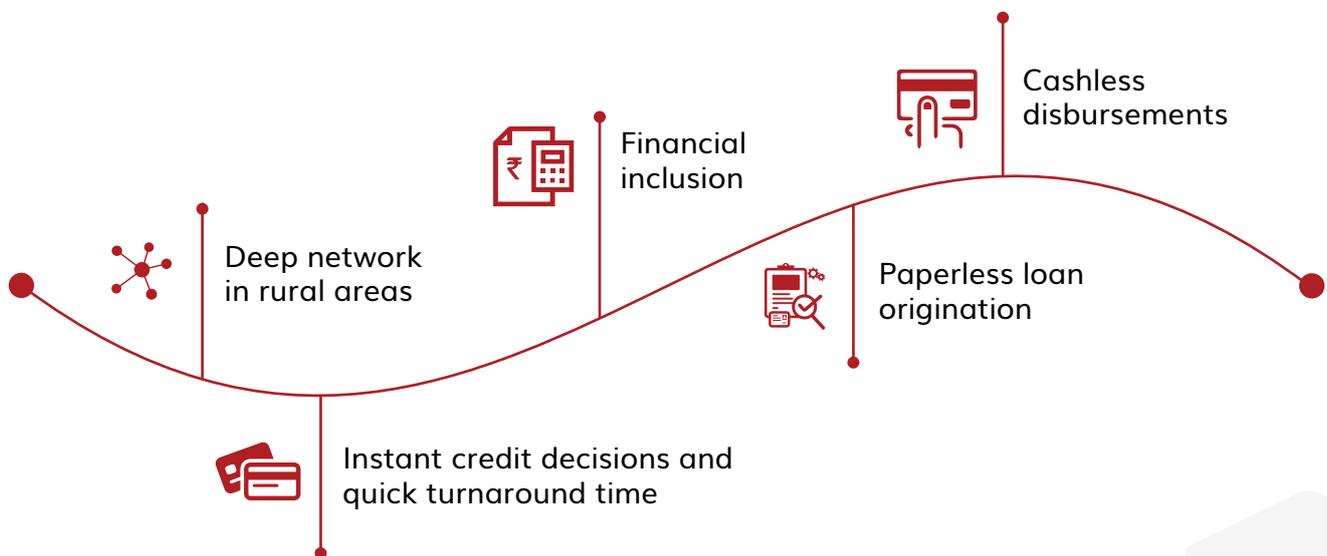


OUR BUSINESS LINES - A SMART PORTFOLIO

- RURAL BANKING

- d). The Bank also launched the Basic Savings Bank Deposit Account (BSBDA) product for rural customers. During the year, the Rural Banking unit added 658 BSBD Accounts. This zero-balance savings account takes care of the customer's simple banking needs.
- e). In order to further the cause of less-cash banking, the Rural Banking unit initiated a financial literacy drive and encouraged customers to open a savings account with easily accessibility using a debit card. During the year, the Bank opened savings accounts for over 8 Lakh microloans customers, and disbursed the loans directly to their accounts.
- f). The Bank provided Direct Benefit Transfer (DBT) linkage to 11,198 customers, enabling subsidies to flow to their Fincare savings accounts.
- g). The Bank ensured that the Portfolio quality continued to be stable, and credit discipline remained at the pre-demonetization levels, resulting in best in class gross NPA levels of only 1%.
- h). Further, the microloans portfolio returned to the industry benchmark of 99.9% collection efficiency during the year.

FINCARE DIFFERENTIATORS



The Bank disbursed over 11,76,900 microloans amounting to ₹ 2,577 Crore with outstanding loan book of ₹ 2,842 Crore as on 31st March, 2019

OUR BUSINESS LINES - A SMART PORTFOLIO

- RETAIL ASSETS - LOAN AGAINST PROPERTY



The Bank is committed to providing the full range of banking services to the unbanked and underbanked customer segments. While unsecured loans have been the backbone of the Bank, for a few years now, the Bank has built a sharp focus on the secured loan portfolio.

As a flagship secured product offering, Loan against Property is an offering for small retailers, traders and It is also cross-sold to existing microloans customers.

As of 31st March, 2019, the Bank had made available Loan against Property (LAP) across 108 locations in 6 states/UT.

The loan can be customized with ticket sizes ranging from ₹ 1.5 Lakh to ₹ 50 Lakh and tenures up to 120 months. It can be availed as a term loan or as a combination of term loan and overdraft limit facility based on the need. As of 31st March, 2019, the average ticket size was ₹ 5.72 Lakh.

During the year, the Bank made the entire loan sourcing and fulfilment process digital, requiring minimal documentation. The Bank's Tab Banking Solution LAP D. Lite is a key enabler of customer convenience and quick turn-around time. The Bank witnessed limited delinquencies during the year, with GNPA falling to 2.09% in FY19 from 3.21% in FY18.

During FY19, the Bank disbursed over 4,300 loans amount to ₹ 268 Crore, and the total LAP portfolio grew to ₹ 342 Crore as on 31st March, 2019

OUR BUSINESS LINES - A SMART PORTFOLIO

- RETAIL ASSETS - LOAN AGAINST GOLD

The Bank launched Loan against Gold product in FY18 with the objective to widen the need-based product suite and enhance the secured mix of the overall loan portfolio, while leveraging the distribution network and technology framework already in place.

The product is aimed at meeting the short-term liquidity needs of microenterprises, small businessmen, traders, and self-employed individuals.

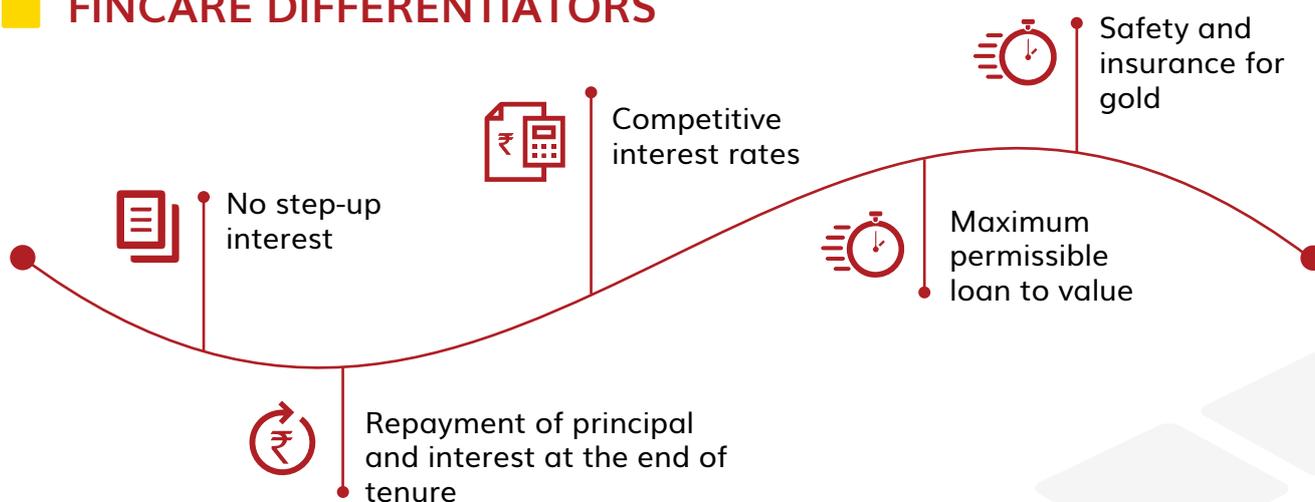


The product has also opened the opportunity for a meaningful cross sell to existing microloans customers of the Bank. The product is based on an EMI model combined with doorstep collections for this segment. Further, in order to reduce turnaround time, the Bank has implemented paperless origination through a tab using Aadhar based e-KYC.

In FY19, the Bank offered Loan against Gold product in 6 new states/UT. The network was boosted by adding branches in existing states of operations. As on 31st March, 2019, the offering was available at 157 banking outlets across 13 states/UT.

The Bank has ensured that valuation, audit and operating controls are kept on a tight watch and thus delivered near-zero NPAs in the portfolio while ensuring a 345% growth in GLP in FY19 over the previous year.

FINCARE DIFFERENTIATORS



The Bank disbursed over 24,000 loans amounting to ₹ 164 Crore with an outstanding GLP of ₹ 89 Crore as on 31st March, 2019

OUR BUSINESS LINES - A SMART PORTFOLIO

- INSTITUTIONAL FINANCE (IF)



In August 2017, the Bank introduced Institutional Finance (IF), an endeavour to diversify the portfolio by including Corporate and Institutional clients to its customer segments.

With IF, the Bank caters to the funding requirements of NBFCs engaged in Microfinance, SME finance and LAP Financing, complementary to the segments that the Bank caters to. The customer can get up to ₹ 20 Crore in funding, with a margin deposit of up to 20%, at attractive interest rates. All the loans are backed by hypothecation of portfolio receivables.

As of 31st March, 2019, the IF portfolio includes 31 active partners viz. 13 microfinance, 13 MSME and LAP and 5 Commercial Vehicles players, whose operations are spread across 24 states/ UT.

■ FINCARE DIFFERENTIATORS



Long-term partnership



Quick turnaround time



Best-in-class rate for deposits

During the year, the Bank disbursed loans totalling ₹ 228 Crore and the Institutional Finance book was ₹ 257 Crore as on 31st March, 2019.

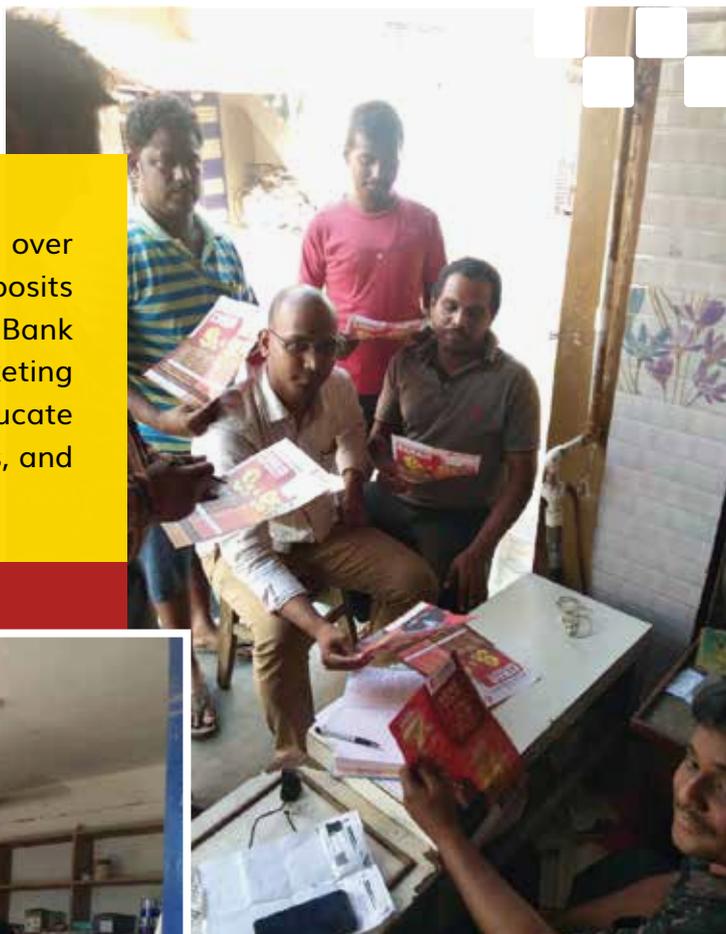
OUR BUSINESS LINES - A SMART PORTFOLIO

- AGENCY BANKING

The Bank opened Business Correspondents Outlets in the states of Andhra Pradesh and Telangana in July 2018 by partnering with Oxigen Services India Private Limited, a Corporate Business Correspondent Company.

As of 31st March, 2019, the Bank has 152 BC outlets in 7 districts of Andhra Pradesh and Telangana.

By the end of FY19, the Bank had opened over 4,000 Savings Accounts and Term Deposits through this channel. During the year, the Bank conducted several meetings and marketing campaigns in these districts in order to educate customers about various banking products, and to promote financial literacy.



OUR BUSINESS LINES - A SMART PORTFOLIO

- DIGITAL BANKING

The current era of digital disruption is transforming all aspects of our lives. Today, Digital has radically changed the way we bank. In this context, Fincare Small Finance Bank is working towards making banking frictionless and a delightful experience.

With the focus on unbanked/underbanked customers, characterized by high volume, low value transactions, innovation in process, product and distribution is key. The Bank has embraced the 3A philosophy - Automation, Analytics and Algorithm, with a view to enhance customer experience, employee efficiency and process controls.

Fincare Small Finance Bank's digital approach is built on the foundation of:



Being an
EARLY MOVER



Building **SCALE**



Creating **CUSTOMER
IMPACT**

The Bank has a dedicated digital vertical, led by the Chief Digital Innovation Officer, with product managers responsible for the management of all Digital Banking products and channels.

Digital is core to the DNA of the Bank

- Designed and built for mass transactions, the systems and processes of the Bank involve minimum human intervention and aim to maximize customer satisfaction. Digital plays a big role in cutting down the time for loan sanction, account opening, service requests and transactions.
- The Bank has integrated multiple systems through APIs, adding power to the core banking system, and enabling a faster rollout of offerings.
- The Tab Banking Solution, using an assisted digital approach, allows the Bank to deliver an array of services through the digital medium, thereby reaching the base of pyramid customers who may not be very comfortable with the use of technology but want banking services.
- Digital Banking has allowed the Bank to redefine service approach with 24X7 delivery, 365 days of the year that addresses the needs of customers without the need for a physical branch.
- With the help of intuitive UX, mobile-first thinking and cloud-powered systems, the Bank has created a dynamic way of banking to offer superior customer experience with real-time user feedback.

SMARTBANK

An Instant, paperless banking experience for customers was central to the idea of designing a tab-based application for all retail banking products and services. The Bank focused on leveraging the available technology in order to provide a differentiated experience to its customers.

Today, SmartBank, a tab-based solution caters to all retail banking customers and delivers the full array of Savings Account and Fixed Deposits Account Opening and Servicing. The tab-based application also enables origination of Loan against Gold accounts. This application is integrated with UIDAI for Aadhaar based e-KYC, AML system and multiple payment 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 mins of opening the account.

Cash Deposits, Cash Withdrawals, Fund Transfers via NEFT/RTGS/IMPS and service requests such as updation of customer details, account details etc. are managed, in a paperless manner, instantly and at the customer's doorstep.

The digital design thinking at the Bank enables a clear focus on driving business efficiency, enhancing customer experience, reducing risk, delivering automated solutions automated solutions for all processes, and thereby disrupting the way the business is conducted.

LAP D.LITE

In FY18, Fincare rolled out LAP D.Lite, a tab-based solution for paperless loan origination and underwriting of Loans against Property. This application was created in-house, was integrated with UIDAI for Aadhaar based e-KYC, credit bureaus such as CIBIL and CRIF High Mark, permitting instantaneous e-KYC and credit profiling of the customer. This was helpful for quick credit assessment for the first-time borrowers with no credit history, no income tax returns, and no business transaction receipts. To overcome the lack of this data, the application did algorithm-based scoring. This piece of technology led to a much quicker turnaround time from lead generation to disbursement. The Bank gained better control on the field operations through GPS tagging and enabled centralized audit. This solution has been deployed successfully in all banking outlets that offered Loan against Property, leading to 100%-tab based sourcing.



M-CARE

The Bank's loan origination system for microloans is real-time integrated with UIDAI for identity verification and credit bureaus for credit information. This has enabled the Bank to go paperless, cut the loan turnaround time, allowed field teams to make quick credit decisions and made customers aware of the importance of maintaining a good credit history. With this solution, an earlier loan turnaround time of 10-12 days was reduced to 5 days. In FY19, with the rollout of m-Care at 100% banking outlets offering microloans, application processing and decision making have become entirely automated.

M-COLLECT

The tab-based collection application is a natural extension of m-Care. It is used by collection teams to record client transactions. The capability of this digital application makes collections possible even in deep rural centres. The application lowers the time required for collections from customers. With this solution, the collection time in m-Collect footprint areas has reduced significantly.

OTHER DIGITAL INITIATIVES

Aadhaar e-KYC paved the way for accurate, real-time, instant Universal ID integrations for customer KYC. This has helped the Bank to go paperless and provide instant gratification to the customer.

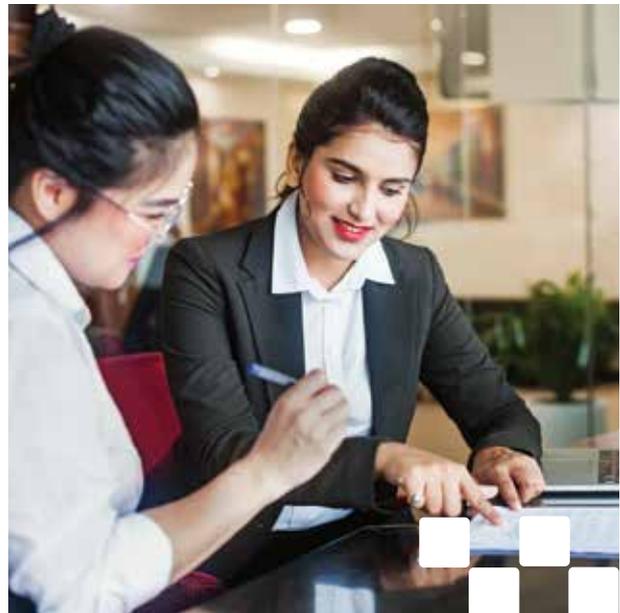
The Document Management system allowed encrypted central storage and archive of all customer documents in a digital format.

Further, the Customer Information Platform along with Customer Relationship Management System evolved into a single system with all

customer information in one place which provided uniformity of data across all channels and facilitated efficiency in validating customers duplications.

In order to empower employees with digital tools, the Bank has launched cross-sell application, BI and Analytics platform for decision making, an HRMS mobile application, biometric attendance and a Helpdesk tool.

During the year, the Bank initiated the data lake project, to ensure all data is warehoused in one central system.





HIGHLIGHTS OF FY19



In this financial year,
Fincare Small Finance Bank launched Tab based Customer Onboarding process that is compliant with Aadhaar EKYC 2.5 guidelines.



The Bank launched Nano banking Instant Customer Onboarding & Account Opening app for non-DBT customers i.e. those customers who do not wish to use the Fincare Small Finance Bank account for availing Direct Benefit Transfer (DBT) services.



Fincare Small Finance Bank launched key feature enhancements/updates for Tab Banking app pertaining to CASA creation, Fixed Deposit creation, Loan Against Gold creation and Cash Transactions.

A digital banking experience to enhance Customer Value Proposition



Launched in February 2018, the online savings account is designed for the tech-savvy customer. 101 is ideal for those looking to cut out the time and hassle of a branch visit for account opening and operations. With the 101 account, a customer can open a Fincare Bank account online in a few minutes anytime and anywhere and access benefits available to digital / self-service customers.

Though targeted at tech savvy customers, Digital Savings Accounts are pertinent in a larger Indian context, built around the growing Mobile and Internet ecosystem. This makes account opening possible, independent of branch presence or timings.

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.

The 101 has emerged as the channel of scale for the Bank. The Bank's online account offering is differentiated in terms of convenience of opening standalone Fixed Deposits online while enjoying the market-leading deposit rates.



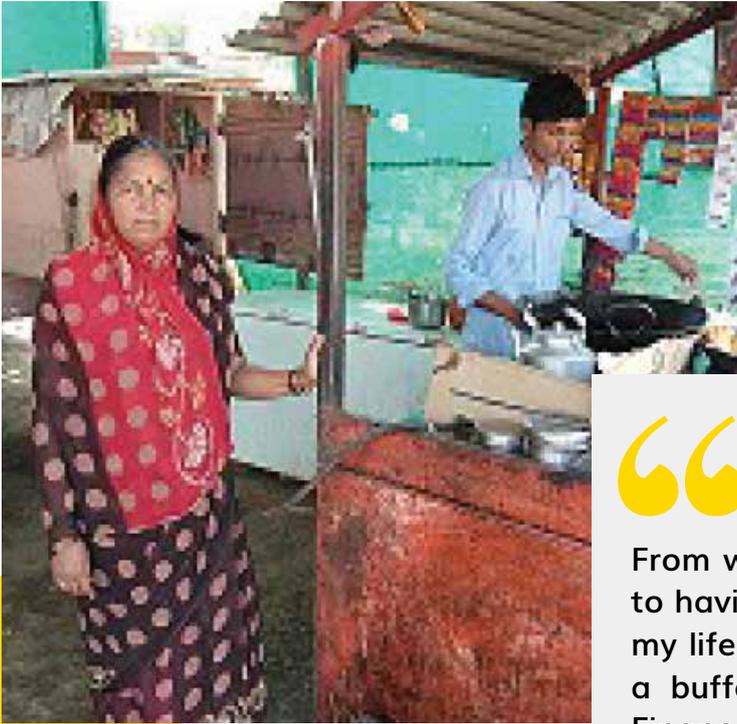
“

The growth in my family's well-being is due to Fincare Small Finance Bank. My income has increased, and it is continuously increasing. Taking a loan from Fincare is like taking help from my own family.

”

Manjula Saravada
Ukmannal village, Karnataka

Manjula Saravada was at crossroads in her life. She needed funds. In FY14, she got a loan of ₹ 30,000 from Fincare Small Finance Bank. She opened a tea-stall. Perseverance and good track record helped her to avail her another loan. With that loan, her husband opened a tyre repair shop. Their income has increased and they are grateful to Fincare for helping them when they were in need.



“

From working in a farm that was not mine to having a tea and snack shop of my own, my life has completely changed. I also own a buffalo now. Thank you, Fincare Small Finance Bank, for helping me earn and build my life.

”

Puja Rohidas Marathe
Path Khadki Tal village, Gujarat

Puja was used to leading the life of an ordinary woman. She worked at a farm with other women. Her husband, a daily wage labourer, also had humble earnings. Life seemed destined for hardships as the land productivity in their village kept falling. While many neighbours left the village in search of greener pastures, Puja and her family could not leave. Since her house was located on the roadside, in order to augment her income, Puja decided to set up a tea stall to cater to passersby. But she needed funding for it. At a time when nobody gave her a loan, Fincare Small Finance Bank disbursed ₹ 22,000. The shop idea was a big success. Income grew. A few years later, she took a second loan of ₹ 30,000 and purchased a buffalo to produce own milk. This boosted the appeal of her shop even more. Puja changed her life with the power to chase her own dreams.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - OPERATIONS

Customer centricity is at the heart of everything we do, and Branch Operations unit follows the same mantra. This unit is responsible for all day-to-day operations at the Banking outlets, covering aspects such as customer service, deposit and loan documentation handling, security, branch administration and safety procedures in accordance with the guidelines.

The activities include reviewing and monitoring account opening and closure, handling FD and RD maturity and renewals, scrutinizing and verifying customers' requests and complaints, among others.

In FY19, the Branch Operations unit delivered strong operational controls across branches with near Zero cash losses at banking outlets.

Customer complaints received in this period were also minimal.



OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - FACILITIES



The Bank's Facilities framework is built on tight controls, process-orientation and competitiveness in order to cater to diverse and growing business segments. During FY19, the facilities unit achieved swift and cost-effective branch infrastructure roll out, without compromising on excellence and quality. In FY19, the Bank expanded its geographical footprint to 5 new States/ Union Territories including Telangana, Uttar Pradesh, Haryana, Delhi – NCR and Kerala and added 149 banking outlets.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - CENTRALIZED PROCESSING CENTRE

Fincare Small Finance Bank has adopted a multi-site CPC structure for efficient coverage across multiple geographies and states.

The Centralized Processing Centre (CPC) is tasked to bring standardization in processes to deliver a uniform customer experience. Built on "Go Digital, Enable Business, Create Value" motto, the CPC unit handles the back end for the entire suite of assets, liabilities and third-party products. It also provides valuable support for completion of the overall end-of-day activities with respect to financial and business operations.

The CPC also serves the "Business Continuity Plan" (BCP) objective, facilitating uninterrupted working of all critical processes Payment & Transaction Management System (PTMS). The Payment and Transaction Management unit works towards efficient functioning of the payment channels of the Bank across different zones. The unit covers CTS (Cheque Truncation System), RTGS, NEFT and all electronic payments, thus ensuring superior delivery of compliance guidelines and customer expectations. The unit also covers Term Deposit, Loan Disbursement and Reconciliation - ATM, POS, IMPS, Utility Bill Pay & Settlement of GL (Gold Loan) Accounts.



Apart from the payment channels, CPC also houses the TPP (Third Party Payment) operations - Insurance Processing Unit, in order to ensure on-boarding of all loans with Insurance provider and process the claims to manage the risk of contingent or uncertain loss.

The CPC handles the complete CTS/NACH (National Automated Clearing House) Clearing Process of all 3 grids (South, West & North).

In FY19, the team settled 1,289 deals successfully with error-free deal execution and settlement.

In addition to Microloans, CPC handled processing of Loan against Gold and Loan against Property with volumes of 14,632 accounts and 4,238 accounts respectively, in FY19. Processing of Recurring Deposit accounts was also initiated during the year.

The CPC facilitated Aadhaar seeding of over 3 Lakh accounts through NPCI during the year.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - CONTACT CENTRE



The Bank has a toll-free, multi-site contact centre that handles both inbound and outbound calls to customers. It offers 7 language options to address a diverse customer base. All centres are equipped to handle enquiries, service requests and complaints, along with internal service level agreements.

The Contact Centre holds 100% call recordings for monitoring and quality control purposes. A Helpdesk system was put in place to ensure that customer queries, requests and complaints are tracked, and resolution provided to the customer.

HIGHLIGHTS

In FY19, the unit handled over 48,000 customer calls with a 93% first-call resolution rate. The Unit implemented the Net Promoter Score (NPS) model to analyse customer satisfaction and received a score of 57. Customer satisfaction trend among LAP and FD customers showed tremendous improvement month on month.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - CUSTOMER SERVICE



A dedicated Customer Service Team is in place to ensure adherence to highest standards of customer service, and timely and appropriate response to customer queries and complaints.

The Bank conducts regular branch level meetings and standing committee meetings and uses the feedback for making improvement in product offerings, service quality and customer experience.

In FY19, 409 banking outlets conducted the branch-level customer service meetings. On average 8 to 9 customers were present in each meeting.

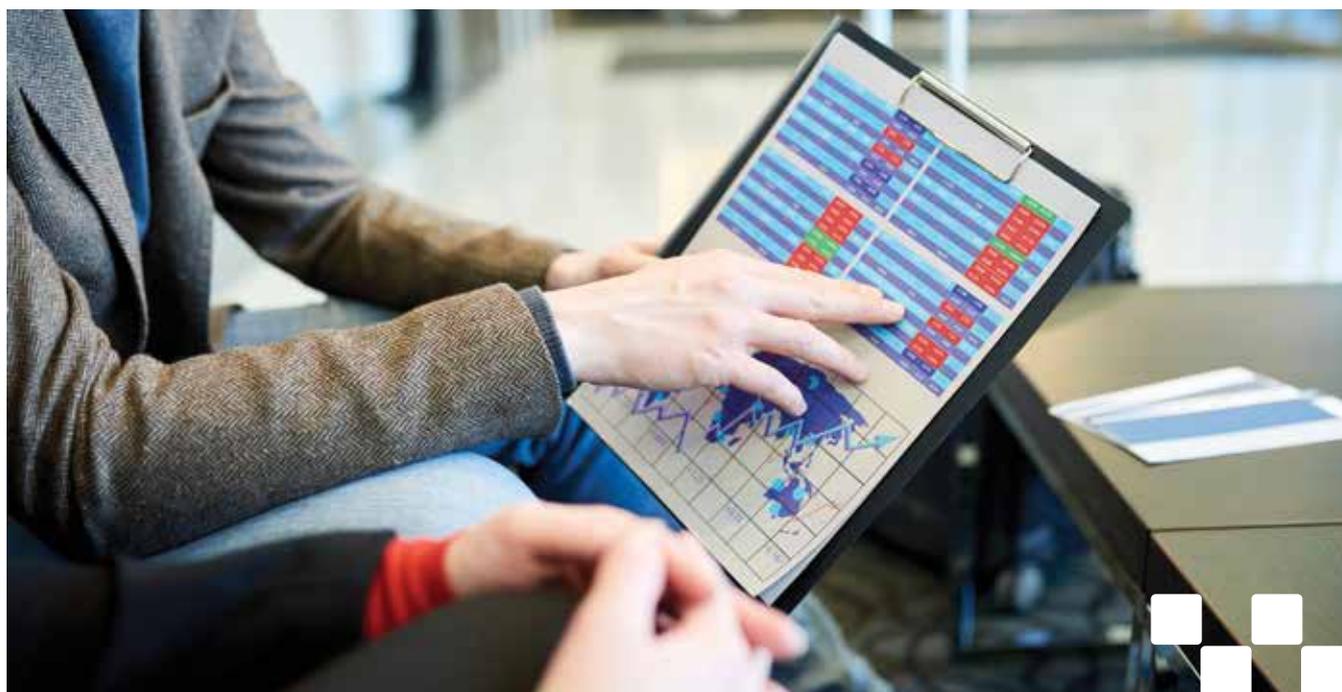
OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - TECHNOLOGY

The Bank continued to strengthen its technology backbone for improved operational efficiency.

The customer centric IT operations and its supporting processes enabled the bank to scale up quickly while keeping operating risks under controls.

During the year, the Bank not only strengthened its Core Banking System, Treasury-integrated-with-CCIL application, Anti Money Laundering System and Operational Risk Management application, but also implemented client facing applications such as EMV-compliant-ATMs, improved Internet banking and Mobile banking backed by various payment channels such as NACH, e-Commerce, regional language interfaces at ATMs, thereby implementing the best of technology systems for enhanced customer experience.

During the year, the Bank also automated the functionality related to Non-Performing Assets (NPA) through its core banking application, which helped in effective delinquency monitoring and accounting.



Further, the Bank seamlessly migrated the microloans portfolio with a customer base of 13 Lakh into the Core Banking System thus enabling straight through processing, single view of customers, MIS consolidation as well as creating an integrated view of business and financials.

In its endeavour to meet the customer expectations, 9 new liability, and 3 new asset products/variants were added to the IT framework.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - TECHNOLOGY

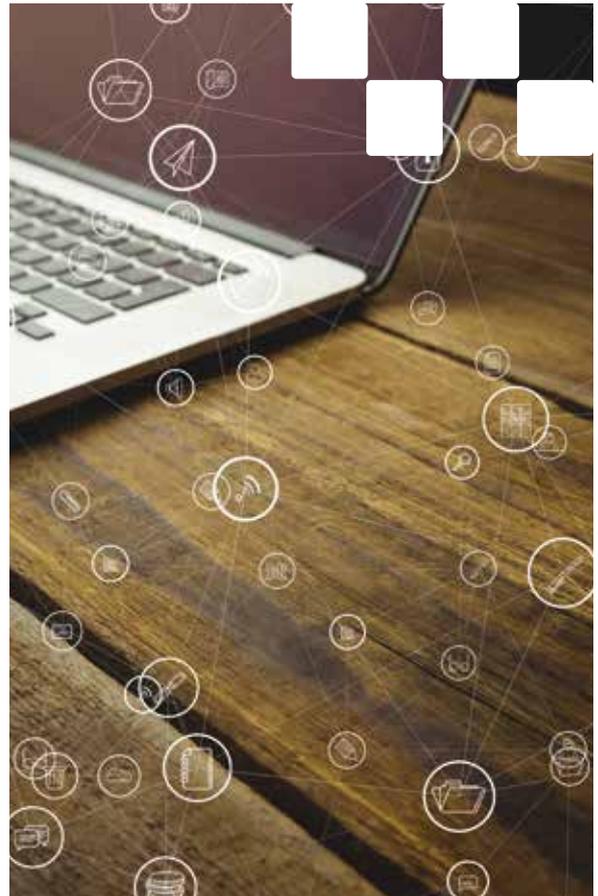
The Bank manages data in its Core Banking and other surround systems through a secure Tier-IV Data Centre at Mumbai with a real-time Disaster Recovery (DR) set-up at Hyderabad. The Bank successfully executed DR drills twice during the year.

The in-house applications were migrated to the state-of-the-art Tier-IV Data Centre at Amaravati (AP) with Disaster Recovery (DR) at Kochi (KE).

Information Security is of paramount importance to the Bank and security tools such as Data Leak Prevention, Active Directory integration, File and Folder Encryption, E-Mail Gateway for anti-spam, Domain-based Message Authentication, Reporting & Conformance (DMARC), Web Proxy and Firewall upgrade were implemented, while VAPT, Appsec, Endpoint Security formed part of ongoing Security Monitoring.

The IT unit managed the delivery of Bank-wide technology services, technology decision-making, ensured a skilled, responsive, and innovative workforce to deliver timely and quality services to internal users.

The IT platform has contributed to business performance and efficiency with straight through processes, functional integration, information management and outreach, thus delivering superior value to users, end-customers and other stakeholders alike.



OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - PEOPLE

In FY19, the Bank demonstrated its ambition to be a safe, and friendly workplace with adherence to organizational values.

The key people principles for the Bank are fairness and consistency in people practices, meaningful and challenging work, professional and ethical dealing with internal and external stakeholders. From building a micro-loans institution to building a Digital Retail Bank, it is the people power that has helped the Bank drive organizational scale and stature and reach more than 15 Lakh customers.

The Bank's Human Resources (HR) unit is continuously focused on purposeful involvement of each team member to make a positive impact on the dual goal of commercial success and social impact. The Bank is committed to ensuring that human resource remains a competitive advantage for the Bank in the future.

Headcount growth and mix

During the year, the Bank's permanent headcount increased from 4,357 to 5,498. The headcount is divided between business and corporate functions, with 76% of staff in business functions. From a role-focus perspective, 93% of the roles are field-oriented while 7% are non-field oriented, largely in corporate functions.

At an aggregate level, given rapid growth across businesses, the Bank has a continuous hiring programme. As of 31st March, 2019, 44% of the total Bank headcount had vintage above 3 years. Further, the senior management team had an average vintage of 41 months, reflecting stability and continuity in providing strategic director and execution roadmap of the Bank. As of 31st March, 2019, the average vintage of employees in Business functions was 22 months while in Corporate functions it was 25 months. In terms of roles, the average vintage in field roles was 23 months and in non-field roles it was 28 months.

Diversity

The Bank lays emphasis on diversity across age, gender, education and experience, in order to build an inclusive workforce.

The Bank lays emphasis on providing employment to local youth. In FY19, the Bank provided employment to 2,000 youth with no prior work experience and residing in the vicinity of their work location. The Bank has a fairly young workforce. As of 31st March, 2019, 65% of the workforce was below 30 years of age.

Further, 39% of the workforce had completed their graduation and 19% held a post-graduate/professional qualification. The remaining 42% employed by the Bank had completed their secondary/ senior secondary education.

Women comprised 5% of the workforce at the Bank, as on 31st March, 2019. However, in non-field roles, the gender mix included 27% women, with women comprising 11% of mid-senior management.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - PEOPLE

Career Progression & Growth

The Bank has a well-defined band-grade structure along with a clearly communicated promotion policy. During the year, 820 staff got promoted, underlining the Bank's principle of rewarding performance as well as potential.



Rewards & Recognition

The Bank has a well-established STAR Awards program, a platform for rewarding and recognizing colleagues who demonstrated the organizational values and delivered above and beyond their routine work. During FY19, 1,000 staff received a STAR Award across different categories.

As an engagement initiative, the HR Team conducts regular 'HR Day' across banking outlets and disseminates awareness about employment benefits, policies and practices, rewards and recognition programs, career progression etc.

Learning & Development

The Bank invests in enhancing knowledge and skills of people through training programs, both internal and external, business immersion and field visits.

During FY19, the training unit imparted 2,000+ training sessions covering 4,500+ employees across product, process, compliance and skill enhancement. In addition, people in specialized functions such as Risk, Treasury etc. participated in training programs organized by specialist training organizations such as NIBM, CAB and CAFRAL.

The Bank is an institutional member of Indian Institute of Banking and Finance (IIBF) and encourages staff members to enrol and undertake the courses.

Shiksha Diwas, a unique initiative, was launched across Micro Banking outlets with the objective of providing a short, refresher module on products & processes.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - PEOPLE

Overall, during the year 90% of staff were covered by at least 1 training and in Rural Banking unit, the coverage was 97%. The Bank introduced Moodle, an open source e-learning platform to provide ready access to training content and was very well received by the team. The Training unit started to leverage this tool for segmented delivery of learning.

ANNUAL MEET

As a continued tradition, the Bank organized "Sampark", the Annual Meet, for celebrating key milestones as well as recognizing and rewarding high performers. During FY19, 1,850 colleagues, representing 45% of total workforce received an on-stage Award across categories.

The event also showcased in-house talent in music, dance and drama. The event was held across 8 hub locations with 100% coverage. Indeed, an evening to cherish for all Fincarians!

SPORTS & FITNESS

The Fincare Cup, a much-awaited in-house cricket event, brings out the competitive spirit in the staff. More than 800 colleagues participated in various avatars, making this multi-city event a must-do in the annual calendar.

In FY19, the Bank prided itself on having a full-edged running calendar with over 500 Fincare colleagues participating in a running event. Participation spanned events across multiple cities such as bSafal Marathon, Indore Marathon, Pinkathon, Midnight Marathon, Goa River Marathon, Hill Marathon etc. The senior management team leads by example, and is always always well represented in these events, showcasing their commitment to fitness.

HEALTH & WELLNESS

During FY19, health and eye check drives were organized at the Corporate Offices at Ahmedabad and Bangalore. Special sessions were conducted to commemorate International Women's day. Topical sessions like Yoga on International Yoga Day, Chess tournaments, Dart games, Treasure hunt and movie screenings were conducted in order to create the right mix of work and play. Key festival-related events and National Day celebrations witnessed flash mobs, jamborees with active participation of colleagues along with families helped strengthen the familial bond, a sense of togetherness and mutual respect for culture and values.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - PEOPLE



Children's Day



Independence Day



Christmas Celebration



Diwali Pooja



Diwali Pooja



Employee Meet



Treasure Hunt



Birthday Celebration



Birthday Celebration



Marathon



Cricket Tournament



Cricket Tournament

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - MARKETING



THE JOURNEY!

During FY19, the Bank continued its voyage of redefining Smart Banking in India. A comprehensive product portfolio, customer centric approach, strong compliance and risk framework along with various marketing initiatives helped in the quest to build trust and respect with customers.

Given the Bank's focus on both Rural and Urban, the brand philosophy revolved around positioning the bank as fair, friendly and fast when it comes to credit decision, customer service, documentation and channels to access the bank.

During the year, the Bank expanded its footprint in new states and with the expansion, the Marketing unit delivered uniform brand presence and messaging across markets.

GOING THE DIGITAL WAY!

The Bank is truly focussed on the digital paradigm. The Marketing unit played a key role in deepening customer engagement using social media platforms.



OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - MARKETING

BANKING OUTLETS!

A branch Launch has always been a grand celebration surrounded by interesting marketing campaigns, roadshows, PR outreach, kiosk campaigns and customer-connect programs in order to raise brand awareness and recall.

All branch launches were accompanied by activities that helped create positive buzz at the local level. The bank leveraged multi-city OOH campaigns with print, radio FM campaigns, advertorials and transit advertising to build the Smart Banking positioning of the Bank.



BELOW THE LINE MARKETING

The Bank initiated campaigns in and around the main catchment zone of each banking outlet for generating leads and influencing buying behaviour of the target segment. The unit deployed initiatives such as door-to-door campaigns, festival linked contests, community get togethers, wellness campaigns etc.

OTHER MARKETING INITIATIVES

Product Launch – In FY19, the Bank focused on enhancing the customer value proposition by adding multiple new products in the basket of offerings viz. Two-wheeler loans, Corporate Salary Accounts, Life and Health insurance products and the marketing unit designed marketing creatives for generating customer interest and action.



The Bank introduced multiple video-based messages to promote products and services among the target segment and was well received on social media platforms.

Improved Collateral Management – In FY19, the Bank ensured that all customer-oriented collaterals were also created in multiple languages to be able to build better customer connect and reach.

OUR SUPPORT FUNCTIONS - THE SMART BACKBONE - MARKETING

SOCIAL MEDIA BUZZ!

The Bank ensured that the 'Smart Banking' positioning was publicized and popularized on Social Media all through the year. 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 building as well as lead generation efforts across verticals.

GRANDMASTER VISWANATHAN ANAND – THE BRAND AMBASSADOR!

Grandmaster Viswanathan Anand is one of the smartest Indians and his persona resonates with the Fincare Brand in many ways. The Bank required a personality that could be a 'Smart' role model and Grandmaster Viswanathan Anand was the perfect embodiment of passion, purpose and perseverance as the pathway to excellence and success.



3D CAMPAIGN

The Bank continued emphasis on the 3D positioning in FY19 as well. The 3D approach, encompassing deposit rates, doorstep service and digital banking, strengthened the Bank's image as a new-age Smart player. Extensive campaigns driving home this key message were conducted during the year.



RISK MANAGEMENT

Risk Management is core to the Bank. In order to ensure that the Bank has a sound framework of risk management and internal controls in place, the Bank has established the Risk Management Committee of the Board ('RMCB'). The RMCB assists the Board with respect to the oversight and review of risk management operating principles, policies, implementation strategy, appetite, processes and controls.

The Risk Management Committee of the Board reviews risk management policies of the Bank pertaining to credit, market, liquidity, operational, outsourcing and business continuity. RMCB also approves the Bank's risk appetite, risk tolerance and related strategies and policies.



The Bank has a clear risk appetite which is an expression of the risks that the Bank is willing to take in pursuit of its financial and strategic objectives. The risk appetite sets the outer boundaries for risk taking. The risk appetite assessment is a top-down process and consists of specific risk appetite statements, which are approved by the Board and reviewed annually.

The Risk Management Department is responsible for setting up appropriate risk control mechanism and for quantifying and measuring risk. Broadly classified into three major sub segments (Credit Risk, Market Risk and Operational Risk), the Risk Management Department owns, maintains and manages the related policies. The Risk Management team also provide analysis on the existing and emerging risks to the Committees such as ALCO, ORMC, RMCB and BCP etc. and based on the deliberations thereof, provides guidance to the Business Groups.

Information Security risk is identified as a material risk for the Bank, given our core intent of being a Digital Bank). The information security team within the Risk function is responsible for this and works continually towards adopting newer and better security practices w.r.t. Cyber security and information risk management, data privacy, protection of customer information, reviewing new and existing applications, analysing gaps to ensure that the Bank implements the recommendations of the Gopalakrishna Committee.

COMPLIANCE

The Compliance Department manages the Bank's compliance risk framework and ensures strict observance of all statutory provisions contained in various legislations. The laws complied to include, Banking Regulation Act, the Reserve Bank of India Rules, Foreign Exchange Management Act, Prevention of Money Laundering Act etc., and other regulatory guidelines issued by IBA, FIMMDA, etc. from time to time. The department also monitors adherence to the bank's internal policies and fair practices code.

To enable smooth and efficient functioning, the Compliance department has a dedicated team of subject matter experts who work with business and operations teams to ensure active compliance risk management and monitoring. The team also provides advisory on regulatory matters.



Fincare Small Finance Bank has implemented sound internal control practices across all processes, units and departments. The Bank has well laid down policies and processes for the management of its day-to-day activities.

The focus is on identifying and lowering risk by putting in place robust internal policies. Internal policies are reviewed and updated periodically as per agreed frequency and regulatory guidelines/action.

RISK, COMPLIANCE, AUDIT - THE SMART CONTROLS

The Bank follows established, well-designed controls, which include traditional four-eye principles, effective separation of functions and segregation of duties, reconciliation, exception reporting and periodic MIS. The Bank has a robust Compliance Policy, outlining compliance philosophy of the Bank and roles and responsibilities of the Compliance Department. Compliance department plays a crucial role in ensuring that the overall business of the Bank is conducted in accordance with regulatory prescriptions.

The Compliance department aims to improve compliance culture within the Bank through various enablers such as dissemination of regulatory changes, percolation of compliance knowledge through training, e-learning initiatives and other means of communication apart from direct interaction. To ensure that all the businesses of the Bank are operating within the ambit of Compliance Framework, the Compliance Department is involved in vetting all new products and processes. It evaluates the adequacy of internal controls and examines the systemic correction required, based on analysis and interpretation of the regulatory doctrine, and the deviations observed during compliance monitoring and testing.

Fincare Small Finance Bank has a comprehensive Know Your Customer, Anti Money Laundering (AML) and Combating Financing of Terrorism (CFT) policy (based on the RBI guidelines/provisions of the Prevention of Money Laundering Rules) incorporating the key elements of Customer Acceptance Policy, Customer Identification Procedures, Risk Management and Monitoring of Transactions. The policy is subjected to an annual review and is duly approved by the Board.

In order to enable the bank to comply with adherence to periodical regulatory prescriptions across the bank in a systematic and scientific way, the compliance department has implemented the Certificate Monitoring tool to seek regular online confirmation/compliance of applicable regulatory guidelines from product, business and operations team.

The Bank has always adhered to the highest standards of compliance and has put in place appropriate controls and risk measurement and risk management tools in order to ensure robust compliance and governance structure. As the focal point of contact with RBI and other regulatory entities, the Compliance Department periodically apprises both the Bank's management as well as the Board of Directors on the status of compliance in the Bank and the changes in the regulatory environment.

INTERNAL AUDIT

At Fincare Small Finance Bank, Internal Audit is an independent appraisal function created with the objective of examining and evaluating the adequacy and effectiveness of the Bank's internal controls. In accordance with RBI guidelines, Risk-based audit implies that a lot of emphasis is placed on the internal auditor's role in mitigating risks.

While focussing on effective risk management and controls, in addition to the appropriate transaction testing, the risk-based internal audit not only offers suggestions for mitigating current risks but also anticipate areas of potential risks and play an important role in protecting the bank from various risks.

The Audit Committee of the Board reviews the effectiveness of controls, compliance with regulatory guidelines and provides direction wherever deemed fit.

Within the IAD, its functions have been divided considering maximum alignment with the current structure of the Bank. As a result, the department is engaged on the following audits:



Branch Audit - Key risk areas/activities at all the branches are covered.



Business Audits – Financial audits, treasury audit, market risk management audit is covered.



Credit Audit – Specific loan accounts, credit process audits, credit risk management, MFI audit are covered.



Concurrent Audit - Central Processing Centres, Treasury and Loans against Gold are covered.



IS Audit - IT Management Processes, Applications, IT Infrastructure (Network/Operating System /Databases/Middleware) and IT &Project Governance are covered.



Business Process Audits – Process /product audit of centralised activities, corporate management functions including operations risk and Compliance, special audits and retail banking audits are covered.

During the year, audit team covered 100% banking outlets (number) that disburse microloans and 35 urban banking outlets.

The audit of activities under support functions covered Compliance function, Legal function, Credit Risk Management and Agency Banking (Business Correspondents). During the year, IS (Information System) audits were also performed which included application audits of CTS & Payment Systems, Digital Banking (Internet, Mobile and Tab banking) and Cross fraud (AML Solution). In addition, the audit team performed audits of Data Centre at Mumbai, Identity & Access Management, Change & Patch Management, IT Outsourcing, Smart devices, Endpoint security and Vulnerability Management.



■ THE CSR MANDATE

Fincare Small Finance Bank is committed to the principle of social responsibility and inclusive growth through awareness and support. The Bank, through its responsible banking ethos, aims to reach out and connect with society through initiatives related to health, education and welfare, thereby promoting social, economic and human progress.

Further, CSR activities go beyond the regulatory needs and reflect our genuine concern towards improving lives, nurturing environment and sustaining livelihoods.

In FY19, CSR activities encompassed health & hygiene initiatives such as eye camps, general health checks, mother and child health checks, orthopedic checks and cardiac checks, literacy & livelihood initiatives such as after school study centres, crop advisory, veterinary camps, and community development initiatives such as sapling distribution and cyclone & flood relief.

OUR SOCIAL IMPACT PHILOSOPHY



Treat social welfare as integral to business operations



Ensure consistency and diversity of initiatives



Build ongoing connect with the larger community

LIVELIHOOD PROMOTION DRIVES

Kitchen gardening, mushroom farming, fruit tree plantation, free sewing machines to differently abled, etc.

COMMUNITY WELFARE

Relief activities such as the distribution of groceries, construction material, cleanliness drives in flood affected areas.

HEALTH AND HYGIENE

Conducting health camps, in rural areas. Education of preventive health hazards.

LITERACY DRIVES

Fincare Study Centres for after school study, Financial Literacy drives including Nukkad Natak/Movie screening.

ENVIRONMENTAL CARE

Safe water supply, pest control, sanitation and tree planting.

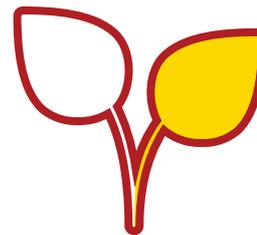
WORKING WITH COMMUNITIES - THE SMART TOUCH



Health and Hygiene

Activities
115

Beneficiaries
13,820



Literacy and Livelihood

Activities
908

Beneficiaries
22,822



Community Development & Environmental Protection

Activities
22

Beneficiaries
4,120



“

My life changed ever since I took the first loan from Fincare Small Finance Bank. I am a proud owner of a shop in my village. Fincare Small Finance Bank provided affordable loans to us without any collateral, and that's the reason for me and my family's well being .

”

Saritha Saravanan
Killsirupakkam village, Tamil Nadu

Saritha always dreamt of opening her own shop. She was running a mobile saree business at a nearby village . That business was not meeting her expectations and sometimes she was not able to even meet her family's daily needs. After her first loan from Fincare , life became better for herself and her family . The income provided her with the opportunity to set up her own shop. Overtime her business and income improved. Today, Saritha's income has grown to significantly and she is a proud entrepreneur in her village.



PRESENTING
FINCARE SMALL FINANCE BANK
GREAT RETURNS OPPORTUNITY
 GET THE 3D ADVANTAGE FINCARE DEPOSITS



**DELIGHTFULLY HIGH
 DEPOSIT RATES**
 Attractive interest
 rates on savings and
 term deposits

**DOORSTEP
 ACCOUNT OPENING**
 Transparent banking and instant
 account opening at time and place of
 choice

**DIGITAL
 DNA**
 New-age banking solutions
 for superior customer
 experience



STATUTORY REPORTS

FINCARE SMALL FINANCE BANK LIMITED

- DIRECTORS' REPORT

To,
The Members,
Fincare Small Finance Bank Limited ("The Bank")

Your Directors have pleasure in presenting the 24th Annual Report on business and operations of the Bank together with the Audited Financial Statements for the financial year ended 31st March, 2019.

Having laid strong foundations as 'Small Finance Bank' management of the Bank have been successful in positioning the Bank as a new generation bank with focus on delivering financial services to underserved and un-served people of India. Management of the Bank have also taken substantial steps in that direction and have converted 352 micro finance outlets into banking outlets.

The Bank currently has operations in 12 states viz. Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, and the Union Territory of Puducherry.

As a new-age Bank, it is striving hard to set new standards in customer experience with extensive use of technology and commitment for customer service. With the objective to serve all financial needs of customers, the Bank has expanded its retail product suite and added new products in our existing suite of Savings Accounts, Term Deposits, Loan Against Gold, Loan Against Property, Microloans and Institutional Finance.

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

Some of the key developments in FY19 are highlighted in this report.

01 FINANCIAL HIGHLIGHTS FY19

The financial performance for FY19 as compared to previous year is summarized in the following table. (₹ in Lakh)

Particulars	FY19 (₹)	FY18 (₹)
Interest income	60,526	31,408
Other income	6,973	3,653
Interest expended	22,907	11,891
Operating expenses	29,592	17,805
Provision and contingencies	4,802	15,120
Profit before tax	11,030	(8,984)
Profit after tax	10,198	(9,755)
Surplus brought forward	(7,955)	1,800
Amount available for appropriation	2,243	(7,955)
Appropriation have been made as under:		
Transfer to statutory reserve	2,550	-
Surplus carried to balance sheet	(618)	(7,955)
EPS (₹)	22.41	(26.04)

02 DIVIDEND

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

03 AMOUNTS TRANSFER TO RESERVES

During the year under review, the Bank has transferred a sum of ₹ 2,550 Lakh to Statutory Reserves and ₹ 311 Lakh to other reserves.

04 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 term loans. The Bank has also been assigned IND A – (Positive) 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.

05 TRANSFER OF UNCLAIMED DIVIDEND TO INVESTOR EDUCATION AND PROTECTION FUND

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

06 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 have been focusing on investing in digital banking franchise. The Bank's digital products and services enhance customer convenience and expand its reach. The Bank had launched its '101 Account' in February 2018. With this, the Bank has joined a select group of banks to offer a digital savings account opened using Aadhaar OTP based e-KYC. Though targeted at tech savvy/digital customers, digital savings accounts are pertinent in a larger India context built around a growing mobile and internet penetration. This makes account opening possible independent of branch presence or branch timings. The '101 Account' has emerged as the channel of scale for Fincare Small Finance Bank. The Bank's online account offering differentiates itself in terms of its higher deposit rates and convenience of opening online Fixed Deposit.

FINCARE SMALL FINANCE BANK LIMITED

- DIRECTORS' REPORT

Some of the key highlights of the Bank's operations during FY19 in comparison to FY18 are as follows:

(₹ in Crore)

Particulars	FY19 (₹)	FY18 (₹)
Gross Disbursements	3,238	2,072
Gross Loan Portfolio	3,530	2,154
No. of Banking Outlets	569	306
No. of Recyclers/ ATMs	63 Re-cyclers and 8 ATMs	32 Recyclers
No. of Customers	15.35 Lakh+	10 Lakh+
No. of Employees	5,498	4,357

07 CAPITAL STRUCTURE OF THE BANK

During the year, the Authorized Share Capital of the Bank has been increased by ₹ 50,00,00,000 (Rupees Fifty Crore). The Authorized Share Capital of the Bank as on 31st March, 2019 is ₹ 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 31st March, 2019 stood at ₹ 56,43,59,810 (Rupees Fifty Six Crore, Forty Three Lakh, Fifty Nine Thousand, Eight Hundred and Ten) divided into 5,64,35,981 (Five Crore Sixty-Four Lakh Thirty-Five Thousand, Nine Hundred and Eighty One) Equity Shares of ₹ 10 (Rupees Ten) each.

During the financial year ending 31st March, 2019, The Bank has not issued any shares with differential rights, sweat equity shares, employee stock option or Bonus shares. The Bank has not bought back any of its securities.

However, 3,11,000 options were granted to Mr. Rajeev Yadav for FY18 at a grant/ exercise price of ₹ 265/- per option (Rupees Two Hundred and Sixty Five) in the Board Meeting held on 29th March, 2019 and subject to approval of shareholders vide their meeting held on 10th May, 2019 and requisite approvals from the respective statutory and other related authorities.

08 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.

9 NUMBER OF MEETINGS OF THE BOARD DURING FY19

The Board of Directors of the Bank met 13 times in FY19. 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 :-

Quarter 1 (April – June)	Quarter 2 (July – September)	Quarter 3 (October- December)	Quarter 4 (January- March)
30-04-2018	23-07-2018	30-10-2018	23-01-2019
-	05-09-2018	05-11-2018	27-02-2019
-	28-09-2018	14-11-2018	12-03-2019
-	-	19-11-2018	18-03-2019
-	-	-	29-03-2019

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

10 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.

11 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, the contracts or arrangements or transactions entered into during the financial year ended 31st March, 2019 have been reported in Form AOC-2 and attached herewith as **Annexure III**.

12 APPOINTMENT OF AUDITORS

A. STATUTORY AUDITORS:

The present term of 5 years of Walker Chandniok & Co LLP (Firm Registration No. 001076N), Chartered Accountants, the Auditors 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 in pursuance of Section 141 of the Companies Act, 2013. The Board of Directors propose to re-appoint them for FY20. Their re-appointment, however, is subject to approval of members and the Reserve Bank of India.

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, Practicing Company Secretary as the Secretarial Auditor of the Bank to conduct Secretarial Audit for FY19. The Secretarial Audit Report for FY19 is appended as **Annexure IV** to the Board's Report.



The Board has upon recommendation of Audit Committee approved his re-appointment as Secretarial Auditor for FY20.

C. INTERNAL AUDITOR:

Mr. Subash V., Masters in Business Administration, Certified Associate of Indian Institute of Bankers, Bachelor of Science - Mathematics, Physics and Chemistry, was appointed as the Internal Auditor w. e. f. 5th September, 2018 and has performed Internal Audit for FY19. The Board has, upon recommendation of the Audit Committee, approved his appointment as Internal Auditor for FY19 at their meeting held on 5th September, 2018.

13 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.

14 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. 31st March, 2019 and the date of board report is 17th September, 2019.

15 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	FY19 (₹)	FY18 (₹)
Foreign Exchange Inflow	Nil	Nil
Foreign Exchange Outflow	13,45,619	19,23,896

16 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.



17 RISK MANAGEMENT POLICY

The 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.

18 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.

19 DIRECTORS

The Bank's Board consists of professionals who have knowledge and experience required in the banking industry. The responsibilities of the Board inter alia include formulating of policies, taking new initiatives, performance review, monitoring of plans and pursuing of policies and procedures and ensuring that the Bank operates under regulatory framework laid down by the RBI for Banks.

(A) CHANGE IN DIRECTORS

During the year under review, the composition of the Board of Directors changed in accordance with the requirements of RBI guidelines with respect to Small Finance Bank.

The nomination of Mr. Praveen Agarwal (DIN: 08064084) was withdrawn with effect from 19th May, 2018 and Mr. Ravindran Lakshmanan (DIN: 07631421) was appointed on the Board of the Bank as Nominee Director, representing Fincare Business Services Limited with effect from 19th May, 2018.

Mr. Pramod Kabra, Chairman and Non-Executive Director of the Bank who retired by rotation in Annual General Meeting held on 28th September, 2018, was re-appointed on the same date.

(B) CHANGES IN KEY MANAGERIAL PERSONNEL

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

20 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 FY 2018-19, 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 RBI, Stock Exchanges and SEBI during the year under review.

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

22 DECLARATION OF INDEPENDENT DIRECTORS

The Independent Directors have submitted their disclosures to the Board that they fulfill 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.

23 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.

Since the Bank suffered losses in the previous year, it was not mandated to spend towards CSR activities during the year under review.

24 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 delegated powers 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.

25 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 the evaluation of the Board as a whole, its Committees and the Independent Directors. Performance evaluation procedures as recommended by the Nomination and Remuneration Committee (Nomination Committee) were carried out for evaluation of performance of (i) Board/ Committees (ii) Independent 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 quite satisfactory and the Board's functioning as well as that of its Committees overall were quite 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 they are comprised of various professionals from diverse backgrounds which brings to the table different dimensions for effective functioning.

EVALUATION OF THE COMMITTEES OF THE BOARD

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

EVALUATION OF THE DIRECTORS BY THE BOARD

The Board discussed the performance of all the Directors of the Bank including Executive, Non-Executive and Independent Directors on an individual basis and evaluated that the performance of each Director met the expectations of the Bank. The Board further discussed that it is advisable to continue with the term of appointment of the Independent Directors.

26 SEPARATE MEETING OF INDEPENDENT DIRECTORS

The Independent Directors of the Bank have met as required under Schedule IV of the Companies Act, 2013 and other applicable provisions of the Act.

27 DETAILS OF ESTABLISHMENT OF VIGIL MECHANISM FOR DIRECTORS AND EMPLOYEES

The Bank has established the Whistle Blower Policy pursuant to which Directors, 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 employees. There were no complaints during the year under review.

28 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 the year ended 31st March, 2019, one complaint was received by the Bank which was under investigation at the close of the financial year.

No. of Complaints Pending at the Beginning of the Year	0
No. of Complaints Received During the Year	1
No. of Complaints Resolved During the Year	0
No. of Complaints Pending at the End of the Year	1

29 MANAGEMENT DISCUSSION & ANALYSIS

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

30 DIRECTORS RESPONSIBILITY STATEMENT

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

- a. in the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures;
- b. 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 loss of the Bank for that period;
- c. 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;
- d. the Directors had prepared the annual accounts on a going concern basis; and
- e. 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
- f. 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.

31 HUMAN RESOURCE

The Bank hired the talent from the industry to ensure sustainable growth. With ongoing banking transition during the year, the Bank provided a range of employment opportunities to banking professionals covering liability, branch operations, retail banking and for many other functions. During FY19, the Bank has expanded its workforce to 5,498 employees as on 31st March, 2019 as against 4,357 employees as on 31st March, 2018.

32 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, as per the RBI guidelines.

33 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.

34 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 secretarial requirements of the Companies Act, 2013 and other applicable provisions.

35 DISCLOSURE ON MAINTAINANCE OF COST RECORDS

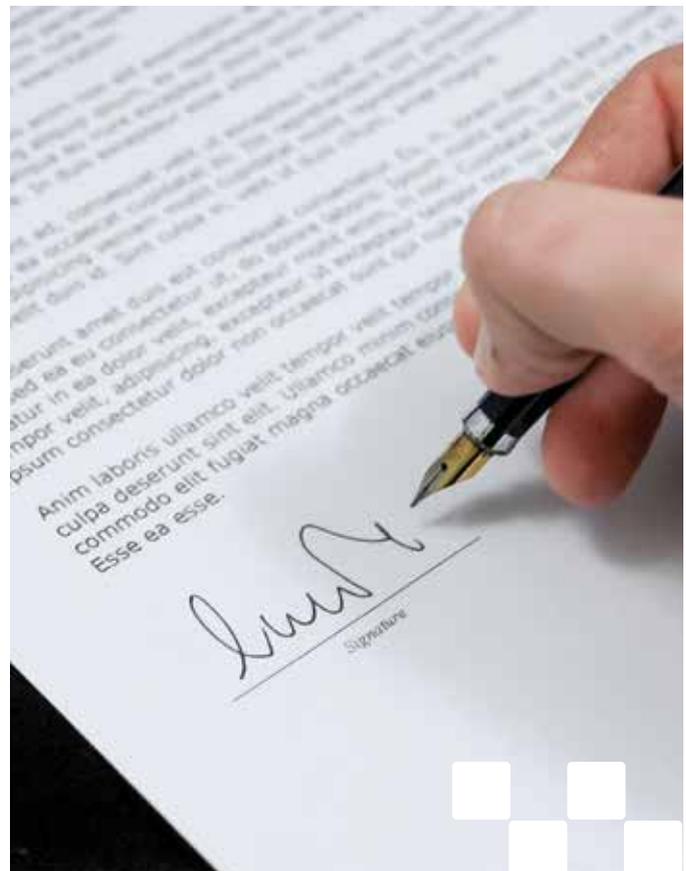
The maintenance of cost records as specified by the Central Government under sub-section (1) of Section 148 of the Companies Act, 2013, is not applicable to the Bank and hence the same is not maintained.

36 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 Board and Key Managerial Personnel, a copy of which is placed on the website of the Company www.fincarebank.com

37 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.



38 ACKNOWLEDGEMENTS

The Directors place on record their sincere thanks to the RBI, Securities and Exchange Board of India, Ministry of Corporate Affairs, Indian Banks' Association (IBA), Unique Identification Authority of India (UIDAI), the Bank's Customers, Bankers and other Lenders, Members, Registrar and Transfer Agent, Debenture holders, 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 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 employees at all levels as their hard work, co-operation and support enabled the Bank to maintain its consistent growth.

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Sd/-

Mr. 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 MH

Sd/-

Mr. 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



ANNEXURE I

- EXTRACT OF ANNUAL RETURN

FORM NO. MGT 9

EXTRACT OF ANNUAL RETURN

As on financial year ended 31st March, 2019

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 (FORMERLY DISHA MICROFIN LIMITED)
iv	Category/Sub-category of the Company	PUBLIC COMPANY LIMITED BY SHARES
v	Address of the Registered office & contact details	301-306, 3rd Floor, Abhijeet V, 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.	Karvy Fintech Private Limited, Karvy Selenium Tower B, Plot 31-32, Gachibowli, Financial District, Nanakramguda, Hyderabad – 500032.

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 :

Sr. No.	Name & Description of main products/services	NIC Code of the Product /service	% to total turnover of the company
01	Financial Services	6499	100

III PARTICULARS OF HOLDING , SUBSIDIARY & ASSOCIATE COMPANIES

Sr. No.	Name & Address of the Company	CIN/GLN	Holding/ Subsidiary/ Associate	% of Shares held	Applicable Section
01	Fincare Business Services Limited	U74900KA2014PLC075614	Holding	89.09%	2(46)

ANNEXURE I

- EXTRACT OF ANNUAL RETURN

IV SHAREHOLDING PATTERN (EQUITY SHARE CAPITAL BREAK UP AS % TO TOTAL EQUITY)

(I) CATEGORY WISE SHAREHOLDING

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	
A. Promoters									
(1) Indian									
a) Individual/HUF	0	0	0	0	0	0	0	0	0
b) Central Govt.or State Govt.	0	0	0	0	0	0	0	0	0
c) Bodies Corporates	3,41,28,757	0	3,41,28,757	91.11	5,21,94,514	0	52,194,514	92.48	1.37
d) Bank/FI	0	0	0	0	0	0	0	0	0
e) Any other...	0	0	0	0	0	0	0	0	0
SUB TOTAL:(A) (1)	3,41,28,757	0	3,41,28,757	91.11	5,21,94,514	0	5,21,94,514	92.48	1.37
(2) Foreign									
a) NRI- Individuals	0	0	0	0	0	0	0	0	0
b) Other Individuals	0	0	0	0	0	0	0	0	0
c) Bodies Corp.	0	0	0	0	0	0	0	0	0
d) Banks/FI	0	0	0	0	0	0	0	0	0
e) Any other...	0	0	0	0	0	0	0	0	0
SUB TOTAL (A) (2)	0	0	0	0	0	0	0	0	0
Total Shareholding of Promoter (A)= (A)(1)+(A)(2)	3,41,28,757	0	3,41,28,757	91.11	5,21,94,514	0	5,21,94,514	92.48	1.37
B. PUBLIC SHAREHOLDING									
(1) Institutions									
a) Mutual Funds	0	0	0	0	0	0	0	0	0
b) Banks/FI	0	0	0	0	0	0	0	0	0
C) Cenrntral govt	0	0	0	0	0	0	0	0	0
d) State Govt.	0	0	0	0	0	0	0	0	0
e) Venture Capital Fund	0	0	0	0	0	0	0	0	0
f) Insurance Companies	0	0	0	0	0	0	0	0	0
g) FIIS	0	0	0	0	0	0	0	0	0
h) Foreign Venture Capital Funds	0	0	0	0	0	0	0	0	0
i) Others (specify)	0	0	0	0	0	0	0	0	0
SUB TOTAL (B) (1):	0	0	0	0	0	0	0	0	0

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	
(2) Non Institutions									
a) Bodies corporates	0	0	0	0	0	0	0	0	0
i) Indian	16,65,295	0	16,65,295	4.45	21,86,109	0	21,86,109	3.87	-0.58
ii) Overseas	16,65,296	0	16,65,296	4.45	20,55,352	0	20,55,352	3.64	-0.81
b) Individuals	0	0	0	0	0	0	0	0	0
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
SUB TOTAL (B)(2):	33,30,597	0	33,30,597	8.9	42,41,467	0	42,41,467	7.51	0
Total Public Shareholding (B) = (B)(1)+(B)(2)	33,30,597	0	33,30,597	8.9	42,41,467	0	42,41,467	7.51	0
C. Shares held by Custodian for GDRs & ADRs	0	0	0	0	0	0	0	0	0
Grand Total (A+B+C)	3,74,59,354	0	3,74,59,354	100	5,64,35,981	0	5,64,35,981	100	0.00



ANNEXURE I

- EXTRACT OF ANNUAL RETURN

(II) SHARE HOLDING OF PROMOTERS

Sr. 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	3,41,28,757	91.11	0	5,02,77,221	89.09	0	-2.02
2	Lok Management Services Private Limited	0	0	0	19,17,293	3.4	0	3.4
Total		3,41,28,757	91.11	0	5,21,94,514	92.48	0	1.37



(III) SHAREHOLDING PATTERN OF TOP TEN SHAREHOLDERS (OTHER THAN DIRECTORS, PROMOTERS & HOLDERS OF GDRS & ADRS)

Sr. 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
01	True North Fund V LLP				
	At the beginning of the year	16,65,295	4.44	16,65,295	4.44
	Allotment of 3,90,056 Equity shares of ₹ 10 each on 27-09-2018	0	0	20,55,351	3.86
	Allotment of 1,30,758 Equity shares of ₹ 10 each on 29-03-2019	0	0	21,86,109	3.87
	At the end of the year	16,65,295	4.44	21,86,109	3.87

ANNEXURE I

- EXTRACT OF ANNUAL RETURN

Sr. 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
02	Indium IV (Mauritius) Holdings Limited				
	At the beginning of the year	16,65,296	4.45	16,65,296	4.44
	No changes during the year	-	-	-	-
	At the end of the year	16,65,296	2.95	16,65,296	2.95

Sr. 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
03	Silver Leaf Oak (Mauritius) Limited				
	At the beginning of the year	0	0	0	0
	Allotment of 3,90,056 Equity shares of ₹ 10 each	0	0	3,90,056	0.69
	At the end of the year	0	0	3,90,056	0.69

Sr. 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
04	Mr. Keyur Doshi				
	At the beginning of the year	1	0	1	0
	No changes during the year	-	-	-	-
	At the end of the year	1	0	1	0

ANNEXURE I

- EXTRACT OF ANNUAL RETURN

Sr. 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
05	Mr. Sameer Nanavati				
	At the beginning of the year	1	0	1	0
	No changes during the year	-	-	-	-
	At the end of the year	1	0	1	0

Sr. 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
06	Mr. Rajeev Yadav				
	At the beginning of the year	1	0	1	0
	No changes during the year	-	-	-	-
	At the end of the year	1	0	1	0

Sr. 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
07	Mr. Soham Shukla				
	At the beginning of the year	1	0	1	0
	No changes during the year	-	-	-	-
	At the end of the year	1	0	1	0

Sr. 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
08	Mr. Vivek Kothari				
	At the beginning of the year	1	0	1	0
	No changes during the year	-	-	-	-
	At the end of the year	1	0	1	0

ANNEXURE I

- EXTRACT OF ANNUAL RETURN

Sr. 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
09	Mr. Dasarathareddy Gunnamreddy				
	At the beginning of the year	1	0	1	0
	No changes during the year	-	-	-	-
	At the end of the year	1	0	1	0

(IV) SHAREHOLDING OF DIRECTORS & KMP

Sr. no.		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
01	Mr. Sameer Nanavati-Nominee Director				
	At the beginning of the year	1	0	1	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
02	Mr. Pramod Kabra - Chairman and Non-Executive Director				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
03	Mr. Ravindran Lakshmanan-Nominee Director				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
04	Mr. Sunil Gulati-Independent Director				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
05	Mr. Varun Sabhlok-Independent Director				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
06	Ms. Susan Thomas-Independent Director				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
07	Mr. Alok Prasad-Independent Director				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
08	Mr. Vinay Bajjal-Independent Director				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
09	Mr. Rajeev Yadav- Managing Director & CEO				
	At the beginning of the year	1	0	1	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
10	Mr. Keyur Doshi-CFO				
	At the beginning of the year	1	0	1	0
	Date wise increase/decrease in Promoters 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

Sr. no.		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
11	Ms.Shefaly Kothari - CS				
	At the beginning of the year	0	0	0	0
	Date wise increase/decrease in Promoters 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

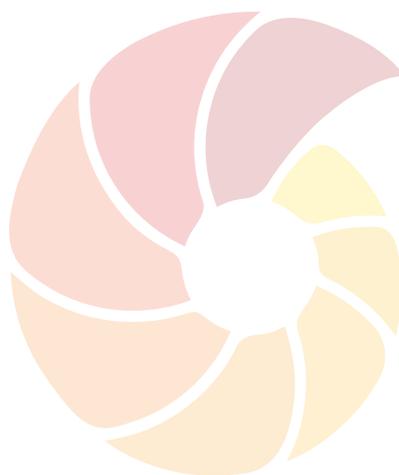
ANNEXURE I

- EXTRACT OF ANNUAL RETURN

(V) INDEBTEDNESS

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

	Secured Loans	Unsecured	Deposits (FD)	Total
	excluding deposits	Loans		Indebtedness
Indebtedness at the beginning of the financial year (1st April, 2018).				
i) Principal Amount	28,840	78,058	69,034	1,75,932
ii) Interest due but not paid	-	223	400	623
iii) Interest accrued but not due	803	-	-	803
Total (i+ii+iii) A	29,643	78,281	69,434	177,358
Change in Indebtedness during the financial year				
Additions	273	65,000	1,52,272	2,17,545
Reduction	19,638	24,226	39,357	83,221
Net Change (B)	-19,365	40,774	1,12,915	1,34,324
Indebtedness at the end of the financial year 31st March, 2019				
i) Principal Amount	9,475	1,18,832	1,81,949	3,10,256
ii) Interest due but not paid	-	25	153	178
iii) Interest accrued but not due	101	778	-	879
Total (i+ii+iii) C	9,576	1,19,635	1,82,102	3,11,313



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:

Sr.No.	Particulars of Remuneration	Name of the MD/WTD/Manager*	Total Amount
1	Gross salary	Rajeev Yadav	
	(a) Salary as per provisions contained in Section 17(1) of the Income Tax. 1961.	₹ 301.69 Lakh	₹ 301.69 Lakh
	(b) Value of perquisites under Section 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
	Total (A)	₹ 301.69 Lakh	₹ 301.69 Lakh
	Ceiling as per the Act	As per Schedule V of the Companies Act, 2013	

*Remuneration paid in the capacity of Director

B. Remuneration to other Directors:

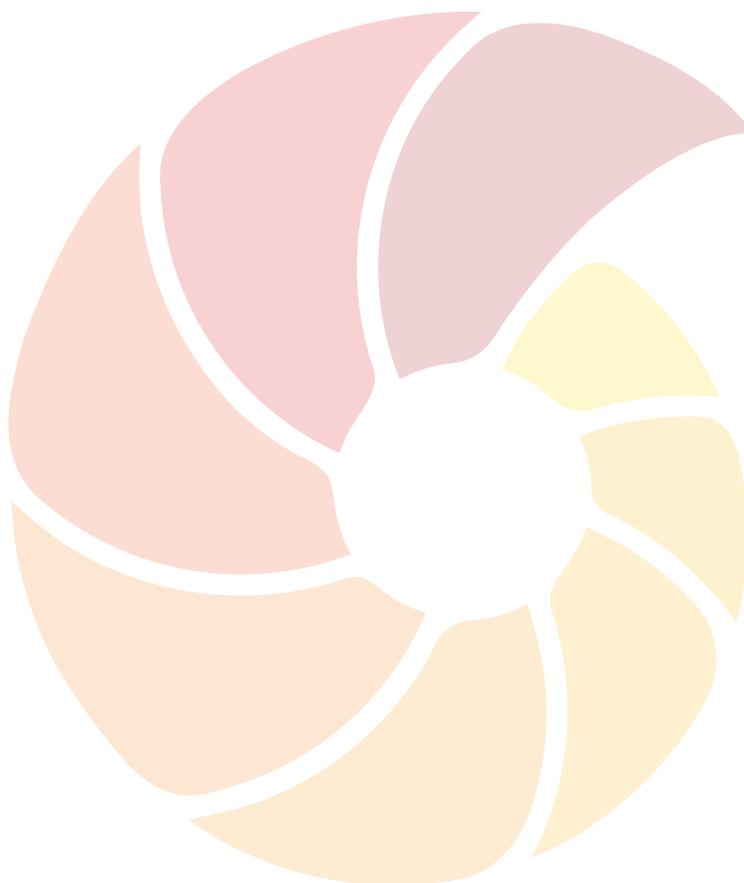
Sr. No.	Particulars of Remuneration	Name of the Directors						Total Amount	
		Mr. Alok Prasad	Ms. Susan Thomas	Mr. Vinay Bajjal	Mr. Sunil Gulati	Mr. Varun Sabhlok	Mr. Sameer Nanavati		
1	Independent Directors								
	(a) Fee for attending board committee meetings	₹ 12,00,000	₹ 8,00,000	₹ 12,00,000	₹ 12,00,000	₹ 12,00,000	N.A	₹ 56,00,000	
	(b) Commission	N.A						N.A	
	(c) Others, please specify	N.A						N.A	
	Total (1)	₹ 12,00,000	₹ 8,00,000	₹ 12,00,000	₹ 12,00,000	₹ 12,00,000		₹ 56,00,000	
2	Other Non Executive Directors								
	(a) Fee for attending board committee meetings	N.A						₹ 12,00,000	₹ 12,00,000
	(b) Commission							0	0
	(c) Others, please specify.							0	0
	Total (2)	0	0	0	0	0	₹ 12,00,000	₹ 12,00,000	
	Total (B) = (1+2)	₹ 12,00,000	₹ 8,00,000	₹ 12,00,000	₹ 12,00,000	₹ 12,00,000	₹ 12,00,000	₹ 68,00,000	
	Total Managerial Remuneration	₹ 12,00,000	₹ 8,00,000	₹ 12,00,000	₹ 12,00,000	₹ 12,00,000	₹ 12,00,000	₹ 68,00,000	
	Overall Ceiling as per the Act								

ANNEXURE I

- EXTRACT OF ANNUAL RETURN

C. Remuneration to key managerial personnel other than MD/Manager/ WTD

Sr.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.	₹ 106.93 Lakh	₹ 20.13 Lakh	₹ 127.06 Lakh
	(b) Value of perquisites under Section 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
	Total	₹ 107.15 Lakh	₹ 20.13 Lakh	₹ 127.28 Lakh



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)
A. COMPANY					
Penalty			NA		
Punishment					
Compounding					
B. DIRECTORS					
Penalty			NA		
Punishment					
Compounding					
C. OTHER OFFICERS IN DEFAULT					
Penalty			NA		
Punishment					
Compounding					

For Fincare Small Finance Bank Limited

Sd/-

Mr. 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 MH

Place: Bengaluru

Date: 17th September, 2019

Sd/-

Mr. 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

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 the Regulator, but is a culture that guides the Board, Management and Employees to function towards best interest of the stakeholders. The Corporate Governance philosophy stems from the belief that it 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, accountability to its stakeholders, the RBI and others who deal with the Bank.



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 a 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 the Bank's stated objectives.

VALUES THAT DEFINE HOW WE WORK



FAIR



INNOVATIVE



NIMBLE



COLLABORATIVE



ACCOUNTABLE



RESOLUTE



EXCELLENT

BOARD OF DIRECTORS

The Bank has optimal combination of Executive Directors, 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 RBI for small finance banks.

The Board's actions and decisions are aligned with the Bank's best interests. It is committed to the goal of sustainably elevating the Bank's value creation.

The Board critically evaluates the 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 FY19:

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 29.07.2019)
Executive Director	Mr. Rajeev Yadav Managing Director and Chief Executive Officer	17.07.2017	-	11	14	Yes	0
Non-Executive Director	Mr. Pramod Kabra Chairman and Non-Executive Director (Designated as Chairman w.e.f. 24th June, 2017)	19.09.2013	-	9	18	No	10
	Mr. Sameer Nanavati Nominee Director	24.06.2017	-	10	13	Yes	3
	Mr. Ravindran Lakhshmanan Nominee Director	19.05.2018	-	4	0	No	1
	Mr. Praveen Agarwal Nominee Director	05.02.2018	19.05.2018	0	0	N.A.	N.A.
Independent Director	Ms. Susan Thomas Independent Director	02.09.2014	-	5	6	No	4
	Mr. Varun Sabhlok Independent Director	31.08.2017	-	11	11	No	0
	Mr. Vinay Baijal Independent Director	25.02.2017	-	12	14	No	1
	Mr. Alok Prasad Independent Director	20.07.2017	-	9	15	No	5
	Mr. Sunil Gulati Independent Director	20.07.2017	-	12	18	No	9

The changes in Board of Directors have been recorded and respective forms have been filed with the Registrar of Companies, Gujarat, complying with the Provisions of the Companies Act, 2013.

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.

BOARD MEETINGS

The Board of Directors of the Company met 13 times in FY19. 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 in the year are mentioned here under:-

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
30-04-2018	23-07-2018	30-10-2018	23-01-2019
-	05-09-2018	05-11-2018	27-02-2019
-	28-09-2018	14-11-2018	12-03-2019
-	-	19-11-2018	18-03-2019
-	-	-	29-03-2019

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 are 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 has 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

The Committees assist the Board of Directors by focusing on specific responsibilities in greater detail than is possible 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 the RBI regulations applicable to the Bank.

The composition of the Audit Committee as on 31st March, 2019 is as follows:

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

The Audit Committee of the Board met 6 (six) times during the year under review.

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
30-04-2018	23-07-2018	31-10-2018	23-01-2019
-	05-09-2018	14-11-2018	



Audit Committee Meeting Attendance

Name	Nature of Directorship	No. of meetings attended	No. of Meetings held during the tenure of directors
Mr. Vinay Baijal	Chairperson of the ACB and Independent Director	6	6
Mr. Sameer Nanavati	Nominee Director	6	6
Mr. Pramod Kabra	Chairman of Board and Non-Executive Director	6	6
Mr. Varun Sabhlok	Independent Director	6	6
Mr. Sunil Gulati	Independent Director	5	6
Mr. Alok Prasad	Independent Director	6	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 RBI and all other applicable regulatory requirements, the terms of reference of the Audit Committee is covered by its charter. Its functioning inter alia broadly includes the following:





Audit-related functions

- Recommending to 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.
- Discussion 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.
- Reviewing and monitoring the statutory and internal auditors' independence, performance and effectiveness of audit process.
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- Review of compliance with the inspection and audit reports of RBI, 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.
- A consolidated review of 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 31st March, every year should be put up to the Committee within 3 months of the end of the relative year.

Financial statements

- Reviewing, with the management, the annual financial statements before submission to the Board for approval, with particular reference to:

01. 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;
02. Changes, if any, in accounting policies and practices and reasons for the same;
03. Major accounting entries involving estimates based on the exercise of judgment by management;
04. Significant adjustments made in the financial statements arising out of audit findings;
05. Compliance with legal requirements relating to financial statements;
06. Disclosure of any related party transactions;
07. Qualifications in draft Audit report.

- Reviewing, with the management, the quarterly financial statements.
- Reviewing, with the management, the half-yearly financial statements before submission to the Board for approval.

Internal audit related functions

- Reviewing with management the adequacy of the internal control systems.
- Reviewing the 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.
- Discussing with internal auditors any significant findings and follow up there on.
- Reviewing the 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

- Approval or any subsequent modification of transactions of the Bank with related parties.

Disclosure

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

Others

- Monitoring the end use of funds raised through public offers and related matters.
- Evaluation of internal financial controls and risk management systems.
- To 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.
- To undertake and / or approve of valuation of undertakings or assets of the Bank, wherever it is necessary.
- To scrutinize inter-Bank loans and investments.
- To review guidelines for investing surplus funds of the Bank.
- To review investment proposals before submission to the Board of Directors.
- To 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-approval or any subsequent modification of transactions of the Bank with related parties.
- To ensure proper system of storage, retrieval, display, or printout of the electronic record.
- To 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.
- To 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.
- Any other requirement in accordance with the applicable provisions of Companies Act, or any re-enactment, amendment or modification thereto from time to time.
- To 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.
- The Committee will 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 shall mandatorily review the following information:



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;



Management letters/ letters of internal control weaknesses issued by the statutory auditors;



Internal audit reports relating to internal control weaknesses;



The appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the Audit Committee; and



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 31st March, 2019:

1.	Ms. Susan Thomas – Chairperson of the NRC and Independent Director
2.	Mr. Pramod Kabra – Chairman of Board and Non-Executive Director
3.	Mr. Alok Prasad - Independent 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 7 times during the year under review.

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
30-04-2018	11-09-2018	-	22-01-2019
28-05-2018	-	-	27-02-2019
-	-	-	09-03-2019
-	-	-	29-03-2019

Nomination and Remuneration Committee Meeting Attendance

Name	Nature of Directorship	No. of meetings attended	No. of Meetings held during the tenure of directors
Ms. Susan Thomas	Chairperson of the NRC and Independent Director	3	7
Mr. Pramod Kabra	Chairman of Board and Non-Executive Director	6	7
Mr. Alok Prasad	Independent Director	4	7
Mr. Vinay Baijal (W.e.f. 23 rd January, 2019)	Independent Director	3	3
Mr. Sunil Gulati (W.e.f. 23 rd January, 2019)	Independent Director	2	3

The Board of Directors has formed and approved a charter for the Nomination and Remuneration Committee setting out the roles, responsibilities and functioning of the 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;
 - 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 keeping in view performance of the Bank, standards prevailing in the industry, norms specified by the 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.
- The Committee shall 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.

- To 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.
- To review the performance of each existing Director of the Bank.
- To 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.
- To 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.
- To 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 31st March, 2019:

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

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

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
30-04-2018	27-08-2018	22-01-2019	29-03-2019

Risk Management Committee Meeting Attendance

Name	Nature of Directorship	No. of meetings attended	No. of Meetings held during the tenure of directors
Mr. Sunil Gulati	Chairperson of the RMCB and Independent Director	4	4
Mr. Pramod Kabra	Chairman of Board and Non-Executive Director	3	4
Mr. Varun Sabhlok	Independent Director	3	4
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer	4	4
Mr. Praveen Kumar Agarwal	Nominee Director	0	1
Mr. Ravindran Lakshmanan (W.e.f. 22 nd May, 2018)	Nominee Director	0	3

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

- To identify, monitor and measure the risk profile of the Bank (including market risk, operational risk, transactional risk and credit risk).
- To oversee its integrated risk measurement system.
- To oversee the risk management policy for approval by the Board.
- To develop Bank's credit and market risk policies and procedures.
- To verify adherence to various risk parameters and prudential limits for treasury operations and to review its risk monitoring system.
- To 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.
- To review management's formulation of procedures, action plans and strategies to mitigate risks on short term as well as long term basis.
- To oversee promotion of awareness of a risk-based culture and achieving a balance between risk minimization and reward for risks accepted.
- To liaise, as necessary, with other Board Committees, especially where there is a perceived or actual overlapping of responsibilities regarding particular risk and compliance issues.

- To verify models that are used for preparing complex products review models as development takes place in the markets and also identify new risks.
- To 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.
- To review the credit and liquidity stress test results on a quarterly basis.
- To 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.
- Reviewing adequacy of insurance policies taken by Management to cover risks/ transfer risk exposures.
- To 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

- To ensure compliance with Bank's Group policy and regulatory requirement.
- To set local targets and review assumptions used for forecasting cashflows.
- Review and approve contingency plans for liquidity and realizability assumption.
- To review and manage concentration risk arising from both borrowers and depositors.
- To ensure business activity is consistent with the structural integrity of the balance sheet, including capital consumption.
- To 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 framed in accordance with the Companies Act, 2013 (Section 135) read with applicable rules as amended from time to time.

Composition

Pursuant to the provisions of Section 135 of the Companies Act, 2013, the CSR Committee was constituted. The Committee consisted of the following members as at 31st March 2019:

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

The Corporate Social Responsibility Committee of the Board met twice (2) during the year under review.

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
22-05-2018	-	-	22-01-2019

CSR Committee Meeting Attendance

Name	Nature of Directorship	No. of meetings attended	No. of Meetings held during the tenure of directors
Mr. Alok Prasad	Independent Director	2	2
Ms. Susan Thomas	Independent Director	1	2
Mr. Sameer Nanavati	Nominee Director	2	2
Mr. Varun Sabhlok	Independent Director	1	2
Mr. Ravindran Lakshmanan (W.e.f. 22 nd May, 2018)	Independent Director	0	2

The Bank was statutorily not required to spend towards CSR activities, in view of the losses incurred by the Bank during the preceding financial year and hence the Board has not approved any budget for CSR activities during FY19. However, the Bank has contributed to CSR initiatives of Fincare Community Development Foundation (FCDF) by way of offering volunteering services. The summary of the CSR contribution by the Bank during FY19 is as under:

FY19	Total No. of Activities	Total No. of Beneficiaries	No. of Volunteer hrs.
Q1	289	7,847	2,312
Q2	293	12,077	2,344
Q3	263	14,151	2,104
Q4	236	8,064	1,888
Sub-Total	1,081	42,139	8,648

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.
- The Committee shall regularly report to the Board on the CSR initiatives and status. The Committee shall also provide reasons to the Board if the amount earmarked for CSR initiatives has not been spent and action steps for the same.
- Review management's 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.
- 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 24th 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 evaluate existing systems and procedures for fraud detection and prevention.

The Fraud Monitoring Committee consisted of the following members as at 31st March, 2019.

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

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

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
22-05-2018	23-07-2018	-	22-01-2019

Fraud Monitoring Committee Meeting Attendance

Name	Nature of Directorship	No. of meetings attended	No. of Meetings held during the tenure of directors
Mr. Sameer Nanavati	Chairperson of FMC & Nominee Director	3	3
Ms. Susan Thomas	Independent Director	1	3
Mr. Vinay Baijal	Independent Director	3	3
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer	3	3
Mr. Alok Prasad	Independent Director	3	3

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

- To identify the system lacunae, if any, that facilitated perpetration of the fraud and put in place measures to plug the same;
- To identify the reasons for delay in detection, if any and report to top management of the Bank and RBI (if any);
- To monitor progress of Central Bureau of Investigation / Police Investigation and recovery position;
- To 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;
- To review the efficacy of the remedial action taken to prevent recurrence of frauds, such as strengthening of internal controls;
- To put in place other measures as may be considered relevant to strengthen preventive measures against frauds;
- To 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 to Assist the Board and the Bank in overseeing the IT functions of the Bank, besides providing input, review and amend the aligned corporate and IT strategies.

The IT Strategy Committee consisted of the following members as at 31st March, 2019:

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

The IT Strategy Committee of the Board met thrice (3) during the year under review.

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
22-05-2018	-	19-11-2018	20-03-2019

IT Strategy Committee Meeting Attendance

Name	Nature of Directorship	No. of meetings attended	No. of Meetings held during the tenure of directors
Mr. Varun Sabhlok	Chairperson of the committee and Independent Director	1	3
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer	3	3
Mr. Sunil Gulati	Independent Director	3	3
Mr. Pramod Kabra	Chairman of the Board and Non-Executive Director	3	3

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

- To approve IT strategy and policy documents.
- To ensuring that the management has put an effective strategic planning process in place.
- To ratifying that the business strategy is indeed aligned with IT strategy.
- To ensuring that the IT Organizational structure complements the business model and its direction.
- To ascertaining that management has implemented processes and practices that ensure that the IT delivers value to the business.
- To ensuring IT investments represent a balance of risks and benefits and that budgets are acceptable.

- To 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.
- To ensure proper balance of IT investments for sustaining Bank's growth.
- To become aware about exposure towards IT risks and controls and evaluating effectiveness of management's monitoring of IT risks.
- To assessing Senior Management's performance in implementing IT strategies.
- To issue high-level policy guidance (e.g. related to risk, funding, or sourcing tasks).
- To confirm whether IT or business architecture is to be designed, so as to derive the maximum business value from IT.
- To evaluate effectiveness of management's monitoring of IT risks and overseeing the aggregate funding of IT at the Bank level;
- To review IT performance measurement and contribution of IT to businesses (i.e. delivering the promised value).

CUSTOMER SERVICE COMMITTEE

Customer Service Committee is 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 31st March, 2019:

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

The Customer Service Committee of the Board met twice (2) during the year under review.

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
-	-	30-10-2018	20-03-2019

Customer Service Committee Meeting Attendance

Name	Nature of Directorship	No. of meetings attended	No. of Meetings held during the tenure of directors
Mr. Ravindran Lakshmanan (2 nd May, 2018)	Chairperson of the Customer Service Committee & Nominee Director	0	2
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer	2	2
Mr. Sunil Gulati	Independent Director	2	2
Ms. Susan Thomas	Independent Director	1	2
Mr. Vinay Bajjal	Independent Director	1	2

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

- To 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.
- To monitor implementation of awards under the Banking Ombudsman Scheme.
- To ensure customer are treated fairly all the times and complaints raised by them is dealt with courtesy and in time.
- To evaluate feedback on quality of customer service and to oversee implementation of commitments towards customers as per the directions received from BCSBI.
- To ensure that all regulatory instructions regarding customer service are followed by the Bank.
- To review and approve customer service policies and customer communication strategies of the Bank.
- To review the performance of Standing Committee on Customer Service.

CREDIT APPROVAL COMMITTEE

Credit Approval Committee of the Board is constituted by the Board members at their meeting held on 24th June, 2017 to assist the Board and the Bank 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 31st March, 2019:

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

The Credit Approval Committee of the Board met twice during the year under review.

Quarter 1	Quarter 2	Quarter 3	Quarter 4
April-June	July-September	October-December	January-March
-	-	-	20-03-2019
			29-03-2019

Credit Approval Committee Meeting Attendance

Name	Nature of Directorship	No. of meetings attended	No. of Meetings held during the tenure of directors
Mr. Sameer Nanavati	Nominee Director	2	2
Mr. Rajeev Yadav	Managing Director and Chief Executive Officer	2	2
Mr. Sunil Gulati	Independent Director	2	2
Mr. Pramod kabra	Chairman of Board and Non-Executive Director	0	2
Mr. Vinay Baijal	Independent Director	1	2

Terms of Reference

- To 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.

- To approve credit exposures which are beyond the powers delegated to executives of the Bank.
- To control the risk through effective loan review mechanism and portfolio management.

GENERAL BODY MEETINGS

A. Annual General Meeting

The Annual General Meetings (AGM) is 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 FY18 was held on 28th September, 2018 at the Registered Office of the Company situated at 301-306, 3rd 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)	27-12-2018
AOC-4	Balance sheet and Profit and loss A/c	137	26-10-2018

B. Extra-Ordinary General Meeting

During the Year, 2 Extra-Ordinary General Meetings were held on 23rd August, 2018 and 28th March, 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.

SUBSIDIARY COMPANY

The Bank does not have any subsidiary.

Meeting of Independent directors

The Independent Directors of the Bank met on 23rd January, 2019 without the presence of any Non-Independent Directors.

Performance evaluation of directors

The Bank has followed objectives-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 is paid in form of sitting fees. The RBI vide Circular No. DBR. No.BC.97/29.67.001/2014-15 dated 1st 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. **Sitting fees of ₹ 1,00,000/- and ₹ 50,000/- are paid to Non-Executive Directors for every Board and Committee meeting attended by them. However, the total amount paid to each such during a financial year did not exceed ₹ 12,00,000/- 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 is mentioned as below:

Name of Director	Sitting Fees Paid (In ₹)
Mr. Vinay Baijal	12,00,000
Mr. Sunil Gulati	12,00,000
Mr. Sameer Nanavati	12,00,000
Mr. Alok Prasad	12,00,000
Ms. Susan Thomas	8,00,000
Mr. Varun Sabhlok	12,00,000

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) for its term loans. The Bank has also been assigned IND A –(Positive) 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.

CODE OF CONDUCT

The Company has a policy of Code of Conduct in place and all the employees and senior management have adhered compliance of 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 Company's website and at all branches of the Company.

DISCLOSURE REGARDING MANAGERIAL REMUNERATION

Name of Director		Sitting Fees Paid (In ₹)
1.	Designation	Mr. Rajeev Yadav - Managing Director and Chief Executive Director
2.	Remuneration received	₹ 301.69 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	24 th June, 2017
6.	The percentage of equity shares held by the employee in the company	0

Disclosure under Rule 5(2) of The Companies (Appointment And Remuneration of Managerial Personnel) Rules, 2014

01. Names of the top ten employees in terms of remuneration drawn.
02. Name of every employee, who if employed throughout the financial year, was in receipt of remuneration for that year which, in aggregate was not less than One Crore and Two Lakhs rupees.
03. Name of every employee, who if employed for a part of the financial year, was in receipt of remuneration for any part of that year, at a rate which, in the aggregate, was not less than eight lakh and fifty thousand rupees per month.
04. Name of every employee, employed throughout the financial year or part thereof, was in receipt of remuneration in that year which, in the aggregate, or as the case may be, at a rate which, in the aggregate, is in excess of that drawn by the managing director or whole-time director or manager and holds by himself or along with his spouse and dependent children, not less than two percent of the equity shares of the company - NIL.

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 Bank 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 employees of the Bank, 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 CEO of the Bank for advice wherever necessary, taking steps to prevent commission of improper practices/misconducts, etc.

FINANCIALS CIRCULATION

Financial Results of the half year ended 30th September, 2018 and 31st March, 2019 were published in newspaper having nationwide circulation on 16th November, 2018 and 20th May, 2019 in accordance with listing compliances pursuant to debt listing.

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 Company's promoters, directors, key managerial personnel or their relatives, which may have potential conflict with the interest of the Company at large.

GENERAL SHAREHOLDER INFORMATION

Shareholding details of the bank as on 31st March, 2019

Sr.No	Name of Shareholder(s)	No. of Shares	Shareholding %
01	Indium IV (Mauritius) Holdings Limited	16,65,296	4.45
02	Fincare Business Services Limited	5,02,77,221	89.09
03	True North Fund V LLP	21,86,109	3.87
04	Sameer Nanavati	1	0
05	Soham Shukla	1	0
06	Vivek Kothari	1	0
07	Keyur Doshi	1	0
08	Rajeev Yadav	1	0
09	Dasarathareddy Gunnamreddy	1	0
10	Silver Leaf Oak (Mauritius) Limited	3,90,056	0.69
11	Lok Management Services Private Limited	19,17,293	3.40
Total		5,64,35,981	100.00

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 Agents

Karvy Fintech Private Limited

📍 | Karvy Selenium Tower B, Plot 31-32, Gachibowli, Financial District, Nanakramguda, Hyderabad – 500 032.

☎ | Phone: +91 40 6716 1602

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 have been dematerialized through Karvy Fintech Private Limited.

Registered Office and Corporate Office

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

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Sd/-

Mr. 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 MH

Sd/-

Mr. 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 : 17th September, 2019 | Place : Bangalore

FORM AOC 2

Form for disclosure of particulars of contracts / arrangements entered into by the Company with related parties referred to in sub-Section (1) of Section 188 of the Companies Act, 2013 including certain arms' length transactions under third provision thereto.

Pursuant to clause (h) of sub-section (3) of Section of the Act and rule 8(2) of the Companies (Accounts) Rules 2014.

I DETAILS OF CONTRACTS OR ARRANGEMENTS OR TRANSACTIONS NOT AT ARM'S LENGTH BASIS

i	Name(s) of the related party and nature of relationship.	-
ii	Nature of contracts/arrangements/transactions.	-
iii	Duration of the contracts/arrangements/transactions.	-
iv	Salient terms of the contracts or arrangements or transactions including the value, if any.	-
v	Justification for entering into such contracts or arrangements or transactions.	-
vi	Date(s) of approval by the Board.	-
vii	Amount paid as advances, if any.	-
viii	Date on which the special resolution was passed in general meeting as required under first proviso to Section 188.	-



II DETAILS OF MATERIAL CONTRACTS OR ARRANGEMENT OR TRANSACTIONS AT ARM'S LENGTH BASIS

i	Name(s) of the related party and nature of relationship.	Lok Management Services Private Limited, Fellow Subsidiary.
ii	Nature of contracts/arrangements/ transactions	Professional services.
iii	Duration of the contracts/ arrangements/transactions.	12 months (commenced on 5 th January, 2018 and ending on 15 th December, 2018).
iv	Salient terms of the contracts or arrangements or transactions including the value, if any.	Terms and conditions as per the Consultancy Agreement executed between Leapfrog Labs Limited, Fincare Small Finance Bank Limited and Lok Management Services Limited and the value is ₹ 85 Lakh.
v	Date(s) of approval by the Board.	NA
vi	Amount paid as advances, if any.	NA

FOR AND ON BEHALF OF THE BOARD OF DIRECTORS

Sd/-

Mr. 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 MH

Sd/-

Mr. 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

ANNEXURE IV - SECRETARIAL AUDIT REPORT

SECRETARIAL AUDIT REPORT

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

Tel. : (022) 2208 5764 / 2208 5765	10, New Marine Lines
Email : tushar@tusharshri.com	417, Jolly Bhavan No. 1
Website : www.tusharshri.com	Mumbai – 400 020

FOR THE FINANCIAL YEAR ENDED ON 31ST MARCH, 2019

[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, 3rd Floor, ABHIJEET -V
Opp. Mayor's Bunglow
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 31st March, 2019 ("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 31st March, 2019 according to the provisions of:

- (I) The Companies Act, 2013 ("the Act") and the rules made thereunder;
- (II) The Depositories Act, 1996 and the regulations and bye-laws framed thereunder;
- (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, 2016;
- (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.

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.

- A) The Banking Regulation Act, 1949;
- B) Prevention of Money Laundering Act, 2002;
- C) Credit Information Companies (Regulations) Act, 2005;
- D) Master Directions issued by the RBI, from time to time, for Small Finance Banks and Commercial Banks;
- E) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970;
- F) Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980;
- G) The Companies Act, 2013;
- H) Information Technology Act, 2000;
- I) Insolvency and Bankruptcy Code, 2016;
- J) Foreign Exchange Management Act, 1999;
- K) SEBI (Listing Obligation and Disclosure Requirement), 2015;
- L) 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.

ANNEXURE IV - SECRETARIAL AUDIT REPORT

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

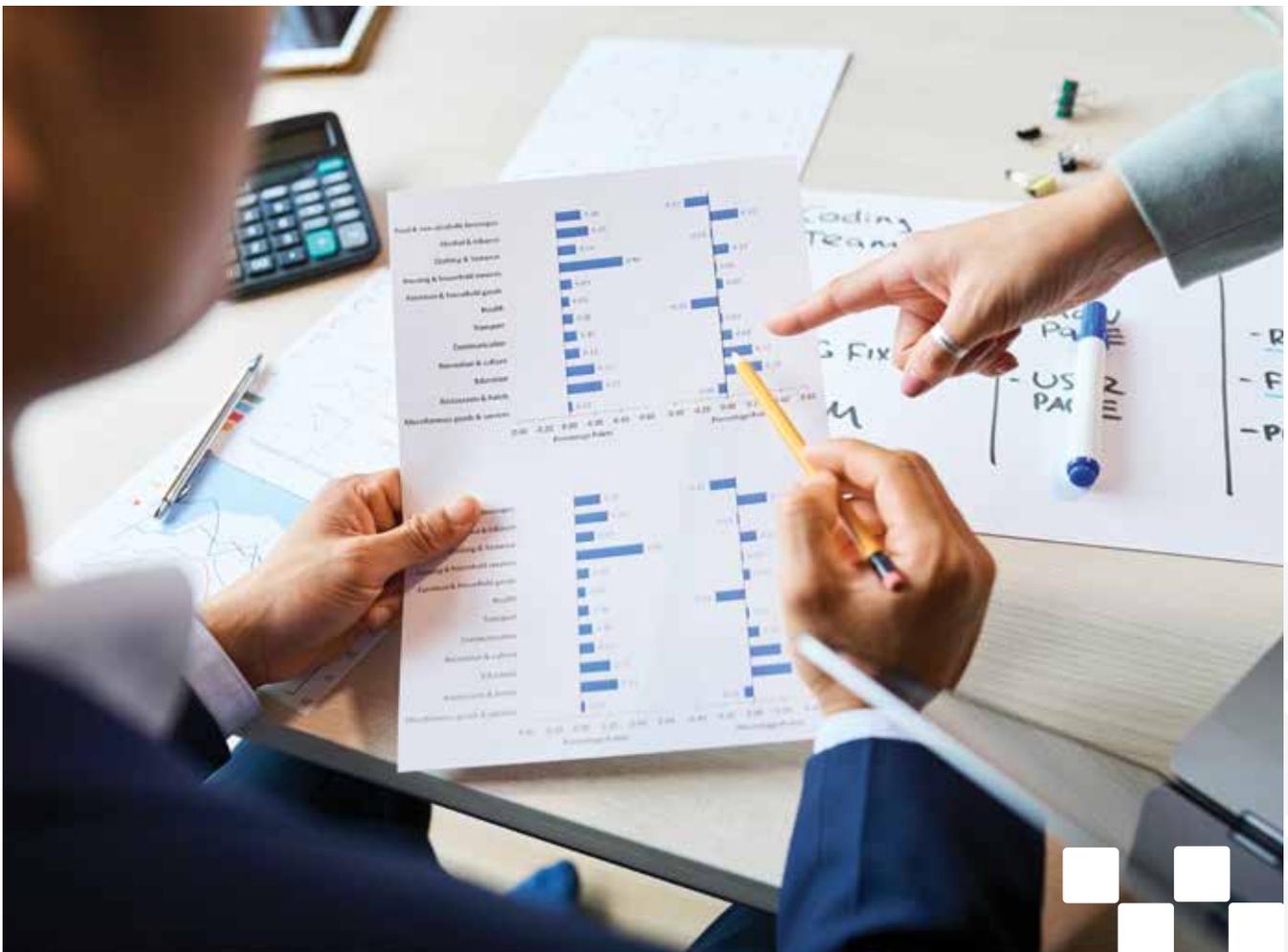
I further report that there are adequate systems and processes in the Company commensurate with the size and operations of the Company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

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.

Tushar Shridharani
Practicing Company Secretary
FCS: 2690 / COP: 2190

Place: Mumbai
Date: 27th August, 2019

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 A

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

This letter is an integral part of the Secretarial Audit Report of even date for FY19 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.

Tushar Shridharani
Practicing Company Secretary
FCS: 2690 / COP: 2190

Place: Mumbai
Date: 27th August, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC LANDSCAPE

Global growth conditions remained two-paced in 2018. While the first half was steady, growth moderated in the second part as slowing investments, geopolitical risks, and trade tensions came to the fore. Crude oil prices traded in a zone but did not spike inflation globally as economic activity remained below potential. Acknowledging the slowdown, most central banks shifted towards a more dovish approach and prioritized growth over price rise. The World Bank has revised downwards its global growth expectations in 2019 to 2.6%, as weaker-than-expected international trade and investment conditions are expected to prevail. It is being hoped that structural reforms aimed at improving the business climate would boost growth prospects, along with targeted stimulus programs across different economies.

India took a few giant strides forward. India became the sixth largest economy by sustaining growth rates higher than China, thereby earning the distinction of being the fastest growing major economy in the world. Importantly, this pace of growth was sustained while re-establishing macro-economic stability. Notwithstanding this, India, in part, reflected the global growth concerns in FY19. Several downside risks showed early signs of materializing in the form of escalation of trade tensions, geopolitical strife and renewed financial volatility in Emerging Markets (EMs). India's economy, despite the advantage of domestic consumption, grew at the slowest pace in 5 years in FY19 at 6.8%. Provisional estimates for FY19 showed that the fastest growing major economy grew 5.8% in the fourth quarter of FY19 against 6.6% in the preceding one and 8.1% in the year earlier. The slowdown in economic growth can be attributed to a confluence of negative factors. Domestically, sluggish industrial output and falling demand in urban and rural areas dragged growth down. The Reserve Bank of India (RBI) and the Government approached the problem with a simple solution: lowering of rates. This approach continues, and lending rates are gradually coming down. The Central Bank has directed banks to ensure quick transmission of lower rates to borrowers.

INDIA REFORMS BEARING FRUIT

The fruits of big-bang reforms like the IBC are beginning to show green shoots. When the Insolvency and Bankruptcy Code (IBC) was introduced in 2016, it consolidated the insolvency resolution process into a single law by amending multiple rules and processes earlier in operation. IBC set a time limit for closing of insolvency and bankruptcy cases within which assets of a defaulting borrower are auctioned to pay off the debt owed to lending institutions. Following the operationalization of IBC since 2017, a significant number of non-performing assets have been brought under its ambit. In addition to the large sums recovered by creditors from resolution or liquidation, the introduction of a framework for exit has improved the overall business culture of the country. According to a CRISIL report, recovery of stressed assets through the IBC was two-times at ₹ 70,000 Crore compared to that through other mechanisms in FY19. The recovery rate for the 94 cases resolved through IBC by FY19 is 43%, compared with 26.5% through earlier resolution mechanisms such as Debt Recovery Tribunal (DRT), Securitization and Reconstruction of Financial Assets (SARFAESI), Enforcement of Securities Interest Act, and Lok Adalat.

Another key reform, Goods and Services Tax (GST) is aligning itself to newer realities. The FY19 ended on a happy note. At ₹ 1.06 Lakh Crore, the Government has announced the highest monthly collection from GST in March since its roll-out. This was the fourth time in FY19 that the monthly GST collection has crossed the ₹ 1 Lakh Crore mark, meeting the target. The total GST collected during the year touched ₹ 11.77 Lakh Crore. The monthly average of GST revenue during FY19 was ₹ 98,114 Crore, 9.2% higher than FY18. These figures indicate that the revenue growth has been picking up in recent months, despite various rate rationalization measures.

INDIAN BANKING REVIEW

Banks supply the lifeblood of the over \$2 trillion Indian economy. Despite economic challenges, Banks closed FY19 with robust disbursements that rose in double-digits for the second year in a row. This marked a swift turnaround after the below 5% rate witnessed in FY17, which was the lowest in five decades.

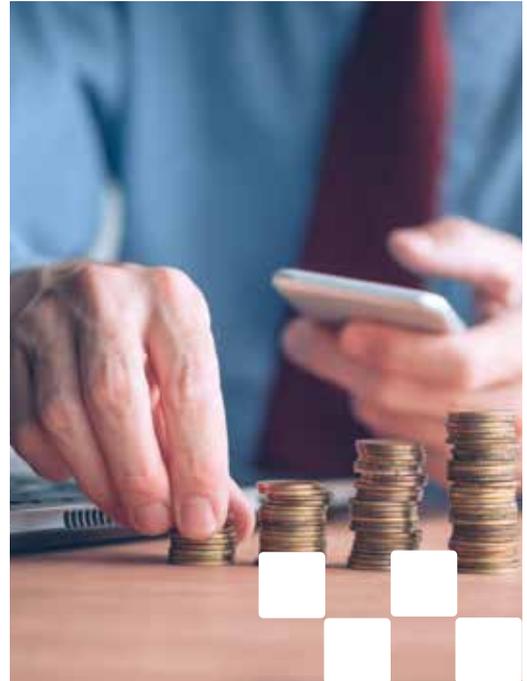
According to data released by RBI, bank credit rose 13.24% to ₹ 97.67 Lakh Crore for the fortnight to March 29, while deposits grew by 10% to ₹ 125.72 Lakh Crore during the same period. The over 13% year-on-year credit growth in FY19 marks an improvement against 9.85% in FY18. Deposit growth, at 10%, in FY19 is also better than the 6.15% logged in FY18.

Private sector banks recorded over 28% credit growth year-on-year in FY19. In comparison, public sector banks registered a pale 5.5% growth. Retail loans were the cornerstone of Indian banking growth, followed by services. In the retail bucket, credit cards, housing loans and personal loans shone prominently. Loans outstanding under credit cards grew over 28% in FY19, a rate which was more than twice the 13% growth rate of overall bank credit.

SMALL FINANCE BANK OPPORTUNITY

Approximately one-third of the adult population in India has an account with a formal financial institution. The ambitious Pradhan Mantri Jan Dhan Yojana (PMJDY) enabled the mission to provide at least one bank account for every household in India. This has taken India a step closer to changing the financial inclusion landscape. The process of financial inclusion was started by Microfinance institutions (MFIs). The group-based lending approach of MFIs helped, but the lack of deposit power limited impact. To facilitate financial inclusion and banking penetration in India, the RBI granted Small Finance Bank (SFB) licenses to 10 entities in September 2015, all of whom had commenced operations by end of FY18. In FY19, most of the SFBs sharpened efforts to expand branch network for garnering retail deposits, diversified their loan book and leveraged technology to reduce operational cost and bring in customer delight. Successful transformation to SFBs have allowed the MFIs/NBFCs to work without constraining factors such as the margin cap and qualifying asset criteria. Plus, Small Finance Banks are now able to serve the rural markets in which they primarily operated in their earlier avatar. The tapping of opportunity in under-penetrated rural zones is possible through client-centric products that are being loaded onto low-cost delivery platforms.

True to sticking to the guidelines, SFBs today are reaching out to underserved regions of North East, East and Central regions of India. Unserved and underserved populations are witnessing bank branches. Target segments of small businesses, un-organized sector, low income households and farmers are finding their credit and savings needs fulfilled. SFBs are lapping up the opportunity to get a foothold in the ₹ 30 Lakh Crore market, or roughly 40% of the Indian banking sector. As per MFIN report, as of 31st December, 2018, NBFC-MFIs' share of micro-credit stands at 36.5%, followed by banks at 32.2%, Small Finance Banks at 18.2% NBFCs at 10.7% and Not-for-profit MFIs at 2.4%. Importantly, Small Finance Banks' micro-credit loan amount outstanding stands at over ₹ 30,000 Crore unchanged from figures in March 2018, indicating that SFBs remain committed to financial inclusion.



As SFBs continue their journey, the Indian economy and financial system will witness a new transformation. This paradigm shift will be due to:

- 01 **Diversification** - SFBs can now offer a range of products to create a holistic product suite comprising primarily savings and credit, as well as distribution of 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.
- 02 **Low Cost** - SFBs, previously as MFIs/NBFCs, have perfected the art of lowering operational expenses. This is due to lower cost infrastructure and high productivity of staff. Thus, SFBs can utilize their low-cost structure to rapidly attain profitability.
- 03 **Branding** - Being an SFB allows an institution to gain the desired mind space of customers and etch their own mark. So, SFBs can create differentiated brands and leverage these to create long-term client relationships.
- 04 **Funding Base** - In the long-run, mobilizing savings and customer-centric offerings will help SFBs lower their funding costs. SFBs are capable to meeting the unmet demand for savings deposits in rural areas.
- 05 **Vertical Penetration** - SFBs, in their previous avatars, are experts of financially assisting the low-income segment. Now, they can do vertical penetration by offering a comprehensive product suite. This creates a good mix of high and low value customers, strengthening the business case.

However, Small Finance Banks have to innovate to address 3 key challenges - garnering retail deposits, preparing employees and using technology.

Garnering retail liabilities is a key driver of the SFB business model. Small Finance Banks are not only 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 spreading 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 employees become much more customer-oriented while at the same time training them on banking and 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 dynamics of the business. Thus, investments are happening in IT infrastructure and a hyper-connected banking institution built to last for many years to come.

FINCARE SFB - 2ND YEAR AS A BANK

FY19 was a year that saw Fincare Small Finance Bank realize its potential after the FY18 transformation from a NBFC-MFI Company. Crossing a major milestone, the Bank got included in the Second Schedule to The Reserve Bank of India Act.

The year witnessed Fincare grow from strength to strength. Customer count crossed 15 Lakh. Profit touched nearly ₹ 102 Crore. This was due to the contributions of 5,498 employees who have helped grow the Bank's business 104% Y-o-Y from ₹ 2,357 Crore as on 31st March, 2018 to ₹ 4,808 Crore as on 31st March, 2019.

The financial results achieved are a reflection of Fincare's continued efforts on profitable growth and diversification. FY19 saw the Bank make considerable progress in growing its secured assets business, and in building a strong liability franchise. Secured assets now comprise almost 20% of gross loan portfolio.

New business in assets side added during the year include two-wheeler loans while on the liabilities side there were NRE fixed deposits, Recurring Deposits and Corporate Salary accounts.

Gross loan portfolio grew by 65% while deposits recorded a rise of 181% during the year. The Bank's profits have recorded considerable growth while maintaining good asset quality. This reiterates the commitment of Fincare to serve the unbanked and underbanked communities in their path towards financial inclusion.

During the year, the Bank expanded its footprint and ended the year with 569 outlets, 79% growth over the 317 banking outlets in the previous year. The expansion happened in Full Service Branches, Mini Branches and Loan Centres.

Overcoming all odds, during FY19 Fincare built upon its retail deposit share and innovative product offerings helped end the year with over ₹ 2,000 Crore, a growth of over 175% compared to ₹ 727 Crore in FY18.

A strong believer of leveraging people power, Fincare helped its 5,498-strong workforce to deliver outcomes in a well-organized way by investing in HR and making the Small Finance Bank a happy place to work in.



LET US HAVE A CLOSE LOOK AT SOME OF THE HIGHLIGHTS OF AN EVENTFUL FY19

- 01 **Asset Quality** - The Gross NPA of the Bank as on 31st March, 2019 stood at 1.29% and the Net NPA at 0.34%. The Provision Coverage Ratio (including technical write-off's) stood at 73.6% as on 31st March, 2019.
- 02 **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.
- 03 **Capital Adequacy Ratio** - CRAR of the Bank, computed as per Basel II guidelines stood at 23.63% as on 31st March, 2019. The Net Worth of the Bank is ₹ 666 Crore as on 31st March, 2019.

04

Digital First - With no legacy paper-based banking, Fincare gave #Smart Banking a major push by leapfrogging into latest technology platforms to consolidate its Digital-First banking approach in the rural & urban areas.

05

Partners - Fincare signed Corporate Agency agreements with two life insurance companies and one health insurance company to beef up its financial protection portfolio. Customers can now get access to Health and Life Insurance offerings.

06

Attracting Leaders - The Bank fortified its leadership and executive team by adding 15 members. The well-rounded management structure is expected to drive Fincare to the next orbit of growth.

07

Call Centre - Cognizant of its customer service duties, the Bank opened a multilingual call centre which would attend to customers' queries and redress issues in several languages. Given that the target group of the Bank is comfortable in regional languages, this is a great step to deepen bond with customers.

08

Awards - Fincare secured multiple awards in FY19. These were given by both global and local institutions. The Bank's work done in the field of financial inclusion and digital have been well-received by customers and third-party acknowledgment acts as a confidence booster.



FY19 FINANCIAL HIGHLIGHTS

The total business of Fincare grew 104% Y-o-Y from ₹ 2,357 Crore as on 31st March, 2018 to ₹ 4,808 Crore as on 31st March, 2019.

With respect to credit growth, gross advances rose to ₹ 2,791 Crore as on 31st March, 2019 from ₹ 1,634 Crore as on 31st March, 2018, registering a growth of 71%.

The Bank's microloans portfolio grew by 60% Y-o-Y to reach ₹ 2,109 Crore as on 31st March, 2019 from ₹ 1,315 Crore as on 31st March, 2018. The secured loans portfolio registered a growth of 124% from ₹ 299 Crore as on 31st March, 2018 to ₹ 671 Crore as on 31st March, 2019.

Total gross loan portfolio including Securitization, Inter Bank Participation Certificate and Direct Assignment grew by 64% from ₹ 2,154 Crore as on 31st March 2018 to ₹ 3,530 Crore as on 31st March 2019.

Deposits recorded a growth of 181% to reach ₹ 2,043 Crore as on 31st March, 2019 from ₹ 727 Crore as on 31st March, 2018. The low-cost CASA segment grew 505% to reach ₹ 224 Crore as on 31st March, 2019. Retail deposits that are accounted for 37% of the overall deposit base.

The Bank has recorded its highest ever annual net profit of ₹ 101.98 Crore

Governance

Fincare Small Finance Bank has implemented a Corporate Governance process which aspires 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 Employees to function towards best interest of Stakeholders.

The Corporate Governance philosophy is about a 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 a higher standard of Corporate Governance and continues to strive for excellence in business operations through transparency, accountability to its stakeholders, Reserve Bank of India and others who deal with the Bank.

The Company's Corporate Governance Philosophy hinges 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.

Information Technology

In the second year of Smart Banking, Technology drove Fincare Small Finance Bank's efficient and effective operations. Technology is the backbone that runs today's focused customer centric operations. It allows SFBs to scale up quickly while reining in operational risks. In FY19, the Bank implemented client focused tasks such as EMV compliant ATMs, improved Internet banking and Mobile banking backed by various payment channels such as NACH, e-Commerce

The Bank believes in bringing world-class technology systems for enhanced customer experience. Fincare Small Finance Bank has migrated its entire microloans portfolio into the Core Banking System during the year. Technology has played a crucial role while automating Non-Performing Assets (NPA) functionalities through core banking application for effective operations.

The Bank added 9 new liability, and 3 new asset products/ variants to the IT framework. Integrated CCIL operations with Treasury application and Operational Risk Management application into production. Fincare Small Finance Bank manages its data through a highly secure cloud-based data center at Mumbai with a real time Disaster Recovery (DR) center at Hyderabad. The homegrown applications are hosted out of PI Data Centre at Amaravati with Disaster Recovery (DR) at Kochi.

Marketing

The Bank continued its voyage of redefining Smart Banking in India. A Smart Banking Environment is a win-win concept for both employees and customers. The Bank lays a high degree of emphasis on last mile engagement and with this in place the Bank enjoys a reasonably positive pull with clients and the local community.

The Bank has constantly focused on smart and digital oriented banking. The philosophy hinges on the belief that the banking should be convenient and trustworthy. Towards this, the Bank initiated various engagement programs with the customers and at the same time focusing on providing the right platform for futuristic, cutting - edge digital initiatives and creating better financial health for the targeted segment.

Grandmaster Viswanathan Anand – The Brand Ambassador! - Grandmaster Viswanathan Anand is one of the smartest Indians and resonates with the Fincare Brand in several ways. Smart banking required a perfect role model and Grandmaster Viswanathan Anand was the perfect fitment to the brand considering his sheer passion, purpose and perseverance.



People Power

In FY19, the Bank was witness to different initiatives and outcomes that show employees appreciate a safe and friendly workplace as much as delivering excellence shepherded by time-trusted values.

An institution can only be as good as the people who run it. From microfinance to Smart banking, it is people power that has helped Fincare evolve into a financial engine that impacts over 15 Lakh customers in just 2 years of operations. During the year, the Bank's headcount increased from 4,357 to 5,498. As much as 93% of the roles are field-oriented, while only 7% are non-field oriented.

During FY19, 2,000+ training sessions covering 4500+ employees have been conducted across product, process, compliance as well as skill development. In addition, people in select control functions such as Risk, Treasury etc., have participated in training programs organized by leading training organizations.

Risk Management and Compliance

Risk Management is an inherent part of the core philosophy and working of the Bank. The Board has established the Risk Management Committee of the Board (RMCB) to ensure the Bank has a sound system of risk management and internal controls in place. The RMCB assists the Board in relation to the oversight and review of the Bank's risk management principles and policies, strategies, appetite, processes and controls.

The Risk Management Committee of the Board reviews risk management policies of the Bank pertaining to credit, market, liquidity, operational, outsourcing and business continuity management. RMCB is also responsible for approving the Bank's risk appetite, risk tolerance and related strategies and policies. Fincare has a clear risk appetite which is an expression of the risks the Bank is willing to take in pursuit of its financial and strategic objectives. The risk appetite assessment is a top-down process and consists of specific risk appetite statements, which are approved by the Board and reviewed annually.

The Bank is committed to high standards in maintaining professional integrity, ethical conduct and regulatory compliance. Fincare boasts of an independent Compliance function, headed by Chief Compliance Officer to facilitate the management of compliance risk and implement compliance framework across the Bank. The compliance unit undertakes compliance activities such as providing guidance on regulatory matters pertaining to various business activities, assisting functions units in ensuring that the Bank's Policies, Products and Processes are in sync with the regulatory requirements.

The Compliance unit also tracks adherence to Licensing conditions and operating guidelines, putting in place Compliance Policy of the Bank. The Compliance unit periodically apprises both the Bank's management as well as the Board of Directors on the status of compliance in the Bank.

Treasury & Funding

The Bank uses different avenues for short term and long-term liquidity management viz. bulk deposits from NBFCs and corporates, interbank money market borrowings, securitization/ direct assignment of book debt, Interbank Participation Certificates (IBPC) and refinancing facility by SIDBI, NABARD and Mudra. From the erstwhile Microfinance regime, the Bank enjoys a cordial relationship with the refinancing agencies and in FY19 raised INR ₹ 650 Crore long term refinancing. The Bank enjoys good and healthy professional relationship with rating agencies, trustee firms, legal firms and financial counterparties to seamlessly execute the securitization and direct assignment transactions.

The Borrowing committee of the Bank which includes MD & CEO, CFO and CRO oversees and approves every funding transaction (other than interbank transactions) as and when availed. On the treasury systems front, the Bank implemented Quantum, a treasury management software owned and developed by FIS Global for trade booking, verification confirmation and settlement. The treasury system is integrated with the Bank's core banking system (CBS), Profile, owned and developed by FIS Global. The Bank enjoys direct membership with the RBI's Central Payment System which include the E-Kuber platform, Structured Financial Messaging Systems (SFMS), National Electronic Fund Transfer (NEFT), Real Time Gross Settlement Systems (RTGS). In FY19, the Bank has obtained direct membership to Clearing Corporation of India Ltd (CCIL) platforms, which include Negotiated Dealing System – Order Matching (NDS-OM), Negotiated Dealing System – Call (NDS – Call) and Tri- Party Repo (TREPS). Fincare Small Finance Bank is a member of Fixed Income Money Market & Derivative Association of India (FIMMDA) and the treasury officials abide by the code of conduct of FIMMDA along the Bank's code of conduct and other fair dealing practices.



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 AND ON BEHALF OF THE BOARD OF DIRECTORS

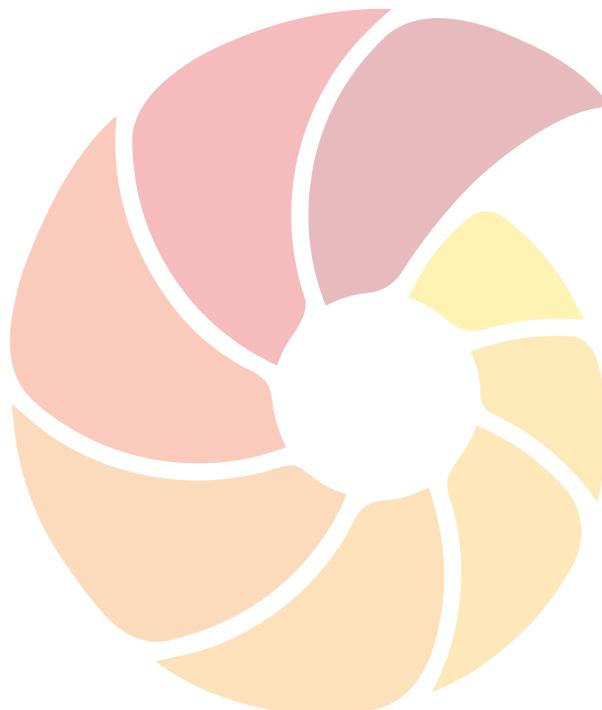
Sd/-
Mr. Pramod Kabra

Chairman and Non-Executive Director
DIN: 02252403
Add: 2101, Floor-21, Plot-30, Tower No 4,
Strata Planet Godrej Keshavrao Khadye
Marg, Saat Rasta, Jacob Circle
Mumbai 400011 Maharashtra, India

Sd/-
Mr. Rajeev Yadav

Managing Director & Chief Executive Officer
DIN: 00111379
Add: Villa 578, Phase - 3, Adarsh Palm
Retreat, Outer Ring Road, Devara Beesana
Halli, Bellandur, Bangalore 560103
Karnataka, India

Date : 17th September, 2019 | Place : Bangalore



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 21st 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 & other disclosed free reserves reduced by first loss credit enhancement in the form of fixed deposit and intangibles. Tier-2 capital consists of Sub-debts, general provisions & loss reserves reduced by First loss credit enhancement in the form of fixed deposit.

b). Equity Capital

As on 31st March, 2019, the Bank has authorized share capital of ₹ 10,000 Lakh, comprising of 100,000,000 equity shares of ₹ 10 each and has subscribed and paid up capital of ₹ 5,644 Lakh comprising of fully paid up 56,435,981 shares of ₹ 10 each.

c). Capital Funds:

The capital fund position for the year ended 31st March, 2019 and 31st March, 2018 are:

Particulars	As at 31 st March, 2019	As at 31 st March, 2018
Tier I Capital	62,201	31,749
Tier II Capital	6,238	9,189
Total Capital Fund (Tier I + Tier II)	68,439	40,938

DF-2: CAPITAL ADEQUACY

Fincare Small Finance Bank Limited (hereinafter to be referred as the Bank) is subject to RBI Master Circular on Basel II Capital Regulations issued on 1st July, 2008 and amendments thereto issued on time to time by RBI.

The revised framework consists of three mutually reinforcing Pillars viz.

- The revised framework consists of three mutually reinforcing Pillars viz.
- Minimum Capital Requirement.
- Market Discipline.

The Pillar 1 framework offers three distinct options for computing capital requirement for credit risk and three other options for computing capital requirement for operational risk.

The Bank is subject to guidelines prescribed in the RBI Master Circular on Capital Regulation Base II July 2008. The Bank has adopted standardized approach for Credit Risk for Computation of Capital Risk Adequacy Ratio (CRAR). Currently the Bank is not considering the Market risk and Operational risk for computation of CRAR.

Minimum Capital requirement

As per the operating guidelines for Small Finance Bank Limited is required to maintain Capital Risk Adequacy Ratio of 15% with Common Equity Tier I of 6%.

On 31st March, 2019, the Bank has a healthy Capital Risk Adequacy Ratio of 23.63% which is well above the minimum capital adequacy requirement and Common Equity Tier 1 of 21.48% which is above the requirement of 6%.

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 (Board). Under ICAAP, the Bank determines whether it has adequate level of capital to meet regulatory norms, current and future business needs, including stress scenarios. Bank's ICAAP evaluates and documents all risks and substantiates appropriate capital allocation for not only risks identified under Pillar 1 (i.e. Credit, Market and Operational Risk) but for the ones identified under Pillar 2 as well.

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 and at the times of changing economic conditions / economic recession. The Bank considers both quantifiable and non-quantifiable risks while assessing capital requirements. The Bank considers the following risks as material and has considered these while assessing its capital requirements:

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

Monitoring and reporting

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

Common Equity Tier I , Tier I and Total Capital Ratio

Particulars	As at 31 st March, 2019	As at 31 st March, 2018
Common equity tier 1 capital ratio (%)	21.48%	18.07%
Tier I capital ratio (%)	21.48%	18.07%
Tier II capital ratio (%)	2.15%	5.23%
Total Capital Ratio (CRAR) (%)	23.63%	23.30%

TABLE 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 CEO. CRMD is independent of Business and Credit functions and is responsible for protecting the quality of the entire loan portfolio.

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, traditional client base in key geographies considering the customer segment, heightened competition and thinning spreads.

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 also enforces and 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 risk measurement, mitigation, monitoring & reporting systems

Retail:

The retail portfolio consists of JLG Microfinance Loans, Loan against Gold, Two-wheeler loans and Loan against property. The JLG Microfinance Loans is templated low ticket size product and has standard underwriting norms catering to the base of the pyramid segment of customers. Other products such as Loan against Gold, Two-wheeler Loan 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 by the Board.

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.

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

The above classification is provided based on Management's estimates which are more prudent 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 1st July, 2015.

Credit risk measurement, mitigation, monitoring & reporting systems

FUND BASED AND NON-FUND BASED EXPOSURE AS ON 31st MAR, 2019

EXPOSURE	₹ Lakh
Gross Advances	2,79,109
Investments	70,086
All Other assets	70,619
Total Fund Based Exposure	4,19,814
Non-Fund Based Exposure	2,700
Total Fund and Non-Fund Based Exposure	4,22,514

*Gross Advances is net of IBPC and includes NPA Provisions. Investments are taken at Book value.

#Non-fund based exposure represents the guarantee provided for such transactions.

GEOGRAPHIC DISTRIBUTION OF EXPOSURES AS ON 31-MAR-2019

EXPOSURES IN ₹ LAKH	DOMESTIC	OVERSEAS	TOTAL
FUND BASED EXPOSURE	4,19,814	Nil	4,19,814
NON-FUND BASED EXPOSURE	2,700	Nil	2,700
TOTAL FUND BASED AND NON-FUND BASED EXPOSURES	4,22,514	Nil	4,22,514

RESIDUAL CONTRACTUAL MATURITY BREAKUP OF ASSETS

Break up as on 31st Mar, 2019 in ₹ Lakh

Time Buckets	Advances	Investments
Day 1	462	33,451
2 to 7 days	2,298	1,660
8 to 14 days	3,303	889
15 to 30 Days	7,366	1,363
31 days to 2 months	14,094	1,418
2 months to 3 months	14,304	1,022
over 3 months & Up to 6 Month	45,341	3,413
Over 6 Month & Up to 1 Year	77,496	8,805
Over 1 year & Up to 3 years	93,363	16,326
Over 3 years & Up to 5 years	11,389	550
Over 5 years	7,053	1,189
Total	2,76,469	70,086

*Total Net Advances / NPA Ratios / NPA Movement

Particulars	As at 31 st March, 2019 ₹ in lakh
(i) Gross NPAs to Net Advances (%)	1.29%
(ii) Net NPAs to Net Advances (%)	0.34%
(iii) Movement of NPAs (Gross)	-
(a) Opening balance	1,722
(b) Additions during the year	4,356
(c) Reductions during the year	2,489
(d) Closing balance	3,589
(iv) Movement of Net NPAs	
(a) Opening balance	1,317
(b) Additions during the year	2,499
(c) Reductions during the year	2,866
(d) Closing balance	949

(v) Movement of provisions for NPAs (excluding provision on standard assets and floating provision)	-
(a) Opening balance	405
(b) Provision made during the year	4,007
(c) Write off/ write back of excess provision	1,772
(d) Closing balance	2,640

WRITE OFF & RECOVERIES

Particulars	As at 31 st March, 2019 ₹ in lakh
Gross NPA's as on 1 April of particular year (Opening Balance)	1,722
Additions (Fresh NPAs) during the year	4,356
Sub-total (A)	6,078
(i) Upgradations	1,216
(ii) Recoveries (excluding recoveries made from upgraded accounts)	257
(iii) Technical / Prudential Write offs	1,016
(iv) Write offs other than those under (iii) above	-
Sub-total (B)	2,489
Gross NPAs as on 31st March of following year (closing balance) (A-B)	3,589
Opening balance of Technical / Prudential written off accounts as at 1 April	18,925
Add : Technical / Prudential write offs during the year	1,016
Sub-total (A)	19,941
Less : Recoveries made from previously technical / prudential written off accounts during the year (B)	436
Closing balance as at 31st March (A-B)	19,505

Note: The Bank has nil Non-performing investments as on 31st March, 2019.

DF-4: CREDIT RISK: DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

Ratings used under Standardized Approach:

The Bank adheres to the RBI guidelines stipulated in Basel II Capital Regulations issued on 1st July, 2015.

Quantitative Disclosures:

Bank's exposure (rated and unrated) after risk mitigation subject to the standardized approach in the following three major risk buckets as well as those that are deducted:

Particulars	As at 31 st March 2019 ₹ in lakh
At 0% risk weight	1,09,738
Below 100% risk weight	28,218
100% risk weight	2,70,594
More than 100% risk weight	8,551
Deducted (Intangible Assets and first loss credit enhancement in the form of fixed deposit)	6242

DF-5: CREDIT RISK MITIGATION FOR STANDARDISED APPROACH

Qualitative Disclosures:

Application of Credit Risk Mitigants

The Bank can use 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

The Bank adheres to the RBI guidelines defined under the RBI Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF) for application of risk weights for credit risk measurement and capital computation purposes.

Types of Financial collateral: the Bank takes the following types of financial collateral

- Cash and deposits with the Bank
- Gold jewellery

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 st March, 2019 ₹ in lakh
Loan Against Gold	8,852
Overdraft against Fixed Deposit	671

DF-6: SECURITISATION EXPOSURES: DISCLOSURE FOR STANDARDISED APPROACH

Quantitative 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 7th May, 2012 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/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.

Accounting Policy on transfer and servicing of Assets

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. 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 statement of profit and loss, net of any losses, when redeemed in cash.

(Amount in ₹ Lakh)

Particulars	As at 31 st March, 2019
a) No of SPVs sponsored by the bank for securitisation transactions (Nos.)	20
b) Total amount of securitised assets as per books of the SPVs sponsored by the bank	31,132
c) Securitised Losses booked during the year (₹)	75
d) Amount of assets intended to be securitised within a year (₹)	-
e) Of (d), amount of assets originated within a year before securitisation. (₹)	0
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 (₹)	1,736
First loss	-
Others	-
ii) On-balance sheet exposures (₹)	-
First loss	5,953
Others	-
Amount of exposures to securitisation transactions other than MRR	
a) Off-balance sheet exposures	-
(i) Exposures to own securitisations (₹)	-
First loss	964
Loss	-
(ii) Exposures to third party securitisations (₹)	-
First loss	-
Others	-
b) On-balance sheet exposures (₹)	-
(i) Exposures to own securitisations (₹)	-
First loss	-
Loss	2,822
(ii) Exposures to third party securitisations (₹)	-
First loss	-
Others	-
g) Aggregate amount of securitisation exposures that are deducted entirely from Tier 1 capital (₹)	2,831

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 31st March, 2019. The same has been qualitatively assessed under Pillar 2 in ICAAP exercise.

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 & cyber security committees.

The Operational Risk Management function is managed by Operational Risk Management Group (ORMG). ORMG reports to Chief Risk Officer. Operational Risk Management Committee headed by MD & CEO and meets at quarterly frequency. ORMC folds into Risk Management Committee of the Board (RMCB).

The Bank has adopted three lines of defence model and has built processes basis tenets of segregation of duties, four eye principle and system controls for all critical processes and activities.

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 delegate 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.

Quantitative Disclosures:

Changes in EaR and MVE for 100 bps parallel shift in yield curve as on 31st March, 2019

Fig. in ₹ Lakh	+ 100 bps parallel shift	-100 bps parallel shift
Market value of Equity-MVE	439 Lakh	(439) Lakh
Earnings at Risk- EaR	842 Lakh	(842) Lakh

DF-10: GENERAL DISCLOSURE FOR EXPOSURES RELATED TO COUNTERPARTY CREDIT RISK

Qualitative Disclosures:

The Bank does not have any exposures to derivatives and hence no specific disclosure

DF-16: EQUITIES – DISCLOSURE FOR BANKING BOOK POSITIONS

Qualitative Disclosures:

The Bank does not have any exposures to derivatives and hence no specific disclosure

- 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 as during the year and as on 31st March, 2019.

DF-18: LEVERAGE RATIO

Particulars	As at 31 st March, 2019 ₹ in Lakh
On-balance sheet items (excluding derivatives and SFTs but including collateral)	4,14,623
Balance sheet assets deducted from Tier 1 capital and not reckoned for exposure measure above	4,088
Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1) and 2))	4,10,535
Derivative Exposure	
Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
Add-on amounts for PFE associated with all derivatives transactions	-
Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
(Exempted CCP leg of client-cleared trade exposures)	-
Adjusted effective notional amount of written credit derivatives	-
(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
Total derivative exposures (sum of lines 4 to 10)	-
Securities financing transaction exposures	
Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
CCR exposure for SFT assets	-
Agent transaction exposures	-
Total securities financing transaction exposures (sum of lines 12 to 15)	-
Other off-balance sheet exposures	
Off-balance sheet exposure at gross notional amount	2,700
(Adjustments for conversion to credit equivalent amounts)	-
Off-balance sheet items (sum of lines 17 and 18)	2,700
Capital and total exposures	
Tier 1 capital	62,201
Total exposures (sum of lines 3, 11, 16 and 19)	4,13,235
Basel III leverage ratio (%)	15.05%



FINANCIAL STATEMENTS

TO THE MEMBERS OF FINCARE SMALL FINANCE BANK LIMITED (formerly Disha Microfin Limited)

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

01. We have audited the accompanying financial statements of Fincare Small Finance Bank Limited (formerly Disha Microfin Limited) ('the Bank'), which comprise the Balance Sheet as at 31st March, 2019, the Profit and Loss account, the Cash Flow Statement and a summary of the significant accounting policies and other explanatory information.
02. 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 Section 29 of the Banking Regulation Act, 1949, as well as the Companies Act, 2013 ('Act') and circulars and guidelines issued by the Reserve Bank of India ('RBI'), 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 31st March, 2019, and its profit and its cash flows for the year ended on that date.

Basis for Opinion

03. 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.

Basis for Opinion

04. 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.



05. We have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>Information Technology system for the financial reporting process</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 in 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. 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 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"> ■ Obtained an understanding of the Bank's IT related control environment and conducted risk assessment and identified IT applications, 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; ■ Tested the design and operating effectiveness of the Bank's IT controls over the IT applications as identified above; ■ 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; ■ 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; and ■ Where deficiencies were identified, tested compensating controls or performed alternative procedures.

Key audit matter	How our audit addressed the key audit matter
<p>Migration of loan portfolio from erstwhile loan management system to core banking system</p> <p>During the year ended 31st March, 2019; the Bank has migrated to core banking system from the erstwhile system for Joint Liability Group loans (JLG loans) and Rural Micro Enterprise Loans (RMEL loans) in continuation to the implementation of core banking system initiated by the Bank in the year ended 31st March, 2018 for its operations and financial reporting purposes.</p> <p>Such significant system change increases the risk to the internal financial controls environment. These changes represent a financial reporting risk while migration takes place as controls and processes that have been established over a number of years are updated and migrated into a new environment. Hence, considering the significance of the activity and the volume of the loan portfolio involved in the migration process we have determined this to be a key audit matter for 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"> ■ Obtained an understanding of the Bank's migration process carried out during the current year ended 31st March, 2019; ■ Evaluated the controls established by the management for the migration activity to ensure the activity has been completed appropriately; ■ Understood the data cleansing process undertaken by the management prior to migration and tested the data migration, including associated reconciliations; ■ Evaluated the design and tested the operating effectiveness of key automated and IT dependent manual controls both before and after the migration, including IT general controls; ■ Verified that the pre-migration and post migration reports, for example, loan register and trial balance were approved by the respective authorized personnel from the Operations and Finance teams, along with the personnel from conversion team; ■ Verified that the conversion reports are preserved after authentication as a permanent record for future reference; ■ Verified, on a test basis, that the balances and loan IDs have been appropriately transferred from e-Fimo (erstwhile system) to PROFILE (core banking system) to ensure the accuracy and completeness of data migration activity; and ■ Obtained the exception reports generated during data migration procedure and ensured that the exceptions, if any, have been rectified and necessary sign off was obtained by the management.

Key audit matter	How our audit addressed the key audit matter
<p>Provision for non-performing assets (NPAs) Refer note 2.4 for the accounting policy and note 18.16 for the related disclosures in the financial statements.</p> <p>As at 31st March, 2019; the Bank reported total gross advances (gross of NPA provision) of ₹ 279,109 Lakh, total gross-non-performing advances (NPAs) of ₹ 3,589 Lakh and a provision for NPAs of ₹ 2,640 Lakh. The provision coverage ratio as at 31st March, 2019 is 73.56%.</p> <p>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 rates prescribed under 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 assessment for provision of NPAs:</p> <ul style="list-style-type: none"> ■ 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. <p>During the current year, the management has revised the provision estimates on NPAs for Joint Liability Group loan product, Rural Micro Enterprise Loans and loan against property product. As at 31st March, 2019, out of the total portfolio of advances, ₹ 243,382 Lakh pertained to these products.</p> <p>Considering the significance of the above matter to the financial statements and significant auditor attention required to test the management estimates around provision on NPAs; this has been identified as key audit matter for current year audit.</p>	<p>Our audit procedures included, but were not limited to the following:</p> <ul style="list-style-type: none"> ■ Assessed the design and tested the operating effectiveness of the key controls over completeness and accuracy of the loan provision computations; ■ Tested the automated controls to ensure timely identification of NPAs in line with the RBI IRAC norms; ■ 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 the advances on sample basis to ascertain the accuracy of the ageing captured in the system generated reports; ■ Tested the classification of the advances on sample basis as per the Bank's policy and compared such outcome to that prepared by the management and investigated the differences, if any; ■ Obtained the management analysis for change in provision estimate during the year and verified the appropriateness of the management estimates used; ■ Verified on sample basis that the loan write-offs during the year were in line with the approved Board policy; and ■ Assessed the appropriateness, adequacy and presentation of disclosures against relevant accounting standards and RBI requirements relating to NPAs.

Information other than the Financial Statements and Auditor's Report thereon

- 06.** The Bank's Board of Directors is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon. The Annual Report is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we will 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 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

- 07.** 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, profit or loss and cash flows of the Bank in accordance with the accounting principles generally accepted in India, specified 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 the 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.
- 08.** 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.
- 09.** The Board of Directors is also responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

10. 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.
11. As part of an audit in accordance with Standards on Auditing, we exercise professional judgment and maintain professional scepticism 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.
 - 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 system in place 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.
12. 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.
13. 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued...)

14. 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

15. The Balance Sheet and the Statement of Profit and Loss 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 (Accounts) Rules, 2014 (as amended).
16. As required by Section 30(3) of the Banking Regulation Act, 1949, we report that:
- 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;
 - The transactions of the Bank, which have come to our notice, have been within the powers of the Bank; and
 - 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 20 bank branches during the course of our audit.
17. As required by Section 197(16) of the Act, we report that the Bank has paid remuneration to its directors during the year in accordance with the provisions of and limits laid down under Section 197 read with Schedule V to the Act. The Ministry of Corporate Affairs has not prescribed other details under Section 197(16) which are required to be commented upon by us.
18. Further, as required by Section 143(3) of the Act, we report that:
- 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;
 - 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;
 - The financial statements dealt with by this report are in agreement with the books of account;

- In our opinion, the aforesaid financial statements comply with the Accounting Standards specified 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;
- On the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors are disqualified as on 31st March, 2019 from being appointed as a director in terms of Section 164(2) of the Act;
- We have also audited the internal financial controls over financial reporting (IFCoFR) of the Bank as on 31st March, 2019 in conjunction with our audit of the financial statements of the Bank for the year ended on that date and our report dated 18th May, 2019 as per Annexure I expressed unmodified opinion; and
- 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, as detailed in schedule 12 to the financial statements, has disclosed the impact of pending litigations on its financial position as at 31st March, 2019;
 - ii. The Bank did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses as at 31st March, 2019;
 - iii. There has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Bank during the year ended 31st March, 2019; and
 - iv. The disclosure requirements relating to holdings as well as dealings in specified bank notes were applicable for the period from 8th November, 2016 to 30th December, 2016, which are not relevant to these financial statements. Hence, reporting under this clause is not applicable.

For **Walker Chandiok and Co. LLP**

Chartered Accountants
Firm Registration No: 001076N/N500013

Manish Gujral

Partner

Membership No.: 105117

Place: Bengaluru

Date: 18th May, 2019

- **Annexure I to the Independent Auditor' Report of even date to the members of Fincare Small Finance Bank Limited (formerly Disha Microfin Limited) on the financial statements for the year ended 31st March 2019.**
- **Independent Auditor's Report on the Internal Financial Controls 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 (formerly Disha Microfin Limited) ('the Bank') as at and for the year ended 31st March, 2019, we have audited the internal financial controls over financial reporting ('IFCoFR') of the Bank as at that date.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL FINANCIAL CONTROLS

2. The Bank's Board of Directors is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India (the 'Guidance Note'). 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

3. Our responsibility is to express an opinion on the Bank's IFCoFR based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India ('ICAI') and deemed to be prescribed under Section 143(10) of the Act, to the extent applicable to an audit of IFCoFR, 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 IFCoFR 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 IFCoFR and their operating effectiveness. Our audit of IFCoFR includes obtaining an understanding of IFCoFR, 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 IFCoFR.

MEANING OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

6. A Bank's IFCoFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A Bank's IFCoFR 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 OVER FINANCIAL REPORTING

7. Because of the inherent limitations of IFCoFR, 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 IFCoFR to future periods are subject to the risk that the IFCoFR 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 over financial reporting and such controls were operating effectively as at 31st March, 2019, based on the internal control over financial reporting criteria established by the Bank considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by ICAI.

For Walker Chandiok & Co LLP

Chartered Accountants

Firm's Registration No.: 001076N/N500013

Manish Gujral

Partner

Membership No.: 105117

Place: Bengaluru

Date: 18th May, 2019

BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

	Schedule	As at 31 st March 2019	As at 31 st March 2018
Capital and liabilities			
Capital	1	5,644	3,746
Reserves and surplus	2	60,956	30,009
Deposits	3	204,321	72,710
Borrowings	4	128,307	106,898
Other liabilities and provisions	5	17,946	14,049
Total Capital and Liabilities		417,174	227,412
Assets			
Cash and balances with Reserve Bank of India	6	14,191	4,765
Balances with banks and money at call and short notice	7	37,967	20,386
Investments	8	70,086	27,271
Advances	9	276,469	162,960
Fixed assets	10	3,307	2,230
Other assets	11	15,154	9,800
Total Assets		417,174	227,412
Contingent liabilities	12	11,475	9,557
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

Manish Gujral
Partner
Membership No.: 105117
Bengaluru
18th May, 2019

For and on behalf of the Board of Directors of
Fincare Small Finance Bank Limited
(formerly Disha Microfin Limited)

Rajeev Yadav
MD and CEO
DIN: 00111379
Bengaluru
18th May, 2019

Alok Prasad
Director
DIN: 00080225
Bengaluru
18th May, 2019

Sunil Gulati
Director
DIN: 00016990
Bengaluru
18th May, 2019

Keyur Doshi
Chief Financial
Officer
Bengaluru
18th May, 2019

Shafaly Kothari
Company Secretary
M No. F7698
Bengaluru
18th May, 2019

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

	Schedule	Year ended 31 st March 2019	Year ended 31 st March 2018
I. Income			
Interest earned	13	60,526	31,408
Other income	14	6,973	3,653
Total Income		67,499	35,061
II. Expenditure			
Interest expended	15	22,907	11,891
Operating expenses	16	29,592	17,805
Provision and contingencies (refer note 18.16)		4,802	15,120
Total Expenditure		57,301	44,816
III. Profit / (loss)			
Net profit/(loss) for the year		10,198	(9,755)
(Loss)/profit brought forward		(7,955)	1,800
Total Profit/(loss)		2,243	(7,955)
IV. Appropriation / transfers			
Transfer to statutory reserves		2,550	-
Transfer to other reserves		311	-
Transfer to Government/proposed dividend		-	-
Balance carried over to the balance sheet		(618)	(7,955)
Total Profit/(loss)		2,243	(7,955)
Significant account policies and notes to accounts	17 & 18		
Earnings per equity share of ₹ 10 each (refer note 18.33)			
Basic and diluted (₹)		22.41	(26.04)
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 Chandiok and Co. LLP
Chartered Accountants
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18th May, 2019

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

	Year Ended 31 st March 2019	Year Ended 31 st March 2018
A. Cash flows from/(used in) operating activities:		
Profit before tax	11,030	(8,984)
Adjustments for:		
Depreciation and amortisation expenses	1,219	702
Amortisation of premium	56	41
Loss on disposal of fixed assets	3	18
Share/debenture issue expenses	38	-
Goodwill written off	471	-
Loan portfolio written off	1,016	12,939
Provision on portfolio loans	1,033	1,410
(Profit) on sale of investment in SLR securities	(28)	(3)
Loss on sale of investment in SLR securities	26	210
(Profit) on sale of investment in mutual funds	(131)	(562)
Operating profits before working capital changes	14,733	5,770
Movement in working capital:		
Increase in deposits	131,611	72,710
Increase in other liabilities	5,831	957
(Increase) in investments	(42,869)	(27,519)
(Increase) in advances	(116,760)	(98,279)
(Increase) in fixed deposits	(12,622)	2,964
(Increase) in other assets	(4,629)	(1,614)
Cash (used in) operating activities	(24,705)	(45,011)
Taxes on income paid, net	(2,760)	(142)
Net cash used in operating activities	(27,465)	(45,153)
B. Cash flows from investing activities:		
Purchase of fixed assets	(2,307)	(2,072)
Proceeds from sale of fixed assets	8	2
Purchase of investments in mutual funds	(191,951)	(299,395)
Proceeds from sale of investments in mutual funds	192,082	299,958
Net cash (used in)/ generated from investing activities	(2,168)	(1,507)

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

	Year Ended 31 st March 2019	Year Ended 31 st March 2018
C. Cash flows from financing activities:		
Proceeds from issue of equity shares	22,647	-
Share/debenture issue expenses	(38)	-
Proceeds from loans availed from banks and financial institutions	65,000	80,576
Repayment of loans availed from banks and financial institutions	(42,591)	(47,913)
Proceeds from issue of non-convertible debentures	-	12,500
Redemption of non-convertible debentures	(1,000)	(1,375)
Net cash (used in)/generated from financing activities	44,018	43,788
Net increase in cash and cash equivalents during the year (A+B+C)	14,385	(2,872)
Cash and cash equivalents at the beginning of the year	21,583	24,455
Cash and cash equivalents at the end of the year¹	35,968	21,583
Includes cash and 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 March 2019 and 31 March 2018.		
Components of cash and cash equivalents		
Cash and balances with Reserve Bank of India	14,191	4,765
Balances with banks and money at call and short notice	21,777	16,818
	35,968	21,583

As per our report of even date.

For **Walker Chandiok and Co. LLP**
Chartered Accountants
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18th May, 2019

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SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

Schedule 1 - Capital	As at 31 st March 2019	As at 31 st March 2018
Authorised capital 100,000,000 (31 st March, 2018: 50,000,000) equity shares of ₹ 10 each ¹	10,000	5,000
Issued, subscribed and fully paid-up capital 56,435,981 (31 st March, 2018: 37,459,354) equity shares of ₹ 10 each	5,644	3,746
Total Capital	5,644	3,746
Notes		
1) Pursuant to the approval of shareholders, the Bank has increased its authorised share capital during the year ended 31 March 2019.		
2) Rights and preference of equity shareholders		
3) Each holder of an equity share is entitled to one vote per share. The Bank declares and pays dividends 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 st March 2019	As at 31 st March 2018
I. Statutory reserve (Created pursuant to Section 17(2) of Banking Regulation Act, 1949)		
Opening balance	450	-
Transfer from statutory reserve (refer Schedule 2(II))	-	450
Additions during the year	2,550	-
Deductions during the year	-	-
	3,000	450
II. Statutory reserve (Created pursuant to Section 45 IC of Reserve Bank of India Act, 1934 as amended by Reserve Bank of India (Amendment) Act, 1997)		
Opening balance	-	450
Additions during the year	-	-
Transfer to statutory reserve (refer Schedule 2(II))	-	(450)
Deductions during the year	-	-
	-	-
III. Share premium		
Opening balance	37,513	37,513
Additions during the year	20,749	-
Deductions during the year	-	-
	58,262	37,513

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

Schedule 2 - Reserves and surplus	As at 31 st March 2019	As at 31 st March 2018
IV. General reserves		
Opening balance	1	1
Additions during the year	-	-
Deductions during the year	-	-
	1	1
V. Investment fluctuation reserve		
Opening balance	-	-
Additions during the year	311	-
Deductions during the year	-	-
	311	-
VI. Balance in profit and loss account	(618)	(7,955)
Total Reserves and surplus	60,956	30,009

Schedule 3 - Deposits	As at 31 st March 2019	As at 31 st March 2018
I. A) Demand deposits		
i) From banks	-	-
ii) From others	732	1
	732	1
II. Savings bank deposits	21,640	3,675
III. Term deposits		
i) From banks	74,376	47,361
ii) From others	107,573	21,673
	181,949	69,034
IV. Total Deposits	204,321	72,710
B) i) Deposits of branches in India	204,321	72,710
ii) Deposits of branches outside India	-	-
Total Deposits	204,321	72,710

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

Schedule 4 - Borrowings	As at 31 st March 2019	As at 31 st March 2018
I. Borrowings in India		
i) Reserve Bank of India	-	-
ii) Other banks ¹	12,318	33,882
iii) Other institutions and agencies		
a) Government of India	-	-
b) Financial Institutions ¹	101,739	57,766
iv) Borrowings in the form of bonds and debentures ¹ (excluding sub-ordinated debts)	4,250	5,250
v) Unsecured redeemable debentures/bonds (sub-ordinated debt included in Tier 2 capital)	10,000	10,000
Total Borrowings in India	128,307	106,898
II. Borrowings outside India	-	-
Total Borrowings	128,307	106,898
1 Secured borrowings included in I above is □ 5,836 lakh (31 March 2018: □ 28,215 lakh)		

Schedule 5 - Other liabilities and provisions	As at 31 st March 2019	As at 31 st March 2018
i) Bills payable	-	-
ii) Inter-office adjustments (net)	-	-
iii) Interests accrued	1,385	1,570
iv) General provision for standard assets (Refer schedule 18.4 E)	1,257	727
v) Others (including provisions) ¹	15,304	11,752
Total Other liabilities and provisions	17,946	14,049

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

Others (including provisions)	As at 31 st March 2019	As at 31 st March 2018
Interest strip on securitisation/assignment of portfolio loans	2,822	3,554
Payable towards securitisation/assignment of loans	5,304	2,315
Provision for other contingencies	454	2,186
Tax deducted at source payable	348	151
Statutory liability payable	342	282
Accrued expenses	1,043	759
Accrued employee expenses	1,062	835
Provision for gratuity (Refer schedule 18.15 A)	468	183
Provision for compensated absences (Refer schedule 18.15 C)	452	283
Other liabilities	3,009	1,204
	15,304	11,752

Schedule 6 - Cash and balances with Reserve Bank of India	As at 31 st March 2019	As at 31 st March 2018
Cash in hand (Including foreign currency notes) ¹	759	517
Balances with Reserve Bank of India		
i) In current account	13,432	4,248
ii) In other account	-	-
Total Cash and balances with Reserve Bank of India	14,191	4,765
1 The Bank does not have any foreign currency note balances as on 31st March 2019 and 31st March 2018.		

Schedule 7 - Balances with banks and money at call and short notice	As at 31 st March 2019	As at 31 st March 2018
In India		
i) Balances with banks		
a) In current accounts	5,280	3,818
b) In other deposit accounts ¹	16,190	3,568
ii) Money at call and short notice		
a) With banks	9,500	13,000
b) With other institutions	6,997	-
Total	37,967	20,386

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

Schedule 7 - Balances with banks and money at call and short notice	As at 31 st March 2019	As at 31 st March 2018
Outside India		
i) In current accounts	-	-
ii) In other deposit accounts	-	-
iii) Money at call and short notice	-	-
Total	-	-
Total balances with Banks and money at call and short notice	37,967	20,386
1 includes ₹ 476 Lakh (31 st March, 2018: ₹ 415 Lakh) under lien marked towards term loans availed from banks and financial institutions and cash collateral amounting to ₹ 2,514 Lakh (31 st March, 2018: ₹ 2,731 Lakh) placed in connection with assignment / securitisation of advances.		

Schedule 8 - Investments	As at 31 st March 2019	As at 31 st March 2018
I) Investment in India in		
i) Government securities	70,086	27,271
ii) Other approved securities	-	-
iii) Shares	-	-
iv) Debentures and bonds	-	-
v) Subsidiaries and/or joint ventures	-	-
Total investments in India¹	70,086	27,271
II) Investment outside India in		
i) Government securities (including local authorities)	-	-
ii) Subsidiaries and/or joint ventures abroad	-	-
iii) Others	-	-
Total investments outside India	-	-
Total investments¹	70,086	27,271
III) Investments in India in		
Gross value of investments	70,086	27,271
Less: Aggregate of provision/depreciation/(appreciation)	-	-
Net investments	70,086	27,271
IV) Investments outside India in		
Gross value of investments	-	-
Less: Aggregate of provision/depreciation/(appreciation)	-	-
Net investments	-	-
Total investments¹	70,086	27,271

¹ Refer schedule 18.2 - investments

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

Schedule 9 - Advances (net of provisions)	As at 31 st March 2019	As at 31 st March 2018
A. i) Bill purchased and discounted	-	-
ii) Cash credits, overdrafts and loans repayable on demand ¹	852	158
iii) Term loans ¹	275,617	162,802
Total advances	276,469	162,960
B. i) Secured by tangible assets (including advances against book debts)	67,124	29,927
ii) Covered by banks/Government guarantees	-	-
iii) Unsecured	209,345	133,033
Total advances	276,469	162,960
C. Advances in India in		
i) Priority sectors	222,251	132,800
ii) Public sector	-	-
iii) Banks	-	-
iv) Others	54,218	30,160
Total advances in India	276,469	162,960
D. Advances outside India in		
i) Dues from banks	-	-
ii) Dues from others		
a) Bills purchased and discounted	-	-
b) Syndicate loans	-	-
c) Others	-	-
Total advances outside India	-	-
Total advances	276,469	162,960
1 net of provision for non-performing assets aggregating to ₹ 2,640 Lakh (31 st March, 2018: ₹ 405 Lakh) and Inter-Bank Participation Certificate (IBPC) sold and outstanding as at 31 st March, 2019 of ₹ 38,750 Lakh (31 st March, 2018: ₹ 20,000 Lakh).		

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

Schedule 10 - Fixed assets	As at 31 st March 2019	As at 31 st March 2018
A. Premises		
Gross block		
Opening balance	-	-
Additions during the year	-	-
Deductions during the year	-	-
Closing balance	-	-
Less: Depreciation to date	-	-
Net Block	-	-
B. Other fixed assets (including furniture and fixtures)		
Gross block		
Opening balance	3,296	1,324
Additions during the year	2,307	2,072
Deductions during the year	(19)	(100)
Closing balance	5,584	3,296
C. Accumulated depreciation		
Opening balance	1,066	444
Charge for the year	1,219	702
Deductions during the year	(8)	(80)
Closing balance	2,277	1,066
Net Block¹	3,307	2,230
Total Fixed Assets	3,307	2,230
1. Including capital work-in progress and intangible assets amounting to ₹ 3 Lakh and ₹ 289 Lakh, respectively (31 st March, 2018: ₹ 47 Lakh and ₹ 497 Lakh respectively)		

Schedule 11 - Other assets	As at 31 st March 2019	As at 31 st March 2018
i) Inter-office adjustments (net)	-	-
ii) Interest accrued	4,577	2,767
iii) Tax paid in advance / tax deducted at source (net)	476	550
iv) Stationery and stamps	-	-
v) Non-banking assets acquired in satisfaction of claims	-	-
vi) Others ¹	10,101	6,843
	15,154	9,800

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

1. Others	As at 31 st March 2019	As at 31 st March 2018
Loans given as collateral towards securitisation transactions	3,439	1,452
Interest strip on securitisation / assignment of loans	2,822	3,554
Goodwill	-	471
Deferred tax asset	969	-
MAT credit entitlement	1,059	-
Security deposits	881	456
Goods & Services Tax input credit	303	305
Other receivables	628	245
	10,101	6,483

Schedule 12 - Contingent liabilities	As at 31 st March 2019	As at 31 st March 2018
i) Claims against the bank not acknowledged as debts - taxes ¹	-	69
ii) Claims against the bank not acknowledged as debts - others ²	11,475	9,488
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	-	-
Total Contingent liabilities	11,475	9,557
<p>1. Represents a show cause notice from the Commissioner of Customs, Central Excise and Service Tax in respect of certain service matter for the financial years 2009-2012. Based on management's assessment, the Bank has created a provision in the books of accounts on a conservative basis in the year ended 31st March, 2019 and hence is not disclosed under contingent liabilities.</p>		

2. Claims against the bank not acknowledged as debts-others	As at 31 st March 2019	As at 31 st March 2018
i) Cash collateral	2,514	2,731
ii) Unfunded guarantee	2,700	1,751
iii) Principal subordination	3,439	1,452
iv) Interest subordination	2,822	3,554
	11,475	9,488
<p>3. The Hon'ble Supreme Court has, in a recent decision dated 28th February 2019, ruled that special allowance would form part of basic wages for computing the Provident Fund (PF) contribution. While the Bank is evaluating the implications of the order, no reliable estimate can be made as the amount is not determinable and also, the applicability of the order to the Bank is to be ascertained, due to which it is disclosed as a contingent liability.</p>		

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

Schedule 13 - Interest earned	Year ended 31 st March 2019	Year ended 31 st March 2018
i) Interest/discount on advances/bills	51,993	26,598
ii) Income on investments	3,060	1,305
iii) Interest on balances with Reserve Bank of India and other inter-bank funds	593	576
iv) Others ¹	4,880	2,929
Total interest earned	60,526	31,408

1. Others	Year ended 31 st March 2019	Year ended 31 st March 2018
Income from securitisation/assignment of loans	4,604	2,740
Interest income on money market instruments	253	113
Interest income on fixed deposit	3	65
Interest on gratuity fund	11	11
Interest income on Tri Party Repo lending (Refer schedule 18.2)	9	-
	4,880	2,929

Schedule 14 - Other income	Year ended 31 st March 2019	Year ended 31 st March 2018
i) Commission, exchange and brokerage	3,522	1,821
ii) Profit on sale of investments	159	566
(Less): Loss on sale of investments	(26)	(210)
iii) Profit on revaluation of investments	-	-
(Less): Loss on revaluation of investments	-	-
iv) Profit on sale of land, buildings and other assets [₹ 48,694 (31 st March, 2018: ₹ 26,662)]	0	0
(Less): Loss on sale of land, buildings and other assets	(3)	(18)
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 ¹	3,321	1,494
Total other income	6,973	3,653

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

1. Miscellaneous income	Year ended 31 st March 2019	Year ended 31 st March 2018
Income from sale of Priority Sector Lending Certificate	761	469
Recovery against loans written off	467	858
Income tax refund	-	17
Debit card issue/maintenance charges	1,837	42
Others	256	108
Total other income	3,321	1,494

Schedule 15 - Interest expended	Year ended 31 st March 2019	Year ended 31 st March 2018
i) Interest on deposits	11,716	2,374
ii) Interest on Reserve Bank of India/Inter-bank borrowings	3,813	4,887
iii) Others	7,378	4,630
Total interest expended	22,907	11,891

Schedule 16 - Operating expenses	Year ended 31 st March 2019	Year ended 31 st March 2018
a) Payments to and provisions for employees	18,074	11,856
b) Rent, taxes and lighting (refer schedule 18.30)	1,715	976
c) Printing and stationery	661	210
d) Advertisement and publicity	648	192
e) Depreciation on Bank's property	1,219	702
f) Directors' fees, allowances and expense	77	68
g) Auditors' fees and expenses	53	40
h) Law charges	27	15
i) Postage, telegrams, telephones, etc.	797	556
j) Repairs and maintenance	801	325
k) Insurance	89	33
l) Professional fee	2,025	1,586
m) Goodwill written off	471	-
n) Other expenditure ¹	2,935	1,246
	29,592	17,805

SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT 31ST MARCH, 2019

(All amounts in ₹ Lakh except otherwise stated)

1. Other expenditure	Year ended 31 st March 2019	Year ended 31 st March 2018
Travelling and conveyance	884	544
Communication expenses	138	44
Contribution towards CSR expenses	1	22
Bank charges	8	39
Loss on securitisation	600	-
ATM recycler charges	624	11
Miscellaneous expense	680	586
	2,935	1,246



SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

1 OVERVIEW

Pursuant to the resolution passed by the shareholders at the Extra-Ordinary General Meeting held on 19th May, 2017 and the issue of small finance bank license by the Reserve Bank of India ("RBI") on 12th May, 2017, Disha Microfin Limited ("the Company") commenced its operations as a small finance bank with effect from 21st 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 28th March, 2019 and published in the Gazette of India on 13th 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 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 and the Union Territory of Puducherry and Delhi.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 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.



SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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.

2.3 Revenue recognition

- 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.
- Interest on discounted instruments is recognised over the tenure of the instrument on a constant Yield to Maturity method.
- Loan processing fees is recognised on an upfront basis when it becomes due.
- The fees charged on debit card issuance is recognised on an upfront basis.
- 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 Other income on a straight line basis over the tenure of the certificate.
- 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.
- Dividend income is recognised when the right to receive payment is established on the balance sheet date.
- All other fees are accounted for as and when they become due.

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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 the 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 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, 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.

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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 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 | (D). Debentures and Bonds |
| (B). Other Approved Securities | (E). Investments in Subsidiaries/Joint Ventures |
| (C). Shares | (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.

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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 securities. Interest on non-performing investments is not recognised in the Profit and Loss Account until received.

2.7 Transfer and servicing of assets

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.

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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:

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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:

Tangible 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.

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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 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.

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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.

Minimum alternate tax (MAT) paid in a year is charged to the Profit and Loss Account as current tax. The Bank recognizes MAT credit available as an asset only to the extent that there is convincing evidence that the Bank will pay normal income tax during the specified period, i.e., the period for which MAT credit is allowed to be carried forward. In the year in which the Bank recognizes MAT credit as an asset in accordance with the Guidance Note on Accounting for Credit Available in respect of Minimum Alternate Tax under the Income-tax Act, 1961, the said asset is created by way of credit to the profit and loss account and shown as "MAT Credit Entitlement". The Bank reviews the "MAT Credit Entitlement" asset at each reporting date and writes down the asset to the extent the Bank does not have convincing evidence that it will pay normal tax during the specified period.

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.

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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 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).

SCHEDULE 17 - SIGNIFICANT ACCOUNTING POLICY FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST MARCH, 2019

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

Operating leases

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 31ST MARCH, 2019

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	As at 31 st March 2019	As at 31 st March 2018
Common equity tier 1 capital ratio (%)	21.48%	18.07%
Tier 1 capital ratio (%)	21.48%	18.07%
Tier 2 capital ratio (%)	2.15%	5.23%
Total Capital Ratio (CRAR) (%)	23.63%	23.30%
Amount of equity capital raised (including share premium)	22,647	-
Amount of Additional Tier 1 capital raised; of which:		
Perpetual Non Cumulative Preference Shares (PNCPS)	-	-
Perpetual Debt Instruments (PDI)	-	-
Amount of Tier 2 capital raised; of which:		
Debt capital instruments (discounted value) ¹	7,500	9,500
Preference Share Capital Instruments: [Perpetual Cumulative Preference Shares (PCPS)/ Redeemable Non Cumulative Preference Shares (RNCPS)/ deemable Cumulative Preference Shares (RCPS)]	-	-
1. Subordinated debt (considered in Tier 2 capital) outstanding as at 31 st March, 2019 is ₹ 7,500 Lakh (31 st March, 2018: ₹ 10,000 Lakh).		

B. Capital infusion

During the year ended 31st March, 2019, the Bank has allotted 18,976,627 equity shares through rights issue. Details of movement in the paid up equity share capital are as below:

Particulars	As at 31 st March 2019		As at 31 st March 2018	
	Equity Shares	Amount (₹ in Lakh)	Equity Shares	Amount (₹ in Lakh)
Equity shares at the beginning of the year	3,74,59,354	3,746	3,74,59,354	3,746
Addition pursuant to equity shares issued during the year	1,89,76,627	1,898	-	-
Equity shares out standing at the end of the year	5,64,35,981	5,644	3,74,59,354	3,746

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 st March 2019	As at 31 st March 2018
I. Value of investments:		
i) Gross value of investments		
a) In India	70,086	27,271
b) Outside India	-	-
	70,086	27,271
ii) Provision for depreciation		
a) In India	-	-
b) Outside India	-	-
	-	-
iii) Net value of investments		
a) In India	70,086	27,271
b) Outside India	-	-
	70,086	27,271
b) Movement of provisions held towards depreciation on investments:		
i) Opening balance	-	-
ii) Add: Provision made during the year	-	75
iii) Less: Write-off /write back of excess provision during the year	-	(75)
Closing Balance	-	-

Category wise details of investments (net of provision for depreciation):

Particulars	As at 31 st March 2019		As at 31 st March 2018	
	HTM	AFS	HTM	AFS
i) Government securities	28,653	41,433	16,258	11,013
ii) Other approved securities	-	-	-	-
iii) Shares	-	-	-	-
iv) Debentures and bonds	-	-	-	-
v) Subsidiaries and/or joint ventures	-	-	-	-
vi) Others	-	-	-	-

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 2018-19	Maximum outstanding during the year 2018-19	Daily Average outstanding during the year 2018-19	Outstanding as on 31 st March 2019
Securities sold under reverse repo¹				
i) Government securities	1,051	1,051	1,051	-
ii) Corporate debt securities	-	-	-	-
Securities purchased under reverse repo¹				
i) Government securities	503	7,001	4,299	7,001
ii) Corporate debt securities	-	-	-	-
1. Amounts reported are based on face value of securities under Repo and Reverse Repo.				

Qualitative disclosure

The Bank applied for the segment of Tri Party Repo (TREP's) on 30th November, 2018 and received the membership approval on 5th March, 2019. The Bank has commenced the reverse repo borrowing and lending w.e.f. 18th 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 7.17% Government securities 2028 as collateral for limit setting in the segment of TREPs. The securities provided/allotted 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. The Bank has a net borrowing for a total of 1 financial day in 2018-19 in the segment of TREPs.

During the year ended 31st March, 2018, the Bank had not undertaken any repo / reverse repo transaction. Hence, the disclosure related to repo/reverse repo transaction has not been provided for the aforementioned period.

C. Non-SLR investment portfolio

i) Issuer composition of Non-SLR investments

As at the year ended 31st March, 2019 and 31st March, 2018; there are no outstanding Non - SLR investments.

ii) Non-performing Non-SLR investments

During the year ended 31st March, 2019 and 31st March, 2018; there are no non performing Non - SLR investments.

D. Sale and Transfer to/from HTM Category

During the year ended 31st March, 2019 and 31st March, 2018, there was no sale and transfer to/from HTM category.

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

18.3 - DERIVATIVES

During the year ended 31st March, 2019 and 31st March, 2018; 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 assets¹

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 st March 2019	As at 31 st March 2018
I. Net NPAs to Net Advances (%)	0.34%	0.72%
II. Movement of NPAs (Gross)		
a) Opening balance	1,722	592
b) Additions during the year	4,356	15,000
c) Reductions during the year	2,489	13,870
Closing Balance	3,589	1,722
III. Movement of Net NPAs		
a) Opening balance	1,317	287
b) Additions during the year	2,499	11,332
c) Reductions during the year	2,866	10,302
Closing Balance	949	1,317
IV. Movement of provisions for NPAs (excluding provision on standard assets)		
a) Opening balance	405	305
b) Provision made during the year	4,007	4,031
c) Write off/ write back of excess provision	1,772	3,931
Closing Balance	2,640	405
1. Non performing assets include only non performing advances as on 31 st March, 2019 and 31 st March, 2018.		

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

Type of Restructuring	Under CDR Mechanism				Under SME Debt Restructuring Mechanism				Other				Total				
	Standard	Sub-Standard	Doubtful	Loss	Standard	Sub-Standard	Doubtful	Loss	Standard	Sub-Standard	Doubtful	Loss	Standard	Sub-Standard	Doubtful	Loss	Total
Restructured Accounts as on April 1 of the FY (opening figures)	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fresh restructuring during the year	No. of borrowers	-	-	-	-	-	-	-	-	164	-	-	-	164	-	-	164
	Amount Outstanding	-	-	-	-	-	-	-	-	16	-	-	-	16	-	-	16
	Provision there-on	-	-	-	-	-	-	-	-	8	-	-	-	8	-	-	8
Upgradations to restructured standard category during the year	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Downgradations of restructured accounts during the FY	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs of restructured accounts during the FY	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Amount Outstanding	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Provision there-on	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructured Accounts as on 31 st March of the FY (closing figures)	No. of borrowers	-	-	-	-	-	-	-	-	-	-	-	-	164	-	-	164
	Amount Outstanding	-	-	-	-	-	-	-	-	16	-	-	-	16	-	-	16
	Provision there-on	-	-	-	-	-	-	-	-	8	-	-	-	8	-	-	8

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

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 31st March, 2019 and 31st March, 2018 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 31st March, 2019 and 31st March, 2018.

E. Provisions towards standard assets

Particulars	As at 31 st March 2019	As at 31 st March 2018
Provisions towards standard assets	1,257	727
Closing Balance	1,257	727

18.5 - PROVISIONING COVERAGE RATIO

Particulars	As at 31 st March 2019	As at 31 st March 2018
The provisioning coverage ratio of the Bank computed in terms of RBI guidelines	73.56%	23.55%

18.6 - BUSINESS RATIOS

Particulars	As at 31 st March 2019	As at 31 st March 2018
i) Interest income as a percentage to working funds ¹	19.74%	18.32%
ii) Non interest income as a percentage to working funds ¹	2.27%	2.13%
iii) Operating profit ² as a percentage to working funds ¹	4.89%	3.13%
iv) Return on assets (average) ³	3.33%	(5.69%)
v) Business per employee ⁴	62	43
vi) Profit per employee ⁴	2	(3)

1. 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.

2. Operating profit is net profit for the year before provisions and contingencies.

3. 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.

4. 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 31st 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 & upto 6 month	Over 6 month & upto 1 year	Over 1 year & upto 3 years	Over 3 years & upto 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 ^{2,3}	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 ¹	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

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.

The following table sets forth, the maturity pattern of assets and liabilities of the Bank as at 31st March, 2018.

	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 & upto 6 month	Over 6 month & upto 1 year	Over 1 year & upto 3 years	Over 3 years & upto 5 years	Over 5 years	Total
Deposits	26	2,938	4,141	6,636	10,145	2,687	3,554	16,035	26,527	19	2	72,710
Advances ^{2,3}	1	1,623	2,045	4,326	8,649	8,920	26,213	41,868	60,473	6,738	2,104	1,62,960
Investments	4,240	4,006	786	2,929	347	1,413	1,670	1,333	9,479	1,066	2	27,271
Borrowings ¹	371	22	521	1,325	4,710	3,427	12,090	19,572	51,809	5,551	7,500	1,06,898
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: 1. The above borrowings exclude interest accrued and due and interest accrued but not due.

2. The advances comprise of portfolio loan and does not include interest accrued.

3. Includes interest bearing loans only and excluding loans pledged as collateral.

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 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.

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

Geographical Segments

Business segments	Treasury		Corporate / Wholesale Banking		Retail Banking		Other Banking Operations		Total	
	31 st March, 2019	31 st March, 2018	31 st March, 2019	31 st March, 2018	31 st March, 2019	31 st March, 2018	31 st March, 2019	31 st March, 2018	31 st March, 2019	31 st March, 2018
Revenue	4,052	1,922	2,231	644	61,216	32,495	-	-	67,499	35,061
Result	(574)	6	1,078	(1,750)	20,964	(1,448)	-	-	21,468	(3,192)
Unallocated expenses									10,438	5,792
Operating profit									11,030	(8,984)
Income taxes									832	771
Net profit									10,198	(9,755)
Other information:										
Segment assets	122,632	53,089	25,741	16,039	263,397	150,882	-	-	411,770	220,010
Unallocated assets									5,403	7,402
Total assets									417,174	227,412
Segment liabilities	70,638	26,095	14,972	63,762	262,492	89,751	-	-	348,102	179,608
Unallocated liabilities									69,072	47,804
Total liabilities									417,174	227,412

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
i) Parties where control exists	Holding Company (w.e.f 16 September 2016)
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Managing Director and Chief Executive Officer (w.e.f 1 st May, 2017)
ii) Key management personnel	Chief Financial Officer (w.e.f 1 st May, 2017)
Mr. Rajeev Yadav	Company Secretary (w.e.f 23 rd February, 2017)
Mr. Keyur Doshi	Chief Financial Officer (resigned w.e.f 1 st May, 2017)
Ms. Shefaly Kothari	Whole Time Director (resigned w.e.f 24 th June, 2017)
Mr. Vivek Kothari	Entities under common control and shareholder
Mr. Sameer Nanavati	Relatives of key management personnel
iii) Other related parties	
Lok Management Services Private Limited	
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.	

iv) The transactions with related parties during the year :

Nature of transaction	Relationship	31st March, 2019	31st March, 2018
Issue of equity shares			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	1,615	-
Lok Management Services Private Limited	Entities under common control and shareholder	192	-
Securities premium on equity shares			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	14,890	-
Lok Management Services Private Limited	Entities under common control and shareholder	4,908	-
Managerial remuneration/ remuneration for KMP			
Mr. Rajeev Yadav	Key management personnel	302	301
Mr. Keyur Doshi	Key management personnel	107	102
Ms. Shefaly Kothari	Key management personnel	20	18
Mr. Vivek Kothari	Key management personnel	-	24
Mr. Sameer Nanavati	Key management personnel	-	15
Sub-debt raised			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	-	7,500

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

Nature of transaction	Relationship	31st March, 2019	31st March, 2018
Term deposits made with the Bank			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	7,384	8,732
Lok Management Services Private Limited	Entities under common control and shareholder	12,965	4,033
Fincare Business Services Limited (FFSL# & IFAPL*)	Entities under common control	-	1,103
Mr. Rajeev Yadav	Key management personnel	-	15
Mr. Keyur Doshi	Key management personnel	-	1
Ms. Shefaly Kothari	Key management personnel	3	13
Relative of key management personnel	Relative of Key management personnel	28	69
Term deposits matured			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	7,384	46,342
Lok Management Services Private Limited	Entities under common control and shareholder	14,992	16,279
Mr. Rajeev Yadav	Key management personnel	-	4,704
Ms. Shefaly Kothari	Key management personnel	14	-
Relative of key management personnel	Relative of Key management personnel	-	-

Nature of transaction	Relationship	31st March, 2019	31st March, 2018
Interest expense on term deposits			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	31	104
Lok Management Services Private Limited	Entities under common control and shareholder	105	57
Fincare Business Services Limited (FFSL# & IFAPL*)	Entities under common control	-	7
Mr. Rajeev Yadav [₹ 51,987 (2018: ₹33,338)]	Key management personnel	1	0
Mr. Keyur Doshi [₹ 10,456 (2018: ₹6,568)]	Key management personnel	0	0
Ms. Shefaly Kothari [₹ 29,562 (2018: ₹20,430)]	Key management personnel	0	0
Relative of key management personnel	Relative of Key management personnel	2	3
Interest expense on Sub Debts			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	607	26
Management fees			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited) *credit note	Holding company	-	(20)
Professional services			
Lok Management Services Private Limited	Entities under common control and shareholder	85	-
Receipt towards other receivable			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	12	-

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

v) Closing balance of the transactions with related parties :

Nature of transaction	Relationship	31st March, 2019	31st March, 2018
Other receivable			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	-	12
Deposit balance (savings and term deposit)			
Lok Management Services Private Limited	Entities under common control and shareholder	-	2,027
Mr. Rajeev Yadav	Key management personnel	8	8
Mr. Keyur Doshi	Key management personnel	3	1
Ms. Shefaly Kothari	Key management personnel	9	13
Relative of key management personnel	Relative of Key management personnel	75	58
Interest expense payable on deposit balance (savings and term deposit)			
Lok Management Services Private Limited	Entities under common control and shareholder	-	4
Mr. Rajeev Yadav (2018: 33,338)	Key management personnel	-	0
Mr. Keyur Doshi (2018: 20,430)	Key management personnel	-	0
Relative of key management personnel	Relative of Key management personnel	-	2
Sub-debt payable			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	2,884	7,550
Interest payable on Sub-debt			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	8	26

vi) Maximum outstanding during the year :

Nature of transaction	Relationship	31st March, 2019	31st March, 2018
Other receivable			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	-	12

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 (cont'd):

Nature of transaction	Relationship	31st March, 2019	31st March, 2018
Deposit balance (savings and term deposit)			
Lok Management Services Private Limited	Entities under common control and shareholder	4,426	2,027
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	4,486	3,736
Mr. Rajeev Yadav	Key management personnel	44	8
Mr. Keyur Doshi	Key management personnel	102	4
Ms. Shefaly Kothari	Key management personnel	23	6
Relative of key management personnel	Relative of Key management personnel	555	132
Interest expense payable on deposit balance (savings and term deposit)			
Lok Management Services Private Limited	Entities under common control and shareholder	26	4
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	2	4
Mr. Rajeev Yadav [₹ 15,123 (2018: ₹ 12,989)]	Key management personnel	0	0
Mr. Keyur Doshi [₹ 8,185 (2018: ₹ 2,619)]	Key management personnel	0	0
Ms. Shefaly Kothari [₹ 13,075 (2018: ₹ 4,313)]	Key management personnel	0	0
Relative of key management personnel	Relative of Key management personnel	3	2
Sub-debt payable			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	7,500	7,500
Interest payable on Sub-debt			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	8	26
Interest payable on Sub-debt			
Fincare Business Services Limited (formerly Fincare Business Services Private Limited)	Holding company	14,044	4,534
Lok Management Services Private Limited	Entities under common control and shareholder	5,151	1,416

Notes:

*India Finserve Advisors Private Limited had applied to the National Company Law Tribunal (NCLT) for amalgamation with Fincare Business Services Limited with an appointed date of 2nd October, 2016. On obtaining the NCLT order dated 15th September, 2017, India Finserve Advisors Private Limited ceased to exist and has merged with Fincare Business Services Limited.

Future Financial Services Private Limited had applied to the National Company Law Tribunal (NCLT) for amalgamation with Fincare Business Services Limited with an appointed date of 2nd October, 2016. On obtaining the NCLT order dated 15th September, 2017, Future Financial Services Private Limited ceased to exist and has 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 NPA'S

A. Concentration of deposits

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
Total deposits of twenty largest depositors	62,298	57,653
Percentage of deposits of twenty largest depositors to total deposits of the Bank	30.49%	79.29%

B. Concentration of advances

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
Total advances to twenty largest borrowers	21,866	17,288
Percentage of advances to twenty largest borrowers to total advances of the Bank	6.88%	9.43%

C. Concentration of exposures

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
Total exposure to twenty largest borrowers / customers	21,866	17,288
Percentage of exposures to twenty largest borrowers / customers to total exposure of the Bank on borrowers / customers	6.88%	9.43%

D. Concentration of NPAs

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
Total exposure to top four NPA accounts	53	40

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

E. Movement of non-performing assets¹

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
I. Movement of non-performing assets (Gross)		
Opening Balance	1,722	592
Additions: Fresh NPAs during the year	4,356	15,000
Sub total (A)	6,078	15,592
Less :-		
i) Upgradations	1,216	-
ii) Recoveries (excluding recoveries made from upgraded accounts)	257	931
iii) Technical / Prudential Write offs	1,016	12,939
iv) Write offs other than those under (iii) above	-	-
Sub total (B)	2,489	13,870
Closing balance (A-B)	3,589	1,722
II. Movement in technical /prudential write off		
Opening balance of Technical / Prudential written off accounts as at 1 April	18,925	6,789
Add : Technical / Prudential write offs during the year	1,016	12,939
Sub total (A)	19,941	19,728
Less :-		
Recoveries made from previously technical / prudential written off accounts during the year (B)	436	803
Closing balance as at 31st March (A-B)	19,505	18,925
1. Non performing assets include only non performing advances as on 31 st March, 2019 and 31 st March, 2018.		

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

18.11 - SECTOR - WISE ADVANCES

Sector ¹	Year ended 31 st March, 2019			Year ended 31 st March, 2018		
	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
A. Priority Sector						
Agriculture and allied activities	143,971	1,001	0.70%	73,893	477	0.65%
Small & Marginal Farmer	102,038	259	0.25%	-	-	-
Agriculture-Others	41,933	742	1.77%	-	-	-
Advances to industries sector eligible as priority sector lending	-	-	-	-	-	-
Services	58,675	833	1.42%	42,345	428	1.01%
Personal loans	21,838	886	4.06%	16,870	431	2.55%
Sub - Total (A)	224,484	2,720		133,108	1,336	
B. Non Priority Sector						
Agriculture and allied activities	-	-	-	-	-	-
Industry	-	-	-	-	-	-
Services	26,538	-	0.00%	3,095	300	9.70%
Personal loans	28,087	869	3.09%	27,162	86	0.32%
Sub - Total (B)	54,625	869		30,257	386	
Total (A+B)	279,109	3,589		163,365	1,722	

1 Gross of provision on Gross NPA ₹ 2,640 Lakh (31st March, 2018: ₹ 405 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	Quarter ended 30 th June, 2018		Quarter ended 30 th September, 2018		Quarter ended 31 st December, 2018		Quarter ended 31 st March, 2019		Quarter ended 31 st March, 2018	
	UnWeighted Value* (average)	Total Weighted Value* (average)	UnWeighted Value* (average)	Total Weighted Value* (average)	UnWeighted Value* (average)	Total Weighted Value* (average)	UnWeighted Value* (average)	Total Weighted Value* (average)	UnWeighted Value* (average)	Total Weighted Value* (average)
1) Total High Quality Liquid Assets (HQLA)	N.A.	21,062	N.A.	33,595	N.A.	40,043	N.A.	57,269	N.A.	16,671
Cash outflows										
2) Retail deposits and deposits from small business customers, of which:										
- Stable deposits	19,263	1,926	36,236	3,624	48,346	4,835	70,185	7,018	9,776	978
- Less stable deposits										
3) Unsecured wholesale funding, of which:										
- Operational deposits (all counterparties)	21,901	21,901	32,074	32,074	40,511	40,511	29,163	29,163	16,676	16,676
- Non operational deposits (all counterparties)	-	-	-	-	-	-	-	-	-	-
- Unsecured debt	-	-	-	-	-	-	-	-	-	-
4) Secured wholesale funding	N.A.	1,803	N.A.	2,029	N.A.	1,095	N.A.	2,180	N.A.	3,470
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	1,750	1,750	1,952	1,952	2,675	2,419	3,209	2,725	420	420
6) Other contractual funding obligations	-	-	-	-	-	-	-	-	-	-
7) Other contingent funding obligations	-	-	-	-	-	-	-	-	-	-
8) Total Cash Outflows	N.A.	27,380	N.A.	39,679	N.A.	48,860	N.A.	41,086	N.A.	21,544

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

18.12 - LIQUIDITY COVERAGE RATIO (Cont'd)

Quantitative information on Liquidity coverage ratio (LCR) is given below:

Particulars	Quarter ended 30 th June, 2018		Quarter ended 30 th September, 2018		Quarter ended 31 st December, 2018		Quarter ended 31 st March, 2019		Quarter ended 31 st March 2018	
	UnWeighted Value* (average)	Total Weighted Value* (average)	UnWeighted Value* (average)	Total Weighted Value* (average)	UnWeighted Value* (average)	Total Weighted Value* (average)	UnWeighted Value* (average)	Total Weighted Value* (average)	UnWeighted Value* (average)	Total Weighted Value* (average)
Cash Inflows										
9) Secured lending (e.g. reverse repos)	-	-	-	-	-	-	-	-	-	-
10) Inflows from fully performing exposures	11,899	5,950	10,589	5,295	12,808	6,404	11,697	5,848	10,607	5,696
11) Other cash inflows	8,145	8,145	10,281	10,281	7,498	7,498	13,722	13,722	6,669	3,334
12) Total Cash Inflows	20,044	14,095	20,870	15,576	20,306	13,902	25,419	19,570	17,276	9,030
13) Total HQLA	N.A.	21,062	N.A.	33,595	N.A.	40,043	N.A.	57,269	N.A.	16,671
14) Total Net Cash Outflows	N.A.	13,285	N.A.	24,103	N.A.	34,958	N.A.	21,516	N.A.	12,514
15) Liquidity Coverage Ratio (%)	N.A.	158.54%	N.A.	139.38%	N.A.	114.55%	N.A.	266.17%	N.A.	133.22%

*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 31st March, 2019 and 31st March, 2018.

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

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 1st Jan 2019. The minimum LCR was 70% for FY18.

The excess SLR has been reckoned in HQLA over and above the mandatory basis market value with effect from 1st 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 1st January, 2018, as given below:

Year	Till 31 st December, 2017	By 1 st January, 2018	By 1 st January, 2019	By 1 st January, 2020	By 1 st January, 2021
Min LCR	60%	70%	80%	90%	100%

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

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

As at 31st March, 2019 and 31st March, 2018, the Bank does not have any exposure to real estate sector.

B. Exposure to Capital Market

As at 31st March, 2019 and 31st March, 2018, 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 31st March, 2019 and 31st March, 2018 is 'Nil'.

D. Details of single borrower limit (SGL) / group borrower limit (GBL) exceeded by the bank.

During the year ended 31st March, 2019 and 31st March, 2018, 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 ₹ 209,345 Lakh (31st March, 2018: ₹ 133,033 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 31st March, 2019 and 31st March, 2018 is 'Nil'.

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

18.14 - DISCLOSURE OF PENALTIES IMPOSED BY RBI

No penalties have been levied on the Bank by RBI during the year ended 31st March, 2019 and 31st March, 2018.

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 st March 2019	Year ended 31 st March 2018
The amounts recognised in the Profit and Loss account are as follows:		
Service Cost	192	108
Interest Cost	23	13
Expected Return on Plan Assets	(10)	(10)
Net Actuarial Loss on Plan Assets	86	20
Past Service Cost	12	-
Expense recognised in the Profit and Loss account	303	131

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

Particulars	As at 31 st March 2019	As at 31 st March 2018
The amounts recognised in the Balance Sheet are as follows:		
Present value of the obligation as at the end of the year	611	327
Fair value of plan assets as at the end of the year	143	144
Net liability recognised in the Balance Sheet	468	183
Changes in the present value of defined benefit obligation:		
Defined benefit obligation at the beginning of the year	327	200
Service cost	192	108
Interest cost	23	13
Actuarial loss	86	13
Benefits paid	(17)	(7)
Defined benefit obligation at the end of the year	611	327
Changes in the fair value of plan assets:		
Fair value at the beginning of the year	144	135
Expected return on plan assets	10	10
Actuarial gain/(loss)	1	(7)
Contributions	17	13
Benefits paid	(17)	(7)
Admin expenses /taxes paid from plan assets	(12)	-
Fair value as at the end of the year	143	144
Assumptions used in the above valuations are as under:		
Discount rate	7.62%	7.21%
Expected return on plan assets	7.21%	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 31 st March, 2019	Year ended 31 st March, 2018	Year ended 31 st March, 2017	Year ended 31 st March, 2016	Year ended 31 st March, 2015
Defined benefit obligation	611	327	200	35	10
Plan assets	143	144	135	35	31
Excess/(Deficit)	468	183	65	-	(21)
Experience adjustments on liabilities-gain/(loss)	12	30	(33)	(1)	(15)
Experience adjustments on assets-gain/(loss)	1	(7)	(1)	0	(1)

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

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 31st March, 2019 amounted to ₹ 664 Lakh (31st March, 2018 - ₹ 446 Lakh).

C. Compensated Absences

The actuarial liability in respect of privilege leave granted to employees of the Bank and outstanding as at 31 March 2019 is ₹ 452 lakh (31 March 2018 - ₹ 283 lakh).

Assumptions used in the above valuations are as under:	As at 31 st March 2019	As at 31 st March 2018
Discount rate	7.62%	7.21%
Future salary increase	11.00%	11.00%

18.16 - PROVISION AND CONTINGENCIES

Provision and contingencies recognised in the Profit and Loss account comprise:

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
Provision for income tax		
Current tax	2,860	-
deferred tax (credit)/charge (refer schedule 18.29)	(969)	771
MAT credit entitlement	(1,059)	-
Provision for standard assets	530	(670)
Provision for non-performing assets (includes bad debts written off ₹ 1,016 lakh (31 st March, 2018: ₹ 12,939)) ¹	3,243	13,039
Provision for depreciation in value of investments	-	-
Provision for restructured assets (refer schedule 18.4B)	8	-
Provision for unhedged foreign currency exposure	-	-
Provision for country risk	-	-
Provision for other contingencies	189	1,980
	4,802	15,120
1. During the year ended 31 st March, 2019, the Bank has revised the estimate for making provisions against non-performing loans in accordance with a resolution passed by the Board of Directors. Consequently, the provision for the year ended 31 st March, 2019 is higher by ₹ 1,219 Lakh.		

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

18.17 - FLOATING PROVISION

During the year ended 31st March, 2019 and 31st March, 2018, the Bank has not created any floating provision.

18.18 - DRAW DOWN FROM RESERVES

During the year ended 31 March 2019 and 31 March 2018, there were no drawdown from reserves.

18.19 - DISCLOSURE OF COMPLAINTS

A. Customer Complaints

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
No. of complaints pending at the beginning of the year	2	3
No. of complaints received during the year	197	69
No. of complaints redressed during the year	192	70
No. of complaints pending at the end of the year	7	2

B. Awards passed by the Banking Ombudsman

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
No. of unimplemented awards at the beginning of the year	-	-
No. of awards passed by the Banking Ombudsmen during the year	8	-
No. of awards implemented during the year	5	-
No. of unimplemented awards at the end of the year	3	-

C. ATM related complaints

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
No. of complaints pending at the beginning of the year	-	-
No. of complaints received during the year	28	-
No. of complaints redressed during the year	28	-
No. of complaints pending at the end of the year	-	-

The above information is as certified by the Management and relied upon by the auditors.

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

18.20 - LETTER OF COMFORT

The Bank has not issued letter of comfort during the year ended 31st March, 2019 and 31st March, 2018.

18.21 - INSURANCE BUSINESS

The fees or commission earned in respect of insurance/mutual fund broking business.

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
Income from selling life insurance policies	237	-
Income from selling non-life insurance policies	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 31st March, 2019 and 31st March, 2018 and also no overseas operations were undertaken during the year. Hence revenue from overseas operation is '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 31st March, 2019 and 31st March, 2018.

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.

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

As on 31st March, 2019, 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 31st March, 2019 and 31st March, 2018.

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 23rd 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 at 31st March, 2019 was 5,296 (31st March, 2018: 4,357)

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.

The Remuneration policy of the Bank is designed with a view to:

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.

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

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 appraised 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 31st March, 2019 and 31st March, 2018.

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)

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.

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

The forms of variable remuneration used by the Bank are:

- a. Incentives – used for rewarding portfolio quality and growth, customer retention, process and documentation (Business 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. 1st March, 2019.

B. QUANTITATIVE DISCLOSURES

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
a) i - Number of meetings held by the Remuneration Committee during the financial year.	seven	six
ii - remuneration paid to its members.		
b) Number of employees having received a variable remuneration award during the financial year.	895 employees received (quarterly Performance pay) while 339 employees received Annual Performance pay [176 employees are included in both annual and quarterly payout]	508 employees received (quarterly Performance pay) while 199 employees received Annual Performance pay
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	4.89 Lakh	1 Lakh
e) Details of severance pay, in addition to accrued benefits, if any.	-	-
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 – 268 employees totaling ₹ 208 Lakh	Outstanding (Provision made) Deferred Remuneration in the form of LTRB – 190 employees totaling ₹ 231 Lakh

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

B. QUANTITATIVE DISCLOSURES (CONT'D)

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
g) Total amount of deferred remuneration paid out in the financial year.	Deferred Remuneration (paid) in the form of LTRB – 62 employees totaling ₹ 215 Lakh	Deferred Remuneration (paid) in the form of LTRB – 31 employees totaling ₹ 51 lakh
h) Breakdown of amount of remuneration awards for the financial year to show fixed and variable, deferred and non deferred.		
- Fixed pay	13,418	7,822
- Variable pay	2,153	2,088
- Non deferred	-	-
- Deferred	215	51
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.	-	-

18.25 - DISCLOSURES RELATING TO SECURITISATION

Particulars	As at 31 st March 2019	As at 31 st March 2018
a) No of SPVs sponsored by the Bank for securitisation transactions	20	21
b) Total amount of securitised assets as per books of the SPVs sponsored by the bank	31,132	30,620
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	1,736	786
Others	-	-
ii) On-balance sheet exposures		
First loss	5,953	4,183
Others	-	-

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

Particulars	As at 31 st March 2019	As at 31 st March 2018
d) Amount of exposures to securitisation transactions other than MRR		
1. Off-balance sheet exposures		
i) Exposures to own securitisation		
First loss	964	964
Others	-	-
ii) Exposures to third party securitisation		
First loss	-	-
Others	-	-
2. On-balance sheet exposures		
i) Exposures to own securitisation		
First loss	-	-
Others	2,822	3,554
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 31st March, 2019 and 31st March, 2018.

18.27 - DEPOSITOR EDUCATION AND AWARENESS FUND

During the year ended 31st March, 2019 and 31st March, 2018 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 31st March, 2019 and 31st March, 2018.

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

18.29 - DEFERRED TAX ASSETS

Particulars	As at 31 st March 2019	As at 31 st March 2018
Deferred tax asset arising on:		
Depreciation and amortisation	241	-
Provision for employee benefits:		
Compensated absences	132	-
Gratuity	136	-
Long Term Retention Bonus (LTRB)	61	-
Deferred rent	8	-
Provision on portfolio loans	391	-
	969	-
	969	-

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 st March 2019	Year ended 31 st March 2018
Lease payments recognised in the profit and loss account.	1,339	795

The details of lease commitments in terms of minimum lease payments within the non-cancellable period are as follows

Particulars	Year ended 31 st March 2019	Year ended 31 st March 2018
Within 1 year	305	158
Later than one year but not later than five years	395	185
Later than 5 years	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 st March 2019	Year ended 31 st March 2018
i) Principal amount remaining unpaid (but within due date as per the MSMED Act	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.	-	-

18.32 - DISCLOSURE OF PROVISION FOR FRAUD

Particulars	As at 31 st March 2019	As at 31 st March 2018
Number of frauds reported during the year to the RBI	37	76
Amount involved in such frauds	69	123
Provision made during the year (net of recovery)	47	43
Unamortised provision debited from other reserves	-	-

18.33 - EARNINGS PER EQUITY SHARE

Particulars	As at 31 st March 2019	As at 31 st March 2018
Net profit attributable to equity shareholders	10,198	(9,755)
Weighted average number of shares outstanding during the year used for computing basic and diluted earnings per share (nos)	4,54,98,832	3,74,59,354
Basic and diluted earnings per share	22.41	(26.04)

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

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 st March 2019	Year ended 31 st March 2018
i) Aggregate value of IBPCs transaction during the year ¹	56,250	20,000
ii) Aggregate consideration received	56,250	20,000
iii) Aggregate gain recorded	-	-
iv) IBPCs outstanding	38,750	20,000

¹aggregate value of the own portfolio pool identified for IBPC transaction ₹ 1,40,625 lakh (2018 : ₹ 50,000 lakh).

18.35 - CORPORATE SOCIAL RESPONSIBILITY (CSR)

a) Gross amount required to be spent by the Bank during the year ended 31st March, 2019 is ₹ Nil (31st March, 2018: ₹ 15 lakh) 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	1	-	1
	1	-	1

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	22	-	22
	22	-	22

SCHEDULE 18 - NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹ Lakh except otherwise stated)

18.36 - LOAN TO FINCARE EMPLOYEE WELFARE TRUST (FEWT)

On 07 July 2017, the Bank had provided a loan of ₹ 1,700 lakh to FEWT ('the Trust') at a rate of 8 percent p.a., for the purpose of subscribing to the equity shares of Fincare Business Services Limited (formerly Fincare Business Services Private Limited) (' the Holding Company'), with the objective of granting equity share capital of the Holding Company to the eligible employee(s) of the Bank in lieu of their services provided to the Bank. On 28 March 2019 , the trust has repaid the loan amount along with the interest of ₹ 235 lakh.

18.37 - PRIORITY SECTOR LENDING CERTIFICATE (PSLC) INCOME

During the year ended 31 March 2019, the Bank sold PSLCs amounting to ₹ 10,000 lakh under agriculture category and ₹ 69,000 lakh under small and marginal farmers category. The income earned on the PSLCs sold during the year is ₹ 761 lakh.

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 Chandiok and Co. LLP**
Chartered Accountants
Firm Registration No: 001076N/N500013

Manish Gujral
Partner
Membership No.: 105117
Bengaluru
18th May, 2019

For and on behalf of the Board of Directors of
Fincare Small Finance Bank Limited
(formerly Disha Microfin Limited)

Rajeev Yadav
MD and CEO
DIN: 00111379
Bengaluru
18th May, 2019

Alok Prasad
Director
DIN: 00080225
Bengaluru
18th May, 2019

Sunil Gulati
Director
DIN: 00016990
Bengaluru
18th May, 2019

Keyur Doshi
Chief Financial
Officer
Bengaluru
18th May, 2019

Shefaly Kothari
Company Secretary
M No. F7698
Bengaluru
18th May, 2019

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



fincare
Small Finance Bank





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Small Finance Bank



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