



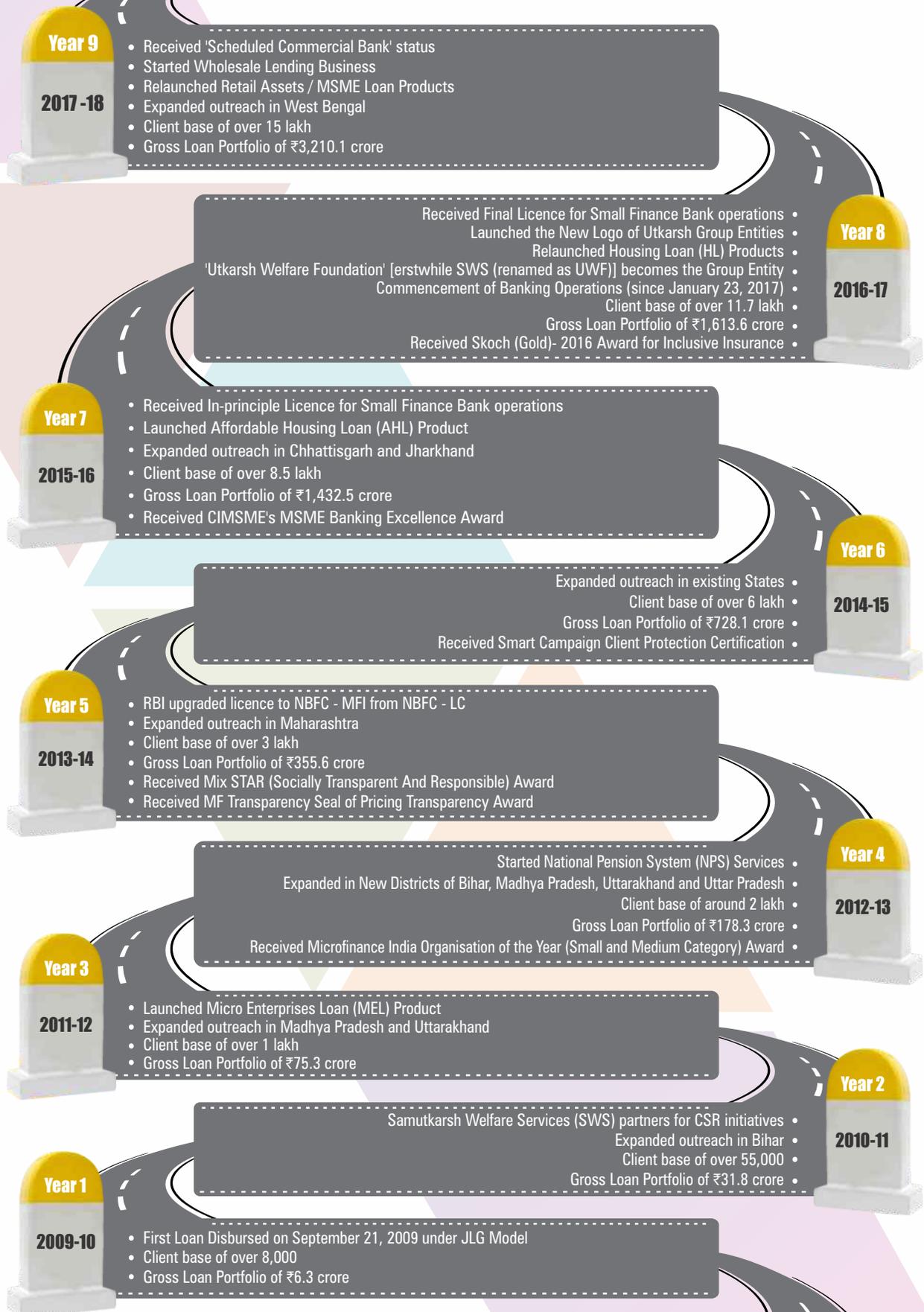
**Utkarsh Small Finance Bank**  
*Aapki Ummeed Ka Khaata*

# **ANNUAL REPORT** **FY 2017-18**



# UTKARSH JOURNEY

- from a Micro Finance Institution (NBFC-MFI) to a Small Finance Bank (SFB)



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# CORPORATE INFORMATION

**Corporate Identification No.**

U65992UP2016PLC082804

**Website**

[www.utkarsh.bank](http://www.utkarsh.bank)

**e-mail**

[shareholders@utkarsh.bank](mailto:shareholders@utkarsh.bank)

**Statutory Auditors**

M/s. BSR & Associates LLP  
Reliance Humsafar, 8-2-618/2,  
4th Floor, Road No.11, Banjara Hills  
Hyderabad – 500 034  
Telangana

**Secretarial Auditors**

CS L. K. Singh  
Company Secretary in Practice  
E-49/303, Dazzal House Jawahar Park, Laxmi Nagar  
Delhi -110 092

**Company Secretary**

Mr. Anang Shandilya

**Registrar & Share Transfer Agent**

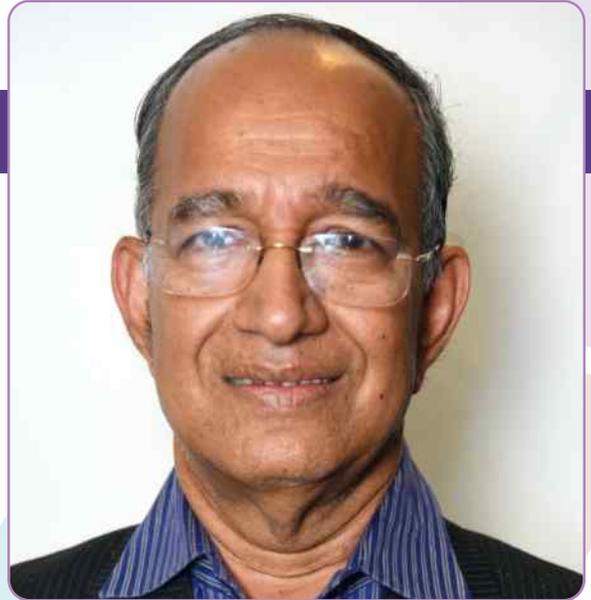
M/s. Karvy Computershare Private Ltd  
Unit: Utkarsh Small Finance Bank  
Karvy Selenium Tower B  
Plot No 31 & 32, Gachibowli  
Financial District  
Nanakramguda, Serilingampally  
Hyderabad - 500 032  
Telangana

**Registered & Corporate Office**

S-24/1-2, First Floor, Mahavir Nagar  
Orderly Bazar  
Varanasi – 221 002  
Uttar Pradesh

## From the Desk of Chairman

### Dr. V. S. Sampath



Dear Shareholders

It is my great pleasure to share my thoughts with you, and I take this opportunity to state with pride that in just 15 months since your Bank started its operations, it has completed a transformation from being a Micro Financing Institution to a Small Finance Bank. Your Bank currently has a comprehensive set of products and services that is aimed at bringing the underserved and unserved populace to the Banking stream.

FY2018 is the first full year of operations for your Bank. The Bank was successful in positioning itself as a new generation bank, with focus on delivering financial services to all, particularly to the underserved and unserved population of India. The Bank has taken concerted steps in this direction and has converted 111 of its Micro Finance Outlets into Micro Banking Outlets in the FY2018. We have been consistent in our endeavors, to operate as a financial institution having nationwide network, and serving the financially underserved and unserved, with innovative banking products and services, and with focus on garnering long term value for all our stakeholders including investors, employees and customers.

As I share with you the financial highlights of the last fiscal year, along with details of financial performance, I would like to share with you that we, at Utkarsh have a culture of sustained improvement through a positive approach for our customers, people and a clear process orientation which enables the Bank in ensuring delivery of the ethical values that the Bank stands for. We are of the firm belief that such positive approach and ethical values would go a long way in ensuring a unique and differentiated customer experience.

In the last 15 months, we have recruited over 2,000 employees from different backgrounds. Your Bank has made a substantial effort in training, development and employees' engagement, to ensure that a unique Utkarsh way of doing banking gets embedded amongst our people.

As a new era Bank, we strive hard to set new standards in customer experience, with extensive use of world class technology and a sincerity in customer service. I am sure that this approach would enable your Bank to deliver services that are affordable, simple, accessible, anytime and from anywhere.

I take this opportunity to thank all employees, who extended their wholehearted support in building a vibrant institution. We believe in equal opportunities for personal and professional growth for all, building a performance and knowledge-based employee team, which strengthens our ability to deliver on our stated goals.

The year gone by, witnessed addition of significant numbers in the customer base, our Liabilities and Assets Business grew at a brisk pace. The Bank closed the year with total Gross Advances of ₹3,210.05 crore and total Deposits Base of ₹2,193.9 crore. The year witnessed a Net Interest Income (NII) of ₹268.3 crore and an Operating Profit of ₹75.6 crore. The total write-offs (mainly on account of demonetization) have been ₹142.6 crore, and hence the PAT closed at ₹(63.0) crore. With this the Bank has identified and written off all assets that were stressed due to the collection challenges, faced post demonetization.

The current FY2018 has been the first complete financial year as a Bank for Utkarsh. The year has focused more on initiatives especially pertaining to setting-up of new teams as well as strengthening existing teams, and upgrading and coming up with new products, policies and processes. Broad basing the product bouquet and strengthening the Support and Control functions shall continue to be the focus in FY2019. New teams, like Collections, Projects, CPC, Branding, Wholesale Lending, BC Business have come up and shall start working in full pace in FY2019. Also, the teams like IT, Credit, Branch Operations & Monitoring, Risk, Compliance, Audit, HR & Training amongst others, have been further strengthened.

This vision of strengthening the Support and Control functions, especially to provide a smooth platform for Business Teams to operate, would have long term impact in streamlining the systems and processes, which has already started reflecting its impact, in terms of initial traction of businesses.

We have a firm belief that good and effective Corporate Governance plays important role in achieving the corporate vision and mission of the organization. This is an area of strong focus and on behalf of the Board of Directors, I can assure you that we are committed to the highest standards of Corporate Governance and transparency. For us the guiding principles of Corporate Governance framework have always been based upon compliance of Law / Regulations in letter and spirit, adopting transparent systems, safeguarding the interest of its Stakeholders and creating an environment of trust and confidence by means of transparent and timely disclosure of information. We believe in conducting fair business, and respect the needs of our community and all our Stakeholders. Bank is well capitalized and well poised placed to execute identified as well as emerging opportunities. The Bank also has a robust risk management and compliance framework built around people, technology and processes.

The bank is fully conscious of its obligations to the society and median in which it operates and taken various significant socially ameliorative measures under relevant programs.

We in the bank believe in building a strong foundation for the future, rendering the institution relevant for all times, present and future, in pursuit of excellence.

I extend my sincere thanks and a sense of gratitude towards all Shareholders who reposed trust and confidence in Bank and assisted in the Bank's performance and plans. I look forward to your continued support and guidance in days to come.

**Regards,**

**Sd/-  
Dr. V. S. Sampath  
Chairman**

**Place: Mumbai  
Date: May 08, 2018**

## From the Desk of MD & CEO

### Govind Singh



It gives me immense pleasure and a sense of pride to present you with the second Annual Report of your Bank. Utkarsh Small Finance Bank started its journey as a Bank on January 23, 2017. It has been a very exciting journey of setting Bank, as we complete the first full financial year of our Banking Services.

As you must be aware, the Bank received the final Licence from RBI on November 25, 2016 and subsequently received various other approvals, memberships that were required to conduct Banking Business in the subsequent months. The Bank started operations from January 23, 2017, after the execution of Business Transfer Agreement as at the close of business on January 21, 2017. During the Financial Year 2018, your Bank was included in the Second Schedule of RBI Act 1934 in accordance with Clause (a) of sub – section (6) of Section 42 of the Act. The Scheduled Status was granted to the Bank subsequent to an assessment of the Bank by the Reserve Bank of India.

The Bank commenced its operations, after getting the Banking Licence issued by RBI with expectations to serve underserved and unserved masses of society and to continue supporting them through various JLG Schemes and other new Products in MSME and Housing Loan Segments and also bring those masses to banking main stream by opening their savings accounts and help them develop the habit of savings.

I am pleased to say that Bank always has had this vision of serving the underserved and unserved, with core focus on those hinterlands and expanding the banking facilities to more and more areas and providing state of the art banking facilities through latest technology developments.

During FY2018, Utkarsh Micro Finance, the Holding Company of the Bank, offered a Rights Issue which was oversubscribed. This signifies the confidence of the Investors in the operations of Utkarsh Group.

During the year, The Bank infused additional Capital of ₹170 crore to augment its business growth. Of the ₹170 crore, ₹120 crore was done through the conversion of Compulsorily Convertible Debentures into Equity Shares. These were held by the Holding Company. Additionally, the Bank infused a capital of ₹50 crore through a Rights Issue to the existing shareholders, which would help Bank to further its plans of growth faster.

The Bank launched 49 new General Banking Outlets and converted 110 Micro Finance Outlets as Micro Banking Outlets pan India. With this, the Bank has now 53 General Banking Outlets along with 111 Micro Banking Outlets and 240 Micro Finance Outlets operating out of 125 Districts of 11 States pan India. The Bank further plans to close FY2019 with around 100 General Banking Outlets, and close to 400 Micro Banking Outlets. The prime focus shall be on converting all Micro Finance Outlets to Micro Banking Outlets. Besides, MSME and Housing Loan team will also operate from many of these banking outlets, resulting in big push to MSME and Housing Loan Business, as well.

Bank shall expand its footprints into newer geographies along with entering into new states to serve the banking operations during the next financial year.

Bank presently has operations in Bihar, Chhattisgarh, Delhi-NCR, Haryana, Himachal Pradesh, Jharkhand, Madhya Pradesh, Maharashtra, Uttar Pradesh, Uttarakhand and West Bengal.

The Bank has a net increased outreach of over 3.5 lakh customers during the year, The year closed at a total Loan Portfolio Outstanding (Net of Provisions) of ₹3,082.5 and Deposits Base of ₹2,193.9 crore. The Bank proposes to more than double its business by closing the FY2019 books at over ₹11,000 crore.

The Bank is adequately capitalized with a CAR of 17.40 % and closed the year with an operating profit of ₹75.6 crore and a net loss of ₹63 crore owing majorly to the demonetization affected accounts write-off. However, on a quarter basis, the Bank's PBT for Q4 FY2018 has been ₹18.3 crore. The Gross NPA and Net NPA has been 1.85% and 1.09% respectively as at March 31, 2018. The details of the financials are given in the ensuing pages and I impress upon you to go through the same.

The Bank outlets are providing the full range of banking services ranging from Savings & Current Accounts, Fixed and Recurring Deposits to Microcredit, Retail Loans and Insurance Products. The customers are accessing banking services through multiple channels like Branches, 24\*7 ATMs, Internet Banking, Mobile Banking and Call Centre.

On the Technology front, Bank has added its own ATMs across the operational states. All business operations are synced with the CBS, including the complete migration of all earlier portfolios to the new software. For operational efficiency at Branches, tablets with suitable modifications have been rolled out to field operations team members. The Bank has ambitious plans of paperless banking with E-KYC and similar initiatives in the coming FYs.

We have full confidence that our technology partner will enable us to provide best of the technology across the geography and all sections of the Society. Bringing best of the technology to the interior of the country is important positioning of the Bank and we will live upto it.

The Bank has a mission to expand the Banking Services to the excluded sections of the societies. Our operations are geared towards that end. The regulator expect us to be originator of the loans and advances for the neglected sections of the society. The bank will continue to focus on Micro Finance, MSME, Housing Loans, followed by other Retails Loans and Agriculture Loans in future as well. The Bank has the mission to broad base the resource base to meet the need of the institutions. There is big focus on raising deposits, and particularly retail deposits for strengthening of CASA Deposit Base. That will not only bring cost of funds down but also provide stable long term deposit base for the Bank.

Your Bank has developed and launched an easy access Internet Banking & Mobile Banking facilities and have also enabled cashless disbursements, which shall be scaled up during the next year.

People are the most important assets of any organization. At Utkarsh, we always believe in empowering people, by nurturing their talents and by providing them adequate training in the right direction. Also during this transition phase, there were many changes in organizational structure as per the Banking business requirements. Moreover, employee base increased from 3,853 to 5,142 with 399 women employees. This has been done through numerous recruitment drives at multiple locations and also campus selections for select roles.

To ensure right skill-set of all team members, the training capacity along with suitable infrastructure has been strengthened during the year, with state of the art Zonal Training Centers apart from upgraded regional training centers. Employee engagement initiatives like Town Hall Meetings, Buddy Mitra, HRMS (different modules) have also been introduced during the year.

The employees have also been attending various external training programs at CAB-RBI, IIBF, CAFRAL, NIBM, IDRBT, SIDBI, BIRD, UPMA to keep abreast of the latest developments in the banking finance. Your Bank was also represented in various events such as Campus Workshops, in various national and regional seminars / workshops / conferences / round tables.

Teams of Credit, Collections, Wholesale Banking (Corporate Lending & Business Correspondent Business), Branch Operations & Support and Treasury have been strengthened during the year. Also other teams like Compliance, Risk Management, Information Technology, Projects, apart from the Business Teams have also been strengthened further. The coming year will see further consolidation of team strengthening, thereby enabling suitable pace for growth.

During the year, Press Meets were regularly organized, generally aligning with the launch of New Branches, especially at major locations like Bhopal, Kolkata, Patna, Varanasi etc. Utkarsh has been featuring in various Magazines, Newspapers (national and local) and Local Radio as well.

Your Bank has maintained a strong organizational culture and we have held onto the principal motto – **“Aap Ummeed Kijiye, Banking Hum Kareng”** with the tag line- **“Aapki Ummeed Ka Khaata”**.

During the year the Bank has conducted various drives aiming at building the Brand and reaching out to the Brand philosophy and motto. Your Bank believes that a brand has to be imbibed in the culture such that the brand philosophy is embedded in the approach of our employees. Towards this, the Bank has built campaigns to reach out the brand philosophy and motto to the employees in a structured manner.

During the year, Utkarsh Welfare Foundation (UWF) has been regularly expanding the scope and scale of Financial Awareness and Health Initiative activities. As a CSR partner of the Bank, UWF also organized Blood Donation Camps during the year.



Looking ahead, I expect that the coming years would be exciting for the banking space as the economy would take an upturn due to the various economic reforms that have happened / planned in the coming years. The Banking space would be exciting and your bank is geared up to face and benefit from this opportunity. The Bank has built dedicated and well organized Compliance, Risk and Audit teams and the next year focus would be on to ensure that the operational processes are strengthened in order that the Turn Around Times (TAT) are trimmed to meet the increased transactional volumes. The Bank aims at reaching out the underserved populace with related products and simple and applicable technology to bring about a change in their Banking activities and financial planning.

I thank the Board of the Bank for their continued guidance. I also thank the Boards of UWF & Holding Company for their continuous support and guidance.

The Bank acknowledges and appreciates the support and guidance received from the Reserve Bank of India.

The team has laid a strong foundation that would help in realizing the long term objectives. I take this opportunity to express my gratitude, thank our partners for their continued support. I also would take this opportunity to express my gratitude to our all Investors & Shareholders for their continued support & patronage and giving strategic inputs during this important phase. I extend my special thanks to the Clients in particular for reposing their faith in our products and services and their continued patronage. I take this opportunity to sincerely thank RBI and other regulators and DFIs for their constant guidance and support. I thank all our employees for their constant unflinching support.

I look forward to the continued support of our all Stakeholders, and commit on behalf of all employees, for a robust and well balanced growth in the coming financial year.

Wishing all the teams, best of the times!

**Regards,**

**Sd/-  
Govind Singh  
Managing Director & CEO**

**Place: Mumbai  
Date: May 08, 2018**

## BOARD OF DIRECTORS



**Dr. V. S. Sampath**

Dr. V. S. Sampath is a 1973 Batch IAS Officer retired from the prestigious post of Chief Election Commissioner of India, and has held several important postings in Central Government, including a stint in the Union Ministry of Rural Development. As Chief Election Commissioner, Dr. Sampath pioneered several reforms in poll management, the primary among them being expenditure monitoring, setting up of flying squads and surveillance teams.

Dr. Sampath had also been appointed as Director General, National Institute of Rural Development. Subsequently, he held the post of Secretary, Chemicals and Petrochemicals, where he was pivotal in conceptualizing and implementing the Petroleum, Chemicals and Petrochemicals Investment Regions (PCPIR) policy, to help the growth of the Petrochemical sector in India, by facilitating massive investments in the identified regions.

Dr. Sampath has also served as Secretary, in the Central Power Ministry, where he was instrumental in implementing several forward-thinking policies, which aided the sector. Among them was Restructured-Accelerated Power Development and Reforms Programme (R-APDRP), a mega-package for the renovation and modernization of Indian power utilities, to help them improve their performance.

Mr. Kajal Ghose is a career banker, with more than 38 years of banking experience with SBI. He has rich experience in State Bank of India and retired as the CGM. During his career, he had varied experience, including heading retail operations at Branches. He has also handled key positions in Planning assignments, Inventory Management, Information Technology.

During the last decade of his career, he managed ATM Operations of the Bank and also worked in the Rural Business Group. During his career, he has looked after the Debit and Prepaid Cards and Mobile Banking Services division also. He headed Lucknow and Delhi Zone of State Bank of India.

Mr. Ghose also led the Business Intelligence Department of SBI in addition to running the Country's biggest Banking Data Warehouse.



**Mr. Kajal Ghose**



**Mr. Somnath Sengupta**

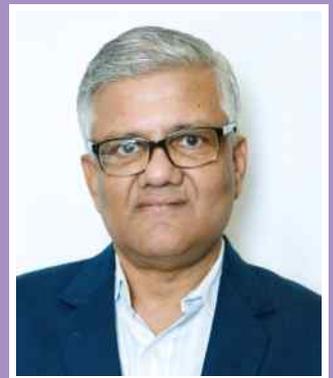
Mr. Somnath Sengupta joined the State Bank of Bikaner & Jaipur in December, 1976 as a Probationary Officer, and worked in various roles over the next 19 years. In January 1996, he joined UTI Bank (which became Axis Bank in 2007) as Head of Treasury Operations. In 2003 he became the Head of Finance & Accounts, and then CFO of the Bank, thereafter. At the time of his retirement from the Axis Bank in September 2014, he was Executive Director, Corporate Centre, heading the Finance, Risk, Operations, IT, Law, Compliance, Inspection and Investor Relations functions.

Mr. Sengupta was a whole-time Director on the Board of the Axis Bank, a Nominee Director on the Board of Axis UK (the Bank's subsidiary in London) and a member of the Axis Foundation (the Bank's CSR arm) Board. After working as a banker for nearly 38 years, he is now actively involved in the social sector in Kolkata.

Mr. Tantra Narayan Thakur has over 39 years of extensive experience, in Treasury Management, Financial Management (including Resource Mobilization, Investment decisions and Appraisal of Projects Financing), Accounts, Cash Management, Budgeting and Budgetary Control, Human Resource Management etc.

He worked for seven years in the offices of the Accountant General of three states in India, for four years in the Office of the Comptroller and Auditor General of India, for three years as Dy. Secretary/Director in the Government of India, for one year as Secretary to Chief Minister of a major State, for five years as Principal Director of Audit under the Comptroller & Auditor General of India, for over five years as Director (Finance) in Power Finance Corporation of India Ltd. and for twelve years as CMD, Power Trading Corporation (PTC) India Ltd.

He was earlier deputed to the United Nations High Commissioner for Refugees (UNHCR) at Geneva, for performance audit of that organization, on behalf of the United Nations Board of Auditors. He was a member of the Prime Minister's Task Force on Socio-Economic Development of Jammu & Kashmir, headed by Dr. C. Rangarajan.



**Mr. Tantra Narayan Thakur**



**Ms. Anita Ramachandran**

Ms. Anita Ramachandran heads Cerebrus Consultants, and has about 35 years of consulting experience in Corporate Strategy and Human Resource Consulting. She is an alumni of Jamnalal Bajaj Institute of Management Studies, Mumbai and began her career with AF Ferguson & Co, where she spent 19 years in the area of management consulting.

Ms. Ramachandran had set up Cerebrus Consultants in 1995 with a passion of making a difference in the HR environment, and making a significant impact with focus on diversity and women's relevance in the workplace. Ms. Ramachandran is an expert in the rewards area in the country and has worked with a large number of multinationals and major Indian companies across a wide range of sectors.

Mr. Arup Kumar, is a B.Tech. (Hons.) in Electrical Engineering having 27 years industry experience, including 23 years in SIDBI, a principal Development Finance Institution for MSME sector in the country. The diversified experience of Mr. Kumar includes his experience in debt and equity investments to MSME sector, policy formation, product development and process layout with the help of IT in SIDBI.

Mr. Kumar is presently working as General Manager with SIDBI at their Lucknow office, and having field level working experience in Northern, Eastern, Western and Central regions of the organization along with his senior level policy making experience in Credit, Risk Management and Asset Recovery Department of SIDBI. Before joining SIDBI, Mr. Kumar has worked with Hindustan Petroleum Corporation Ltd. in the Marketing Division.



**Mr. Arup Kumar**



**Mr. Govind Singh**

Mr. Govind Singh has an overall experience of more than 30 years in Banking & Finance Sector, with wide range of experience at different levels.

He is the founder of Utkarsh Micro Finance Ltd., the promoting institution of Utkarsh Small Finance Bank. Currently, Mr. Govind Singh is the MD & CEO of Utkarsh Small Finance Bank.

Prior to setting up Utkarsh, he was with ICICI Bank Ltd. in Rural, Micro & Agri-Business Group as the Business Head for Micro Banking. He also worked in Retail Liabilities Group with ICICI Bank.

Earlier to ICICI Bank, he had worked with UTI Bank Ltd. (Axis Bank), Bank Internasional Indonesia, Surya Roshni Group (Financial Services). He had also stints with Allahabad Bank and State Bank of Patiala.

Mr. Govind Singh also served as a member of the working group to review the Business Correspondent (BC) Model in India. The committee was setup by RBI to examine the ways for improving BC Model.

# COMMITTEES OF THE BOARD

## Audit Committee

The composition & major responsibilities of the Committee are given below:

Members	Mr. Tantra Narayan Thakur
	Ms. Anita Ramachandran
	Mr. Somnath Sengupta
Major Responsibilities	<ul style="list-style-type: none"> <li>• Recommendation for appointment, remuneration and terms of appointment of Auditors of the Bank;</li> <li>• Review and monitoring the auditor's independence and performance, and effectiveness of audit process;</li> <li>• Examination of the financial statement and the auditors' report thereon;</li> <li>• Approval or any subsequent modification of transactions of the Bank with related parties;</li> <li>• Scrutiny of inter-corporate loans and investments;</li> <li>• Valuation of undertakings or assets of the Bank, wherever it is necessary;</li> <li>• Evaluation of internal financial controls and risk management systems;</li> <li>• Monitoring the end use of funds raised through public offers and related matters;</li> <li>• Providing direction and to oversee the operation of the audit function;</li> <li>• Review of the internal audit system with special emphasis on its quality and effectiveness;</li> <li>• Review of internal and concurrent audit reports of large branches with a focus on all major areas of housekeeping, particularly inter branch adjustment accounts, arrears in the balancing of the books, un-reconciled entries in inter-Company accounts and frauds;</li> <li>• Discussion on the matters related to frauds;</li> <li>• Discussion and follow up for the audit observations relating to Long Form Audit Report;</li> <li>• Discussion and follow up for the observations relating to Inspection Report / Risk Assessment Report of the RBI;</li> <li>• Review the system of appointment of concurrent auditors and external auditors;</li> <li>• Review 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;</li> <li>• Approval of payments to statutory auditors for other services rendered by them.</li> <li>• Review with the management, the annual financial statements and auditor's report thereon before submission to the Board for approval with particular reference to:             <ul style="list-style-type: none"> <li>• Review and approval of matters required to be included in the Director's Responsibility Statement in the Board's Report in terms of clause (5) of section 134 of the Companies Act, 2013, Changes, if any, in accounting policies &amp; practices and reasons for the same;</li> <li>• Review of major accounting entries involving estimates based on the exercise of judgment by the management;</li> </ul> </li> </ul>

- Review of Significant adjustments made in the financial statements arising out of audit findings;
- Review of Compliance with statutory and legal requirements relating to financial statements;
- Review of disclosure of any related party transactions;
- Review and discuss qualifications in the draft audit report;
- Review with the management, the quarterly financial statements before submission to the Board for approval;
- Review with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the agency monitoring the utilization of proceeds of a public or rights issue, and making appropriate recommendations to the Board for taking steps in the matter;
- Review with the management, performance and independence of statutory and internal auditors, adequacy of the internal control systems and effectiveness of audit process;
- Obtain and review quarterly / half yearly reports of the Compliance Officer;
- Review the adequacy of internal audit function, if any, including the structure of the Internal Audit Department, staffing, seniority of the official heading the department, reporting structure, coverage and frequency of Internal Audit;
- Discuss with internal auditors any significant audit findings and follow up thereon;
- Review 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;
- Discuss with Statutory Auditors, before the commencement of audit, the nature and scope of audit as also conduct post-audit discussion to ascertain any area of concern;
- Analysis of the reasons for substantial defaults in the payment to the Depositors, Debenture Holders, Shareholders (in case of non-payment of declared dividends) and Creditors;
- Review of the functioning of the Whistle Blower-cum-Vigil Mechanism;
- Approval of the appointment of the Head of Internal Audit / Chief Internal Audit Officer before finalization of the same by the management. While approving the appointment, Audit Committee shall assess the qualifications, experience & background etc. of the candidate;
- Approval or any subsequent modification of transactions of the Bank with related parties;
- Evaluation of internal financial controls and risk management system;
- Valuation of undertakings or assets of the Bank, wherever it is necessary.

## Nomination & Remuneration Committee

The composition & major responsibilities of the Committee are given below:

Members	Mr. Somnath Sengupta
	Dr. V. S. Sampath
	Ms. Anita Ramachandran
Major Responsibilities	<ul style="list-style-type: none"> <li>• Review the structure, size, composition, diversity of the Board and make necessary recommendations to the Board with regard to any changes as necessary and formulation of policy thereon;</li> <li>• Evaluate the skills that exist, and those that are absent but needed at the Board Level, and search for appropriate candidates who have the profile to provide such skill sets;</li> <li>• Examine vacancies that will come up at the Board on account of retirement or otherwise and suggest course of action;</li> <li>• Advise criteria for evaluation of Independent Directors and the Board and carry out evaluation of every Directors' performance;</li> <li>• Undertake a process of due diligence to determine the suitability of any person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity other 'fit and proper' criteria, positive attributes and independence (if applicable) and formulate the criteria relating thereto;</li> <li>• Review the composition of Committees of the Board, and identify and recommend to the Board the Directors who can best serve as members of each Board Committee;</li> <li>• Review and recommend to the Board for approval of the appointment of Managing Director &amp; CEO and other Whole-Time Directors and the overall remuneration framework and associated policy of the Bank (including remuneration policy for Directors and Key Managerial Personnel), the level and structure of fixed pay, variable pay, perquisites, bonus pool, stock-based compensation and any other form of compensation as may be included from time to time to all the employees of the Bank including the Managing Director &amp; CEO, other Whole Time Directors and senior managers one level below the Board;</li> <li>• Review and recommend to the Board for approval of the total increase in manpower cost budget of the Bank as a whole, at an aggregate level, for the next year;</li> <li>• Recommend to the Board the compensation payable to the Chairman of the Bank;</li> <li>• Review the Code of Conduct and HR strategy, policy and performance appraisal process within the Bank, as well as any fundamental changes in organization structure which could have wide ranging or high risk implications;</li> <li>• Review and recommend to the Board for approval the talent management and succession policy and process in the Bank for ensuring business continuity, especially at the level of MD &amp; CEO, the other Whole Time Directors, senior managers one level below the Board and other key roles and their progression to the Board.</li> <li>• Review and recommend to the Board for approval:             <ul style="list-style-type: none"> <li>• the creation of new positions one level below MD &amp; CEO</li> <li>• appointments, promotions and exits of senior managers one level below the MD &amp; CEO</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>• Set the goals, objectives and performance benchmarks for the Bank and for MD &amp; CEO, the other Whole Time Directors for the financial year and over the medium to long term;</li> <li>• Review the performance of the MD &amp; CEO and other Whole Time Directors at the end of each year;</li> <li>• Review organization health through feedback from employee surveys conducted on a regular basis;</li> <li>• Perform such other duties as may be required to be done under any law, statute, rules, regulations etc. enacted by Government of India, Reserve Bank of India or by any other regulatory or statutory body.</li> </ul>
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## Stakeholders' Relationship Committee

The composition & major responsibilities of the Committee are given below:

Members	Mr. Somnath Sengupta
	Ms. Anita Ramachandran
	Mr. Govind Singh
Major Responsibilities	<ul style="list-style-type: none"> <li>• Considering and resolving grievances of Shareholder's, Debenture Holders and other Security Holders;</li> <li>• Redressal of grievances of the security holders of our Bank, relating to non-receipt of dividend / interest, refund order / redemption, transfer / transmission, non-receipt of annual report and all other grievances as may arise;</li> <li>• Allotment of Equity Shares, approval of transfer or transmission of Equity Shares, Debentures or any other securities;</li> <li>• Issue of duplicate certificates and new certificates on split / consolidation / renewal etc.;</li> <li>• Overseeing requests for dematerialization and dematerialization of Securities;</li> <li>• Spreading awareness amongst security holders for protection of their rights and interest(s) and;</li> <li>• Carrying out any other function as assigned by the Board from time to time related with security holders of the Bank.</li> </ul>

## Risk Management Committee

The composition & major responsibilities of the Committee are given below:

Members	Dr. V. S. Sampath
	Mr. Somnath Sengupta
	Mr. Govind Singh
Major Responsibilities	<ul style="list-style-type: none"> <li>• To perform the role of Risk Management in pursuance of the Risk Management Guidelines issued periodically by RBI and Board;</li> <li>• To oversee and advise to the Board on:             <ul style="list-style-type: none"> <li>• defining risk appetite, tolerance thereof and review the same, as appropriate;</li> <li>• the systems of risk management framework, internal control and compliance</li> <li>• to identify, measure, aggregate, control and report key risks;</li> <li>• the alignment of business strategy with the Board's risk appetite;</li> <li>• the maintenance and development of a supportive culture, in relation to the</li> <li>• management of risk, appropriately embedded through procedures, training and leadership actions so that all employees are alert to the wider impact on the whole organization of their actions and decisions.</li> </ul> </li> <li>• To advise the Board on all high level risk matters;</li> <li>• To require regular risk management reports from management which enable the Committee to assess the risks involved in the Bank's business and how they are controlled and monitored by management; and give clear focus to current and forward - looking aspects of risk exposure;</li> <li>• To review the effectiveness of the Bank's internal control and risk management framework, in relation to its core strategic objectives, and to seek such assurance as may be appropriate;</li> <li>• To review the Asset Liability Management (ALM) of the Bank on a regular basis;</li> <li>• To consider any major regulatory issues that may have bearing on the risks and risk appetite of the Bank;</li> <li>• To provide to the Board with such additional assurance as it may require regarding the quality of risk information submitted to it;</li> <li>• To decide the policy and strategy for integrated risk management containing various risk exposures of the Bank including the Credit, Market, Liquidity, Operational and Reputation Risk;</li> <li>• To review risk return profile of the Bank, capital adequacy based on the risk profile of the Bank's Balance Sheet, Basel-II implementation, assessment of Pillar II Risk under Internal Capital Adequacy Assessment Process (ICAAP), business continuity plan and disaster recovery plan, key risk indicators and significant risk exposures.</li> </ul>

## Corporate Social Responsibility Committee

The composition & major responsibilities of the Committee are given below:

Members	Dr. V. S. Sampath
	Mr. Tantra Narayan Thakur
	Mr. Govind Singh
Major Responsibilities	<ul style="list-style-type: none"> <li>• Formulation and recommendation to the Board, the Corporate Social Responsibility (CSR) strategy of the Bank including the CSR Policy and its implementation;</li> <li>• Formulation and recommendation to the Board, the CSR activities to be undertaken by the Bank either directly or through Utkarsh Welfare Foundation or through any other entity working for the welfare of society and determining the CSR Projects / Programs which the Bank plans to undertake during the year of implementation, specifying modalities of execution in the areas / sectors chosen and implementation schedules for the same;</li> <li>• Recommendation to the Board, the amount of expenditure to be incurred on the CSR activities;</li> <li>• Review and monitoring the compliance of initiatives undertaken and evaluate performance of the activities against the agreed targets;</li> <li>• Conducting an impact-assessment of the various initiatives undertaken in terms of the CSR Policy at periodic intervals;</li> <li>• Instituting a transparent monitoring mechanism for ensuring implementation of the projects / programs / activities proposed to be undertaken by the Bank;</li> <li>• Reviewing and recommending the Annual CSR Report for the Board's approval and for public disclosure;</li> <li>• Performing such other duties with respect to CSR activities, as may be required to be done under any law, statute, rules, regulations etc. enacted by Government of India, Reserve Bank of India or by any other regulatory or statutory body.</li> </ul>

## IT Strategy Committee

The composition & major responsibilities of the Committee are given below:

Members	Mr. Kajal Ghose
	Mr. Tantra Narayan Thakur
	Mr. Govind Singh
Major Responsibilities	<ul style="list-style-type: none"> <li>• Approving IT Strategy and Policies;</li> <li>• Ensuring that management has an effective strategic planning process in place;</li> <li>• Ensuring that the business strategy is aligned with the IT Strategy;</li> <li>• Ensuring that the IT organizational structure serves business requirements and direction;</li> <li>• Oversight over implementation of processes and practices that ensures IT delivers value to businesses;</li> <li>• Monitoring 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;</li> </ul>

	<ul style="list-style-type: none"> <li>• Ensuring proper balance of IT investments for sustaining Bank's growth;</li> <li>• Assess exposure to IT Risks and its controls and evaluating effectiveness of management's monitoring of IT Risks;</li> <li>• Assessing management's performance in implementing IT Strategies;</li> <li>• Assessing if IT Architecture has been designed to derive maximum business value;</li> <li>• Reviewing IT Performance measurement and contribution to businesses;</li> <li>• To approve capital and revenue expenditure in respect of IT procurements.</li> </ul>
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### Review Committee for Identification of Willful Defaulters

Details of Committee are as follows:

Members	Mr. Govind Singh
	Mr. Kajal Ghose
	Mr. Tantra Narayan Thakur
Major Responsibilities	<ul style="list-style-type: none"> <li>• To review, confirm and take decision with regard to classifying a borrower as 'Willful Defaulter' based on the inputs / decisions of committee headed by Executive Director, classifying a borrower as 'Willful Defaulter';</li> <li>• To review, confirm and take decision with regard to classifying a borrower as 'Non-Cooperative Borrower' based on the inputs / decisions of Committee; headed by Executive Director, classifying a borrower as 'Non-cooperative Borrower';</li> <li>• To set-up and review the policies and process of the Bank vis-à-vis regulatory guidelines with regard to identification of 'Willful Defaulter' or 'Non-Cooperative Borrower'.</li> </ul>

The meeting of this committee is conducted on a need basis. No meeting was conducted for the FY2018.

### Customer Service Committee

The composition & major responsibilities of the Committee are given below:

Members	Mr. Somnath Sengupta
	Mr. Kajal Ghose
	One Customer Representative
	Mr. Govind Singh
Major Responsibilities	<ul style="list-style-type: none"> <li>• Overseeing the functioning of the Company's internal committee setup for customer service;</li> <li>• To review the level of customer service in the Company including customer complaints and the nature of their resolutions;</li> <li>• Provide guidance in improving the customer service level;</li> <li>• Review any award by the Companying Ombudsman to any customer on a complaint filed with the Ombudsman;</li> <li>• To ensure that the Company provides and continues to provide, best-in-class service across all its category of customers which will help the Company in protecting and growing its brand equity;</li> </ul>

	<ul style="list-style-type: none"> <li>• The Committee could address the formulation of a Comprehensive Deposit Policy, incorporating the issues such as the treatment of death of a depositor for operations of his account, the product approval process, the annual survey of depositor satisfaction and the periodical audit of such services;</li> <li>• The Committee could also examine any other issues having a bearing on the quality of customer service rendered;</li> <li>• To ensure implementation of directives received from RBI with respect to rendering services to customers of the Company.</li> </ul>
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### Special Committee to Monitor Large Value Frauds

The composition & major responsibilities of the Committee are given below:

Members	Mr. Govind Singh
	Dr. V. S. Sampath
	Ms. Anita Ramachandran
	Mr. Somnath Sengupta
	Mr. Tantra Narayan Thakur
Major Responsibilities	<ul style="list-style-type: none"> <li>• To monitor and review all the frauds of ₹10.00 lakh and above;</li> <li>• Identify the systemic lacunae, if any that facilitated perpetration of the fraud and put in place measures to plug the same;</li> <li>• Identify the reasons for delay, if any, in detection and reporting to top management of the Bank and RBI;</li> <li>• Monitor progress of CBI / Police Investigation and recovery position;</li> <li>• Ensure that staff accountability is examined at all levels in all the cases of frauds and staff related action, if required, is completed quickly without loss of time;</li> <li>• Review the efficacy of the remedial action taken to prevent recurrence of frauds, such as, strengthening of internal controls;</li> <li>• Put in place other measures as may be considered relevant to strengthen preventive measures against frauds.</li> </ul>

## Credit Approval Committee

The composition & major responsibilities of the Committee are given below:

Members	Mr. Kajal Ghose
	Ms. Anita Ramchandarn
	Mr. Govind Singh
Major Responsibilities	<ul style="list-style-type: none"><li>• To provide approvals for loans above certain stipulated limits, discuss strategic issues in relation to credit policy, and deliberate on the quality of the credit portfolio;</li><li>• To monitor the exposures (both credit and investment) of the Bank;</li><li>• To sanction expenditures above certain stipulated limits;</li><li>• To approve expansion of the location of the Bank's Network of offices, branches, extension counters, ATMs and Currency Chests;</li><li>• To review investment strategy and approve investment related proposals above certain limits;</li><li>• To approve proposals relating to the Bank's operations covering all departments and business segments;</li><li>• To ensure compliance with the statutory / regulatory framework, etc.;</li><li>• To discuss issues relating to day to day affairs / problems and to take such steps as may be deemed necessary for the smooth functioning of the Bank (all routine matters other than the strategic matters and review of policies other than strategic policies like credit policy, investment policy and other policies which the COD may consider necessary or RBI may specifically require to be reviewed by the Board).</li></ul>

## SENIOR MANAGEMENT



Govind Singh

### MANAGING DIRECTOR & CHIEF EXECUTIVE OFFICER (MD & CEO)

Mr. Govind Singh is the founder of Utkarsh Micro Finance Ltd., the promoting institution of Utkarsh Small Finance Bank. Currently, Mr. Govind Singh is the MD & CEO of Utkarsh Small Finance Bank. He has vast experience of over 3 decades in different domains of banking & financial services.

His mission to establish a reliable, scalable and sustainable institution for providing affordable & accessible financial services facilitating socioeconomic change resulted in setting up Utkarsh Micro Finance Limited in Sep 2009. In Nov, 2016 Reserve Bank of India accorded licence to Utkarsh for setting up a Small Finance Bank. Today Utkarsh Small Finance Bank is operating as a Scheduled Commercial Bank.

Mr. Govind Singh also served as a member of the working group to review the Business Correspondent (BC) Model in India. The committee was setup by RBI to examine the ways for improving BC Model.

Prior to setting up Utkarsh, he was with ICICI Bank Ltd. in Rural, Micro & Agri-Business Group as the Business Head for Micro Banking. He also worked in Retail Liabilities Group with ICICI Bank. During his ICICI Bank stint, he got extensive exposure on Microfinance, Business Correspondent, Jewel Loans, Liabilities, Infra and Channel Management, Branch Licencing and various products & processes related functions.

Earlier to ICICI Bank, he had worked with UTI Bank Ltd. (Axis Bank), wherein he was responsible for budgeting and control, new products development, developing business strategies, maintaining agency arrangements with Banks, planning of Branch expansion and its proper licencing & launching the Cash Management Services for the Bank.

With Bank Internasional Indonesia, he was entrusted mainly with the task of boosting the sale of assets & liabilities products. He also had stint with Surya Roshni Group (Financial Services) as a Branch Head setting up the Mumbai Branch & started its operations, along with Fixed Deposits mobilization and Stock Exchange Operations.

At the beginning of his career, he had also stints with Allahabad Bank and State Bank of Patiala, wherein he got hands on experience on various general banking functions as well as liabilities and assets for Commercial and Institutional segments.

He is a Certified Associate of Indian Institute of Bankers (CAIIB) and a Commerce Graduate from Delhi University.

HEAD – LIABILITIES

He has been associated with the Banking and Financial sector all throughout his career, spanning 25 years. Prior to joining Utkarsh, he has worked with Axis Bank in the corporate as well as retail banking verticals in senior leadership roles. He has handled responsibilities in the areas of Retail Branch Banking, Corporate Liabilities, Cash Management Services and Government Business including Financial Inclusion initiatives. Earlier, he was with Unit Trust of India, handling assignments related to Sales & Marketing (strategic planning), Accounts and Operations. He is an Economics Graduate from Visva - Bharati University, standing First in the Order of Merit, holds Post Graduate Degree from Himachal Pradesh University, PGDBM (IISWBM, Kolkata), PGCHRM (Gold Medallist, XLRI, Jamshedpur) and JAIB (IIBF, Mumbai).



Arup Kumar Dutta

HEAD - MICRO BANKING

He heads the Micro Banking Business of the Bank, has an experience of over two decades in Microfinance Sector especially in the northern part of the country. He has been one of the founding member of Utkarsh Micro Finance, wherein he had setup the microfinance vertical. Prior to Utkarsh, he was with Cashpor since September 1997 and as his last assignment, was the General Manager-HRD there and was part of head office operations team. At Cashpor, he had handled almost all management functions of MFI in lead role. He attended several training programs in and outside India, including visit to Grameen Bank, ASA, BRAC in Bangladesh, MFI Program held at Torino Italy conducted by Boulder University, Colorado, USA and different MDPs at IIM Ahmedabad, Bangalore & Lucknow. He also attended several conferences/seminars as panellist organized by BIRD/UPMA based at Lucknow. As part of his training, he got exposure to different MFIs in south-east Asia. He is a Postgraduate from Purvanchal University, UP and holds Advance Diploma in Rural Technology Development and Management from IERT Allahabad.



Trilok Nath Shukla

HEAD - RETAIL ASSETS

He has over 20 years of experience in Banking and Financial Services spreading across Retail Assets, Liabilities, Branch Banking and Trade Services. Prior to joining Utkarsh he was heading the Rural MSME vertical for Bajaj Finance Ltd. He has worked in Tata Motors, ICICI Bank, Reliance Capital and Bajaj Finance Ltd. He is graduate from Delhi University and MBA from NMIMS, Mumbai.



Rahul Sinha



**Mohit Wahi**

## HEAD - WHOLESALE BANKING

He has over 23 years of rich experience in BFSI domain. He has worked extensively in Retail & SME Banking across liabilities, working capital finance, trade finance and commercial banking. He worked with FMCG majors like Hindustan Unilever Ltd & Godfrey Philips (I) Ltd. prior to his banking stint across verticals with ICICI Bank, DCB Bank and IDFC Bank Ltd. He holds a Bachelor's degree from College of Vocational Studies – Delhi University.

## SUPPORT TEAMS

### CHIEF OPERATING OFFICER (COO)

He has more over 25 years of experience in Banking and Financial sector. Prior to joining Utkarsh, he worked with Axis Bank for nearly 21 years and held senior leadership roles in Customer Service, Corporate Real Estate and Employee Experience including HR Operations. He has also worked with SBI Home Finance Ltd. handling housing loans to individuals and real estate developers. He is an engineer from the Indian Institute of Engineering, Science and Technology, Shibpur (erstwhile Bengal Engineering & Science University).



**Adhip Ranjan Syamroy**

### CHIEF TECHNOLOGY OFFICER (CTO)



**Venkat Krishnan Veeramoni**

He has about 19 years of experience in Information Technology domain with focus on Banking, Finance and Insurance, specializing in large scale transformational projects, including setting up of banks, complex core banking migrations and change management. Prior to Utkarsh, he has held Senior Leadership Roles with Yes Bank as CTO, HSBC India as Head Enterprise Architecture, Dhanlaxmi Bank as Head IT, Edelweiss Tokio Life Insurance as CTO, Al Ahli Bank of Kuwait as Head, Technology Risk and Information Security. He has won recognition like Computer Society of India Award 2011 Winner for Excellence in Banking Technology, InfoSec Maestro's Award 2014 and EDGE Award winner for Technology Transformation in the BFSI segment. He is MCA from Government College of Engineering, Karad and B. Sc. from SIES College (Bombay University).

## HEAD – TREASURY

He has over 3 decades of experience in Treasury Operations domain. Prior to Utkarsh, he was with Kotak Mahindra Bank in the capacity of Senior Vice President, Treasury Operations. Earlier he worked with ICICI Bank in Forex and Domestic Treasury Operations and was also on deputation to Clearing Corporation of India Ltd. He started his career with Corporation Bank and gained expertise in general banking while working at Mumbai and Bangalore, subsequent to which he also laid his hands on treasury operations in back and front office. He is an M. Sc. (Bio Sciences) from Nizam College, Hyderabad with a Post Graduate Diploma in Advanced Bank Management from NMIMS, Mumbai.



**Gopireddy Srinivasa Reddy**

## DEPUTY CFO (Head Finance and Corporate Communication)



**Ashwani Kumar**

He has over 13 years of industry experience especially in Micro Finance and Priority Sector domains. He has handled senior management roles in different control and support functions at Utkarsh ever since its NBFC-MFI format. Prior to joining Utkarsh, he was with NABARD Financial Services Ltd. (NABFINS) as AGM (Finance). He also had stint with Canara Bank as Manager at its Priority Credit Wing, Head Office, Bangalore, handling Agri-Business, Priority Small Loan NPA Management and Consultancy Services with active involvement in setting up of Bank's Financial Inclusion Wing. He started his career as a Research Associate with Locus Research and Consultants Pvt. Ltd, New Delhi and undertook projects for Ministry of Rural Development, Gol and other agencies.

He has attended several exposure programs in Banks, MFIs and Training Centres in India and abroad (Bangladesh, Cambodia, Indonesia and Italy) and has been in Editorial Boards of Institutional Magazines. He has attended several conferences / Seminars as Panellist / Speaker at National & International levels and has also taken sessions at Institutions like CAB (RBI), NIBM, SIBSTC etc.

He is a Rural Management Graduate from Institute of Rural Management, Anand (IRMA) and a Chartered Financial Analyst (CFA) from ICFAI (India). He is a Certified Associate of Indian Institute of Bankers (CAIIB) and has several Diplomas and Certifications from IIBF. He is also UGC Net (Management) certified and is a lifetime member of CFA Council (CCFA, India) and IIBF (India).

## HEAD - HR & TRAINING

He is having more than 17 years of experience in the BFSI Industry, while working with ICICI Bank, Kotak Mahindra Bank and Reliance Mutual Fund in his earlier stints. Prior to joining Utkarsh, he was associated with Redwood Consulting an HR Consulting firm as Partner. He holds his PGDBA from ICFAI Business School and Chartered Financial Analyst (CFA) from ICFAI Hyderabad.



**Virag Jain**



**Anang Shandilya**

### COMPANY SECRETARY (CS)

He has around 11 years of professional experiences in the domain of Secretarial, Legal, Compliance and Corporate Governance framework of Companies while working with big corporate houses like Tata Group, Delhi Stock Exchange and Times of India Group. He is a Commerce and Law Graduate, Fellow Member of the Institute of Company Secretaries of India (ICSI), New Delhi and an MBA (Finance) from Symbiosis University, Pune.

## CONTROL TEAMS

### CHIEF COMPLIANCE OFFICER (CCO)

He has 20 years of banking experience spread across Branch Banking, Operations, Branch Sales Management, Governance and Compliance. Prior to joining Utkarsh, he was heading the compliance functions relating to Retail Banking, Control Functions and additionally handled the Subsidiary Governance in Axis Bank. He is a founding member of UBL Sales Ltd (now Axis Securities Ltd.) a subsidiary of Axis Bank and has been instrumental in setting up of the various departments of the subsidiary. He has been involved in implementation of various projects in Axis Bank. Prior to Axis Bank, he has worked with IDBI Bank and ICICI Bank in various capacities in branch banking. He is a Graduate from University of Madras and ICWAI (Inter) and has also completed a certificate course from The Strategy Academy, Mumbai.



**S. S. Ramanathan**



**Alok Pathak**

### CHIEF RISK OFFICER (CRO)

He has over 19 years of banking experience in the domain of Risk Management, Retail lending, Corporate Lending, Liabilities, Forex and Treasury area. Prior to joining Utkarsh he was with Yes Bank Ltd. as Executive Vice President and in various capacities with Axis Bank handling various roles at Risk Department for more than 8 years. Prior to that, he has worked with State Bank Group & Oriental Bank of Commerce. He has also worked as a Dealer at State Bank of Mysore for more than 4 years handling Domestic Treasury. He is a Science Graduate from Kanpur University, PGDCA from Aptech Computers, CAIIB from IIBF, Mumbai and he is also a Certified Banking Compliance Professional (IIBF & ICSI).

## HEAD - OPERATIONAL RISK & CHIEF INFORMATION SECURITY OFFICER (CISO)

He has over 30 years of banking experience. He joined as a Probationary Officer in State Bank of India and handled assignments in General Banking, Foreign Exchange, Commercial Banking and Information Technology. He has also worked with Axis Bank wherein his responsibilities included Operational Risk Management, Branch Connectivity Project and Information Security. Prior to joining SBI, he was a Management Trainee in Punjab National Bank. He is a Mathematics Graduate from Osmania University. He is also a CAIIB, FRM, CISA, CISM, CRISC and DCCP.



**T. M. N. V. R. Subbanna**



**Rahul Dey**

## HEAD – INTERNAL AUDIT

He has over 14 years of experience in Banking and Microfinance sector. During his tenure in Utkarsh Micro Finance, he has supervised various departments like Micro Enterprise Loan, Information Technology, Risk, Administration and Internal Audit. He was instrumental in establishing Micro Enterprise Loan business and introduction of Mobile Technology in Group Lending (JLG) business at Utkarsh. Prior to joining Utkarsh, he was with Ujjivan Financial Services Pvt. Ltd as Regional Business Manager, responsible for their Individual lending business in East. Apart from this, he has worked in various capacities with organizations like, Ballarpur Industries Ltd, ICICI Bank Ltd, Spandana Spoorthy Financial Ltd and Anjali Microfinance Pvt. Ltd. While working with ICICI Bank in the capacity of Regional Manager (West Bengal and North – East), he was responsible for the Bank's Micro Finance business in the region for more than 3 years and as Accounts Manager – Commercial Banking, he was taking care of Bank's Corporate Clients' relationship in Kolkata. He holds Post Graduate Diploma in Rural Management from Xavier Institute of Management, Bhubaneswar.

## CHIEF OF INTERNAL VIGILANCE (CIV)

He has over 35 years of rich experience in banking while working with State Bank of India, with over a decade in Senior Management Grade handling various assignments including in Reconciliation, Inspection & Management Audit Departments. He has worked in different setups like large size Branches, Local Head Office, Administrative Offices, Regional Business Offices, Training Centres, CPCs., Lead Bank Offices in Bihar, Jharkhand, Madhya Pradesh, Karnataka, Andhra Pradesh, Telangana, Assam, Manipur, Tripura States including Foreign Country Branches. He has also worked with International Banking Division and Overseas Branch, Varanasi and handled Forex Business including Forex Sales/Purchases, in charge (Imports & Exports), Import Letters of Credit, International Bank Guarantees and payment of Import Bills received under Foreign Letter of Credits and Bills on Collection basis. He is a Graduate from Gorakhpur University and CAIIB (IIBF).



**Shashi Kant Singh**

# MANAGEMENT DISCUSSION AND ANALYSIS

## Background and Changing Landscape

Global trade continues to expand, underpinned by strong investments and robust manufacturing activities. Crude oil prices touched a three-year high as production cuts by the OPEC coupled with falling inventories weighed on the global demand-supply balance. Bullion prices touched a multi-month high on a weak US Dollar. Inflation remained contained in most Advances Economies, barring the UK, on subdued wage pressures. Inflation was divergent in key Emerging Market Economies due to country-specific factors.

India has emerged as the fastest growing major economy in the world, as per the Central Statistics Organization (CSO) and International Monetary Fund (IMF), and it is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships. India's GDP increased 7.1% in 2016-17 and is expected to improve further over the next four to six quarters as the disruptive impacts of major policy changes like demonetization and implementation of Goods and Services Tax (GST) continue to fade and strong global growth buttresses the external sector. Nonetheless, fiscal discipline could limit the extent of the rebound, while higher inflation is resulting in a tighter monetary stance.

Interest Rates scenario in India for FY2019 will be driven by Monetary Policy which in turn is driven by the domestic Inflationary considerations, which is being monitored and analyzed by the Monetary Policy Committee (MPC), Reserve Bank of India on a real time basis.

There is also an outside factor in consideration for setting up Interest Rate trajectory, locally in the form of US Federal Reserve and other Global Central Bankers move on Interest Rates with stance in terms of liquidity accommodation or moving to a neutral level, tapering the extra-large Bond Buyback Programs which had been undertaken by 4 largest Central Banks (US, Euro, Japan and UK) for reviving respective developed economies. Taper tantrums had its adverse effects in Emerging Economies as the FII flows moved back.

Impact of the global factors such as Crude Oil prices moving upwards from its low at USD 35 per barrel to around 70 or thereabout already had its impact on Trade Balances and Currency Value. US has already moved its interest rates by 3 rate hikes in 2018 and with a new Chairman at the helm, market is yet to test the waters, though 3 rate hikes are expected with corresponding impact on emerging economies interest rates.

Benchmark 10 year India Sovereign Bond Yields have moved from its low of 6.25% - 6.40% range post demonetization to currently 7.60% - 7.80% range, which is the highest rate increase in the shortest period of time by over 120 to 140 basis points in the last 10-15 years. The case of sub Sovereign Bonds in the form of State Bond auctions has been even worst with 10 year state Bonds being auctioned at 8.35% - 8.38% yields as late as last week indicating a spread of 230 - 240 basis points over Repo Rate.

RBI has already moved from its accommodative stance to almost neutral gear leading to spike in yields without any hike in Repo Rates. If the economic history is any guide, both 2005-2007 and 2013 provide ample evidence in economics and fixed Income market about the rise in yields in India following a consistent rate hikes by US or because of the factors such as currency depreciation due to adverse trade balances and US Fed comments.

Borrowings of the Central Government and the state borrowings for FY2019 is by mean less compared to FY2018. Supply pressure is already putting upward pressure on Bond yields.

Trade Deficit (with upward movement in Crude Oil), currency movement, major Central Banks Policies in FY2019 will shape the Bond Yields. Domestic inflation is no less important. Even with CPI at sub 1% in FY2018, RBI did cut rates only once and thereafter moved hawkish in its tone. With RBI holding 6 more MPC meetings in FY2019 and US Fed likely to move up rates at least 3 times of 25 basis points, late FY2019 may see turn in stance of RBI on Repo Rates and Yields may move past 8% (10 year Sovereign Bond). Though ball point figure cannot be set, it indicates over 150 basis points rise from the levels in early FY2018.

The Microfinance Sector is now being seen in the last leg of the demonetization led sufferings, and is looking forward to grow double digits very next quarter. The microfinance sector which has seen collectively writing off about ₹5,000 crore of loans in the first two quarters are now seeing recoveries from these accounts. The loan repayment had actually taken a severe hit in the cash-based sectors. The situation deteriorated further, when small borrowers in five states including Maharashtra and Uttar Pradesh stopped repaying loans after the respective governments announced farm loan waiver. The Vidarbha region in the eastern part of Maharashtra alone accounted for 35% of the loan write-offs.

As per MFIN Micrometer Report (based on data reported by lending institutions as of March 31, 2018), the microfinance industry has total Loan Portfolio of ₹1,36,633 crore. This represents a growth of 27% over FY16-17. Banks hold the largest share of portfolio in micro-credit with total Loan Outstanding of ₹50,418 crore. This includes both direct lending as well as indirect lending through BC Partnerships. Banks thus account for almost 38% of total micro-credit universe. NBFC-MFIs as a group remain the second largest provider of micro-credit with a Loan Amount Outstanding of ₹44,892 crore (excluding BC Portfolio channeled through NBFC-MFIs), accounting for 28% to total industry Portfolio (i.e. loan amount Outstanding). SFBs have a total Loan Amount Outstanding of ₹30,019 crore with total share of 27%. NBFCs account for another 6% and Non-Profit MFIs account for 1% of the universe. Compared with FY16-17, Banks Portfolio has grown by 23%, SFBs by 3%, NBFC-MFIs (excluding BC) by 48%, NBFCs by 72% and Non-Profit MFIs by 7%.

The financial inclusion space is having high expectations form the Small Finance Banks (SFBs), licenced and set-up with the objective of deeper and in-spirit implementation of mandate. While most of the SFBs completing their first year of operations as a Bank, the thrust continues to be on the transitioning the Human Resource while leveraging technology to the fullest. With the entire banking sector focusing on the rural markets, the SFBs would need to leverage their USPs to make their presence felt in the space. Business wise, the diversification is expected to see a surge in MSME and Housing Segments, thereby focusing on business and Retail Segments. Stabilizing operations, focus on Cost to Income Ratio and Return on Average Assets would be the prime agenda in the next few years.

The total lending by the Banking Industry has increased at a CAGR of 12.38% during FY07-17 and total deposits has increased at a CAGR of 10.08%, during FY07-17 and is further poised for growth, backed by demands for housing and personal finance.

As of March 2018, total number of ATMs in India increased to 207,052 and is further expected to increase to 407,000 by 2021. This, alongwith the digital initiatives for a less cash economy, has further brought attention to the Banking Sector. Mobile, Internet Banking & extension of facilities at ATMs stations is improving operational efficiency in BFSI Sector.

Vast un-banked population highlights the scope for innovation in delivery, which is actually being brought in by the Small Finance Banks (SFBs), which is further deepening Financial Inclusion initiatives, apart from bringing in the new generation banking for the other segments of society. The year saw setting up and launch of SFBs apart from a few Payment Banks as new players in the economy. The policy support in the form of Private Sector Participation, Liquidity Infusion, Healthy Regulatory Controls and Credible Monetary Policy by the Reserve Bank of India (RBI), has lent strength and stability to the Country's Banking Sector.

Increase in working population and growing disposable incomes has raised the demand for banking and related services. Housing and personal finance are also being seen as key demand drivers. Besides, the rural banking segment is also witnessing growth.

Credit off-take has been surging ahead over the past decade, aided by strong economic growth, rising disposable incomes, increasing consumerism and easier access to credits. As of Q2 FY2018, total credit extended surged to US\$ 1,241.55 billion. Credit to non-food industries increased by 6.1% reaching US\$ 1,114.80 billion in September 2017, as compared to US\$ 1,050.8 billion till the end of previous financial year.

Demand has grown for both corporate and retail loans; particularly the services, real estate, consumer durables & agriculture allied sectors. Corporate demand for bank loans has grown due to continued infrastructure investments and due to other policy decisions such as reducing oil subsidies, issuing of telecom spectrum licenses & the proposed abolition of penalty on loan prepayment. The digital payments revolution is triggering massive changes in the way credit is being disbursed in India.

### Small Finance Banks – the Deposits Business

The ten SFBs that have received banking license are now fully operational. Aggressive deposit mobilization in the first year of operation on the basis higher interest rates has turned out to be the key strategy for almost all the new entities. Most of the SFBs are offering higher interest rates on savings bank (around 6% p.a.). Almost all are offering up to 100-150 basis points higher rates on term deposits (mainly in the 1-2 years tenor) over the market rates. However, in response to the falling interest rates, most banks, including few SFBs reduced the FD rates by 25-50 basis points during Q3. The reduction primarily happened in the maturity bucket of 1-3 years. Despite the reduction, the interest rates offered by these SFBs are 50-100 basis points higher than those offered by larger banks.

As a part of the strategy to ramp up the deposit base quickly, banks have relied heavily on bulk or corporate deposits. The idea behind the move is to replace high-cost legacy debts, taken as microfinance institutions, with relatively low-cost deposits. Few SFBs have also raised deposits through Certificate of Deposits (CDs). In addition, the SFBs are betting heavily on technology, to reduce the cost of operations. This includes customer onboarding through e-KYC, tab based account opening and digitization of transactions.

In the backdrop of the above, the industry looks to consolidate its position by cleaning up the books, stabilizing the hick-ups of last year in terms of assets, especially the microfinance one. The next 12 months would hence see spurt in growth numbers of the stabilized platform set by March 2018. The regulatory landscape looks to further align the sector with focus on implementation of its interventions in spirit of boosting the economy's growth, at least higher than the ensuing FY.

## Small Finance Banks – focus on the Micro and Missing Middle Segments

Further to the Financial Inclusion mandate for the Small Finance Banks, the focus shall continue to be on providing credit assistance to the Micro and Missing Middle Segments. In fact the same would get augmented, by providing adding financial service by adding to the banking product bouquet. The great push to plastic money and digitization enabling setup as well as expansions start-up units, petty businesses, traders, manufacturing and service unit segments provide new business avenues for SFBs to improve the credit outflow. This enabling environment with suitable credit flow to the business segments shall give a boost to the rural financial services landscape.

### A Glance at the year gone by: Financial Year 2018

**Financial Highlights:** Summarized Balance Sheet of the Bank is as follows:

Particulars	March 31, 18	March 31, 17	% Growth
<b>Capital and Liabilities</b>			
Net-worth	411.87	304.9	35.1%
Deposits	2,193.87	18.7	11,631.9%
Borrowings	1,788.84	2,288.8	(21.8%)
Other Liabilities and Provisions	129.14	62.9	105.3%
<b>Total</b>	<b>4,523.7</b>	<b>2,675.3</b>	<b>69.1%</b>
<b>Assets</b>			
Cash and balances with RBI	205.6	42.4	384.8%
Balances with banks and money at call and short notice	363.2	149.6	142.8%
Investments	661.3	729.2	(9.3%)
Advances (Net of provisions)	3,082.5	1,596.3	93.1%
Fixed Assets	87.3	21.6	304.0%
Other Assets	123.9	136.2	(9.0%)
<b>Total</b>	<b>4,523.7</b>	<b>2,675.3</b>	<b>69.1%</b>

#### Capital & Reserves:

The Net-worth at Bank level closed at ₹411.9 crore. During the FY2018, a portfolio write-off to the tune of ₹142.6 crore mainly on account of demonetization was effected. Further, a Capital Infusion of ₹50 crore. was done.

#### Deposits:

The deposits figures grew from a negligible base of ₹18.7 crore as at March 2017 (FY2017 had just over 2 months of deposits business as the banking operations started from January 23, 2017). The FY2018 closed at ₹2,193.9 crore. The proportion of deposits are higher than the projection mainly on account of good inflow of bulk deposits. The break-up of Deposits is as below:

Particulars	Amt. (₹ crore)	%
Demand Deposits	116.6	5.3%
Term Deposits	2,077.3	94.7%
<b>Total Deposits</b>	<b>2,193.9</b>	<b>100.0%</b>

The year was the first complete financial year of banking services. The Current Account - Savings Account (CASA) deposits closed at ₹116.6 crore, while the Term Deposits saw a good built-up of ₹2,077.3 crore.

### Funding Profile:

During FY2018, high cost debts were retired to the tune of ₹269 crore. The Funding Mix had more infusion of Deposits from the earlier proportion of 1% (as at March 2017) to now 59.6% (as at March 2018). The funding profile will further change in next 1-2 years with borrowing getting replaced by deposits.

A comparative table of the funding mix between the two consecutive financial years is as below:

Nature	March 2018		March 2017	
	₹ in Crore	%	₹ in Crore	%
Deposits*	2,193.9	59.60%	18.7	1.0%
Non-Convertible Debentures	548.1	14.90%	658.5	34.3%
Refinance	436.7	11.90%	200.9	10.5%
Term Loans	233.3	6.30%	849.7	44.3%
Sub-ordinated Debts	160	4.30%	160.0	8.3%
Term money	80	2.20%	-	-
External Commercial Borrowings	31.7	0.90%	31.7	1.7%
<b>Total:</b>	<b>3,683.7</b>	<b>100%</b>	<b>1,919.5</b>	<b>100%</b>

\*Deposit mix has increased to 59.6% from 1.0% as at March 2017 to March 2018.

### Investments:

Investments in SLR and other Instruments (CP and other Bank FDs) are higher. This is mainly on account of funds parked for Q1 FY19 business requirements. The funds raised through Refinance, Securitization and Bulk Deposits has reckoned excess SLR requirements & also parked in short-term, liquid instruments.

### Advances:

The Financial Year 2018 closed with total Gross Advances figure of ₹3,106.3 crore (excluding the Managed Portfolio of ₹103.77 crore).

The break-up of Advances is as below:

Advances Particulars	Amt. (₹ crore)	%
Microfinance Loans	2,738.6*	88.2%
MSME Loans	103.5	3.3%
Housing Loans	15.2	0.5%
Wholesale Lending	246.7	7.9%
Others	2.2	0.1%
<b>Total Advances</b>	<b>3,106.3</b>	<b>100.0%</b>

\* Excluding Managed Portfolio of ₹103.77 crore.

Excluding the Managed Portfolio, the microfinance loan book closed at ₹2,738.6 crore, the MSME book at ₹103.5 crore and the Housing Loan Portfolio at ₹15.2 crore. Further, the bank has corporate loans portfolio to the tune of ₹246.7 crore and other loans amounting to ₹2.2 crore as at the close of FY2018.

The microfinance portfolio constituted 88.2% of the total advances portfolio. This figure is post write-off of demonization impacted portfolio. The impact of demonization is now settling down and hence the business is back to normalcy.

MSME and Housing Loan Business constituted at 3.8% of the total advances portfolio. During the year the focus under Retail Assets have been on setting up and streamlining the business models, product mix and staffing structure. In the Banking format, the MSME Loan product bouquet has now four products viz. MEL Loans, Business Loans, Personal Loans and Loan Against Property. Further a dedicated and separate Collections Team has been put in place, to have focused approach on delinquencies. With this, the FY2019 is expected to see the surge in retail assets business.

The year saw start of a new vertical viz. Wholesale Lending, wherein different category of NBFCs have been extended loans. The growth in this business vertical was enabled by good credit demand in the economy. The year closed at ₹246.7 crore of Wholesale Lending Portfolio, constituting 7.9% of total advances.

Further, initial ground work has been also done during the year for Business Correspondent Model for JLG, MSME and other businesses. The vertical would start seeing business from Q1 FY2019 onwards.

### Summarized Profit & Loss Account

(₹ in crores)

Particulars	March 31, 18	March 31, 17	% Growth
Interest Earned	519.0	72.0	620.8%
Less : Interest Expense	250.7	44.3	466.0%
<b>Net Interest Income</b>	<b>268.3</b>	<b>27.7</b>	<b>868.6%</b>
Other Income	42.8	17.7	142.0%
<b>Operating Income</b>	<b>311.1</b>	<b>45.4</b>	<b>585.3%</b>
Operating Expense	235.6	34.9	575.1%
<b>Operating Profit</b>	<b>75.5</b>	<b>10.5</b>	<b>619.0%</b>
Provisioning & Write-off	170.4	4.0	4,159.8%
<b>PBT</b>	<b>(94.8)</b>	<b>6.5</b>	<b>(1,558.5%)</b>
Tax	(31.8)	1.7	(1,970.0%)
<b>PAT</b>	<b>(63.0)</b>	<b>4.8</b>	<b>(1,412.7%)</b>

The year closed with a Net Interest Income (NII) of ₹268.3 crore and an Operating Profit of ₹75.6 crore. The total write-offs (mainly on account of demonetization) has been ₹142.6 crore and hence the PAT closed at ₹(63.0) crore.

The year saw a red in terms of PAT owing to demonetization led write-off and higher provisions. The total write-off during the FY2018 has been to the tune of ₹142.6 crore.

The accounts for write-off has been identified as disbursed before demonetization and overdue for more than 180 days due to demonetization and no instalment were being paid by the borrowers since last 120 days.

A quick view at the Quarter specific Profit & Loss below shows that the last quarter i.e. Q4 is in green with PBT of ₹18.27 crore even after additional write-off and aggressive provisions (owing to demonetization effected accounts).

(₹ in crores)

Particulars	Q4	Q3	Q2	Q1
<b>Income</b>				
Interest Earned	162.5	137	116.9	102.6
Less : Interest Expense	72.4	63.8	59.5	55.0
<b>Net Interest Income</b>	<b>90.1</b>	<b>73.2</b>	<b>57.4</b>	<b>47.6</b>
Add : Other Income (Fee + Treasury + PSLC)	7.2	13.0	8.6	14.0
<b>Total Income</b>	<b>97.3</b>	<b>86.2</b>	<b>66.1</b>	<b>61.5</b>
<b>Expenditure</b>				
Personnel Cost	33.1	33.6	31.2	28.7
Other Operating Expenses	29.7	27.6	27.2	24.4
Provisions and Contingencies	16.3	92.1	13.9	48.1
<b>Total Expenses</b>	<b>79.1</b>	<b>153.4</b>	<b>72.2</b>	<b>101.3</b>
<b>PBT</b>	<b>18.3</b>	<b>(67.2)</b>	<b>(6.2)</b>	<b>(39.7)</b>
Tax	(25.7)	9.8	(19.2)	3.3
<b>PAT</b>	<b>43.9</b>	<b>(77.0)</b>	<b>13.1</b>	<b>(43.0)</b>

## Preset for the ensuing Financial Year 2019

The current FY2018 has been the first complete financial year as a Bank for Utkarsh. The year has focused more on initiatives especially pertaining to setting-up of new teams as well as strengthening existing teams and upgrading as well as coming up with new products, policies and processes. Broad basing the product bouquet and strengthening the Support and Control functions shall continue to be the focus in FY2019.

New teams, like BC Business, Branding, Collections, CPC, Projects, Wholesale Lending have come up well and shall start working in full pace in FY2019. Also, the teams like Audit, Branch Operations, Compliance, Credit, HR & Training, IT, Monitoring & Risk amongst others have been further strengthened.

This vision of strengthening the Support and Control functions, especially to provide a smooth platform for Business Teams to operate, would have long term impact in streamlining the systems and processes, which has already started reflecting impact in terms of initial traction of businesses.

## Network

The business outreach is also being spread by setting up branches in all business verticals.

Business vertical wise Banking Outlets	# Banking Outlets FY2018	# Banking Outlets FY2017	Increment
A	B	C	D=B-C
Micro Finance (MF)	241	350	(109)
Micro Banking (MB)	111	1	110
General Banking (GB)	53	5	48
<b>TOTAL Banking Outlets</b>	<b>405</b>	<b>356</b>	<b>49</b>

Note: Additionally, there were standalone 9 MSME business locations mapped to MB / GB Branches.

The year closed with 164 Banking Outlets (i.e. 111 Micro Banking Outlets and 53 General Banking Outlets), out of which 42 Outlets are in Unbanked Rural Centers (URC). The year focused on conversion of Micro Finance Outlets into Micro Banking Outlets as a result of which 110 Micro Finance Outlets got converted into Micro Banking Outlets. Further, the Standalone MSME Business locations have been 9 and 12 as on March 31, 2018 and March 31, 2017 respectively. Going ahead all the MSME and Housing Loan Outlets shall be within MB / GB Banking Outlets. However, the total locations where the Retail Assets Loans Services are being provided, have been as follows:

<b>Retail Assets Business Locations within MB / GB + Standalone Outlets</b>	<b># Banking Outlets FY2018</b>	<b># Banking Outlets FY2017</b>
MSME Business Locations	35	23
Housing Business Locations	18	4

The ATMs spread is as follows:

<b>Category</b>	<b>FY2018</b>	<b>FY2017</b>	<b>Increment</b>
<b>A</b>	<b>B</b>	<b>C</b>	<b>D=B-C</b>
On-Site GB Branch	52	4	48
On-Site MB Branch	6	-	6
Off- Site	29	1	28
<b>Total</b>	<b>87</b>	<b>5</b>	<b>82</b>

Aside, convenience to customer and business, the ATMs also brought visibility and brand recall for the Bank.

## Human Resource

The year closed with 5,143 employees' base as against the employees' base of 3,848 as on March 31, 2017, thereby with an increment of 1,295 employees at Bank level. There were 399 women employee at Utkarsh as the close of FY2018.

The team strength across different verticals closed at as follows:

<b>Business Team</b>	<b>March 18</b>	<b>March 17</b>	<b>Increment</b>
JLG / Micro Banking	3,476	2,888	588
Retail Assets (MSME & HL)	445	343	102
Wholesale Banking	7	-	7
Liabilities Business	601	317	284
Support Functions	530	232	298
Control Functions	84	68	16
<b>TOTAL</b>	<b>5,143</b>	<b>3,848</b>	<b>1,295</b>

## Capital Management

The Bank is adequately capitalized and CRAR requirements are at higher than regulatory requirements in spite of write-off of ₹60 crore in FY2017 and of ₹142.6 crore in FY2018. The CRAR and Tier I & II Capital ratios as at March 31, 2018 for the Bank level have been as below :

Particulars	USFB	
	Amt. (₹ crores)	Ratio
CRAR	490.29	17.40%
Tier I	364.84	12.95%
Tier II	125.45	4.45%

The Bank strives for continual enhancement of shareholder value, by efficiently using capital, in order to maximize return on equity. Aiming to achieve this objective, the Bank endeavors to develop an asset structure that will be sensitive to the importance of increasing the proportion of low risk weighted assets.

## Operational Highlights:

### Micro Banking

The Microfinance Outreach through the financial inclusion initiatives of the Bank has reached to over 15 lakh active client base in 110 Districts of 10 States pan India with 352 Micro Finance / Micro Banking Outlets. The Micro Finance Outlets are primarily JLG Asset centers. The Bank offers micro loans ranging from ₹6,000 to ₹1,00,000 for its clients through JLG model. The Gross JLG Portfolio closed at ₹2,842.4 crore, including Managed Portfolio of ₹103.8 crore.

This would be the base figure to expand further horizontally and vertically in FY2019. During the FY2018, the bank set the pace for converting the erstwhile Micro Finance Outlets into Micro Banking Outlets, and plans to complete 100% conversion of all its branches in FY2019. At few of the select Micro Banking Outlets, the banks has started opening savings bank accounts for the existing group loan clients.

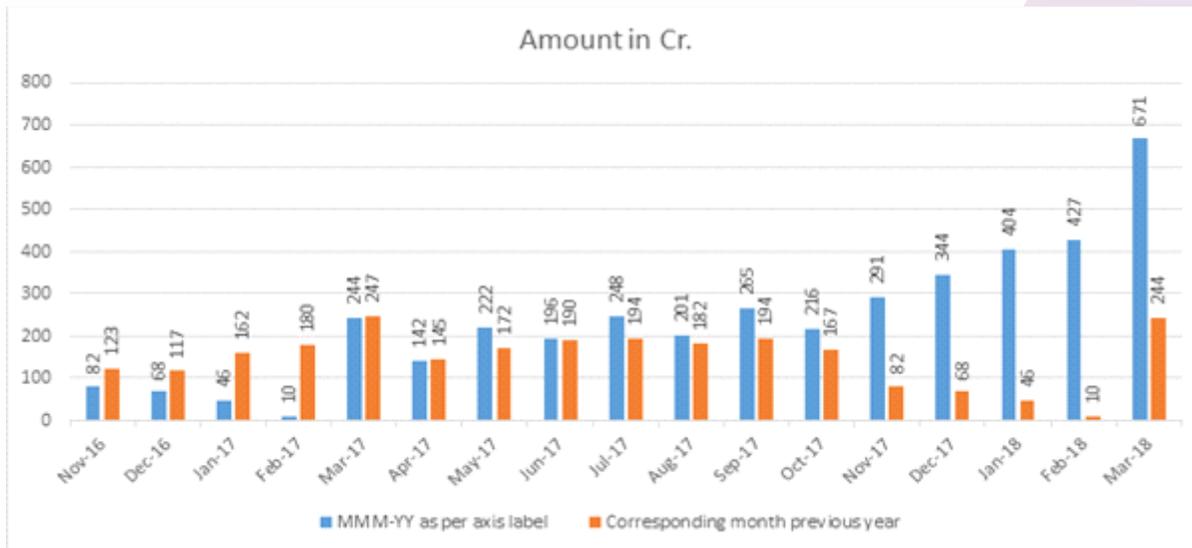
It is also planned to open 44 more Micro Banking Outlets in the ensuing FY2019, taking the total number of Micro Banking Outlets to 396 by the end of FY2019.

During the FY2018 gone by, broadly the following four major critical focus areas have been experienced under Micro Banking Business:

- **The demonetisation Impact – in few States:**

Bank faced collection concerns in few states like Maharashtra, Uttarakhand, NCR, Haryana and Jharkhand. It was a legacy concern from FY2017; post demonetization effect, which continued further during FY2018. However, through continued efforts, it is now under control in all other states except for in Maharashtra and Uttarakhand, which has now started seeing some signs of back to normalcy. By March 31, 2018, the overall collections has come in the range of 77% in Maharashtra and 86% in Uttarakhand. For this, the Bank constituted a special task force in these two states, with employees pooling in from the existing set-ups, who are working on daily basis and collecting old arrears of almost ₹15 lakh per week.

The disbursements for the Bank since demonetization as compared with corresponding month of the previous year is as below:



The disbursements were almost negligible in February 2017 as the data was being migrated to CBS and hence system as well as the staff, especially at the field, were not fully equipped to handle the system. Post demonetization the disbursements actually picked up pace from March 2017 onwards and saw a surge, especially from Q3 FY2018 onwards.

The collections efficiency had also dipped post demonetization, which has improved with each passing day and some areas of operations like Uttar Pradesh, NCR have shown very good performance from last two quarters. Situation in Maharashtra & Uttarakhand was not satisfactory but the same has also showed sign of improvement during the year and is now somewhat back towards normalcy.

The main focus during the year had been to reduce the OD numbers, and to achieve that, a task-force had been formed which works on every working Saturdays in Bihar, Chhattisgarh, Jharkhand, MP, and U.P. and on every working day in Delhi-NCR, Haryana, Maharashtra and Uttarakhand. Task force members visit the identified centers and try to motivate all clients / guarantor and do collection of OD amount. Currently on an average ₹15 lakh is being collected on weekly basis from OD clients. Special focus is on bucket of 61 to 90 days so that no client crosses +91 bucket, for which bank has made aggressive provisioning.

The Bank has written off an amount of ₹53.8 crore under JLG Portfolio during FY2017, on account of Bad Loans, and further based on analysis, especially the repayment pattern of the demonetization effected accounts, a further write-off of ₹138.8 crore has been done during FY2018. The bank is adequately capitalized and after considering the loss, the bank's CRAR has been above the regulatory requirements.

There has been no liquidity shortage and repayments to funding agencies has been as per repayment schedule. The asset creation has also been done as per plan, as the bank had mobilized sufficient resources through public deposits. The bank has also received refinance facilities from NABARD and SIDBI. The bank has been submitting to the rating agencies, data at frequent interval, where consistent improvement in portfolio quality is evident. The rating agencies also took note of company's good capital base and sufficient liquidity.

The improvement in collections has been seen as the Bank is conducting center / group meetings to make borrowers aware of the impact on their credit profile, due to default on repayment and the role of credit bureaus. These meetings are also used to educate the borrowers to overcome any kind of slowdown in their business activities and to encourage banking habits in order to move towards non cash based mode.

### **Strategy Adopted by Bank to Deal with Situations after Demonetization:**

- Continuous visits paid to clients who have defaulted;
- Holding of regular Centre meetings even with fully default centers;
- Awareness camps & workshops in identified areas – Educating the borrowers about deterioration of credit history leading to decline of all loans in future;
- Advantages of associating with Banks - higher loan ticket, savings, FD / RD & Insurance Products;
- Notice to defaulting clients; Legal notice to be sent on selective basis;
- Selective disbursement in centers with 80% collection;
- Engaging with MFIN so that matter can be raised at appropriate forums.

### **Results :**

- Number of defaulting clients - clients who have not paid any installment since demonetization has reduced over months;
- Business picked up and disbursement became normal from March 2017 onwards;
- Clients in identified states like Maharashtra, Uttarakhand have resumed conversation which was completely broken.

### **• Transformation – Technology Integration:**

There were teething concerns in CBS initially. However, with strengthening of IT Team and induction of Chief Technology Officer, the hiccups are easing out and the banking operations is syncing with field expectations.

### **• Transformation – HR Alignment:**

The bank had a mammoth task of recruitment large number of employees both in freshers and experienced categories, as the banking operations went for large expansion during the transformation. Special attention was required to upgrade the skills as well ensure adequate employees at the micro banking business which are being converted in Micro Banking Branches. This resulted in higher delivery expectations from the existing employees.

The bank took initiatives of decentralized recruitments for freshers candidates at over 40 locations at least twice a month and of the experienced candidates at all the regional offices every 3rd Saturday of the month. With this and other few important decisions of management, there have been signs of relief recently.

### **• Training of Bank's Existing Employees:**

The front line officers alongwith supervisory team members have undergone several functional as well as theme based skill trainings during the FY2018. The employees are trained on how to ensure quality disbursement and collections. The team members had concerns in comprehending CBS and offering savings products to clients.

Bank recruited few ex-bankers (Retired / VRS opted) bankers to train the existing workforce. Adding to this, the Bank is now developing a structure of supporting the micro banking outlets with operations team members at Area / Division / Regional Levels. In the meantime, the bank has made a pool of select bright Customer Service Officers with vintage and have provided them the Train-The-Trainer training on Banking Operations and CBS.

These CSOs are now acting as resource persons for other branches to do suitable handholding by visiting the allotted branches on rotation basis.

## Strategy for the FY2019

For the FY2019, Bank has plans to expand its Micro Banking Operations in one more state - Odisha with 18 new Outlets. Bank has also plans to introduce two new loan products for its existing matured clients. The products being WASH Loans and Individual Loans.

The WASH Loan (Swachhata Rin) will be offered to existing matured clients for the purpose of construction / renovation of toilets. Individual Loans will be offered to matured clients, as independent of the group and hence the loan repayment would not require them to attend the center meetings any more.

On bringing in the benefits of integrating the microfinance loans to banking services, the Bank has already started disbursement through bank accounts in select branches, and it is expected to implement it 100% at all the Micro Banking Outlets in FY2019. However, the bank is mulling over to close the process of Collection through bank accounts.

With 100% conversion of all the Micro Finance Outlets to Micro Banking Outlets, the Bank will be able to offer savings bank accounts apart from other liabilities and third party products to all the group loan clients during FY2019.

With new asset and liabilities products being offered through Micro Banking Outlets, revised structure in terms of staffing has also been proposed for micro banking outlets which includes recruitment of senior officers in the grade of Manger / Chief Manager / AVP at Head Office level, who will assist business Head with collection / credit / process / liabilities business. Bank will also create divisional / regional / zonal structure for credit and collections while offering Individual loans.

Bank will also have tab banking solution for micro banking outlets to speed up the savings account opening for existing customers by verifying their e-KYC.

## Retail Assets

Retail Asset Vertical has undergone quite a few changes during FY2018, especially in terms of strategy, product, process, team structure, business locations availability etc. The ensuing FY2019 is expected to be milestone year for Retail Assets vertical, as many of the changes initiated during the previous FY2018 are at various stages of implementation, and expected to be completed and start showing results / impact during next FYs.

The Bank closed the MSME Loan Portfolio at ₹103.52 Crore and the Housing Loan Portfolio at ₹15.23 crore. The same is set to see a good growth in the ensuing FY2019 with following strategies:

The Bank has identified the following tools and related strategy to achieve the target set out for the next FY.

- **Better Distribution**

- New Business Location – The bank will be entering into many new territories during the coming FYs like Gujarat, Orissa, West Bengal, etc., which are considered hub for MSME business activities. It will help the bank not only in tapping new set of clients but will also help in deepening the existing relationship.

- **Branch Expansion** – It is planned to increase the number of branches substantially. During next FY, it is intended to increase the number to 70 from the existing level of 33 Branches for MSME and shall have Housing Loan business at 16 locations. This will lead to higher number of customer touch points which will help us brand building along with new customer acquisition.
- **Alternate Sales Channel** – The Bank has added more distribution channels like Business Correspondent and Business Facilitator to the existing Sales structure to increase the reach to new geographies as well as to more customers in the existing geographies through appointment of Banking Correspondents and Business Facilitators.
- **Differentiated Product Offerings** – The bank is planning to focus on different product, suitable for the catchment area of the branch, to achieve the targeted number for FY2017-18. MSME Branches have been categorised as A, B, C & D Categories basis their potential and accordingly business numbers have been assessed for the branches. For example, it is assumed that A category MSME branches would be having only 10% portfolio under MEL product but the same product would contribute 75% of the portfolio in 'D Category' MSME Branches. In Housing Loans, the bank has decided to offer competitive rates.

- **Improved Products Suite**

The earlier product offerings of MSME had been reviewed and the same has now been upgraded as well as new products have been launched as Business Loan, Personal Loan, Loan Against Property (LAP) in the current Financial Year, which has resulted into increased number of sanction in the very first month. It is also planned to launch Overdraft and Cash Credit facility to fulfil the Working Capital requirement of the MSME clients.

One major change which is being contemplated is Scorecard based appraisal of the Loan proposal instead of the existing process of subjective assessment. The Scorecard has been developed by CRIF and its implementation is expected during first quarter of the FY2018-19.

In Housing Loan segment, Bank is planning to launch Loan against Property for properties having mixed usage.

- **Revamped Policy & Process**

- **Policy Revamping** - The Bank will be reviewing the various Policies associated with Sales Process like Vendor Management Policy / Document Management Policy / Credit Underwriting policy etc. during next FY to benchmark them with Industry. This will help in better control at Product and Process level which will help in better risk management and increased business.
- **Process Improvement** - Processes have been formed for various activities like Login, Sanction, Disbursement and Collection. With increase in the size of the team as well as portfolio, standardised process will help in scaling up the entire business in shortest possible time period.

- **Utilisation of Technology**

- **System Improvement** - Usage of existing available system more effectively through continuous training of the users, along with adoption of new systems like LOS and Collection Software to increase the overall productivity of the team is also planned.

The Bank is in advanced stage of negotiation with INDUS for LOS and collection solutions. Mobility Solution through Tab banking for better Productivity and Sales process management also is being actively considered. This implementation is expected to get completed by August 2018.

- **Enhanced per Resource Productivity**

- Human Capital - Recruitment of manpower across the hierarchy, from Relationship officers to Business Head level to strengthen the sales work force is planned. The Bank is recruiting Relationship Officers at Executive / Sr. Executive upto Assistant Manager grade which will help us in on-boarding experienced sales team, who will be better equipped to handle the MSME Segment. Focus is on organisations having similar business model to recruit the Sales team through lateral hire. This will help the Bank in achieving better productivity with shorter lead time.

In Housing Segment, mostly the freshers are being hired due to very high compensations being demanded by the experienced sales resource, owing to mushrooming of large number of Housing Finance Companies.

- Training & Development - The process of finalising the contents of comprehensive training module will help in improving the knowledge and Skill development of existing human capital, which will result in better productivity and quality of business.

- **Competitive Pricing of the Various Products**

The Bank is exploring the possibility of availing refinance from SIDBI, NHB etc., which will drastically reduce the cost of funds and would enable us to offer competitive pricing in the target segments. Bank has already applied to NHB for availing refinance for HL Portfolio and follow up for the same is being done.

- **Efficient Organisation Structure**

Reorganization of the business units from a branch model to a vertical model has been done. Hence, collections and operations which were under the business unit have been hived off into separate verticals, which will result in more focus and adherence to compliance.

Separate collection team for Retail Assets Vertical has been created which will ensure effective control on slippages in the portfolio. The hiring process is expected to be completed by first quarter of the next FY. Existing EMI collection through PDC has been changed to NACH mandate.

In alignment of the Business Plans, suitable planning has been made to ensure adequate team of Credit Managers & Regional Credit Managers for a smooth and enabling Credit function.

#### **A. Further Strategies for Capacity Building of Credit Managers & RCMs: -**

- Credit Evaluation Training Programme for all freshers
- Balance Sheet & Ratio Analysis Training Programme for RCMs and Credit Managers
- Certified Credit officer Programme for ZCHs / ZCMs & RCMs through IIBF / NIBM
- Nominating Credit Managers / RCMs / ZCMs for External Credit Assessment & Monitoring Training Programmes, being conducted by CAB, Pune; NIBM, Pune & IIBF

## B. Strategies for Quality Lending: -

- MSME Product Policy is being reviewed in consultation with Business Department
- Credit Assessment Note is being Simplified in consultation with Business Department
- Credit Monitoring & Follow up by Credit Manager to avoid delinquency.
- Quarterly Joint Review meeting with Business Department i.e. with ROs; RSMs & ZSMs for better understanding of the Credit Proposals so as to have a quality Portfolio
- In View of Higher Ticket size of loans, it is planned to recruit CMs / RCMs with higher experience & exposure of Credit Assessment

## Wholesale Lending

Wholesale Banking is meant to describe the financial practice of lending and borrowing between two large institutions. The Bank started Wholesale Lending Business since July 2017 basically to diversify the lending portfolio from Individuals & MSME to Corporate Customers, to promote financial inclusion and outreach to the customers in the locations where Bank is either not present or have limited presence for Retail Assets / Micro Loans and hence to align with the vision statement of reaching 10 million customers by 2021.

The Bank closed FY2018 with a total Wholesale Lending Portfolio of ₹246.74 crore. A total of ₹258 crore had been disbursed during the year to 19 NBFCs (7 into microfinance, 7 involving MSME Business, 2 into Commercial Vehicles, 2 Housing Finance Entity and 1 Core Investment Company). The team also coordinated to execute an NCD investment of ₹20 crore to an NBFC-MFI.

In the ensuing FY2019, it is planned to further diversify the Sectors (by adding manufacturing, hospitals, school financing, etc. in its bouquet.

## Business Correspondent (BC) Business

During the FY2018, the Business Correspondent Policy was framed and necessary Board approval obtained. This business vertical has been formed to increase the reach to new geographies as well as to more customers in the existing geographies through appointment of banking Correspondents and Business Facilitators.

Bank has identified few locations along with the respective Business Correspondents to enhance its distribution reach in the states of Andhra Pradesh, Haryana, Odisha, Punjab, Rajasthan, & West Bengal for sourcing JLG & MSME Loans in FY2019.

## Liabilities Business

The Bank has followed a clearly calibrated strategy for deposit mobilisation. The primary objective initially is to reduce the overall cost of funds, by retiring higher cost debt and replacing it with deposits. Towards this, the Bank focused on garnering bulk deposits from the Institutional segment, which included Co-operative Banks, Regional Rural Banks (RRBs), Educational Institutions, Trusts and other corporate entities. Simultaneously, the branches launched retail drive to acquire customers, including that from the HNI segment for Current Account - Savings Account (CASA) and Retail Term Deposits (RTD). The above two-pronged strategy contributed towards reducing the cost of funds by 2.29% between March 2018 and March 2017.

Particulars	Mar 31, 2018	Mar 31, 2017	Improvement
Cost of Borrowings	11.53%	12.35%	(0.82%)
Cost of Deposits	6.91%	4.81%	2.10%
<b>Cost of Funds</b>	<b>9.99%</b>	<b>12.33%</b>	<b>(2.34%)</b>

The year closed with 53 General Banking Outlets (up by 49 from last year) having a total deposits base of ₹2,193.8 crore. CASA deposits stood at ₹116.6 crore and Term Deposits at ₹2,077.8 crore. The overall proportion of these deposits to total deposits is as follows:

Particulars	Amt. (₹ crore)	%
Demand Deposits	116.5	5.3%
Term Deposits	2,077.3	94.7%
<b>Total Deposits</b>	<b>2,193.8</b>	<b>100.0%</b>

At the commencement of operations, the Bank started with the opening of accounts of the staff members, followed by that of their close relatives and vendors' accounts. This was essentially to test the systems and processes. Full-fledged onboarding of Savings Bank customers started from August, 2017 and that of Current Account customers started from September, 2017. While the branch sales teams focused on the retail CASA business, the Institutional CASA business was driven by the BHs, Zonal Teams and HO.

Life and General Insurance Business was initially launched on a pilot basis in few branches in August, 2017 and launched full-fledged across all branches from September, 2017. The Bank has further plans to offer Demat & Online Trading Services from FY2019 in association with the partner. These businesses alongwith the Debit Card and ATM transactions (net interchange income) have started generating revenues.

In the ensuing FY2019, the Bank is poised to scale up liabilities business activity multifold by leveraging Utkarsh brand in the existing area of operation, especially, Bihar, Chhattisgarh, Delhi, Haryana, Jharkhand, Madhya Pradesh, Maharashtra, Uttar Pradesh and Uttarakhand. IT is also proposed to expand footprints to few strategic centers in new States with large deposits potential. Markets are being mapped suitably. Separate verticals at HO and ZOs shall be driving these businesses. It is aimed to steer retail numbers through the sales channel (FOS) – numbers aimed to be higher than the industry average. The USP would be to ensure enhanced customer on-boarding experience through digital account opening process.

Differentiation through enhanced customer service and new product offerings – enabled by harnessing technology across processes and delivery channels would enable the Bank to deliver competitive products at affordable cost.

The focus on expanding General Banking Outlet network will be in Metro and Urban Centers as MB Outlets will be covering Semi-Urban & Unbanked Rural Centers. This demarcation has been done to lower the cost of delivery. With this expansion, it is proposed to have outreach in 170 Districts across 17 States. It is proposed to have 101 General Banking Outlets and 396 Micro Banking Outlets at the close of FY2019.

The Bank is offering two variants of Current Account – Business Standard and Business Premium. In the ensuing FY2019, it is proposed to launch High Average Balance Current Account (especially for Mid Corporates, Wholesaler and Manufacturers) and Made To Order Current Account, where the cash limit shall be defined as per last month's average balance (especially for Dealers and retailers). The other new services being proposed are Corporate Internet Banking and Own Merchant Acquiring & Payment Gateway.

Under Retail Segment, the Bank is currently offering Retail Savings Account, Retail Term Deposit, Salary Account and Lockers. The Institutional business shall focus on Govt. Departments / Bodies / Organizations, Central & State Public Sector Undertakings (PSUs), Financial Institutions, Trusts, Associations, Societies & Clubs, Educational Institutes, and likewise. The offerings in this segment include Term Deposits, Account Management Services (Current Account and Savings Account) and customized Collection / Payment Services for generation of float, by adopting a “liability-driven relationship based approach.”

There's been a strong growth in digital payments and transactions in the months since the currency swap post demonetization i.e. November 8, 2016 according to Reserve Bank of India data.

Digital transactions have trebled and quadrupled in volume and value, across various modes, from wallets to cards and interbank transfers as compared to the previous year. Card transactions at Point of Sale (PoS) terminals at merchant locations have surged, reflecting a positive for the economy as more people start using their debit cards for payments rather than for withdrawing cash at ATMs.

Overall Debit Card market size is around 861 Mn as on March 2018 with 774 Mn transactions on ATM and 318 Mn at POS. Various business activities taken up by Cards Payments and Digital Banking are briefly mentioned below. One of the critical elements will be to explore tie-up with other Banks & Fintech Companies offering cutting edge technology for “Value –Adds.”

The key strategies of the Bank in this segment shall encompass designing and development of new Debit Card Products, focus on activation, usage and retention of bank's customers for driving business numbers and profitability, development of various new applications from business perspective in the Digital Space. Driving the engagement with consumers to increase customer penetration in CASA Segments.

The Digital Banking Strategy of the Bank is adopting a focused approach on digitizing the retail products and introduction of the products / service / applications like UPI, Bharat QR, BHIM, \* 99 #, BBPS, Internet Banking / Mobile Banking – Value added services, Net Banking Integration, Online Savings Account, Leveraging the Fintech offerings in the banking space to enhance customer experience, Digital Campaigns for all products (FD, Savings, Mutual Funds etc.) alongwith adequate Branding & Marketing.

## Technology

During the current year, the Bank started with its Banking operations and migrated JLG Business technology platform from BR.NET to Intellect Core Banking System. Also Technology platforms for Channels like ATM, Internet Banking, Mobile Banking services were made live for customers. Other critical business applications like Treasury, HRMS, Anti Money Laundering, Assets and Liabilities Management etc. were incorporated for the bank. Post initial hiccups, 80% of Bank branches today have Primary mode of network connectivity with Data center, and rest are communicating over secure VPN connections.

There were several teething issues that the bank faces in the new Core Banking platform, however the issues were examined and corrective re-engineering steps have been initiated. Some of them have been streamlined and further enhancements are planned as part of Service Improvement Plan (SIP) with the key technology service partners.

The Bank has recognized Information Technology (IT) to be one of the key differentiators for bringing in a better Customer Experience. Focus is on developing more flexible structure that can respond quickly to the dynamics of a fast changing market. The Bank focused on ensuring building functionality and stability to the Core Banking besides building key platforms like Cheque Truncation, Tablet Banking etc. during the Year 2017-18.

Customer Centricity, Operational Efficiency and Regulatory requirements are the three major themes to drive the initiatives. With the endeavour of embracing digital banking, the bank is focused to build a strong technology infrastructure foundation, with high availability and strong architectural foundation.

For the Year 2018-19, the Bank would focus on extending capabilities to enhance business and enrich User Experience to customers. Besides bank will concentrate on building Single Version of Truth on its Data Store which will enable the bank to further its capabilities on Analytics and Reporting.

### **API Banking**

Intellect has developed a set of Core APIs that can help the Bank to build surround systems that can facilitate the bank to integrate third party applications seamlessly with the Core Banking System. This will enable the bank to open up initiatives on FinTech, Digital Banking, Big Data Analytics, Social Media and Mobility Platforms.

### **Loan Origination System**

The Bank plans to implement an LOS and Collections software for retail loans, so as to capture customer data and manage process flow from sales to credit to operations and collections, and continuously analyse portfolio behaviour.

### **Fraud Analytics**

Looking at the current threat landscape both external and internal, the Bank would like to manage and control critical risk with respect to detection of fraud faster, to mitigate loss and prevent cascading damage. The Bank is in the process of building its Fraud Analytics using live predictive and social network techniques.

### **Enterprise Monitoring Services:**

IT department plans to deploy monitoring solution to enable Proactive management of the environment. This will enable Information Technology team to address the issues before it impacts end users of the Bank.

### **Network Connectivity for Branches:**

Most of the Bank branches have been provided with primary mode of connectivity. Moving forward plan is to provide with Secondary / Redundant mode of connectivity for Bank branches.

### **Infrastructure @ DC\DR:**

Bank DC\DR is being managed by Intellect. Apart from Intellect provided environment Bank has dedicated setup for applications setup by Bank. IT Team plans to further enhance the capabilities on that front and drive new initiatives.

### **Big Data, Analytics & Automation:**

IT team plans to start with new initiatives on Big-Data, Analytics and Automation side for process improvement and real time decision making. This will enhance the capabilities of organisation for better customer services.

## Planning and Execution of Strategies:

Based on the vision for 2018-19, the Banks plans for new deployments and integrations with upcoming new applications planned for rollout. Besides, on Infrastructure side it is planned to further enhance the capability by building environment on own for all upcoming new requirements.

Based on business plans Budgeting is done on CAPEX and OPEX side so as to accommodate 2018-2019 Information Technology plans which are aligned with business goals. To further enhance the capabilities, IT plans to bring in Domain specialists and consultants on board to facilitate best in class industry knowledge and faster execution of new strategic projects.

## CPC and Operations

Since launch of CBS and over the financial year 2017-18, several critical functions have been operationalized which were key to the bank's operational readiness. Some of these key functions are NEFT, RTGS, CTS, NFS (Including network ATM access, POS & E-Commerce), Liability Account Opening Process, MSME Loan Disbursals (Unsecured Loans) & IMPS.

In this journey, mostly freshers were imparted trainings, and brought up the learning curve. Also, the internal processes have been tweaked to make them more efficient.

In the ensuing FY2019, scaling up the resource capabilities would be the critical driver in the team. The Bank is also planning to augment the processing abilities by moving to more robust and scalable model with the aid of technology enabled solutions.

One of the key initiative would be to enable the bank's strategic decision to move towards cashless loan disbursements and collections. Adding Business Continuity Plan for CPC is another initiative that is being worked upon. This is in lines with the regulatory need for continuity in the bank's operations. The IT Team is poised to actively support all business initiatives which are towards providing new and better products and services.

The branch operations and monitoring team is being suitably strengthened and the following focus areas have been identified to have effective and efficient operations support:

- **Process, Policies and related operational functions:**
- **Process and Policies**

Processes are documented and reviewed timely covering the operations of the bank and encompass the standard operating procedures to be followed within the bank and are duly disseminated to stakeholders. Policies are documented and duly approved by Board within the broad framework of RBI Guidelines for all the Departments of the Bank and covers various internal and external workings of the bank. Some of the customer centric policies put up in the website are:

- Grievance Redressal Policy
- Cheque Collection Policy of the Bank and Frequent Cheque Dishonour
- Compensation Policy
- Comprehensive Deposit Policy
- Customer Rights Policy

- **Access Control**

Central Operation Team manages access controls for Bank staff for the Core Banking application (CBS) and Utkarsh training portal.

- **Customer's Grievance Redressal**

Operation Head is the overall in-charge for Customer's Grievance Redressal and has to minimize instances of customer complaints and grievances through proper service delivery and review mechanism and to ensure prompt redressal of customer complaints and grievances. There are various internal machineries created to handle Customer Complaints / Grievances such as Customer Service Committee of the Board which formulate policies on improved customer experience, assess the service governance structure effect ongoing improvements in the quality of service provided by the Bank. Customers are also invited to share their experience and feedback with the Committee. Similarly, there are other committee such as Standing Committee on Customer Service and Branch Level Customer Service Committees to ensure proper Customer's Grievance Redressal. Branch Manager has the responsibility for the resolution of complaints / grievances in respect of Customer's service by the branch and would be responsible to see ensure that the complaint is resolved and completely to the full satisfaction of the customer and ensure closure of all complaints received at the branches within a week. Escalation matrix will be as follows:

Escalation Levels	Escalation TAT	Branch	Call Centre	MSME Location	JLG Branches
Level 1	10 Days	Zonal Operations Head (ZOH)	Head Call Centre	Regional Head	Divisional Head
Level 2	15 Days	Principal Nodal Officer			
Level 3	30 Days	Banking Ombudsman			

All meetings i.e. branch level customer meetings, standing committee meetings and Board meeting on customer service are held timely and feedback from the customers are deliberated and resolved.

- **Zonal Operations**

Zonal Operations supported by Branch Monitoring Team is responsible for operations support to all branches. It extends support for all transactions and queries relating to operations at branches and give approvals for exceptional transactions. It also does remote monitoring of transactions and activities of the branches bucketed into Daily, Weekly, Fortnightly lists through various reports and co-ordination with branches. The Monthly / Quarterly Branch Visits and Grading of Branches on various parameters planned also ensures smooth operations. Zonal Operations are the escalation level for complaints / grievances at Branches and nodal Complaint Officers for the region within their jurisdiction.

The year 2017 -18 saw an Inclusion of Retail Assets of CSOs, Area Operations Managers and Regional Operations managers reporting into the Zonal operations head for operational efficiency, enhanced support for business including liabilities business and internal controls.

- **Call Centre**

Call Center would have a Toll Free number for customers and non-customer calls with facilities of Interactive Voice Response (IVR) based Inbound calling teams.

This will support all customers including Liabilities and Assets as well as non-customers or potential customers. Call Center will handle customer calls and service requests and provide instant or deferred resolutions (requests forwarded to CPC). The Call Center would liaise with the respective teams within the bank for timely resolutions.

Call Center Operations are now 24 \* 7.

- **Treasury Back Office**

The Treasury Back Office Operations team supports the front office Treasury dealings with confirmation, payments and settlements and accounting of various dealings pertaining to SLR, Non-SLR and other dealings. It would also monitor the inflow / outflow of funds such as maturity collections and obligations for principal and interest / coupons through the various reports. It would be further reconciling various accounts and ensure timely payments / receipts and forecasting the funds flow for the future periods. This is located along with Treasury functions at Chembur, Mumbai.

SOPs for Treasury back office are laid down for clear guidance, compliance and risk mitigation.

## Treasury

The Bank's Treasury business currently revolve around the twin objectives of ensuring regulatory and management compliance and effective liquidity management. The Board approved Investment Policy is the guiding light for growth and conduct of investment business and operations along with policies on Risk Management, Accounting and others.

CRR / SLR is maintained at optimum levels within the prescribed regulatory limits. CRR is maintained at a fortnightly average of 4.85% during the review period against the mandated 4%. SLR is maintained at a fortnightly average of 21.62% visa-vis the average regulatory limit of 19.50%. Total SLR portfolio as on March 31, 2018 stood at ₹567.30 crore against the required level of ₹542.40 crore. The Yield on SLR portfolio stood at 6.93% with an average duration of 3.68 years. As on March 31, 2018 the SLR portfolio under HTM category stood at ₹506.34 constituting 18.20% of applicable NDTL against the limit of ₹543 crore.

During the year, the Bank commenced investing in short tenor commercial paper and certificates of deposit to deploy short term surplus liquidity available at better yields than regular money markets of call / notice / term money.

In the ensuing FY, the Treasury of the Bank intends to play a further active role in raising wholesale resources through instruments like issuance of Tier II bonds, Certificate of Deposits to augment sources of liquidity management. In the backdrop of completing necessary infrastructure in terms of processes, memberships, IT infrastructure & connectivity Treasury would begin to look at trading opportunities besides performing its twin objectives of compliance and liquidity management.

## Compliance

The Indian Banking industry has recently witnessed the advent of new set of players with the rollout of Payments Banks and Small Finance Banks. The entry of these new set of players is meant to cater the financially unserved and underserved population, and also increase the digital transactions from these unserved populace. These Banks would mainly function in the unbanked or low banked areas of the country and are poised to change the course of Banking.

Further, the government's thrust towards digital payments, UIDAI based Aadhaar linkage of bank accounts and financial inclusion is having an impact on the banking landscape in the country.

### **Alignment towards the changing Compliance Landscape:**

- **Government's thrust on Aadhaar Linkage:**

As part of the "JAM Trinity" of Jan Dhan, Aadhaar, and Mobile, Aadhaar is increasingly becoming integral to the Government of India's efforts to aggressively increase financial inclusion in the country.

As per the official gazette of Government of India, dated June 1, 2017, linkage of Aadhaar number to bank account is mandatory under the Prevention of Money Laundering (Maintenance of Records) Second Amendment Rules, 2017. The government has made Aadhaar mandatory for opening of new bank account also.

Hence the compliance of this regulation has a two prong effect on the Bank:

- Accepting the Aadhaar of prospective customers mandatorily at the time of onboarding
- Linkage of Aadhaar number in the accounts of all legacy customers.

- **Compliance on accepting the Aadhaar at the time of Onboarding:**

Bank has already implemented the process of mandatory acceptance of Aadhaar number of prospective customers at the time of onboarding. Further, as Reserve bank of India has recognized the Aadhaar based e-KYC as a valid Customer Due Diligence Processes, The Bank would start the biometric based Aadhaar Authentication process for onboarding the new customers at the earliest.

Biometric based Aadhaar Authentication could be finger based or iris based at. Apart from this UIDAI is also mulling to implement face authentication and creation of a Virtual Identification to enhance the privacy of the Aadhaar data.

The Bank is taking concerted steps to strengthen its technological infrastructure to comply with the Government of India's initiative at earliest.

- **Compliance on updating the Aadhaar Number in all Legacy Accounts:**

The second part of this compliance is to get the Aadhaar number updated in the accounts of all existing customers. As per the earlier government mandate, transactions in all bank accounts in which Aadhaar are not updated by 31st March 2018, would be restricted. However, the Supreme Court has deferred the same. The Bank would ensure collection of Aadhaar Card for the legacy customers in a time bound manner.

- **Low Aadhaar penetration in State of Bihar, Uttar Pradesh:**

As per the recent data released by UIDAI, the level of penetration of Aadhaar is among the lowest in the states of Bihar and Uttar Pradesh (69% and 77% respectively). These are the states where the Bank will be majorly operating. The low penetration of Aadhaar can be a potential loss of business for the Bank, as these customers would become un-bankable without a proper Aadhaar or Aadhaar Application Acknowledgement.

- **Thrust of Reserve Bank of India (RBI) on Financial Inclusion and its effect on USFB:**

The Government of India and the Reserve Bank of India have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country. RBI has adopted a bank-led model for achieving financial inclusion and removed all regulatory bottle necks in achieving greater financial inclusion in the country.

Small Finance Banks have a target of 75 per cent for priority sector lending of their Adjusted Net Bank Credit (ANBC). While 40 per cent of ANBC is allocated to different sub-sectors under PSL as applicable to all the Banks, the balance 35 per cent can be allocated to any one or more sub-sectors under the PSL, where the bank has competitive advantage. The Bank has decided to cover the remaining 35% PSL requirement through the Micro Finance Business.

Small Finance Banks are required to have 25% of their branches in unbanked rural centers within one year from the date of commencement of operations. In order to align with the same, the banking strategy would also be concentrated on unbanked centers and the Bank would ensure the presence of 25% of its branches in unbanked rural centers. As on March 31, 2018 the Bank has a URC concentration of more than the required 25%.

- **Thrust of FIDD to include SFBs in SLBC (State Level Banker's Committee) Initiative:**

The Financial Inclusion and Development Department (FIDD) of Reserve Bank of India has laid the guidelines of participation of SFBs under Lead Bank Scheme. As per the guidelines, SFBs would be invited to SLBC meetings in their respective locations.

For the current year (2017-18), the Bank was only invited to these meetings and were not made a part of the credit planning exercise. However, the Bank would be a part of the credit planning exercise from the financial year 2018-19. Accordingly, in the respective locations, the Bank would be participating in various areas of the lead bank scheme i.e. SLBC, DLCC / DLRC and BLBC as a regular member from the first quarter of 2018-19.

The various Master Circulars relating to NRLM, NULM, Credit facilities to SCs / STs and Minorities will be fully applicable to SFBs with effect from April 1, 2018.

Currently, the SLBC meetings are attended jointly by the General Banking and Micro Banking branches based on the geographical presence. However, the Bank is in the process of creating a well-defined process and monitoring mechanisms to effectively implement and monitor these government initiatives.

## • Overall Compliance Architecture at Utkarsh Small Finance Bank for FY2018-19:

Compliance is an integral feature of a well-managed business that would create value through enhanced reputation, investor confidence and lower cost of capital. Being a Bank, the expectations and stringency of applicability of RBI guidelines are higher. While majority of the regulatory requirements would emanate from RBI circulars, there are other regulators who would have an impact on the Banking business.

In line with the RBI guideline and Compliance policy, The Compliance Department acts as a focal point for receipt and dissemination of all statutory, regulatory and internal guidelines and instructions in the matters of compliance among all Business Departments / Operations Units.

Compliance Department has instituted a process for dissemination of regulatory changes to the various departments and also for updating policies, correspondence, returns to regulatory / statutory authorities and ensure that the requirements of regulatory changes are effectively met.

Following are the key process architecture of compliance department:

- Circular / Guideline Management Process
- Return Management Process
- Policy Management Process
- AML / Transaction Monitoring Process
- Compliance Testing Process

Currently, all circulars of the various regulators are being checked and disseminated to the respective departments along with the expected actions in order that the regulatory requirements are addressed. Additionally, Circulars that have high impact on the Banking business are put up to the Board for their views and the actions are tracked through the Action Taken Report. While these Process are already implemented and are functioning in an expected manner. During the next year the Compliance testing framework would be implemented and key controls would be checked on an ongoing basis. The Compliance testing reports along with key control gaps along with the action taken would be placed to the Board at half yearly intervals. The Compliance testing would be conducted at a business department level, Theme level and would also cover around 400 controls. With an effective Compliance Testing framework, the Bank aims to identify gaps and address the same through effective and stringent controls in a proactive manner.

## Risk Management

As per the Reserve Bank of India (RBI), India's Banking Sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well.

Indian banking industry has recently witnessed the roll out of innovative banking models like Payments Banks and Small Finance Banks. RBI's new measures may go a long way in helping the restructuring of the domestic banking industry. Small Finance Banks are expected to penetrate into financial inclusion by providing basic banking and credit services with a differentiated banking model to the larger population. In this context the new SFBs have multiple challenges in coming out with a new, differentiated business model. The challenges include building low cost liability portfolio, technology management, and balancing the regulatory compliances. Small finance banks have the flexibility to operate all over India, against the earlier models of RRBs and LABs which had geographical restrictions.

For banks, next financial year could be a pivotal year in accelerating the transformation into more strategically focused, technologically modern, and operationally agile institutions, so that they may remain dominant in a rapidly evolving ecosystem. Banks must contend with multiple challenges tied to regulations, disruptive models and technologies, new competitors, and a restive customer base with ever-higher expectations while pursuing new strategies for sustainable growth.

In the end, the bank has to contend not only with running the bank, but also transforming the bank to grow in a sustainable manner.

### **Governance Structure:**

The wide variety of businesses undertaken by the Bank requires it to identify, measure, control, monitor and report risks effectively. The key components of the Bank's risk management rely on the risk governance architecture, comprehensive processes and internal control mechanism based on approved policies and guidelines. The Bank's risk governance architecture focuses on the key areas of risk such as credit, market (including liquidity) and operational risk and quantification of these risks, wherever possible, for effective and continuous monitoring and control.

The Bank has put in place policies relating to management of Credit Risk, Market Risk, Operational Risk, Information Security risk and Asset-Liability. An independent Risk Governance Structure, in line with the best practices, has been put in place, in the context of segregation of duties and ensuring independence of Risk Measurement, Monitoring and Control functions. This framework visualizes empowerment of Business Units at the operating level, with technology being the key driver, enabling identification and management of risk at the place of origination itself.

### **Operational Risk:**

A dedicated team within the risk management function is responsible for assessment, monitoring and reporting of operational risk exposures across the Bank. A Board approved Operational Risk Management Framework has been put in place. Processes have been put in place to collect the operational risk loss / event data from all the Units and analyse the same to ascertain the process gaps and take steps to avoid the recurrences of these events. Key Risk Indicators are employed to alert the Bank on impending problems in a timely manner to ensure risk mitigation. Risk Management team reviews all the new products & processes, and changes to the existing products & processes, to assess risks and suggest suitable controls for risk mitigation.

The Bank also has also developed framework for operational risk loss data collection wherein all the Units / Branches of the Bank are reporting any Operational risk event to the Operational Risk Team. The incidents reported are analyzed and root-cause analysis conducted for all the high risk events and suitable process improvement steps are initiated to plug the gaps.

The Bank has also identified certain key risk indicators to identify early warning signals and take the appropriate steps pro-actively.

The Bank is also in the process of implementing a bottom up Risk Control Self-Assessment (RCSA) process which shall identify high risk areas so that the Bank can initiate timely remedial measures. The gaps identified through this process shall be addressed through implementation of control measures to mitigate the residual risk wherever required.

The Bank has put in place a hierarchical structure to effectively manage operational risk through the formation of several internal committees viz. Operational Risk Management Committee, Product & Process Management Committee, Outsourcing Committee and Information System & Security Committee.

#### **Risk Containment Unit:**

A Risk Containment Unit (RCU) has been set up to pro-actively identify potential fraud cases at the time of on-boarding itself, both in Liabilities and Retail Assets business. Presently, RCU is reviewing all the new loans sourced in MSME / HL segments and initiate investigation based on certain triggers and ticket size.

The Bank has also on boarded specialised agency which is an expert in the area of investigations. The sample cases are shared with the Agency for investigation. The Bank plans to extend the RCU process to the Liabilities accounts wherein the new accounts sourced shall be reviewed by the RCU team.

The Bank is also in the process of implementation of tools, for identification of fraudulent Assets & Liabilities accounts, in addition to the scrutiny of clients through Credit Bureau data.

Implementation of Fraud Monitoring System provided by NPCI is in an advanced stage of implementation. This tool will help the Bank in monitoring transactions in Liabilities accounts on the basis of several parameters. This system monitors all the Cards transaction (ATM or POS) which are undertaken through National Financial Switch (NFS).

#### **Credit Risk:**

The Bank has created simple score cards for assessment of small loans. The Bank has also created the Models which help in assessing the corporate clients. The Bank is further creating models for the clients who are not having any credit history with the help of external vendor.

The Bank closely monitors the performance of overall portfolio. The Bank has also created the early warning signals to identify any weakness in terms of geography, branch or type of client. A monthly MIS is also published and shared with all the relevant stakeholders to take corrective action. Monthly MIS covers the complete assessment of overall portfolio growth, level of delinquencies, movement of delinquencies, concentration of portfolio in terms of geography, activity, product, etc.

The Bank shall start conducting the Stress testing of the portfolio based on various plausible scenarios and take the corrective actions.

#### **Zonal Risk Structure:**

Looking at the rapid increase in Bank's operations, it is proposed to implement Zonal Risk Structure, i.e., Risk Team members shall be stationed at all the Zonal Offices, to ensure timely identification, effective monitoring and mitigation of risk.

#### **Business Continuity:**

Business continuity policy is in place, to ensure that the operations continue with minimum disruption. A Crisis Management Team has been constituted to take suitable decisions during business disruptions. Further, back-up plan is in place to ensure continuity of operations of the identified critical units during various crisis scenarios. The Bank shall also extend the Business Continuity plans to other units of the Bank.

## Liquidity Risk:

The Bank closely monitors the overall liquidity position through Asset Liability Management Committee of the Bank. Presently, the Bank is calculating the Liquidity Coverage Ratio (LCR) and submitting the same to RBI on a monthly basis. The Bank has also started working on automation of Liquidity reports.

## Internal Audit

In first three quarters of FY2017-18, the focus of internal audit remained on JLG business apart from initiating concurrent audit, through external audit firms, of Treasury and Central Processing Centre (account opening) functions. Simultaneously, the Bank started working on developing audit checklist, based on Risk Based Internal Audit framework of RBI, for all the identified audit entities.

Internal Audit department of the Bank has moved to Risk Based Internal Audit process since January 2018. To strengthen the Internal Audit team for conducting various types of audit, existing auditors were provided detailed training during Nov-Dec 2017 and experienced auditors from banking organisation were hired.

In addition to that Internal Audit planning and execution has been automated end to end by introduction of Audit Application Software "Pentana". All the auditors were provided with laptops to record the audit findings and recommendation online in the audit application and auditees are given access to the audit application to provide their compliance. Audit support team has been assigned responsibility to analyse the audit findings and compliance centrally and publish various audit related MIS to the management on monthly basis.

During FY2018-19, the Internal Audit Department will conduct Comprehensive Audit of all the branches in addition to audit of BC branches, audit of all the central functions of the Bank and concurrent audit of account function.

All other audits like management audit, audit of outsourced vendors, IS & Cyber security audit, concurrent audit of Treasury, CPC, Assets & Liabilities portfolios of Bank shall be conducted through empaneled external audit firms. Accordingly, the audit manpower plan (both for internal audit team and outsourced concurrent audit team) has been proposed in the budget. The other assumptions being:

- Audit frequency for General Banking Outlets: Yearly
- Audit frequency for MSME / Housing Loan Outlets: Half-Yearly
- Audit frequency for Micro Banking Outlets: Quarterly
- Audit frequency for Central Functions: Yearly
- Duration of Comprehensive Branch Outlet Audit: 5-8 days

It is also proposed that for all the existing auditors, weeklong detailed refresher training on revised checklist and audit application shall be conducted. In addition to refresher training, specific audit related trainings (both internal and external trainers) are proposed.

Audit budget focus has also been given on leveraging audit application "Pentana" for various management level reports, and timely and necessary feedback to business and process teams on process and policy lapses. Accordingly, more customised reports are proposed in the audit budget.

## Internal Vigilance

As in all organisations, Vigilance activities in financial institution is an integral part of management function. The raison d'etre of such activities is not to reduce but to enhance the level of managerial efficiency and effectiveness in the organisation. In banking institutions, risk taking forms an integral part of business. However, a distinction has to be made between a business loss which has arisen as a consequence of a bonafide commercial decision, and an extraordinary loss which may occur due to fraudulent acts of the employee. While former may be accepted as a normal part of business but latter has to be viewed seriously and dealt with accordingly.

At Utkarsh, the Internal Vigilance Department was established in March 2015, in its NBFC-MFI format and have been taking up multifarious job viz. investigation of fraud cases, complaints including, complaints received under whistle-blower policy of the bank. Besides, the department is attending departmental meetings, DO meetings and all training programmes to educate all staffs about Preventive Vigilance measures, Punitive Vigilance and surveillance & Detection. Department is also working on multiples reports of other departments and make analysis to ascertain trends thereat.

During the year, Department celebrated Vigilance awareness week from October 30, 2017 to November 4, 2017 in terms of CVC guidelines in the organization and took Integrity Pledge from the employees in respect of Integrity, probity, honesty in their work area. Department also issued circular on whistleblower policy with separate email id & contact number and provided a separate platform to all employees for the purpose.

During the FY17-18, the Internal Vigilance Team has completed 194 investigation related to fraud, cash loot, cash snatching, serious misbehaviour of staffs, branch visit, surprise visit and liaison with local administration.

Recently the team has started tele calling to ascertain from clients / customers who were sanctioned loans from the bank under JLG business and under Bank's various schemes to reduce the chances of frauds and Forgery.

From Security point of view, the team visited multiple branches and educated / guided the employees about the security precautions to be followed / observed to protect bank's interest during the field visit.

From April 2018 onwards, the team shall take up others Loan & Advances which will be disbursed under various retail assets and other such segments. For this purpose, HR is in the process of recruiting more Vigilance officers and Liaison Officers at Zone level. Department is making all out efforts to reduce frauds, forgery, burglary, incidents in the bank with the help of new ideas, technology, previous experiences and with appropriate tools.

## Human Resource and Training

The FY17-18 has been strategically very important for Utkarsh. The Bank achieved many milestones in every sphere of its business so did the Human Resource and Training Department. FY17-18 has been a year of aspirations, challenges and growth for the Department .The biggest target for the HR & Training Department was to recruit suitable employees so as to meet the business plan of the Bank. In FY17-18 there has been net increase of 1,296 employees in the Bank. Recruitment, Training and Strengthening of processes and polices were the major agenda for the year. Migration of manual work to HRMS was another big achievement for the department. Being in the transition phase cultural alignment, product training, leadership development, policy framing as per the bank norms were other important activities that were accomplished by the department.

## **Employee Engagement:**

With continuous expansion in manpower across verticals having spectrum of experiences from different organizations, it became imperative to bring them on same platform and acclimatize to Utkarsh Culture. In this regard, Town hall meeting was organized for all the employees of the Bank. The objective of the Town hall meeting was to promote culture of Utkarsh and help the new and the old employees of Utkarsh to meet each other, interact and help themselves adapting with the Mission and Vision of Utkarsh. In this process, the senior management of the bank along with the MD & CEO directly interacted with all the employees and briefed them about the future strategy and growth prospect of the Bank. One of the unique feature of the Town Hall was use of technology (webcast) in reaching to all the employees.

Recruitment of new employees was the apex agenda for FY17-18. We aimed at seamless and delightful onboarding of all the employees. To facilitate easy and systematic Onboarding of new employees, the Bank introduced the concept of BUDDY- MITRA program. The program is for the period of one month and applicable to the employee's upto the grade of manager. The objective of the program is to promote faster acclimatization of new employees into Utkarsh culture and work atmosphere. This program was piloted in Varanasi Zone across all business verticals and the same will be launched pan bank in the FY18-19.

Being in transition phase, it was very important for the management to reach its employees and understand their views and perspective. HR & Training department having the ownership of all the employees of the bank, took the initiative to visit the branches on regular intervals with the objective of making HR more approachable and responsible towards its employees. The Branch visit is conducted every month by all the employees of the department and through this visit we aim to address their grievances / queries arising out of their work place environment. Beside the above mentioned activities, recreational activities like Annual Sports Day, celebrations of various festivals like Deepawali, Christmas, and New Year etc. were organized to engage with the employees regularly.

## **Leveraging Technology in HR Operations:**

Further leveraging on technology and making operations of HR seamless and hassle-free, HRMS was introduced, and number of manual activities were made live on system which helped us to improve internal efficiency. Payroll, Leave Management, Employees Movement, Monthly promotions, confirmations, etc. were made live. Going forward Bank is poised to go live on Recruitment & On-boarding, Training, Employee Insurance, PMS followed by travel management. All these development will help us in synchronizing requirements of various departments and will also reduce the time lag in implementation of HR initiatives.

## **Decentralization of HR:**

Decentralization of HR was adopted to align with the mission of reaching the employees and providing them instantaneous solutions / services and promoting effective work flow management with timely decisions. Impact of which lead to an effective understanding and resolution of HR activities at ground level. As a result, now a strong Zonal HR team is in place, which apart from handling recruitment and HR related issues, is actively involved in employee engagement activities & training / development of the employees.

### **360 Degree Feedback Mechanism:**

In the process of strengthening and improving the existing process, during the year many new policies were introduced and the existing policies were revised as per the requirement of the Bank. In this series, Utkarsh partnered with KPMG to review its PMS process and also implemented 360 Degree feedback mechanism and Competency mapping. Under this project, the new PMS frame work of the bank was proposed and is submitted to the Board for its approval. KRA and KPI of Liabilities and Operations Department was also designed by KPMG. Competency mapping of Middle and Senior management team was undertaken during the year. Based on the Competency Mapping, Group Learning Plan and Individual Learning Plan has been framed. In the next phase of the program, we aim to implement the development and Learning initiatives so as to build strong leadership team of the Bank.

The Bank for the first time introduced the concept of 360 Degree Feedback for the manager and above grade. This initiative was facilitated by KPMG. The feedback thus received through the exercise was incorporated and was vital part of Annual Performance Management. Hence forth, we strive for implementing the process for all the relevant profiles of the Bank.

### **Campus Recruitment (Campus to Corporate)**

To diversify the mode of recruitment we had focused on Campus Recruitment and in this respect Campus Recruitment was done at 26 Colleges / Universities and total of 225 candidates were selected in the Bank in the grade of Executives to Assistant Managers.

Adding to Campus Recruitment “College to Corporate” program was launched for hiring Trainee Grade employees. In this grade we focused on students who were in the final year of graduation and post-graduation. Colleges mainly in rural / semirural and town area were targeted to hire talent at the entry level.

Going forward, there will be further tie ups with vocational and training institutes who specializes in training and developing human resource for Banking and Finance sector. The Bank will directly recruit suitable candidate from these institutes for its Banking operations.

### **Training and Development**

It has been a continuous endeavor of HR that employee on-boarded upgrades its knowledge and walks at pace with the changing product and market. This gives employee an upper edge to competition. As the on boarded employees represented spectrum of experiences from various institutions there was a need to bring them on a common basic platform for banking. This lead to initiative of Basic Banking Training of all employees for 7 days. The training was executed by team of 20 ex-bankers, who have expertise in content development and delivery. 1,124 employees were provided orientation of Basic Banking knowledge under this program.

Refresher Training Program were also conducted to reinforce the learning and update new developments to all the employees. A rigorous two week induction training program was conducted to all the employees joining the bank at entry level. In all 1,520 employees were trained under this program.

### **Introduction of Learning Management System (LMS):**

Further leveraging the technology, aim is to launch and implement Learning Management System (LMS). The LMS will act as a platform for online knowledge and will provide complete learning solutions to all the Utkarsh employees.

## External Training Programs:

Parallel to the Bank's Internal Training Programs, the focus was also on exposure of employees' learning from external environment through External Training Programs. The external Training Programs broadly focuses on Leadership Development Program, Specialized Technical and Thematic Trainings. This year total of 40 employees participated in these kind of Trainings.

During the Year, Utkarsh was recognized with "CEO WITH HR ORIENTATION award" from World HRD Congress. The industry recognitions on a year-to-year basis, reaffirms the commitment of Team Utkarsh for better HR Initiatives in HR segment.

## Branding & Marketing

Utkarsh started its Branding and Marketing activities in last FY only, after starting the operations as a small Finance Bank, as to cater different segments of Society in its new Avatar. The Major Branding activities were targeted to establish a basic frame work for Marketing and Branding activities for future Branding objectives. The major strategies included establishing Brand identity and creating Brand awareness through different ways online and offline. The Bank has started basic required activities like Collaterals about products and Brand, Branch & ATM Branding, creating Social Media Pages and new Website and also executed some major campaigns like Full services Launch by Honourable Prime Minister campaign in all ATL and BTL mediums. Apart from it the Bank has also taken outdoor medium to reach out to consumers in selected locations, also a lot of other activities have been initiated for the first time like Calendars, Diaries etc. to create Brand recall. Some Digital campaigns have also been executed for better and economical reach through Social Media. In this one year with all these activities the bank has seen a major boost in the image for Bank Brand with better reach and awareness.

The marketing strategy for FY2019 shall focus on engaging with larger audience with higher frequency for creating brand identity, increasing awareness about different products, reinforcing and increasing the recall of the brand with increasing visibility.

The Action Plan to achieve the above strategies shall focus on both Online and Offline initiatives. The online initiatives shall focus on Digital Marketing and Promotion, while the offline initiative shall focus on Activation Events for engagement, awareness and brand recall, OOH for Visibility and better Brand recall and ATL–BTL activities for mass reach, positive and trusted brand image. Other Regular Activities shall include Small Activations by Branches, Sponsorship / Participation in relevant Programs, Branch and ATM Branding and Marketing collaterals development

The 360 degree approach in Marketing Communication through different Branding activities will create a Brand recall that will ultimately lead to Business growth. On one hand Bank will create a Brand identity with Positive and trusted image, Brand recall and achieve mass reach through ATL campaigns, on the other hand, Bank will have direct engagement with consumers and general public with Activation programs. Out of home media will support in both of these activities as a multiplier to increase the visibility, awareness and recall. Also with the help of Digital Marketing and Social Media, Bank will economically focus on different targeted segments. All these initiatives will lead to Brand equity growth and Business growth.

## Rating

CARE (Credit Analysis & Research Ltd) has reaffirmed the ratings as CARE A (Single A; outlook: stable) for Long term Bank Facilities Non-Convertible Debentures and Long term Tier II bonds. ICRA has assigned a short term rating of ICRA A1 (pronounced ICRA A one) to Certificate of Deposit.

As per the rating rationale of CARE “The rating of Utkarsh Small Finance Bank Limited (USFBL) derives strength from experienced promoters and management team, strong investor profile, diversified resource base and comfortable liquidity position. The ratings also factor the comfortable capitalization level which is expected to take care of provisioning / write-off of loans. The rating however takes note of the deterioration in the collection efficiency and asset quality post demonetization which may impact the profitability in the short term. The rating are also constrained by moderate geographic concentration, lack of diversity in earnings profile, short track record in Micro Enterprise Loans and Home Loan portfolio and the inherent risk involved in the microfinance segment including socio-political intervention risk and due to unsecured lending.

Going forward, the ability of the bank to improve its collection efficiency in micro finance portfolio and overall asset quality and maintain adequate capitalization levels would be crucial. Also, ability to grow the loan portfolio and geographically diversify the operations, improve earnings and profitability, successfully stabilize the operations as an SFB (Small Finance Bank) including raising low cost deposits and refinance loans and consequently diversify the product mix would remain the key rating sensitivities.”

As per the rating rationale of ICRA, “The ratings take into account the strong investor profile, the bank's comfortable capitalisation, its adequate liquidity profile, diversification of resource mix and raising substantial funds through term deposits, and the strengthened management team with the transformation into a Small Finance Bank (SFB) in January 2017. Given the increased delinquencies, post demonetisation, the bank is likely to make sizeable provisions during FY2018, which is expected to impact its profitability indicators for FY2018. However, the capital raised by the Holding Company (Utkarsh Micro Finance Limited) is likely to keep capitalisation levels comfortable.

The ratings continue to factor USFB's good financial flexibility, arising out of its diversified funding mix, its strong investor base and good management and information systems (MIS) and effective internal audit and monitoring systems. Good capitalisation profile supported by external equity infusion, despite its high pace of growth, the bank has been able to maintain good capitalisation indicators supported by regular capital infusion. ICRA notes that UMFL (holding Company) mobilised ₹150 crore of capital which will improve loss absorption capacity, given the high delinquencies faced, post demonetization”.

## Corporate Social Responsibility (CSR)

Utkarsh Small Finance Bank has contributed ₹40.0 lakh towards CSR to Utkarsh Welfare Foundation (hereinafter being referred as 'the Foundation'), it has its goodwill initiatives, in which the employees of Utkarsh Small Finance Bank are directly engage on voluntary basis. Bank has contributed ₹40.0 lakh towards CSR.

## Financial Awareness

Financial awareness initiatives are aligned with mission of the Bank to support underprivileged and underserved segments of the population by providing financial and non-financial services in a socially responsible, sustainable and scalable manner. Financial education program is aimed at building financial decision making and capabilities of the targeted clients through right information, instructions and advices.

The outreach under various Financial Awareness initiatives has been as under. The table also presents a comparative picture on a year-to-year basis.

Particulars on Outreach (No. of Beneficiaries)	Achievement FY 2017-18	Achievement FY 2016-17	Growth	Funder / CSR / Partner
<b>Financial Awareness</b>	<b>1,13,779</b>	<b>77,950</b>	<b>35,829</b>	
Financial Awareness	26,159	21,356	4,803	Utkarsh Small Finance Bank
Digital Financial Literacy	12,624	-	12,624	
Village Development Program	3,464	-	3,464	
Dialogue on Business	1,912	919	993	SIDBI & USFB
SIDBI - PSIG FL&WE	23,525	19,456	4,069	
Digital Financial Literacy (DFL)	15,617	-	15,617	
Mass Awareness Camps (MAC)	30,478	14,317	16,161	
<b>Total Since beginning</b>	<b>2,14,238</b>	<b>101,621</b>	<b>112,617</b>	

Utkarsh Welfare Foundation aims to develop financial education initiatives which are replicable and scalable. Models of delivering financial education and advisory services to the beneficiaries will be developed by adopting best practices in the domain through partnerships.

### SIDBI - Poorest States Inclusive Growth Programme (PSIG) - Financial Literacy And Women Empowerment (FL&WE) Initiatives

SIDBI - Poorest State Inclusive Growth Programme (PSIG) endeavours to focus specifically on women's empowerment through microfinance interventions including financial literacy programme and capacity building of women beneficiaries on social, gender and legal rights and entitlements issues. The project aims to institutionalise capacity building program for the microfinance beneficiaries through partner MFIs. The project is also being supported by Department for International Development (DFID). It was launched through 7 MFIs in Uttar Pradesh and Bihar to cover 60,000 beneficiaries.

### Goodwill Projects

The Foundation continued its support to Nirmala Shishu Bhawan, a home for differently abled children and Nirmal Hriday, a home for sick and destitute adults & senior citizens. The employees of Utkarsh Small Finance Bank sponsor meals and also provide them with items of their daily needs. The employees participate voluntarily and organise these visits at a department level on a monthly basis to meet and interact with the inmates.

### Blood Donation Camps

Blood Donation Camps in association with Pandit Deen Dayal Upadhyay Government Hospital, Varanasi have been organized wherein the employees volunteer to donate blood. The event strengthens the noble cause that blood donation saves life. During the year 61 employees donated blood.

# DIRECTORS' REPORT

To,  
The Members,  
Utkarsh Small Finance Bank Limited

Your Directors have pleasure in presenting herewith their Second Annual Report on the business and operations of the Utkarsh Small Finance Bank ("Bank") together with the Audited Financial Statements of the Bank for the year ended March 31, 2018.

## Financial Performance

The comparative financial performance for the financial year ended March 31, 2017 (FY2017) with that of March 31, 2018 (FY2018) along with changes during the year are summarized in the following table:

Particulars	Amount in ₹ Crores		
	As on March 31, 2018	As on March 31, 2017 <sup>#</sup>	Change in %
Deposits	2,193.9	18.7	11,632%
Investments	661.3	729.2	(9%)
Advances (Net)	3,082.5	1,596.3	93%
Net Worth	411.9	304.9	35%
Net Interest Income	268.3	27.7	869%
Other Income	42.8	17.7	142%
Net Total Income	311.1	45.4	585%
Operating Expenses	235.5	34.9	575%
Provisions and Contingencies	170.4	4.0	4,160%
<b>Profit Before Tax</b>	<b>(94.8)</b>	<b>6.5</b>	<b>(1,558%)</b>
Tax	(31.8)	1.7	(1,970%)
<b>Net Profit</b>	<b>(63.0)</b>	<b>4.8</b>	<b>(1,413%)</b>
Gross NPA Ratio	1.85%	0.00%*	-
Net NPA Ratio	1.09%	0.00%*	-
Capital Adequacy Ratio	17.40%	25.87%	(33%)
Business Per Employee	0.77	0.44	75%
Business Per Branch	8.86	4.52	96%
<b>Appropriations:</b>			
Transfer to Statutory Reserve	-	1.21	-
Transfer to Capital Reserve	-	-	-
Transfer to Revenue and Other Reserves	-	-	-
Transfer to Investment Reserve	-	-	-
Dividend for the year, including Tax thereon	-	-	-

<sup>#</sup>The Banking services started on January 23, 2017 in FY2017.

Particulars	Amount (₹ in Crores)		
	As on March 31, 2018	As on March 31, 2017	Change in %
<b>No. of Outlets:</b>			
General Banking Outlets	53	5	960%
Micro Banking Outlets	111	1	11,000%
Micro Finance Outlets	241	349	(31%)
Assets Outlets	35	23	52%
No. of Employees	5,142	3,845	34%
No. of Clients	Over 15 Lakh	Over 12 Lakh	-

\*The GNPA and NNPA are NIL due to the RBI Guideline and dispensation provisioning post demonetization.

During the year under review, the Bank reported a net loss of ₹(63.0) crore. The loss was mainly due to the write offs carried out by the Bank in its Micro Finance Business which was impacted by the challenges faced in collections post the demonetization. The Bank turned profitable in the last quarter of the FY2018.

The Bank converted 111 of its Micro Finance Outlets into Micro Banking Outlets by the end of the year. The Bank aims to convert all the Micro Finance Outlets into Micro Banking Outlets during the FY2019.

The Bank's business figures as on March 31, 2018 are covered in detail in the Management Discussion and Analysis which is an integral part of the report. However, the broad performance of the business is covered hereunder:

The Bank's Business can be broadly classified under two heads, namely Asset Business and Liability Business. While the major part of Asset Business was existing under the erstwhile Microfinance model, during the year the asset products were added / modified to suit the requirements of the customers. The Liabilities is a new business and consists of Demand and Term Deposits which were built during the year subsequent to the conversion as a Bank.

### ASSETS BUSINESS

Presently, the Assets Products of the Bank include portfolio under Micro Banking (Joint Liability Group) loans; Micro, Small and Medium Enterprises Loans, Housing Loans and Wholesale Banking Loans (including Business Correspondent Model). The businesses have grown substantially during the year with the support of business processes.

### MICRO BANKING

Micro Banking has been the core business of Bank and is thrust area for the Bank. The Bank faced challenges on account of Demonetization in the second half of the FY2017 which continued till the first half of the FY2018. Despite this, the Bank constructively built its Micro finance business in the last year and recorded a year on year growth of 78.3%. Total Micro Banking portfolio outstanding was ₹2,738.6 crore as on March 31, 2018 with a total base of over 14 lakh Active Clients.

## **MICRO SMALL & MEDIUM ENTERPRISES LOAN**

The Micro, Small & Medium Enterprises (MSME) Loan business has started taking off slowly. During the year certain structural and product changes were carried out. The collection vertical is now set up and with new products to serve the customer segment, the FY2019 looks promising. The MSME business is now spread in 8 States at 35 locations. Overall MSME portfolio outstanding as on March 31, 2018 was ₹103.4 crore with over 13,000 active clients. Average ticket size has increased from ₹81,000 as on March 2017 to ₹1,48,000 by March 2018.

## **HOUSING LOAN**

Housing Loan business segment has main focus on the affordable housing segment. Housing Loan had a marginal growth during the year and is expected to be built in the coming FY. The Housing Loan portfolio outstanding was ₹15.2 crore as on March 31, 2018.

## **WHOLESALE BANKING BUSINESS**

The wholesale Banking business is a new business that has been launched by the Bank in the FY2018. This business segment targets customers requiring loan of an amount of more than ₹1 crore. During the year the business contributed ₹246.7 crore of portfolio outstanding with 19 customers in form of advances and ₹20 crore as investment in an NBFC-MFI. The Business Correspondent Model is embedded within the Wholesale Banking.

The Bank expects to increase the share of Wholesale Banking and MSME business in the next FY to reduce the concentration on Microfinance loans to a considerable extent.

## **LIABILITIES BUSINESS**

Liabilities is a new business that has been built subsequent to the start of Banking Operations on January 23, 2017. The Liabilities business includes products such as Savings, Current, Fixed Deposit and Recurring Deposit accounts. During the year, the Bank also launched the Tax Saver Deposit Scheme.

The Bank opened 53 new General Banking Outlets during the FY2018. The branches have concentrated on opening savings and term deposit accounts, and a good share of deposits has been garnered through large ticket FDs. This has helped your Bank retire some high cost funds during the year, thus bringing down the overall cost of funds for Bank. Your Bank plans to expand the General Banking (GB) Outlets network and also start Liabilities business at Micro Banking (MB) Outlets, thus targeting to serve the underserved and unserved populace in the FY 2019. The Liabilities business stood at ₹2,193.9 crore with over 34,000 customers as at the close of FY2018.

## **Financial Disclosures**

### **Capital Raising and Capital Adequacy Ratio**

The Bank is well capitalized with a healthy Capital Adequacy Ratio of 17.40% as on March 31, 2018. The Bank is required to maintain as Capital Adequacy Ratio of 15% as per the Regulations applicable to the Small Finance Banks and is adequately capitalized to maintain the same.

During the year, the Bank infused capital to an extent of ₹170 crore. The first capital infusion happened in September 2017 by converting Compulsorily Convertible Debentures held by the Holding Company to an extent of ₹120 crore.

The second infusion happened through a Rights Issue to the existing shareholders for an amount of ₹50 crore in March 2018. The Bank does not have an ESOP scheme and hence no capital infusion happened through the ESOP route during the FY2018.

The Tier II Capital as on March 2018 was ₹160.0 crore of which ₹150.0 crore is from CDC and ₹10 crore from SIDBI.

### **Dividend**

In view of the fact that Bank has started operations and has not been profitable for the whole year, Owing to write-off in December 2017, your Directors do not recommend any dividend during the year under review.

### **Net Worth**

The Bank's net worth, as on March 31, 2018 stood at ₹411.9 crore. It comprises paid-up equity capital of ₹470.05 crore and Negative Reserves of ₹(58.1) crore (excluding Revaluation Reserve, Investment Reserve and Intangible assets).

## **Corporate Governance**

### **The Bank's Philosophy**

The Bank is committed to achieve high standards of Corporate Governance and the Bank's philosophy on Corporate Governance is aimed at supporting the top management to efficiently conduct its business operations and meet its obligations towards various stakeholders. The Bank has Corporate Governance framework that lays out various requirements of Corporate Governance as set out under various regulations and best practices.

### **Constitution of the Board of Directors**

The Board of Directors is constituted in accordance with the provisions of the Companies Act, 2013 (The CA 2013), the Banking Regulation Act, 1949 (the BR Act, 1949) and the Articles of Association of the Bank. The Board consists of eminent persons with considerable professional expertise in Banking, Finance, Administration, HR, Technology, Strategy, Compliance, Audit, Risk and other related fields. Their experience and professional credentials have helped the Bank to gain insights for strategy formulation, monitoring Control framework and direction setting for the Bank, thus adding value to set a strong foundation enabling the overall growth objectives of the Bank.

The Board comprises of seven (7) Directors consisting of four (4) Independent, two (2) Nominee and one (1) Managing Director & CEO.

All the Independent Directors have given the declarations that they meet the criteria of independence laid down under Section 149(6) of the Companies Act, 2013. Based on the declaration of independence provided by them and based on the applicable RBI guidelines and circulars, all aforesaid four Independent Directors would qualify to be classified as Independent Directors under Section 149 of the CA 2013.

### **Committees of the Board of Directors**

For effective decision making, the Board acts through various Committees which oversee specific operational or strategic matters falling within the ambit of the specific terms of reference of that Committee. The Board has constituted 10 Committees. All the Board Committees have specific charter and these Committees monitor activities falling within their terms of reference.

Composition of the Committees and attendance of the Directors at the Board and Committee Meetings held during the year under review have been given as an Annexure 'A' to this report.

## Board Evaluation and Remuneration Policy

The Independent Directors of the Bank carried out an annual performance evaluation of the performance of the entire Board, performance of the Chairman, the Directors individually as well as the evaluation of the working of its Committees.

The Board has framed a Corporate Governance Policy, which *inter alia* deals with remuneration structure, and criteria for selection and appointment of Directors. The Bank has a Policy on Risk Alignment of Compensation for the MD, Whole Time Directors (if any) and employees in control functions and remuneration to these employees are carried out in line with the policy.

## Statutory Disclosure

### Extract of Annual Return to be mandatorily attached to the Directors' Report

As required by the provisions of Sections 92(3) and 134(3)(a) of the CA 2013 read with the rules framed thereunder, the extract of the annual return of the Bank in the Form MGT-9 is attached as Annexure to this Report.

### Conservation of Energy and Technology Absorption

The particulars to be disclosed under Section 134(3)(m) of the CA 2013, relating to conservation of energy and technology absorption are not applicable to the Bank. The Bank is constantly pursuing its goal of upgrading technology to deliver quality services to its customers in a cost - effective manner.

### Foreign Exchange Earnings / Outgo

The Bank has not carried out any activities relating to the export and import during the financial year. There are no foreign exchange expenses and foreign income during the financial year.

### Changes in Directors and Key Managerial Personnel

The details about the changes in the Directors and Key Managerial Personnel (KMP) by way of appointment, re – designation, resignation, death or disqualification, variation made or withdrawn etc. are as follows:

Sl.	Particulars	Designation	Date of Appointment	Date of Cessation
1	Mr. Govind Singh	MD & CEO	30.04.2016	-
2	Mr. T. N. Thakur	Director	30.04.2016	-
3	Dr. V. S. Sampath	Director	24.08.2016	-
4	Mr. Somnath Sengupta	Director	24.08.2016	-
5	Ms. Anita Ramachandran	Director	24.08.2016	-
6	Mr. Kajal Ghose	Director	16.01.2017	-
7	Mr. Arup Kumar	Director	17.02.2018	-
8	Mr. Anang Kr. Shandilya	Company Secretary	01.10.2016	-
9	Mr. Abhisheka Kumar*	Chief Financial Officer	01.10.2016	31.12.2017

\* The Bank is in the process of selecting a qualified personnel for the position of Chief Financial Officer.

### **Whistle Blower Policy (Vigil Mechanism)**

The Bank, as a part of prudent practice, established Vigilance Department to develop and execute a comprehensive strategy to deal with instances of fraud and mismanagement, if any, and for a holistic and smooth operations of the Bank. The department is fully functional and conducts investigation arising out of fraud and whistle blower complaints in a fair manner.

Pursuant to provisions of Section 177(9) of the Companies Act, 2013 and RBI Guidelines and other application laws, the Bank has established the Vigil Mechanism, as part of the Whistle Blower Policy, for the Directors and Employees to report concerns about unethical behavior, actual or suspected fraud or violation of the Bank's Code of Conduct or ethics policy. Additionally, the Bank places zero tolerance for dis-integrity and corruption. Towards this end, all employee after joining are trained to maintain high standards of integrity of their work area. The Bank also has Whistle Blower Policy, thus enabling the staff to escalate any perceived dis-integrity and corruption issues. It also provides adequate safeguards against the victimization of employees who avail this mechanism and allows direct access to the Chairperson of the Audit Committee in exceptional cases. None of the staff has been denied access to the Audit Committee.

The Audit Committee oversees the Vigil Mechanism. The Whistle Blower Policy has been periodically communicated to the employees and is also posted on the Bank's website: [www.utkarsh.bank](http://www.utkarsh.bank). The website of the Bank also has the email and contact details of the Chairman of ACB that would enable complainants to reach out with complaints if any.

In addition to the above, the Bank has formulated Vigilance Policy for effectively managing the risks arising on account of possible corruption, malpractices and frauds.

### **Auditors**

Pursuant to the provisions of Section 139 and 141 of the Companies Act, 2013, M/s. BSR and Associates LLP were appointed as Statutory Auditors of the Bank and appointed to hold office from the conclusion of current AGM till the conclusion of 3rd AGM.

The Statutory Auditors have confirmed their willingness and eligibility to continue as Statutory Auditors of the Bank, as required under Section 141 of the Companies Act, 2013.

The Board recommends the appointment of M/s. BSR and Associates LLP as Statutory Auditors of the Bank at the ensuing Annual General Meeting. The Bank has also obtained an approval from RBI for appointment of M/s. BSR & Associates LLP as Statutory Auditors for the FY2019.

### **Employees Stock Option Plan (ESOP)**

The Bank does not have an ESOP Policy / Plan and during the year under review, Bank has not issued any employees stock options to any of its employees. However, the holding company of the Bank, Utkarsh Micro Finance Limited has offered Stock Options to certain employees of the Bank, as a part of the group, and in line with the approved ESOP policy of the holding company. While the Holding Company approved the overall options, Employee level allocation of options was based on the performance of the respective employees and was duly approved by the Nomination and Remuneration Committee of the Board of the Bank.

### **Deposits**

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

### **Other Statutory Disclosures:**

- The Bank has not changed its nature of business during FY2018.
- Pursuant to Section 186(11) of the CA 2013, loans made, guarantees given or securities provided or acquisition of securities by a banking company in the ordinary course of its business are exempted from disclosure in the Annual Report.
- All related party transactions that were entered into during FY2018 were on an arm's length basis, and were in the ordinary course of business. There are no materially significant related party transactions made by the Bank with Directors, Key Managerial Personnel or other designated persons, which may have a potential conflict with the interest of the Bank at large. The Bank has a Related Party Transactions Policy in place for the purpose of identification and monitoring of any potential related party transactions.
- There were no significant / material orders passed by the Regulators / a Court / Tribunal etc. during FY2018, which would impact the going concern status of the Bank and its future operations.
- The details of Risk Management Policy & its framework are separately provided in Management Discussion and Analysis Report.
- Our Bank is the subsidiary company of Utkarsh Micro Finance Limited.
- There are no adverse observations / qualifications in the Statutory Auditors' Report.
- There are no audit qualifications in the Secretarial Audit report.
- All recommendations of the Audit Committee were approved by the Board.
- Proper internal financial controls are in place, and that the financial controls have been adequate and operating effectively.
- 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. FY18 and the date of the Directors' report i.e. May 08, 2018.

### **Other Disclosures**

#### **Code of Conduct**

Transparency and highest standards of corporate governance, for a financial institution is one of the prerequisites for establishing a Compliance oriented Bank. Towards this end, the Bank endeavors to ensure that all its activities are fairly aligned with the highest standards of personal and professional integrity and highest level of ethical conduct. The Bank has adopted a Code of Conduct and norms for avoidance of Conflict of Interest, which is applicable to all Directors and Employees. All the Directors and Employees conduct duties according to the aforesaid Code. Some of the areas which are covered by the Code of Conduct are fairness of employment practices, protection of intellectual property, integrity, customer confidentiality and conflict of interest.

#### **Vigilance**

The Bank understands the responsibility both to the members, and to the communities in which Bank's conduct business, to be transparent in all our dealings. The Code of Conduct requires that the Bank does not engage in unethical practices or corruption in any form and explicitly mentions that the Bank will not pay or procure the payment of a bribe or unlawful fees to encourage the performance of a task or one which is intended or likely to compromise the integrity of another. The Bank will not accept any payment, gift or inducement from a third party which is intended to compromise our own integrity. The Code of Conduct also includes procedures dealing with Gifts & Entertainment, conflicts of interest and other important matters. The Bank has a Zero tolerance on unethical practices and corruption.

## Corporate Social Responsibility (CSR)

The Board of Directors in its meeting held on March 19, 2017 had approved the CSR Policy of the Bank.

Being the 1st year of operations, the provision relating to contribution towards CSR as per Section 135 of the Companies Act, 2013 was not applicable to the Bank for FY2017. Pursuant to the Business Transfer Agreement between Bank and Utkarsh Micro Finance Ltd. (Holding Company), the lending, borrowing and existing businesses of UMFL were transferred to the Bank, as at the close of business on January 21, 2017. Based on the profits of the transferred business, the Bank has carried out CSR Spend hours to and extent of ₹40 lakh during the year. The CSR spend was carried out in the field of Financial Literacy. The Bank's CSR Spend are carried out in line the Board approved policy, with the approval of the Corporate Social Responsibility Committee of the Bank.

## Know Your Customer (KYC) / Anti-Money Laundering (AML)

Your Bank adheres to the RBI's KYC / AML Guidelines issued from time to time. The Bank's KYC / AML Policy is prepared in accordance with the Prevention of Money Laundering Act, 2002 and RBI / IBA (Indian Banks' Association) guidelines. Various regulatory reporting requirements, as set out by the Financial Intelligence Unit (FIU) of the Government of India, are complied with, by the Bank. The Bank has a transaction monitoring process with automated system solution closely monitored by the centralized AML team. Further, a dedicated team carries out the transaction monitoring process in line with the regulatory requirements. Bank's employees are being imparted training on KYC / AML aspects on a regular basis. Executives of the Bank also attend periodic workshops / seminars organized by FIU, RBI, IBA and NIBM (National Institute of Bank Management) to enhance their awareness in these aspects. Recent changes in the PMLA guidelines notified in June 2017 have been followed and embedded in the customer acquisition processes of the Bank.

## Directors' Responsibility Statement

As per requirements of Section 134(3) (c) of the Companies Act, 2013, your Directors hereby confirm and declare that -

- a) in the preparation of the annual accounts for financial year ended March 31, 2018 the applicable accounting standards have been followed, and there is no material departure from the same;
- b) the Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit or loss of the Bank for that year;
- c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities;
- d) the Directors have prepared the annual accounts for the financial year ended March 31, 2018 on a going concern basis.
- 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.

- 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.

## Prospects

Despite the challenges faced by the economy and the banking industry, the Directors expect a sustained level of growth of business of the Bank in the coming year. Your Directors are of the view that there is immense opportunity to cater the unserved and underserved section of client base in the country, particularly the area in which your Bank is currently operating. Your Bank, in the coming years, would serve this segment with the innovative tech-enabled products and services aligned with the needs of the prospective clients of the area.

## Logo of the Bank

Bank had decided to come up with its new logo effective from January 9, 2017. Our logo has the Sun connotation which culminates into a Symbol, which translates the 'Intent of Utkarsh'. It highlights a new beginning, a new day, symbol of hope and progress. It is the most powerful representation of the energy on which every life thrives.

The logo artistically reflects the Hindi letter 'उ' which stands for Utkarsh. The Hindi letter 'उ' also forms a silhouette of a Bird which denotes 'Flight', rising and moving ahead towards Utkarsh Progress.

## Human Resources

The Bank has formulated a sound HR policy and adopted HR strategy to effectively align with business requirements and various HR activities pertaining to recruitment, deployment, training, talent retention and motivational strategies are directed to seamlessly support achievement of your Bank's vision and mission. In this direction, your Bank has been making constant efforts to motivate its employees for excellence in performance, and at the same time endeavors to provide a better work life balance through various employee welfare activities. Total head count of the Bank as on March 31, 2018 stood at 5,142 which consists of 399 female employees and 4,743 male employees.

## Technology

In a Competitive market, technology has become key differentiator and your Bank is constantly working to improve simplicity, speed and security with respect to technological advancement in all our service to customers. In the journey of transformation to a Bank, Utkarsh has been able to implement technological upgradation enabling customers, employees and other stakeholders to have a hassle free way of technologically advanced working. The Bank's Technology strategy is based on reaching out to the unchartered territory and underserved populace with relevant technology that would bring about a change in carrying out financial transaction and also expand the financial inclusion footprint.

## Secretarial Auditors:

Pursuant to the section 204 of Companies Act 2013, and relevant provisions of the Companies (Appointment and Remuneration of Managerial Personnel) Rules 2014, the Bank has appointed M/s. L. K. Singh & Associates as the Secretarial Auditor for the FY2018. The Secretarial Auditor has carried out an audit and the audit report along with their observations are provided as Annexure 'B' to the report. There has been no adverse remark.

## Acknowledgment

Your Directors place on record their sincere thanks to the Central and State Governments, Reserve Bank of India, Ministry of Corporate Affairs, SEBI and all other Regulatory Authorities, employees of the Bank, and all stakeholders of the Bank for their continuous support and contribution to the Bank. Your Board of Directors would also like to place on record, sincere gratitude towards customers for posing their continuous faith on us. Directors would also like to thank our associates and other partners of the Bank for their assistance and co-operation extended alongwith the employees of the Bank. The Directors also express their gratitude to the Shareholders for extending their support.

**Place : Mumbai**  
**Date : May 14, 2018**

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

**Sd/-**  
**Kajal Ghose**  
**Director**  
**DIN - 07702190**

**Sd/-**  
**Govind Singh**  
**MD & CEO**  
**DIN - 02470880**

# ANNEXURE 'A'

## Number of Meetings of the Board of Directors

A total of seven (7) Board Meetings were held during the financial year 2017-18. The particulars of meetings are summarized as below:

Sl.	Date of Meetings	No. of Directors eligible to attend	No. of Directors present	% of attendance
1	May 29, 2017	6	5	83%
2	August 11, 2017	6	5	83%
3	August 30, 2017	6	5	83%
4	September 11, 2017	6	4	66%
5	November 11, 2017	6	6	100%
6	February 17, 2018	7	6	85%
7	March 16, 2018	7	6	85%

## Details regarding committees

In due compliance of various Companies Act, 2013 requirements and RBI Guidelines, the Board has constituted following Board Committees. Details of the Committees existing as on March 31, 2018 are as follows:

Sl.	Name of the Committee	Members	No. of meetings held during the FY2018
1	Audit Committee	Mr. Tantra Narayan Thakur Ms. Anita Ramachandran Mr. Somnath Sengupta	6
2	Nomination & Remuneration Committee	Mr. Somnath Sengupta Dr. V. S. Sampath Ms. Anita Ramachandran	1
3	Stakeholders' Relationship Committee	Mr. Somnath Sengupta Ms. Anita Ramachandran Mr. Govind Singh	2
4	Risk Management Committee	Dr. V. S. Sampath Mr Somnath Sengupta Mr. Govind Singh	4
5	Corporate Social Responsibility Committee	Dr. V. S. Sampath Mr. Tantra Narayan Thakur Mr. Govind Singh	1

Sl.	Name of the Committee	Members	No. of Meetings held During the FY2018
6	IT Strategy Committee	Mr. Kajal Ghose Mr. Tantra Narayan Thakur Mr. Govind Singh	3
7	Review Committee for Identification of Wilful Defaulters	Mr. Govind Singh Mr. Kajal Ghose Mr. Tantra Narayan Thakur	Committee meetings are need based, no meeting held during the FY2018
8	Customer Service Committee	Mr. Somnath Sengupta Mr. Kajal Ghose One Customer Representative Mr. Govind Singh	2
9	Special Committee to Monitor Large Value Fraud	Mr. Govind Singh Dr. V. S. Sampath Ms. Anita Ramachandran Mr. Somnath Sengupta Mr. Tantra Narayan Thakur	2
10	Credit Approval Committee	Mr. Kajal Ghose Ms. Anita Ramachandran Mr. Govind Singh	3

# ANNEXURE 'B'

## Secretarial Audit Report

### For the Financial Year Ended March 31, 2018

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

To,  
The Members,  
**UTKARSH SMALL FINANCE BANK LIMITED**  
(CIN NO- U65992UP2016PLC082804)  
S-24/1-2, FIRST FLOOR, MAHAVIR NAGAR,  
ORDERLY BAZAR, VARANASI, U.P., 221002

Dear Sirs,

I have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate governance practice by **UTKARSH SMALL FINANCE BANK LIMITED** (hereinafter called "the Company"). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts / statutory compliances and expressing our opinion thereon.

Based on my verification of the Company's Books, Papers, Minutes 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 our opinion, the Company has, during the financial year ended **March 31, 2018** 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 **UTKARSH SMALL FINANCE BANK LIMITED** ("the Company") for the financial year ended on **March 31, 2018** according to the provisions of:
  - The Companies Act, 2013 (the Act) and the rules made there under;
  - The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the rules made there under;
  - The Depositories Act, 1996 and the Regulations and Bye-laws framed there under;
  - Foreign Exchange Management Act, 1999 and the rules and regulations made there under to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
  - The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act'):-

- The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
- The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
- The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;
- The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999;

- The Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008;
- The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
- The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; and
- The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998.

- The following laws, regulations, directions, orders applicability specifically to the Company:

- The Reserve Bank of India Act 1934.
- Employees Provident Funds & miscellaneous Provision Act 1952.
- Payments of Gratuity Acts, 1972.
- Employee State Insurance Act, 1948
- Maternity Benefit Act, 1961
- Payment of Bonus Act, 1965

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

- Secretarial Standards with regard to Meeting of Board of Directors (SS-1) and General Meeting (SS-2) issued by Institute of Company Secretaries of India and made effective from 1st July 2015.

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

- Bank has displayed whistleblower policy on website, where the contact details of Chairman of ACB are not displayed, which Bank is advised to do, at the earliest.

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

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

Majority decision is carried through while the dissenting members' views are captured and recorded as part of the minutes.

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

**I further report that** during the audit period the company has Major decisions taken by the members in pursuance to section 180 of the Companies Act, 2013, having a major bearing on the company's affairs in pursuance of the above referred laws, rules, regulations, guidelines, standards, etc. referred to above).

**For L K SINGH & ASSOCIATES**  
COMPANY SECRETARIES

Sd/-  
(Lalan Kumar Singh)  
FCS No.: 7837  
C.P. No.: 8544

Place: VARANASI  
Date: 18/04/2018

This report is to be read with our letter of even date which is annexed as ' **Annexure A** ' and forms an integral part of this report.

To,  
The Members  
UTKARSH SMALL FINANCE BANK LIMITED  
S-24/1-2, FIRST FLOOR, MAHAVIR NAGAR,  
ORDERLY BAZAR, VARANASI, U.P., 221002

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

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

**For L K SINGH & ASSOCIATES**  
COMPANY SECRETARIES

Sd/-  
(Lalan Kumar Singh)  
FCS No.: 7837  
C.P. No.: 8544

Place: VARANASI  
Date: 18/04/2018

# CORPORATE GOVERNANCE REPORT

## Corporate Governance Practices

The Management is of the firm belief that Corporate Governance is a process that aims to meet Stakeholders' aspirations and societal expectations. The Corporate Governance Principle guides the Board, Management and Employees to function towards best interest of all Stakeholders.

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

The Bank's Corporate Governance practices are aimed at meeting the Corporate Governance requirements as per the Government of India, Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI) and The SEBI (Listing Obligation and Disclosure Requirement) Regulations - 2015 ('Listing Regulations'), BIS-Corporate Governance Guidelines, besides good practices either recommended by professional bodies or practiced by leading Bank's/corporates.

## The Board

The Board currently comprises of 7 Members, whose biographical details are set out in the Board of Directors and Senior Management section of this Annual Report. An updated list of directors of the Bank, and their respective role and functions are maintained and regularly updated on the website.

The primary role of the Board is to protect and enhance long-term steady, balanced growth of the institution with transparent and ethical means. It sets the overall strategy for the Bank, and supervises the Executive Management and decision making. The Board also ensures that good corporate governance policies and practices are implemented within the Bank. In the course of discharging its duties, the Board acts in good faith, with due diligence and care, and in the best interests of the Bank and its Stakeholders.

Day-to-day operation of the businesses of the Bank is delegated to the management, which is led by the Managing Director and CEO and supported by the Executive Committee. The Board monitors various actions and the performance of the Bank, as measured against the corporate goals and financial and non-financial targets set by the Board.

The Bank provides extensive background information about its history, mission and businesses to its Directors. The Directors are also invited to visit the Bank's Head Office and operating units, from time to time, and to meet with the management and senior officials for gaining better understanding of business operations of the Bank. Furthermore, the Board has separate and independent access to the senior management and the Company Secretary at all times.

Appropriate liability insurance for Directors has been arranged, for indemnifying their liabilities arising out of corporate activities. This insurance coverage is reviewed on an annual basis.

## Board Meetings

The Board meets regularly, at least four times a year, at quarterly intervals and holds additional meetings as and when the Board thinks appropriate.

Seven Board Meetings were held during FY2018. Notice of not less than 14 days was given to Directors for the regular Board Meetings. Draft Agenda for Board meetings were prepared and circulated to all Directors before each meeting. Directors were given an opportunity to include any other matter/s in the Agenda. The Agenda, together with Board papers are sent to the Directors well before time and in case of financials, before the intended date of the Board Meeting.

Minutes of Board meetings were prepared in a lucid manner, covering the details of discussions and decisions reached, any concerns raised and also mentioning dissenting views expressed (if any). The draft minutes were sent to all Directors within a reasonable time after each meeting, for their comments, before being formally signed by the Chairman of the Meeting. Copies of the final version of minutes of the Board Meetings were sent to the Directors for information and record.

At each regular Board Meeting, Department Heads of the Bank made presentations to the Board on various aspects, including the business performance, financial performance, corporate governance and outlook, policy matters, reviews etc.

Throughout FY2018, Directors of the Bank also participated in the consideration and approval of matters of the Bank, by way of written resolutions circulated to them. Supporting written materials were provided by the respective Department Heads, as and when required.

As per the existing Code of Conduct and Norms to avoid Conflict of Interest, a Director, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Bank would declare the nature of his interest at the meeting of the Board at which the question of entering into the contract or arrangement is first considered. Additionally, the Director would not vote (nor be counted in the quorum) on any resolution of the Directors in respect of any contract or arrangement or proposal in which he or any of his associate(s) is, to his knowledge, materially interested. Matters to be decided at Board Meetings are decided by a majority of votes from Directors allowed to vote. These were strictly observed throughout FY2018.

Directors of the Bank play an active role in participating in the Bank's meetings through contribution of their professional opinions and active involvement in discussion.

Attendance of Meetings held during the FY2018:

Name of the Directors	No. of Meetings Eligible to Attend	No. of Meetings Attended	% of Attendance
<b>Independent / Non-Executive Directors</b>			
Dr. V. S. Sampath	7	6	85%
Ms. Anita Ramachandran	7	5	71%
Mr. Arup Kumar	1	-	0%
Mr. Kajal Ghose	7	7	100%
Mr. Somnath Sengupta	7	6	85%
Mr. Tantra Narayan Thakur	7	7	100%
<b>Executive Director</b>			
Mr. Govind Singh	8	8	100%

## Board Committees

The Board delegates its powers and authority, from time to time, to Board Committees, in order to ensure the operational efficiency, and specific issues are being handled with relevant expertise. Ten Board committees have been established and each of them has its specific duties and authority, set out in its own terms of reference.

- **Audit Committee**

The Audit Committee meets at quarterly intervals. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY2018:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Mr. Tantra Narayan Thakur	6	6	100%
Ms. Anita Ramachandran	6	5	83%
Mr. Somnath Sengupta	6	5	83%

- **Nomination & Remuneration Committee**

The Nomination & Remuneration Committee meets minimum once in a year and also as and when required. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY2018:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Mr. Somnath Sengupta	1	1	100%
Dr. V. S. Sampath	1	1	100%
Ms. Anita Ramachandran	1	1	100%

- **Stakeholders' Relationship Committee**

The Stakeholder Relationship Committee meets as and when required. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY2018:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Mr. Somnath Sengupta	2	1	50%
Ms. Anita Ramachandran	2	2	100%
Mr. Govind Singh	2	2	100%

- **Risk Management Committee**

The Risk Management Committee meets minimum on Quarterly basis. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY2018:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Dr. V. S. Sampath	4	3	75%
Mr. Somnath Sengupta	4	4	100%
Mr. Govind Singh	4	4	100%

- **Corporate Social Responsibility Committee**

The Corporate Social Responsibility Committee meets minimum on Half Yearly basis. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY2018:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Dr. V. S. Sampath	1	1	100%
Mr. Tantra Narayan Thakur	1	1	100%
Mr. Govind Singh	1	1	100%

- **IT Strategy Committee**

The IT Strategy Committee meets on Quarterly basis. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY2018:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Mr. Kajal Ghose	3	3	100%
Mr. Tantra Narayan Thakur	3	3	100%
Mr. Govind Singh	3	3	100%

- **Review Committee for Identification of Wilful Defaulters**

The Review Committee for Identification of Wilful Defaulters meets as and when required. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report.

No Meeting was held during the FY2018 as the Bank did not have any wilful defaulters for the period. The details of the committee members are given below:

Name of Members
Mr. Govind Singh
Mr. Kajal Ghose
Mr. Tantra Narayan Thakur

- **Customer Service Committee**

The Customer Service Committee meets on half yearly basis. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY18:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Mr. Somnath Sengupta	2	2	100%
Mr. Kajal Ghose	2	2	100%
One Customer Representative	2	2	100%
Mr. Govind Singh	2	2	100%

- **Special Committee to Monitor Large Value Frauds**

The Special Committee to monitor Large Value Fraud meets on half yearly basis. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY2018:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Mr. Govind Singh	1	1	100%
Dr. V. S. Sampath	1	1	100%
Ms. Anita Ramachandran	1	-	0%
Mr. Somnath Sengupta	1	1	100%
Mr. Tantra Narayan Thakur	1	1	100%

- **Credit Approval Committee**

The Credit Approval Committee meets as and when required. The charter of the Committee is attached as Annexure to the Directors Report which is the part of the Annual Report. The details of number of meetings and attendance details of the members are given below:

Attendance of Meetings held during the FY2018:

Name of the Members	Total No. of Meetings Held	Number of Meetings Attended	% of Attendance
Mr. Kajal Ghose	3	3	100%
Ms. Anita Ramachandran	3	2	67%
Mr. Govind Singh	3	3	100%

## Non-Executive Directors

Coming from diverse business and professional backgrounds, the Non-Executive Directors (including Independent Non-Executive Directors) of the Bank have shared their valuable experience with the Board, for promoting the best interests of the Bank and its shareholders. The Non-Executive Directors have actively participated in the Board and Board Committees of the Bank and have made significant contribution of their skills and expertise to these Committees.

## Remuneration of Directors

Each Director is entitled to a Director's fees, which is determined by the Board, in line with the provisions of Companies Act, 2013. Currently, the Non-Executive Directors are not paid any additional remuneration. The Chairman of the Board is paid a monthly remuneration, after obtaining an approval of shareholders and RBI. The remuneration related decisions are discussed with the Nomination & Remuneration Committee of the Board. The Bank's Human Resources Department assists the Nomination & Remuneration Committee by providing relevant remuneration data and market conditions for the Remuneration Committee's consideration. The remuneration of MD & CEO and senior management of the Bank is determined with reference to the Bank's performance and profitability, as well as remuneration benchmarks in the industry and the prevailing market conditions. Remuneration is performance-based and coupled with an incentive system is competitive to attract and retain talented employees.

## Nomination, Appointment and Re-Election of Directors

Formal nomination procedures were adopted by the Board for governing the nomination of Directors. Nomination of Director's are reviewed and discussed by the Nomination Committee for her / his suitability on the basis of qualifications, experience and background. Suitable candidate would be recommended by the Nomination Committee to the Board for consideration of the appointment.

During the year under review, the Nomination & Remuneration Committee considered the appointment of Mr. Arup Kumar as Additional Director and recommended the appointment to the Board.

In addition, one-third of the Directors who have served longest on the Board would retire, thus becoming eligible for re-election at each Annual General Meeting. Each Director is subject to retirement by rotation at least once every three years. Any further re-appointment of an Independent Non-Executive Director, who has served the Board for more than nine years, will be subject to separate resolution to be approved by the shareholders.

## Board Diversity

The Bank currently has diverse Board to make good use of differences in the skills, regional and industrial experience, background, race, gender and other qualities of members of the Board. These differences have been taken into account in determining the optimum composition of the Board.

## Induction and Continuous Professional Development

A new Director is explained about the Banking business and the core areas of the Bank's operations at the time of induction. Also, various new regulations issued by the regulators that are critical are explained to the Board Members, along with the action taken against each requirement. Orientation with regard to the duties and responsibilities of Directors under statutory regulations, internal code of conduct and norms, for avoiding conflict of interest and the Listing Rules are provided.

The Bank has plans to arrange training programmes as part of the continuous professional development for its Directors to develop and refresh their knowledge and skill.

## Corporate Governance Function

The Board is responsible for performing the corporate governance duties. Specific terms of reference were set out in the Corporate Governance Policy approved by the Board and the relevant duties include the following:

- Ensure that the Governance principles set for the bank comply with all relevant laws, regulations and other applicable codes of conduct;
- Set the business policies in consultation with the Management of the Bank;
- Provide strategic guidance for implementation of business policy and structure a management information system for review and course correction;
- Ensuring proper implementation of the guidelines of the business & other policies and take action as under:
  - Establish appropriate systems to regulate the risk appetite and profile of the Bank in order to develop an effective risk management system;
  - Ensure that all supervisory / regulatory directions are submitted and the supervisor's recommendations are utilized in the assessment of the performance of the senior management in implementation of Board philosophy;
  - Formulate, adopt and review of the various policies prescribed by various Statutory Authorities from time to time;

- Set Standards of Business Conduct and Ethical Behavior for members and Senior Management.
- Ensure that the Bank has in place a robust compliance system for all applicable laws and regulations;
- Prescribe the forms and frequency of reporting to the Board in respect of each of the above areas of responsibility;
- Set up sound system of Internal Controls and Audit including Financial, Operational and Compliance controls and annual review of such system for their effectiveness;
- Monitor the financial performance of the Bank and must ensure that the financial results are prepared in accordance with the generally accepted accounting principles and regulations issued by the RBI and are reported to shareholders and regulators on a timely and regular basis;
- Ensure that all material developments of the Bank are disclosed to the public on a timely basis in accordance with the Standard Listing Regulations requirement;  
Delegate the responsibilities to mandated / other recommended Empowered Committees of
- Directors in discharging of the above governance functions, while retaining its primary accountability;
- Execute such other duties as defined under the relevant Government of India / RBI Guidelines.

### Directors' Responsibilities for Financial Reporting and Disclosures

The Bank's Directors acknowledge their responsibility to prepare accounts for each half and full financial year which give a true and fair view of the state of affairs of the Bank. The directors consider that in preparing financial statements, the Bank ensures statutory requirements are met and applies appropriate accounting policies that are consistently adopted and makes decision and estimates that are reasonable and prudent in accordance with the applicable accounting standards.

The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Bank, and to prevent and detect fraud and other irregularities. They consider that the Bank has adequate resources to continue with operational existence for the foreseeable future and are not aware of material uncertainties in relation to events or conditions that may cast significant doubt upon the Bank's ability to continue as a going concern. The Bank's financial statements have accordingly been prepared on a going concern basis.

The Directors are responsible for ensuring that proper accounting records are kept so that the Bank could prepare financial statements in accordance with statutory requirements and the Bank's accounting policies, and applicable Listing Rules and statutory regulations with regard to the timely and proper disclosure of inside information, announcements and financial disclosures, and authorizes their publication as and when required.

### Risk Management & Internal Control

Risk Management is an essential part of corporate governance. Effective risk management facilitates the Bank's business development and operations by setting the appropriate risk appetite, maintaining an optimal risk level and most importantly, proactively managing risks. It is the responsibility of all management staff to uphold the Bank's risk management function by ensuring that all employees and business units comply with the risk management practices embedded into Bank's daily operations.

The Board is responsible for ensuring that sound and effective risk management and internal control systems are maintained, while management ensures the sufficient and effective operational controls over the key business processes, are properly implemented with regular review and update.

As per the directions of RBI on Guidelines for Licencing of Small Finance Banks in the Private sector, Utkarsh Small Finance Bank Limited is required to maintain a minimum capital adequacy of 15 per cent of its Risk Weighted Assets (RWA) subject to any higher percentage as may be prescribed by RBI from time to time. This document covers the Capital Adequacy status for Utkarsh Small Finance Bank Limited. It also describes the Risk Process and Governance at the Bank to effectively on-board, monitor and report risk.

Internal Audit Reports are submitted to the Audit Committee regularly. Key audit findings are presented to the management in the Compliance and Audit Committee.

Furthermore, The Bank has a policy to address the complaints through the Whistle Blower Mechanisms for employees to raise concerns, in strict confidence, about possible improprieties in any matters. Reported cases would be investigated by a committee in a confidential and timely manner and the investigation report are submitted to the Audit Committee of the Board.

### External Auditor

The Audit Committee is responsible for considering the appointment, re-appointment and removal of external auditor, subject to endorsement by the Board and final approval and authorization by the shareholders of the Bank in general meetings. M/s BSR & Associates LLP has been appointed as first auditors of the Bank, and recommended by the Board of appointment as Statutory Auditors in the ensuing Annual General Meeting the Bank.

### Review of Audited Results

The Audit Committee of the Bank has reviewed the accounting principles and practices adopted by the Bank and the audited consolidated financial statements of the Bank for FY2018.

### Company Secretary

The Bank has a qualified Company Secretary who co-ordinates and conduct the Board & Board Committee Meetings on periodic intervals. The Company Secretary also takes care of the various applicable Companies Act and Listing Obligation & Disclosure Requirements (LODR). The details of the Company Secretary along with his experience is posted on the website of the Bank.

### Communication with Shareholders

The Board recognizes the importance of frequent and proper communication with the Bank's shareholders. In line with the Corporate Governance Policy adopted by the Bank special emphasis has been given for ensuring effective and transparent communication between the Bank and its shareholders.

Moreover, the Annual General Meeting of the Bank provides an opportunity for face-to-face communication between the Board and the shareholders. Shareholders are welcome to raise any query in relation to the Bank's businesses at the Annual General Meeting. Shareholders' enquiries, either received by telephone or by email, are properly and promptly attended by the Bank Secretarial Department and are addressed to the Stakeholders Relationship Committee, if necessary. Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary at the Bank's registered office address.

### Shareholder Services

Any matter in relation to the transfer of shares, change of name or address, or loss of share certificates or dividend cheques, registrations and requests for annual / interim report copies should be addressed to the Bank's Registrar & Share Transfer Agent, M/s. Karvy Computershare Private Ltd., Unit: Utkarsh Small Finance Bank, Karvy Selenium Tower B, Plot No 31 & 32, Gachibowli, Financial District, Nanakramguda, Serilingampally, Hyderabad - 500 032, Telangana. Any Shareholder can raise any service request or any query to the company secretary by writing a mail to [shareholders@utkarsh.bank](mailto:shareholders@utkarsh.bank).

## Bank Website and Annual Report

To ensure all shareholders have uniform and timely access to important Bank information, the Bank makes extensive use of the Bank's website to deliver up-to-date information. Latest information regarding the activities and publications of the Bank is included in the Bank's website at [www.utkarsh.bank](http://www.utkarsh.bank) in order to provide comprehensive information of the Bank for the shareholders of the Bank as well as the general public. The Bank's Annual Report is available on our corporate website. Shareholders may at any time change their choice of means of receiving the Bank's corporate communications free of charge by notice in writing to the Registrar & Share Transfer Agent M/s. Karvy Computershare Private Limited.

## Shareholders' Rights

The Board and management shall ensure shareholders' rights and all shareholders are treated equitably and fairly. Pursuant to the Bank's bye-laws, any shareholder entitled to attend and vote at a general meeting of the Bank is entitled to appoint another person as her / his proxy to attend and vote instead of her / him. Shareholders who hold not less than one-tenth of the paid up capital of the Bank, shall have the right, by written requisition to the Company Secretary of the Bank, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. The procedure for shareholders to put forward proposals at general meetings are stated as follows:

- The written requisition must state the purposes of the meeting, and must be signed by all the shareholders concerned and may consist of several documents in like form each signed by one or more shareholders concerned.
- The written requisition must be deposited at the Bank's registered office of the Bank as well as the principal place of business in Varanasi for the attention of the Company Secretary.
- The written requisition will be verified with the Bank's share registrar and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to include the relevant resolution in the agenda for such general meeting provided that the shareholders concerned have deposited a sum of money reasonably sufficient to meet the Bank's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned in accordance with the statutory requirements to all the registered shareholders. Such general meeting shall be held within two months after deposit of such requisition.
- If within 21 days of such deposit, the Board fails to proceed, to convene such general meeting, the shareholders concerned, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Any vote of shareholders at a general meeting must be taken by way of poll and the Bank will announce the results of the poll in the manner prescribed under the Listing Rules.

Chairman of the Audit Committee will attend the Annual General Meetings of the Bank to address shareholders' queries. External auditor is also invited to attend the Bank's annual general meetings and is available to assist the Directors in addressing queries from shareholders relating to the conduct of the audit and the preparation and content of its auditors' report.

## General Meeting

During the year, One Annual General Meeting was conducted by the Bank. Besides, during the year under review, Two Extra-Ordinary General Meetings were held on August 30, 2017 and February 21, 2018 to transact some special businesses with the approval of the Board of Directors.

# BALANCE SHEET AS AT MARCH 31, 2018

(₹ in '000s)

Particulars	Schedule	As at March 31, 18	As at March 31, 17
<b>CAPITAL AND LIABILITIES</b>			
Capital	1	47,00,500	3,000,500
Reserves and Surplus	2	(5,81,818)	48,348
Deposits	3	2,19,38,668	187,223
Borrowings	4	1,78,88,464	22,888,283
Other Liabilities and Provisions	5	12,91,432	628,935
<b>Total</b>		<b>4,52,37,246</b>	<b>26,753,289</b>
<b>ASSETS</b>			
Cash and balances with Reserve Bank of India	6	20,55,641	423,844
Balances with banks and money at call and short notice	7	36,31,904	1,496,115
Investments	8	66,12,737	7,292,293
Advances	9	3,08,25,211	15,939,087
Fixed Assets	10	8,72,665	216,158
Other Assets	11	12,39,088	1,385,792
<b>Total</b>		<b>4,52,37,246</b>	<b>26,753,289</b>
Contingent Liabilities	12	<b>12,79,981</b>	<b>410,126</b>
Bills for Collection		-	-
Significant accounting policies	17		
Notes to the financial statements	18		

The Schedules referred to above form an integral part of the Balance Sheet

As per our Report of even date attached  
for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

for and on behalf of the Board of Directors of  
**Utkarsh Small Finance Bank Limited**  
CIN: U65992UP2016PLC082804

**Sd/-**  
**N Sampath Ganesh**  
Partner  
Membership No.042554

**Sd/-**  
**Sampath Sundaram Veeravalli**  
Chairman  
DIN : 07594524

**Sd/-**  
**Govind Singh**  
Managing Director & CEO  
DIN : 02470880

**Sd/-**  
**Tantra Narayan Thakur**  
Director  
DIN : 00024322

**Sd/-**  
**Anang Kumar Shandilya**  
Company Secretary  
FCS:6693

Place : Mumbai  
Date : May 08, 2017

Place : Mumbai  
Date : May 08, 2017

# PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED MARCH 31, 2018

(₹ in '000s)

Sl.	Particulars	Schedule	For the year ended March 31, 18	For the year ended March 31, 17
<b>I</b>	<b>INCOME</b>			
	Interest Earned	13	51,90,261	868,894
	Other Income	14	4,28,370	33,153
	<b>Total</b>		<b>56,18,631</b>	<b>902,047</b>
<b>II</b>	<b>EXPENDITURE</b>			
	Interest Expended	15	25,07,305	442,929
	Operating Expenses	16	23,55,532	348,935
	Provisions and Contingencies	18.22	13,85,960	61,835
	<b>Total</b>		<b>62,48,797</b>	<b>853,699</b>
<b>III</b>	<b>PROFIT/LOSS</b>			
	Net Profit /(Loss) for the year		<b>(6,30,166)</b>	<b>48,348</b>
	Balance in Profit and Loss account brought forward		<b>36,261</b>	-
	<b>Total</b>		<b>(5,93,905)</b>	<b>48,348</b>
<b>IV</b>	<b>APPROPRIATIONS</b>			
	Transfer to Statutory Reserve		-	12,087
	Balance carried over to Balance Sheet		(5,93,905)	36,261
	<b>Total</b>		<b>(5,93,905)</b>	<b>48,348</b>
<b>V</b>	<b>EARNINGS PER EQUITY SHARE</b>	18.5.5		
	EPS Basic (₹)		<b>(1.73)</b>	<b>0.51</b>
	EPS Diluted (₹)		<b>(1.73)</b>	<b>0.27</b>
	Face Value per share (₹)		<b>10</b>	<b>10</b>
	Significant accounting policies	17		
	Notes to the financial statements	18		

The Schedules referred to above form an integral part of the Profit and Loss Account

As per our Report of even date attached  
for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

for and on behalf of the Board of Directors of  
**Utkarsh Small Finance Bank Limited**  
CIN: U65992UP2016PLC082804

**Sd/-**  
**N Sampath Ganesh**  
Partner  
Membership No.042554

**Sd/-**  
**Sampath Sundaram Veeravalli**  
Chairman  
DIN : 07594524

**Sd/-**  
**Govind Singh**  
Managing Director & CEO  
DIN : 02470880

**Sd/-**  
**Tantra Narayan Thakur**  
Director  
DIN : 00024322

**Sd/-**  
**Anang Kumar Shandilya**  
Company Secretary  
FCS:6693

Place : Mumbai  
Date : May 08, 2017

Place : Mumbai  
Date : May 08, 2017

# CASH FLOW STATEMENT FOR THE PERIOD ENDED MARCH 31, 2018

(₹ in '000s)

Sl.	Particulars	For the year ended 31 March 2018	For the year ended 31 March 2017
I	<b>Cash flow from operating activities</b>		
	(Loss) / Profit before taxes	(9,48,103)	65,230
	<b>Adjustments for:-</b>		
	Depreciation and amortisation	1,63,721	14,139
	Depreciation on investments, net	4,141	5,015
	Write-off of non performing advances	14,25,749	-
	General provision for standard advances	36,457	39,938
	General provision for NPA advances	2,37,550	-
	Loss on Sale of Fixed Assets (Net)	172	-
	Employees stock options expense	4,081	2,635
	(i)	<b>9,23,768</b>	<b>1,26,957</b>
	<b>Adjustments for:-</b>		
	Decrease in investments	18,36,310	5,38,936
	(Increase) / decrease in advances	(1,65,49,423)	28,845
	Increase in deposits	2,17,51,445	1,87,223
	Decrease / (increase) in other assets	5,01,681	(6,20,745)
	Increase / (decrease) in other liabilities and provisions	6,26,040	(91,577)
	(ii)	<b>81,66,053</b>	<b>42,682</b>
	Payment of direct taxes	(36,980)	(16,882)
	(iii)	<b>(36,980)</b>	<b>(16,882)</b>
	<b>(A) Net cash flow from operating activities (i) + (ii) + (iii)</b>	<b>90,52,841</b>	<b>1,52,757</b>
II	<b>Cash flow from / (used in) investing activities</b>		
	Purchase of fixed assets including capital work in progress	(8,20,430)	(1,22,143)
	Proceeds from sale of fixed assets	30	-
	Payment made pursuant to BTA (Refer Schedule 17.1)	-	(6,85,063)
	Purchase of held to maturity securities	(11,65,036)	(38,98,454)
	<b>(B) Net cash flow used in investing activities</b>	<b>(19,85,436)</b>	<b>(47,05,660)</b>
III	<b>Cash flow from / (used in) Financing Activities</b>		
	Proceeds from issue of share capital	5,00,000	30,00,500
	Proceeds from issue of Compulsorily Convertible Debentures	-	38,70,000
	Net Proceeds / (repayments) from long term borrowings	(37,99,819)	(17,25,835)
	Net Proceeds / (repayments) from short term borrowings	-	(238)
	<b>© Net cash flow (used in) / from financing activities</b>	<b>(32,99,819)</b>	<b>51,44,427</b>
	(D) Cash & Cash equivalent acquired pursuant to BTA (Refer Schedule 17.1)	-	13,28,435
IV	Net increase / (decrease) in cash and cash equivalents (A) + (B) + (C) + (D)	<b>37,67,586</b>	<b>19,19,959</b>
V	<b>Cash and cash equivalents at the beginning of the year</b>	<b>19,19,959</b>	<b>-</b>
VI	<b>Cash and cash equivalents at the end of the year</b>	<b>56,87,545</b>	<b>19,19,959</b>
	<b>Notes to the Cash Flow Statement:</b>		
	Cash and cash equivalents includes the following:		
(i)	Cash and Balances with Reserve Bank of India (Refer Schedule 6)	<b>20,55,641</b>	<b>4,23,844</b>
(ii)	Balances with Banks in Current Accounts (Refer Schedule 7)	<b>14,31,904</b>	<b>14,96,115</b>
(iii)	Money at Call and Short Notice (Refer Schedule 7)	<b>22,00,000</b>	<b>-</b>
	<b>Cash and cash equivalents at the end of the year</b>	<b>56,87,545</b>	<b>19,19,959</b>

As per our Report of even date attached  
for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/ W-100024

for and on behalf of the Board of Directors of  
**Utkarsh Small Finance Bank Limited**  
CIN: U65992UP2016PLC082804

**Sd/-**  
**N Sampath Ganesh**  
Partner  
Membership No.042554

**Sd/-**  
**Sampath Sundaram Veeravalli**  
Chairman  
DIN : 07594524

**Sd/-**  
**Govind Singh**  
Managing Director & CEO  
DIN : 02470880

Place : Mumbai  
Date : May 08, 2017

**Sd/-**  
**Tantra Narayan Thakur**  
Director  
DIN : 00024322

Place : Mumbai  
Date : May 08, 2017

**Sd/-**  
**Anang Kumar Shandilya**  
Company Secretary  
FCS:6693

# SCHEDULES FORMING PART OF THE BALANCE SHEET AS AT MARCH 31, 2018

## Schedule 1 - Capital

(₹ in '000s)

Particulars	As at March 31, 18	As at March 31, 17
<b>Authorised Capital</b> 750,000,000 Equity shares of ₹10/- each (March 31, 2017: 330,000,000 Equity shares of ₹10/- each)	75,00,000	3,300,000
<b>Issued, subscribed and fully paid-up capital</b> 470,050,000 Equity shares of ₹10/- each (March 31, 2017: 300,050,000 Equity shares of ₹10/- each) (refer schedule 18.2)	47,00,500	3,000,500
<b>Total</b>	<b>47,00,500</b>	<b>3,000,500</b>

## Schedule 2 - Reserves and Surplus

(₹ in '000s)

Particulars	As at March 31, 18	As at March 31, 17
<b>1. Statutory Reserve</b>		
Opening balance	12,087	-
Addition during the year	-	12,087
Deduction during the year	-	-
<b>Total</b>	<b>12,087</b>	<b>12,087</b>
<b>2. Balance in Profit and Loss Account</b>	(5,93,905)	36,261
<b>Total (1+2)</b>	<b>(5,81,818)</b>	<b>48,348</b>

## Schedule 3 - Deposits

(₹ in '000s)

Particulars	As at March 31, 18	As at March 31, 17
<b>A. 1. Demand Deposits</b>		
i) From banks	74,013	-
ii) From others	4,26,117	865
<b>Total</b>	<b>5,00,130</b>	<b>865</b>
<b>2. Savings Bank Deposits</b>	<b>6,65,149</b>	<b>5,566</b>
<b>3. Term Deposits</b>		
i) From banks	1,31,21,025	100,000
ii) From others	76,52,364	80,792
<b>Total</b>	<b>2,07,73,389</b>	<b>180,792</b>
<b>Total ( 1 to 3 )</b>	<b>2,19,38,668</b>	<b>187,223</b>
<b>B. i. Deposits of branches in India</b>	2,19,38,668	187,223
<b>ii. Deposits of branches outside India</b>	-	-
<b>Total</b>	<b>2,19,38,668</b>	<b>187,223</b>

## Schedule 4 - Borrowings

(₹ in '000s)

Particulars	As at March 31, 18	As at March 31, 17
<b>1. Borrowings in India</b>		
i) Reserve Bank of India	-	-
ii) Other banks	28,87,890	67,67,648
iii) Other institutions and agencies *		
a) Government of India	-	-
b) Financial institutions	47,04,757	38,41,892
iv) Borrowing in the form of bonds and debentures (excluding subordinated debt)	25,85,000	28,25,000
v) Capital instruments		
a) Hybrid debt capital instruments issued as debentures (not qualifying as Tier 2 capital)	26,70,000	38,70,000
vi) Other borrowings**	3,20,046	-
<b>2. Total borrowings in India</b>	<b>1,31,67,693</b>	<b>1,73,04,540</b>
<b>Borrowings outside India #</b>		
i) Capital instruments		
a) Unsecured redeemable debentures/bonds (subordinated debt included in Tier 2 capital)	15,00,000	15,00,000
ii) Debentures	28,95,550	37,59,550
iii) Other borrowings	3,25,221	3,24,193
<b>Total borrowings outside India</b>	<b>47,20,771</b>	<b>55,83,743</b>
<b>Total (1+2)</b>	<b>1,78,88,464</b>	<b>22,888,283</b>
Secured borrowings included in 1 and 2 above	45,87,444	10,643,012

\* Borrowing from other institutions and agencies include subordinated debt of ₹100,000 thousands in the nature of term loan

# Borrowing from outside India include subordinated debt of ₹1,500,000 thousands in the nature of Non Convertible Debenture

\*\* Represents payable under lease obligation. Refer Schedule 18.5.4

## Schedule 5 - Other Liabilities and Provisions

(₹ in '000s)

Particulars	As at March 31, 18	As at March 31, 17
<b>1. Bills payable</b>	-	-
<b>2. Inter office adjustments (Net)</b>	-	-
<b>3. Interest accrued</b>	6,47,392	208,078
<b>4. Provision against standard assets</b>	76,395	39,938
<b>5. Others (including provisions)</b>	5,67,645	380,919
<b>Total (1+5)</b>	<b>12,91,432</b>	<b>628,935</b>

**Schedule 6 - Cash and Balances with Reserve Bank of India**
*(₹ in '000s)*

Particulars	As at March 31, 18	As at March 31, 17
1. Cash in hand	1,53,412	10,205
2. Balances with Reserve Bank of India		
i) In current account	19,02,229	413,639
ii) In other accounts	-	-
<b>Total (1+2)</b>	<b>20,55,641</b>	<b>423,844</b>

**Schedule 7 - Balance with Banks and Money at Call and Short Notice**
*(₹ in '000s)*

Particulars	As at March 31, 18	As at March 31, 17
<b>1. In India</b>		
i) Balances with banks		
a) In current accounts	4,49,964	5,58,770
b) In other deposit accounts	9,81,940	9,37,345
ii) Money at call and short notice		
a) With banks	18,00,000	-
b) With other institutions	4,00,000	-
<b>Total (i+ii)</b>	<b>36,31,904</b>	<b>14,96,115</b>
<b>2. Outside India</b>		
In current accounts	-	-
In other deposits accounts	-	-
Money at call and short notice	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>Total (1+2)</b>	<b>36,31,904</b>	<b>14,96,115</b>

**Schedule 8 - Investments**
*(₹ in '000s)*

Particulars	As at March 31, 18	As at March 31, 17
<b>1. Investments in India (net of provisions)</b>		
i) Government securities	56,64,086	7,292,041
ii) Other approved securities	-	-
iii) Shares	-	-
iv) Debentures and bonds	2,00,000	-
v) Subsidiaries / joint ventures	-	-
vi) Others (certificate of deposits and mutual funds)	7,48,651	252
<b>Total</b>	<b>66,12,737</b>	<b>7,292,293</b>

<b>2. Investments Outside India (net of provisions)</b>		
i) Government securities	-	-
ii) Subsidiaries / joint ventures	-	-
iii) Others (equity shares and bonds)	-	-
<b>Total</b>		
<b>Total (1+2)</b>	<b>66,12,737</b>	<b>7,292,293</b>
<b>3. Investments</b>		
<b>i) Gross value of investments</b>		
a) In India	66,21,893	7,297,308
b) Outside India	-	-
	<b>66,21,893</b>	<b>7,297,308</b>
<b>ii) Provision for depreciation</b>		
a) In India	9,156	5,015
b) Outside India	-	-
	<b>9,156</b>	<b>5,015</b>
<b>iii) Net value of investments</b>		
a) In India	66,12,737	7,292,293
b) Outside India	-	-
	<b>66,12,737</b>	<b>7,292,293</b>

#### Schedule 9 - Advances (net of provisions)

(₹ in '000s)

Particulars	As at March 31, 18	As at March 31, 17
<b>A.</b>		
i) Bills purchased and discounted	-	-
ii) Cash credits, overdrafts and loans repayable on demand	-	-
iii) Term loans	3,08,25,211	15,939,087
<b>Total</b>	<b>3,08,25,211</b>	<b>15,939,087</b>
<b>B.</b>		
i) Secured by tangible assets (includes advances against fixed deposits and book debts)	29,33,241	124,089
ii) Covered by Bank / Government guarantees	-	-
iii) Unsecured	2,78,91,970	15,814,998
<b>Total</b>	<b>3,08,25,211</b>	<b>15,939,087</b>
<b>C.1 Advances in India</b>		
i) Priority sector	2,83,12,408	15,938,437
ii) Public sector	-	-
iii) Banks	-	-
iv) Others	25,12,803	650
<b>Total</b>	<b>3,08,25,211</b>	<b>15,939,087</b>
<b>C.2 Advances Outside India</b>		
i) Due from banks	-	-
ii) Due from others	-	-
a) Bills purchases and discounted	-	-
b) Syndicated loans	-	-
c) Others	-	-
<b>Total</b>	<b>-</b>	<b>-</b>
<b>Total (C.1 + C.2)</b>	<b>3,08,25,211</b>	<b>15,939,087</b>

\*Refer Schedule 18.27

## Schedule 10 - Fixed Assets

(₹ in '000s)

Particulars	As at March 31, 18	As at March 31, 17
<b>1. Premises</b>		
i) At cost at 31st March of the preceding year	-	-
ii) Additions during the year	1,21,202	-
iii) Deductions during the year	-	-
iv) Accumulated depreciation to date	-	-
<b>Total</b>	<b>1,21,202</b>	<b>-</b>
<b>2. Other Fixed Assets (including furniture and fixtures)</b>		
i) At cost at March 31 of the preceding year	2,27,466	-
ii) Additions during the year	4,20,199	2,27,466
iii) Deductions during the year	369	-
iv) Accumulated depreciation to date	1,87,358	71,432
<b>Total</b>	<b>4,59,938</b>	<b>1,56,034</b>
<b>3. Leased Assets</b>		
i) At cost at March 31 of the preceding year	-	-
ii) Additions during the year	3,33,461	-
iii) Deductions during the year	-	-
iv) Accumulated depreciation to date	47,628	-
<b>Total</b>	<b>2,85,833</b>	<b>-</b>
<b>4. Capital Work in Progress</b>	<b>5,692</b>	<b>60,124</b>
<b>Total (1 to 4)</b>	<b>8,72,665</b>	<b>2,16,158</b>

## Schedule 11 - Other Assets

(₹ in '000s)

Particulars	As at March 31, 18	As at March 31, 17
1. Inter-office adjustment (net)	-	-
2. Interest accrued	4,67,187	3,97,684
3. Tax Paid in advance / tax deducted at source (net of provision)	26,272	-
4. Stationery and stamps	-	-
5. Non-banking assets acquired in satisfaction of claims	-	-
6. Deferred Tax Asset (net) (refer schedule 18.5.6)	3,45,333	22,718
7. Others	4,00,296	9,65,390
<b>Total (1 to 7)</b>	<b>12,39,088</b>	<b>1,385,792</b>

**Schedule 12 - Contingent Liabilities***(₹ in '000s)*

Particulars	As at March 31, 18	As at March 31, 17
1. Claims against the bank not acknowledged as debts	-	-
2. Liability for partly paid investment	-	-
3. Liability on account of outstanding forward exchange contracts	-	-
4. Liability on account of outstanding derivative contracts	3,17,200	3,17,200
5. Guarantees given on behalf of constituents		
i) In India	-	-
ii) Outside India	-	-
6. Acceptances, endorsements and other obligations	-	-
7. Other items for which the bank is contingently liable	9,62,781	92,926
<b>Total (1 to 7)</b>	<b>12,79,981</b>	<b>410,126</b>

**Schedule 13 - Interest Earned***(₹ in '000s)*

Particulars	For the period ended March 31, 18	For the period ended March 31, 17
1. Interest / discount on advances / bills	46,39,715	7,19,669
2. Income on investments	4,06,310	1,09,246
3. Interest on balance with Reserve Bank of India and other inter bank funds	1,42,477	39,424
4. Others	1,759	555
<b>Total (1 to 4)</b>	<b>51,90,261</b>	<b>8,68,894</b>

**Schedule 14 - Other Income***(₹ in '000s)*

Particulars	For the period ended March 31, 18	For the period ended March 31, 17
1. Commission, exchange and brokerage	1,36,148	27,736
2. Profit / (Loss) on sale/redemption of Investments (net)	(15,832)	699
3. Profit / (Loss) on revaluation of investments	-	-
4. Profit / (Loss) on sale of land, building and other assets (net)	-	-
5. Profit / (Loss) on exchange transactions (net)	-	-
6. Income earned by way of dividends from Subsidiaries / Associates and /or Joint Venture abroad / in India	-	-
7. Miscellaneous Income	3,08,054	4,718
<b>Total (1 to 7)</b>	<b>4,28,370</b>	<b>33,153</b>

**Schedule 15 - Interest Expended***(₹ in '000s)*

Particulars	For the period ended March 31, 18	For the period ended March 31, 17
1. Interest on deposits	5,72,709	1,484
2. Interest on Reserve Bank of India / Inter-bank borrowings	4,31,496	168,801
3. Others	15,03,100	272,644
<b>Total (1 to 3)</b>	<b>25,07,305</b>	<b>442,929</b>

**Schedule 16 - Operating Expenses***(₹ in '000s)*

Particulars	For the period ended March 31, 18	For the period ended March 31, 17
1. Payments to and provisions for employees	12,65,763	207,431
2. Rent, taxes and lighting	1,60,154	21,150
3. Printing and stationery	32,365	9,591
4. Advertisement and publicity	25,489	5,566
5. Depreciation on Bank's property	1,63,721	14,139
6. Director's fees allowances and expenses	6,738	1,486
7. Auditors' fees and expenses	5,014	2,889
8. Law charges	7,295	846
9. Postage, telegrams, telephones, etc.	32,866	6,149
10. Repairs and maintenance	48,023	5,837
11. Insurance	1,960	479
12. Other expenditure*	6,06,144	73,372
<b>Total (1 to 12)</b>	<b>23,55,532</b>	<b>348,935</b>

\* Includes professional charges, service charges for core banking software and ATM, traveling and other expenses

## Schedule 17 - Significant Accounting Policies

### 17.1 Background

Utkarsh Small Finance Bank Limited ("Company" or "the Bank"), incorporated on April 30, 2016 in India, is a small finance bank engaged in providing banking and financial services and governed by the Banking Regulation Act, 1949. The Bank has commenced its banking operations from January 23, 2017. Scheduled Bank Status has been accorded by Reserve Bank of India vide notification No. DBR.NBD. (SFB-UMFL).No. 2689/16.13.216/2017-2018 dated October 04, 2017 and has been published in the Gazette of India on November 07, 2017. The Company is a wholly owned subsidiary of Utkarsh Micro Finance Limited ('the Holding Company').

The Reserve Bank of India ("RBI") issued license no. MUM: 125 on November 25, 2015 to the Company to carry on business as a Small Finance Bank with certain terms and conditions. Pursuant to condition attached in the approval for small finance bank, the Holding Company entered into a business transfer agreement (BTA) and transferred its micro finance business to the Bank. Pursuant to the BTA all the assets and liabilities (except certain specified assets and liabilities) as at January 21, 2017 of the Holding Company were transferred to the Bank at book value based on slump sale basis for cash consideration of ₹68.51crores. The summary of assets and liabilities acquired is as follows:

*(₹ in crores)*

Particulars	Amount
<b>Assets</b>	
Fixed Asset (net block)	6.94
Capital work in progress	3.88
Investments	394.28
Cash and bank balances	132.84
Loan portfolio	1,596.79
Other loans and advances	50.36
Other assets	26.16
<b>Total asset taken over</b>	<b>2,211.25</b>
<b>Liabilities</b>	
Secured loans	2,074.44
Other liabilities	68.30
<b>Total liabilities taken over</b>	<b>2,142.74</b>
<b>Net assets taken over</b>	<b>68.51</b>

Pursuant to BTA, all the employees of the Holding Company (except certain employees) transferred to SFB on the same employment terms and rights granted under employee stock option scheme of the Holding Company are continued in SFB. Resultant, non-convertible debentures listed on the stock exchange were also transferred in the name of the Bank and a transfer was effected by the exchange effective May 03, 2017.

## 17.2 Basis of Preparation

The accompanying financial statements have been prepared under the historical cost convention and on the accrual basis of accounting, unless otherwise stated, and comply with the 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 circulars and guidelines issued by Reserve Bank of India ("RBI") from time to time, the accounting standards notified under section 133 of the Companies Act, 2013 read together with paragraph 7 of the Companies (Accounts) Rules, 2014 and the Companies (Accounting Standards) Amendment Rules, 2016 to the extent applicable, and practices generally prevalent in the banking industry in India.

## 17.3 Use of Estimates

The preparation of the financial statements in conformity with the Indian GAAP requires the management to make estimates and assumptions that are considered in the reported amount of assets, liabilities and disclosure of contingent liabilities on the date of the financial statements and reported income and expenses during the reporting period. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements and the management believes that the estimate used in the preparation of the financial statements are prudent and reasonable. Actual results may differ from the estimates used in preparing the accompanying financial statements. Any revision to accounting estimates is recognized prospectively in current and future periods.

## 17.4 Significant Accounting Policies

### 17.4.1 Advances

Advances are classified as Performing and NPA based on the relevant RBI guidelines. Advances are stated net of specific provisions made in respect of non-performing advances ('NPA'). Specific loan loss provisions in respect of non-performing and restructured advances are made based on management's assessment of the degree of impairment of the advances subject to the minimum provisioning levels prescribed under RBI guidelines with regard to the Prudential Norms on Income Recognition, Asset Classification & Provisioning prescribed from time to time. The Bank also maintains provision on standard assets to cover potential credit losses which are inherent in any loan portfolio in accordance with RBI guidelines in this regard. Provision made against standard assets is included in 'Other Liabilities and Provisions'. Loss assets and the unsecured portion of doubtful assets are provided/written-off as per the extant RBI guidelines.

### 17.4.2 Investments

Classification and valuation of Bank's investments is carried out in accordance with RBI circular DBR No. BP.BC.6/21.04.141/2015-16 dated July 01, 2015.

- Classification

Investments are classified into 'Held for Trading' ('HFT'), 'Available for Sale' ('AFS') and 'Held to Maturity' (HTM) categories at the time of purchase. Investments, which the Bank intends to hold till maturity are classified as HTM investments. Investments that are held principally for resale within a short period, including short sale, are classified as HFT investments. All other investments are classified as AFS investments. The Bank follows trade date method of accounting for purchase and sale of investments, except for government of India and state government securities where settlement date method of accounting is followed in accordance with RBI guidelines. For the purpose of disclosure in the financial statements, the Investments are classified under six groups a) Government Securities b) Other Approved Securities c) Shares d) Debentures and Bonds e) Subsidiaries / Joint Ventures and f) Others.

Investments are classified as performing or non-performing as per RBI guidelines. Non performing investments are subjected to prudential norms for Classification, valuations and Operation of Investment Portfolio by Banks prescribed from time to time.

- Valuation

Investments classified as HTM are carried at amortised cost. Any premium over the face value of fixed rate and floating rate securities acquired is amortised over the remaining period to maturity on a constant yield basis and straight line basis respectively. Where in the opinion of the management, a diminution, other than temporary in the value of investments classified under HTM has taken place, suitable provisions are made.

Investments classified as AFS and HFT are marked-to-market on a periodic basis as per relevant RBI guidelines. The securities are valued scrip-wise and depreciation / appreciation is aggregated for each category. Net appreciation in each category, if any, is ignored, while net depreciation is provided for. The book value of individual securities is not changed consequent to the periodic valuation of investments.

Treasury bills, commercial papers and certificates of deposit are valued at carrying cost including the pro rata discount accrued for the holding period.

Quoted investments are valued at closing quoted price available on the recognised stock exchanges, subsidiary general ledger account transactions, price list of RBI or prices declared by Primary Dealers Association of India ("PDAI") jointly with FIMMDA / FBIL applicable as at the balance sheet date. For deriving market value of unquoted fixed income securities (other than Central and State Government securities), yields / mark-up rates (reflecting associate credit risk) declared by the FIMMDA / FBIL in consultation with PDAI are used.

Quoted Mutual Fund units are valued as per closing stock exchange quotes and un-quoted mutual fund units are valued at last available re-purchase price or Net Asset Value where re-purchase price is not available.

Unquoted equity shares are valued at the break-up value, if the latest balance sheet is available, or at Rs. 1, as per RBI guidelines.

- 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 Profit and Loss account to "Capital Reserve" in accordance with the RBI Guidelines.

- Transfer between categories

Transfer of investments between categories is accounted in accordance with the extant RBI guidelines:

- Transfer from AFS / HFT to HTM is made at the lower of book value or market value at the time of transfer.
- Transfer from HTM to AFS / HFT is made at acquisition price / book value if originally placed in HTM at par or at a discount and at amortised cost if originally placed in HTM at a premium.

- Transfer from AFS to HFT category or vice-versa is made at book value and the provision for the accumulated depreciation, if any, held is transferred to the provisions for depreciation against the HFT securities or vice-versa.

- Repurchase transactions

Repurchase ('Repo') and reverse repurchase ('Reverse Repo') transactions including liquidity adjustment facility (with RBI) are accounted for as borrowing and lending transactions. Accordingly, securities given as collateral under an agreement to repurchase them continue to be held under the investment account of the Bank and the Bank would continue to accrue the coupon / discount on the security during the repo period. Also, the Bank continues to value the securities sold under repo as per the investment classification of the security. Borrowing cost on repo transactions is accounted for as interest expense and revenue on reverse repo transactions are accounted for as interest income.

- Broken period interest, brokerage etc.

Broken period interest and costs such as brokerage paid at the time of acquisition of the security are charged to the Profit and Loss account.

### 17.4.3 Foreign Currency Transactions

Transactions denominated in foreign currency are recorded at exchange rates prevailing on the date of the transactions. Exchange differences arising on foreign currency transactions settled during the year are recognised in the Profit and Loss account. Income and Expenditure items are translated at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the Balance Sheet date based on exchange rates notified by Foreign Exchange Dealers' Association of India ('FEDAI') and the resultant exchange differences are recognized in the Profit and Loss account.

### 17.4.4 Fixed Assets and Depreciation

#### Tangible Assets

Fixed Assets are accounted for at cost less accumulated depreciation, amortization and accumulated impairment losses. Cost includes freight, duties, taxes and incidental expenses related to the acquisition and installation of the asset.

Depreciation is provided as per straight - line method from the date of addition over the estimated useful life of the asset. Depreciation on assets sold during the year is charged to the Profit and Loss account up to the date of sale. Assets costing less than ₹5,000 are fully depreciated in the year of purchase. If the management's estimate of the useful life of a fixed asset at the time of acquisition of the asset or of the remaining useful life on a subsequent review is shorter, then the depreciation is provided at a higher rate based on management's estimate of the useful life / remaining useful life. The management believes that depreciation rates currently used, fairly reflect its estimate of the useful lives and residual values of fixed assets which are in accordance with lives prescribed under Schedule II of Companies Act, 2013.

Improvements and installations of capital nature on the leasehold property are depreciated over the primary lease term.

## **Intangible Assets**

Intangible assets that are acquired by the Bank are measured initially at cost. After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment loss. Subsequent expenditure is capitalised only when it increases the future economic benefits from the specific asset to which it relates.

Intangible assets are amortized in the Profit and Loss account over their estimated useful lives from the date they are available for use based on the expected pattern of consumption of economic benefits of the asset. Intangible assets are amortised on straight line basis. Computer software are amortised on straight line basis over their estimated useful life of three years.

## **Impairment**

The Bank assesses at each Balance Sheet date whether there is any indication that an asset may be impaired. If any such indication exists, the Bank estimates the recoverable amount of the asset. An asset's recoverable amount is the higher of an asset's net selling price and its value in use. If such recoverable amount of the asset is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the Profit and Loss account. If at the Balance Sheet date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount subject to a maximum of depreciable historical cost.

### **17.4.5 Retirement and other Employee Benefits**

The Bank's contribution towards Provident fund, being a defined contribution scheme, is accounted for on an accrual basis and recognized in the Profit and Loss account. Liability for Gratuity, being defined benefit retirement schemes, are determined based on an actuarial valuation as at the Balance Sheet date as per the Projected Unit Credit Method as computed by an independent actuary.

The Bank provides for leave encashment liability of its employees who are eligible for encashment of accumulated leave, which is a long-term benefit scheme, based on actuarial valuation of the leave encashment liability at the balance sheet date, carried out by an independent actuary.

Actuarial gains / losses arising during the year are recognized in Profit and Loss Account.

### **17.4.6 Employee Stock Option Scheme**

The Bank follows the intrinsic value method for computing the compensation cost for all options granted which will be amortized over the vesting period. Measurement and disclosure of the employee share-based payment schemes are done in accordance with the Guidance Note on Accounting for Employee Share-based Payments, issued by the Institute of Chartered Accountants of India ('ICAI').

### **17.4.7 Revenue Recognition**

- a. Interest income is recognised in the Profit and Loss account on accrual basis, except in the case of interest on NPA as per the Income Recognition and Asset Classification norms of RBI;
- b. Recoveries in respect of past due loan accounts classified as sub-standard are appropriated towards overdue principal and thereafter towards interest and charges;
- c. Recoveries in respect of bad loans written off are recognised in the year in which such amounts are recovered and the same are disclosed under "Other Income";
- d. Income on discounted instruments is recognised over the tenure of the instrument on a constant yield basis;

- e. Dividend is accounted on an accrual basis when the right to receive the dividend is established;
- f. Loan processing fees collected from the borrowers is recognised over the tenure of the loan;
- g. Profit / premium arising at the time of securitisation / assignment of loan portfolio is amortised over the life of the underlying loan portfolio / securities and any loss arising therefrom is accounted for immediately. Income from interest strip (excess interest spread) is recognised in the statement of profit and loss net of any losses when redeemed in cash. Interest retained under assignment of loan receivables is recognised on realisation basis over the life of the underlying loan portfolio;
- h. All other fees are accounted for as and when they become due.

#### **17.4.8 Lease Transactions**

A lease is classified at the inception date as finance lease or an operating lease. Assets taken on lease where the company acquires substantially all the risks and rewards incidental to ownership are classified as finance leases.

Finance lease are capitalised at the commencement of the lease at an amount equal to lower of their fair value and present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of lease liability so as to achieve constant rate of interest on the remaining balance of the liability. The rental obligations, net of finance charges, are reflected as borrowings. Finance charges are recognised in finance costs in the profit and loss account.

Leases where the lessor effectively retains substantially all the risks and benefits of ownership over the lease term are classified as operating leases. Operating lease rentals are recognised as and when the payments are made over the lease terms.

#### **17.4.9 Taxation**

Income tax comprises the current tax (i.e. amount of tax for the period, determined in accordance with the Income Tax Act, 1961 and the rules framed there under) and the net change in the deferred tax asset or liability for the period (reflecting the tax effects of timing differences between accounting income and taxable income for the period).

Provision for current income-tax is recognized in accordance with the provisions of the Income Tax Act, 1961 and is made annually based on the tax liability after taking credit for tax allowances and exemptions.

The current tax, deferred tax charge or credit and the corresponding deferred tax liability or asset is recognised using the tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets are recognised only to the extent there is reasonable certainty that the assets can be realized in future. However, where there is unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognised only if there is virtual certainty (supported by convincing evidence of future taxable income) of realization of such assets.

Deferred tax assets are reviewed at each balance sheet date and appropriately adjusted to reflect the amount that is reasonably / virtually certain to be realized.

#### **17.4.10 Provisions and Contingencies**

The Bank creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation.

A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources would be required to settle the obligation, the provision is reversed.

Contingent assets are not recognized in the financial statements. However, contingent assets are assessed continually and if it is virtually certain that an inflow of economic benefits will arise, the asset and related income are recognized in the period in which the change occurs.

#### **17.4.11 Earnings Per Share (EPS)**

Basic earnings per share is calculated by dividing the net profit or loss after tax for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year.

Diluted earnings per share reflect the potential dilution that could occur if contracts to issue equity shares were exercised or converted during the year. Diluted earnings per equity share is computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the year, except where the results are anti-dilutive.

#### **17.4.12 Cash and Cash Equivalents**

Cash and Cash equivalents include cash in hand, balances with RBI, balances with other banks and money at call and short notice.

#### **17.4.13 Grants**

Grants and subsidies from the government are recognized when there is reasonable assurance that (i) the Bank will comply with the conditions attached to them, and (ii) the grant / subsidy will be received.

When the grant or subsidy relates to revenue, it is recognized as income on a systematic basis in the statement of profit and loss over the periods necessary to match them with the related costs, which they are intended to compensate. Such grants are either be shown separately under 'other income' or deducted in reporting the related expense. Where the grant relates to an asset, it is recognized as deferred income and released to income in equal amounts over the expected useful life of the related asset.

#### **17.4.14 Segment Reporting**

The disclosures relating to segment reporting is done in accordance with AS 17 "Segment Reporting" and as per guidelines issued by the RBI.

#### **17.4.15 Priority Sector Lending Certificates**

The Bank vide RBI circular FIDD.CO.Plan.BC.23/04.09.01/2015-16 dated April 07, 2016 trades in Priority Sector portfolio by selling or buying Priority Sector Lending Certificates (PSLCs). There is no transfer of risk on loan assets in these transactions. The fee paid for purchase of the PSLC would be treated as an 'Expense' and the fee received for the sale of PSLCs would be treated as 'Miscellaneous Income'.

## Schedule 18 - Notes to Accounts forming part of Financial Statements for the year ended March 31, 2018

**18.1** The disclosure required on holdings as well as dealings in Specified Bank Notes (SBN) during the period from November 08, 2016 to December 30, 2016 as envisaged in notification GSR 308(E) dated March 30, 2017 issued by the Ministry of Corporate Affairs (MCA), is not applicable to the Bank.

### 18.2 Capital

During the year ended March 31, 2018, the Bank issued 120,000,000 equity shares of ₹10 each through conversion of Compulsorily Convertible Debentures (CCD) into equity aggregating to ₹1,200,000,000 (Rupees One Hundred and Twenty Crore only) on September 21, 2017 to its Holding Company. On March 26, 2018, the Bank allotted 50,000,000 equity shares of ₹10 each aggregating to ₹500,000,000 (Rupees Fifty Crore only) through a rights issue to its existing shareholders.

(₹ in crores except share data)

Particulars	For the year ended March 31, 2018		For the period ended March 31, 2017	
	Number of shares	Amount	Number of shares	Amount
Outstanding as at the beginning of the year	300,050,000	300.05	-	-
Shares issued upon conversion of convertible debentures	120,000,000	120.00	-	-
Shares issued during the year	50,000,000	50.00	300,050,000	300.05
<b>Outstanding at the end of the year</b>	<b>470,050,000</b>	<b>470.05</b>	<b>300,050,000</b>	<b>300.05</b>

### 18.3 Investments

There has been no sale / transfer to / from HTM category during the year ended March 31, 2018 and period ended March 31, 2017.

### 18.4 Employee Stock Option Plan ("ESOP")

The Holding Company has formulated an Employees Stock Option Scheme to be administered through a Trust. The scheme provides that subject to continued employment with the Bank, the employees are granted an option to acquire equity shares of the Holding Company that may be exercised within a specified period.

The Holding Company formed Utkarsh ESOP Welfare Trust to issue ESOPs to employees of the Holding Company as per Employee Stock Option Scheme. Total 1,200,000 equity shares has been reserved under ESOP scheme 2016 and pursuant to Shareholder agreement executed in the year 2016-17 additional 5,989,594 equity shares has been reserved by the Holding Company for the purpose of ESOP scheme. The Holding Company has given interest and collateral free loan to the trust, to provide financial assistance to purchase its equity shares under such schemes.

The Holding Company has allotted 343,507 equity shares of ₹10 each and 856,493 equity shares of ₹10 each in the years ended March 31, 2011 and March 31, 2013 respectively. The trust holds these shares for the benefit of the employees and issues them to the eligible employees as per the recommendation of the compensation committee. The Trust in turn allots the shares to employees on exercise of their right against cash.

During the year the Holding Company granted 934,500 options to its and Bank's employees.

The options vested can be exercised within a period of 24 months from the date of vesting. The plan is administered, supervised and implemented by the Compensation Committee under the policy and frame work laid down by the Board of Directors of the Holding Company in accordance with the authority delegated to the Compensation Committee in this regard from time to time.

These options are vested on graded basis as follows:

On completion of 1 year	25%
On completion of 2 years	25%
On completion of 3 years	25%
On completion of 4 years	25%

The Guidance Note on "Accounting for Employee Share Based Payments" issued by the ICAI establishes financial and reporting principles for employees share based payment plans. The Guidance Note applies to employee share based payment plans, the grant date in respect of which falls on or after April 01, 2005. The Guidance Note also applies to transfers of shares or stock options of the parent of the enterprise, or shares or stock options of another enterprise in the same group as the enterprise, to the employees of the enterprise. The compensation costs of stock options granted to employees of the Bank are accounted using intrinsic value method.

**Stock option activity under ESOP Plan in respect of employees of the Bank is as below:**

Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
Number of equity shares:		
Outstanding at the beginning of the year / period	636,584	496,830*
Granted during the year / period	919,500	269,838
Lapsed / Cancelled during the year / period	86,063	32,125
Exercised during the year / period	205,409	97,959
Outstanding at the end of year / period	1,264,612	636,584
Exercisable at the end of year / period	761,389	445,625

\* transferred pursuant to BTA (Refer Schedule 17.1)

The compensation cost is calculated based on the intrinsic value method, wherein the excess of fair value of underlying equity shares as on the date of the grant over the exercise price of the options given to employees of the Bank under the ESOP scheme, is recognised as compensation cost and amortised over the vesting period. The Holding Company cross charges the compensation cost to the Bank to the extent it pertains to the employees of the Bank.

#### **Impact of Fair Value Method on Net Profit / (Loss) and EPS**

Had the compensation cost for the Bank's stock option plans outstanding been determined based on the fair value by using Black Scholes model, the Bank's net profit / loss and earnings / loss per share would have been as per the proforma amounts indicated below:

(₹ in crores, except per share data)

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
(Loss) / Profit after tax		
- As reported	(63.02)	4.83
- Proforma	(63.36)	4.97
(Loss) / Earnings per share		
Basic		
Weighted average number of shares	363,858,219	94,677,232
EPS as reported (₹)	(1.73)	0.51
Proforma EPS (₹)	(1.74)	0.53

The following assumptions are used for calculation of fair value of grants issued.

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Dividend yield	0%	0%
Expected volatility	10%	10%
Risk free interest rate	8%	8%
Expected life in years	4.5	4.5

## 18.5 Disclosures as per Accounting Standards ('AS')

### 18.5.1 Disclosures under AS -15 on Employee Benefits

#### Defined Contribution Plans:

Employer's contribution recognized and charged off for the period to defined contribution plans are as under:

(₹ in crores)

Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
Provident Fund	6.72	1.44

The above amount is netted off with amount of ₹0.2 crores received under the scheme "Pradhan Mantri Rojgar Protsahan Yojana" for the year ended March 31, 2018 (March 31, 2017: ₹Nil).

#### Defined Benefit Plans:

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 subject to limit of ₹2,000,000 as per the Payment of Gratuity Act, 1972 as amended from time to time. The scheme is funded with an insurance company in the form of a qualifying insurance policy.

The following table sets out the status of the defined benefit gratuity plan as required under Accounting Standard 15.

Change in the present value of the defined benefit obligation

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Opening defined benefit obligation	2.60	-
Transferred pursuant to BTA*	-	2.31
Current service cost	1.37	0.16
Past service costs	0.09	-
Interest cost	0.19	0.03
Actuarial losses / (gains)	(0.01)	0.12
Benefits paid	(0.02)	(0.02)
Closing defined benefit obligation	<b>4.22</b>	<b>2.60</b>

\* Refer Schedule 17.1

Change in the plan assets

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Opening fair value of plan assets	2.69	-
Transferred pursuant to BTA*	-	2.57
Expected return on plan assets	0.21	0.04
Employers Contributions	3.00	0.08
Benefit paid	(0.02)	(0.02)
Actuarial gains / (losses) on plan assets	(0.14)	0.02
Closing fair value of plan assets	<b>5.74</b>	<b>2.69</b>

\* Refer Schedule 17.1

Net liability / (asset) recognized in the balance sheet

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Present value of funded obligation	4.22	2.60
Fair value of plan assets	5.74	2.69
Surplus	(1.52)	(0.09)
Net Asset	(1.52)	(0.09)

Net cost recognized in the profit and loss account

(₹ in crores)

Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
Current service cost	1.37	0.16
Past service costs	0.09	-
Interest cost	0.19	0.03
Expected return on plan assets	(0.20)	(0.04)
Net actuarial losses / (gains)	0.12	0.10
Total cost of defined benefit plans included in Schedule 16 Payments to and provisions for employees	<b>1.57</b>	<b>0.25</b>

Reconciliation of opening and closing net liability / (asset) recognized in balance sheet

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Opening net liability	(0.09)	-
Transferred pursuant to BTA*	-	(0.26)
Expenses as recognised in profit & Loss account	1.57	0.25
Employers contribution	-	-
Contribution paid to fund	(3.00)	(0.08)
Net liability / (asset) recognised in balance sheet	<b>(1.52)</b>	<b>(0.09)</b>

\* Refer Schedule 17.1

Experience adjustment and details of obligations and assets

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Present value of funded obligation at 31st March	4.22	2.60
Fair value of plan assets at 31st March	5.74	2.69
Deficit / (Surplus)	(1.52)	(0.09)
On Plan Liabilities (gains) / losses	0.29	0.12
On Plan Assets (losses) / gains	(0.14)	0.02

A breakup of Investments under plan assets of gratuity fund is as follows:

Category of Asset	As at March 31, 2018	As at March 31, 2017
Funds with LIC	100%	100%

## Key actuarial assumptions

Particulars	As at March 31, 2018	As at March 31, 2017
Discount rate	7.60%	6.70%
Expected rate of return on plan asset	7.55%	7.71%
Salary escalation	8.00%	8.00%
Attrition rate	2% to 25.00%	2% to 25.00%

**Discount rate:** The discount rate is based on the prevailing market yields of Indian government securities as at the balance sheet date for the estimated term of the obligations.

**Salary escalation rate:** The estimates of future salary increases considered taking into account the inflation, seniority, promotion and other relevant factors.

**Expected rate of return:** The overall expected rate of return on assets is determined based on the average long term rate of return expected on investment of the fund during the estimated term of the obligations.

### 18.5.2 Segment Reporting: Information about Business Segments

In terms of AS-17 (Segment Reporting) issued by ICAI and RBI circular Ref. DBOD.No. BPBC.81/21.04.018/2006-07 dated April 18, 2007 read with DBR.BPBC No.23/21.04.018/2015-16 dated July 1, 2015 and amendments thereto, the following business segments have been disclosed:

**Corporate / Wholesale Banking:** Includes lending, deposits and other banking services provided to corporate customers of the Bank.

**Retail Banking:** Includes lending, deposits and other banking services provided to retail customers of the Bank through branch network.

**Treasury:** includes dealings in SLR and Non SLR investments, maintenance of reserve requirements and resource mobilization from other Banks and financial Institutions.

**Other Banking Operations:** Includes other activities like sale of PSL certificates, para banking activities like Bancassurance, etc.

The following table sets forth the business segment results:

Particulars	For the year ended March 31, 2018				
	Corporate / Wholesale Banking	Retail Banking	Treasury	Other Banking Operations	Total
Gross Revenue	6.33	471.43	53.30	24.97	556.03
Unallocated Revenue					5.83
Less: Inter Segment Revenue					-
<b>Total Revenue</b>					<b>561.86</b>
Segment Results	0.26	(25.62)	9.65	24.44	8.73
Unallocated expenses					(103.54)
Operating Loss					(94.81)
Income Tax expense (including deferred tax)					31.79
<b>Net Loss</b>					<b>(63.02)</b>
Segment Assets	246.74	2,898.31	1,244.70	-	4,379.75
Unallocated Assets					133.97
<b>Total Assets</b>					<b>4,523.72</b>
Segment Liabilities	2,027.23	1,947.14	80.31	-	4,054.68
Unallocated Liabilities					57.18
<b>Total Liabilities</b>					<b>4,111.86</b>
Capital expenditure	-	-	-	-	87.49
Depreciation	-	-	-	-	16.37

Particulars	For the period ended March 31, 2017				
	Corporate / Wholesale Banking	Retail Banking	Treasury	Other Banking Operations	Total
Gross Revenue	-	74.74	14.94	-	89.68
Unallocated Revenue					0.52
Less: Inter Segment Revenue					-
<b>Total Revenue</b>					<b>90.20</b>
Segment Results	-	5.90	14.44	-	20.34
Unallocated expenses					(15.49)
Operating Profit					6.52
Income Tax expense (including deferred tax)					1.69
<b>Net Profit</b>					<b>4.83</b>

Particulars	For the period ended March 31, 2017				
	Corporate / Wholesale Banking	Retail Banking	Treasury	Other Banking Operations	Total
Segment Assets		1,664.05	785.58		2,449.63
Unallocated Assets					225.69
<b>Total Assets</b>					<b>2,675.32</b>
Segment Liabilities	-	1,974.88	387.00	-	2,361.88
Unallocated Liabilities					8.57
<b>Total Liabilities</b>					<b>2,370.45</b>
Capital expenditure	-	-	-	-	10.09
Depreciation	-	-	-	-	1.41

**Notes:**

- The business of the Bank does not extend outside India and it does not have any assets outside India or earnings emanating from outside India. Accordingly, the Bank has reported operations in the domestic segment only.
- Income, expenses, assets and liabilities have been either specifically identified to individual segment or allocated to segments on a reasonable basis or are classified as unallocated.
- Unallocated items include Fixed Assets, Depreciation, Capital expenditure, realized gains / losses on their sale, income tax expense, deferred income tax assets / liabilities, advance tax and cash in hand.
- In computing the above information, certain estimates and assumptions have been made by the management and have been relied upon by the auditors.

**18.5.3 Related Party Transactions**

As per AS 18 "Related Party Disclosures", the Bank's related parties for the year ended March 31, 2018 are disclosed below:

- 1. Holding Company**  
Utkarsh Micro Finance Limited
- 2. Fellow Subsidiary**  
Utkarsh Welfare Foundation
- 3. Key Management Personnel ('KMP')**  
Mr. Govind Singh- Managing Director and CEO

The following represents the significant transactions between the Bank and such related parties including relatives of above mentioned KMP during the year ended March 31, 2018.

(₹ in crores except share data)

Sl.	Name of the related party	Nature of transaction	Transaction	
			For the year ended March 31, 2018	For the period ended March 31, 2017
1	Mr. Govind Singh	Remuneration	1.2	0.53
		Deposits accepted	-	0.62
		Shares issued	5,237	44,000
2	Utkarsh Welfare Foundation	Contribution towards CSR activities	0.40	-
3	Utkarsh Micro Finance Limited	Deposits accepted	342.70	31.60
		Interest paid	1.25	0.01
		Equity shares issued*	169.99	300.00
		CCD issued	-	387.00
		Purchase consideration pursuant to BTA, net (refer Schedule 17.1)	-	68.51
		Transactions (collection and payment) carried out on behalf Bank, net	14.16	18.37
		ESOP cost cross charged (Refer Schedule 17.1)	0.41	-
		Refund of excess purchase consideration by Holding Company	38.58	-

\* 120,000,000 compulsorily convertible debentures converted into equal number of equity shares of ₹10 each on September 21, 2017 and 49,994,168 equity shares of ₹10 each issued under rights offer.

Note: As the provisions for gratuity and leave benefits are made for the Bank as a whole, the amounts pertaining to the Key Management Personnel are not specifically identified and included above.

Payable / (receivable) as at balance sheet date:

Sl.	Name of Related Party	As at March 31, 2018	As at March 31, 2017
1	Utkarsh Micro Finance Limited	336.64	394.74
2	Utkarsh Micro Finance Limited	(1.71)	(54.86)
3	Govind Singh	0.07	0.12

## 18.5.4 Leases

### Operating Lease

Lease payments made under cancellable operating lease amounting to ₹16.01 crore disclosed as rent under Schedule 16 and the same have been recognized as an expense in the Profit and Loss Account. There are no subleases. Also, requirement of minimum lease payments does not arise as the Bank do not have any non-cancellable operating leases.

### Finance Lease

The Bank has acquired certain IT hardware assets and ATM machines under finance lease. Lease term of such assets is 7 years. Minimum lease payments (MLP) outstanding in respect of leased assets as at March 31, 2018 are as follows:

(₹ in crores)

Particulars	Future MLP	Interest not due	Present Value of MLP
Due within one year	5.13	3.18	1.95
Due later than one year and not later than five years	30.20	7.92	22.28
Due later than five years	8.51	0.74	7.77
<b>Total</b>	<b>43.84</b>	<b>11.84</b>	<b>32.00</b>

## 18.5.5 Earnings Per Share (EPS)

(₹ in crores except per share data)

Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
<b>Basic</b>		
Weighted average number of equity shares	363,858,219	94,677,232
Net (loss) / profit after tax available for equity	(63.02)	4.83
Basic (loss) / earnings per share	(1.73)	0.51
<b>Diluted</b>		
Weighted average number of equity shares (including dilutive potential equity shares)	687,734,931	176,195,089
Net (loss) / profit after tax available for equity shareholders	(62.98)	4.84
Diluted (loss) / earnings per share	(1.73) <sup>#</sup>	0.27*
Face value per share	10.00	10.00

\*The dilutive impact is due to Compulsorily Convertible Debentures granted to the Holding Company by the Bank.

<sup>#</sup>The Compulsorily Convertible Debentures have anti-dilutive effect on loss per share and accordingly basic loss per share is considered as dilutive loss per share.

### 18.5.6 Deferred Tax

Major components of deferred tax assets and deferred tax liabilities as on March 31, 2018 are as under:-

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
<b>Deferred tax assets</b>		
Provision for assets	9.60	1.38
Unabsorbed depreciation and losses	23.23	-
Due to other timing differences	5.92	4.19
	<b>38.75</b>	<b>5.57</b>
<b>Deferred tax liabilities</b>		
Depreciation on fixed assets	2.21	0.04
Due to other timing differences	2.01	3.26
	<b>4.22</b>	<b>3.30</b>
<b>Net deferred tax assets / (liability)</b>	<b>34.53</b>	<b>2.27</b>

### 18.6 Small and Micro Industries

The disclosure in respect of the amounts payable to such enterprises as at March 31, 2018 has been made in the financial statements based on information received and available with the Bank.

For the year ended March 31, 2018, no supplier has intimated the Bank about its status as micro or small enterprises or its registration with the appropriate authority under Micro, Small and Medium Enterprises Development Act, 2006 ("the MSMED Act").

Further, in the view of the management, the impact of interest, if any, that may be payable in accordance with the provisions of the MSMED Act is not expected to be material. The Bank has not received any claim for interest from any supplier under the said Act.

(₹ in crores)

Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
The principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting period	-	-
The amount of interest paid by the Bank along with the amounts of the payment made to the supplier beyond the appointed day during the period	-	-
The amount of 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 the interest specified under this Act	-	-
The amount of interest accrued and remaining unpaid at the end of the period	-	-
The amount of further 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 enterprise	-	-

## 18.7 Disclosure of Customer Complaints

Sl.	Customer Complaints	For the year ended March 31, 2018	For the period ended March 31, 2017
a)	Number of complaints pending at the beginning	245	-
b)	Transferred pursuant to BTA	-	106
c)	Number of complaints received during the year / period	7,849	1,124
d)	Number of complaints redressed during the year / period	8,008	985
e)	Number of complaints pending at the end of the year / period	86	245

## 18.8 Capital Adequacy

18.8.1 Capital Adequacy Ratio as per operating guidelines issued by RBI for Small Finance Banks and amended thereafter is given below:

(₹ in crores, except percentages)

Sl.	Particulars	As at March 31, 2018	As at March 31, 2017
i)	Common Equity Tier 1 (CET) capital ratio (%)	12.95%	17.15%
ii)	Tier I capital ratio (%)	12.95%	17.15%
iii)	Tier II capital ratio (%)	4.45%	8.72%
iv)	Total capital ratio (CRAR) (%)	<b>17.40%</b>	<b>25.87%</b>
v)	Amount of equity capital raised	170.00	300.05
vi)	Amount of additional Tier I capital raised	-	-
vii)	Amount of Tier II capital raised	-	150.00

### Notes:

- The Bank has followed Basel II Capital Regulations dated July 1, 2015 and amended thereafter for the purpose of Capital Adequacy Ratio in accordance with the operating guidelines for small finance banks as issued by RBI on October 8, 2016.
- As per RBI letter DBR.NBD.No. 4502/16.13.218/2017-18 dated Nov 8, 2017, it is clarified that no separate capital charge is being prescribed for market risk and operational risk for the time being.

## 18.8.2 Tier II Capital

The Bank has acquired Basel II compliant debt capital instruments, details of which are as follows:

(₹ in crores)

Particulars	Nature of Security	Date of Issue	Coupon Rate %	Tenure	Amount
Redeemable Unsecured Non - Convertible	Debenture	12-Jan-2017	12%	Five Years and 6 Months	150.00

## 18.9 Investments

### 18.9.1 Movement of Investments

(₹ in crores)

Sl.	Particulars	As at March 31, 2018	As at March 31, 2017
(1)	Value of Investments		
	(i) Gross Value of Investments		
	(a) In India	662.19	729.73
	(b) Outside India	-	-
	(ii) Provisions for Depreciation	0.92	0.50
	(a) In India	0.92	0.50
	(b) Outside India	-	-
	(iii) Net Value of Investments	661.27	729.23
	(a) In India	661.27	729.23
	(b) Outside India	-	-
(2)	Movement of provisions held towards depreciation of investments (including provision for NPIs)		
	(i) Opening balance	0.50	-
	(ii) Add: Provisions made during the period	1.08	0.50
	(iii) Less: Write-off / write back of excess / provisions (including provision for NPIs) during the period	0.66	-
	(iv) Closing balance	0.92	0.50

### 18.9.2 Issuer Composition of Non-SLR investments (investments not qualifying for the purpose of Statutory Liquidity Ratio (SLR) prescribed by RBI)

Issuer composition as at March 31, 2018 of non-SLR investments

(₹ in crores)

Sl.	Particulars	Amount	Private Placement	Below Investment Grade	Unrated Securities	Unlisted Securities
1	PSU	-	-	-	-	-
2	FIs	-	-	-	-	-
3	Banks	-	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries/ Joint ventures	-	-	-	-	-
6	Others	94.86	20.00	-	-	-
7	Provisions held towards depreciation	-	-	-	-	-
	<b>Total</b>	<b>94.86</b>	<b>20.00</b>	<b>-</b>	<b>-</b>	<b>-</b>

Issuer composition as at March 31, 2017 of non-SLR investments

(₹ in crores)

Sl.	Particulars	Amount	Private Placement	Below Investment Grade	Unrated Securities	Unlisted Securities
1	PSU	-	-	-	-	-
2	FIs	-	-	-	-	-
3	Banks	-	-	-	-	-
4	Private Corporates	-	-	-	-	-
5	Subsidiaries/ Joint ventures	-	-	-	-	-
6	Others	0.03	-	-	-	-
7	Provisions held towards depreciation	-	-	-	-	-
	<b>Total</b>	<b>0.03</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

### 18.9.3 Repo / Reverse Repo Transactions: Nil

The Bank has neither undertaken any Repo / Reverse Repo transactions nor Repo / Reverse Repo transactions under the Liquidity Adjustment Facility (LAF) / Marginal Standing Facility (MSF) with RBI during the year ended 31 March 2018 and period ended March 31, 2017.

**18.9.4** There are no non performing non-SLR investments as at March 31, 2018 and 31 Mar 2017.

### 18.9.5 Security Receipts (SR)

Details of the book value of investments held as security receipts received by sale of NPA to Securitization / Reconstruction Company as at March 31, 2018 are as follows-

(₹ in crores)

Particular	Backed by NPAs sold by the Bank as underlying	Backed by NPAs sold by other Banks / FIs / NBFCs as underlying	Total
Book value of investments in security receipts	-	-	-

Details of the book value of investments held as security receipts received by sale of NPA to Securitization / Reconstruction Company as at March 31, 2017 are as follows-

(₹ in crores)

Particular	Backed by NPAs sold by the Bank as underlying	Backed by NPAs sold by other Banks / FIs / NBFCs as underlying	Total
Book value of investments in security receipts	-	-	-

As the Bank do not hold any security receipts, the other disclosures are not provided

## 18.10 Forward Rate Agreement / Interest Rate Swaps / Cross Currency Swap/ Exchange Traded Interest Rate Derivatives

### 18.10.1 Notional and concentration of FRAs and IRS

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
i) The notional principal of swap agreements*	31.72	31.72
ii) Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements	0.80	0.70
iii) Collateral required by the Bank upon entering into swaps	-	-
iv) Concentration of credit risk arising from the swaps	-	-
v) The fair value of the swap book	0.02	0.40

\* Pertains to cross currency interest rate swap

### 18.10.2 The nature and terms of Cross Currency Interest Rate Swaps (CCIRS) – FCY as on March 31, 2018 are set out below –

Nature	Nos.	Notional Principal (₹ in crore)	Benchmark	Terms
USD	1	31.72	USD LIBOR	Floating receivable vs Fixed payable

The nature and terms of Cross Currency Interest Rate Swaps (CCIRS)-FCY as on March 31, 2017 are set out below –

Nature	Nos.	Notional Principal (₹ in crore)	Benchmark	Terms
USD	1	31.72	USD LIBOR	Floating receivable vs Fixed payable

### 18.10.3 The nature and terms of Interest Rate Swaps (IRS) – INR as on March 31, 2018 are set out below-

Nature	Nos.	Notional Principal (₹ in crore)	Benchmark	Terms
-	-	-	-	-

The nature and terms of Interest Rate Swaps (IRS) – INR as on 31 March 2017 are set out below-

Nature	Nos.	Notional Principal (₹ in crore)	Benchmark	Terms
-	-	-	-	-

### 18.10.4 Exchange Traded Interest Rate Derivatives and exchange traded currency derivative

(₹ in crores)

Sl.	Particulars	As at March 31, 2018	As at March 31, 2017
1	Notional Principal amount of exchange traded interest rate derivatives and currency derivatives undertaken during the period.	-	-
2	Notional Principal amount of exchange traded interest rate derivatives and currency derivatives outstanding as on 31 March.	-	-
3	Notional Principal amount of exchange traded interest rate derivatives and currency derivatives outstanding and not "highly effective" as on 31 March.	-	-
4	Mark-to-Market value of exchange traded interest rate derivatives and currency derivatives outstanding and not "highly effective" as on 31 March.	-	-

### 18.10.5 Risk Exposure in Derivatives:

The Bank has not engaged in any derivatives contracts during the year ended March 31, 2018 and period ended March 31, 2017. However, Bank acquired a CCIRS contract pursuant to BTA from Holding Company in the previous year. The disclosure to the extent applicable is given below.

#### Quantitative disclosure on risk exposure in derivatives as at March 31, 2018

(₹ in crores)

Sl.	Particulars	For the year ended March 31, 2018			
		Currency derivatives			Interest rate derivatives
		Forward Contract	Currency Option	Currency Swap	
(i)	Derivatives (Notional Principal Amount)				
	a) For hedging	-	-	31.72*	-
	b) For trading	-	-	-	-
(ii)	Marked to Market Positions				
	a) Asset (+)	-	-	-	-
	b) Liability (-)	-	-	0.02	-
(iii)	Credit Exposure	-	-	-	-
(iv)	Likely impact of one percentage change in interest rate (100*PV01)				
	a) on hedging derivatives	-	-	-	-
	b) on trading derivatives	-	-	-	-
	Maximum and Minimum of 100*PV01 observed during the period				
	a) on hedging	-	-	-	-
		-	-	-	-
	b) on trading	-	-	-	-
		-	-	-	-

		For the period ended March 31, 2017			
Sl.	Particulars	Currency derivatives			Interest rate derivatives
		Forward Contract	Currency Option	Currency Swap	
(i)	Derivatives (Notional Principal Amount)				
	a) For hedging	-	-	31.72*	-
	b) For trading	-	-	-	-
(ii)	Marked to Market Positions				
	a) Asset (+)	-	-	-	-
	b) Liability (-)	-	-	0.40	-
(iii)	Credit Exposure	-	-	-	-
(iv)	Likely impact of one percentage change in interest rate (100*PV01)				
	a) on hedging derivatives	-	-	-	-
	b) on trading derivatives	-	-	-	-
	Maximum and Minimum of 100*PV01 observed during the period				
	a) on hedging	-	-	-	-
		-	-	-	-
	b) on trading	-	-	-	-
		-	-	-	-

\* Pertains to cross currency interest rate swap

### 18.11 Restructured / Rescheduled / Renegotiated Investments

There are no such investment during the year ended March 31, 2018 and period ended March 31, 2017.

### 18.12 Asset Quality

#### 18.12.1 Movement of NPA and NPA Provision

(₹ in crores)

Sl.	Particulars	As at March 31, 18	As at March 31, 17
(i)	Net NPAs to Net Advances (%)	1.09%	-
(ii)	Provisioning Coverage Ratio (PCR) (%)	41.33%	-
(iii)	Movement of Gross NPAs		-
	(a) Opening balance	-	-
	(b) Additions during the period	200.04	-
	(c) Reductions during the period	142.57	-

Sl.	Particulars	As at March 31, 18	As at March 31, 17
	(i) Up – gradations	-	-
	(ii) Recoveries (excluding recoveries made from up-graded accounts)	-	-
	(iii) Write – offs	142.57	-
	(d) Closing balance	57.47	-
(iv)	<b>Movement of Net NPAs</b>		-
	(a) Opening balance	-	-
	(b) Additions during the period	33.72	-
	(c) Reductions during the period	-	-
	(d) Closing balance	33.72	-
(v)	<b>Movement of provisions for NPAs</b>		-
	(excluding provisions on standard assets)		-
	(a) Opening balance	-	-
	(b) Provisions made during the period	84.52	-
	(c) Write-off / (write back) of excess provisions during the period	60.77	-
	(d) Closing balance	23.75	-

#### Technical Write-off

(₹ in crores)

Particulars	As at March 31, 18	As at March 31, 17
Opening balance of Technical / Prudential written-off accounts	-	-
Add : Technical / Prudential write-offs during the year	142.57	-
<b>Sub-total (A)</b>	<b>142.57</b>	-
Less : Recoveries made from previously technical / prudential written-off accounts during the year (B)	-	-
<b>Closing balance as at March 31 (A-B)</b>	<b>142.57</b>	-

## 18.12.2 Particulars of Restructured Accounts

The bank has not restructured any accounts during the year ended March 31, 2018 and period ended March 31, 2017.

(₹ in crores)

Type of Restructuring		Under CDR					Under SME					Others					Total
		S	SS	D	L	Total	S	SS	D	L	Total	S	SS	D	L	Total	
Asset Classification																	
Details																	
Restructured accounts as on 1 April of the FY	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fresh Restructuring during the period	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Increase / (Decrease) in outstanding of Restructured cases	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Upgradation to restructured standard during the FY	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructured standard advances which cease to attract higher provision at the period end and need not be shown as restructured advances at the beginning of the next FY	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Down gradations of restructured accounts during the FY	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Write-offs of restructured accounts	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restructured accounts as on 31 March (Closing)	A	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	B	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	C	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

A- No. of Borrowers, B- Amt. Outstanding, C- Provision thereon, S- Standard, SS-Sub Standard, D- Doubtful, L- Loss

### 18.12.3 Strategic Debt Restructuring

#### 18.12.3.1 Disclosures on Strategic Debt Restructuring Scheme (accounts which are currently under the stand - still period)

(₹ in crores)

No. of accounts where SDR has been invoked	Amount outstanding as at March 31, 2018		Amount outstanding as on the reporting date with respect to accounts where conversion of debt to equity is pending		Amount outstanding as on the reporting date with respect to accounts where conversion of debt to equity has taken place	
	Classified as standard	Classified as NPA	Classified as standard	Classified as NPA	Classified as standard	Classified as NPA
-	-	-	-	-	-	-

#### 18.12.3.2 Disclosures on Strategic Debt Restructuring Scheme (accounts which are currently under the stand - still period)

(₹ in crores)

No. of accounts where banks have decided to effect change in ownership	Amount outstanding as at March 31, 2017		Amount outstanding as on the reporting date with respect to accounts where conversion of debt to equity / invocation of pledge of equity shares is pending		Amount outstanding as on the reporting date with respect to accounts where conversion of debt to equity / invocation of pledge of equity shares has taken place		Amount outstanding as on the reporting date with respect to accounts where change in ownership is envisaged by issuance of fresh shares or sale of promoters equity	
	Classified as standard	Classified as NPA	Classified as standard	Classified as NPA	Classified as standard	Classified as NPA	Classified as standard	Classified as NPA
-	-	-	-	-	-	-	-	-

18.12.3.3 The Bank has not acquired any equity shares under Strategic Debt Restructuring scheme during the year. The Bank has not done any restructuring of loans during the year ended 31 March 2018 and period ended 31 March 2017 and there are no cases where scheme for sustainable structuring of stressed assets (S4A) is implemented.

#### 18.12.4 Details of financial assets sold to Securitization / Reconstruction Company for Asset Reconstruction:

(₹ in crores)

Sl.	Particulars	As at March 31, 2018	As at March 31, 2017
(i)	Number of accounts	-	-
(ii)	Aggregate value (net of provisions) of accounts sold to SC / RC	-	-
(iii)	Aggregate consideration	-	-
(iv)	Additional consideration realized in respect of accounts transferred in earlier years	-	-
(v)	Aggregate loss over net book value	-	-

## 18.12.5 Details of non-performing financial assets purchased / sold

### 18.12.5.1 Non-performing financial assets purchased

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
1 (a) No. of accounts	-	-
(b) Aggregate Outstanding	-	-
2 (a) Of these, number of accounts restructured during the period	-	-
(b) Aggregate Outstanding	-	-

### 18.12.5.2 Non-performing financial assets sold

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
No. of accounts sold during the period	-	-
Aggregate Outstanding	-	-
Consideration Received	-	-

## 18.13 Following are the details of securitization done by the Bank

(₹ in crores, except number of loans)

Particulars	For the year ended March 31, 2018	For the year ended March 31, 2017
Total number of loans securitized	76,230	-
Total book value of loans securitized	118.57	-
Total book value of loans securitized including loans placed as collateral	124.81	-
Sale consideration received for loans securitized	118.57	-
Excess interest spread recognized in the profit and loss account	2.85	-

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
<b>Credit enhancements provided and outstanding:</b>		
Interest subordination	9.92	-
Principal subordination	6.24	2.31
Cash collateral	4.37	6.98
Total	20.53	9.29

## 18.14 Business Ratios

Sl.	Particulars	As at March 31, 2018	As at March 31, 2017
(i)	Interest income as % to Working funds <sup>1</sup>	14.23%	17.09%
(ii)	Non-Interest income as % to Working funds	1.31%	0.65%
(iii)	Operating (loss)/profit <sup>2</sup> as % to Working funds	(7.23%)	2.07%
(iv)	Return on Assets (Working funds)	(1.93%)	0.95%
(v)	Business <sup>3</sup> (Deposit plus Advance) per employee <sup>4</sup> (₹in crore)	0.77	0.44
(vi)	Profit/(loss) per employee <sup>4</sup> (₹in crore)	(0.01)	0.00*

1. Working funds represents the monthly average of total assets during the period.

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

3. "Business" is the total of net advances and deposits (net of inter-bank deposits).

4. Productivity ratios are based on average employee number.

\*Profit per employee is ₹13,158/-

## 18.15 Maturity Pattern

Maturity pattern of certain items of assets and liabilities is given below:

(₹ in crores)

Particulars	As at March 31, 2018					
	Loans & Advances	Investments	Deposits	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1 day	39.73	-	0.03	-	-	-
2 to 7 days	48.42	49.96	164.53	5.00	-	-
8 to 14 days	37.04	15.00	85.07	13.42	-	-
15 to 30 Days	95.86	24.91	77.91	39.81	-	-
31 Days to 2 months	184.00	-	201.70	65.37	-	-
Over 2 months to 3 months	167.05	-	142.04	37.63	-	-
Over 3 months to 6 months	513.43	9.72	375.39	160.30	-	4.07
Over 6 months to 1 year	889.12	20.23	688.88	178.30	-	4.07
Over 1 year to 3 years	1091.18	194.08	451.62	591.40	-	16.28
Over 3 years to 5 years	29.41	99.97	6.70	255.33	-	8.10
Over 5 years	11.04	247.40	-	409.77	-	-
<b>Total</b>	<b>3,106.28</b>	<b>661.27</b>	<b>2,193.87</b>	<b>1,756.33</b>	<b>-</b>	<b>32.52</b>

(₹ in crores)

Particulars	As at March 31, 2017					
	Loans & Advances	Investments	Deposits	Borrowings	Foreign Currency Assets	Foreign Currency Liabilities
1 day	0.01	-	-	-	-	-
2 to 7 days	85.73	0.03	0.64	6.13	-	-
8 to 14 days	26.88	45.31	-	3.45	-	-
15 to 30 Days	54.12	29.89	-	31.53	-	-
31 Days to 2 months	121.94	-	-	40.87	-	-
Over 2 months to 3 months	115.57	49.38	-	65.26	-	-
Over 3 months to 6 months	320.87	213.87	-	183.75	-	-
Over 6 months to 1 year	497.78	66.06	17.62	332.44	-	-
Over 1 year to 3 years	368.30	-	0.46	677.48	-	15.86
Over 3 years to 5 years	1.93	73.68	-	244.20	-	15.86
Over 5 years	0.78	251.00	-	672.00	-	-
<b>Total</b>	<b>1,593.91</b>	<b>729.22</b>	<b>18.72</b>	<b>2,257.11</b>	<b>-</b>	<b>31.72</b>

## 18.16 Lending to Sensitive Sector

### 18.16.1 Exposure to Real Estate Sector

(₹ in crores)

Sl.	Particulars	As at March 31, 2018	As at March 31, 2017
1)	<b>Direct exposure</b>		
(a)	Residential Mortgages -	47.62	6.01
	Out of which Individual housing loans eligible for inclusion in priority sector advances	43.03	5.94
(b)	Commercial Real Estate	-	-
(c)	Investments in Mortgage Backed Securities (MBS) and other securitized exposures		
i.	Residential Mortgages	-	-
ii.	Commercial Real Estate	-	-
2)	<b>Indirect Exposure</b>		
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs)	-	-
	<b>Total Exposure to Real Estate Sector</b>	<b>47.62</b>	<b>6.01</b>

## 18.16.2 Exposure to Capital Market

(₹ in crores)

Sl.	Particulars	As at March 31, 2018	As at March 31, 2017
(i)	Direct investments made in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt	-	-
(ii)	Advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds	-	-
(iii)	Advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security	-	-
(iv)	Advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares / convertible bonds / convertible debentures / units of equity oriented mutual funds 'does not fully cover the advances	-	-
(v)	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	-	-
(vi)	Loans sanctioned to corporates against the security of shares / bonds / debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources	-	-
(vii)	Bridge loans to companies against expected equity flows/issues	-	-
(viii)	Underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds	-	-
(ix)	Financing to stockbrokers for margin trading	-	-
(x)	All exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect)	-	-
	<b>Total Exposure to Capital Market</b>	-	-

### 18.16.3 Risk Category wise Country Exposure

The Bank's exposures are concentrated in India, hence country risk exposure as at 31 March 2018 is ₹3,106.28 crores and ₹1,593.91 crores for the period ended 31 March 2017.

### 18.17 Details of Single / Group Borrower limit exceeded by the Bank

The Bank has complied with the applicable RBI guidelines with regard to exposure to a single borrower and a group of the borrower during the year ended March 31, 2018 and period ended March 31, 2017.

### 18.18 Amount of provisions made for income-tax during the year

*(₹ in crores)*

Sl.	Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
i)	Provision for Income tax	0.47	3.96
ii)	Provision for Deferred tax	(32.26)	(2.27)
	<b>Total</b>	<b>(31.79)</b>	<b>1.69</b>

### 18.19 Unsecured Advances against Intangible Collaterals

*(₹ in crores)*

Particulars	As at March 31, 2018	As at March 31, 2017
Total Advances against intangible securities such as charge over the rights, licenses, authority etc.	-	-
Estimated Value of intangible collateral such as charge over the rights, licenses, authority etc.	-	-

### 18.20 Penalties imposed by RBI

No penalty was imposed by RBI on the Bank during the year ended March 31, 2018 and period ended March 31, 2017.

### 18.21 Disclosure of Fees / Remuneration Received in respect of Bancassurance Business

*(₹ in crores)*

Sl.	Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
i)	Fee / Remuneration from Life Insurance Business	0.31	-
ii)	Fee / Remuneration from General Insurance Business	0.12	-

### 18.22 Break up of Provisions and Contingencies debited to Profit & Loss Account

*(₹ in crores)*

Sl.	Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
i)	Provisions towards Standard Advances	3.65	3.99
ii)	Provisions towards Non Standard Advances	23.75	-
iii)	Provision for depreciation on investments	0.42	0.50

iv)	Provisions towards Income tax	0.47	3.96
v)	Provision towards deferred tax (net)	(32.26)	(2.27)
	<b>Total provisions</b>	<b>(3.97)</b>	<b>6.18</b>
	Technical write off	142.57	-
	<b>Total</b>	<b>138.60</b>	<b>6.18</b>

### 18.23 Draw down from Reserves

The Bank has not undertaken any drawdown from reserves during the year ended March 31, 2018 and period ended March 31, 2017.

### 18.24 Floating Provisions

The Bank has not made any floating provisions during the year ended March 31, 2018 and period ended March 31, 2017.

### 18.25 Investor Education and Protection Fund

There are no amounts which are due to be transferred to the Investor Education and Protection Fund during the year ended March 31, 2018 and period ended March 31, 2017.

### 18.26 Concentration of Deposits, Advances, Exposures and NPAs

#### 18.26.1 Concentration of Deposits

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Total Deposits of twenty largest depositors	668.52	18.71
Percentage of Deposits of twenty largest depositors to Total Deposits	32.18%	99.95%

#### 18.26.2 Concentration of Advances

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Total Advances to twenty largest borrowers	317.90	1.57
Percentage of Advances to twenty largest borrowers to Total Advances	10.23%	0.10%

#### 18.26.3 Concentration of Exposures

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Total Exposure to twenty largest borrowers / customers	337.50	1.59
Percentage of Exposure to twenty largest borrowers / customers to Total Exposure of the Bank on borrowers / customers	10.80%	0.10%

#### 18.26.4 Concentration of NPA's

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Total Exposure to top four NPA Accounts (Gross)	0.34	-

## 18.27 Sector Wise Advances

(₹ in crores)

Sl.	Sector	As at March 31, 2018		
		Outstanding Total Advances	Gross NPAs	Percentage of Gross NPAs to Total Advances in that sector
<b>A</b>	<b>Priority Sector*</b>			
1	Agriculture and allied activities	1,728.95	7.09	0.41%
2	Advances to industries sector eligible as priority sector lending	-	-	-
3	Services	1,126.01	50.29	4.47%
4	Personal loans	-	-	-
	<b>Sub-total (A)</b>	<b>2,854.96</b>	<b>57.38</b>	<b>2.01%</b>
<b>B</b>	<b>Non Priority Sector</b>			
1	Agriculture and allied activities	-	-	-
2	Industry	246.74	-	-
3	Services	4.58	0.09	1.97%
4	Personal loans	-	-	-
	<b>Sub-total (B)</b>	<b>251.32</b>	<b>0.09</b>	<b>0.04%</b>
	<b>Total (A+B)</b>	<b>3,106.28</b>	<b>57.47</b>	<b>1.85%</b>

\* This includes underlying advances of Priority Sector Lending Certificates sold during the year. Refer Schedule 18.28

(₹ in crores)

Sl.	Sector	As at March 31, 2017		
		Outstanding Total Advances	Gross NPAs	Percentage of Gross NPAs to Total Advances in that sector
<b>A</b>	<b>Priority Sector</b>			
1	Agriculture and allied activities	860.74	-	-
2	Advances to industries sector eligible as priority sector lending	522.09	-	-
3	Services	211.01	-	-
4	Personal loans	-	-	-
	<b>Sub-total (A)</b>	<b>1,593.84</b>	<b>-</b>	<b>-</b>
<b>B</b>	<b>Non Priority Sector</b>			
1	Agriculture and allied activities	-	-	-
2	Industry	-	-	-

3	Services	0.07	-	-
4	Personal loans	-	-	-
	<b>Sub-total (B)</b>	0.07	-	-
	<b>Total (A+B)</b>	<b>1,593.91</b>	-	-

### 18.28 Details of Priority Sector Lending Certificates (PSLC)

Following are the details of PSLC sold by the Bank

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
General category	1,203.25	-
Micro enterprises	58.00	-
Small/marginal farmers	1,565.00	-
<b>Total</b>	<b>2,826.25</b>	-

The Bank has not purchased PSLC during the year ended March 31, 2018 and period ended March 31, 2017.

### 18.29 Overseas Assets, NPAs and Revenue

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Total Assets	-	-
Total NPAs	-	-
Total Revenue	-	-

### 18.30 Off- Balance Sheet SPVs Sponsored

There are no off balance sheet SPVs sponsored by the Bank, which needs to consolidated as per accounting norms

### 18.31 Disclosures relating to Securitization

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
1. Number of Special Purpose Vehicles (SPVs) sponsored by the Company for securitisation / bilateral transactions	1	2
2. Total amount of securitised assets as per books of the SPVs/assignees sponsored by the Company <sup>#</sup>	124.81	27.47
3. Total amount of exposures retained by the Company to comply with MRR as on the date of balance sheet	-	-
a) Off-balance sheet exposures	-	-
* First loss	-	-
* Others	-	-
b) On-balance sheet exposures	-	-

* First loss <sup>#</sup>	4.36	6.98
* Others	-	-
4. Amount of exposures to securitisation transactions other than MRR	-	-
a) Off-balance sheet exposures	-	-
i) Exposure to own securitizations	-	-
* First loss	-	-
* Others	-	-
ii) Exposure to third party securitizations	-	-
* First loss	-	-
* Others	-	-

<sup>#</sup> the above information has been prepared based on the confirmations received from SPVs  
In the previous period the above securitized portfolio originated by the Holding Company has been acquired by Bank pursuant to BTA.

## 18.32 Disclosure on Remuneration

### Qualitative Disclosure

#### (A) Information relating to the bodies that oversee remuneration

##### Name, composition and mandate of the main body overseeing remuneration

The Nomination and Remuneration Committee (NRC) of the Board is the main body overseeing remuneration. As on March 31, 2018, the NRC comprise of three members, majority of the members are the independent Director

Following are the functions of Nomination and Remuneration Committee:

- Review the structure, size, composition, diversity of the Board and make necessary recommendations to the Board with regard to any changes as necessary and formulation of policy thereon.
- Evaluate the skills that exist, and those that are absent but needed at the Board level, and search for appropriate candidates who have the profile to provide such skill sets.
- Examine vacancies that will come up at the Board on account of retirement or otherwise and suggest course of action.
- Advise criteria for evaluation of Independent Directors and the Board and carry out evaluation of every director's performance.
- Undertake a process of due diligence to determine the suitability of any person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity other 'fit and proper' criteria, positive attributes and independence (if applicable) and formulate the criteria relating thereto.
- Review the composition of Committees of the Board, and identify and recommend to the Board of Directors who can best serve as members of each Board Committee.
- Review and recommend to the Board for approval the appointment of Managing Director & CEO and other whole-time Directors and the overall remuneration framework and associated policy of the Company (including remuneration policy for directors and key managerial personnel) the level and structure of fixed pay, variable pay, perquisites, bonus pool, stock-based compensation and any other form of compensation as may be included from time to time to all the employees of the Company including the Managing Director & CEO, other whole time Directors and senior managers one level below the Board.

- Review and recommend to the Board for approval the total increase in manpower cost budget of the Company as a whole, at an aggregate level, for the next year.
- Recommend to the Board the compensation payable to the Chairman of the Company.
- Review the Code of Conduct and HR strategy, policy and performance appraisal process within the Company, as well as any fundamental changes in organization structure which could have wide ranging or high risk implications.
- Review and recommend to the Board for approval the talent management and succession policy and process in the Company for ensuring business continuity, especially at the level of MD & CEO, the other Whole Time Directors, senior managers one level below the Board and other key roles and their progression to the Board.
- Review and recommend to the Board for approval:
  - the creation of new positions one level below MD & CEO
  - appointments, promotions and exits of senior managers one level below the MD & CEO
- Set the goals, objectives and performance benchmarks for the Company and for MD & CEO, the other Whole Time Directors for the financial year and over the medium to long term.
- Review the performance of the MD & CEO and other Whole Time Directors at the end of each year.
- Perform such other duties as may be required to be done under any law, statute, rules, regulations etc. enacted by Government of India, Reserve Bank of India or by any other regulatory or statutory body.

**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 advice from an external consultant on any area of remuneration during the year ended March 31, 2018 and period ended March 31, 2017.

**Scope of the Bank's remuneration policy (eg. by regions, business lines), including the extent to which it is applicable to foreign subsidiaries and branches**

The Human Resources Policy of the Bank, approved by the Board of the Bank on January 09, 2017 and the same has been reviewed by the Board of Directors in its meeting on February 17, 2018 pursuant to the guidelines issued by RBI, to cover all employees of the Bank. Further the NRC has approved the revised remuneration structure of Managing Director and CEO subject to approval of Reserve Bank of India. The Bank also has in place a Policy on Risk Alignment of Compensation applicable for MD & CEO and Risk Control and Compliance. The policy is applicable to MD & CEO and WTD and all employees in the grade of AVP and above in Risk and Compliance functions.

**Type of employees covered and number of such employees**

All the employees of the Bank are covered. The total number of employees of the Bank at March 31, 2018 was 5,142 (March 31, 2017: 3,850).

**(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 NRC and the Board, followed remuneration practices intended to drive meritocracy and performance based on a prudent risk management framework.

**Effective governance of compensation:** The NRC has oversight over compensation to senior management personnel and also provides overall guidance to the compensation paid to other employees.

**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 with no guaranteed bonuses. Also, the remuneration of employees in financial and risk control functions is not linked to business outcomes and solely depends on their performance. The Bank seeks to align remuneration with financial and non-financial performance indicators. The Bank also has in place a Policy on Risk Alignment of Compensation applicable for MD & CEO and Risk Control and Compliance. The policy is applicable to MD & CEO and WTD and all employees in the grade of AVP and above in Risk and Compliance functions

**Whether the remuneration committee reviewed the firm'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 and will review periodically. In the FY2017-18 the Board of the Bank has reviewed the policy in its meeting held on February 16, 2018.

**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 performance and is not linked to any business outcomes. The Bank also has in place a Policy on Risk Alignment of Compensation applicable for MD & CEO and Risk Control and Compliance. The policy is applicable to MD & CEO and WTD and all employees in the grade of AVP and above in Risk and Compliance functions

**(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 risk 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 mentoring 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:** Not applicable

**(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 profitability, business growth, asset quality, 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 result areas and shall include the metrics mentioned above.

**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:** In case such an event should occur, the Board / NRC shall review and provide overall guidance on the corrective measures to be taken.

**(E) Description of the ways in which the Bank seeks to link performance during a performance measurement period with levels of remuneration**

**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:** The Bank has a portion of Variable pay that can be deferred to the MD & CEO. However, this would be applicable only when the variable pay reaches a specified limit of CTC as mentioned in the policy. During the year the limit was not breached for any levels and MD & CEO was not paid any variable pay.

**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:**

The Bank also has in place a Policy on Risk Alignment of Compensation applicable for MD & CEO and Risk Control and Compliance. This policy deals with the deferred payment of variable pay and claw back rule. However, during the year the same was not applicable as the MD & CEO was not paid any variable pay.

**(F) Description of the different forms of variable remuneration that the Bank utilizes and the rationale for using these different forms.**

The Bank has variable pay that is paid based on the performance that is applicable to all levels. The ESOP options are given to eligible employees above a grade subject to performance. Employees in sales function do have incentives based on monthly business performance.

**Overview of the forms of variable remuneration offered. A discussion of the use of different forms of variable remuneration and if the mix of different forms of variable remuneration differs across employees or group of employees, a description of the factors that determine the mix and their relative importance:** The variable remuneration is offered in the form of annual performance bonus.

**Quantitative Disclosure-**

(The quantitative disclosure covers MD& CEO and employees in the grade of Vice President and above)

(₹ in crores, except numbers)

Sl.	Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
1(i)	Number of meetings held by the Remuneration Committee during the financial period.	1	2
(ii)	Remuneration paid to its members during the financial period (sitting fees)	0.01	0.10
2(i)	Number of employees having received a variable remuneration award during the financial period.	10	11
(ii)	Number and total amount of sign-on awards made during the financial period.	-	-
(iii)	Details of guaranteed bonus, if any, paid as joining / sign on bonus	-	-
(iv)	Details of severance pay, in addition to accrued benefits, if any.	-	-
3(i)	Total amount of outstanding deferred remuneration, split into cash, shares and share-linked instruments and other forms.	-	-
(ii)	Total amount of deferred remuneration paid out in the period.	-	-
4	Breakdown of amount of remuneration awards for the period: Fixed Variable Deferred Non-deferred	Fixed CTC: 6.71 Variable: 0.37	Fixed CTC : 1.46 Variable : 0.50
5(i)	Total amount of outstanding deferred remuneration and retained remuneration exposed to ex post explicit and / or implicit adjustments.	-	-
(ii)	Total amount of reductions during the period due to ex- post explicit adjustments.	-	-
(iii)	Total amount of reductions during the period due to ex- post implicit adjustments	-	-

\* Remuneration excludes the cost accounted under Employee Stock Option Plan and other retirement benefits related costs which is accounted at entity level based on actuarial valuation

### 18.33 Contingent Liabilities

Description of nature of contingent liabilities is set out below:

i) Liability on account of cross currency interest rate swaps

Cross Currency interest rate swaps are commitments to exchange cash flows by the way of interest / principal in one currency against another, based on pre-determined rates and commitments to exchange fixed and floating interest rate cash flows. The amount recorded as contingent liability with respect to these contracts represents the underlying notional amounts of these contracts

ii) Other items for which the bank is contingently liable

- a. The Bank is contingently liable to certain SPV with respect to securitization of loans and advances to the extent of cash collateral deposits and credit enhancements.

b. Amount sanctioned but not disbursed to customers as on the date of reporting.

Refer Schedule 12 for amounts relating to contingent liabilities.

**18.34** Bank has not issued any letters of comfort during the year ended March 31, 2018 and period ended March 31, 2017. Further there are no outstanding comfort letters as at March 31, 2018 and March 31, 2017.

**18.35 Liquidity Coverage Ratio (LCR)**

**Qualitative disclosure around LCR**

Liquidity Coverage Ratio (LCR) is a global minimum standard for Bank's liquidity. The ratio aims to ensure that a bank has an adequate stock of unencumbered High - Quality Liquid Assets (HQLA) that can be converted into cash easily and immediately to meet its liquidity needs for a 30 calendar days of severe liquidity stress scenario.

The LCR is a ratio of High Quality Liquid unencumbered Assets (HQLA) to total estimated net outflows over a stressed period of 30 calendar days.

The net cash outflows are calculated by applying RBI prescribed outflow factors to the various categories of liabilities (deposits, unsecured and secured wholesale borrowings), as well as to undrawn commitments and derivative-related exposures, partially offset by inflows from assets maturing within 30 days.

The Board of Directors has the overall responsibility for management of liquidity risk. The Board at overall level decides the liquidity risk tolerance / limits and accordingly decides the strategy, policies and procedures of the Bank for managing liquidity risk.

The Board has constituted Risk Management Committee (RMC), which reports to the Board, and consisting of Chief Executive Officer (CEO) / Chairman and certain other Board members. The committee is responsible for evaluating the overall risks faced by the Bank including liquidity risk. The potential interaction of liquidity risk with other risks is included in the risks addressed by the Risk Management Committee.

At the executive level, Asset Liability Management Committee (ALCO) ensures adherence to the risk tolerance / limits set by the Board as well as implementing the liquidity risk management strategy of the Bank in line with Bank's risk management objectives and risk tolerance. A dedicated desk within Treasury function of the Bank is responsible for the day-to-day / intra-day liquidity management.

ALCO of the Bank channelizes various business segments of the Bank to target good quality asset and liability profile to meet the Bank's profitability as well as Liquidity requirements with the help of robust MIS and Risk Limit architecture of the Bank.

The Bank has been maintaining HQLA (Level 1) primarily in the form of Excess CRR, excess SLR investments over and above mandatory requirement.

## Quantitative Disclosure

(₹ in crores)

High Quality Liquid Assets		As at March 31, 2018	
		Total Unweighted Value (average)*	Total Weighted Value (average)
1	Total High Quality Liquid Assets (HQLA)		172.06
<b>Cash Outflows</b>			
2	Retail deposits and deposits from small business customers, of which:	195.96	16.07
(i)	Stable Deposits	70.61	3.53
(ii)	Less Stable Deposits	125.35	12.53
3	Unsecured wholesale funding, of which:	2,037.54	238.85
(i)	Operational deposits (all counterparties)	1,997.91	199.21
(ii)	Non-operational deposits (all counterparties)	0.00	0.00
(iii)	Unsecured debt	39.64	39.64
4	Secured wholesale funding		23.67
5	Additional requirements, of which	0.00	0.00
(i)	Outflows related to derivative exposures and other collateral requirements	-	-
(ii)	Outflows related to loss of funding on debt products	-	-
(iii)	Credit and liquidity facilities	-	-
6	Other contractual funding obligations	75.75	24.61
7	Other contingent funding obligations	-	-
8	<b>TOTAL CASH OUTFLOWS</b>		303.20
<b>Cash Inflows</b>			
9	Secured lending (e.g. reverse repos)	-	-
10	Inflows from fully performing exposures	-	-
11	Other cash inflows	-	-
12	<b>TOTAL CASH INFLOWS</b>	415.29	297.65
13	<b>TOTAL HQLA</b>		172.06
14	<b>Total Net Cash Outflows</b>		75.80
15	<b>Liquidity Coverage Ratio (%)</b>		226.99%

\*The weighted value and unweighted value are based on the balances as at March 31, 2018.

### Reasons for dip in Liquidity Coverage Ratio

Being a new bank, expected cash outflow at initial stage was too low but HQLA was too high due to excess investment in SLR, therefore LCR was 2,967.91% as on March 31, 2017.

During the year, SLR and CRR requirement increased consequently excess investment in SLR was reduced over the period of time. Further total net cash outflow has also increased due to the increase in deposit base during the year which ultimately reduced Bank's LCR to 226.99% as on March 31, 2018.

High Quality Liquid Assets		As at March 31, 2017	
		Total Unweighted Value (average)*	Total Weighted Value (average)
1	Total High Quality Liquid Assets (HQLA)		397.15
<b>Cash Outflows</b>			
2	Retail deposits and deposits from small business customers, of which:	1.04	0.09
(i)	Stable Deposits	0.24	0.01
(ii)	Less Stable Deposits	0.80	0.08
3	Unsecured wholesale funding, of which:	24.53	8.61
(i)	Operational deposits (all counterparties)	17.69	1.77
(ii)	Non-operational deposits (all counterparties)	0.00	0.00
(iii)	Unsecured debt	6.84	6.84
4	Secured wholesale funding		44.81
5	Additional requirements, of which	0.00	0.00
(i)	Outflows related to derivative exposures and other collateral requirements	-	-
(ii)	Outflows related to loss of funding on debt products	-	-
(iii)	Credit and liquidity facilities	-	-
6	Other contractual funding obligations	0.31	0.02
7	Other contingent funding obligations	-	-
8	<b>TOTAL CASH OUTFLOWS</b>		<b>53.53</b>
<b>Cash Inflows</b>			
9	Secured lending (e.g. reverse repos)	-	-
10	Inflows from fully performing exposures	166.74	83.37
11	Other cash inflows	0.00	0.00
12	<b>TOTAL CASH INFLOWS</b>	<b>166.74</b>	<b>83.37</b>
13	<b>TOTAL HQLA</b>		<b>397.15</b>
14	<b>Total Net Cash Outflows</b>		<b>13.38</b>
15	<b>Liquidity Coverage Ratio (%)</b>		<b>2,967.91%</b>

\*The weighted value and unweighted value are based on the balances as at March 31, 2017.

### Reasons for high in Liquidity Coverage Ratio

1. Excess liquidity arising from investment into level 1 securities - Central and State Government securities.
2. Lower cash outflow arising due to positive mismatch in the ALM i.e, the average tenor for the advances is 21 months and the average tenor with respect to borrowings from banks, NBFCs, financial Institutions and other agencies is 33 months. (Refer note no. 18.15 with respect to ALM)

### 18.36 Intra-Group Exposures

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Total amount of intra-group exposures	-	-
Total amount of top-20 intra-group exposures	-	-
Percentage of intra-group exposures to total exposure of the bank on borrowers / customers	-	-

### 18.37 Details of provisioning pertaining to fraud accounts

The following table sets forth for the year ended March 31, 2018, the details of provisioning pertaining to fraud accounts.

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
Number of frauds reported	30	7
Amount involved in frauds	0.94	0.00*
Provision made	0.58	0.00
Unamortised provision debited from 'other reserves'	-	-

\*₹35,114/- in previous period

The Bank has recovered the amount of ₹0.22 crores (31 Mar 2017- ₹35,114/-) against amount involved in frauds.

### 18.38 Transfers to Depositor Education and Awareness Fund (DEAF)

Below mentioned are the details of funds transferred to Depositor Education and Awareness Fund during the period ended 31 March 2018.

(₹ in crores)

Particulars	For the year ended March 31, 2018	For the period ended March 31, 2017
Opening balance of amounts transferred to DEAF	-	-
Add: Amounts transferred to DEAF during the period	-	-
Less: Amounts reimbursed by DEAF towards claims	-	-
Closing balance of amounts transferred to DEAF	-	-

### 18.39 Credit Default Swap

The Bank has not entered into Credit Default Swap during the year ended 31 March 2018 and period ended March 31, 2017

### 18.40 Unhedged Foreign Currency Exposure (UFCE) of Bank's Customer

The borrowers of the Bank do not have any Unhedged Foreign Currency Exposure as at March 31, 2018 and March 31, 2017.

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

**18.41** The Bank has a process whereby periodically all long term contracts (including derivative contracts) are assessed for material foreseeable losses. At the year end, the Bank has reviewed and recorded adequate provision as required under any law / accounting standards for material foreseeable losses on such long-term contracts (including derivative contracts) in the books of accounts.

**18.42** The board of directors in their meeting dated May 29, 2017 decided to contribute towards corporate social responsibility up to ₹0.4 crores which is higher than the amount required to be spent by Section 135 of the Companies Act, 2013.

(₹ in crores)

Particulars	For the period ended March 31, 2018	For the period ended March 31, 2017
a) Gross amount required to be spent by the Company during the year	0.10	-
b) Amount spent during the year on purposes other than construction/acquisition of any asset		
Paid	0.40	-
Yet to be paid	-	-
Total of amount spent	0.40	-

**18.43** The Bank does not have any pending litigations as at March 31, 2018 and March 31, 2017.

**18.44** The following table sets forth, for the periods indicated, the movement in software acquired by the Bank, as included in fixed assets.

(₹ in crores)

Particulars	As at March 31, 2018	As at March 31, 2017
At cost at March 31 of preceding year	2.63	-
Additions during the year	2.43	2.63
Deductions during the year	-	-
Accumulated depreciation to date	1.81	0.48
Net block	3.25	2.15

**18.45** The Bank was incorporated on April 30, 2016 under the provision of the Companies Act, 2013 and licensed by Reserve Bank of India to operate as a Small Finance Bank under the Banking Regulation Act, 1949 with effect from November 25, 2016. The Bank commenced its banking operations effective January 23, 2017 post transfer of micro finance business from its holding company. As a result, the previous year's figures are not comparable with those of the current year.

**18.46** Figures of the previous period have been regrouped / reclassified, wherever necessary to conform current year classification

for **B S R & Associates LLP**  
Chartered Accountants  
ICAI Firm Registration No. 116231W/W-100024

for and on behalf of Board of Directors  
**Utkarsh Small Finance Bank Limited**  
CIN: U65992UP2016PLC082804

**Sd/-**  
**N Sampath Ganesh**  
Partner  
Membership No: 042554

**Sd/-**  
**Sampath Sundaram Veeravalli**  
Chairman  
DIN: 07594524

**Sd/-**  
**Govind Singh**  
Managing Director & CEO  
DIN : 02470880

**Sd/-**  
**Tantra Narayan Thakur**  
Director  
DIN: 00024322

**Sd/-**  
**Anang Kumar Shandilya**  
Company Secretary  
FCS:6693

Place : Mumbai  
Date : May 08, 2017

Place : Mumbai  
Date : May 08, 2017

# INDEPENDENT AUDITOR'S REPORT

## To the Members of Utkarsh Small Finance Bank Limited

### Report on the Financial Statements

We have audited the accompanying financial statements of Utkarsh Small Finance Bank Limited ('the Bank'), which comprise the Balance Sheet as at March 31, 2018, the Profit and Loss Account, the Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of the significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

The Bank's Board of Directors are responsible for the matters stated in Section 134(5) of the Companies Act, 2013 (the 'Act') with respect to the preparation of these financial statements that give a true and fair view of the state of affairs, loss and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards prescribed under Section 133 of the Act, provisions of Section 29 of the Banking Regulation Act, 1949 and the circulars, guidelines and directions issued by Reserve Bank of India ('RBI') from time to time.

This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and the 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.

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.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.

We conducted our audit of financial statements of the Bank in accordance with the Standards on Auditing (the 'Standards') specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Bank's Directors, as well as evaluating the overall presentation of the financial statements.

We are also responsible to 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 the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause an entity to cease to continue as a going concern.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

## Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulation Act, 1949 as well as the Act 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, of the state of affairs of the Bank as at March 31, 2018 and its loss and its cash flows for the year ended on that date.

## Report on other legal and regulatory requirements

The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 133 of the Act.

As required by sub-section (3) of Section 30 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
- Since the key operations of the Bank are automated with the key applications integrated to the core banking systems, the audit is carried out centrally as all the necessary records and data required for the purposes of our audit are available therein. However, during the course of our audit we have visited 5 branches.

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 Balance Sheet, the Profit and Loss Account and the Cash Flow Statement 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, 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 as on March 31, 2018 taken on record by the Board of Directors, none of the Directors is disqualified as on March 31, 2018 from being appointed as a Director in terms of Section 164 (2) of the Act;
- With respect to the adequacy of the internal financial controls with reference to the financial statements of the Bank and the operating effectiveness of such controls, refer to our separate Report in 'Annexure A';
- 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, in our opinion and to the best of our information and according to the explanations given to us:
  - The Bank does not have any pending litigations which would impact its financial position as at March 31, 2018 - Refer Schedule 18.43 to the financial statements;
  - The Bank has made provision, as required under the applicable law or accounting standards, for material foreseeable losses, if any, on long-term contracts including derivative contracts - Refer Schedule 18.41 to the financial statements;
  - There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank; and
  - The disclosures required on holdings as well as dealing in Specified bank notes during the period from November 08, 2016 to December 30, 2016 as envisaged in notification G.S.R. 308(E) dated March 30, 2017 issued by the Ministry of Corporate Affairs is not applicable to the Bank.

*for* **B S R & Associates LLP**  
*Chartered Accountants*  
Firm's Registration No: 116231W/W-100024

**Sd/-**  
**N Sampath Ganesh**  
*Partner*  
Membership No: 042554

Place : Mumbai  
Date : May 08, 2018

## **Annexure A to the Independent Auditor's Report of even date on the Financial Statements of Utkarsh Small Finance Bank Limited**

### **Report on the Internal Financial Controls under clause (i) of sub-section 3 of Section 143 of the Companies Act, 2013**

We have audited the internal financial controls over financial reporting of Utkarsh Small Finance Bank Limited ('the Bank') as at March 31, 2018 in conjunction with our audit of the financial statements of the Bank for the year ended on that date.

#### **Management's Responsibility for Internal Financial Controls**

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 ('the Guidance Note') issued by the Institute of Chartered Accountants of India ('the ICAI'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of its business, including adherence to 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 Companies Act, 2013 ('the Act').

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on the Bank's internal financial controls over financial reporting based on our audit. We conducted our audit in accordance with the Guidance Note and the Standards on Auditing ('the Standards'), issued by the ICAI and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of internal financial controls, both issued by the ICAI. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate internal financial controls over financial reporting was established and maintained and if such controls operated effectively in all material respects.

Our audit involves performing procedures to obtain audit evidence about the adequacy of the internal financial controls system over financial reporting and their operating effectiveness. Our audit of internal financial controls over financial reporting included obtaining an understanding of internal financial controls over financial reporting, 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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Bank's internal financial controls system over financial reporting.

#### **Meaning of Internal Financial Controls over Financial Reporting**

A Bank's internal financial control over financial reporting 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 internal financial control over financial reporting includes 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 authorizations of management and Directors of the bank; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized 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**

Because of the inherent limitations of internal financial controls over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal financial controls over financial reporting to future periods are subject to the risk that the internal financial control over financial reporting may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### **Opinion**

In our opinion, the Bank has, in all material respects, an adequate internal financial controls system over financial reporting and such internal financial controls over financial reporting were operating effectively as at March 31, 2018, 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 ICAI.

*for B S R & Associates LLP*  
*Chartered Accountants*  
Firm's Registration No: 116231W/W-100024

Place : Mumbai  
Date : May 08, 2018

**Sd/-**  
**N Sampath Ganesh**  
*Partner*  
Membership No: 042554

## CHIEF EXECUTIVE OFFICER (CEO) & CHIEF FINANCIAL OFFICER (CFO) CERTIFICATE

We, Govind Singh, Managing Director & Chief Executive Officer and Ashwani Kumar, Deputy Chief Financial Officer of Utkarsh Small Finance Bank Limited ("the Bank"), hereby certify to the Board that:

- We have reviewed financial statement and the cash flow statement of the year and that to the best of our knowledge and belief:
  - These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
  - These statements together present a true and fair view of the Bank's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- There are, to the best of our knowledge and belief, no transactions entered into by Bank during the year which are fraudulent, illegal or violative of the Bank's Code of Conduct.
- We are responsible for establishing and maintaining internal controls for financial report in Bank and we have evaluated the effectiveness of the internal control systems of the Bank pertaining to financial reporting. We have disclosed to the Auditors and the Audit Committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- We have indicated to the Auditors and the Audit committee.
  - Significant changes in internal control over financial reporting during the year;
  - Significant changes in accounting policies during the year and the same have been disclosed in the Notes of the financial statements; and
  - Instances of significant fraud of which we have become aware and involvement therein; if any, of the Management or an employee having a significant role in the Bank's internal control system over financial reporting.
- We affirm that we have not denied any personnel access to the Audit Committee of the Bank (in respect of matters involving alleged misconduct, if any).

Sd/-  
**Govind Singh**  
Managing Director & CEO

Sd/-  
**Ashwani Kumar**  
Deputy Chief Financial Officer

# EXTRACT OF ANNUAL RETURN

Form No. MGT-9  
EXTRACT OF ANNUAL RETURN  
As on the Financial Year Ended on March 31, 2018

[Pursuant to section 92(3) of the Companies Act, 2013 and rule 12(1) of the Companies (Management and Administration) Rules, 2014]

## Registration and other Details:

- CIN: U65992UP2016PLC082804
- Registration Date – 30.04.2016
- Name of the Company – Utkarsh Small Finance Bank Limited
- Category – Public Limited Company
- Address of the Registered Office and Contact Details  
S-24/1-2, First Floor, Mahavir Nagar, Orderly Bazar, Varanasi - 221 002, Ph.: 0542-2500596
- Whether Listed Company - No
- Name, Address and Contact Details of Registrar and Transfer Agent, if any

M/s. Karvy Computershare Private Ltd.  
Unit: Utkarsh Small Finance Bank  
Karvy Selenium Tower B, Plot No. 31 & 32, Gachibowli,  
Financial District,  
Nanakramguda, Serilingampally,  
Hyderabad - 500 032  
Telangana

## Principal Business Activities of the Company

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

SI.	Name and Description of Main Product / Service	NIC Code of the Product / Service	% to Total Turnover of the Company
1	Banking Services	K1	100

## Particulars of Holding, Subsidiary and Associate Companies

SI.	Name and Address of the Company	CIN / GLN	Holding / Subsidiary / Associate	% of Shares held	Applicable Section
1	Utkarsh Micro Finance Limited S-2/639-56 Varuna Vihar Colony J.P Mehta Road Varanasi	U65191UP1990PLC045609	Holding	99.98%	2(46)

Share Holding Pattern (Equity Share Capital Breakup as Percentage of Total Equity)

• **Category-wise Share Holding**

Category of Shareholder	No. of Shares held on 31.03.2017			No. of Shares held at the end of the year 31.03.2017			% Change during the year
	No. of Share	Total	% of Total Shares	No. of Share	Total	% of Total Shares	
<b>A. Promoters</b>							
(1) Indian							
Individual / HUF	49,000	49,000	0.01633%	54,594	54,594	0.01161%	(0.00472%)
Central Govt							
State Govt (s)							
Bodies Corp.							
Banks / FI	30,00,01,000	30,00,01,000	99.98367%	46,99,95,406	46,99,95,406	99.98839%	0.00472%
Any Other....							
<b>Sub-total (A) (1):</b>	<b>30,00,50,000</b>	<b>30,00,50,000</b>	<b>100%</b>	<b>47,00,50,000</b>	<b>47,00,50,000</b>	<b>100%</b>	<b>0%</b>
(2) Foreign							
a) NRIs - Individuals							
b) Other – Individuals							
c) Bodies Corp.							
d) Banks / FI							
e) Any Other...							
<b>Sub-total (A) (2):-</b>							
<b>Total shareholding of Promoter (A) = (A)(1)+(A)(2)</b>	<b>30,00,50,000</b>	<b>30,00,50,000</b>	<b>100%</b>	<b>47,00,50,000</b>	<b>47,00,50,000</b>	<b>100%</b>	<b>0%</b>
<b>B. Public Shareholding</b>							
1. Institutions							
a) Mutual Funds							
b) Banks / FI							
c) Central Govt							
d) State Govt (s)							
e) Venture Capital Funds							
f) Insurance Companies							
g) FIs Funds							

l) Others (Specify)								
<b>Sub-total (B)(1):-</b>								
<b>2. Non- Institutions</b>								
a) Bodies Corp.								
i) Indian								
ii) Overseas								
b) Individuals								
i) Individual shareholders holding nominal share capital upto ₹1 lakh								
ii) Individual shareholders holding nominal share capital in excess of ₹1 lakh								
c) Others (specify)								
<b>Sub-total (B)(2):-</b>		-	-	-	-	-	-	-
Total Public Shareholding								
C. Shares held by Custodian for GDRs & ADRs		-	-	-	-	-	-	-
<b>Grand Total (A+B+C)</b>	<b>30,00,50,000</b>	<b>30,00,50,000</b>	<b>100%</b>	<b>47,00,50,000</b>	<b>47,00,50,000</b>	<b>100%</b>	<b>0%</b>	

• **Shareholding of Promoters**

Shareholder's 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 /	
Govind Singh	44,000	0.01466%	-	49,237	0.01047%	-	(0.00419%)
Revati Govind	1,000	0.00033%	-	1,000	0.00021%	-	(0.00012%)
Raghvendra Singh	1,000	0.00033%	-	1,119	0.00024%	-	(0.00010%)
Trilok Nath Shukla	1,000	0.00033%	-	1,119	0.00024%	-	(0.00010%)
Abhisheka Kumar	1,000	0.00033%	-	1,000	0.00021%	-	(0.00012%)
Ashwani Kumar	1,000	0.00033%	-	1,119	0.00024%	-	(0.00010%)
Utkarsh Micro Finance Limited (Holding Company)	30,00,01,000	99.98367%	-	46,99,95,406	99.98839%	-	0.00472%
<b>Total</b>	<b>30,00,50,000</b>	<b>100%</b>	<b>-</b>	<b>47,00,50,000</b>	<b>100%</b>	<b>-</b>	<b>0%</b>

• **Change in Promoters' Shareholding (please specify, if there is no change)**

Particulars	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
At the beginning of the year	30,00,50,000	100%	30,00,50,000	100%
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):	12,00,00,000 (allotted on September 21, 2017 as CCD conversion)		42,00,50,000	100%
	5,00,00,000 (allotted on March 26, 2018 as Rights Issue)		47,00,50,000	100%
<b>At the End of the year</b>	<b>47,00,50,000</b>	<b>100%</b>	<b>47,00,50,000</b>	<b>100%</b>

- **Shareholding Pattern of top ten Shareholders (other than Directors, Promoters and Holders of GDRs and ADRs) : NIL**
- **Shareholding of Directors and Key Managerial Personnel:**

Particulars	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
	No. of Shares (Mr. Govind Singh)	% of total Shares of the company	No. of Shares	% of total Shares of the company
At the beginning of the year	44,000	0.01466%	44,000	0.01466%
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):	5,237 share allotted as rights issue as on March 26, 2018.	0.00111%	49,237	0.01047%
<b>At the End of the year</b>	<b>49,237</b>	<b>0.01047%</b>	<b>49,237</b>	<b>0.01047%</b>

## Indebtedness

### Indebtedness of the Company including interest outstanding/accrued but not due for payment

Particulars	Secured Loans excluding Deposits	Unsecured Loans	Deposits	Total Indebtedness
<b>Indebtedness at the beginning of the financial year</b>				
i) Principal Amount	10,14,30,11,091	8,87,50,00,000	-	19,01,80,11,091
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	12,01,51,690	8,79,26,244	4,49,833	20,85,27,767
<b>Total (i+ii+iii)</b>	<b>10,26,31,62,781</b>	<b>8,96,29,26,244</b>	<b>4,49,833</b>	<b>19,22,65,38,858</b>
<b>Change in Indebtedness during the financial year</b>				
Addition	-	3,75,00,00,000	-	3,75,00,00,000
Reduction	5,55,55,67,493	2,31,40,25,974	-	7,86,95,93,467
Net Change	(5,55,55,67,493)	1,43,59,74,026	-	(4,11,95,93,467)
<b>Indebtedness at the end of the financial year</b>				
i) Principal Amount	4,58,74,43,598	10,31,09,74,026	-	14,89,84,17,624
ii) Interest due but not paid	-	-	-	-
iii) Interest accrued but not due	8,14,78,875	9,54,74,240	47,04,23,996	64,73,77,111
<b>Total (i+ii+iii)</b>	<b>4,66,89,22,473</b>	<b>10,40,64,48,266</b>	<b>47,04,23,996</b>	<b>15,54,57,94,735</b>

## Remuneration of Directors and Key Managerial Personnel

### • Remuneration to Managing Director, Whole - Time Directors and/or Manager:

Particulars of Remuneration	Name of MD/ WTD/ Manager	Total (Amount in ₹)
	Govind Singh*	
Gross salary (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961 (b) Value of perquisites u/s 17(2) Income-tax Act, 1961 (c) Profits in lieu of salary under section 17(3) Income- tax Act, 1961	1,20,00,000/- (Annual Gross Salary)	1,20,00,000/- (Annual Gross Salary)
Stock Option	-	-
Sweat Equity	-	-
Commission - as % of profit - others, specify...	-	-
Others, please specify	-	-
Total (A)		
Ceiling as per the Act		

As per section II of Companies Act, 2013, if the company is newly incorporated company, for a period of seven years from the date of its incorporation may pay remuneration up to two times the amount permissible under section II.

Section II defines that if company have an effective capital is more than 250 crores and above may pay remuneration up to 60 lakhs plus 0.01% of the effective capital in excess of Rs 250 crores.

• **Remuneration to other Directors:**

Particulars of Remuneration	Name of Directors				Total Amount in ₹
	Mr. Tantra Narayan Thakur	Dr. V. S. Sampath	Mr. Somnath Sengupta	Mr. Kajal Ghose	
Independent Directors					
Fee for attending board Committee Commission. Meetings	7,15,000	7,00,000	8,62,200	6,40,000	29,17,200
Commission • Others, please specify					
Total (1)	7,15,000	7,00,000	8,62,200	6,40,000	29,17,200
Other Non-Executive Directors					
• Fee for attending board committee meetings • Commission • Others, please specify					
Total (2)	-	-	-	-	-
Total (B)=(1+2)	7,15,000	7,00,000	8,62,200	6,40,000	29,17,200
Total Managerial Remuneration					
Overall Ceiling as per the Act					

• **Remuneration to Key Managerial Personnel other than MD/Manager/WTD**

Particulars of Remuneration	Key Managerial Personnel			
	CEO	Company Secretary	CFO	Total
Gross salary (a) Salary as per provisions contained in section 17(1) of the Income-tax Act, 1961	-	13,43,076/- (Annual Salary)	30,79,161/- (Annual Salary) *Only paid till Dec 31, 2017	44,22,237/-
(b) Value of perquisites u/s 17 (2) Income-tax Act, 1961	-	-	-	-
(c) Profits in lieu of salary u/s 17 (3) Income-tax Act, 1961	-	-	-	-
Stock Option	-	-	-	-
Sweat Equity	-	-	-	-
Commission • as % of profit • others, specify...	-	-	-	-
Others, please specify	-	-	-	-
<b>Total</b>	-	<b>13,43,076</b>	<b>30,79,161</b>	<b>44,22,237</b>

**Penalties / Punishment/ Compounding of Offences**

NIL

# ANNUAL CORPORATE SOCIAL RESPONSIBILITY (CSR) REPORT

## The Annual Report on CSR Activities Financial Year 2017-18:

1. Brief outline of the Bank's CSR policy, including overview of the projects or programs undertaken and a reference to the web link to the CSR policy and projects and programs.

### Policy Statement

The Bank's CSR aims to contribute to the social and economic development of the underprivileged and underserved community in low income geographies. Through impact oriented interventions, the bank seeks to mainstream economically, physically and socially challenged groups and to draw them into the cycle of growth, development and empowerment. Initiatives will focus on education, health, promoting livelihoods through skill building and vocational training. The Bank shall also promote initiatives that preserve, restore and enhance environment, ecological balance, and natural resources, and improve sanitation and hygiene.

The Bank's strategy is to integrate its activities in community development, social responsibility and environmental responsibility and encourage each business unit or function to include these considerations into its operations.

### CSR Philosophy & Guiding Principles

CSR policy covers the entire process by which an organization approaches, defines and develops its relationships with stakeholders for the common good, and demonstrates its commitment in this regard by adoption of appropriate strategies and projects. Thus CSR is not charity or mere donations but a way of giving back to society by going beyond business as usual, creating shared value and contributing to social and environmental good. The Bank's CSR philosophy is based on cardinal principle to make a meaningful and measurable impact in the lives of economically, physically and socially challenged communities of the country.

The Bank is in its continuous efforts to positively impact the society particularly, underserved and unsecured communities in the area of its operations. Utkarsh has formulated policies for social development based on following guiding principles:

- To be the trusted financial service provider to over 10 million customers by 2021.
- Adopt an approach that aims at achieving a greater balance between social development and economic development.
- Adopt new measures to accelerate and ensure the basic needs of all people.
- Work towards elimination of barriers for the social inclusion of disadvantaged groups, such as the poor and the disabled.
- Support underprivileged and underserved segments by providing financial and non-financial services through a socially responsible, sustainable and scalable institution .

### Organization Set-up

With the objective of interventions through various services, a new separate entity in the name of 'Utkarsh Welfare Foundation' (UWF) has been incorporated as section 25 company under the provisions of the Companies Act, 1956. UWF aims to make a meaningful and sustainable impact in the lives of the community through a multi-pronged service oriented market led approach.

UWF has initiatives that focus on range of issues such as education, health, skill development, environment, micro enterprise training, sustainable livelihoods, water and sanitation. Bank's all CSR activities are implemented through UWF.

The Bank has constituted a CSR Committee of the Board consisting of three or more Directors including at least one Independent Director. The Committee will meet at least three times in a year. Following shall be the terms of reference of the Committee.

- To formulate the Bank's CSR strategy, policy and goals.
- To monitor the Bank's CSR policy and performance.
- To review the CSR projects / initiatives from time to time.
- To ensure legal and regulatory compliance from a CSR viewpoint.
- To ensure reporting and communication to stakeholders on the Bank's CSR projects / initiatives consistent with the above policy.

### Scope of Activities

Identified CSR activities are in line with the CSR Rules (Sec.135 of the Companies Act, 2013). Under CSR activities the identified thematic areas of interventions are health, financial awareness, environment protection, water, sanitation, skill & vocational training activities. The Bank initiated many such programs through Utkarsh Welfare Foundation. The Bank will provide not less than 2% of average profit before tax for the preceding three financial years to UWF to carry out the programs as listed below.

**During the financial year 2017-18, prime focus under CSR initiatives were financial awareness & goodwill initiatives.**

### Financial Awareness (FA)

Financial awareness initiatives are aligned with Utkarsh' s mission to support underprivileged and underserved segments of the population by providing financial and non-financial services in a socially responsible, sustainable and scalable manner. Financial education program is aimed at building financial decision making and capabilities of the targeted clients through right information, instructions and advices. As a part of credit plus initiative, the total client outreach under financial awareness initiatives of Utkarsh Welfare Foundation since its inception is 2, 37,346 beneficiaries.

**For the Financial Year 2017 – 2018 total outreach achieved through corporate social responsibility initiative under financial awareness programs have been 1, 13,779 beneficiaries.**

### ONGOING PROJECTS

#### UWF-FA program:

The program is currently running across 13 locations across East & West Champaran, Muzaffarpur (Bihar), Jabalpur (Madhya Pradesh), Rudrapur (Uttarakhand) and Varanasi (Uttar Pradesh) Divisions. Total 26,159 beneficiaries have successfully completed the class room training in 1,389 batches during the FY2017-18 as on March 31, 2018.

#### UWF-Digital Financial Literacy Initiative:

During FY2017-18, total 12,624 beneficiaries attended the Digital Financial Literacy Program through 799 class room training programs.

### **SIDBI-PSIG Financial Literacy & Women Empowerment Project:**

USFB - CSR contribution was spent on Financial Literacy & Women Empowerment (FL&WE) project implemented in collaboration with SIDBI-PSIG at 23 locations (9 locations in Bihar state and 14 locations in Uttar Pradesh) of 4 districts of Bihar and 5 districts of Uttar Pradesh. At the closure of the project as on October 31, 2017, around 23,525 beneficiaries completed Phase 2 & 3 of the **class room field trainings**. Total 12 hours of training inputs were given to the beneficiaries during Phase 2 & 3. Phase-1 of the training program was completed during FY2016-17.

During FY2017-18, **Mass Awareness Camps** on FL&WE were organized in the targeted geographies. Total 19,313 participants including men, women and children attended the program which was covered through 60 camps across Bihar and Uttar Pradesh.

During FY2017-18, special **Digital Financial Literacy** drive was launched as a part of ongoing scale up of FL &WE project. Total 15,617 beneficiaries were covered through 616 class room trainings and 11,165 beneficiaries covered through 28 digital financial literacy camps organized across 6 locations out of 23 locations under SIDBI Project.

#### **Mega Camp on Digital Financial Literacy:**

A mega camp on digital financial literacy was organised by Utkarsh Welfare Foundation on July 11, 2017 at Deoria, Uttar Pradesh. More than 500 participants attended the camp, which was presided by Shri Kalraj Mishra, Honourable Minister, MSME, Government of India. Mr. Umesh Chandra Gaur, General Manager, SIDBI, Mr. Kajal Ghose, Director, Utkarsh Small Finance Bank Limited (USFB), a representative from District Magistrate's office and Mr. Rahul Sinha, Head - Retail Assets, USFB attended the said function. Participants were trained on the basic concepts of digital banking with use of various tools.

#### **Dialogue on Business Program for MSME clients:**

Under advanced financial literacy program, training on business and entrepreneurship development is given to the MSME clients at Allahabad and Varanasi locations. Total 1,912 beneficiaries have successfully completed the class room training through 200 batches.

#### **Village Development Program**

Village adoption plan envisages integrated and holistic development of identified villages in consultation with village community coupled with convergence of various development interventions.

Emphasis under this program is on participatory planning, convergence of various development programmes for bringing about overall development of the targeted villages.

Five villages namely Bhikhampur, Bhimchandi, Boodapur, Dholapur and Karnadadi under Arajiline Block in Varanasi District have been identified for the intensive approach under development intervention.

Activities conducted under Village Development Program

- i. **Building Financial Capability through Financial Literacy:** 3,464 beneficiaries trained under class room training through 208 batches.
- ii. **Access to Banking & Financial services:** 4 Kirana shops identified for kiosk model BC.

## Goodwill Projects

The Company continued its support to Nirmala Shishu Bhawan and Nirmala Hridaya, a home for differently-abled orphan children and elderly respectively. The company sponsored meals and also provided them with some items of their daily needs. In order to increase employee engagement, various departments at Utkarsh also visit these homes and interact with the inmates on regular basis.

## Blood Donation Camps

A blood donation camp was organized in association with Pandit Deen Dayal Upadhyaya Government Hospital, Varanasi on March 17, 2018. A total of 62 Volunteers from Utkarsh successfully donated blood. The event strengthened the noble cause that blood donation saves life.

## Geographical Span

During the Financial Year 2017-18 the CSR activities were spread across various districts in four States viz. Bihar, Madhya Pradesh, Uttarakhand and Uttar Pradesh.

**Web Link to CSR policy and projects or programs:**

**Annual Report on CSR Activities is also available at the website of the Company at [www.utkarsh.bank](http://www.utkarsh.bank)**

### 2. Composition of the CSR committee

**Dr. V. S. Sampath (Chairperson)**  
**Mr. T. N. Thakur**  
**Mr. Govind Singh**

### 3. Average net profit of the company for last three financial years

**Not Applicable**

### 4. Prescribed CSR expenditure (i.e. 2% of the amount as in 3 above)

The year closed with a net loss of ₹63 crore, owing mostly to the write-offs of demonetization effected accounts. However, on quarter on quarter basis the Bank's PBT for Q4 FY2018 was ₹18.2 crore and the Operating Profit for the year was ₹75.6 crore. The GNPA and NNPA has been 1.85% and 1.09% as at March 31, 2018.

**The company spent ₹40,00,000 which was higher than 2% of its net profits as prescribed under Sec.135 of Companies Act, 2013.**

## 5. Details of the CSR spent during FY 2017-18

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sl.	CSR project or activity identified	Sector in which the Project is covered	Projects or Programs- Specify the State / Union Territory where the Project / Program was undertaken	Projects or Programs – Specify the District where Projects/the Programs was undertaken	Amount Outlay (budget) Project/ Programs wise	Amount spent on the Projects/ Programs	Expenditure on Administrative Overheads	Mode of Amount spent
1.	Financial Awareness Projects	Financial Literacy & Women empowerment	Bihar Madhya Pradesh Uttar Pradesh	Bihar (Ara, Buxur, East Champaran, Kaimur, Khagariya, Rohtas)  MP (Annapur, Jabalpur, Shahdol)  UP (Allahabad, Ballia, Bhadohi, Deoria, Ghazipur, Jaunpur, Mirzapur, Varanasi)	40,00,000	36,49,274	3,50,726	Direct Expenditure
	Amount Spent on Local Area				40,00,000	36,49,274	3,50,726	Direct Expenditure
	Amount Spent on other Area							
	<b>Total Amount Spent on CSR</b>				<b>40,00,000</b>	<b>36,49,274</b>	<b>3,50,726</b>	<b>Direct Expenditure</b>

**6. Reasons for not spending the 2% of average net profit of last three financial years:** Not Applicable

**7. Responsibility Statement of the CSR committee:**

The implementation and monitoring of Utkarsh Small Finance Bank's CSR policy is in compliance with CSR objectives and policy of the company.

**Sd/-  
Mr. Govind Singh  
Whole Time Director**

**Sd/-  
Dr. V. S. Sampath  
Chairman, CSR Committee**

# BASEL DISCLOSURES

## BASEL – PILLAR 3 DISCLOSURES - MARCH 31, 2018

Utkarsh Small Finance Bank Limited (hereafter referred as the “Bank”), is a wholly owned subsidiary promoted by Utkarsh Micro Finance Limited incorporated on April 30, 2016 under the provision of the Companies Act, 2013. It is licenced by the Reserve Bank of India to operate as Small Finance Bank under the Banking Regulation Act, 1949 on November 25, 2016. Soft launching of banking operations commenced on January 23, 2017 with the opening of five branches in Delhi, Nagpur, Patna and Varanasi and full-fledged launching of the banking operations commenced on September 22, 2017. It aims to provide affordable & accessible banking services which are process centric, technology enabled and people oriented resulting in reliable, scalable and sustainable institution facilitating socioeconomic change. The purpose is to provide banking products to the unserved and underserved sections of the country, which includes small and marginal farmers, micro and small industries, and other organized sector entities, at an affordable cost. The Bank's vision is to be the trusted financial service provider to over 10 million customers by 2021.

As per the Business Transfer Agreement, the entire Balance Sheet of Utkarsh Micro Finance Ltd. was transferred to Utkarsh Small Finance Bank Limited as at the close of business on January 21, 2017. Subsequently, the Bank started operations with effect from January 23, 2017. In terms of the operating guidelines issued by the Reserve Bank of India (RBI) for Small Finance Banks (SFBs), all SFBs are required to follow the Basel II Standardized Approach for Credit Risk.

As per the directions of RBI on Guidelines for Licencing of Small Finance Banks in the Private Sector dated September 19, 2015, being a newly launched bank, Utkarsh Small Finance Bank Limited is required to maintain a minimum capital adequacy of 15 per cent of its Risk Weighted Assets (RWA) subject to any higher percentage as may be prescribed by RBI from time to time.

Utkarsh Small Finance Bank Limited aims to operate within an effective risk management framework to actively manage all the material risks faced by the Bank, in a manner consistent with the Bank's risk appetite. This document covers the Capital Adequacy status for Utkarsh Small Finance Bank Limited. It also describes the Risk Process and Governance at the Bank to effectively on-board, monitor and report risk.

### Scope of Application

The framework of disclosures applies to Utkarsh Small Finance Bank Limited. The Bank does not have any subsidiary nor does it have any interest in any insurance entity. All the information in this document are made as a standalone entity.

### Capital Adequacy

The Bank has a process for assessing its overall capital adequacy in relation to the Bank's risk profile and a strategy for maintaining its capital levels. The process provides an assurance that the Bank has adequate capital to support all risks inherent to its business and an appropriate capital buffer based on its business profile. The Bank identifies, assesses and manages comprehensively all risks that it is exposed to through sound governance and control practices, robust risk management framework and an elaborate process for capital calculation and planning.

In line with the Basel guidelines, the Bank has calculated its capital ratios as per the RBI guidelines. The main focus of Basel III norms is on the quality and quantity of Tier I capital and these regulatory requirements are currently met with the quantum of capital available with the Bank.

The Pillar I, which defines the minimum Capital Requirement, Risk Weighted Assets (RWA) Calculation covers the following risks:

- Credit Risk (Standardized Approach)
- Market Risk (Standardized Approach)
- Operational Risk (Basic Indicator Approach)

The Bank had a total capital of ₹490.29 Crore, out of which Tier-I capital was ₹364.84 Crore, as on March 31, 2018. Based on RBI guidelines on Capital Adequacy, the CRAR of the Bank as on March 31, 2018 was 17.40% against regulatory requirement of 15%.

**Break up of capital requirements for various risks:**

(₹ in Crores)

Sl.	Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
<b>(a)</b>	<b>Capital Requirement for Credit Risk:</b>		
	Portfolios subject to Standardised Approach	<b>2,817.25</b>	1,632.02
	Securitisation		
<b>(b)</b>	<b>Capital Requirement for Market Risk:</b>		
	Standardised Duration Approach		
	Interest Rate Risk	-	12.55
	Foreign Exchange Risk (including Gold)		
	Equity Risk		
<b>(c)</b>	<b>Capital Requirement for Operational Risk:</b>		
	Basic Indicator Approach	-	35.73
<b>(d)</b>	<b>Total Capital Requirement</b>		
<b>(e)</b>	<b>Total Risk Weighted Assets</b>	<b>2,817.25</b>	1,680.29
<b>(f)</b>	<b>Capital Adequacy Ratio</b>		
	Common Equity Tier-1	<b>12.95%</b>	17.15%
	Tier-1	<b>12.95%</b>	17.15%
	Tier-2	<b>4.45%</b>	8.72%
<b>(g)</b>	<b>Total CRAR</b>	<b>17.40%</b>	25.87%

**Risk Exposure and Assessment**

The Bank encourages calculated risk-taking, where risks are known, and are within the risk limits arising from the approved risk appetite. Also while evaluating the risks, the associated returns are also considered.

Utkarsh has an evolving and robust risk management model of proven effectiveness, aligned with regulatory standards and best practices, and proportional to the scale and complexity of its activities. Utkarsh is exposed to various risks that are an inherent part of any banking business. The major risks are credit risk, market risk, liquidity risk and operational risk which includes IT related risk. Bank has policies and procedures in place to measure, assess, monitor and manage these risks systematically across all its portfolios. RBI Guidelines on Basel III Capital Regulations have been implemented and our Bank is adequately capitalized as per the current requirements under Basel III. An independent Risk Governance Structure, in line with best practices, has been put in place, in the context of segregation of duties and ensuring independence of Risk Measurement, Monitoring and Control functions.

Employees at all levels are responsible for the management and escalation of risks. This is within a framework of risk limits and risk strategy as approved by the Board and communicated by the Bank's Senior Management.

Risk transparency is fostered through reporting, disclosure, sharing of information and open dialogue about the risks arising from different activities across the Bank.

### **Risk Governance Model**

The Bank has established a system for directing and controlling the management of risk within the Bank. This governance model defines three key roles:

- Businesses that take, manage and monitor risk;
- Risk Management to provide policy, guidance and analysis; and
- Internal Audit to provide independent assurance.

Risk Management Department is responsible for setting up the appropriate risk control mechanism, quantifying and monitoring risks.

### **Risk Governance Framework**

The Bank believes that the role of risk management should not be biased by consideration of profits or performance evaluation of units. It should be in line with regulatory guidelines and international good practices. The risk governance framework has been designed taking this into account. All new processes and products introduced in the Bank have a rigorous due diligence process that includes a risk review before these are formally introduced.

### **Governance Committees**

- Board of Directors

The Board of Directors ("the Board") is the ultimate authority in the Bank to lay down the policies. The Board can, however, form committees to oversee the risk management processes, procedures and systems in the Bank.

- Risk Management Committee of the Board (RMC)

The Risk Management Committee of the Board is a Board level sub-committee. The primary role of the Committee is to report to the Board and provide appropriate advice and recommendations on matters relevant to Risk Management.

RMC constitutes:

- Three members of the Board of Directors, as nominated by the Board, including Managing Director & CEO
  - Chief Risk Officer - Permanent Invitee
  - The Chief Financial Officer - Permanent Invitee
  - The Company Secretary - Convener and Secretary
- Management Level Committees

At a management level, three separate committees for Credit Risk Management, Operational Risk Management and Asset Liability Management & Market Risk Management. All these committees meet at regular intervals.

### **Credit Risk: General Disclosure for All Banks**

Credit risk is the risk of loss that may occur due to default of the counterparty or from its failure to meet its obligations as per the terms of the financial contract. Any such event will have an adverse effect on the financial performance of the Bank.

The Bank faces credit risk through its lending, investment and contractual arrangements. To counter the effect of credit risks faced by the Bank, a robust risk governance framework is in place.

The framework provides a clear definition of roles as well as allocation of responsibilities with regard to ownership and management of risks. Allocation of responsibilities is further substantiated by defining clear hierarchy with respect to reporting relationships and Management Information System (MIS) mechanism.

#### **Strategies and Processes**

The Bank has defined and implemented various risk management policies, procedures and standards with an objective to clearly articulate processes and procedural requirements that are binding on all the Business groups concerned. The Credit Policy and the Credit Risk Management Policy of the Bank are guided by the objective to build, sustain and maintain a high quality credit portfolio by measurement, monitoring and control of the credit exposures. The policies also address more granular factors such as diversification of the portfolio across companies, business groups, industries, geographies and sectors. The policies reflect the Bank's approach towards lending to borrowers in light of prevailing business environment and regulatory stipulations. All these policies are approved by the Board of Directors of the Bank and are reviewed regularly.

To avoid concentration of credit risk, the Bank has put in place internal guidelines on exposure norms in respect of single borrower, groups, exposure to sensitive sector, industry exposure, unsecured exposures, etc. based on various guidelines issued by regulators.

The delegation structure for approval of credit limits is approved by the Board of Directors. Credit Committees, comprising of various senior officials from the Bank including representation from the Risk Department, are constituted for approval of various loan proposals. All credit proposals other than Micro Finance loans are approved through these Committees only.

## Structure and Organization

The organizational structure for Credit Risk Management is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Credit Risk Management Committee (CRMC)
- Chief Risk Officer (CRO)
- Head - Credit Risk Department
- Credit Risk Department

## Scope and Nature of Measurement Systems

The Bank's approach for credit risk identification and assessment of credit risks underlying both funded and non-funded exposures is explicitly set out. All credit proposals are subject to a credit scoring process / rating process based on the quantum of advance value to support credit approvals.

## Policies for Hedging and / or Mitigating Risk

Credit risk at the Bank arises from the following sources:

- In case of direct lending (including the Micro lending): Principal and / or interest amount may not be repaid;
- In case of guarantees, letters of credit and letters of comfort (LoC) issued by the Bank: Funds may not be coming from the constituents upon crystallization of the liability;
- In case of treasury operations: The payment or series of payments due from the counterparties under respective contracts may not be forthcoming;
- In case of securities trading businesses: Funds / securities settlement may be effected; and
- In case of cross-border exposures: Availability and free transfer of foreign currency funds may either cease or restrictions may be imposed by the Sovereign;
- Non-SLR Investment arising from the delay or default by the counterparties in repayment of principal or interest.

The Bank's credit risk governance framework is being build up to strengthen risk evaluation and management of credit whilst positioning the Bank to effectively and efficiently manage changes in the environment.

The responsibilities for managing credit risk extend throughout the Bank. Key steps for credit risk management is as follows:

## Credit Risk Assessment

First hand preliminary assessment of risks embedded in products and services is conducted by related functional departments. Credit Risk Management Department (CRMD), in consultation with related functional departments, pursues the process of identification and assessment of credit risk involved in each of the loan products or services offered by the Bank and the findings are used in risk profiling of the Bank.

The Bank's initial loan portfolio consists of its legacy micro banking loan portfolio and MSME portfolio. The focus of the Bank to augment or diversify its credit portfolio not only with a mix of retail, MSME & priority sector loans but also lending to small / medium corporate also.

However, the Bank ensures that it meets all the priority sector targets as per regulatory guidelines for Small Finance Banks. Priority sector includes the following segments:

- Agriculture
- Micro, Small and Medium Enterprises
- Export Credit
- Education
- Housing
- Social Infrastructure
- Renewable Energy
- Others (as defined in the Circular)

### General Parameters used for Credit Risk Assessment

Risks used to be analyzed on the basis of various parameters and key risk drivers.

An indicative list of parameters is as follows:

- Purpose of the credit and sources of repayment;
- Financial considerations, borrower's repayment history, capacity to repay based on future cash flow projections under different scenarios;
- Commercial and technical aspects of the operations of the borrower including terms of trade;
- Risk profile of the borrower and its sensitivity to economic and market developments;
- Integrity of borrowers through reference checks and other means;
- Quality, type and adequacy of collaterals, including their enforceability;
- Management quality (in case of loans extended to corporate entities);
- Evaluation of the Borrower's industry or industries; and
- Borrower's business position in the industry and techno-economic aspects of the project, if any (in case of loans extended to corporate entities).

### Credit Risk Measurement

Quantitative dimension of risk management involves measuring risk in credit portfolio, making provisions as per "Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances" and holding capital as per "Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline - New Capital Adequacy Framework (NCAF)".

### Total Gross Credit Risk exposure by facility:

(₹ in Crores)

Sl.	Facility Type	Credit Exposure as on March 31, 2018	Credit Exposure as on March 31, 2017
1	Fund Based	3,106.28	1,593.91
2	Non-Fund Based	-	-
<b>Total</b>		<b>3,106.28</b>	<b>1,593.91</b>

**Total Gross Credit Risk exposure by geography:**

(₹ in Crores)

Sl.	Facility Type	Domestic Credit Exposure as on March 31, 2018	Overseas Credit Exposure as on March 31, 2018	Domestic Credit Exposure as on March 31, 2017	Overseas Credit Exposure as on March 31, 2017
1	Fund Based	3,106.28	-	1,593.91	-
2	Non-Fund Based	-	-	-	-
<b>Total</b>		<b>3,106.28</b>	<b>-</b>	<b>1,593.91</b>	<b>-</b>

**Total Gross Credit Risk exposure by industry:**

(₹ in Crores)

Sl.	Industry	Fund Based as on as on March 31, 2018	Non-Fund Based as on as on March 31, 2018	Total Credit Exposure as on March 31, 2018	Fund Based as on March 31, 2017	Non-Fund Based as on as on March 31, 2017	Total Credit Exposure as on March 31, 2017
1	Other Industries	246.74	-	246.74	37.17	-	37.17
2	Residuary other advances (to tally with gross advances)	2,859.54	-	2,859.54	1,556.74	-	1,556.74
<b>Total</b>		<b>3,106.28</b>	<b>-</b>	<b>3,106.28</b>	<b>1,593.91</b>	<b>-</b>	<b>1,593.91</b>

**Residual Maturity Breakdown of Assets:**

(₹ in Crores)

Particulars	As at March 31, 2018					
	Loans & Advances	Investment	Deposit	Borrowing	Foreign Currency Assets	Foreign Currency Liabilities
1 day	39.73	-	0.03	-	-	-
2 to 7 days	48.42	49.96	164.53	5.00	-	-
8 to 14 days	37.04	15.00	85.07	13.42	-	-
15 to 30 Days	95.86	24.91	77.91	39.81	-	-
31 Days to 2 months	184.00	-	201.70	65.37	-	-
Over 2 months to 3 months	167.05	-	142.04	37.63	-	-
Over 3 months to 6 months	513.43	9.72	375.39	160.30	-	4.07
Over 6 months to 1 year	889.12	20.23	688.88	178.30	-	4.07
Over 1 year to 3 years	1,091.18	194.08	451.62	591.40	-	16.28
Over 3 years to 5 years	29.41	99.97	6.70	255.33	-	8.10
Over 5 years	11.04	247.40	-	409.77	-	-
<b>Total</b>	<b>3,106.28</b>	<b>661.27</b>	<b>2,193.87</b>	<b>1,756.33</b>	<b>-</b>	<b>32.52</b>

**Position of Non - Performing Assets (NPA):***(₹ in Crores)*

Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
<b>Gross Advances</b>	3,106.28	1,593.91
<b>Net Advances</b>	3,082.52	1,593.91
<b>Gross NPA</b>	57.47	-
Substandard	56.19	-
Doubtful 1	1.28	-
Doubtful 2	-	-
Doubtful 3	-	-
Loss	-	-
<b>NPA Provision</b>	23.75	-
<b>Net NPA</b>	33.72	-
<b>NPA Ratios</b>		
<b>Gross NPA to Gross Advances (%)</b>	1.85%	-
<b>Net NPA to Net Advances (%)</b>	1.09%	-

**Movement of Non - Performing Assets (NPA Gross):***(₹ in Crores)*

Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
Opening Balances (As on Jan 23, 2017)	-	-
Add: Additions	200.04	-
Less : Write Offs	142.57	-
Less : Reductions	-	-
<b>Closing Balances</b>	<b>57.47</b>	-

**Movement of Specific & General NPA Provisions:***(₹ in Crores)*

Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
Opening Balances (As on Jan 23, 2017)	-	-
Add: Provisions made during the period	84.52	-
Less : Transfer to Countercyclical Provisional Buffer	-	-
Less : Write offs	-	-
Less : Write Back of excess provision	60.77	-
<b>Closing Balances</b>	<b>23.75</b>	-

## Geography based position of NPAs, Specific provisions and General Provisions:

(₹ in Crores)

Particulars	Amount as on March 31, 2018			Amount as on March 31, 2017		
	Domestic	Overseas	Total	Domestic	Overseas	Total
Gross NPA	57.47	-	57.47	-	-	-
Provision for NPA	23.75	-	23.75	-	-	-

## Position of Non-Performing Investments (NPI):

(₹ in Crores)

Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
Amount of Non-performing Investments (NPI)	-	-
Amount of provisions held for Non - Performing	-	-

## Movement of Provisions for Depreciation on Investments:

(₹ in Crores)

Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
Opening Balance (As on Apr 01, 2017)	0.50	-
Add : Provisions made during the period	1.08	0.50
Less : Write offs / Write Back of excess provisions	0.66	-
Closing Balance	0.92	0.50

## Industry wise Distribution

(₹ in Crores)

Particulars	Financial Year ended March 31, 2018	Financial Year ended March 31, 2017
Agriculture and Allied Activities	9.04	2.15
Services	21.74	1.73
Other Industries	0.62	0.11
<b>Total</b>	<b>31.39</b>	<b>3.99</b>

## Credit Risk - Disclosures for Portfolios Subject to Standardized Approach

In line with the RBI guidelines on Small Finance Banks, Bank ensures that at least 50 per cent of its loan portfolio should constitute loans and advances of upto ₹25 lakh.

The Bank has used the Standardized Approach under the RBI's Basel capital regulations for its credit portfolio.

(₹ in Crores)

Category	Amount as on March 31, 2018	Amount as on March 31, 2017
Below 100% Risk Weight	2,343.10	1,593.91
100% Risk Weight	763.18	-
More than 100% Risk Weight	-	-
<b>Closing Balance</b>	<b>3,106.28</b>	<b>1,593.91</b>

### Collaterals & Guarantees

Borrower's financial strength and debt-servicing capacity shall be the primary consideration while granting credit limits and bank shall not rely, solely on collateral or guarantees as the primary source of repayment or as a substitute for evaluating the borrower's creditworthiness.

Nevertheless, collateral and guarantees, if properly taken and managed serve a number of important functions in credit risk management.

### Collateral Acceptance Criteria

Assets accepted as collateral shall satisfy the following criteria:

- The market value of the asset is readily determinable or can be reasonably established and verified;
- The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- Bank's right to repossess the asset is legally enforceable and without impediment;
- Bank is able to secure control over the asset if necessary. In the case of a movable asset, bank should manage the either have physical custody of the asset (e.g. gold, precious metal) or have the means of locating its whereabouts (e.g. vehicle, machinery or equipment); and bank has the expertise & systems to manage the asset concerned.

### Loan-to-Value Ratio (LTV Ratio)

Bank specifies the maximum loan-to-value ratio for major types of assets to be accepted as collateral. Such ratios are commensurate with the relative risk of the assets and be able to provide an adequate buffer against potential losses in realizing the collateral Valuation.

## Market Risk in Trading Book

The Bank for International Settlements defines market risk as “the risk that the value of 'on' and 'off' balance sheet positions will be adversely affected by movements in market interest rate, currency exchange rates, equity and commodity prices.” This definition is adopted by the Bank for the purposes of identifying and managing the risk. Market risk has the following components:

- **Interest Rate Risk:** The risk that changes in market interest rates may adversely affect the Bank's financial condition. While the immediate impact is on the Net Interest Income (NII) and also the value of investments, the long term variations in interest rates would also impact the Bank's net worth.
- **Equity Risk:** The risk that changes in the equity prices of various stocks may diminish the value of equity portfolio held by the Bank (also includes investments in equity based mutual funds).
- **Exchange Rate Risk:** The risk that the Bank may suffer losses as a result of adverse exchange rate movements during a period in which it has an open position, either spot or forward, or a combination of the two, in any foreign currency.

## Strategies and Processes

Risk identification entails ensuring all instruments that result in Market Risk both 'on' and 'off' the balance sheet of the Bank are identified and monitored centrally. To achieve this objective, all new instruments / products in which the Bank engages should be assessed. The Asset Liability Management Committee (ALCO) reviews all new instruments to evaluate whether they result in market risk. Modifications to existing instruments are reported to the ALCO to enable such evaluation.

## Structure and Organization

The organizational structure for Market Risk Management is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Asset Liability Management Committee (ALCO)
- Chief Risk Officer (CRO)
- Head - Market Risk Department
- Market Risk Department

## Scope and Nature of Measurement Systems

There are a number of methods for measuring market risks encountered in trading operations. All these require adequate information on current positions, market conditions and instrument characteristics.

Of the various measures available, the Bank have many early warning indicators for market risk measurement. Different products are measured by certain parameters. At present, in the trading book, Bank only has Interest Rate Sensitive products.

## Processes for Monitoring

The Bank fixes appropriate action triggers or stop loss limits for all marked to market risk taking activities. The Bank has procedure that monitors activity to ensure that they remain within the approved limits at all times. Limits are classified into general (applicable to all portfolios) and specific portfolio related limit. For the purpose of market risk management, the following minimum limits are monitored:

- General Limits (Applicable to all portfolios) at Day 0
- Portfolio - wide Position limits
- Dealer - wise limits
- Single Deal Size Limit
- Stop-loss limits
- General Limits (Applicable to all portfolios) at Year 2-3
- Value at Risk (VaR) limits – for all portfolios (explained below in separate section)
- Specific Limits (Interest Rate Related Instruments)
- Modified Duration Limit
- PV01 Limit (Tenor Wise and Portfolio Level)

## Capital Requirement

(₹ in Crores)

Risk Weighted Assets for Market Risk	Amount as on March 31, 2018	Amount as on March 31, 2017
Standardised Duration Approach	-	-
Interest Rate Risk	-	12.55
Foreign Exchange Risk (including Gold)	-	-
Equity Risk	-	-

## Operational Risk Qualitative Disclosures

Operational Risk, which is intrinsic to all the material products, activities, processes and systems, has emerged as an important component of the enterprise-wide risk management system. Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk may result from various internal and external factors e.g. failure to obtain proper internal authorizations, improperly documented transactions, breach of information security procedures, failure of IT and / or communication infrastructure / equipment, non-compliance of regulatory requirements, contractual terms and corporate policies & procedures, commitment of fraud, natural disasters, inadequate training to employees etc.

### Strategies and Processes

The Bank's strategy for Operational Risk Management focuses on:

- Minimizing the losses to an acceptable level as per risk appetite of the Bank;
- Providing operational risk capital which is sensitive to the Bank's risk profile;
- Using results of operational risk management in day to day business operations and decision making process;
- Carrying out risk based performance measurement;
- Analyzing the impact of failures in technology / systems and develop mitigants to minimize the impact; and
- Developing plans for external shocks that will adversely impact the continuity in the Bank's operations.

### Structure and Organization

The operational risk management governance structure is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Operational Risk Management Committee (ORMC)
- Chief Risk Officer (CRO)
- Head - Operational Risk Department
- Operational Risk Department

### Scope and Nature of Measurement Systems

As per the Basel III Capital Regulations issued by RBI for banking institutions based on the Basel framework, banks need to use an approach that is risk sophisticated and commensurate to the risk profile of the institution. The Bank is currently performing risk measurement under the Basic Indicator Approach (BIA).

## Processes for Monitoring

The Bank plans to have risk mitigants like a strong internal control system, resorting to an optimal insurance cover, outsourcing of activities, Business Continuity Planning (BCP) / Disaster Recovery Plan (DRP) etc. For example, losses that might arise on account of natural disasters are insured; losses that might arise from business disruptions due to telecommunication or electrical failures are mitigated by establishing available backup facilities, loss due to internal factors like employee fraud or product flaws, will be mitigated through strong internal auditing procedures.

## Composition of Capital

Disclosures pertaining to composition of capital, including the capital disclosure templates, main features of equity and debt capital instruments, the terms and conditions of equity and debt capital instruments and leverage ratio have been disclosed separately on the Bank's website under the Regulatory Disclosures Section.

Capital Funds		₹ in Crores	
Sl.	Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
A	<b>Tier I Capital</b>	<b>411.87</b>	<b>304.88</b>
	Paid-up Share Capital	470.05	300.05
	Reserves	(58.18)	4.83
	Innovative Tier 1 Capital instruments	-	-
	Minority Interest	-	-
B	<b>Deductions</b>	<b>47.03</b>	<b>16.67</b>
	Investments in instruments eligible for regulatory capital of financial subsidiaries / associates	-	-
	Securitisation exposures including credit enhancements	2.19	1.65
	Deferred Tax Assets	34.53	2.27
	Goodwill and Adjustments for less liquid position	-	-
	Deferred revenue expenditure	7.06	10.60
	Intangible Assets	3.25	2.15
C	<b>Net Tier 1 Capital (A-B)</b>	<b>364.84</b>	<b>288.21</b>
D	<b>Tier II Capital</b>	<b>127.64</b>	<b>148.09</b>
	General Provisions	7.64	3.99
	Upper Tier 2 capital instruments	120.00	144.10
	Lower Tier 2 capital instruments	-	-
E	<b>Deductions</b>	<b>2.19</b>	<b>1.65</b>
	Investments in instruments eligible for regulatory capital of financial subsidiaries / associates	-	-
	Securitisation exposures including credit enhancements	2.19	1.65
F	<b>Net Tier 2 Capital (D-E)</b>	<b>125.45</b>	<b>146.44</b>
	<b>Total Eligible Capital (C+F)</b>	<b>490.29</b>	<b>434.65</b>

## Summary Comparison of Accounting Assets and Leverage Ratio Exposure

(₹ in Crores)

Sl.	Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
1	Total consolidated assets as per published financial statements	4,523.72	2,675.83
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	-	-
4	Adjustments for derivative financial instruments	-	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	103.77	22.02
7	Other adjustments	-	-
8	Leverage Ratio exposure	7.9%	10.7%

## Leverage Ratio Common Disclosure

The Leverage Ratio acts as a credible supplementary measure to the risk based capital requirement. The Bank's leverage ratio, calculated in accordance with RBI guidelines under consolidated framework, is as follows:

(₹ in Crores)

Sl.	Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
<b>Leverage ratio framework</b>			
<b>On-Balance sheet exposure</b>			
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	4,523.72	2,675.83
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	-	-
3	<b>Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)</b>	4,523.72	2,675.83
<b>Derivative exposure</b>			
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-	-
5	Add-on amounts for PFE associated with all derivatives transactions	-	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-	-

8	(Exempted CCP leg of client-cleared trade exposures)	-	-
9	Adjusted effective notional amount of written credit derivatives	-	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-	-
11	<b>Total derivative exposures (sum of lines 4 to 10)</b>	-	-
<b>Securities financing transaction exposures</b>			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-	-
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-	-
14	CCR exposure for SFT assets	-	-
15	Total securities financing transaction exposures (sum of lines 12 to 15)	-	-
16	Other off-balance sheet exposures	103.77	22.02
17	Off-balance sheet exposure at gross notional amount	-	-
18	(Adjustments for conversion to credit equivalent amounts)	-	-
19	Off-balance sheet items (sum of lines 17 and 18)	-	-
<b>Capital and total exposures</b>			
20	Tier 1 capital	364.84	288.21
21	Total exposures (sum of lines 3, 11, 16 and 19)	4,627.49	2,697.85
<b>Leverage Ratio</b>			
22	Basel III Leverage Ratio	<b>7.9%</b>	<b>10.7%</b>

### Reconciliation of total published balance sheet size and on balance sheet exposure

(₹ in Crores)

Sl.	Particulars	Amount as on March 31, 2018	Amount as on March 31, 2017
<b>Leverage ratio framework</b>			
1	Total consolidated assets as per published financial statements	4,523.72	2,675.83
2	Replacement cost associated with all derivatives transactions, i.e. net of eligible cash variation margin	-	-
3	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-	-
4	Adjustment for entities outside the scope of regulatory consolidation	-	-
5	<b>On-balance sheet exposure under leverage ratio (excluding derivatives and SFTs)</b>	<b>4,523.72</b>	<b>2,675.83</b>

## PARTNERS IN PROGRESS

### Public Sector Banks



### Development Financial Institutions (DFIs)



### Private Sector Banks



### Foreign Banks



## Financial Institutions

**BAJAJ**  
Bajaj FinServ Limited

**caspian**

  
HINDUJA LEYLAND FINANCE

 L&T Financial Services

**Mahindra** FINANCE

  
**NORTHERN**  
**ARC**  
Investments

  
**OIKO**  
**CREDIT**  
investing in people

**TATA CAPITAL**  
We only do what's right for you

## Foreign Institutional Investors

**BIO**

 **BlueOrchard**  
Impact Investment Managers

**CDC**  
Investment works

**responsAbility**  
Renewable Energy Holding

**symbiotics**  
REACHING OUT THROUGH INVESTMENTS

**Triodos**  **Bank**

**Triple**  **Jump**

## System Partners

 **AGS**  
Transact Technologies Ltd.

 **CONCENTRIX**<sup>™</sup>

 **Craft Silicon**  
Thinking. Crafting. Transforming.

**HCL**

**intellect**<sup>™</sup>  
 Design for Digital

**mGage**  
India

## Credit Bureau Partners



## Knowledge Partners



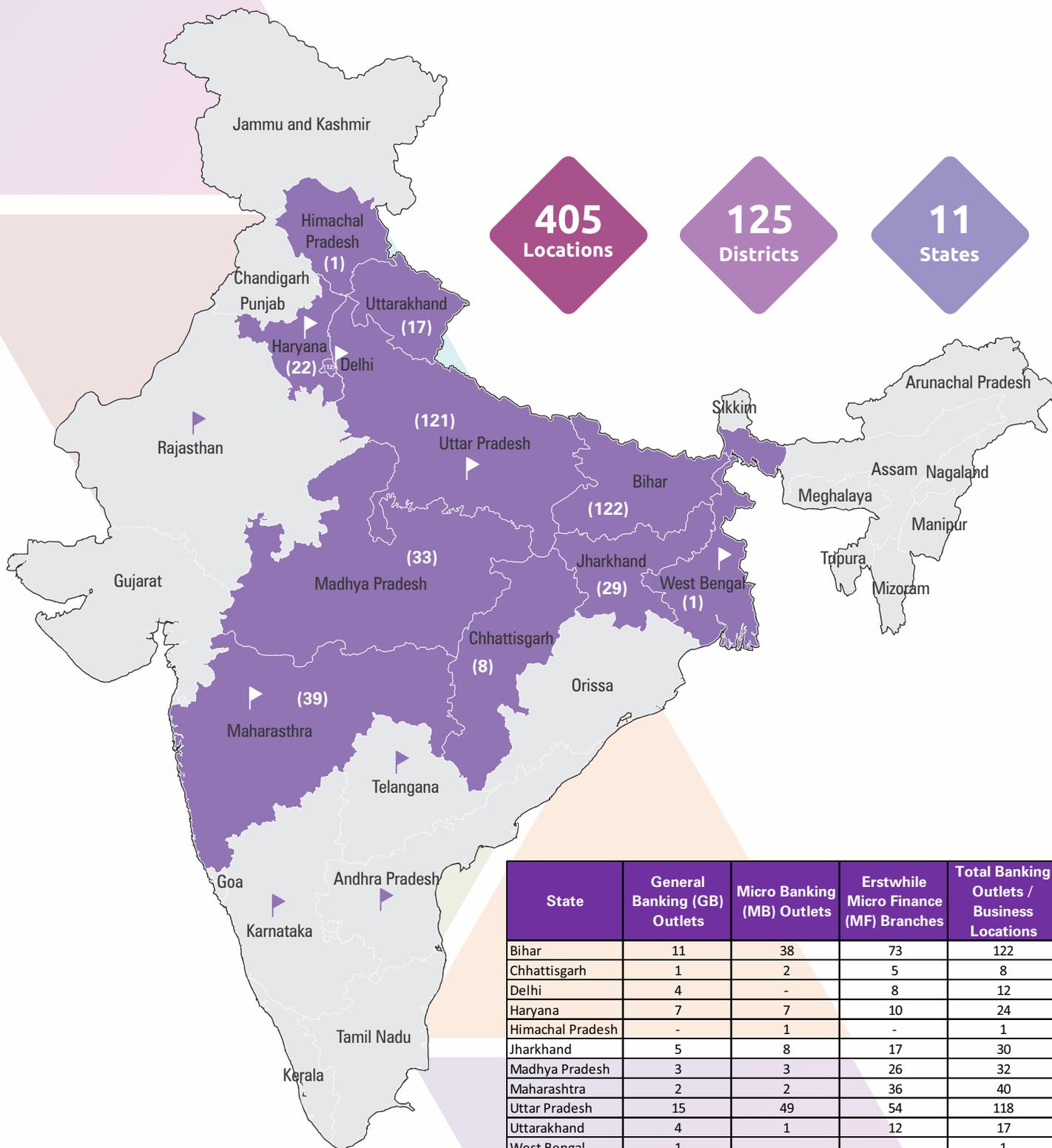
## Insurance



## Auditors



# UTKARSH PRESENCE



State	General Banking (GB) Outlets	Micro Banking (MB) Outlets	Erstwhile Micro Finance (MF) Branches	Total Banking Outlets / Business Locations
Bihar	11	38	73	122
Chhattisgarh	1	2	5	8
Delhi	4	-	8	12
Haryana	7	7	10	24
Himachal Pradesh	-	1	-	1
Jharkhand	5	8	17	30
Madhya Pradesh	3	3	26	32
Maharashtra	2	2	36	40
Uttar Pradesh	15	49	54	118
Uttarakhand	4	1	12	17
West Bengal	1	-	-	1
<b>Grand Total</b>	<b>53*</b>	<b>111</b>	<b>241 ^</b>	<b>405</b>

\*Micro, Small & Medium Enterprises (MSME) Business operates out of 35 locations, of which GB Outlets house this business at 26 locations and 9 MSME locations operate on a standalone basis, which shall soon be merged with GB Outlets.

^ under process of converting into MB Outlets.

▶ Wholesale Lending outreach States.

# PROXY FORM

## Form No. MGT-11

### Proxy Form

(Pursuant to section 105(6) of the Companies Act, 2013 and rule 19(3) of the Companies (Management and Administration) Rules, 2014)

CIN: U65992UP2016PLC082804 Name of the Company: Utkarsh Small Finance Bank Limited  
Registered Office: S-24/1-2, First Floor Mahavir Nagar, Orderly Bazar, Varanasi, U.P - 221002

Name of the Member(s):
Registered Address:
E-mail Id:
Folio No/ Client Id:
DP ID:

I/We, being the member (s) of.....shares of the above named company, hereby appoint.

1.Name : ..... E-mail Id: .....

Address : .....

Signature.....or failing him

As my/our proxy to attend and vote (on a poll) for me/us and on my/our behalf at the 2nd Annual General Meeting of the company, to be held on the June 26, 2018 at and at any adjournment thereof in respect of such resolutions as are indicated below:

S.No.	Resolutions	Optional	
		For	Against
1.	Appointment of Mr. Arup Kumar as a Nominee Director of the Bank		
2.	Appointment of Mr. Govind Singh as a Nominee Director of the Bank		
3.	Approval for borrowing power as per section 180(1) (C) of the Companies Act, 2013		
4.	Approval for issue of Non Convertible Debentures of the Company, on Private Placement Basis		

Signed this..... day of..... 20....

Signature of Shareholder

Signature of Proxy Holder(s)

AFFIX  
REVENUE  
STAMP

### Note

- This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the Meeting.
- It is optional to put 'X' in the appropriate column against the resolution indicated in the Box. If you leave the 'For' or 'against' column blank against any or all Resolutions, your Proxy will be entitled to vote in the manner as he/she thinks appropriate.
- Please complete all details including details of Member(s) in above box before submission.







**REGISTERED & CORPORATE OFFICE**  
**Utkarsh Small Finance Bank**  
S-24/1-2, 1st Floor, Mahavir Nagar, Orderly Bazar,  
Varanasi - 221002 (U.P.)

[www.utkarsh.bank](http://www.utkarsh.bank) | Toll Free : 1800-123-9878 |   