

## Board's Report

To  
The Members,  
AU SMALL FINANCE BANK LIMITED

Your Board of Directors are pleased to present report of the business and operations of AU Small Finance Bank Limited ("Bank") along with the Audited Financial Statements for the financial year ended 31<sup>st</sup> March 2020. Your Board of Directors deeply believe in responsible banking and understand the positive impact that financial inclusion has on economic growth. This conviction has led to the development of a business model that makes it possible for us to serve the lower income population adequately. In this regard, your Bank is continuously striving to enhance its capabilities to provide new digital technologies, increased number of products and services offerings through phygital platform and low-cost innovative financial solutions for achieving customer delight.

### A. FINANCIAL PERFORMANCE & COMPANY AFFAIRS

Particulars	y-o-y Growth (%)	For the year ended	
		31 <sup>st</sup> March 2020	31 <sup>st</sup> March 2019
<b>Total Income</b>	<b>46.35</b>	<b>4,991.98</b>	<b>3,411.04</b>
Interest Income		4,285.89	2,949.13
Other Income		706.09	461.91
Interest Expenditure		2,376.94	1,606.53
Operating Expenses (excluding depreciation)		1,329.25	1,020.85
<b>Profit before Depreciation, Provisions and Tax</b>	<b>64.08</b>	<b>1,285.79</b>	<b>783.66</b>
Depreciation		88.62	61.75
Provision for Income Tax		239.19	198.32
Other Provisions and Write-offs		283.20	141.78
<b>Net Profit</b>	<b>76.73</b>	<b>674.78</b>	<b>381.81</b>
Appropriations			
Transfer to Statutory Reserve		168.70	95.45
Transfer to Special Reserve u/s 36(1)(viii) of Income Tax Act, 1961		67.00	37.80
Transfer to Capital Reserve		6.93	2.76
Transfer to Investment Fluctuation Reserve		90.43	22.12
<b>Dividend (including tax/cess thereon) pertaining to previous year paid during the year</b>		26.44	17.48
*Dividend (in ₹) (Per Equity Share)		-	0.75
<b>Surplus carried over to Balance Sheet</b>		1,887.32	1,572.03
<b>Earnings Per Share (EPS) (in ₹)</b> <b>(After excluding Exceptional Items not annualised)</b>			
<b>Basic (in ₹)</b>		22.78	13.16
<b>Diluted (in ₹)</b>		22.32	12.90

\*Pursuant to the directions issued by Reserve Bank of India, Commercial Banks shall not make any further dividend pay-outs from profits pertaining to the financial year ended 31<sup>st</sup> March 2020 until further instructions, the Board of Directors has not recommended any dividend for FY 2019-20.

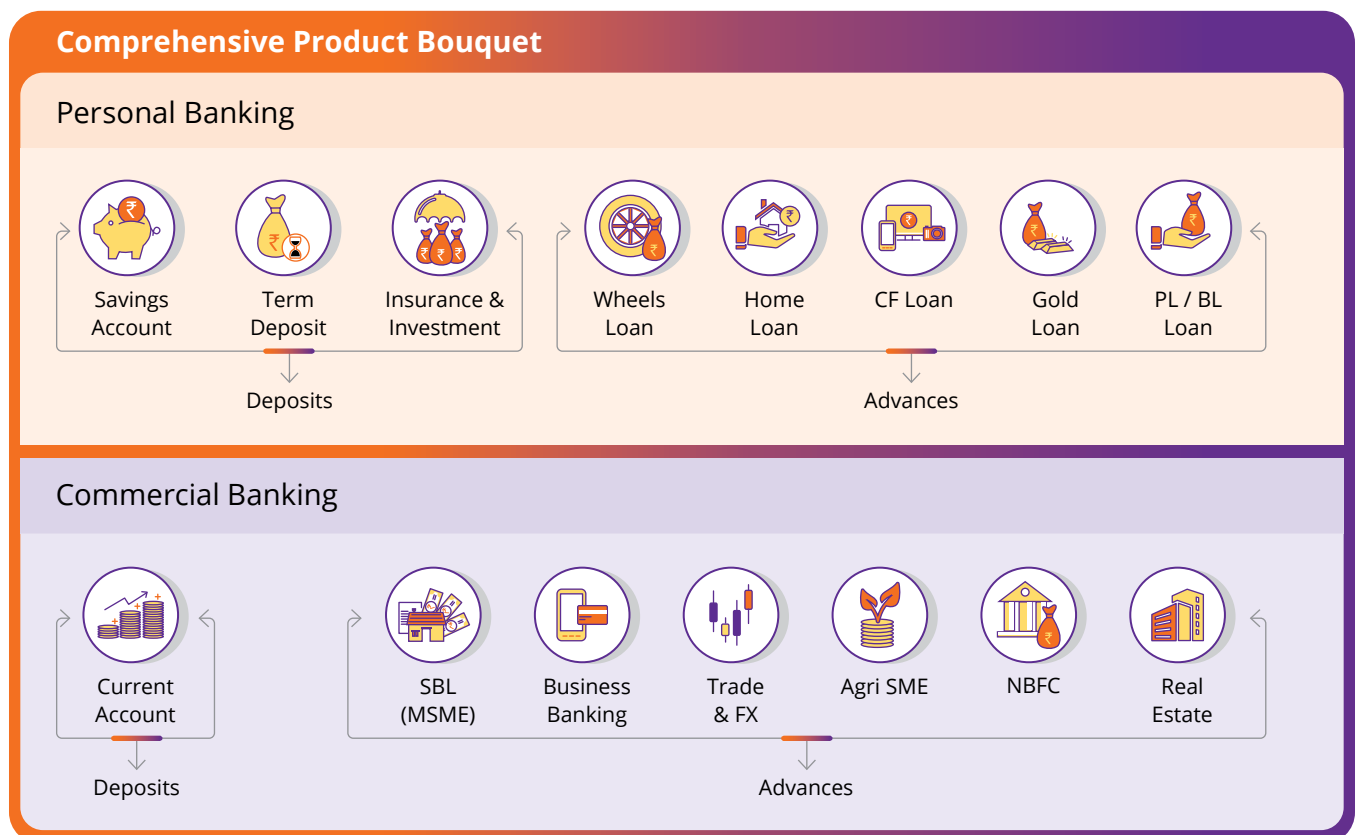
### Key Performance Indicators

- Profit Before Tax for FY 2019-20 has increased to ₹913.97 crore vis-à-vis ₹580.13 crore for FY 2018-19. Earnings Per Share (EPS) has increased to ₹ 22.78 compared to ₹ 13.16 last year.
- Net Profit grew by ₹ 292.97 crore to ₹ 674.78 crore for FY 2019-20 vis-à-vis ₹ 381.81 crore for FY 2018-19.
- Net Interest Income grew by ₹ 566.34 crore to ₹ 1,908.94 crore during FY 2019-20 from ₹ 1,342.60 crore during FY 2018-19 with y-o-y growth of 42.18%.
- Balance sheet size grew to ₹ 42,143.07 crore as on 31<sup>st</sup> March 2020 vis-à-vis ₹ 32,622.80 crore as on 31<sup>st</sup> March 2019 with y-o-y growth of 29.18%.
- Capital Adequacy Ratio increased to 21.99% as on 31<sup>st</sup> March 2020 vis-à-vis 19.31% as on 31<sup>st</sup> March 2019.
- The Return on Equity (ROE) and Return on Asset (ROA) has been recorded at 17.90% and 1.81% respectively for FY 2019-20. (Excluding profit on sale of equity shares of Aavas Financiers Limited).
- Gross NPA and Net NPA is at 1.68% and 0.81% respectively, as on 31<sup>st</sup> March 2020 as compared to 2.04% and 1.29% respectively as on 31<sup>st</sup> March 2019, there has been improvement in asset quality.

### Business Overview

On completion of 3 successful years on the Banking platform and 25 years as a financial institution, your Bank understands that each customer financial needs are unique and requires meticulous focus by segregating the product bouquet covering Personal and Commercial Banking for Retail and SME Mid Corporate customers. All Business verticals operates in synchronisation with each other to ensure that the Bank is moving in the right direction, bringing better operational efficiencies and the highest standards in governance. The details pertaining to performance and other details of the business verticals have been covered in detail under the Management Discussion & Analysis section of the Annual Report.

Your Bank offers the below comprehensive product bouquet under the umbrella of Personal and Commercial Banking for its customers:



**Credit Rating:**

Below table covers the Credit Ratings of the Bank as on 31<sup>st</sup> March 2020, during the period under review, the Bank has not reported any changes in the credit ratings.

Nature of Debt Instrument	Nature of Term	CRISIL	India Ratings	ICRA	CARE
Non-Convertible Debentures	Long-term	AA-/Stable	AA-/Stable	AA-/Stable	-
Subordinated Debt/Tier II Bonds	Long-term	AA-/Stable	AA-/Stable	AA-/Stable	-
Bank Loans	Long-term	-	AA-/Stable	AA-/Stable	AA-/Stable
Certificate of Deposits	Short-term	A1+	A1+	-	A1+

**B. DIVIDEND**

In terms of Regulation 43A of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Bank has formulated and adopted Dividend Distribution Policy and dividend proposed, if any would be in line with the Dividend Distribution Policy of the Bank. The Policy is hosted on the website of the Bank and can be viewed in the following link [www.aubank.in/notice-board](http://www.aubank.in/notice-board)

The Board of directors has not recommended any dividend for FY 2019-20, pursuant to the guidelines issued by the Reserve Bank of India (RBI) where it is prescribed that Commercial Banks shall not make any further dividend pay-outs from profits pertaining to the financial year ended on 31<sup>st</sup> March 2020 until further instructions. There was no interim dividend declared during reporting period. During FY 2019-20, the Bank paid a dividend of ₹ 0.75/- per equity share on face value of ₹ 10/- each for FY 2018-19 in accordance with the Dividend Distribution Policy of the Bank.

**C. CHANGE IN NATURE OF BUSINESS**

There is no change in the nature of business of the Bank for the year under review. Further information on the business overview and outlook and state of the affairs of the Bank is covered under the Management Discussion & Analysis section of the Annual Report.

**D. TRANSFER TO RESERVES**

In terms of RBI & other applicable regulations, the Bank has transferred the following amounts to various reserves for the Financial year ended on 31<sup>st</sup> March 2020.

**Transfer to Reserves**

Amount transferred to	Amount (₹ in crore)
Statutory Reserve	168.70
Transfer to Special Reserve U/s 36 (1) (viii)	67.00
Transfer to Capital Reserve	6.93
Transfer to Investment Fluctuation Reserve	90.43

The Board of Directors has not proposed to transfer any amount to general reserve for the financial year ended on 31<sup>st</sup> March 2020.

**E. RECORD DATE FOR DIVIDEND**

Since the Board of Directors has not recommended any dividend for FY 2019-20, hence no record date is kept for the purpose of dividend.

**F. TRANSFER TO THE INVESTOR EDUCATION AND PROTECTION FUND**

In terms of Section 124 & 125 of the Companies Act, 2013 (the Act) read with the Investor Education and Protection Fund Authority (Accounting, Audit, Transfer and Refund) Rules, 2016 as amended from time to time, dividends which remains unpaid or unclaimed for a period of 7 (seven) years from the date of transfer are required to be transferred to the Investors Education and Protection Fund. There are no unclaimed/unpaid dividend liable for transfer to the Investors Education and Protection Fund for the year under review. The Bank has uploaded the details of unclaimed dividend amounts lying with the Bank on its website at [www.aubank.in/investor-grievance](http://www.aubank.in/investor-grievance)

**G. DEPOSITS**

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

**H. CAPITAL STRUCTURE & FUND RAISING**

During the period under review, there has been no change in the authorised share capital of the Bank. During the year Board of Directors have allotted 1,01,04,364 (One Crore One Lakh Four Thousand Three Hundred and Sixty Four) equity shares of the Bank, having face value of ₹ 10 (Rupees Ten) each at a price of ₹ 692.77 (Rupees Six Hundred Ninety-Two and Seventy-Seven paise) per equity share including security premium of ₹ 682.77 (Rupees Six Hundred Eighty-Two and Seventy-Seven paise) per equity share aggregating to ₹ 700,00,00,249 (Rupees Seven Hundred Crore and two Hundred Forty-Nine) out of

which 25% of the aggregate consideration was received in FY 2018-19 and balance 75% was received in FY 2019-20. Allotment of equity shares was made pursuant to conversion of 1,01,04,364 (One Crore One Lakh Four Thousand Three Hundred and Sixty-Four) convertible warrants to Camas Investments Pte Ltd. During the period under review, the Board of Directors approved the Issuance of 5,000 rated, unlisted, unsecured, subordinated, redeemable, non-convertible lower Tier II bonds in the form of Non-Convertible Debentures of the face value of ₹ 10,00,000/- (Rupees Ten Lakh only) each for cash, aggregating upto ₹ 500,00,00,000/- (Rupees Five Hundred Crore only) on private placement basis, however the Board of Directors of the Bank decided not to proceed with the same, considering comfortable capital adequacy and liquidity position.

Further, Board of Directors in its meeting dated 2<sup>nd</sup> May 2020 has approved the raising of funds upto ₹ 2,500 crore (Rupees Two Thousand Five Hundred Crore only) through Qualified Institutions Placement (“QIP”), or any other alternative permissible mode, as may be considered appropriate, subject to shareholders’ approval and other regulatory approvals. Considering the opportunities in the banking sector continue to be strong and the relative competitive position of the Bank in the sector continues to strengthen with the ample opportunities for retail & MSME financing. Hence, the Board approved the above proposal, subject to shareholders approval.

During the period under review the Bank has allotted 16,61,477 equity shares pursuant to exercise of ESOP under different ESOP Schemes.

Pursuant to the above allotment of equity shares, the total issued and paid-up equity share capital of the Bank, increased by ₹ 11.76 crore to ₹ 304.12 crore as on 31<sup>st</sup> March 2020 as compared to ₹ 292.36 crore, as on 31<sup>st</sup> March 2019.

## I. EMPLOYEE STOCK OPTION

Your Bank has formulated different Employee Stock Option Schemes (“Schemes”), which has been duly approved by the shareholders of the Bank. The Schemes have been devised in accordance with the SEBI (Share Based Employee Benefits) Regulations, 2014 as amended from time to time.

The grants in the schemes are approved by the Nomination and Remuneration Committee based on the approved criteria. In terms of compensation policy of the Bank, employees are granted options as part of Annual Performance Review of their performance and to hire best talent. Several factors including scale, designation, performance, grades, period of service, the Bank’s performance, criticality of role & their contribution is taken consideration for decision on number of ESOPs to be granted to the employees.

Below are the ESOPs scheme of the Bank:

- **EMPLOYEE STOCK OPTION SCHEME 2015 – PLAN A (ESOP 2015 – Plan A)**
- **EMPLOYEE STOCK OPTION SCHEME 2015 – PLAN B (ESOP 2015 – Plan B)**
- **EMPLOYEE STOCK OPTION SCHEME 2016 – (ESOP 2016)**
- **EMPLOYEE STOCK OPTION SCHEME – (ESOP 2018)**

The details of vesting of various ESOP schemes are as follows:

ESOP Plan	ESOP Scheme	
<b>ESOP 2015 – Plan A</b>	<b>Vesting Period</b>	<b>% of vesting of options</b>
	1 year from the date of grant or at the time of IPO, whichever is later	20%
	Expiry of 1 year from 1 <sup>st</sup> vesting	30%
	Expiry of 2 years from 1 <sup>st</sup> vesting	50%
	<b>Total</b>	<b>100%</b>
<b>ESOP 2015 – Plan B</b>	<b>Vesting Period</b>	<b>% of vesting of options</b>
	1 year from the date of grant or at the time of IPO, whichever is later	20%
	Expiry of 1 year from 1 <sup>st</sup> vesting	30%
	Expiry of 2 years from 1 <sup>st</sup> vesting	50%
	<b>Total</b>	<b>100%</b>
<b>ESOP 2016</b>	<b>Vesting Period</b>	<b>% of vesting of options</b>
	Options granted under this scheme would vest after one year, but not later six years from the date of grant of options	<b>100%</b>
<b>ESOP 2018</b>	<b>Vesting Period</b>	<b>% of vesting of options</b>
	Options granted under this scheme would vest after one year, but not later six years from the date of grant of options	<b>100%</b>

**THE BRIEF DETAILS OF EXISTING ESOP SCHEMES AS ON 31<sup>st</sup> MARCH 2020 IS GIVEN BELOW:**

Particulars	ESOP Plan A 2015	ESOP Plan B 2015	ESOP Scheme 2016	ESOP Scheme 2018
Date of shareholders approval	31 <sup>st</sup> August 2015	31 <sup>st</sup> August 2015	10 <sup>th</sup> October 2016	7 <sup>th</sup> August 2018
Total Number of options approved	38,36,058	49,33,194	21,00,000	49,33,200
Total Number of options outstanding at the beginning of the period	20,15,247	19,23,301	11,04,960	19,66,948
Total No. of options granted (during FY 2019-20)	0	0	0	27,02,191*
The Pricing Formula	10.11	33.37	140**	Market price linked
Options vested (during FY 2019-20)	18,11,934	18,56,884	2,95,947	3,90,666
Options exercised (during FY 2019-20)	5,97,840	6,53,191	1,77,544	2,32,902
Total No. of shares arising as a result of exercise of option	5,97,840	6,53,191	1,77,544	2,32,902
Options lapsed/ forfeited (during FY 2019-20) (Available for re-issue)	5,979	26,614	1,30,079	1,52,981
Total No. of options exercisable at the end of the year	12,30,928	12,21,324	1,43,817	1,44,107
Total No. of options outstanding at the end of the year	14,11,428	12,43,496	7,97,337	42,83,256
Variation in terms of options	No	No	**	No
Money realized by exercise of Options (during FY 2019-20) (in ₹)	60,44,162.40	2,17,96,983.67	2,48,56,160.00	15,44,54,463.00***
Total No. of Options granted to Senior Management Personnel (SMPs)	Refer Note 1	Refer Note 1	Refer Note 1	Refer Note 1
Any other employee who received a grant in any one year of options amounting to 5% or more of options granted during that year	Refer Note 2	Refer Note 2	Refer Note 2	Refer Note 2
Identified employees who are granted options, during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Company at the time of grant	Nil	Nil	Nil	Nil
Diluted Earnings Per Share (EPS) of the Company after considering the effect of potential equity shares on account of exercise of Options	Refer Note 4			
Impact of the difference between the Intrinsic Value of the Options and the Fair Value of the Options on Profits and on EPS	Refer Note 4			
Weighted average share/exercise price of the shares exercised during the year (in ₹)	10.11	33.37	140	663.17***
Weighted average fair values of the outstanding options (in ₹)	Refer Schedule 18B Note no. 7 to Notes to Accounts of Audited Financial Results for FY 2019-20			

\*The Bank has received RBI approval on 17<sup>th</sup> June 2019 for 10,00,000 ESOPs granted to Mr. Uttam Tibrewal, Whole Time Director under ESOP Scheme 2018 on 30<sup>th</sup> August 2018 by Nomination and Remuneration Committee and the said grant has been considered in the total ESOPs granted for FY 2019-20.

\*\*ESOP Scheme 2016 was amended via special resolution passed in Annual General Meeting held on 26<sup>th</sup> July 2019. Consequent to amendment the exercise price under ESOP Scheme 2016 has been linked to market price.

\*\*\*2,23,737 Equity shares were allotted on exercise of options at an exercise price of ₹ 664 per option and 9,165 Equity shares were allotted on exercise of options at an exercise price of ₹ 643 per option under ESOP Scheme 2018.

### Note 1

Following are the total number of stock options that have been granted to Senior Management Personnel (SMP) during the financial year ended 31<sup>st</sup> March 2020

Sr. No.	Name	Designations	No. of ESOP granted in ESOP Plan-A 2015	No. of ESOP granted in ESOP Plan-B 2015	No. of ESOP granted in ESOP 2016	No. of ESOP granted in ESOP 2018
1	*Deepak Jain	Chief Financial Officer	-	-	-	50,000
2	*Vimal Jain	Chief of Finance & Accounts	-	-	-	20,000
3	Manoj Tibrewal	Group Head Marketing & Distribution	-	-	-	25,000
4	Bhaskar Vittal Karkera	Chief of Wheels	-	-	-	20,000
5	Yogesh Jain	Group Head Strategy – Treasury, FIG, DCM, Wholesale Liability and Investor Relations	-	-	-	50,000
6	Rishi Dhariwal	Group Head Branch Banking	-	-	-	20,000
7	Vivek Tripathi	Chief of Strategy – Business Solutions & Transactions Banking	-	-	-	25,000
8	Ankur Tripathi	Chief Information Officer	-	-	-	50,000
9	Aditya Sharma	Chief Technical Officer Mortgage	-	-	-	10,000
10	Mayank Markanday	Chief Risk Officer	-	-	-	10,000
11	Aalekh Vijayvargiya	National Credit Manager – SBL	-	-	-	20,000
12	Nitin Gupta	Chief Audit Officer	-	-	-	7,500
13	Ashok Khandelwal	Chief Compliance Officer	-	-	-	7,500
14	Manmohan Parnami	Company Secretary	-	-	-	4,282
15	Gurpinder Modi	Chief Vigilance Officer	-	-	-	3,316

\* Mr. Deepak Jain and Mr. Vimal Jain was elevated as Chief Operating Officer and Chief Financial Officer respectively w.e.f. 1<sup>st</sup> April 2020.

### Note 2

Details of Employees who received grant in any one year of ESOPs amounting to 5% or more options granted during that year- **No employee received grant of options amounting to 5% or more during FY 2019-20.**

Sr. No.	Name	Designations	No. of ESOP granted in ESOP Plan-A 2015	No. of ESOP granted in ESOP Plan-B 2015	No. of ESOP granted in ESOP 2016	No. of ESOP granted in ESOP 2018
-	-	-	-	-	-	-

### Note 3

The Securities and Exchange Board of India (SEBI) has prescribed two methods to account for stock grants; namely (i) the intrinsic value method; (ii) the fair value method. The Bank adopts the intrinsic value method to account for the stock options grants to the employees. The Bank also calculates the fair value of options at the time of grant, using Black- Scholes pricing model with the following assumptions:

Particulars	31 <sup>st</sup> March 2020
Risk-free interest rate (%)	6.19% - 7.23%
Expected life (years)	2.5 years - 5.5 years
Expected volatility (%)	33.69% - 89.53%
Expected dividend rate (%)	0%

**Note 4**

The Bank measures the cost of ESOP using the intrinsic value method. Had the Bank used the fair value model to determine compensation, its profit after tax and earnings per share as reported would have changed to the amounts indicated below:

Particulars	(₹ in crore)	
	Year ended 31 <sup>st</sup> March 2020	Year ended 31 <sup>st</sup> March 2019
<b>Profit After Tax as reported</b>	<b>674.78</b>	<b>381.81</b>
Add: ESOP cost using intrinsic value method (net of tax)	17.76	25.11
Less: ESOP cost using fair value method (net of tax)	51.64	36.38
<b>Profit After Tax (adjusted)</b>	<b>640.90</b>	<b>370.54</b>
<b>Earnings Per Share</b>		
<b>Basic</b>		
- As reported	22.78	13.16
- Adjusted for ESOP cost using fair value method	21.64	12.77
<b>Diluted</b>		
- As reported	22.32	12.90
- Adjusted for ESOP cost using fair value method	21.20	12.52

Particulars	(₹ in crore)	
	As on 31 <sup>st</sup> March 2020	As on 31 <sup>st</sup> March 2019
Stock options outstanding (gross)	104.14	103.75
Deferred compensation cost outstanding	21.52	44.87
<b>Stock options outstanding (net)</b>	<b>82.62</b>	<b>58.88</b>

The Bank granted 10,00,000 stock options on 30<sup>th</sup> August 2018 under ESOP Scheme 2018 to Whole Time Director however the Bank received RBI approval on 17<sup>th</sup> June 2019. Vesting period for these options commenced from the RBI approval date and accordingly these options have been considered for the purpose of computing the ESOP cost as per ESOP Scheme 2018.

The Bank has granted 38,702 and 10,18,758 stock options on 27<sup>th</sup> October 2017 under ESOP Scheme 2015 - Plan A and ESOP Scheme 2015 - Plan B, respectively, to Whole time Director which were pending for RBI Approval. During the year ended 31<sup>st</sup> March 2020, the Bank has submitted the revised proposal for the same to RBI and the approval of the RBI was pending as on 31<sup>st</sup> March 2020. Accordingly, these options have not been considered for the purpose of computing the impact of ESOP fair value on profit before tax. The vesting period for these options will commence only after the RBI approval is received.

**J. BOARD OF DIRECTORS AND KEY MANAGERIAL PERSONNEL**

During the year under review, following changes took place in the Composition of Board of Directors and Key Managerial Personnel of the Bank.

1. Mr. Mankal Shankar Sriram (M S Sriram) and Mr. Pushpinder Singh respectively were appointed

as Additional Director (Independent) for a period of 3 years with effect from 21<sup>st</sup> October 2019 subject to approval of shareholders in the ensuing Annual General Meeting.

Mr. M S Sriram’s vast experience in financial inclusion, microfinance and understanding of rural economy, shall strengthen the Bank’s ability to enhance credit flow at the bottom of the pyramid and further deepen the impact of financial inclusion initiatives. Addition of Mr. Pushpinder Singh will greatly aid the Bank’s aspiration of becoming customer-centric, technology driven Bank in the rapidly changing digital-banking infrastructure, with emergence of newer technologies and payment systems.

2. With the approval of the Board of Directors, the proposal for re-appointment of Mr. Sanjay Agarwal, Managing Director & CEO and Mr. Uttam Tibrewal, Whole Time Director was submitted to Reserve Bank of India respectively, for a period of 3 years with effect from 19<sup>th</sup> April 2020. The said proposals have been approved by Reserve Bank of India.
3. With the approval of the Board of Directors, the proposal for appointment of Mr. Raj Vikash Verma as Part-Time Chairman (Independent Director) (Non-Executive) of the Bank for a period of 1 year, was



submitted to Reserve Bank of India. The proposal has been approved by Reserve Bank of India for a period of 1 year with, effect from 8<sup>th</sup> April 2020. Further, shareholders vide resolution passed through postal ballot has approved his appointment as Part-Time Chairman (Independent Director) (Non-Executive) on 4<sup>th</sup> March 2020.

4. Mr. Kannan Gopalaraghavan Vellur (V G Kannan) has been appointed as Additional Director (Independent) for a period of 3 years with effect from 22<sup>nd</sup> January 2020 subject to approval of shareholders in the ensuing Annual General Meeting. Mr. Kannan is a banking industry veteran with over 38 years of experience in Banking & Financial Services (BFSI) sector and he is acknowledged an authority in credit, treasury, risk and investment management in the Banking sector.
5. Re-appointment of Mr. Krishan Kant Rathi, Independent Director and Ms. Jyoti Narang, Independent Director respectively has been approved by the Board of Directors for a second term for a period of 3 years commencing from 30<sup>th</sup> March 2020. The said re-appointment was duly approved by the shareholders of the Bank through Postal Ballot on 4<sup>th</sup> March 2020.

Mr. Krishan Kant Rathi brings knowledge and executive competence of a rare kind encompassing finance & accounting, strategic finance & treasury management, financial restructuring and fundraising (domestic and international), system driven operations and risk management.

Ms. Jyoti Narang expertise lies in the understanding in hospitality, customer service & human capital management, banking, economics, administration and business management.

6. Mr. Mannil Venugopalan successfully completed his tenure as the Part-Time Chairman (Independent Director) (Non-Executive) from close of business hours on 29<sup>th</sup> March 2020. The Board expressed deep appreciation and gratitude and acknowledged his invaluable contribution during his tenure by guiding, mentoring Bank to gain size and simultaneously putting in strong governance culture in place.
7. Mr. Deepak Jain, Chief Financial officer of the Bank has been elevated as Chief Operating Officer by the Board of Directors and designated as Key Managerial Personnel in terms of section 2(51) of the Companies Act, 2013 with effect from 1<sup>st</sup> April 2020 by the Board on the recommendation of the Nomination and Remuneration Committee.

8. Mr. Vimal Jain, Chief of Finance and Accounts has been elevated as Chief Financial Officer by the Board of Directors with effect from 1<sup>st</sup> April 2020 on the recommendation of Audit Committee and Nomination and Remuneration Committee.
9. In terms of Section 152 of the Companies Act, 2013, Mr. Sanjay Agarwal, Managing Director & CEO, shall retire at the ensuing Annual General Meeting and being eligible for reappointment, offers himself for re-appointment.
10. Appointment of Mr. Narendra Ostawal as Non-Executive Director was approved by the shareholders in the Annual General Meeting dated 26<sup>th</sup> July 2019.

During the year, no other changes took place in the composition of the Board of Directors of the Bank and The composition of the Board of Directors and Key Managerial Personnel of the Bank was in compliance with the applicable regulatory norms.

#### **K. NUMBER OF MEETINGS OF BOARD**

During the period under review, 7 Board meetings were convened and duly held. The intervening gap between the said meetings were in accordance with the provisions of Companies Act, 2013, relevant Rules made thereunder, Secretarial Standard-I Issued by Institute of Company Secretaries of India and provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. The dates of Board meetings and details of attendance of each director has been disclosed in the Corporate Governance Report forming part of Annexure-I of Board's Report.

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

The Board Committees constitution is in acquiescence of provisions of the Companies Act, 2013, the relevant rules made thereunder, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Banking Regulation Act, 1949, other guidelines issued by RBI from time to time and the Articles of Association of the Bank. The details of the Board Committees of the Bank are disclosed in the Corporate Governance Report forming part of Annexure-I of the Board's Report.

#### **Meeting of Independent Directors**

Your Bank conducted a separate meeting of Independent Directors on 22<sup>nd</sup> April 2019 without the presence of the Non-Independent Directors and members of Management of the Bank.



At the said meeting, the Independent Directors discussed, among other matters, the performance of the Bank and risks faced by it, the flow of information to the Board and its committees, governance, compliance and performance of Non-Independent Directors, the Board as a whole and of the Chairman.

No sitting fees was paid to the Independent Directors of the Bank for participating in the said meeting.

**L. DECLARATION OF INDEPENDENCE**

In accordance with provisions of Section 149(7) of the Companies Act, 2013, Schedule IV and Regulation 16 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 all the Independent Directors have submitted the declaration of independence respectively, confirming that they meet the criteria of independence. Board, in terms of Regulation 25 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, has examined the veracity of declarations submitted by respective directors. The Board opined that Independent Directors appointed during the financial year are having requisite integrity, expertise, specialised knowledge, experience and the proficiency. Further, none of the Directors are debarred from holding office as Director by virtue of any order of the Securities and Exchange Board of India or any other authority.

The Independent Directors have complied with the Code applicable for Independent Directors as stipulated under schedule IV of the Companies Act, 2013.

**M. COMPENSATION POLICY FOR DIRECTORS, KEY MANAGERIAL PERSONNEL, SENIOR MANAGEMENT PERSONNEL AND OTHER EMPLOYEES.**

In accordance with the provisions of section 178(3) of the Companies Act, 2013 read with rules made thereunder, RBI guidelines and on the recommendation of the Nomination and Remuneration Committee, the Bank has formulated and adopted a comprehensive compensation policy for its Directors, Key Managerial Personnel, Senior Management Personnel and other Employees.

The objectives of the Compensation policy along with the other details has been provided in Corporate Governance Report forming part of Annexure-I of Board’s Report and disclosure in this regards have been made in schedule to notes to accounts of the audited financial statements for FY 2019-20.

**Criteria for appointment of Director & Senior Management Personnel**

The proposal for appointment of Directors is put up to the Nomination and Remuneration Committee along with

requisite documents/disclosures received in the prescribed format for his/her proposed candidature as director.

The Nomination and Remuneration Committee carry out the fit and proper assessment after ascertaining the veracity of documents being submitted, experience and qualifications required for the post and if deem fit, recommends the profile for appointment to Board of Directors for their approval.

The Nomination and Remuneration Committee and the Board ensures that the remuneration to be paid to the proposed appointee is in accordance with the compensation policy and RBI guidelines issued in this regard.

During the period under review, as a part of Annual review, the Board of Directors reviewed the Compensation Policy, which regulates the appointment of Directors, Key Managerial Personnel, Senior Managerial Personnel and other employees of the Bank.

The terms of reference of the Nomination and Remuneration Committee, Compensation Policy and evaluation process has been detailed in Corporate Governance Report forming part of Annexure-I of Board’s Report. The compensation policy of the Bank has been hosted on the website of the Bank at [www.aubank.in/notice-board](http://www.aubank.in/notice-board)

**Evaluation of the Directors, the Board and Committees**

The description and details of the evaluation process has been provided in the Corporate Governance Report forming part of Annexure-I of Board’s Report.

**N. STATUTORY AUDITORS & THEIR REPORT**

M/s. S. R. Batliboi & Associates LLP (Firm Registration No. 101049W/E300004) were appointed as the Statutory Auditors for a period of four (4) years by the Members of the Bank at the Twenty Second (22<sup>nd</sup>) Annual General Meeting held on 27<sup>th</sup> September 2017, to hold office from the conclusion of the 22<sup>nd</sup> Annual General Meeting till the conclusion of the 26<sup>th</sup> Annual General Meeting of the Bank, in accordance with the provisions of the Companies Act, 2013.

The Statutory Auditors have confirmed their eligibility under Section 141 of the Companies Act, 2013. Further, as required under the relevant provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Statutory Auditors had also confirmed that they had subjected themselves to the peer review process of the Institute of Chartered Accountants of India (ICAI) and they hold a valid certificate issued by the Peer Review Board of ICAI.

There are no qualifications, reservations or adverse remarks made by M/s. S.R. Batliboi & Associates LLP, Chartered Accountants, Statutory Auditors of the Bank, in their report. Further, pursuant to Section 143(12) of the Companies Act, 2013, the Statutory Auditors of the Bank have not reported any instances of frauds committed in the Bank by its officers or employees.

#### **O. SECRETARIAL AUDITORS & THEIR REPORT**

In compliance with the provisions of Section 204 of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, the Board in its meeting held on 22<sup>nd</sup> April 2019, upon recommendation of the Audit Committee appointed M/s. V.M. & Associates, Company Secretaries (Registration No. P1984RJ039200) to undertake the Secretarial Audit of the Bank for the financial year ended 31<sup>st</sup> March 2020.

During the period under review, no frauds have been reported by the Secretarial Auditors, and there were no observations or qualifications made by the Secretarial Auditors in their Report. The Secretarial Audit Report for FY 2019-20 is annexed herewith, as Annexure V to the Board's report.

#### **P. LOANS, GUARANTEES AND INVESTMENTS UNDER SECTION 186**

Pursuant to Section 186 (11) of Companies Act, 2013, loans made, guarantees given or securities provided or acquisition of securities by a banking company are carried out in its ordinary course of business and are exempted from disclosure requirement in the Annual Report. Hence, there is no disclosure being made herein in this regard.

#### **Q. RELATED PARTY TRANSACTIONS**

During the period under review no transaction as falling under the purview of Section 188 of the Companies Act, 2013, have been entered by the Bank with the related parties. All transactions with related parties, were in the ordinary course of the business and on an arm's length basis. No transaction has been entered that could lead to potential conflict of interest between the Bank and related parties. Transactions entered into by the Bank with related parties were placed before the Audit Committee. Hence, pursuant to Section 134 (3) (h) of the Companies Act, 2013 read with Rule 8 (2) of the Companies (Accounts) Rules, 2014, there are no related party transactions that are required to be reported in form AOC-2. The requisite disclosure has been made under Schedule 18 of the notes forming part of audited financial statements for the year ended 31<sup>st</sup> March 2020.

Your Bank has in place a Board approved Related Party Transactions & Materiality Policy, which provide for the process, procedure and steps required for approval of

related party transactions, in compliance of applicable requirements of appropriate reporting and disclosure of transactions between the Bank and its related parties.

The Policy on Related Party Transactions & Materiality as approved by the Board, is hosted on the website of the Bank at [www.aubank.in/notice-board](http://www.aubank.in/notice-board)

#### **R. MATERIAL CHANGES AND COMMITMENTS, IF ANY, AFFECTING THE FINANCIAL POSITION OF THE BANK**

During the year under review, there are no material changes observed that could affect the financial position of Bank.

With the end of FY 2019-20, the world started witnessing the effect of Pandemic COVID-19 affecting health and economic system of the world. The Indian government was quick to initiate war-scale measures to contain the spread of COVID-19 and imposed a complete lockdown on 25<sup>th</sup> March 2020 to break the chain of transmission. Following the outbreak of COVID-19 and central government mandated lockdown, the RBI left no stone unturned in supporting the economy in the best possible way.

Banking being essential services, your Bank stood strong to serve the nation at this critical time and continued providing financial services through Branches in compliance of RBI Guidelines. Business continuity was invoked, process & policy for work from home was designed, access of IT resources was given with adequate security checks to provide uninterrupted banking services.

Advisories & guidelines issued by the Government of India, State Governments and local administration from time to time on mandatory wearing of mask, social distancing and other measures, were strictly implemented by the Bank across all its offices and branches.

The RBI announced the 3 months moratorium to be granted by the Banks to its borrowers and in accordance with the RBI guidelines relating to the COVID-19 Regulatory Package dated 27<sup>th</sup> March 2020 and 17<sup>th</sup> April 2020, the Bank has granted a moratorium of 3 months on the payment of all instalments and/or interest, as applicable, falling due between 1<sup>st</sup> March 2020 and 31<sup>st</sup> May 2020 to all eligible borrowers. For all such accounts where the moratorium is granted, the asset classification shall remain stand still during the moratorium period (i.e. the number of days past-due shall exclude the moratorium period for the purposes of asset classification under the Income Recognition, Assets Classification and Provisioning norms). Bank has acted proactively and made the provision of ₹ 138 crore against COVID-19, and this is in addition to the provision on standard assets providing requisite cushion to the portfolio.

We are confident that with a country population of over 136 crore and continuous focus on development of infrastructure, corporates & MSMEs sector, big domestic markets and impetus on regional distribution of industrial and service activities with higher localisation by the government, the Banking services shall restore to normalcy swiftly.

**S. CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION & FOREIGN EXCHANGE EARNINGS AND OUTGO**

As a responsible corporate citizen, your Bank ensures that optimum utilisation of resources is carried out to conserve the energy and absorption of technology.

**(A) Conservation of energy and technology absorption**

Your bank is a responsible organisation and strongly committed for the conservation of energy in carrying out its business operations. Bank, as part of its efforts has taken several initiatives by using the technology innovation, upgradation with opportunities available with IT development in the Banking sector.

The Bank’s IT ecosystems is designed, maintained and administered by upholding the best practices of “Energy Conservation in Facility Management”, be it either maximizing the use of day-light inside the office premises or emphasising the organization-wide usage of energy efficient LED lights, covering all of the Bank’s branches and offices. The Air Conditioners being used are compliant with the “Energy Star” rating, thereby saving lot of electricity.

The IT hardware that is being used to run the Bank meets the Environmental Safeguard Agency’s (EPA’s) Power Star advisory for minimal electricity usage. This also includes IT properties such as workstations, notebooks, machines, etc. Furthermore, your bank usually employs machines with multi-core processors which increase the machine’s digesting output without an exorbitant consumption of energy, thereby, resulting in increased efficiency & cost savings.

The Bank is leading the digital banking revolution by employing the use of “Paperless Two-Wheeler Lending Process”. This is achieved through a Tab based system, which eliminates the need of paper document consumption in the Two-Wheeler lending operations. Continuing on innovation, your bank also introduced the revolutionary “Instant Account” opening facility through digital channels and through WhatsApp. Digital initiatives such as these have gone a long way in reducing the paper consumption of the Bank and continue to do so in the endeavor to achieve a paperless system for seamless Banking.

**Using power supervision technology and guidelines**

Bank implemented the latest Operating Systems and is working on Advanced Settings Power Use Interface (ACPI) enabled devices. This enabled bank in embracing power-saving attributes which keep on functioning automatically on power saving function in case a machine remains idle for certain time interval.

**Using Cloud based technology and virtualized info center**

Bank constantly put in efforts to sustainably improve and invest in virtual and cloud-based technology, thereby reducing reliance on physical servers. This has a double benefit as the virtual, cloud-based servers are one of the most energy efficient and reliable options in the present era of faster technological advancements.

**Recycling systems and supplies**

Bank evangelises and practices an efficient management approach when it comes to aging IT systems. This is carried out to scale down the load on already overburdened junkyards and to avoid sending of hazardous materials to those landfills, more susceptible to causing a natural imbalance to the underlying soil and harming the environment. There is a coherent system of refurbishing the slightly old IT systems by assigning them to our staff that does not require heavy data processing. Doing so, the Bank successfully reduces the demand for new systems (desktops and laptops) even with our growing manpower. For example, in numerous cases, if an IT engineer needs a new high-end workstation to run a highly demanding, resource-hungry program, their old system, which is faultlessly adequate and can be assigned for use of someone who is not required to perform extensive processing, number crunching into spreadsheets. This hand-me-down approach leaves two employees to get better, more suited systems than the one they previously had, while minimising the need to purchase only one new system, thereby, resulting in savings, and avoidance of unwanted electronic wastage in the said process.

**(B) Technology Absorption**

**I. The efforts made towards Technology absorption:**

The Bank is rapidly adopting technology to digitise its operations and product offerings. It has witnessed a strong growth in the adoption of TAB-based account opening, android-based mobile banking, and internet banking, thus minimising paper usage. The Bank’s products and processes are directed towards digitisation of our banking services in a customer friendly manner, thereby empowering our customers to carry out banking with more ease, less paperwork and reduction in waste generation and improved waste management. Through digitisation, internet banking and with doorstep hassle-free services, we have reduced the customers’ travel time and

expenses, thereby reducing the fuel consumption and carbon emission.

**II. The benefits derived like product improvement, cost reduction, product development or import substitution:**

Not Applicable for the Banking Industry.

**III. In case of imported technology (imported during the last three years reckoned from the beginning of the financial year):**

- a) The details of technology imported: Nil
- b) The year of import: Nil
- c) Whether the technology has been fully absorbed: Nil
- d) If not fully absorbed, areas where absorption has not taken place, and the reasons thereof: Nil

**C) Foreign Exchange Earnings and Outgo**

During the year ended 31<sup>st</sup> March 2020, there were no foreign exchange earnings and the foreign exchange outgo was ₹ 2.72 crore.

**T. RISK MANAGEMENT**

Risk is the most critical element for any organisation and in the banking industry, this element become even more critical considering the Bank being custodian of public deposits. The nature of Risk in a Banking Industry has a wide array which evolves around Credit Risk, Market Risk, Liquidity Risk, Operational Risk and other risks.

The organisation is required to be proactive to mitigate the impact of risks around its businesses and an efficient Risk Management framework assist the Bank to balance the risk adjusted returns in line with the risk appetite.

An independent Risk Management is coupled with well laid down risk governance structure supported by policies and processes approved by the Board of Directors, and encompasses independence, identification and mitigation of risks across businesses of the Bank.

The overall Risk Governance framework in the Bank is approved and monitored by the Board of Directors. The risk management processes are guided by well-defined policies appropriate for the various risk categories, which are periodically reviewed by the Board, Board Committees and Board Delegated Committees.

Pursuant, to Regulation 21 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, the Bank has constituted a Risk Management Committee and as mandated by the regulatory provisions, Bank has appointed Chief Risk Officer ("CRO"), who administers the

risk associated key verticals through dedicated divisions i.e., Credit Risk, Market Risk, Operational Risk, Fraud Risk and Information Security Risk under the aegis of the Board approved risk management policies and in accordance with the approval and responsibility delegation matrix. The CRO has unhindered access to the Risk Management Committee of the Board.

The details of the Risk Management Committee and its terms of reference are set out in the Corporate Governance Report forming part of Annexure-I of Board's Report.

The Enterprise Risk Management framework is a layered structure and broadly consists of the following components for effective risk management across the Bank.

**(a) Credit Risk Management**

Credit risk arises from business operations that give rise to actual, contingent or potential claims against any counterparty, borrower or obligor. The goal of credit risk management is to maintain asset quality and concentrations at individual exposures as well as at the portfolio level. Credit Committee and Credit Risk and NPA Management Committee (CRNPAC) overseas and reviews the credit risk and is responsible for formulation of standards, financial covenants, rating standards and benchmarks, delegation of credit approving powers, prudential limits on large credit exposures, asset concentration, standards for loan collateral, portfolio management, loan review mechanism, risk concentration, monitoring and evaluation, provisioning, regulatory and other issues around it. Further, Bank has in place credit appraisal models for appraising cases including risk assessment, checks and balances. The Board Delegated Credit committees submit their updates to Risk Management Committee of the Board at regular intervals.

**(b) Operational Risk Management**

Operational risks arises from inadequate and/or missing controls in internal processes, people and systems or from external events or a combination of all the four. The Bank has the Operational Risk Management Committee (ORMC) to review and advise on implementation of measures for risk mitigation. The Bank follows an integrated risk approach, where operational risks and their monitoring folds into CRO and ORMC. The Bank has set up a comprehensive Operational Risk management framework for documenting, assessing, and periodic monitoring of various risks and controls linked to various processes across all business verticals.

Your Bank has Risk Containment Unit (RCU) that is guided by a Board approved Risk Management Policy. Fraud cases reported in the Bank are apprised to the Audit Committee and the Board and fraud cases in excess of ₹ 1 crore or more are specifically reported and dealt by



the Special Committee for Fraud Monitoring (FMC) of the Board. Frauds in the Bank occur when the safeguards are inadequate or the procedural checks are not adhered to, leaving the system/bank vulnerable to internal or external perpetrators. The effective defense that the Bank can have against frauds is to continuously strengthen its systems, operational practices, procedures, controls and review mechanism so that fraud-prone areas are sanitised against internal and external breaches and by continuously monitoring that these control measures are operating effectively.

Your Bank has in place a comprehensive Business Continuity Management (BCM) plan, policy and procedures in place to ensure continuity of critical operations of the Bank in the event of any disaster/incident affecting business continuity. The Bank's business continuity programme is developed considering the criticality of the functions performed and the systems have been designed to minimise the operational, financial, legal and other material consequences arising from such a disaster and focus is on ensuring faster recovery of/ minimising impact on the IT systems of the Bank. We hereby report that the Bank Business Continuity Management was operating effectively throughout the year.

**(c) Market Risk Liquidity and Asset Liability Management**

Market Risk for the Bank originates from investment and trading in securities, which are undertaken both for the customers and on a proprietary basis.

The market risk management framework of the Bank sets benchmark for market risk exposures, the performance of portfolios vis-à-vis the market risk limits and comparable benchmarks, which provide guidance to optimise the risk-adjusted rate of return of the Bank's investment portfolio.

Market risk management is guided by well-defined policies, guidelines, processes and systems for the identification, measurement, monitoring and reporting of exposures against various risk limits set in accordance with the risk appetite of the Bank. The Bank utilises the analytical tools for the market risk management of its trading and investment portfolios.

The Asset Liability Management (ALM) Policy of the Bank stipulates a broad framework for liquidity risk management to ensure that the Bank is in a position to meet its liquidity obligations as well as to withstand a period of liquidity stress from bank-level factors, market-wide factors or a combination of both. The ALM policy captures the risk appetite around the liquidity of the Bank and helps to put in place defined governance structure in consonance with the Bank's Risk Appetite.

The Asset Liability Management Committee (ALCO) of the Bank oversees the framework for identification, measurement and management of market risk, interest rate risk and liquidity risk in the Bank and ensures compliance with established internal and regulatory prudential limits. On a Quarterly basis, a detailed analysis of structure liquidity statements and breach in limits, if any, is presented to the Risk Management Committee and the Board of Directors.

**(d) IT Risk Management**

The Bank has established a robust information and cyber security framework for securing its IT infrastructure and systems. IT Steering Committee and Information Security Risk Management committee reports to Board-level IT Strategy & Information Systems Security Committee. This committee reviews and monitors IT security infrastructure and vigilance over IT related vulnerabilities against emerging cyber security risks. The Chief Information Security Officer ("CISO") is responsible for monitoring the information security risks covering all aspects of data security for the Bank who reports to Chief Risk Officer (CRO). Cyber Security Operation Center (CSOC) with qualified professionals reporting to CISO for monitoring of real-time cyber security glitches.

Further, your Bank has a cyber security management framework, a combination of technologies, processes and practices designed to protect networks, computers, programmes and data from cyber-attacks, damage or unauthorised access.

In the overarching risk management framework, the relevant risk and mitigates have been covered under Management Discussion & Analysis section of the Annual Report.

**U. CORPORATE SOCIAL RESPONSIBILITY**

In compliance with the provisions of Section 135 of the Companies Act, 2013 read with the Companies (Corporate Social Responsibility Policy) Rules, 2014, the Bank has a Board level Corporate Social Responsibility (CSR) Committee. It is committed to ensuring the social wellbeing of the communities in the vicinity of its business operations through its Corporate Social Responsibility (CSR) initiatives, in alignment with the Bank's key priorities.

On the recommendation of the Corporate Social Responsibility Committee, the Board of Directors has adopted and formulated comprehensive Corporate Social Responsibility policy, which sets out the objective, areas, activities and the manner in which the expenditure on CSR obligation would be carried out by the Bank.

The Bank established the AU Foundation in 2018, to proactively work at ground level in consultation with key

stakeholders for understanding social needs and designing CSR programs & initiatives accordingly. Considering the COVID-19 pandemic, Bank came forward and contributed substantial amount of its CSR budget of FY 2019-20 for health & safety initiatives against the COVID-19 pandemic.

The terms of reference of CSR committee has been disclosed in the Corporate Governance section of Board's Report and a detailed breakup of expenditure carried out on CSR activities has been disclosed in the Corporate Social Responsibility report attached as Annexure II of Board's Report. The policy has also been hosted on the website of the Bank at [www.aubank.in/notice-board](http://www.aubank.in/notice-board)

#### **V. DISCLOSURE UNDER SECTION 22 OF THE SEXUAL HARASSMENT OF WOMEN AT WORKPLACE (PREVENTION, PROHIBITION AND REDRESSAL) ACT, 2013**

Your Bank has in place, a Policy on Prevention and Redressal Against Sexual Harassment, the primary objective of the said policy is to provide all safeguards to employees from sexual harassment at the workplace. Your Bank has constituted Internal Complaints Committee in compliance of the provisions of The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 to review, investigate & take suitable actions on complaint and there is a Board level Disciplinary Committee that reviews the decisions taken by Internal Complaints Committee.

The complaints received and the details relating thereto have been provided in Corporate Governance Report forming part as Annexure-I of Board's Report.

#### **W. SUBSIDIARY & ASSOCIATE COMPANIES**

The Bank does not have any company, which is its subsidiary or associate. Hence the details of this clause are not applicable to the Bank.

#### **X. MATERIAL ORDERS PASSED BY REGULATORS OR COURTS OR TRIBUNALS**

During the period under review no material orders have been passed by the Regulators/ Courts/Tribunals which would impact the going concern status of the Bank and its future operations.

#### **Y. INTERNAL FINANCIAL CONTROLS SYSTEM & THEIR ADEQUACY**

Your Bank has an effective internal control system in line with the risk appetite of the Bank and aligned to the scale, size and complexity of its operations. The scope and authority of the risk based internal audit function is defined in the Internal Audit Policy of the Bank duly approved by the Board.

The audit function essentially validates the compliances of Bank's processes and operations with regulatory guidelines, accounting procedures and Bank's own internal rules and guidelines.

The Internal Audit function provides independent assurance to the Board of Directors and Audit Committee on the quality and effectiveness of the Bank's internal control, risk management and governance systems and processes.

Proper internal financial controls were in place and operating effectively. Further, the statutory auditors have, in compliance with the requirements of Companies Act, 2013, issued an opinion with respect to the adequacy of the internal financial controls over financial reporting of the Bank and the operating effectiveness of such controls, details of which may be referred to in the Auditor's Report attached to the audited financial statements of FY 2019-20.

#### **Z. COST RECORD**

The provisions for maintenance of cost records as specified by the Central Government under sub-section (1) of section 148 of the Companies Act, 2013 are not applicable to the Bank.

#### **AA. CORPORATE GOVERNANCE**

The Report on Corporate Governance for FY 2019-20 along with certificate issued by CS Manoj Maheshwari, partner of M/s V. M. & Associates, Company Secretaries confirming the compliance to applicable requirements related to corporate governance as stipulated under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015. The Corporate Governance Report is attached as Annexure-I to the Board's Report.

#### **AB. BUSINESS RESPONSIBILITY REPORT**

Pursuant to Regulation 34 (2) (f) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 a Business Responsibility Report (BRR) is required to be published by the Top 1000 listed companies based on market capitalisation. The BRR describes the initiatives taken by the Bank from environmental, social and governance perspective in the format prescribed under SEBI Circular No. CIR/CFD/CMD/10/2015 and the same is forming part of Annual Report and is hosted on the website of the Bank at [www.aubank.in/investor-relations](http://www.aubank.in/investor-relations).

#### **AC. PARTICULARS OF EMPLOYEE REMUNERATION**

The ratio of the remuneration of each Director to the median employee's remuneration and other details in terms of



sub-section 12 of Section 197 of the Companies Act, 2013 read with Rule 5(1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, form part of this Report and is annexed as Annexure III to Board's Report. The statement containing particulars of employees as required under Section 197(12) of the Companies Act, 2013 read with Rule 5(2) and Rule 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, forms part of this Report and is attached as Annexure IV to the Board's Report.

#### **AD. MANAGEMENT DISCUSSION AND ANALYSIS**

The Management Discussion and Analysis Report for FY 2019-20 is presented under separate section forming part of the Annual Report.

#### **AE. EXTRACT OF ANNUAL RETURN**

The extract of the Annual Return as on 31<sup>st</sup> March 2020, in the prescribed form MGT-9, form part of this report and is set out in Annexure VI. In accordance with the provisions of Companies (Amendment) Act, 2017, read with Section 134(3) of the Companies Act, 2013, the Annual Return, under Section 92 (3) of the Companies Act, 2013, is hosted on the website of the Bank at [www.aubank.in/reports](http://www.aubank.in/reports)

#### **AF. WHISTLE BLOWER POLICY & VIGIL MECHANISM**

The details have been provided in Corporate Governance Report forming part of Annexure-I of Board Report.

Whistle Blower Policy & Vigil Mechanism as approved by Board is hosted on the website of the Bank at [www.aubank.in/notice-board](http://www.aubank.in/notice-board)

#### **AG. SOCIAL ENVIRONMENTAL AND MANAGEMENT SYSTEM**

The Social Environmental and Management System (SEMS) is a set of policies, procedures, tools and internal capacity to identify and manage a financial institution's exposure to the environmental and social risks of its customers. The Bank endeavours to benchmark itself with the best of corporates in India and continued its focus to implement best Environmental, Social and Governance (ESG) practices. The procedures and decision-making process of the SEMS are systematically incorporated at each stage of transaction appraisal and monitoring. Awareness is also created among vendors and customers to comply with applicable social and environmental laws.

#### **AH. ANTI-BRIBERY AND ANTI-CORRUPTION POLICY**

The Bank adopts a 'zero-tolerance approach' to bribery and corruption and is committed to act professionally, fairly and with integrity in its dealings wherever it

operates. The Bank has an Anti-bribery and Anti-Corruption Policy laying down the principles for carrying out banking business in an honest and ethical manner. The Anti-bribery and Anti-corruption Policy as approved by the Board is hosted on the website of the Bank at [www.aubank.in/notice-board](http://www.aubank.in/notice-board)

#### **AI. CODE OF CONDUCT FOR DIRECTORS AND SMPs**

The Board of Directors of the Bank adopted the Code of Conduct for the Directors and Senior Management Personnel of the Bank in compliance with Regulation 17(5) of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, which sets forth the guiding principles on which Bank's Board and Senior Management Personnel (SMPs) shall conduct themselves with stakeholders. For FY 2019-20, all Board members and Senior Management personnel of the Bank have affirmed the compliance with the code as applicable to them and a declaration to this effect signed by the Managing Director & CEO and forms part of the Corporate Governance Report. The Bank's Code of Conduct for Directors and Senior Management is hosted on the website of the Bank at [www.aubank.in/notice-board](http://www.aubank.in/notice-board)

#### **AJ. COMPLIANCE OF SECRETARIAL STANDARDS ISSUED BY ICSI**

The Bank has complied with the provisions prescribed in Secretarial Standards issued by the Institute of Company Secretaries of India (ICSI).

#### **AK. STATUS OF IND AS IMPLEMENTATION.**

As per RBI circular RBI/2015-16/315 DBR.BP.BC. No.76/21.07.001/2015-16 dated 11<sup>th</sup> February 2016 Implementation of Indian Accounting Standards (Ind AS), Banks are advised that scheduled commercial banks (excluding RRBs) shall follow the Indian Accounting Standards as notified under the Companies (Indian Accounting Standards) Rules, 2015, subject to any guideline or direction issued by the Reserve Bank in this regard. Banks in India currently prepare their financial statements as per the guidelines issued by RBI, the Accounting Standards notified under section 133 of the Companies Act, 2013 and generally accepted accounting principles in India (Indian GAAP). In January 2016, the Ministry of Corporate Affairs issued the roadmap for implementation of new Indian Accounting Standards (Ind AS), which were based on convergence with the International Financial Reporting Standards (IFRS), for scheduled commercial banks, insurance companies and non-banking financial companies (NBFCs). In March 2019, RBI deferred the implementation of Ind AS for banks till further notice as the recommended legislative amendments were under consideration of Government of India. The Bank had

undertaken preliminary diagnostic analysis of the GAAP differences between Indian GAAP vis-a-vis Ind AS and shall proceed for ensuring the compliance as per applicable requirements and directions in this regard.

### **DIRECTORS' RESPONSIBILITY STATEMENT**

Your Directors would like to inform that the audited financial statements for the financial year ended 31<sup>st</sup> March 2020 are in conformity with the requirements of Clause (c) of Sub-section (3) of Section 134 of the Companies Act, 2013 and hereby confirm that:

- 1) In the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures
- 2) The Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit and loss of the Bank for that period
- 3) The Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the Bank's assets and for preventing and detecting fraud and other irregularities
- 4) The Directors had prepared the annual accounts on a going concern basis
- 5) 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

- 6) 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

### **ACKNOWLEDGMENT**

The Board of Directors wish to place on record their gratitude to the RBI, SEBI, MCA, IRDAI, Indian Banks' Association (IBA), Unique Identification Authority of India (UIDAI), CERSAI, Bank's Customers, Bankers & other Lenders, Members, Debenture holders, Trustees and others for their continued support and faith reposed in the Bank. The Directors would also like to thank the BSE Limited, the National Stock Exchange of India Limited, National Securities Depository Limited, Central Depository Services (India) Limited and the Credit Rating Agencies for their continued co-operation.

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

For and on behalf of the Board of Directors  
**AU SMALL FINANCE BANK LIMITED**

Sd/-  
**Mr. Sanjay Agarwal**  
*Managing Director & CEO*  
 DIN: 00009526

Date: 2<sup>nd</sup> May 2020  
 Place: Jaipur  
 CIN: L36911RJ1996PLC011381  
 Registered Office: 19-A, Dhuleshwar Garden,  
 Ajmer Road, Jaipur – 302001, Rajasthan

Sd/-  
**Mr. Uttam Tibrewal**  
*Whole Time Director*  
 DIN: 01024940

Date: 2<sup>nd</sup> May 2020  
 Place: Mumbai

## CERTIFICATE ON CORPORATE GOVERNANCE

To,  
**The Members,**  
**AU Small Finance Bank Limited**  
 19-A, Dhuleshwar Garden  
 Jaipur – 302 001 (Rajasthan)

1. We have examined the compliance of conditions of Corporate Governance of AU Small Finance Bank Limited (“the Bank”) for the year ended on March 31, 2020 as stipulated in Regulations 17 to 27 and clauses (b) to (i) of Regulation 46 (2) and other applicable regulations of Chapter IV pertaining to Corporate Governance and paragraphs C, D and E of Schedule V of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 [collectively referred to as “SEBI Listing Regulations”].

### Management’s Responsibility for compliance with the conditions of SEBI Listing Regulations

2. The compliance with the conditions of Corporate Governance is the responsibility of the management of the Bank, including the preparation and maintenance of all relevant supporting records and documents. This responsibility includes the design, implementation and maintenance of internal control and procedures to ensure the compliance with the conditions of the Corporate Governance stipulated in SEBI Listing Regulations.

### Our Responsibility

3. Our responsibility is limited to examining the procedures and implementation thereof, adopted by the Bank for ensuring the compliance with the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

4. We have examined the relevant records and documents maintained by the Bank for the purposes of providing

reasonable assurance on the compliance with the Corporate Governance requirements by the Bank.

5. We have conducted our examination in accordance with the Guidance Note on Corporate Governance Certificate and the Guidance Manual on Quality of Audit & Attestation Services issued by the Institute of Company Secretaries of India (“ICSI”).

### Opinion

6. In our opinion and to the best of our information and according to the explanations given to us and the representation made by the directors and the management, we hereby certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the above-mentioned SEBI Listing Regulations.

7. We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

### Restriction on use

8. The certificate is addressed and provided to the members of the Bank solely for the purpose to enable the Bank to comply with the requirement of the SEBI Listing Regulations, and it should not be used by any other person or for any other purpose. Accordingly, we do not accept or assume any liability or any duty of care for any other purpose or to any other person to whom this certificate is shown or into whose hands it may come without our prior consent in writing.

Place: Jaipur  
 Date: 2<sup>nd</sup> May 2020  
 UDIN: F003355B000194975

**For V. M. & Associates**  
*Company Secretaries*  
 (ICSI Unique Code P1984RJ039200)

Sd/-  
**CS Manoj Maheshwari**  
*Partner*  
 Membership No.: FCS 3355  
 C P No.: 1971