

Management Discussion and Analysis

MACROECONOMIC INDICATORS

Throughout FY 2023-24, the global economy went through a seismic shift; inflation remained a threat to growth, deterring investments and hindering commerce with higher prices. Advanced economies experienced downturns, while escalating conflicts in regions like Russia-Ukraine and Israel-Palestine disrupted global supply chains and unsettled investor confidence. Global growth slowed to 3.2% during the fiscal year. However, amid these challenges, India continued its trajectory of robust economic growth since becoming the world's fifth-largest economy. In FY 2023-24, India witnessed strong expansion, achieving a real GDP growth of 7.6%, and maintaining a consistent growth rate of 7% or higher for the past three years. Headline inflation stood at 5.4%, lower than the previous fiscal year's 6.7%, and the current account deficit (CAD) decreased to 1.2% of GDP from April to December 2023. A surge in output and new orders drove the Manufacturing Purchasing Managers Index (PMI) to a 16-year high of 59.1 in March 2024. Capital expenditures, alongside robust domestic demand for investment and consumption were the primary drivers of GDP growth. India emerged as the fastest-growing major economy in the fiscal year, supported by its resilient financial industry and strong global relationships, making it an increasingly attractive destination for investors.

INDIAN BANKING INDUSTRY SCENARIO

In the beginning of FY 2022-23, the Reserve Bank of India (RBI) tightened monetary policy in an effort to mitigate the effects of capital flight, increasing inflation, and depreciating currency values. Policy rates increased by 250 bps to 6.5% in FY 2022-23. There was neither a policy rate hike nor a cut in FY 2023-24. In Q3 FY 2024-25, a 50-bps reduction in the policy rate is anticipated from the RBI. In spite of this, the banking industry has reacted to credit demand proportionately. March 2024 saw a 20.2% year-on-year (y-o-y) growth in gross bank credit offtake, supported by the HDFC twins' merger. The y-o-y growth was 16.3%, compared to 15.0% in March 2023 before the merger. In March 2024, there was a 20.2% increase in non-food bank credit y-o-y compared to 15.4% a year ago. In March 2024, credit to agricultural and related businesses increased by 20.1% y-o-y from 15.4% the previous year. But compared to March 2023, when credit to industry increased by 5.6%, it increased by 9.0% (y-o-y) in March 2024. In terms of size, credit to large industries increased by 7.0% from 3.1% in the previous year. Compared to a year ago, the Credit Growth of Medium and Small Industries was 14.4%. In March 2024, credit to micro and small businesses expanded at a pace of 14.4%, up from 12.9% the previous year. Within the

industry, credit growth for 'food processing,' 'chemical and chemical products,' and 'infrastructure' accelerated in March 2024 compared to the same month the year before, while credit growth for 'basic metal and metal products' decelerated. The services sector's credit growth picked up speed in March 2024, rising from 19.6% to 22.9% (y-o-y). The improved credit offtake by 'trade,' 'commercial real estate,' and 'Non-Banking Financial Companies (NBFCs)' is to be attributed to this. Mostly due to the merger's effects, personal loans had a growth of 27.6% (y-o-y) in March 2024 as opposed to 21.0% the previous year. Aside from the merger effect, slower growth in auto loans and other personal loans caused the growth rate to drop by almost 330 bps to 17.7% in March 2024 on a y-o-y basis. Despite improving, deposit growth has lagged behind credit growth for FY 2023-24. As a result, banks are expected to continue to fortify their liability franchise and make sure that weakening deposit growth does not impede credit offtake, leading to a leading role for deposits in FY 2024-25. March 2024 saw a 13.5% y-o-y increase in deposits, up from 9.6% in March 2023. In the quarter that concluded in March 2024, fresh deposit rates for Public Sector Banks (PSBs), Private Sector Banks (PVBs), and Scheduled Commercial Banks (SCBs) rose month-on-month (m-o-m) by 12 bps, 15 bps, and 18 bps, respectively, surpassing pre-pandemic levels.

India's GDP increased by 7.6% in FY 2023-24 due to strong domestic demand, as was previously reported. This suggests that the nation's economy has continued to grow. The average gross monthly GST collection for the entire year was ₹ 1.68 Lakh Crores, and the total GST collections for FY 2023-24 finished at ₹ 20.18 Lakh Crores. As of March 2024, the GST revenue for FY 2023-24, net of refunds, is ₹ 18.01 Lakh Crores, up 13.4% from the same period the previous year. In March 2024, the PMI manufacturing score stayed strong at 59.1. The activity in the service sector was buoyant, causing the Services' PMI to reach 61.2 in March 2024. March saw the services stay in the growing zone due to strong demand circumstances and fresh revenue opportunities. The GDP grew as a result of strong domestic demand for investment and consumption. The Periodic Labour Force Survey (PLFS) data indicates a consistent decrease in the urban unemployment rate, which has additionally supported a robust increase in private consumption. At the same time, the growth in sales of Fast-Moving Consumer Goods (FMCG), 2-wheelers and tractors indicates a strengthening of rural demand. The strengthening of rural consumption has also been aided by a rise in real rural earnings, supported by a drop in inflation. Additionally, increased kharif production and an improved Minimum Support Price (MSP) have strengthened rural consumption by increasing rural income.

In view of rising inflation, unrest in the banking systems of certain developed nations, strained geopolitical relations, and the difficulties brought on by tight financial circumstances, the RBI kept a close eye on the state of the world economy. The government's supply-side measures in FY 2022-23 and the sharp increase in repo rates contributed to stabilising inflation expectations in FY 2023-24. In FY 2023-24, headline inflation decreased to 5.4% from 6.7% in the prior year. The CPI inflation rate (excluding fuel and food), has decreased to 4.3% from 6.1% in the previous year; however, the trend of core and food inflation remains different. With March seeing price increases of less than 4% for roughly 61% of the CPI basket, the general easing of inflationary pressures was widespread. Over the past few months, there have been more external risks to the inflationary forecast. For the first time since October 2023, the price of a barrel of Brent crude has surpassed USD 90, and since early February, the price of industrial metals has increased by more than 14%. Close observation is particularly necessary in light of the current spike in global commodity prices.

Under the Liquidity Adjustment Facility, the average daily absorption decreased to ₹ 485 Crores in FY 2023-24 from ₹1.87 Lakh Crores the year before. In FY 2023-24, time deposits and bank loans to the commercial sector drove the 11% increase in the money supply, respectively, on the asset side (sources). Reserve money and currency in circulation slowed as a result of the majority of the ₹ 2,000 banknotes – which had been removed from circulation on May 19, 2023 – being returned to the banking system as deposits and an increase in term deposit rates. There were ₹ 3.56 Lakh Crores rupees worth of ₹ 2,000 banknotes in circulation as of May 19, 2023. By March 29, 2024, 97.69% of these banknotes had been returned, the majority of them in the form of deposits. As of March 29, 2024, India had USD 645.58 billion in foreign exchange reserves. In FY 2023-24, the UPI platform processed 13,115 Crore transactions, aggregating to ₹ 199.29 Lakh Crores, compared to 8,376 Crores transactions worth ₹ 139 Lakh Crores in FY 2022-23. During the year, the volume of transactions was up 56.6%, whereas the value of transactions was 43.4% higher.

The Association of Mutual Funds in India (AMFI), in partnership with the Securities and Exchange Board of India (SEBI), and asset management companies (AMCs) are now required to disclose the results of the stress test for small and mid-cap schemes by March 15 of each year, based on the data from the previous month, in an effort to further strengthen the capital markets and safeguard investor funds. The goal of the stress test is to determine how quickly fund managers can sell off their holdings in the event that investors rush to redeem their investments in a volatile market. The purpose of this new legislation is to improve investor understanding of the risk profiles of these schemes and to increase transparency.

Outlook: FY 2024-25

With another strong fiscal year under its belt, India's real GDP growth stood at 7.6%, which is higher than most countries in FY 2023-24. Growth in FY 2024-25 is expected to be aided by a progressive employment outlook, stable inflation and strong domestic demand. The repo rate will be a key monitorable for the year as, various talks on reduction are making their way. NIM compression was observed in the financial sector in the current fiscal year due to the higher cost of borrowings, which is expected to ease out, thus helping banks and NBFCs alike and driving credit growth. Strong balance sheets, improving growth, coupled with technological advances, pose a bright future for India's macroeconomic stability.

OUR STRATEGY

Ujjivan SFB (referred to as 'Ujjivan SFB' and 'The Bank') is ambitiously advancing towards its goal of becoming the 'Primary Bank of Choice' for the aspiring middle class. By offering a myriad of financial products and services available both physically and digitally, the Bank envisions itself as a digitally focussed and customer-centric 'mass-market' bank, equipped to meet the dynamic needs of its customers. India's demographic landscape is currently undergoing a revolutionary shift, paralleled by a significant transition in its economy. Ujjivan SFB, as a Banker, is committed to providing comprehensive banking solutions to meet the diverse financial needs of its customers. By targeting under-served and underpenetrated segments, the Bank aims to capitalise on this opportunity to foster growth and upliftment within the Indian socio-economic sphere. Recognising that banking is inherently a business of expansion, Ujjivan SFB acknowledges the critical role of inorganic growth in achieving its objectives. Accordingly, the Bank is actively pursuing opportunities for strategic expansion in areas of interest. With a focus on the future, Ujjivan SFB has meticulously laid the foundation for growth, establishing a robust platform primed to seize the upcoming opportunities with agility and strength.

Diversified Bouquet of Products

Ujjivan SFB doesn't just offer products and services; it crafts experiences tailored to each customer. With a solid foundation built over the years, the Bank has earned the trust of a diverse clientele spanning asset and liability verticals. The Bank is focussed on creating need-based products tailored to the unique requirements of each segment. Ujjivan SFB intends to enhance its services for MSME customers by introducing specialised offerings, designed for both semi-formal and formal segments, while concurrently adopting the ethos of relationship banking. This strategic shift entails a laser focus on providing shorter-term services such as supply chain finance, working capital funding, bill discounting, and an array of non-fund-based facilities. In the housing segment,

the Bank is swiftly adapting, tailoring bespoke offerings to meet the unique needs of diverse regions, benefitting from its state-level collateral policy. Introducing micro-LAP (Loan Against Property) products, the Bank extends a helping hand to small borrowers and their families, allowing them access to higher-ticket loans, provided they have a solid repayment track record and the capacity to manage higher-ticket loans. Furthermore, the Bank continues to enhance its fintech alliances, with a keen focus on expanding its channels to enhance greater customer reach and the delivery of unparalleled services. For institutional segments, products such as bank guarantees and commercial paper, are provided to meet the discerning needs of the Bank's customers. Simultaneously, the working capital product is being worked on. The Bank is working towards expanding its bulk deposit avenues and looking to enhance exposure limits from various mutual funds, insurance companies, and various cooperative banks. On the liability front, Ujjivan SFB's emphasis will be on implementing digital solutions for Government and institutional businesses, such as the Public Funds Management System (PFMS). Strengthening fintech alliances will further expand the Bank's channels to reach its customers. Digital solutions like Digital TD & CA were launched during the year and will be key areas of focus as the Bank expands its reach among a digitally advanced set of customers. Furthermore, Ujjivan SFB has launched value-added liability products during the year to cater to the needs of high-net-worth customers, one of the key focus areas for the Bank. Additionally, the RM module was introduced to provide bespoke solutions to the Bank's customer base. The Bank continuously enhances its offerings for the aspiring middle-class segment by offering more value-added products to strengthen its position as a mass-market bank.

Focus on Digital Banking and Analytics

Ujjivan SFB's Digital Banking aims to revolutionise banking services, harnessing cutting-edge technology to cater to the ever-evolving needs of customers while optimising operational efficiency. Recognising the growing demand for accessible banking services round-the-clock, the Bank's digital banking platform empowers customers by providing banking services within their grasp.

Ujjivan SFB offers a seamless banking experience through an extensive array of digital services. These services include Personal Net Banking and Mobile Banking for retail customers, Hello Ujjivan Mobile Banking Application for MicroBanking customers, Business Net Banking for business customers, Digital Fixed Deposit and Digital Savings Account for instant and hassle-free account opening, Digital Payments for seamless transactions, and RPA for automating repetitive and critical business processes.

From account openings to accessing various banking services, customers now have the power at their fingertips. Breaking free from geographical constraints, the Bank's offerings transcend borders, catering to a diverse clientele ranging from digital aficionados to novices. Furthermore, the Bank's digital offerings are available in vernacular languages, ensuring effective communication in customers' preferred languages.

In efforts to improve the customer experience and expand digital accessibility, Ujjivan SFB has launched Digital Savings Account and Digital Fixed Deposit for both existing and new customers. These initiatives aim to offer a fully digital account opening journey, featuring minimal documentation, seamless KYC processes, and multiple payment options.

The Bank launched the Hello Ujjivan Mobile Banking application, designed to empower un-served and under-served MicroBanking customer segments. Throughout the financial year 2023-24, the Bank persistently refined the application, infusing it with a myriad of cutting-edge functionalities aimed at enhancing the user experience, increasing both financial and non-financial transactions, and liberating customers from the constraints of traditional brick-and-mortar branches. A standout addition to this application was the introduction of the Loan Acknowledgement feature in August 2023. This innovation allowed customers to mark their loans as ready for disbursement (RFD) directly through the Hello Ujjivan platform, a process previously shackled to the confines of physical bank branches. However, the enhancements didn't cease there. Acknowledging the rich cultural landscape of our nation, the Bank is extending its digital presence by introducing Punjabi and Malayalam languages. This strategic manoeuvre will not only widen our audience but also strike a chord with a broader clientele, ensuring inclusivity in the digital era.

To foster a culture of innovation and adapt to market trends and emerging technologies, Ujjivan SFB launched UPI Lite. This allows small-ticket payments of up to ₹ 2,000 through any third-party UPI application, eliminating the hassle of entering a UPI PIN. This allows the Bank's customers to make quick single-click payments with higher success rates.

Ujjivan SFB has leveraged technology and automation by adopting and implementing Robotic Process Automation (RPA) in various business verticals, and supporting functions to automate repetitive tasks and processes. As a result, the Bank has witnessed remarkable efficiency, reduced errors, lower operational costs, and freed up human resources to focus on more complex and value-added activities. Overall, RPA is actively being adopted by Ujjivan SFB to enhance customer service, drive digital transformation, and improve competitiveness in the rapidly evolving financial industry.

Building Capabilities through Data and Analytics

FY 2023-24 has set the stage for the Ujjivan SFB to scale its business sustainably while achieving greater efficiency. Ujjivan SFB has undergone a major transformation, largely driven by the adoption of data analytics. This strategic move aims to enhance overall efficiency and effectiveness within the Bank's digital ecosystem. By implementing end-to-end digitisation of processes, Ujjivan SFB has streamlined contactless disbursements and repayments. Moreover, data analytics has provided the Bank with actionable insights, enabling well-informed decision-making. The Bank is focussed on creating key predictive model use cases that can provide meaningful results and real-time information to its 'Feet-on-Street' staff. This strategic use of data analytics has empowered Ujjivan SFB to categorise its customers based on their unique needs and preferences, facilitating the development of highly targeted cross-sell products across different verticals.

The Bank has strengthened its credit underwriting prowess through the strategic utilisation of data analytics. Leveraging insights gleaned from data analysis, key decisions have been made to institute new controls and enhance existing controls. Key projects have garnered external acclaim such as the Bank's recognition as the Best Data Science Team of the Year in the Small Finance Bank category at the prestigious Quantic AI show. Additionally, Ujjivan SFB has adopted advanced BI tools, accessible through both web and mobility channels, featuring interactive dashboards. This allows employees at all levels to adopt a data-driven, proactive decision-making approach, enhancing efficiency and driving the Bank towards greater success.

Future Vision: Ujjivan SFB has proactively engaged with a partner to build the best data platform, which will encompass adopting cutting-edge technology to compete effectively in the BFSI space. With this new initiative, the Bank aims to increase its PPC (Product Per Customer) by harnessing data.

Increased Customer Penetration through Multi-Channel Approach

As customer expectations soar, propelled by emerging technologies, and the dynamic financial terrain, banks are compelled to adopt a multi-channel approach for customer acquisition, post-acquisition servicing, and feedback incorporation. In acknowledgement of the varied preferences among customers, Ujjivan SFB adeptly blends physical and digital channels to broaden its outreach and enrich its offerings. While digital-only or branch-based services appeal to some, the majority of customers tend to switch between channels for added convenience.

Each channel caters to different segments, enhancing brand visibility and accessibility, thus driving growth and satisfaction. The introduction of WhatsApp banking and interactive smart statements is currently in progress, poised to elevate the banking experience to new heights.

Video banking replicates the immersive experience of a physical branch in multiple languages, providing seamless services with uncompromising security measures. From V-KYC/Re-KYC, address/profile updates, PAN submissions, Form 15G/H, Aadhaar seeding, account activations and upgrades, it accommodates a plethora of service requests, significantly reducing the necessity for in-person branch visits. These services are offered even in locations where the Bank does not have branches.

Phone Banking, available in 8 IVR Indian languages, a unique feature across industry alongside English with conversational availability of 13 languages, once connected to a phone banker, offers 24/7 support facilitated by a dedicated team of 200+ on-roll phone bankers stationed in Bangalore and Pune. Distinguished by its user-friendly IVR system, quick access to skilled bankers, streamlined STP for select requests, and smooth term deposit bookings, it epitomises excellence in offering 450+ services to the customer. Initiatives are actively in progress to transform it into a dynamic sales platform, set to redefine the banking experience.

In FY 2023-24, the debut of DigiMitra heralded a new era of dedicated support for not only products but also services related to accessing digital channels, guaranteeing seamless user experiences. Simultaneously, the Virtual Relationship Manager (VRM) programme offers customised engagements tailored to individual customer segments, nurturing trust and fostering brand loyalty.

Ujjivan SFB remains committed to customer centricity,, innovation, and operational excellence, poised to lead the transformation of banking services in an increasingly digital world.

Strengthening Liability Franchise, and Increasing Our Retail Base

The Bank's primary emphasis has always been to establish a strong and sticky foundation of retail deposits to support its asset expansion. The Bank has observed promising and robust growth in its retail deposit base, including CASA (Current Account and Savings Account) Deposits and customer acquisition. The Bank has established a robust foundation among traditional customer segments such as senior citizens, women, enterprises, and TASC (Trusts, Associations, Societies, and Clubs). Additionally, by using digital products and employing a multi-channel approach, the Bank is actively expanding its customer base among new-age segments, including young professionals, established investors, and tech-savvy entrepreneurs. With a strong emphasis on customer service, the Bank strives to uphold high standards to enhance customer satisfaction and foster long-term retention. To achieve this goal, Ujjivan SFB consistently invests in technology and provides comprehensive training to its staff, ensuring that the quality of service remains at the forefront of the industry. The Bank's primary focus will be on enhancing

the sourcing mix of customer segments and product offerings. The Bank aims to fulfil a significant portion of its funding needs through Current Account and Savings Account (CASA) Recurring Deposits, and Fixed Deposits while simultaneously establishing a reliable and enduring deposit base and attracting new customers. The Bank will encourage account utilisation by capitalising on its dedicated customer service and user-friendly digital channels to achieve this.

Responsible Banking for the Unserved and Underserved Segments

Ujjivan SFB believes in the power of responsible banking to drive positive change in society. Guided by a firm commitment to the underprivileged, the Bank's very essence pulsates with a spirit of service. Through a myriad of financial literacy programmes, Ujjivan SFB USB acts as a conduit, empowering individuals and communities to plan for a brighter financial future.

In an increasingly digital world, access to digital tools and resources is essential for financial inclusion. Through the Bank's financial and digital literacy programmes, it equips individuals with the skills and knowledge to navigate online banking platforms safely and effectively, ensuring that no one is left behind in the digital age.

The Bank recognises the unique needs of different segments within the un-served and under-served population. Consequently, it provides tailored financial literacy training to specific groups such as women, youth, and entrepreneurs. These sessions cover essential topics like financial planning, credit management, and entrepreneurship, empowering participants to shape their financial trajectories.

Through the Bank's Chiller Bank programme, it collaborates with educators to integrate financial literacy into the educational curriculum. This alliance helps students gain the knowledge and skills essential for making sound financial decisions as they transition into adulthood.

Financial Literacy & Inclusion Initiatives

1. Diksha + Financial Literacy Programme (MicroBanking Customers): Financial education is central to Ujjivan SFB's mission to give more low-income families access to the financial tools and resources they require to achieve security and prosperity. The Bank has played a key role in equipping women from low-income families with the knowledge and tools they need to save safely, reduce financial risk and make informed, intelligent financial decisions. In FY 2023-24, with the view to increase the impact and outreach, the programme has been restructured to a 2-slot programme from that of 4 with an improved syllabus for sharper focus on the key topics.

Total 6,420 Diksha training programmes has been conducted across 289 branches. 118,120 Customer

Enrolment, 106,326 Customer Certified. Certification stands at 90%. Out of these, about 38,776 customers availed banking products. Conversion rate stands at 33%. 21,825 Customers repaying loan through digital platforms. Digital repayments stand at 19%

2. Chiller Bank Financial Literacy Programme (Children of MicroBanking Customers):

The Bank's commitment to financial literacy starts with nurturing the minds of tomorrow, instilling in young hearts the wisdom to navigate the intricate landscape of finance. From the tender ages of 11 to 17, the Bank's MicroBanking customers and their children are embraced in a transformative journey towards financial empowerment. This programme designed to imbue financial acumen, not only nurtures early savings habits but also kindles a flame of financial consciousness, guiding both children and their parents towards a prosperous future. Additionally, by instilling the principles of financial prudence, it lays the groundwork for a brighter future where making sound financial decisions is innate. Empowered by the digital age, these young children serve as beacons of technological prowess, guiding their parents through the labyrinth of digital platforms. From UPI apps to mobile banking applications, they stand as sentinels of security, educating their parents on the nuances of digital transactions and safeguarding against the spectre of online fraud.

In FY 2023-24, a total of 1,453 training programmes were conducted across 284 branches. A staggering 42,839 customers and children enrolled, out of which 40,037 were certified, boasting a certification rate of 98%. Furthermore, approximately 3,697 customers availed of banking products, translating to a conversion rate of 17%. Moreover, 2,856 customers repaid loans through digital platforms, constituting 14% of all repayments.

3. Financial Literacy Camps for Rural Customers:

Rural branches of Ujjivan SFB are conducting one camp per month (on the third Friday of each month). This camp covers all the messages that are part of the RBI's Financial Awareness Messages (FAME) booklet and the two digital platforms UPI and *99# (USSD). In FY 2023-24, the Bank has conducted 1,773 camps at 174 Rural branches. Through these camps, 22,693 (Ujjivan SFB - 17,715 NTB - 4,978) customers trained through FLC Programme. Ujjivan SFB's customer stands at 78%. Out of which 16,805 are Women & 5,888 Men. Women Participation stands at 74%.

4. Ujjivan Entrepreneurship Development Programme (UEDP):

While we continue our Financial Literacy Program to our MicroBanking customers, we are now extending the programme to our MSME customers as per the directives of RBI.

Haqdarshak, as our strategic partner who is the first Indian social enterprise to digitalise welfare programmes on a single platform, we intend to cover wide range of topics through this programme that includes various options available for financing their business needs, information on the central registrations & educating them on the availability of various Govt. welfare and financing schemes.

In the FY 2023-24, the Bank conducted 17 camps. Through these camps, 183 (14 Women & 169 Men) customers have been trained.

- 5. Financial Literacy Programme for Nano Entrepreneurs (Pragati):** The Bank has crafted an exclusive financial literacy programme tailored specifically for nano entrepreneurs in Assam. In FY 2023-24, a total of 279 training sessions were conducted across 8 branches, drawing 4,043 eager participants. From this group, about 1,400 customers availed of banking products, resulting in a robust conversion rate of 34%. Additionally, 264 customers opted for digital loan repayments, which stood at an impressive 34%.

Impact and Outreach

Ujjivan SFB's financial literacy programmes have had a tangible impact on the communities it serves. By providing individuals with the knowledge and tools they need to manage their finances effectively, the Bank has witnessed increased financial independence, improved access to credit, and greater economic empowerment among programme participants.

Future Directions

Gazing towards tomorrow, the Bank remains firm in its dedication to broadening and enhancing its financial literacy endeavours. Through ongoing innovation and collaboration with stakeholders, it aims to develop innovative programmes attuned to the evolving needs of the un-served and under-served segments. These efforts are geared towards fostering an inclusive financial landscape.

Conclusion

At Ujjivan SFB, responsible banking transcends mere commitment; it embodies a way of life. Through the Bank's financial literacy programmes, it works to dismantle barriers to financial inclusion and empower individuals and communities to achieve their financial goals.

DIVERSIFY REVENUE STREAMS AND CONTROL COSTS

Ujjivan SFB's primary focus is on expanding its array of financial solutions to augment its revenue streams, encompassing fee-based and non-fund-based avenues. Leveraging its extensive banking outlet network, digital channels, diverse product and service portfolio, and vast customer base, the Bank seeks to enhance its fee-and

commission-based business to new heights. The Bank's treasury team operates with finesse, handling fund trading and management, along with capitalising on lucrative market opportunities. The introduction of new products for institutional clients will further fuel the growth of fee income. Benefitting from the RBI's relief measures, lending by SFBs to MFIs and other priority sectors has been categorised as priority sector lending. Moreover, this move not only allows the Bank to surpass mandated targets for priority sector advances but also opens up avenues for trading priority sector lending certificates, serving as a significant source of fee income.

GROWING CUSTOMER BASE

As of March 31, 2024, Ujjivan SFB boasted an impressive 86 Lakh-strong customer base, registering a growth of 12% from the previous year's 77 Lakhs. This surge in numbers was driven by robust growth on both the asset and liability fronts. On the asset side, the Bank welcomed around 9.1 Lakhs customers during the year, with the Microbanking and Housing segments leading the charge. Meanwhile, on the liability side, the Bank's retail branch banking operations have consistently attracted around 3.5 Lakh new customers each quarter.

FINANCIAL AND OPERATIONAL PERFORMANCE

The financial year continued the momentum set in FY 2022-23, showcasing growth in both asset and deposit businesses for Ujjivan SFB. The Bank crossed a significant milestone, reaching an asset book size of ₹ 25,000 Crores, with secured products gaining traction during the year. Disbursements during the year increased by 17% compared to the previous fiscal year. The liability franchise also grew rapidly, maintaining a stable CASA base and a CD ratio of 95%, including IBPC and securitisation exposure of ₹ 2,360 Crores as of March 31, 2024. The total deposit book reached ₹ 31,462 Crores, crossing the ₹ 30,000 Crores mark. Ujjivan SFB focussed on increasing profitability with the base built in FY 2022-23, achieving its highest-ever yearly profit of ₹ 1,281 Crores and Q4 FY 2023-24 profit at ₹ 330 Crores. The Bank invested in expanding its branch network and enhancing its technology and digital infrastructure. Asset quality was maintained through improved collections, bad debt recovery, yield improvement, productivity enhancement, and a new loan origination system. Ujjivan SFB's third-party product income increased in FY 2023-24. Pre-provision operating profit stood at ₹ 1,917 Crores, up from ₹ 1,485 Crores in the previous year. Total income grew by 36%, driven by a 23% loan book growth, increased yield on advances, and steady bad debt recovery income. Interest income on advances amounted to ₹ 4,973 Crores, constituting 77% of total revenue, with a yield on the gross loan book of 19.2%, up from 18.4% the previous year. Interest income on advances increased by 34%, with GNPA levels reduced to 2.2%

as of March 31, 2024. Income from statutory and other investments grew by 61% to ₹ 689 Crores, constituting 11% of total income. Fees and other income, comprising processing fees, PSLC sales profits, and commission income on third-party product distribution rose to ₹ 111 Crores from ₹ 44 Crores. Miscellaneous income, comprising annual card maintenance fee income, income from banking operations, foreclosure and late payment charges, and profit on the sale of investments, amounted to ₹ 167 Crores, constituting about 3% of total income. On the liability side, the Bank introduced new products on the CA and SA sides, with a focus on digital sourcing. Total CASA grew 24% over March 2023 to ₹ 8,335 Crores and maintained the Bank's CASA ratio from FY 2022-23. There was an increase in interest rates across all liability products on the market. As a result of these rate hikes, the on-book cost of funds increased to 7.4% from 6.5% in the previous year. The Bank increased its exposure to IBPC/Securitisation from ₹ 2,174 Crores as of March 2023 to ₹ 2,360 Crores as of March 2024. Finance costs increased by 55% compared to the previous year, which was a result of the full-year impact of rate hike done in FY 2022-23. NIMs for the fiscal year stood at 9.1%, against 9.5% in the previous fiscal. The increase in cost of funds impacted the NIM which was partially set-off with the increase in yield on advances. On the expense front, the total operating cost increased by 26% compared to FY 2022-23. This was a combined effect of an increase in headcount, the number of banking outlets, growth in business volume and upgrades made to the IT infrastructure. The employee expense increased by 29% over the previous financial year as there was an increase in the employee strength of ~4,500 staff, an increase in the average salary, variable pay, and expenditure on employee training and skill enhancement. Other operating costs, comprising occupancy, technology and connectivity, travel and conveyance, cash handling and management, marketing, direct business-related expenses, and other expenses, increased by 23% from the previous year. The increase in expenses from the previous financial year can be attributed to much higher business volume and an increase in occupancy-related expenses due to the addition of 123 new branches and other offices opened at various locations. IT expenses also saw an increase as upgrades were made to the IT infrastructure, especially the LOS upgrades, expanding the hardware capacity. There was a decline in collections-related expenses, especially outsourced manpower as the portfolio quality improved during the year. The Bank made heavy investment in brand-building activity with the launch of the nationwide brand campaign. With the increase in expenses from previous year, the Bank was able to maintain the cost-to-income ratio at 54.3% in FY 2023-24, 50 bps lower than the previous financial year. Credit cost for the year stood at ₹ 215 Crores as compared to ₹ 18 Crores in FY 2022-23. The floating provision of ₹ 250 Crores

continues to remain on the books, with ₹ 100 Crores being moved to other provisions and ₹ 30 Crores utilised towards Tier-II capital. The entire floating provision of ₹ 250 Crores is available to make specific NPA provisioning in the future in case of external exigencies, with RBI approval. Provision coverage on the total gross loan book stood at 2.3% as of March 31, 2023, against 3.1% on March 31, 2023. The total cumulative provision on the portfolio stood at ₹ 676 Crores as of March 31, 2024, consisting of ₹ 140 Crores on standard assets and ₹ 536 Crores on NPA (this includes only ₹ 120 Crores of the floating provision). The Provision Coverage Ratio (PCR) for the Bank stood at 87% at the end of the year, while NNPA stood at 0.3% against 98% and 0.04%, respectively, in March 2023. The Bank's Return on Asset (RoA) on pre-provision operating profit stood at 4.6% against 5.2% in the previous year, with a Return-on-Equity (RoE) of 26.1% against 31.4% for FY 2022-23.

Income Statement

As of March 31, 2024, Ujjivan SFB's balance sheet size increased to ₹ 40,422 Crores, marking a robust 21% increase from ₹ 33,317 Crores at the end of the previous year. The Bank's net worth increased from ₹ 4,911 Crores to ₹ 5,613 Crores during the same period. The Capital to Risk Weighted Asset Ratio (CRAR) stood at 24.7%, ensuring a stable financial position in 2024, compared to 25.8% as of March 2023. The Bank's gross loan book closed at ₹ 29,780 Crores, registering a 24% growth over the preceding year. While Ujjivan SFB's deposit base closed at ₹ 31,462 Crores, growing 23% y-o-y, it was largely driven by healthy growth in CASA and retail term deposits.

DIGITAL INITIATIVES

In the dynamic landscape of modern finance, Ujjivan SFB persistently pursues innovation to elevate customer experiences, optimise operations and maintain a competitive edge. At the core of this transformation is the swift adoption of digital initiatives, driving the Bank's evolution towards greater efficiency and customer centricity. Ujjivan SFB's core strength lies in its dedication to prioritising customer choice and flexibility. With an indomitable spirit, the Bank places a premium on exceptional customer service, recognising its role as a key differentiator in today's fiercely competitive banking domain. The Bank acknowledges that exceptional customer service is not merely a goal but a strategic imperative, essential for:

1. Building lasting relationships with customers to smoothly cross-sell and up-sell a diverse bouquet of products and services
2. Fostering customer loyalty to increase the CLTV (Customer Lifetime Value)

3. Amplifying positive word-of-mouth endorsements, thereby expanding reach and enhancing accessibility to a broader customer base

To achieve this, Ujjivan SFB has implemented several initiatives geared towards enhancing customer support and assistance on its digital platforms. One such initiative is the introduction of multiple regional languages in its digital interface, ensuring that customers can access banking services in their preferred languages. By offering multilingual support, the Bank strives to break down language barriers and make banking more accessible and inclusive for all customers.

During 2023-24, the Bank's digital platforms, comprising Personal Net Banking, Mobile Banking, UPI and Hello Ujjivan registered a total of 0.34 Crores unique ITD customers by March 31, 2024. This signifies a notable year-on-year growth of 42% compared to the preceding financial year.

The Bank witnessed a significant surge in digital transactions during FY 2023-24, with over 37.41 Crores transactions facilitated digitally* by March 31, 2024. A staggering 88.54% of all bank transactions were seamlessly executed through digital channels, underscoring the Bank's performance during this period. The growth in UPI adoption propelled the Bank to secure 1st rank* among Small Finance Banks (SFBs). Moreover, despite achieving record transaction volumes by March 31, 2024, Ujjivan SFB ranks 13th as a remitter and 14th as a beneficiary bank among the top 50 banks for technical declines in UPI transactions#.

**Outward debit transactions done through all digital modes*

#As per NPCI (National Payments Corporation of India) UPI statistic report for March 2024

The Bank launched Hello Ujjivan Mobile Banking application in February 2023, with an objective to empower and serve the un-served and under-served MicroBanking customer segments. Over the last financial year FY 2023-24, the Bank has added functionalities to enhance the user experience, encourage more financial and non-financial transactions and reduce the branch footfall. One of such features is Loan Acknowledgement which was launched in August 2023 to enable RFD (Ready for Disbursement) marking for customer loan through Hello Ujjivan application which was earlier available only through

bank branches only. Till March 31, 2024, more than 2.2 Lakhs customers have marked RFD seamlessly through Hello Ujjivan. Hello Ujjivan has also integrated Financial Literacy Videos in 9 languages to increase financial awareness and literacy with the objective to create digital banking habits in illiterate and semi-literate customers.

In its efforts to improve customer experience and expand digital accessibility, Ujjivan SFB has launched Digital Savings Account and Digital Fixed Deposit for both existing to bank (ETB) and new to bank (NTB) customers. The primary objective was to provide a complete end-to-end digital account opening journey with minimum documentation, seamless KYC and multiple payment options. Till March 31, 2024, bank has acquired 1,257 Savings Accounts and 6,099 Deposit Accounts digitally with a total of ₹ 1.26 Crores amount of Savings balance and ₹ 67.48 Crores amount of Deposit balance.

In order to foster a culture of innovation, adapt to market trends and emerging technologies Ujjivan SFB has launched UPI Lite to allow small ticket size payments of up to ₹ 2,000 through any third-party UPI application without the need of entering the UPI PIN. The Bank has facilitated 19,652 UPI Lite customers to register for UPI Lite and 75,158 transactions valuing more than ₹ 1.68 Crores has been completed till March 31, 2024.

Alliance and Electronic Payments

In a nation steeped in tradition and conservatism, Ujjivan SFB subtly but significantly reshaped society by ensuring access to all transaction channels for its customers, serving the under-served and un-served segments.

The Bank has spearheaded accessibility with initiatives like UPI and Hello Ujjivan SFB, while issuing 90 Lakhs+ cards, empowering customers to transact seamlessly across ATM, ACR, POS and E-Com platforms.

With a network spanning over 2 Lakhs ATMs and 5 Crores merchant points, Ujjivan SFB is extending its reach far and wide, maintaining its lead among peers. Despite post-pandemic challenges, the Bank stayed ahead of the curve and maintained its lead in various positions since its inception. Post-pandemic, it was challenging to bring back the focus and create state-of-the-art services for its customers. In FY 2023-24, the Bank has held a pole position in various parameters.



*Among select banks

INTERNAL CONTROL SYSTEMS AND ADEQUACY RISK MANAGEMENT

Ujjivan SFB has established a strong risk management framework designed to identify, mitigate, and monitor material risks across all its functions. Directed by the Risk Management Committee of the Board (RMCB), the Bank's well-staffed risk management team, led by its Chief Risk Officer (CRO), ensures thorough implementation of the Board's directives. This team, based primarily at the corporate office with a presence in regional offices, effectively cascades the operational risk framework to a granular level. The hallmark of the Bank's Risk Management function is its independence from business sourcing units. Converging only at the Board level, this reinforces the Bank's commitment to maintaining the highest standards of risk governance and the implementation of various lines of defence.

Through continuous monitoring and enhancement, the Bank has established a distinct risk architecture with detailed policies and procedures to manage credit risk. Key areas such as risk identification (early warning systems, credit application scorecards, operational risk index), risk measurement (ECL-based provisioning framework, capital adequacy assessment models), risk mitigation (exposure limits), and risk monitoring (independent risk monitoring unit for large ticket loans, high-risk branch analyser, collection productivity trackers, and DRI-DPI framework, among others) have been significantly overhauled and improved upon, on an ongoing basis. During the year, the Bank introduced new credit application scorecards for its flagship MFI/Group Loans and 2-wheeler business products, which were also statistically significant. The Bank also re-validated its internal rating systems/scorecards used in individual loans, now linked to credit decisioning and pricing. Furthermore, Ujjivan SFB has

put in place a framework to better understand climate-induced physical risks and model risks, establishing policies to cap/limit credit exposures from districts vulnerable to such risks. Additionally, a policy has been established to govern model development, maintenance and validation aspects in a bid to improve model risk management. For strategic risk assessment, the Bank has developed RAROC and economic capital models to identify products/SBUs/geographies that add shareholder value. The outputs from these models are increasingly used in business planning, budgeting and the development of pricing models, ensuring a forward-looking and proactive approach to risk management.

Stress testing remains a crucial component of Ujjivan SFB's credit risk monitoring. Regular sensitivity analyses of collection rates are conducted to compute incremental default rates and associated credit costs. During the year, the Bank also utilised stress scenarios prescribed by the Network for Greening the Financial System (NGFS) to establish a relationship between default risk and physical risks over the short term. This year, the Bank attempted to establish the correlations between macroeconomic variables and business parameters such as disbursement and delinquency trends. To this end, Ujjivan SFB developed a Proof of Concept (POC) that establishes these relationships at the industry level. These models undergo continuous enhancement for further refinement, scenario-based stress testing and integration into budgeting exercises. The stress testing framework continues to serve as an important guiding tool for strategic decision-making and assessing the Bank's overall resilience.

The Credit Risk Management Committee (CRMC) convenes at least once a month, ensuring rigorous oversight of the credit portfolio's performance and risk management. Supported by a specialised Health Council comprising

top management, the CRMC takes proactive measures to address the performance of MSME loans. The scope of these health councils will be expanded to include other portfolio groups.

Market risk emanates primarily from the Bank's management of statutory reserves and trading activity in the interest rate market. To effectively mitigate these risks, the Bank's Treasury Mid Office conducts real-time monitoring within a well-defined Limit Management Framework, which prescribe caps on exposure across various securities through predefined limits and triggers. Notable risk measures encompass sensitivity limits such as PV01, Modified Duration of HFT/HTM Portfolio, Value-at-Risk (VaR) Limits, and Stop Loss Trigger Levels (SLTL), among others.

The Bank has established various limits for **liquidity risk** management to mitigate funding mismatches and interest rate risks. While the caps on the mismatches to maturity buckets and stock ratio constraints serve to manage liquidity risk, conducting sensitivity analyses on Net Interest Income (NII) and Market Value of Equity (MVE) aids in addressing interest rate risks. Additionally, the Bank also maintained a comfortable Liquidity Coverage Ratio (LCR), well above the regulatory limits, during the year. Liquidity VaR (LVaR) and IRR Value at Risk (IRRVaR) models, along with SLS-based stress tests, have also aided in analysing liquidity/interest risk risks in adverse scenarios and in contingency funding plans. The Bank regularly undertakes various internal assessments on the behavioural patterns exhibited by depositors with respect to pre-mature withdrawal, utilisation, and tenure of deposits. Tolerance levels are now defined internally as part of the Liquidity Risk Management Framework.

The Asset Liability and Market Risk Committee (ALCO) of the Bank meets on a monthly basis or at more frequent intervals, if warranted, to evaluate the liquidity situation.

Operational risk management is a top-down approach driven by strong and sound operating policies/procedures and an internal control culture, with well-defined reporting and contingency planning. Operational risks are also identified through bottom-up approaches, where operational risks/process lapses at the field level are identified, which triggers a review of controls and policies. Manuals, an important spin-off from the various operational risk policies, are now documented for key activities such as Risk and Control Self-Assessment (RCSA), Key Risk Indicators (KRI) and Loss Data Management. Operational risk within the Bank is managed through a combination of qualitative and quantitative approaches. It additionally includes stringent product and process reviews, diligent User Acceptance Testing (UAT) of changes to systems, thematic reviews, risk scorecards, outsourcing risk reviews, Internal Financial Control (IFC) testing, and Business Continuity Planning/Management (BCP/M).

During the year, the Bank developed an Operational Risk Index (ORI) to identify operational risks at the branch level. The index helps in identifying and highlighting branches with repeat process lapses and weak compliance with operational processes.

For the effective management of operational risks, the Bank has constituted an Operational Risk Management Committee (ORMC), chaired by the MD & CEO. The Committee, convened by the Chief Risk Officer, meets at least at quarterly intervals to provide oversight on key operational risk issues, a summary of which is presented to the Risk Management Committee of the Board.

In response to **cyber and information security risks**, and amid a growing global threat landscape, Ujjivan SFB acknowledges the significance of a robust information security structure framework. The Bank has deployed defence-in-depth technologies to protect the interests of its customers. Through detailed orchestration, the Bank ensures that no malicious intruder's actions go unnoticed. Below are the essential elements and the collaborative teams operating in a chain-like fashion to address information security risks:

1. **Risk Assessment and Management:** The Bank remains vigilant by conducting regular risk assessments, and carefully identifying potential vulnerabilities and threats to stay ahead of challenges.
2. **Policies and Procedures:** Anchored by a robust set of information and security policies and procedures, every individual within the organisation is guided on the path to operating securely.
3. **Security Awareness and Training:** Recognising the pivotal role of its workforce in safeguarding information, the Bank invests significantly in comprehensive training and awareness programmes. These initiatives equip employees with the knowledge to combat emerging threats, thwart phishing attacks, counter social engineering techniques, and adhere to the highest security standards.
4. **Red Team:** Harnessing the expertise of an independent group of specialists, the Bank conducts simulations of real-world attacks. Through this proactive approach, invaluable insights are gleaned, strengthening the organisation's security defences.
5. **Blue Team:** The Bank has established a 24*7 SOC (Security Operation Centre) team that detects, analyses, and takes the requisite actions to respond to incidents.
6. **GRC Team:** Ujjivan SFB has a dedicated GRC (Governance Risk and Compliance) team to ensure effective management of regulatory mandates, risk factors, and operational controls.

As an organisation, the Bank recognises that information security is an ongoing requirement and requires

continuous involvement, improvement, and adaptation to the ever-increasing threat landscape.

Ujjivan SFB regularly participates in cyber drills organised by the Institute of Development and Research on Banking Technology (IDRBT). Additionally, the Bank conducts periodic Disaster Recovery Drills for its technology infrastructure to guarantee the uninterrupted availability of critical services in case of a disaster. Furthermore, the Bank follows a proactive approach instead of a reactive one.

LEGAL

Ujjivan SFB's legal team serves as the backbone of the organisation, offering invaluable support across a myriad of crucial areas, including legal advisory, documentation, contract and IPR management. This proficiency extends to providing assistance to the infrastructure and administration departments, branch and digital banking operations, and advisory services on employment law, corporate affairs, litigation management and recovery.

Throughout the year, as part of strategic drive to digitise legal operations, the Bank's legal team initiated drafting, negotiation and execution of all vendor contracts using SpotDraft. This advanced contract management software facilitates online stamping and seamless digital execution. Concurrently, the team embraced Legistify, a state of the art litigation management software offering realtime case tracking, alerts, and comprehensive lifecycle management of litigations pertaining to the Bank.

The legal team, in tandem with collections, spearheaded the Bank's recovery efforts, employing a diverse arsenal of legal tools, including Legal Demand Notices, S.138 Notices, Arbitration & Conciliation, Lok Adalats and SARFAESI actions, resulting in resolution of a significant chunk of NPA Accounts. Through their strategic orchestration of Lok Adalats across regions, they achieved remarkable recovery strides in record time.

In terms of customer service, the team played a crucial role in preparing concise documents, and paperless contract formation across various domains, prioritising customer centricity and better reach.

Furthermore, the Legal Team has undertaken initiatives to simplify documentation, procedures and streamline processes. They aim is to establish uniform disbursement kits tailored to various business sectors, notably MSME, Affordable Housing, and Vehicle Finance, as well as associated banking offerings.

Looking ahead, the Legal Team remains committed to providing comprehensive legal guidance, striking a balance between facilitating smooth business and upholding adherence to applicable legal and regulatory norms. The team's foremost priority is to offer timely assistance in handling evolving legal demands and overcoming challenges encountered by the Bank in the course of its business operations.

COMPLIANCE

Ujjivan SFB is fully committed to the financial inclusion mission of the Reserve Bank of India (RBI). The Bank has complied positively and adhered to the Small Finance Bank Licensing Guidelines dated November 27, 2014, i.e., lending 75% of its Adjusted Net Bank Credit (ANBC) to priority sectors. The Bank further ensures that more than 50% of its loan portfolio comprises loans and advances up to ₹ 25 Lakhs. The Bank also ensures that at least 25% of its total branches operate in Unbanked Rural Centres (URCs). Ujjivan SFB also complies with the norms that the maximum loan size and investment limit exposure to a single and group obligor are limited within the prescribed limits of 10% and 15% of its capital funds, respectively.

The Bank maintains a high level of corporate governance and compliance culture, deep-rooted from the field functionaries to the top management. The compliance framework is well-strengthened with risk assessment, certifications, monitoring and testing. The compliance unit is committed to building a strong adherence culture in the Bank, and it has a zero-tolerance policy on regulatory compliance breaches, adhering to statutory compliances in both, letter and spirit. The compliance department further performs compliance risk assessment of the business, support and control functions, departmentally and ensures quality of compliance through continuous evaluations as part of the monitoring and testing framework. The Bank ensures adherence to the regulatory guidelines on KYC, and the Bank's AML monitoring mechanism is automated with a stringent transaction monitoring framework in place. The Bank has also complied with the listing requirements within three years from the date of commencement of operations and is compliant with the regulatory reporting framework for timely submission of data and Risk Based Supervision (RBS) tranches, as mandated by the RBI.

INTERNAL AUDIT

Ujjivan SFB has an independent internal audit department led by the Head of Internal Audit, who reports functionally to the Audit Committee of the Board (ACB) and administratively to the MD & CEO. The primary objective of the Internal Audit Department is to deliver independent assurance to the Board of Directors and senior management regarding the quality and effectiveness of the Bank's internal control, risk management, and governance framework.

The Internal Audit Department is appropriately staffed with qualified and competent personnel and has five audit verticals: Branch Audit, Central Functions, IS Audit, Credit Audit, and Concurrent Audit & Analytics. An annual audit plan is prepared using a risk-based approach encompassing all the audit areas. The plan has been duly approved by ACB. The Internal Audit Department reports all significant observations along with the Management's action plan to the ACB. The ACB assesses the adequacy and effectiveness

of the internal audit function, including the structure of the internal audit department, the progress of the annual audit plan, and staffing. It ensures effective and independent review procedures.

VIGILANCE

During the financial year, the Bank emphasised fraud prevention by instilling ethical banking practices among its employees. A key initiative was the observance of Vigilance Awareness Week, which underscored the significant role of fraud prevention and the protection of customer interests. This included the release of an educational series to further reinforce these values. The Bank also recognised outstanding employees through 'Vigilance Warriors Awards' who identified and prevented frauds across verticals.

The Bank upgraded its Enterprise-wide Fraud Risk Management System to enhance preventive monitoring across Internet Banking (IB), Mobile Banking (MB), and UPI channels during the year. Additionally, a Mystery Shopping exercise was conducted on field employees to ensure that frontline staff interactions with customers were in full alignment with the Bank's processes and policies. This dual approach not only fortified the Bank's defences against fraud but also ensured a consistent and customer-centric service experience.

The Bank strategically expanded its gold loan portfolio, simultaneously strengthening risk management by conducting comprehensive gold inspections across branches. Furthermore, as a preventive measure to combat ATM cash trapping incidents, Bloc Shafts across ATMs were installed.

Moreover, various process improvements suggested by Vigilance {such as changes in the policy, process, delegation, business sourcing, operation structure, role of different units and etc.} were implemented in MicroBanking, MSME & Branch Banking process.

The following table summarises the frauds reported during the financial year under review:

Particulars	As on March 31, 2024	As on March 31, 2023
Number of frauds reported {including CPFIR cases}	2,713	618
Amount involved in fraud {₹ in Thousands}	241,644.00	97,364.00
Amount of provision made for such frauds * {₹ in Thousands}	108,075.00	67,554.00
Amount of unamortised provision debited from 'other reserves' at the end of the year	NA	NA

*Note: The provision amount is net of recovery/write-offs as of the end of the year.

CREDIT

Ujjivan SFB's credit and collection function has been instrumental in maintaining a high-quality portfolio and driving sustainable growth. The past year showcased the credit industry's resilience, propelled by robust macroeconomic factors and increased consumer spending. Throughout the financial year, the Bank adopted a prudent lending approach, prioritising risk management while actively fostering growth.

Macroeconomic Outlook

As the Indian banking system appeared far more resilient and better placed to withstand external shocks, overall bank credit growth registered another stellar year. The overall lending industry has seen y-o-y growth of 20%, while retail loans have registered 27% growth, MSME and corporate loans have seen a growth of 6%, and the MFI sector witnessed a y-o-y growth of 17% during FY 2023-24. The lending industry remained strong during the year in the face of global headwinds, driven by the sharp rebound in private consumption, higher public capital expenditure, the challenge of reining in high inflation, which largely remained above the upper band and consequent rate hikes by the central bank.

Private consumption as a percentage of GDP stood at a historically high level, aided adequately by a strong rebound in the service sector. Simultaneously, manufacturing and investment activities continued to gain traction, aided by policy measures.

A Year of Robust Performance for the Bank

Ujjivan SFB has consistently maintained its focus on catering to the credit requirements of the bottom of the pyramid and the aspiring middle class, offering an extensive suite of lending products and services carefully crafted to address the evolving financial needs of its clientele. The Bank's total asset book witnessed a significant growth of 24% year-on-year. The Bank's asset quality improved significantly, with GNPA at 2.1% (vs. 2.6% in FY 2022-23), which speaks volumes about the resilience of its customer segments as well as its proprietary credit assessment model.

The Bank's loan portfolio witnessed steady growth amid evolving market dynamics. Ujjivan SFB's comprehensive credit policy framework, rigorous credit assessment processes, stringent underwriting standards and ongoing monitoring mechanisms have been instrumental in maintaining asset quality and minimising credit losses.

Overall, the combination of a favourable economic environment and effective strategies has contributed to the Bank's strong performance and positive outcomes in terms of asset quality and book growth.

MicroBanking and Rural Banking

The vertical stands tall with a share of 70% of the loan book. With Ujjivan SFB's efforts to drive financial inclusion to the last mile, bridging the formal-informal divide and ensuring last-mile delivery of Ujjivan SFB's products and services, the MicroBanking Group and individual loans played a critical role. The Bank's wide geographical spread, and extensive range of products and services allowed it to cater to the specific needs of customers, including those with informal, variable and cash-based income profiles.

MicroBanking Group and Individual loan portfolios grew by 20% during the year and continue to report industry-best performance in portfolio quality. The GNPA in the vertical has been further reduced during the year by 20 bps to close at 1.9%. 15 MOB delinquency for MicroBanking as of March 2024 is at 1.5%, showing a strong credit performance of the post-Covid-19 pandemic book. The collective measures taken, resulted in collection efficiency remaining stable at over 99.3% throughout the year.

The Bank continues to innovate credit products and services to adapt to the evolving market dynamics and customer preference. Embracing digitisation in sourcing, underwriting, and monitoring of MicroBanking loans for providing seamless and convenient borrowing experience continues to be the core mantra for MicroBanking.

Housing

The housing book has registered y-o-y growth of 45% during FY 2023-24. The product is well diversified, with an average ticket size of 12 Lakhs and 53,000+ active borrowers with a loan book of ₹ 4,924 Crores as of March 2024. 43% of the Bank's borrowers in housing are from the salaried segment.

The GNPA of the housing book as of March 31, 2024, stands at 1.5% and the PAR at 3.9%, compared to 2.6% and 5.7%, respectively last year. The NNPA is at 0.53% as of March 31, 2024. The incremental credit cost for housing vertical less than 0.20% in FY 2023-24. The PCR for the housing book as of March 31, 2024, is 64%. The housing book has a very minimal Covid-19 Resolution Framework (RF) book, which is ₹ 19 Crores (RF1 & 2,) which is less than 0.5%.

Housing book portfolio quality is on par with the industry. The Bank closely monitors its portfolio month-on-month and ensures necessary policy changes are made from time to time and the necessary restrictions are placed in segments/clusters where delinquencies are observed. The newly started Micro Mortgages product has grown to ₹ 202 Crores as of March 31, 2024, which is part of the housing book.

MSME

The MSME segment has seen an evolution of clearly defined products based on market segments with skilled teams to take the growth forward in the secured lending

space. GNPA for the product stands at 8.4% and PAR at 14.1%, while the NNPA is at 1.6% as of March 31, 2024. PCR for MSME Loans is at 82.6% as of March 31, 2024. The book built in FY 2023-24 with the refined and evolved products has satisfactory repayment with nil delinquency.

Financial Institutions Group (FIGB)

FIGB sourced gross deposits of more than ₹ 9,600 Crores in FY 2023-24, comprising fixed deposits, certificate of deposits, current accounts and term money and served as a major liability contributor for the Bank from the Financial Institutions and Government Segment. The sourcing has been done while ensuring a fine balance of various deposit ratios, LCR requirements, cost of funds and a well-diversified customer base. The Group also raised more than ₹ 3,554 Crores through alternate sources of funding from various banks and financial institutions.

FIGB continued lending to MFI, MSME, Vehicle Finance, Education Finance and Affordable Housing segment customers. None of the individual segments contributes more than 26% to the FIGB loan book. The Bank focussed disbursements to externally higher-rated entities, while maintaining portfolio NIM. At the end of the year, the book size stood at ₹ 1,726 Crores, registering a 54% y-o-y growth over the last year. Additionally, 94% of the book pertains to customers having an external rating of A - and above. All accounts except one MFI account are in the standard category. Moreover, credit policy sees regular refinement aimed at improving underwriting quality, with the portfolio undergoing rigorous monitoring on a continuous basis.

Collections

The collection team played a critical role in safeguarding the Bank by containing credit losses and ensuring the timely recovery of default loans. Ujjivan SFB's dedicated collection team employs strategic collection methodologies to mitigate credit risk and minimise delinquencies. Early collection interventions, effective communications and personalised yet digitised collection management have helped in ensuring a check on credit costs. Embracing technological advancements, the Bank has introduced a collection application to leverage data analytics, predictive modelling and automations to optimise collections. The collection efforts would continue to be augmented with the intensified legal actions across various products. These combined measures are targeted to yield multiple benefits for the Bank in the years to come.

The Bank's efforts in the last few FYs are bearing fruit in the form of significant improvements in all the credit parameters: (a) asset quality (lower PAR, GNPA, and slippages) (b) collections: optimal collections in non-delinquent buckets, and (c) improved efficiency. Ujjivan SFB aims to proactively onboard quality borrowers

and manage repayments that were well-tested during FY 2023-24 and the Bank continues to monitor portfolio quality with a focus on innovation, leveraging technology and a customer-centric approach. The Bank is well poised for the next level of banking growth in the aspiring middle-income segment.

TECHNOLOGY

In FY 2023-24, the Bank's commitment to digital inclusion persisted, supported by a robust, secure, and scalable information technology infrastructure. Prioritising system upgrades and application advancements, the Bank ensured unparalleled dedication to superior customer service, operational efficiency and stringent security measures.

Amid the year's hustle, the Bank's IT initiated the launch of 11 new applications across a spectrum of business verticals, intricately designing environments that encompassed various application stacks. Procuring and deploying storage and computer resources for these new environments ensured smooth integration and optimal performance. An impressive tally of 450+ projects and enhancements went live, during the year covering regulatory compliance, launching new product lines, revenue-generating services, and initiatives aimed at elevating customer experience, streamlining operations and driving cost savings.

In the sphere of digital banking, the Bank has introduced several customer-centric innovations such as digital Fixed Deposits & Savings, lauded for their convenience and accessibility. Furthermore, in a bid to build deeper connections with governmental systems, Ujjivan SFB's collaboration with the Public Financial Management System (PFMS) has enabled direct and efficient transfers of government benefits to its customers, thereby enhancing the transaction experience to unprecedented levels of efficiency. Moreover, the Bank's strategic deployment of Robotic Process Automation (RPA) across several departments has transformed operation dynamics, targeting repetitive tasks, and resulting in productivity gains and accuracy. This strategic move has liberated the workforce to focus on strategic and value-added activities. A standout innovation of the year, the 'MicroBanking Loan Acknowledgement' feature integrated into the Hello Ujjivan platform, reflects the Bank's commitment to innovation and customer satisfaction. By significantly reducing the need for in-branch visits, this feature has not only turbocharged operational efficiency but also enhanced customer convenience by expediting the loan processing time.

In MicroBanking, new technology platforms have been adopted to handle increased business volumes more efficiently. Notable improvements include the use of geo-fencing for ironclad transactions and an automated loan acknowledgment system that enhances operational efficiency and customer satisfaction. These innovations

have not only streamlined operations and slashed processing times but have also left an indelible mark on customer satisfaction. They serve as evidence of the Bank's commitment to harnessing technology's power to deliver MicroBanking that is not just better but also more secure than before.

The CRM and Customer Deduplication systems have been upgraded, delivering refined user interfaces and improved data reliability. A pilot for the CRM mobile application has been deployed, enabling mobile user engagement. The inauguration of Family Banking has been tailored to address the specific financial needs of clients, thereby solidifying customer fidelity. Furthermore, a robust Lead Management system has been implemented, significantly boosting sales trajectories. The initial phase of the Portfolio Management System has been initiated, providing sharper investment insights.

Ujjivan SFB's loan collection software utilises machine learning to refine service delivery and increase operational efficiencies across lending products. The Bank has achieved significant enhancements in its transaction processing capabilities, including a substantial increase in UPI Lite transactions and the deployment of advanced security measures aligned with regulatory standards. On the infrastructure and governance front, the Bank has successfully managed extensive hardware upgrades and the launch of new digital platforms, which are crucial for the smooth operation of banking services. The Bank has demonstrated exceptional commitment to regulatory compliance, efficiently managing IT risks, and maintaining high compliance rates during audits and regulatory inspections. Ujjivan SFB's IT Security Operations have excelled in integrating state-of-the-art security technologies, including Mobile Device Management (MDM) and load balancers. These advancements have not only secured the Bank's mobile and web platforms but also provided efficient load management, guaranteeing seamless service delivery.

Looking forward, the Bank's IT department is committed to further enhancing its IT capabilities in alignment with strategic objectives. Ujjivan SFB plans to continue modernising its application infrastructure, expanding digital banking services, and integrating more sophisticated security features to protect its systems and data. Grounded in innovation, security, and customer centricity, the Bank's journey through the dynamic digital landscape will be steered by an indomitable focus on excellence.

TREASURY

Located in Mumbai, the financial capital of the nation, Ujjivan SFB's Treasury office features a state-of-the-art dealing room. Recent enhancements have been made to the infrastructure, anticipating a significant scale-up in operations, market entry, and new product

rollouts, pending RBI authorisation and Board approval. Complementing this is a full-fledged BCP in Bengaluru, equipped with dedicated infrastructure to ensure seamless and uninterrupted Treasury functionality.

The Bank's Treasury serves as the backbone of its financial operations, ensuring compliance with statutory reserve requirements, precision in ALM, and astute liquidity management. The Treasury team excels in trading, PSLC, and delivering top-notch client services. With a Subsidiary General Ledger (SGL) account at the RBI and direct membership in the Clearing Corporation of India Limited (CCIL), the Bank's Treasury is empowered to operate smoothly on various platforms such as the Negotiated Dealing System-Order Matching (NDSOM), NDS-Call, Triparty Repo Dealing and Settlement (TREPS), FIMMDA Trade Reporting and Confirmation System (FTRAC), Clearcorp Repo Order Matching System (CROMS), Corporate Bond Reporting and Integrated Clearing System (CBRICS), and e-Kuber.

Additionally, supported by robust bilateral limits with major interbank participants, the Treasury team is a paragon of efficiency and strategic prowess. Furthermore, guided by the long-term business plan and objectives set by management, Ujjivan SFB's Treasury not only meets but also exceeds the standards of financial innovation and reliability.

The Bank's treasury has evolved, now comprising three desks, namely:

- ALM Desk
- Trading Desk
- Forex Desk

Moreover, managing the Bank's regulatory reserves (including CRR, SLR and LCR), falls under the purview of the ALM Desk. This desk also ensures the effective management of balance sheets, asset liabilities and PSLCs.

Ujjivan SFB's Trading Desk stands as the apex of the Bank's financial strategy, expertly managing its investment and trading portfolios with unparalleled precision. The investment portfolio, comprising central and state government bonds and Treasury Bills, is designed for high yields and shorter durations, offering a robust buffer against adverse market conditions. The Trading Desk's judicious and efficient management of the SLR portfolio has consistently delivered returns that exceed market benchmarks. Moreover, by engaging in both SLR and non-SLR securities, the desk capitalises on trading opportunities presented by the market. This consistent performance by the Treasury has made a substantial contribution to the Bank's bottom line.

The Forex Desk, still in its infancy, is presently focussed on scaling up the Bank's forex business through remittances and driving business targets, while training branch staff to achieve these targets. Looking ahead, the desk's trajectory

promises a dynamic shift towards full-fledged forex operations, including trading and hedging to manage the Bank's forex exposures.

In essence, the Treasury team is not only adequately staffed but also boasts a cadre of seasoned professionals with a stellar track record in balance sheet management, trading and forex. In addition, their persistent focus is on reducing the cost of funds, maximising returns, and contributing positively to the Bank's bottom line.

SERVICE QUALITY

Embracing the belief that customer service excellence reigns supreme, the Bank stands firm in its commitment to deliver exceptional customer experiences. To put this intent into practice, the Bank has gone the extra mile by establishing a dedicated Service Quality department. This team isn't just a part of the system; they are the driving force behind enhancing the customer experience, swiftly addressing grievances, maintaining stringent service standards and ensuring compliance with every aspect of customer service.

The focus on delivering superior service standards for the Bank's customers has enabled it to maintain a high level of quality and consistency across all offerings. The Bank has demarcated, established and re-defined the service index, both for external and internal customer service, i.e., for each business vertical and key support functions. The Service Index programme incorporates key parameters that impact customer service delivery standards and customer satisfaction. The programme has advanced over the last 6 years and is unique in the industry. A strong governance structure for customer service has been established, which includes a commitment to targets for improving service index scores by each function and at the Bank level. These targets form part of key performance metrics for MD & CEO, Heads of Business/functions, frontline managers, sales staff and service staff. The various cross-functional initiatives at the people, process and technology levels have helped in achieving substantial improvements in the Bank-level service index, from 66 points in March 2022 (out of a 100-point scale) to 85 points in March 2023 and to 89 points in March 2024.

The Service Quality team was mandated to review, revisit and refine vital customer communications such as statements of accounts, certificates and forms. The team ensures modifications are made based on evolving customer expectations from time to time. As a step towards hassle-free fulfilment of customer service requests through various channels, the Bank has hosted 40+ service request forms on its website for customer convenience.

To testify to the results of service standards internally measured, an independent research agency, IPSOS, was commissioned to assess the current levels of customer satisfaction with the products of 6 major business

verticals, covering a sample size of 5,000+ customers. The independent assessment helped in understanding customers' perceptions and feedback towards the Bank's services, competitive performance at each touch point, and brand imagery. The C-SAT & NPS scores for the Bank are:

Customer Experience Metric	
Composite C-SAT Index	75
Overall Satisfaction Index	83
Loyalty Index	76
NPS	40

Training is an important tool to enhance the capabilities of the staff in delivering a seamless customer experience. Well-trained staffs can efficiently address queries, service requests, and complaints, offering prompt and effective resolutions. These superior interactions foster strong relationships with customers, earning their trust & loyalty. To achieve this, the Bank has designed a programme called 'Ajeevan' for managing life events-based banking services. This is a programme around simplifying processes and staff training, by keeping empathy and efficiency as focal points. A total of 1,521 staff were trained in 72 batches, with 64 customer care representatives from branches recognised and rewarded for outstanding contributions under Ajeevan Services. Through active promotion, the percentage of deposits opened with nominations improved from 82% in FY 2021-22 to 92% in FY 2022-23 and further to 94% in FY 2023-24. Furthermore, all claims related to deposits of deceased account holders were settled within the standard turnaround time.

To foster top-tier customer service, an initiative was launched to recognise staff members who received customer appreciation for their exceptional services. This recognition is bestowed by the Executive Committee of the Bank on the first Monday of every month.

Through the Bank's efficient mechanism for resolution of customer grievances and corrective measures undertaken to fix the problem at the root, Ujjivan SFB's customer complaints have been constantly reducing over the years. Ujjivan SFB has observed a steep decrease of 14% in the number of complaints for FY 2023-24 when compared to the previous year and the resolution of complaints within standard turnaround time has improved from 96% to 98%.

HUMAN RESOURCES

Ujjivan SFB firmly believes that its employees are the driving force behind its business, innovation, and growth. The Bank fosters a work environment where every employee is encouraged to excel. At the core of its Human Resources

strategy is a commitment to providing a 360-degree experience that combines satisfaction with stellar performance. Ujjivan SFB prioritises fair and competitive compensation, industry-leading benefits, continuous skill enhancement, outstanding talent management, and active engagement. This holistic approach has resulted in one of the industry's lowest attrition rates (<24% for FY 2023-24) and consistent recognition as one of the Best Companies to Work for in India by the Great Place to Work Institute for 14 consecutive years. The Bank is also among India's Top 100 Companies to Work For, Top 25 in the BFSI sector, and Top 50 for Culture of Innovation.

Ujjivan SFB's unique ESOP policy promotes wealth creation tied directly to individual performance, benefitting employees at all levels. In FY 2023-24, 20% of top-performing employees received ESOPs, recognising their outstanding contributions. The Bank also offers valuable benefits such as subsidised employee loans and a newly introduced car lease facility.

Employee wellness is a top priority, with revamped health insurance that includes enhanced maternity, prenatal/postnatal, and IVF benefits. Additional coverage is provided through higher term-life programmes, especially for front-end roles. Annual health check-ups saw 78% participation, with subsidised options for families. The Bank also offers extensive physical and emotional wellness counselling, with awareness campaigns and sessions on road safety, women's health, emotional well-being, and financial wellness.

To ensure top-notch customer service across diverse products and business lines, Ujjivan SFB invests significantly in employee upskilling. Training focusses on functional expertise, behavioural capabilities, and technical proficiency. Over 28,600 employees have been trained, with robust induction programmes, refresher courses, and external certifications for about 20% of the workforce. The average learning hours per employee is 35.27 hours, setting an industry benchmark.

Ujjivan SFB is renowned for its culture of attentive listening and transparency, offering platforms such as Branch Representative Meetings, Townhalls, and Chai pe Charcha sessions for employee engagement and feedback. The Bank's comprehensive rewards and recognition programmes celebrate outstanding accomplishments, ensuring top talents receive the acknowledgment they deserve. Programmes like Annual Awards, Corporate Excellence Awards, and Summit Awards, along with regional initiatives such as Pratistha and South Spotlight Awards, foster a culture of appreciation and recognition.