MANAGEMENT DISCUSSION AND ANALYSIS

FY2017-18 marks a successful first full financial year of our banking operations. We surmounted multiple challenges such as transition from micro-finance lender to a bank and after-effects of demonetization. It has been a remarkable journey with roll out of 187 Banking Outlets (BOs) including 47 Unbanked Rural Centres (URC); putting the systems, processes, compliances in place; and hiring and training for a bank ready team committed towards maximizing customer experience with convenient banking. We emerged from the shadows of demonetization and revived our microfinance business in addition to scaling up our newer asset verticals. We mobilized a deposit base of Rs. 3,772 Crores. The first year saw us focusing on institutional deposits and successfully repaying a significant portion of our high cost grandfathered borrowings, thereby substantially reducing our cost of funds. We focused our efforts towards portfolio management and overdue collections, and containing our credit costs. We undertook initiatives to improve our back-end processes and efficiencies, driven by our commitment towards a less cash economy, digitization, cost optimization and affordable banking. Our wholesome performance in business and processes resulted in a full year break-even with a net profit of Rs.7 Crores, despite the unprecedented credit cost of Rs.311 Crores due to demonetization and its after effects.

THE YEAR AT A GLANCE:

Business Growth: Our gross loan book including managed assets grew by 18% over the previous year. Our microfinance business registered a cautious growth of 13% over last year while our newer asset verticals MSE and Affordable Housing Businesses gathered momentum, closing their respective books at ~3.3 times and 4 times that on 31st March, 2017. In line with our strategy to diversify our loan book, our non micro-finance portfolio grew to 7.2% of overall loan book against 2.4% in the previous year while our secured loan book grew to Rs.406 Crores from Rs.117 Crores during the year.

Demonetization affected our customers and disrupted loan repayments in many states, especially in parts of Uttar Pradesh, Maharashtra & Karnataka, while rollout of GST also temporarily slowed down our MSE business. Business remained muted for the first half of the year as our focus was more on managing our collections and monitoring the credit quality of our book. We reinforced our collection management by placing dedicated staff for collecting hard bucket overdues. We institutionalized tele-calling for delinquent customers to educate them about the consequences of a bad credit record and received 'Promise to Pay' (PTP) for our collections team to work on. We suspended new customer acquisition in the affected branches having portfolio with DPD>0 at 5% and above to focus only on collections, while repeat loans to customers with good credit history continued. Our incessant efforts on portfolio management ensured a steady arrear collection averaging over Rs.9 Crores each month. Further, we identified the delinquent pockets in the branches and suspended new customer acquisition therein. Following a detailed review of credit performance in Q2, we fully provided for demonetization related overdues for which no repayment was received.

Q3 brought a turnaround as our stabilized credit quality instilled confidence in the branches, boosted field staff morale, and helped mobilize higher business volumes. Our business revived to pre-demonetization levels by Q3 and further improved in Q4 with the highest ever volumes.

We built a deposit base of Rs.3772 Crores in the first year of our banking operations, primarily focusing on garnering low cost wholesale deposits, institutional deposits and certificate of deposits (CD) to retire our high cost legacy borrowings and reduce the cost of funds. We successfully retired over 60% of our high cost legacy borrowings amounting to Rs. 3664 Crores. Our retail deposits stood at Rs.427 Crores, which was moderate in the first year due to slowdown of our bank branch rollout after demonetization, and operational and technological issues affecting our ability to onboard our existing microfinance customers into the bank. We have since been able to resolve the issues, open savings accounts for customers due for payment and facilitate their disbursements into the same accounts. We rolled out insta-kits for immediate account activation at the time of account opening. Our handheld device based account opening solution, powered to carry out Aadhaar based authentication helped us take banking to our customers doorstep, at a very low cost. 73% of our retail deposit was mobilized from new to bank customers, 16% from our existing microfinance customers and the balance 11% from our staff.

Our target segments for the deposit business mainly comprise people in the un-served and under-served areas and also salaried individuals, trader community, small and micro enterprises, small and marginal farmers and senior citizens. We piloted Corporate Salary Account in 6 locations and rolled out zero charges BSBDA accounts with all the features of our regular savings account for rural customers. We plan to introduce more product variants aligned with the needs of our targeted customer segments. Providing excellent customer service, including handholding of the customers, getting them onto mobile and digital banking platforms continues to remain our key focus areas. We launched the "Digi-Buddy" program to assist our customers in their journey towards digitization.

We made sizeable investments in IT infrastructure to ensure seamless service delivery across a multi-channel network comprising branches, ATMs, internet, mobile and phone banking along with facilities such as NEFT and RTGS. Our technology ecosystem is built on a strong core product platform ensuring low cost and efficient delivery, keeping customer experience in the center.

Our focus in the next financial year will be to scale up our retail deposit base with good proportion of CASA. Increasing competition intensity in the SFB space will require us to differentiate ourselves in terms of customer service and products with features in line with customer needs.

Network Expansion: We undertook a phased roll out of our branch network. At the year-end we had a network of 187 banking outlets spanning 20 states, consisting of 140 regular banking outlets, 40 brick and mortar and 7 business correspondent banking outlets in Unbanked Rural Centres.

Cost Efficiency: The transition to banking, expansion of our branch network, significant investment in technology infrastructure and human capital increased our operating costs resulting in a Cost to Income Ratio of 67.1% for FY18. As part of our cost optimization initiatives, a core committee has been formed for expense management and identifying opportunities for further cost reduction.

Productivity: We took a number of initiatives to enhance process efficiencies. Our handheld device-based deposit account opening, e-KYC and processing of microloans have helped us achieve low turn around times and improved staff productivity. We shall increasingly promote the adoption of digital channels to deliver low cost and convenient banking to our customers.

Credit Quality: Our continued focus on collections helped prevent further slippages and contained our credit cost at Rs. 311 Crores. We sucessfully reduced the overall PAR (DPD>0) by Rs. 346 Crores (Rs. 650 Crores in March 2017 to Rs. 304.5 Crores in March 2018), closing the year with a GNPA of 3.6% and NNPA of 0.7%. Our Collection Efficiency for new loans disbursed post demonetization stood at 99.7%.

Deposit Mobilization: We built our Treasury function, that ably supported our funding requirements, met our statutory reserve requirements and also brought in Rs.22.9 Crores of earnings (net of tax) in Priority Sector Lending Certificate (PSLC) sales. The bank continued to maintain a comfortable liquidity position with steadily reducing cost of funds. Attainment of Scheduled Bank status around the end of August gave a fillip to our institutional deposits by opening access to the CD market. We raised CDs at the most competitive rates which helped us retire some of our high cost grandfathered debts, thereby reducing our average cost of funds from 10.4% in the previous year to 9.0% in FY18. The total borrowings stand at Rs.7625 Crores (49% contributed by deposits) as on March 2018 against Rs.6,498 Crores in the previous year.

Transition: We expanded our network to 187 banking outlets in the financial year. We also accomplished a challenging task of setting up 47 Banking Outlets (BOs) in Unbanked Rural Centre (URCs), complying with the RBI mandate of maintaining atleast 25% of the banking outlets in the URCs. Our BO network in URC comprised 40 brick and mortar branches and 7 business correspondent outlets, the latter primarily serving as transaction points.

We made sizeable investments in technology, to build new systems and channel capabilities, integrating them with the legacy systems for a reliable operating environment to ensure convenient service delivery. New systems that have been deployed include Finacle for core banking, I-exceed to power mobility devices-handhelds, biometric ATMs, Mobile Banking Apps, Internet Banking, CRM for unified platform, SAS for risk management and Oracle Financials for an Enterprise level consolidation. We operate on Aadhaar enabled identification system for our customers and have deployed state of the art payment systems provided by NPCI. Our IT infrastructure has stabilized and our control risk management processes are largely in place. We have built strong cyber security capabilities and adopted protective measures to mitigate probable IT risks.

We offer a multi-channel service delivery network for our customers comprising Branches, ATMs, Internet, Mobile Banking, Phone Banking and relationship officers equipped with handheld devices. We operate a network of 146 biometric enabled ATMs and run an active phone banking centre in Bangalore with 64 seats, ably supporting the sales, service & collection teams. The adoption of Internet & Mobile Banking platforms among our target customers continues to be low. We endeavour to assist, handhold and graduate our customers to mobile and digital banking platform through our financial literacy programs and "Digi-Buddy" Program.

We also invested significantly in human capital to drive the massive transition program. During the year we recruited more than 1,255 employees with banking experience across multiple disciplines. We also focused on building competencies for our 6,543 strong microfinance workforce by providing specialized training on general banking and regulatory compliances.

Our unifying organizational culture and employee engagement initiatives ensured a seamless people transition with our existing employees and external hires from diverse backgrounds.

Awards & Accolades:

The Bank ranked 10th in the 'Best Large Workplaces in Asia' assessment and 13th in the 'Great Place To Work in India' for 2016-17. The bank was awarded the "Best Small Bank" in IT Risk and Cyber Security by the Indian Banks Association (IBA).

KEY PERFORMANCE INDICATORS:

Particulars	FY 2017-18	FY 2016-17	Growth
Disbursement (Rs Crores)	8,047	7,132	13%
New Customer Acquisition (Lac)	7.6	9.4	(19%)
Borrowers (Lac)	37.1	35.6	4%
Average Ticket Size (Rs.)	29,622	25,777	15%
Total Gross Loan Book (Rs Crores)	*7,560	6,379	18%
MFI OSP (Rs Crores)	7,005	6,224	13%
MSE OSP (Rs Crores)	224	56	298%
Affordable Housing OSP (Rs. Crores)	323	99	227%
Deposits (Rs Crores)	3,772	206	1728%
Bank Branch network	187	15	1147%
Employees	11,242	10,167	11%
PAR> 0 (DPD>0 days)	4.00%	10. 20%	61%
GNPA	3.6%	**3. 70%	1%

** Includes Rs.7.5 Crores of Loan against Overdraft*

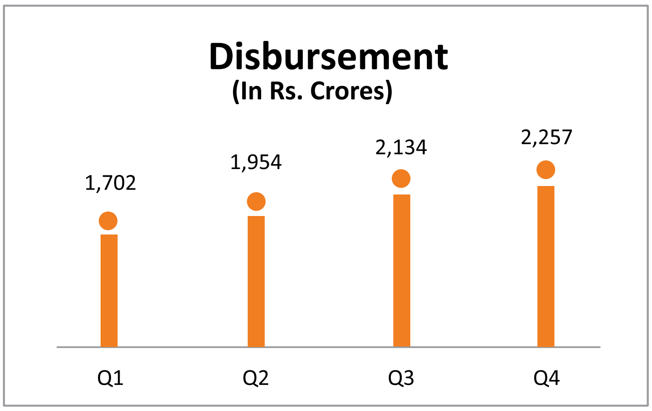
*** Without RBI dispensation. 0.28% with RBI dispensation*

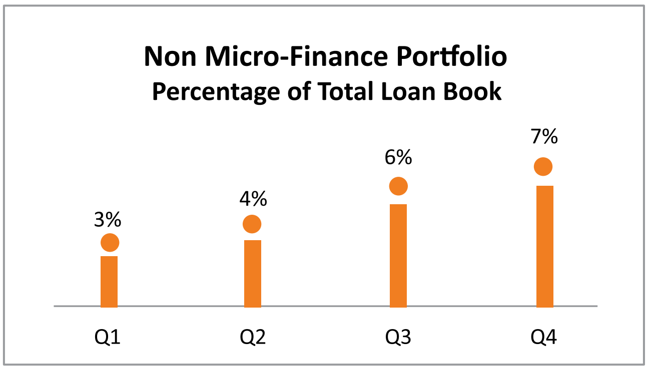
SEGMENT-WISE PERFORMANCE

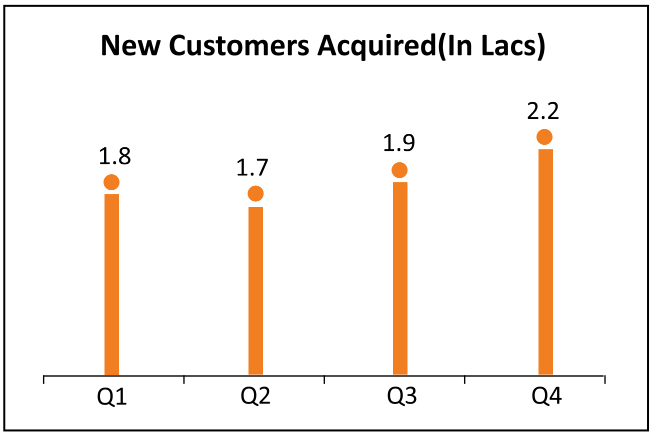
In FY18, our business was organized into 4 distinct verticals – Microfinance & Branch Banking, MSE, Affordable Housing and Liabilities for open market customers & Third Party Products. Microfinance unit comprised of Group Loans (GL), Unsecured Individual Loans and deposits mobilized from the same segment of customers. This unit also managed the Banking Outlets as they came up during the year. We followed a two pronged growth strategy for the year on the assets side – moderate and cautious growth for Microfinance and accelerated scale up of Affordable Housing and MSE businesses. At the same time, we focused on laying the foundation of our retail deposit business, sourcing deposits from new to bank customers, and established tie ups with Insurance Companies to offer third party products, i.e. life, health and general insurance.

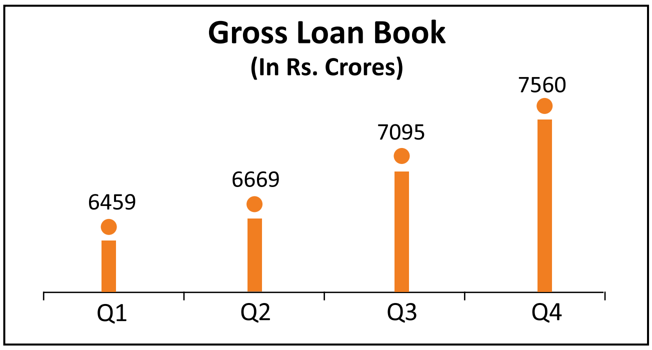
With microfinance business reviving to pre-demonetization levels, we intensified our efforts on processes and technology related improvements for better efficiencies. Improved productivity and process efficiencies were envisaged as the key thrust areas for Group Loans business as we focused on careful customer selection. For Unsecured Individual Loans, we focused on effective graduation of the eligible pool of higher vintage group loans (GL) customers with simplified back-end processes. Expansion of our product offering in new locations, stabilization of systems and simplification of documentation were the primary focus areas for our Housing and MSE businesses.

The financial year saw us increase our non-microfinance portfolio from 2% to 7% of the total loan book, however asset business diversification into new lines apart from MSE & Housing had to be deferred to the next year as our primary focus was on containing the credit cost and reviving the business to pre-demonetization levels.









MICROFINANCE

The bank's Microfinance asset portfolio closed at Rs. 7005 Crores, registering a 13% growth over the previous year despite the slowdown in business momentum in the first two quarters of the year. Transition and collection management consumed the bandwidth of our field staff till we reinforced our collection efforts with placement of dedicated collection staff, bringing the focus back on business. We suspended new customer acquisition and individual lending business in pockets having portfolio quality issues and largely focused on repeat loans to customers with good credit discipline. We re-assessed and modified our branch-level and occupation based credit policies to manage the collateral damage caused by demonetization. We re-started new customer acquisitions and renewed our focus on unsecured individual lending as the portfolio quality gradually stabilized in Q3 and revived our business, surpassing pre-demonetization levels by Q4 in terms of monthly disbursements.

Customer service remained our strong focus even during the challenging times post demonetization. Our initiatives towards back-end process efficiencies and roll out of handheld based loan origination systems across all our branches, significantly reduced our loan turn-around time from 10 to 4 days while also improving field staff productivity from Rs.12 lakhs per month in the previous year to Rs.15 lakhs per month for Group Loans. The average ticket size increased to Rs. 29,500 for Group Loans from Rs. 25,400 in the previous year.

We are in the process of building our rural business with specialized agriculture and allied products to be made available at our URC banking outlets and existing banking outlets with large rural customer base. We plan to introduce new loan products such as two-wheeler loans and deepen relationship with customers and their families. We also mobilized deposits worth Rs. 67 Crores from our existing microfinance customers, and on-boarded around 3 lakh customers into banking.

The coming year shall see us digitizing our repeat loan process, thereby enhancing field staff capacity to focus on ramping up deposits from the customer base as we onboard many more of them into banking and build a significant deposit base.

HOUSING

India is undergoing rapid urbanization which creates a huge demand for housing. As a key focus area, the government has set 2022 as the target year to realize the objective of housing for all through specific initiatives for the promotion of urban housing.

Lack of access to finance for low income groups and rising cost of construction are among the main adverse factors in urban affordable housing segment. Realizing these, the government has launched Pradhan Mantri Awaas Yojana (PMAY) in 2015 with Credit Linked Subsidy Scheme (CLSS) as one of the important components. After the launch of the scheme, the private builders have come up with low-cost dwelling units in many cities and towns. This, coupled with improved availability of credit, has given impetus to urban affordable housing.

Looking at this opportunity and also our long association with underserved and unserved customers, the bank has planned a robust growth in affordable housing loan business which was started 3 years back. Last year we provided affordable housing loans to approximately 4000 customers and disbursed close to Rs 250 Crores worth of new loans.

We are creating product awareness through various marketing initiatives and generating awareness of CLSS (PMAY) as we focus on the Economically Weaker Sections (EWS) and Low Income Groups (LIG) as growth drivers in the coming years. Our plans for FY 2018-19 are to set the bank as one of the key players in this product category and expand our customer base to 12,000 by end of this financial year. We see this as an important step towards becoming a full-scale financial services provider to the unserved and underserved segments.

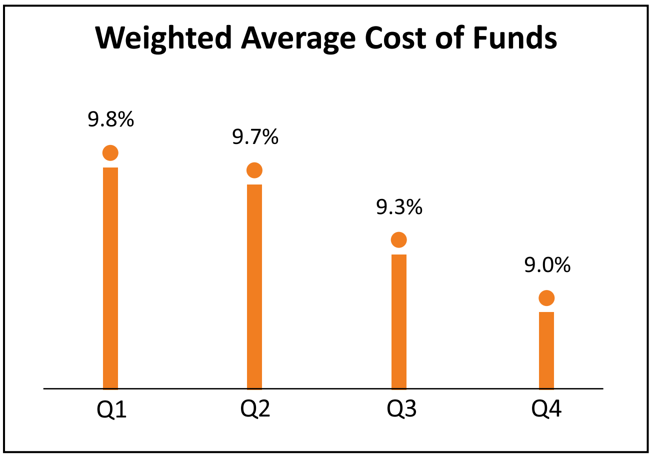
MICRO AND SMALL ENTERPRISES (MSE)

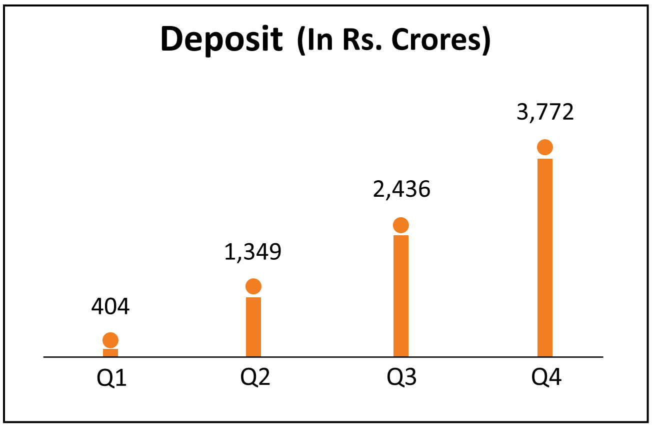
The bank offers current accounts, transaction facilities such as Card Swiping Terminals and secured & unsecured loans to the Micro and Small Enterprises (MSE) to meet their diverse financial requirements. The MSE finance business caters to both the registered and unregistered manufacturing units, trades and services. With enhancement of product features, increase in loan ticket sizes, availability of the MSE finance services in more number of branches, reduction in loan service time, rewards and recognition program for performing employees and marketing efforts, the business has grown manifold in FY18. The introduction of GST in July affected the business to some extent in the second quarter of the year, however the business momentum again picked up from 3rd quarter of the financial year. The portfolio quality remained good with a collection rate at over 98%.

In 2017-18, MSE recorded a robust growth of 390% in loan book over the previous year and a substantial increase in the customer base during the year. MSE disbursements crossed Rs. 200 Crores and the portfolio as on 31st March, 2018 stood at Rs. 224 Crores. MSE business will be one of the key drivers of the bank's growth in FY19 and subsequent years.

LIABILITIES AND THIRD PARTY PRODUCTS

The primary focus for the first year of banking operations was to ramp up low cost wholesale deposits, institutional deposits and certificate of deposits (CD) to retire our high cost legacy borrowings and reduce our cost of funds. We garnered a total deposit of Rs.3772 Crores, comprising of CD of Rs.2166 Crores, wholesale deposits of Rs. 1179 Crores and retail deposits of Rs.427 Crores.





Focus on collections and management of demonetization related overdues had slowed down our branch rollout, leading to moderate mobilization of retail deposits in the first year. We had originally intended to on-board a larger number of our microfinance customers into banking, however the phased and delayed bank branch roll out and initial operational and technological issues affected the original plans. We have since resolved the issues and on-boarded around 3 Lakhs of our existing microfinance customers, opened savings accounts and facilitated disbursements into the same. Initial delay in delivery of welcome kits had affected our account activation in the early days of banking. We tied up with 'India Post' to improve the last mile reach and rolled out insta-kits for real-time account activation at the time of account opening to significantly bring down the turnaround time. Our CASA stood at Rs.138.6 Crores, constituting 3.7% of our overall deposits. 73% of our retail deposits were mobilized from new to bank customers, 16% from our existing microfinance customers and balance 11% from our staff.

We diversified our product offerings during the year and rolled out enhanced products for Senior Citizens and feature rich BSBDA for our rural customers in addition to Tax Saver Fixed Deposits. We piloted Corporate Salary Account in 6 locations around the end of the year. We believe that the bulk acquisition of salary accounts will help us ramp up our CASA.

The next year shall see us significantly scaling up our retail deposit base with focus on CASA. We shall leverage our expanded branch network, offer a full suite of product and services and effectively utilize our phone banking and other alternate channels to deepen customer engagement. We will cross sell current accounts and business loan products to MSE customers to build the current account balances.

We have re-organized and established Branch Banking as a separate vertical to primarily focus on acquiring new to bank liability customers. A separate unit has been set up to focus on sourcing deposits from niche customer segments including Trusts, Associations, Societies & Corporations (TASC), government entities. The wholesale funding group will focus on financial institutions and banks.

We plan to introduce more product variants aligned with the needs of our targeted customer segments. Provisions of better customer service and handholding together with deeper mobile and digital banking penetration will continue to remain our key focus areas. We launched the "Digi-Buddy" program to assist and handhold our largely digitally excluded customers to begin operating on the mobile and digital platforms.

DISCUSSION ON FINANCIAL AND OPERATIONAL PERFORMANCE

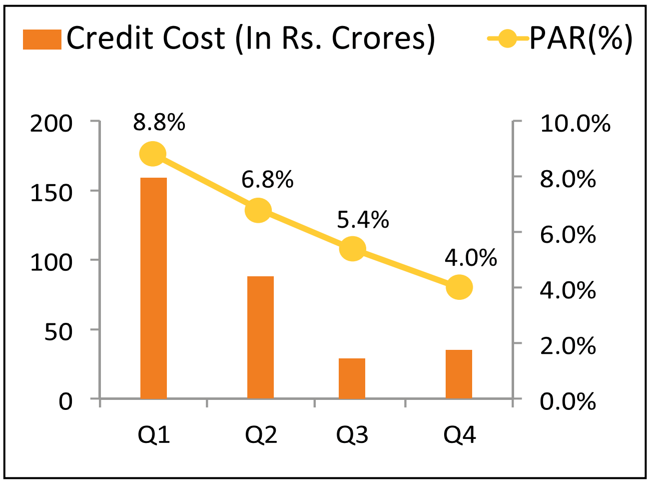
We closed the year FY 2017-18 with satisfactory performance despite considerable challenges posed by demonetization and transition into banking. Our post –tax profits stood at Rs.6.9 Crores.

Particulars (Rs. Crores)	FY2017-18
Interest Income	1,466.7
Other Income	112.7
Total Income (A)	**1,579.4**
Operating Expenses	650.4
Finance cost	609.3
Provision/ write offs	310.8
Total Expenditure (B)	**1,570.5**
Profit Before Tax (A - B)	8.8
Tax	1.9
Profit After Tax	6.9

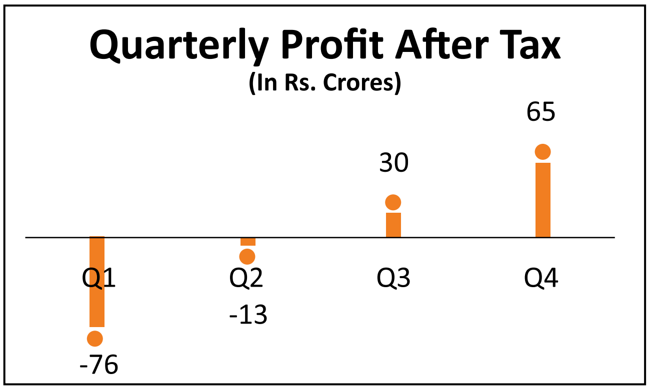
The total revenue closed at Rs. 1579 Crores. Our gross loan book grew by 18% over PY to close at Rs.7560 Crores despite muted growth upto the first half of the year in response to the disturbed credit discipline post demonetization. Implementation of GST affected our MSE business for about two months. Normal business flow resumed by Q3, culminating in high volumes in Q4. Interest income on advances constituted 83% of our total revenue while income from statutory investments and treasury operations constituted 6% of our total revenue. We earned Rs.22.9 Crores (net of tax) from sale of Priority Sector Lending Certificates (PSLC).

Our operating costs increased significantly as we upgraded our branches and technology infrastructure, recruited over 1000 additional manpower for bank specific roles, and trained our new employees and existing staff to facilitate a seamless transition to banking operations. Our operating costs including depreciation stood at Rs.650 Crores, resulting in a Cost to Income ratio of 67.1% for the financial year.

On the borrowing side, we mobilized wholesale deposits and certificate of deposits (CD) to retire over 60% of our high cost legacy borrowings, reducing the average cost of funds to 9% in FY2017-18 against 10.4% in the previous FY.



Our credit costs for Q1 stood at Rs.159 Crores and started tapering down from Q2 onwards. Observing the collection trends, we made significant provisions in Q1, including additional provision of Rs.43 Crores for cases originated prior to Nov 2016 but in default post demonetization (Nov'16-Jan'17), for which the borrowers had not paid even a single EMI. We further reviewed the loss assets identified in Q1 and made additional provisions, thus fully providing for all NPA accounts with 'no payments'. We made a prudential write off amounting to Rs.88.6 Crores in Q2 for loss assets of Q1 with no traction. We closed first two quarters of the year in the red on account of significant increase in credit cost and operating costs while our incomes increased only marginally on account of low business volumes. As our portfolio stabilized across the quarters, our credit costs steadily reduced over Q3 and Q4. Continuing progress in business and processes, backed by stable credit cost and reducing financing costs, resulted in a quarterly break even in Q3. We registered our best performance in Q4, wiping all the cumulative losses and breaking even for the full year with Rs.6.9 Crores of net profit.



As on 31st March 2018, our balance sheet stood at Rs. 9473 Crores, an increase of 12% over Rs. 8436 Crores in the previous year. Our Loan book closed at Rs.7560 Crores, registering an 18% growth over that in previous year. We built a deposit base of Rs.3772 Crores in our first full-fledged year of banking operations. The proportion of Current Account and Savings Account deposits to total deposits was at 3.7%

RISK AND COMPLIANCE

The Bank has embodied a strong risk culture, designed for a holistic approach to management of risk and return as well as the effective management of the Bank's risk, capital and reputation. Our comprehensive risk management framework was further reinforced with core competencies built in newer areas such as cyber security, cyber governance, transaction monitoring, anti-money-laundering and regulatory reporting. During the fiscal year, the function facilitated securing of several regulatory approvals required for the banking operations.

The operational risk unit developed a comprehensive checklist of the branch banking processes with a scoring mechanism, intended to serve as a tool to familiarize the new branch banking team with the whole gamut of branch banking processes and assess compliances at a granular level. The unit complemented the branch score card with a branch connect program to sensitize Branch Managers on key regulations. The Bank continues to monitor risk at a granular level, through regular visits and a strong scoring mechanism to effectively manage the operational risks inherent in the field processes, especially those that got magnified during demonetization. The internal scorecard was subsequently recalibrated to include additional parameters and migrated to the EGRC model on SAS to facilitate auto generation and aggregation at the Bank level for appropriate risk categorization. The Bank is in the process of developing RSCA through SAS for each of its products, and has developed a repository of loss events and comprehensive risk registers for all products and processes.

The Bank has established a separate Mid-Office Treasury function to pro-actively manage the ALM, advise on the optimal funding mix and manage the immediate as well as long term funding requirements of the Bank.

In February 2018, the Bank was awarded the Best Small Bank in IT Risk and Cyber Security by the Indian Banks' Association (IBA). The Bank was the first Small Finance Bank to participate in Cyber drills conducted by the Institute for Development and Research in Banking Technology (IDRBT) and was successful in detecting and thwarting most of the simulated attacks. Considerable investments have been made by the Bank in Security Operations Center (SOC), fed with threat intelligence from various sources to keep our infrastructure secure from external threats. The Bank was successful in defending against many global attacks including WannaCry, Petya, Mirai Botnet, Locky Ransomware, Mumba and others.

The Compliance team rigorously monitors adherence to each of the licensing conditions and the operating guidelines for Small Finance Banks. In order to enforce a strong compliance culture, the Bank has invested in an online certification tool that requires that essentials of regulatory compliance be adhered to by each operating staff and confirmed to the Compliance unit. A schedule for compliance testing has been drawn up and will be implemented in the next financial year.

The Compliance team has set up a Core Management Group with Compliance, Finance, Risk, Credit and Audit as key stakeholders and has put in place an essential framework for timely submission of data at the end of each quarter from the next financial year in line with the Risk Based Supervision (RBS) for Small Finance Banks, as mandated by Reserve Bank of India.

INTERNAL AUDIT

The Bank has a well-established Internal Audit and Control Systems in place that monitors adherence to policies, procedures and systems. The Audit Committee of the Bank reviews the adequacy and effectiveness of the internal audit function, including the structure of the internal audit department, annual audit plan, staffing etc., and ensures effective and independent review process.

The Internal Audit Department is responsible for monitoring and evaluating the internal controls of the Bank as well as its adherence to various statutory and regulatory compliances. These audits cover Branches/ Asset Centers, various Departments & Processes at Regional offices and Head Office at regular intervals.

Annual Audit Plan: The Annual Audit Plan is drawn up based on the Risk assessment of the auditable units and the audit frequency is decided based on the risk profile of these units. The Annual Audit Plan includes plan for Branch/ Asset Center Audits, Departmental/ Process Audits, IS Audit and Concurrent Audit. The scope of various audits are reviewed and continuously modified to keep pace with a dynamic business environment.

Branch / Asset Center Audits: Each branch / asset center is audited once or twice during the financial year, based on its risk profile. These are comprehensive audits, carried out by the in-house audit team, spanning 14 to 18 man-days, covering end-to-end branch processes, loan documentation, statutory compliances and field visits. The salient feature of our branch / asset center audits is the independent customer visits carried out by the audit team during field visits. Strong focus on field visits and independent customer visits are the distinguishing features of the Bank's rigorous audit process that helps in identifying any critical issues at a very early stage. Apart from this, IAD conducts Departmental/Process audits, Concurrent audits, and Information systems audits.

The Bank has a strong follow-up mechanism to ensure that all critical issues are tracked until closure within specified timelines. All significant audit observations of Internal Audits and follow-up actions are reported and discussed at the Board Audit Committee, which meets every quarter.

VIGILANCE

The Bank has an internal Vigilance team to focus on Preventive and Predictive controls to minimize cash losses, frauds and other malpractices.

The Department has a network of Risk Control Units which ensure timely reporting of frauds and negative cases, helping mitigate risks and ensuring healthy asset quality.

This year, the focus will be on consolidation of the Vigilance and the Risk Containment Unit vertical in line with banking requirements.

CREDIT

The collateral damages inflicted by demonetization spilled on to the current year. GNPAs continued to be high as overdues from November-January period were relatively stagnant and were rolling over to higher provision buckets. We started a collection program specifically targeting these overdues but the traction was low. We intensified our collection efforts from June by deputing senior cross-functional managers and heads to mentor and monitor branch teams, guiding them in handling the distressed portfolio. We placed dedicated collection staff to focus on '90 days past due' accounts in affected areas. We adopted a focused approach to NPA management with support from the tele-calling team across critical branches. We continued to service the customers with good credit discipline and created awareness amongst the customer segments about banking services and benefits of having a good repayment history. Our efforts fructified by Q3 and our portfolio quality improved with steady traction of 30% on arrear collection, translating in average arrear collections of Rs.9 Crores every month.

Post demonetization, the group guarantee concept lost its relevance, necessitating changes to our lending method. We initiated individual customer repayments at the center meetings. Also we are re-assessing the affected areas post demonetization to rebuild our business cautiously along with consistent recovery efforts to contain our credit costs. We are increasingly leveraging technology on the underwriting side to further strengthen our assessment processes, as we diversify into new business lines and provide pre-approved and digital credit offerings to all customers including existing microfinance customers.

SERVICE QUALITY

Ujjivan from inception has been customer centric. Our Service Quality initiatives have evolved over the years, strengthening our customer connect, retention, client protection, fair practices, quality assurance and grievance resolution. Ujjivan's Service Quality objective is to "Deliver Exceptional Service to our Customers, by embedding it in our People, Process and Policy, enabled by Technology".

In order to establish the best service for our customers, Ujjivan's Service Quality team has established initiatives under three key areas; Customer Experience, Quality Assurance and Grievance Resolution.

Primary Channels for Complaint Resolution: Our customers have the option of raising their concerns through our CCRs placed at branches, 24/7 toll free helpline, customer care email and through web-form. The Service Quality team closely monitors all cases to ensure timely resolution

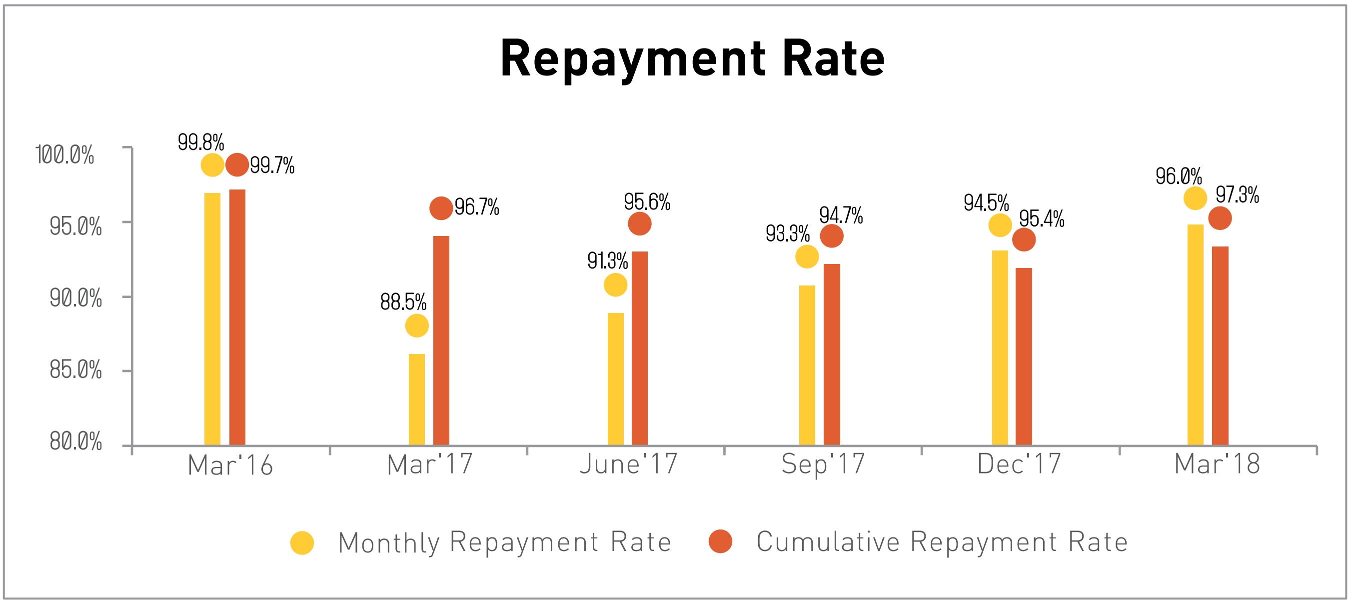
Nodal Officers: In addition to the primary level of grievance resolution, our customers also have the option to reach out through our Regional Nodal Officers at each of our four regions, and through our Principle Nodal Officer

We will further strengthen our Service Plans and Goals for each business vertical and for each branch.

INFORMATION TECHNOLOGY

Ujjivan has always believed that technology is critical for delivering superior services to customers. We leverage technology to provide last mile service to our customers. We have invested in the best of IT infrastructure to ensure seamless service delivery across a multi-channel network comprising Branches, ATMs, internet, mobile and phone banking along with facilities such as NEFT and RTGS. Our handheld device based account opening and loan processing helps deliver low cost, hassle free service to our customers. Our technology ecosystem is built on a strong core product platform ensuring low cost and efficient delivery, keeping customer experience at the centre.

We made sizeable investments in technology, to build new systems and channel capabilities, integrating them with the legacy systems for a reliable operating environment to ensure convenient service delivery. New systems that have been deployed include Finacle for core banking, I-exceed to power mobility devices-handhelds, biometric ATMs, Mobile Banking Apps, Internet Banking, CRM for unified platform, SAS for risk management and Oracle Financials for an Enterprise level consolidation. Our IT infrastructure has stabilized and our control risk management processes are largely



in place. We are also putting in place all the protective measures against IT risk and have built strong cyber security capabilities.

CHANNELS

We have deployed a multi-channel network consisting of Relationship Officers equipped with Handheld Devices (which are capable of one-touch account opening, deposit and withdrawal transactions & loan origination), unique bank branches, bio-metric enabled ATMs, RuPay Debit Cards, Phone Banking, Internet Banking, Mobile banking and Missed Call Banking to enhance the banking experience and offer customer-centric solutions. All these channels are designed and implemented to cater to the unique banking needs of our focus customer segments.

We have 146 biometric ATMs across the country which are user-friendly, secure and ensure round the clock cash availability. Our phone banking unit is available 24*7 for our customers, equipped to handle a broad range of queries and service requests. The interaction of customer with Integrated Voice Response (IVR) is minimal, limited to choosing his preferred language of interaction, after which a phone banking officer directly deals with the customer. Missed call facility delivers instantaneous information such as account balance, recent transactions etc. The Phone banking unit also plays an important role in sourcing 'new to bank' customers who approach the team in response to various marketing interventions conducted by the bank. Our mobile and internet banking platforms provide a safe & secure self-service banking experience and have been well received by our customers.

HUMAN RESOURCES

The Financial Year 2017-18 has been a challenging period for Ujjivan. Working in tandem with businesses and functions amid challenging times, the HR team has been able to partner in building a strong foundation for a Bank that is centered on core organizational values and excellent service standards for our customers. We were Ranked 10th in 'Asia's Best Large Workplaces' survey and ranked 13th in 'India's Best Companies to Work For' survey.

Employees First: We believe that happy employees create happy customers. Keeping this in mind we undertook a number of initiatives. "Bolo Ujjivan" is an employee engagement survey to seek open and candid feedback from employees. "Family Day" was organized to enable our employees to spend some quality time with their professional colleagues as well as personal family members. Employee engagement initiatives such as Sporting events, Heath Checks helped maintain healthy work life balance and keep morales high.

Hiring the best talent: A total of 3554 candidates joined the Ujjivan family in FY 2017-18. While Internal Job Postings (IJP) and employee referrals ensured we got skilled and experienced candidates, our 'Graduate Hiring' and 'Digi-Buddy' program focused on attracting young talent. 118 Management Trainees joined us under 'Ujjivan Gurukul 2017' – our most recent Management Development Program. During this placement season, Ujjivan also initiated hiring of Management Trainees from the Indian Institutes of Management (IIMs) apart from the prestigious universities across India.

Reinforcing Learning: Transition into a bank opened up a lot of opportunities for our staff, but it also demanded additional skills in the new banking roles. Embracing the new technology and inculcating the culture of enhanced Risk Management and Compliance were the new demands on them. A number of learning initiatives for both the frontline branch staff and the back-end staff were taken this year. Overall 7000 employees were trained for new branch roles and 1800 employees were trained to develop the enhanced compliance culture in Ujjivan. This year also saw the establishment of our in-house technology labs across all four regions and creation of customized technology content for all the applications used across branches; an important task accomplished in partnership with different businesses and functions.

Retaining Talent: We were successfully able to retain 83% of the employees; our attrition rates are one of the lowest in the industry. A just performance management methodology, fair and equitable remuneration, and an ESOP scheme for all employees irrespective of their levels help us maintain one of the best talent retention rates in the industry.

FINANCIAL INCLUSION INITIATIVES:

In addition to providing a full range of banking services to the vast multitude of our customers in the unserved and underserved segments, we are committed to promoting financial literacy among our customers to increase their awareness of formal finance and making them ready for banking services. 'Diksha', our flagship financial literacy program, is a five-week, five-module, in-depth training and linkage program to impart to the women from low-income families the basic banking knowledge and tools they need to save, reduce financial risk and make informed, intelligent financial decisions. The program teaches the participating women basic cash-flow management, income and expenditure budgeting, savings options, debt management and mobile usage to help them with digital transactions. In this financial year we have conducted financial literacy programs across 346 branches, enrolling 115,885 customers, 82% of whom were certified after the training.

We also conduct financial literacy programs for children in the age group of 10 to 17 years. A total of 1838 financial literacy programs were conducted across 335 branches, in which 43097 children took part.

A film on financial literacy – 'Paison Ki ABCD' was created to educate the customers about the benefits of saving in a bank account and the wide range of products and services available with the bank with features such as simple documentation, doorstep services, one stop shop for all financial transactions, great customer care and goal based savings products. The film also teaches the customers to use banking products confidently using the latest technologies. The film has been created in 9 different languages to ensure a wide viewership. The film is being screened during bank meetings, mass screenings, and branch walk-throughs and during house visits to enable customers to understand the importance of savings. A 'Paison Ki ABCD' song was also created in 9 languages to reinforce the message of the film.

CONCLUSION

We closed a successful first year of banking with an all-round performance in business, processes and overall cost management, resulting in a net profit of Rs.7 Crores. The current year shall see us scaling up our retail deposit base with focus on CASA. We shall maintain robust growth of our existing asset businesses with new products, foray into rural banking and set up new business lines such as two wheeler finance, personal lending and institutional lending. Creating brand awareness for the bank will be one of our key agendas.

As a Small Finance Bank, Ujjivan remains committed to its objective of financial inclusion amongst the vast segments of the populace, hitherto excluded from or partially served by the formal banking system. Our business predominantly caters to the un-served and the under-served segments while our financial literacy initiatives are targeted at sensitizing our customers and their children about the advantages of getting connected to formal banking system and also about the need for financial discipline. We leverage our technology infrastructure in tandem with our wide outreach for efficient delivery to the last mile destination. Our technology infrastructure enables us to take banking to the customers' doorsteps and deliver low-cost, convenient, quick and hassle free services. We also endeavor to assist, handhold and graduate our customers to mobile and digital banking platforms through our "Digi-Buddies" program to make them ready for the digital revolution in the banking space.