LETTERS OF MANAGING DIRECTOR – ANNUAL REPORT

This document contains all the letters authored by Mr. Samit Ghosh for Ujjivan's Annual Report since 2006.

Year 2006-2019

2006-2007

YEAR: 2006-07

On November 1, 2005, we started operations with our first branch in Koramangala. Though it was a full scale launch, we categorized it a 'pilot' to learn more about urban microfinance. We tested our unique business model, which combined the front end of Grameen Bank methodologies with the back-end processes of modern retail banking. In April 2007, we were proud to complete our 18-month pilot with 17 branches, 23,984 customers, and Rs. 13.5 crores disbursed.

Our pilot phase was a tremendous learning experience for us. We learned many lessons and identified many core challenges. Recruiting and retaining talent emerged as a key challenge, particularly in the vibrant Bangalore economy. We also learned that field discipline forms the foundation of successful microfinance operations, and put in place a strong field audit process. We learned that while the Grameen field process is as well suited in urban areas as rural with some fine-tuning, the products needed significant changes from the traditional 'income generation loans' to meet the diverse needs of urban customers, particularly low-income salaried women, who wanted loans for family needs such as education, festivals, or housing. We were able to tailor our products to those needs, and pride ourselves as one of the few multi-product microfinance institutions.

This year we kept to our goal of offering a holistic approach to poverty reduction. We have partnered with Life Insurance Corporation of India to provide life insurance coverage to customers, and Biocon Foundation & ICICI Lombard to provide a three pronged health education, health care and health insurance program. With Biocon, we opened a clinic to provide out-patient care for our customers. We also held 7 eye care camps this year with the Vittala International Institute of Opthamalogy. We plan to further expand this program this year. We plan to continue to expand our business through Karnataka as we reach out to semi-urban small towns, and in Delhi and Kolkata, where we have already begun to establish our presence. By the year end, we expect to hit 100,000 customers nationwide.

We have been able to achieve these goals through the support of our shareholders, the Grameen Bank & Trust, our very active Board of Directors, the Karnataka State Government, the media, and most importantly, our strong and committed Ujjivan team which today consists of 260 dedicated employees.

We have come a long way in this past year. After our birth in the offices of Mphasis Ltd., we now house our head office in a garment factory, which has been beautifully converted into what visitors tell us is the best office in the industry thanks to the voluntary design and execution done by Elaine Marie Ghosh.

We are proud of our accomplishments this year, and will continue to work hard towards our goal of poverty reduction in the years to come. With India's over 600 million poor who do not have access to financial services, we still have miles to go.

Sincerely,
Samit Ghosh
May 31st, 2007

2007-2008

YEAR: 2007-08

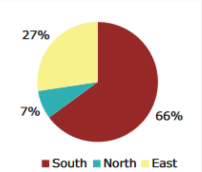
2007-08, Ujjivan's second full year of operation, can be characterized as early adolescence in our life cycle. The creative chaos of the start-up days gave way to an organized effort for the take off. We re-calibrated our processes, products, people and organization structure. In the process, we came a lot closer to understanding and working with the urban poor.

Business Snapshot

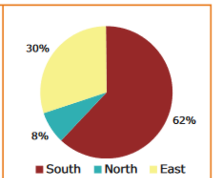
	1/4/2007	31/3/08	31/7/08
Customers	22,220	68,033	114,351
Disbursement (Rs. MM)	120.2	635.2	1,069.0
Outstanding (Rs. MM)	80.4	365.7	601.5
Employees	197	551	1,046
Branches	13	38	78
Repayment Rate (%)	97.57	99.22	99.59

Ujjivan achieved the significant milestone of 100,000 customers in 980 days; the first 50,000 in 800 days and the second in 180 days. We are on target with our plan to balance growth, build a national business, diversify our portfolio geographically and should breakeven by this financial year end. We expect the South Region to break even first, followed by the East and finally the North. We expect to wipe out our accumulated losses in the next financial year, 2009-2010. We took the deliberate decision to start establishing our national network after our pilot was completed, to diversify our risk geographically. We disbursed our first loans in Delhi & Kolkata in May 2007. We now operate both in large metros and semi-urban locations. We are present in seven states: Karnataka, Tamil Nadu, New Delhi, West Bengal, Rajasthan, Uttar Pradesh and Haryana. The region-wise breakdown of our loan portfolio and customers as of July 31st, 2008 is as follows:

	Loan Portfolio (Rs.MM)	Customers
South	392	70,832
North	45	8,819
East	165	34,700
Total	602	114,351



Loan Portfolio breakdown



Customer breakdown

New Product Initiatives

We disbursed the first housing loan at Koramangala Branch in June 2007. The complex process of the housing loan disbursement needed to be constantly refined to ensure access to the unbanked urban poor women customers in a male dominated society (especially in matters of property and housing). As of July 31st, 2008 we have disbursed 97 loans totaling Rs. 2.4 million. Our housing loan product is fairly unique to the industry and is in line with our overall goals to finance all basic needs of the poor. We also launched and implemented an education loan to cater to the educational needs of our customers' children. Ujjivan is piloting individual business loans for micro businesses in collaboration with Women's World Banking, New York, in the current financial year. This product caters to a slightly higher income segment of our customers and is expected to form a significant portion of our overall loan portfolio eventually. The product is open for both men and women entrepreneurs. We disbursed the first loans to male customers in June 2008. Currently, only business loans are offered under the program.

Insurance: Life & Health and Health Education & Care

All our customers are insured for life under the Life Insurance Corporation's (LIC) Jeevan Bheema & Jeevan Shiksha Scheme. We provide an end to end service to the customers and their beneficiaries to ensure that the bereaved families get the full benefit of this program. It is a fairly labour intensive process to apply for policies and settle claims, including customer education; processing of applications renewals and finally processing and disbursement of claims to beneficiaries. Due to this, we incur very high servicing costs for which we receive less than negligible re-imbursement from LIC (Rs. 24,000 from LIC for three years). Our estimated costs for 3 years were Rs. 50 lakhs.

This is a very serious lacuna in the micro insurance program for the poor. The Government of India subsidizes LIC, but it is not sustainable for the organization which reaches out to the poor and delivers the service.

Insurance data	
No of policies issued	100,658
Premium paid @ Rs 100 per policy (Rs)	10,065,800
No of claims	48
Value of Claims (Rs)	1,710,000
Outstanding claims	47
Value of scholarships received (Rs)	400,000
Admin expenses re-imbursed (Rs)	24,000
Mortality Rate	0.94 per 1000
Net surplus to LIC* (Rs)	7,931,800

* Excludes government subsidy equal to 100% of the premium

June 2007, the first clinic and pharmacy opened at Koramangala Branch as a part of the comprehensive Health Education, Outpatient Care, Hospitalization and Health insurance u nder the Arogya Raksha Yojana Scheme of ICICI Lombard, Biocon Foundation and Naraya na Hrudayalaya. Our healthcare program includes examination at Eye Camps and treatment at the Vittala International Institute of Ophthalmology. This is managed and executed by the Parinaam Foundation.

Customers and Family Members	
Covered by health insurance	4,924
Provided eye examination at 20 camps	5,995
Provided spectacles	1,206
Underwent cataract operations	55

Industry Wide Initiatives

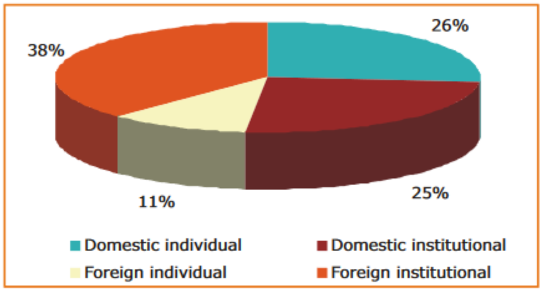
The major microfinance institutions operating in Karnataka banded together in September 2007 and formed the Association of Karnataka Microfinance Institutions (AKMI) with the active involvement of Ujjivan.

This statewide organization is the first of its kind with the objectives of collaboration, establishing good governance standards, resolving disputes and representing the microfinance institutions with the government, regulators and the public at large in Karnataka.

Capital

October was an eventful month for us. We raised our 3rd round of capital largely from existing investors. The Paid-Up Capital and Premium raised stood at Rs.146 Million. Our shareholding pattern as on July 31st, 2008 is as below:

Shareholding Entity	No of Shares	Share Capital + Share Premium
Domestic individual	324,048	35,377,900
Domestic institutional	313,271	41,740,650
Foreign individual	133,440	15,354,750
Foreign institutional	462,259	53,881,350
Total	**1,233,018**	**146,354,650**



Awards and Achievements

On November 3rd, 2007 Ujjivan was awarded the 'Unitus Accelerator Award' from among 16 top global microfinance partners of Unitus. This award was in recognition of Ujjivan's role in accelerating microfinance with our innovative approach which has positively impacted the lives of our poor customers.

Ujjivan was recognized as the fastest growing MFI in Asia in the 'Annual Report of Microfinance in Asia' published by MixMarket and the Asian Development Bank. Ujjivan was also honoured by the visit of Her Majesty, Queen Beatrix, Crown Prince Wilhelm and the Crown Princess Máxima of Netherlands to our head office. They attended a detailed presentation of Ujjivan and Parinaam's operations and thereafter met with a group of customers who were in the process of receiving their first business loans.

People Initiatives

Ujjivan is the only microfinance institution in India which has introduced an Employee Stock Option ('ESOP') Program for all its employees. We have issued stock options to our first batch of 14 employees. We organized our front line employees, the Customer Service Staff, and set up a monthly interaction program in order to remain close to customers and resolve field and personnel problems proactively.

In February, we set up regional offices in Delhi and Kolkata to decentralize our leadership teams and operations regionally. This will enable us to grow significantly from these hubs and improve our service quality with shortened lead times for our loan disbursement process.

In March, we completed the re-organization of Ujjivan under the guidance of Cocoon Consulting. Decentralized distribution teams were set up under the leadership of the Chief Operating Officers for each region. A matrix organization was set up for operations and each of these functions is managed by a national leadership team.

We also conducted the first management development program with 30 new recruits from top academic institutions, to build leaders to cruise Ujjivan into the future. Along with this program we instituted a 'Leadership Talk Series' where outstanding leaders from the business, finance and social sectors both in India and overseas shared their life experiences with the Ujjivan staff.

The Road Ahead

New challenges confront us with the growth and recognition of microfinance internationally and in India. There is a world-wide debate among the leaders of microfinance organizations to achieve the right balance between profit and the mission of removing poverty. There is a contentious issue of mission drift: is microfinance veering away from serving the poor in the attempt to scale for economic sustainability? We are trying to understand these major issues concerning the strategic direction of Ujjivan with all our stake-holders and we hope to build an organization which achieves the right balance between meeting our financial goals while staying focused on our mission of poverty alleviation.

In India we face multiple challenges of high inflation pushing our customers further below the poverty line and a rise in our funding cost leading to shrinking margins. Multiple lending by aggressive and predatory microfinance institutions remains a serious problem for the industry as a whole. We are instituting programs to educate customers on the risks of multiple borrowings to avoid falling into a vicious debt cycle. We also face the challenge of high cost of operations and urgently need to bring it down with scale economies in order to remain viable.

We also need to re-calibrate the customer induction program to minimize the lower middle class slipping into our customer net.

We would like to introduce a pilot program this year for the 'ultra poor' and bring them out of extreme poverty. Path breaking work has already been done by BRAC & Grameen Bank in Bangladesh, Jami Bora in Kenya and Bandhan in India. We look forward to the future as a mature and professionally managed large organization operating in an enormous marketplace with distinctly different segments of the 600 million unbanked poor in India. While we achieve high growth, we are careful to ensure that we do not drift away from the primary mission of eliminating poverty.

Samit Ghosh

August 8th, 2008

2008-2009

YEAR: 2008-09

The 2008-2009 year was an expansion phase in our life cycle almost unhindered by the difficult economic environment following the September 2008 international financial crisis. We have substantially increased our geographic footprint and now operate in all four regions. We are balancing our growth with viability of the organization, as we achieved a month on month break-even in January 2009 and in the last quarter of the financial year we posted a Profit after Taxes (PAT) of Rs.1.7 Crores. This trend has continued through the New Year and in the first two months our PAT has been Rs.1.33 Crores. The major regions (South & East) have already broken even and as of May 31, 2009, 96 out of 145 branches (66%) were profitable on a fully allocated basis. We expect to clear our accumulated losses within the third quarter of the financial year 2009-2010.

In this financial year alone, Ujjivan has entered seven new states, started a new regional office in Pune, opened 90 branches all over India, acquired over 2,20,000 customers and disbursed about Rs. 250 Crores to the urban and semi-urban poor in India. Just 176 days after achieving 100,000 customers, we doubled to 200,000 customers, and a mere 98 days after that, we soared to 300,000 customers.

While our South operations are currently the largest, we have significantly expanded our operations in other regions so that our risk is diversified. We are now present in twelve states across India: Karnataka, Tamil Nadu, New Delhi, West Bengal, Rajasthan, Uttar Pradesh, Haryana, Jharkhand, Orissa, Maharashtra, Bihar, and most recently Uttarakhand.

Product Initiatives

Ujjivan has successfully completed its one year long pilot of the Individual Business Loan (IBL) with the guidance and support from Women's World Banking, and after review and revision, it has launched the product in 10 different branches across Urban and Semi-Urban Karnataka. Individual business loans ranging from Rs 10,000 - 50,000 are being offered to existing Ujjivan customers and their family members who have a running business and require funds for working capital and/or capital investment. Ujjivan intends on launching IBL in over 30 branches in the South region and 20 branches in the East region in the coming financial year.

Ujjivan launched the education loan nationwide this year to cater to the needs of our customers' children. There are typically three types of expenses that customers incur: annual/monthly education fees, uniforms, and textbooks. After completing surveys in each region, we developed a product that would give customers access to the capital required to send their children to the best schools possible.

For many of our semi-urban customers, our group loans are not large enough to cover the full outlay for purchasing cows / buffalos essential to their livelihoods and they resort to expensive borrowing for the remaining portion. We are conducting a pilot of the Livestock Loan, in which we evaluate the value of the animal they wish to purchase and give them a loan to buy the animal. We plan to roll this product out to all relevant regions in the coming financial year.

Life Insurance

It is mandatory for all Ujjivan customers to be covered with life insurance. We were previously partnering with Life Insurance Corporation to provide this coverage, but due to the high cost of servicing customers from beginning to end and negligible reimbursement, we found that this scheme was not sustainable given our expansive and rapid growth plans. After evaluating a number of options, we have moved forward and are now providing life insurance coverage through ICICI Prudential to all customers with the option to cover their spouses. With minimal documentation requirements, quick turnaround time on claims, and reimbursement of expenses incurred, Ujjivan has started providing higher quality insurance services to its customers.

Microfinance Plus

The Parinaam Foundation in collaboration with outside organisations has successfully provided eye, ENT and dental camps to branches across the South and East regions. To date, 35 camps have been conducted with 9575 attendees and over 1000 referrals for further treatment. In partnership with Vittala International Institute of Opthamology, a fund has been created to assist customers who are unable to pay for further required treatments.

Parinaam's vocational training program, in partnership with UNNATI, has received 104 applications, and will provide training in specialty jobs for BPL school dropouts. Its partnership with LabourNet for skill enhancement has placed 32 applicants in training and provided insurance, bank accounts, and assured employment.

Parinaam has been working on developing an Ultra Poor Program for those people outside the scope of typical microfinance activities. The program will focus on providing health initiatives, childcare support, livelihood development, financial literacy, and social development to bring these families to a more manageable level of poverty. The end goal is to migrate these families to microfinance services. The pilot, one of the first of its kind in the urban sector, will be launched for 200 urban ultra poor families in the coming financial year.

Processes & Procedures

In November 2008, Ujjivan was awarded the Microfinance Process Excellence Award in the South region in the mature company category after an extensive application and evaluation process.

Ujjivan has begun giving each individual customer a loan agreement outlining all of the terms and conditions of the loan they have availed per the RBI's Fair Practice Code. The new process that we have adopted is a step in the right direction towards getting customers more familiar with how formal financial institutions operate and it also increases our internal operational efficiencies.

One challenge Ujjivan faced in the last financial year was acquiring customers outside of our target profile. This year we focused on putting controls in place to ensure that we are acquiring customers who fit our requirements. We recognize that financial data can be very subjective when first meeting a customer, so we have begun using non-financial parameters like housing conditions, occupation, and lifestyle (assets) to assess both their need and repayment capacity.

Using these parameters, our Distribution Supervisory Team approves first loans in the field. This also enables us to reduce our turnaround time, resulting in higher quality and faster service for our customers.

In an effort to maintain high levels of customer interaction, we have instituted bi-monthly center leader meetings across all branches. Every two months, all the center leaders are invited to the branch to meet with the CRM and departmental representatives from the Regional Office. This creates a forum for center leaders to meet each other, get updated on all Ujjivan news, policies and procedures, discuss any issues that have arisen in their areas and give feedback/ suggestions.

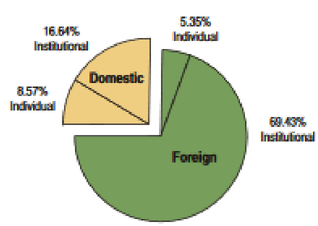
Capital

In November 2008, Ujjivan completed its fourth round of capital raising, during which we brought in four new investors: Sequoia Capital India Investments III, Lok Capital LLC, Elevar Unitus Corporation and India Financial Inclusion Fund. To ensure that Ujjivan has greater access to capital and the social mission is not diluted, Ujjivan chose a mix of social and market driven investors.

Originally planning for Rs 75 crores, we were oversubscribed and raised Rs 87.8 crores in total. Ujjivan's ability to attract high quality investors and to be oversubscribed during a period when the world was going through one of the gravest financial crisis of recent times is a testament to the future of microfinance in India. A unique feature of this deal was that Ujjivan, in collaboration with Bellwether Microfinance Fund and UEF, was able to give its individual investors the option of liquidity by offering to buyout part or all of their investment in Ujjivan. This is the first time a microfinance institution has been able to offer a market determined exit individual investors which will create a secondary market of shares of microfinance companies.

Our shareholding pattern as on March 31, 2009 is as below:

Shareholding Entity	No of Shares	Share Capital
Domestic Individual	298,543	42,229,050
Domestic Institutional	579,938	125,213,275
Foreign Individual	186,510	35,316,000
Foreign Institutional	2,419,255	822,455,675
Total	3,484,246	1,025,214,000



Human Resource Initiatives

A total of 204 employees from all regions were eligible under the ESOP 2008 Plan. The total number of options granted under the ESOP 2008 Plan is 39,668. Eligibility criteria and other terms and conditions are as per the approved plan.

The first batch of Management Trainees have successfully completed one year with Ujjivan in various departments across all regions. The second Management Development Program was conducted this spring with trainees from Business Schools and Agricultural Universities across the country. The training program is based on the concept of "believing by seeing and doing," which involves field exposure, classroom sessions and interactive projects/presentations to encourages trainees to think about how to improve Ujjivan long-term. Along with this program, we had another 'Leadership Talk Series' featuring eminent leaders and pioneers from the business, financial and social sectors, who shared their life experiences and lessons with Ujjivan staff.

As we are expanding rapidly and a majority of our employees are working at branches in the field, we are taking extra measures to ensure that they are aware of all that is going on from product & policy changes to Ujjivan recognition and achievements. Ujjivan has begun implementing a 'Train the Trainer' program with the Distribution Supervisory Team to ensure that information is being effectively communicated to all field staff in a timely manner.

Ujjivan is also conducting a first level supervisory training program that is divided into three levels and is conducted over a period of 8 days in total. It focuses on enabling the participants to develop their managerial skills and improve interpersonal communication. It also emphasizes phases of team development and helps analyze the essential components of leadership like motivating and coaching a team. It is an Instructor Led Training, where the participants learn and practice important concepts, including the usage of templates and checklists. The modules and the objectives have been designed while keeping in mind the role of branch managers at MFIs and their interactions with stakeholders as well as superiors and subordinates. Ujjivan was ranked first as the best place to work for in the microfinance industry by The Great Place to Work Institute, India and The Economic Times in their acclaimed annual survey.

Coming of Age of Indian Microfinance in Uncertain Times

There are a number of signs that microfinance in India at long last is coming of age. Over 10,000,000 customers are served by MFIs. At least half a dozen NBFC-MFIs have a million plus customers, and two dozen NBFC-MFIs would be categorized by the RBI as 'systemically important' with an asset base over Rs.100 Crores. Despite the worldwide financial crisis post September 2008, the microfinance industry was identified by investors as a high growth area. MFIs were relatively unaffected both in terms of access to capital and debt.

Perversely, another acknowledgment of the coming of age of microfinance is the problems currently faced in Karnataka. The impact of microfinance is being felt among the poor Muslim communities where women have been extremely tradition bound. With half a dozen MFIs aggressively serving these markets in the silk growing districts of Karnataka, the women are not only freeing themselves from the clutches of money lenders but also from employers in the silk reeling business where working conditions are abhorrent. The vested interest is now striking back under the guise of communal threat, and confrontations like these will become the norm. It is important for the microfinance industry to keep the administration, press, politicians, regulators and society at large well informed and on our side.

Even though the un-served market is 80% or more multiple MFIs are competing increasingly in narrow trenches. This is also leading to problems of over lending to customers. Additionally, the do we turn in the economy will have a particular impact on the urban and semi-urban customers, leading to deterioration of portfolio quality. This calls for more disciplined growth in terms of branch expansion and credit extension. MFIs will have to look for virgin markets to extend their branch networks and they will need to put in place credit extension policies where they protect the customers in danger of over borrowing. Group liability, abandoned by Grameen Bank close to a decade ago, is religiously practiced by MFIs in India.

This practice will come under severe strain. Unsavory collection practices will not be accepted and MFIs with these practices will be targeted by customers. MFIs will have to institute client protection measures as customers will also demand product differentiation and good customer service. Finally, Sa-Dhan will have to evolve into an industry organization like the Confederation of Indian Industries or the Indian Bank's Association. Its role will have to be transformed to a Self-Regulatory Organization and a full-fledged industry organization that with other regulators and government.

Looking Forward

As microfinance has spread so quickly across India, one of the biggest challenges is multiple lending by aggressive microfinance institutions. As an industry, we are working to combat these problems through education of our customers and communication amongst each other. As a company, Ujjivan is putting in place strict controls with respect to area and customer selection to ensure that we are helping customers and not propagating over-indebtedness.

In this effort, Ujjivan is also part of the international steering committee of the Campaign for Client Protection in Microfinance. Our products and services are based and focused on meeting our customers' needs. The largest need of our customers is a savings facility, which we are currently not allowed to provide them due to RBI Act Section 45 (bb).Ujjivan and other MFIs hope to work with the regulatory bodies to find a solution to this problem and begin providing a safe and secure vehicle for customers to make small savings of Rs.10-20 per week. Ujjivan recognizes that technology is important in increasing operational efficiencies and plans to introduce a variety of initiatives to enable field staff to serve customers more efficiently.

We are implementing an ERP core banking system that is customized for Ujjivan's specific operations and in conjunction implementing open source/Linux technology at all of our branches. We will be setting up a document management system incorporating scanning and digital imaging to increase workflow & storage/retrieval efficiencies. Also in the pipeline are SMS & mobile technology to accelerate operational processes as well as GIS technology to map and better manage our branches and centers.

Ujjivan believes that in addition to its financial shareholders, its customers and staff have a stake in the company. As a social enterprise, in addition to our 'financial' bottom line, Ujjivan has planned for a 'social' bottom line as well. After achieving annual financial break-even, we will provide 10% of Profit after Taxes (PAT) and dividends payable as a budget in the following financial year towards programs for poverty alleviate on for customers and their immediate family members, which will be increased to 20% per annum thereafter. Given that many of our staff are from the same economic background as our customers, we will also set aside 5% of

PAT and dividends payable for the staff (excluding officers) and immediate family members, which will be increased to 10% per annum thereafter.

We look forward to our next phase of focused growth and expansion with a strong emphasis on service quality to our customers.

Samit Ghosh
June 12, 2009

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2009-2010

YEAR: 2009-10

The Year: 2009-10

The year marked a major turning point in the life of Ujjivan. The startup phase where the mantra was to grow, grow, grow and breakeven, has been achieved. It took us 4 years to build a social foundation with four regional hubs servicing 230 branches spread across 13 States. Ujjivan now ranks among the top ten Microfinance Institutions in India in terms of size. Here is a snapshot of our business growth numbers:

Particulars	Mar-08	Mar-09	Mar-10	Growth 2009-10
Customers	68,033	295,903	620,624	110%
Disbursement (Rs. Mn.)	635	3,130	9,319	198%
Outstanding (Rs. Mn.)	365	1,689	3,700	119%
Employees	551	1,691	2,830	67%
Branches	38	127	230	81%
Repayment Rate	99.22%	99.65%	98.96%	n/a

One major lesson was the mass default of customers from a minority community in a pocket of Karnataka. The branches affected were Ramnagara, Siddlaghata & Mysore. It vindicated our strategy of geographical diversification across the country. Our total portfolio was very marginally affected and our investors and bankers did not even have to blink an eyelid. The business in this area is slowly coming back to normal. The Association of Karnataka Microfinance Institutions (AKMI), as recommended by the Reserve Bank of India, has engaged EDA Rural and CGAP to conduct an independent study of this crisis, which will identify the root causes and will provide valuable lessons for all the parties involved.

Ujjivan has been posting a profit month on month from January 2009 and closed the year with Profit after Taxes of Rs.96.4 Million. This has enabled us to wipe out all the accumulated losses of the four start-up years, transfer Rs.19.28 Million to our Statutory Reserve and post a Cumulative Profit of Rs.18.63 Million. Accomplishing high business growth, widening the geographical spread and reaching commercial viability in four full years of operations is a unique achievement for a microfinance institution.

The Board and Management of Ujjivan have decided / recommended on the following course of actions for the three major stakeholders of Ujjivan – Employees, Customers and the Shareholders:

- Bonus for its employees who have built the Company over the last 5 years
- Rs .3.15 Million allocated to a social development fund for projects to be undertaken by the branches along with the customers, and
- A maiden token dividend of 2% subject to shareholders' approval

There were two other major positive developments during the year:

First, is the establishment of the Microfinance Institutions Network (MFIN) which is an association of thirty plus major Non Banking Finance Company (NBFC) MFIs. The association has two major objectives: 1) A Self Regulatory Organization (SRO), it has already put in place a code of conduct which sets out rules on overextension of credit, transparency, collection and also on human resource practices. As a part of the endeavour to reduce overextension of credit, MFIN has also initiated a process to provide the services of two credit bureaus for all MFIs. 2) MFIN is to pattern itself on NASSCOM of the Indian Information Technology industry and take us forward to provide full financial inclusion to 100 million poor households by 2020. Full financial inclusion would mean providing them at least three of the four major financial services: Loans, Savings, Remittances & Insurance. MFIN has already initiated a number of dialogues with the Reserve Bank of India, bankers, financial institutions, investors and rating agencies. We are a leading member of MFIN and are represented on the board.

Second Ujjivan is supporting Parinaam Foundation to carry out a pilot programme for urban ultra poor in Bangalore. Parinaam has developed a holistic approach to provide support to these families in all aspects which keep them in utter poverty. You can read more about the programme in the later section of this report.

The Future

Ujjivan will continue to grow at an accelerated rate to reach out to the wide open spaces. Successfully launching in Mumbai, the largest metropolitan city is one of our goals for this year. In Our existing structure, the primary strategy has to change to that of managing a mature business. The priority will be on managing each branch as a business unit focussing on profitability, Customer retention, and service quality, deepening our relationship with customers with customized products for each major segment. In order to achieve this we have launched a mature branch plan and a service quality program including financial literacy. Along with this we will also focus on effective remedial measures in branches where we face portfolio problems, which is inevitable in the nature of this business. The second challenge is to build a successful social enterprise for which there is no clear path and we need to pave the way as we go along. The regulators are nudging us, as we achieve profitability and scale, to pass on the benefits not only to our investors & employees but also primarily to our customers through reduced interest rates. We will certainly fulfil that objective. We expect turbulent times for MFIs in the near future: pressure on the interest rate margins; changes in the primary sources of funding; May 24, 2010 and bad press, as some of the poor business practices & governance of some MFIs come to light.

As microfinance makes deeper inroads we can also expect disruptive reactions from those who have vested interests in maintaining the status quo; and most importantly, if we are not able to change many of our practices in customer selection, extension of credit and collection, it will create a climate of mass defaults from our customers. Under these circumstances building a solid foundation, following sound business & human resource practices and ensuring good governance of our enterprises will be essential for survival & Success. Microfinance in India is a high growth industry with vast open spaces to expand. However, recourse to mass violence and terrorism from the poorest segments of our society - the tribal population and the poor minorities – underlines the pressing need for financial inclusion for equity and progress of our country ‘Ab Aur Waqt Nahi (Running Out of Time)'

If we successfully provide the financial inclusion services which is urgently required by the disenfranchised poor, we will be able to establish a successful industry comprising MFIs, each with their own approach. These businesses will certainly be able to satisfy all their stakeholders.

Samit Ghosh
May 24, 2010

2010-2011

YEAR: 2010-11

2010-11: Ironically at the beginning of October 2010 I was invited to FOROMIC, the annual conference of MFIs in Latin America to share the incredible success of Indian MFIs who scaled up in a very short time. Microfinance in Latin America is over 40 years old. Yet, they were astonished at the sheer magnitude of the scale achieved in half a dozen years in India. What was the secret?

No sooner had I returned to India when all hell broke loose in Andhra Pradesh. Fortunately for me, I had also attended the last session of the Summit which shared a report on 'TAKING THE GOOD FROM THE BAD IN MICROFINANCE: LESSONS LEARNED FROM FAILED EXPERIENCES IN LATIN AMERICA'. (Refer http://www.ujjivan.com/MFI-failures). I quietly went on to study the Latin American report. This report not only explains the root causes of our crisis but also provides directions for our future. What we are going through now, Latin America has already been through and more importantly, survived.

I do not want to sound like Cassandra but in my letter last year in May 2010, I wrote: “We expect turbulent times for MFIs in the near future: pressure on interest rate margins; changes in primary sources of funding; and bad press, as some of the poor business practices & governance of some MFIs come to light. As microfinance makes deeper inroads we can expect disruptive reactions from those who have vested interests in maintaining status quo. Under these circumstances building a solid foundation, following sound business & human resource practices and ensuring good governance of our enterprises will be essential for survival and success.”

Since October 2010 it has been crisis management mode.

Our first task was managing our liquidity as bank funding quickly dried up. We prioritized our outflows: operating expenses, debt requirements and serving our good customers. Meanwhile, there was a concerted search of funds. We are extremely grateful to SIDBI, Developing World Markets and IDBI Bank which provided us fresh funding and stood by us in times of our need.

The second task during this period was managing and protecting our portfolio quality from 'collateral' damage despite not having any exposure in Andhra. We started facing problems in some pockets in two states: Tamil Nadu and West Bengal. Here the problem was mainly that, as excessive MFI competition evaporated, customers who had over borrowed or ring leaders who had committed fraud through 'ghost lending', started to default. We had to work out a branch by branch recovery program.

As the major MFIs began to seriously struggle and with the barrage of negative publicity from the media, it was natural for our staff spread across the country to feel insecure. As a third task it was necessary for proactive communications with honest discussions of the crisis, its impact on us, our plans, and provide reassurance on the security of their jobs.

Finally, as new regulations started dawning on us courtesy the Malegam Committee and the Reserve Bank of India, there was a need for extensive dialogue with the regulators to ensure that the new regulations did not kill the sector as did the ham-handed Andhra Ordinance. Industry associations: MFIN, Sa-Dhan and AKMI, along with industry leaders did a commendable job in lobbying for pro-sector changes.

All through the crisis we carried on with our Social Development programs at branch level, working with the staff, customers and community. This along with our work on disaster relief and the various programs we undertake with Parinaam Foundation: Health camps, education scholarship & loan interest refund, and sports days for children, have helped us develop a unique bond with the community where we work. This was a major gap which was evident post crisis especially in Andhra, where the MFI's relationship with customers and community had degenerated into merely that of another 'moneylender'.

It has been a hectic eight months for us and the challenge for Ujjivan was to emerge from the crisis stronger and be ready for a new world. We operated normally as far as possible, during this period, firm with the belief in the work we do and in our mission: providing financial services to the poor to better their lives. Our financial & business results reflect that.

Future: Emerge stronger from the crisis and be ready for the brave new world

The RBI regulations announced on May 3rd 2011 are far better than the original Malegam Committee recommendations. Over the next two years, Ujjivan and the sector need to adapt to the new environment post-shake out from the crisis, Andhra Ordinance/Legislation and the new RBI regulations. The vast population of the poor continues to remain financially unserved and underserved. It is a critical gap in our country which needs to be addressed. This is recognized both nationally and internationally.

The immediate implications are to learn the lessons from this crisis and adapt.

- The new regulations will put a lot of pressure on our margins and profitability. Hence the need to bring our operational expenses down significantly. We have initiated a major project to rationalize our branch structure and increase the efficiencies of our field staff. We should see significant improvement in our operating expense ration by year-end

- Second, the industry suffers from customer dropout rates of 20-25% per annum which is a serious setback from both, the viability and mission perspectives. We have researched and identified the reasons for high dropouts and instituted changes to cut the rate to acceptable levels of around 10%

- The days of easy money for the sector are over. Traditional sources like banks and private equity investors are having second thoughts. Funding both debt and capital will need a serious rethink and specialized effort. The problem is compounded as 'Customer Security Deposit' as an additional source is now closed

- Customer suicides resulting from over indebtedness and coercive collection practices were the biggest reasons for the debacle of the sector. This is an area that needs to be urgently addressed if we are to survive. First, the joint liability group (JLG) system which creates enormous social pressure especially in the higher loan cycles needs to be phased out. This is a lesson not only from India but also the world over including Bangladesh, which removed this over a decade ago. We have already started work in changing our methodology and phasing out the JLG system. In addition we are revising our staff incentive structure. We are also working very closely with MFIN in sharing customer data through the credit bureaus. This however will take a couple of years to be effective. The problem of over indebtedness of customers or over extension of credit by MFIs needs to be jointly tackled by the customer and ourselves. We have introduced a major financial literacy program for customers to manage their debt. Even though it is being very well received, the impact of this training will be in the long term.

- The social development program disaster relief and the various programs we undertake jointly with Parinaam Foundation will need to be strengthened to build on our connection with the customer and community. This is the core of our mission to help customers build a better life.

- Finally, additional business channels needs to be developed which will allow us to serve our customers outside the purview of regulations. The individual lending business is one such major initiative we are undertaking to build over the next few years.

In the long run, it is important to remain within the ambit of our mission to provide financial services to the poor. Microfinance can only succeed if it becomes a full service provider to this segment. MFIs have to become self-funded through their customer deposits. In countries with a more advanced microfinance sector such as in Asia and Latin America, that is the direction it has evolved. The setting up of NBFC-MFI as a separate category by RBI and the announcement by the Ministry of Finance in the last budget for separate banking licenses which focus on financial inclusion are clear pointers. The path is littered with obstacles but the long term direction is clear.

Samit Ghosh
May 16, 2011

2011-2012

YEAR: 2011-12

The challenge we took up last year was for Ujjivan to emerge from the crisis stronger and be ready for a new world. The first three quarters were dismal, as funding dried up forcing us to scale down our business. Despite overwhelming odds, we have finally put behind the industry crisis of last 18 months and closed the year crossing the million customer mark, increasing our loan book by 12.55 to Rs 7304 million (Rs 6912 million net of securitization) and with a modest profit of Rs 21.9 million. In order to operate viably within the stringent Reserve Bank of India norms of interest and margin cap, we worked on improving our efficiency, reducing our branches from 351 to 299 through mergers and reduced the number of employees by 14% to 3449.

In order to be ready for the future, we have upgraded our information technology infrastructure – core banking system such that all our branches are online. We are implementing a unique financial literacy program (FLP) for our customers. The first phase of which, was to make our million plus customers. The first phase of which, was to make our million plus customers aware of the dangers of over borrowing and ghost lending has been completed. The second phase currently in progress is a comprehensive FLP starting from customer training on numerical literacy to training on prudent management of household & business cash flows. We are also putting in place a comprehensive customer grievance redressal system. We were recognized as the best large microfinance institution in India and we received record amount of debt and equity funding in the last quarter. This validates our recognition of being one of the most respected MFIs in India.

We will not dwell on the past problems as we continue to work and emerge out from these. Our focus is now on the future: to the brave new world of total financial inclusion. The big question is: Will we achieve financial inclusion by 2020 – a millennium development goal as committed to by all countries? India accounts for a large portion of the 4 billion financially unserved. First we need to understand what we mean by financial inclusion. Is it merely a static? Or does it have real positive impact on people's lives? It is not about the 70 million no frills accounts opened by banks which are not actively used. It is not about one or two small microfinance loans given to 45 million microfinance customers. We checked the impact on customers after one or two loan cycles. The customers told us that their life was somewhat better and more importantly they were no longer scared of money lenders but they were not out of poverty.

India has had a long history of initiatives to bring about financial inclusion since our independence in 1947. The Reserve Bank of India and the Ministry of Finance have been obsessed with achieving financial inclusion in a series of programs starting with nationalization of the Imperial Bank to State Bank of India in 1955, introduction of the co-operative banks, nationalization of the major banks in the Sixties, introduction of Regional Rural Banks, Priority Sector Lending program, Self-Help Group – Bank Linkage program, Banking Correspondent model, the No Frills account and some more. However all these initiatives have met with limited success. As the Raghuram Rajan Committee on Financial Sector Reform pointed in 2008, it is not possible to achieve financial inclusion of 600 million, a mammoth task, only by regulatory or administrative fiats but by making the financial inclusion programs viable for all parties involved.

Till 1985 the middle class in India could only open a savings account and make fixed deposits. They were virtually excluded from all credit products. My father, a government doctor could only have built his home after retiring and getting his end of service benefits. In ten years since 1985, the Indian middle class has access to the entire gamut of financial services. This opened up the purchasing power of the 200 million and created enormous demand for two wheelers, cars, white goods and housing. This pushed India's GDP growth rate from the Hindu Rate of 2% to world beater 8-9%. This is one of the major impacts of financial inclusion apart from dramatic improvements in the quality of lives of the middle class.

Can we provide the full gamut of financial services to the 600 million excluded in India: credit, savings, remittance, insurance and pension by 2020? Is it possible with some proactive action. The biggest challenge today in India is providing the poor an effective savings product.

It is critical to use mobile banking platform for financial inclusion. In India we have more than 930 million mobile subscribers of whom 313 million are in rural areas. There are silver linings and the bases have been created to make this goal achievable.

1. Reserve Bank of India's regulatory framework to protect the customers and the microfinance industry is in place

2. The microfinance bill which will pave the way for the future has been placed in the parliament for enactment

3. Universal identification (Aadhar) based on biometrics for all residents in India is in full swing along with opening of a no frills account for the excluded

4. Over 45 million microfinance customers' credit records have been uploaded with credit bureau and updated monthly

5. Mobile banking platform and the Regulatory framework is in place for funds transfer through interbank mobile payment services under the auspices of the National Payment Corporation of India. This will make financial transactions viable including the much needed remittance services

6. The micro-insurance for life coverage is already being provided to the poor though MFIs but the scope needs to be enlarged to include other types of insurance such as health

7. A start has been made on the micro-pension front through government promoted scheme

8. Specialized micro housing institutions have started to serve the poor

9. The Self Help Group model if microfinance is already one of the largest in the world

Again, as recommended by the Raghuram Rajan Committee on Financial Sector reform, we need to:

- Allow the NBFC-MFIs to be Banking Correspondents for savings and tie this up with mobile banking
- Issue licenses in the near future, for ‘small’ or ‘limited service’ banking, specifically for financial inclusion

If we are able to do this, I am hopeful that we will be able to achieve full financial inclusion by 2020; we have created the base; we only need to take the leap. Ujjivan will not deviate from the mission of providing financial services to the poor to better their lives. We will keep on tying up the various elements to provide a full range of financial services needed by the poor.

Samit Ghosh
May 31, 2012

2012-2013

YEAR: 2012-13

The Industry Environment

Thirty-two months have passed since the 2010 industry crisis enveloped Andhra Pradesh. How is the industry faring today? How may we define the climate of the MFI sector at present?

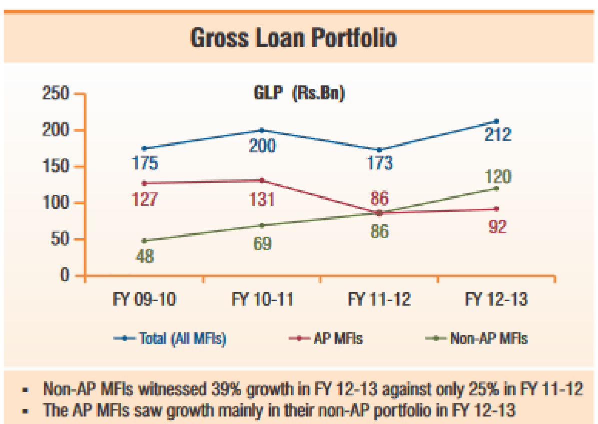
The three key parameters to consider are: Gross Portfolio Growth, Customer Base and Profitability. The following charts demonstrate this data:

- In 2012-13 the Gross Portfolio rebounded to Rs.212 Billion surpassing 2010-11's peak of Rs.200 Billion. This was achieved after a major dip in 2011-12

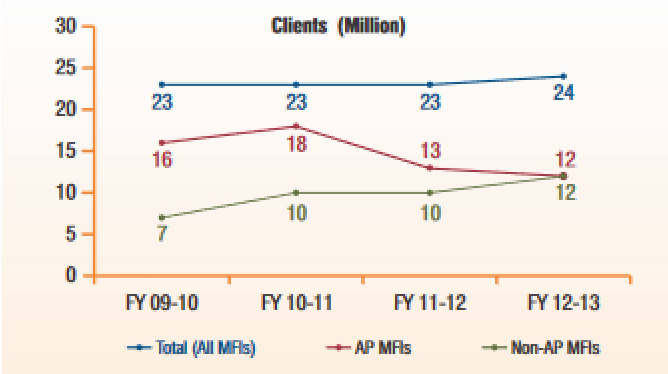
- The customer base for the same period grew from 23 million to 24 million

- Looking at the select number of MFIs whose financials are available, profitability improved significantly for those not based in Andhra Pradesh in 2012-13

The numbers testify to a revival of the industry outside Andhra. The disconcerting news is that studies indicate that in the state of Andhra Pradesh customers have no choice but to return to money lenders due to Government legislation that virtually bans MFIs from operating there.



Customers



- Non-AP MFIs: 22% increase in client base over FY 11-12
- AP MFIs: 4% decrease in client base over FY 11-12
- Large MFIs (GLP>Rs.5 Bn) account for 82% of the total client base

Profit Before Taxes of Key Non-Andhra Based MFIs

PBT (Rs.Million)	FY 2009-10	FY 2010-11	FY 2011-12	FY 2012-13
Bandhan	1,139	1,780	2,889	
SKS	2,677	1,709	-13,237	-2,971
Ujjivan	119	177	22	492
Equitas	348	456	278	407
Janalakshmi	-23	-22	12	236
Grameen	19	38	-17	94*
ESAF	15	19	62	90*

- All major players have registered growth in their profits over FY 2011-12
- *Indicates estimated numbers
- Historical data sourced from Mix Market

The environment has emerged more stable as over-exuberant lending practices of the years culminating in 2010-11 have given way to a more disciplined approach. This is guided by the Reserve Bank of India (RBI) rules that limit the number of MFIs lending to a particular customer to two and restrict the total exposure per customer to Rs.50,000. The lower level and gradual increase of loan disbursements shown below indicate a more disciplined approach by the MFIs. Along with this, the table on Portfolio Quality indicates an excellent state of portfolio outside Andhra with portfolio at risk at only 1%. There has been an impressive implementation by NBFC-MFIs, led by Micro Finance Institutions Network (MFIN), of credit bureau integration. Within just two years, the MFIs have provided the credit bureaus with 70 million loan records. The credit bureau data is updated monthly and utilized as a tool for approving all loans made by NBFC-MFIs. We welcome this current industry snapshot, featuring a more graduated growth in loan disbursements outside Andhra and improvements in portfolio quality.

The industry is going through a period of consolidation - not in terms of MFI mergers and acquisitions, but through consolidation at customer level. The ceilings imposed by RBI through margin and interest rate caps are forcing MFIs to become more efficient. In order to remain viable, each must bring in economies of scale. This is marginalizing the smaller MFIs, which are not able to raise adequate levels of debt or capital. The market is now being dominated by medium and large MFIs along with a number of banks which have recently entered the microfinance arena.

There is debate among experts over whether the single product line business that is the industry's bread and butter - group-based installment loans - has reached a saturation point. Government's planned ten-state roll-out of the National Rural Livelihood Scheme (highly subsidized Self Help Group loans funded by the World Bank) is likely to adversely impact the sector. Such initiatives are populist palliatives which are politically motivated. Over the last 60 years they have actually had very limited impact on poverty alleviation. They are, unfortunately, likely to create tensions between the State-run programs and the Microfinance industry.

The future of the Microfinance industry lies in its resolve and capability to reinvent itself and become a full-service financial provider for the poor. This most critical step will lead to real financial inclusion of the poor. This will demand the customization of loan products to meet the specific needs of the customer: micro-enterprise loans, housing loans, higher education loans etc.; reliable savings and investment products for the poor; wider range of insurance products, along with safe and economical remittance services; pension and financial literacy programs. The urgent need for reliable savings and investment products has been highlighted by the recent collapse of the 'Ponzi schemes' in East, which have lured and devastated the poor and lower middle class, especially in the rural and semi-urban areas.

Why did the crisis happen and what can we learn from it? The unorganized money lending is a hugely lucrative business; the government-sponsored programs have political dividends. The unorganized deposit taking business is also massive and produces extraordinary profits. Powerful businessmen, politicians, bureaucrats, celebrities and media organizations are involved in these businesses. As one followed what transpired during the collapse of the Saradha Group of Companies in West Bengal, this fact became immediately apparent. The tentacles of these types of businesses reach right across India at a much larger scale than what is visible. If the Microfinance industry is to seriously take on such competitors, we must first become recognized providers of financial services and, hence, receive appropriate regulatory protection. We have come a long way with our recognition as NBFC-MFIs by the RBI. Secondly, we need to ensure that the MFI legislation, currently stalled, is passed by the Parliament. Finally, we cannot operate naïvely or in the throes of self-centered greed. We must fight the competition with maturity and unity. In our sails, we need the wind of support from our vast customer base.

Highlights of Financial & Business Performance

We are breathing the fresh air of a new day, post-industry crisis. We have worked hard since the advent of new regulations to operate more efficiently. We have enhanced our relationships with customers by being the only MFI to launch a Customer Care division, reflecting our dedication to protecting our most important stakeholders. We have risen to re-invent ourselves as a provider of the full range of financial services necessary to enable the attainment of true financial inclusion of the poor. While we could barely break-even last year, in 2012-13 we are the second most profitable company among the NBFC - MFIs; fifth in terms of loan book and we serve the sixth largest customer base. With presence in 20 states, Ujjivan has the widest geographical reach of any MFI in India.

- Financial year 2012-13 has been a major turnaround year for Ujjivan, closing with a loan book of Rs.11260 Million (63% growth over previous year) and a profit before taxes of Rs.491.5 Million compared to an almost break-even situation in 2011-12 (an aftermath of the Industry crisis).

- Significantly, Ujjivan since 2010 has undertaken numerous business process re-engineering programs, branch consolidations, technology upgrades and product rationalizations. We have improved field staff efficiency and maximized economies of scale. The result is a reduction in Operating Expense Ratio from over 17% in 2010-11 to 10.6% in March 2013, signifying that Ujjivan remains a viable business in the regime of interest and margin caps.

- Ujjivan now serves over 1 million active borrowers spread over 20 states (Ujjivan has never had operations in Andhra Pradesh) through a network of 301 branches (reduced from 350 prior to the crisis)

- All through the crisis Ujjivan maintained a healthy portfolio quality through prudent risk management techniques. The cumulative repayment rate has moved up to 99.73% as of March 31st, 2013

- Ujjivan has enjoyed healthy liquidity through the support of banks and financial institutions in the last three years. We have diversified source of funding from term loans from banks and financial institutions to Non-Convertible Debentures. Without resorting to any asset sale or securitization, Ujjivan increased funds raised by 134% during this period to Rs.7160 Million

- Even during the crisis period Ujjivan was able to raise capital twice through private placements of Rs.1279 Million in January 2012 and Rs.473 Million in September 2012. The capital raise was not only subscribed by existing investors but inducted new investors like IFC, FMO and Wolfenshon. During this period Ujjivan facilitated the exit of two of the earliest investors: Bellwether (July 2012) and Michael & Susan Dell Foundation (September 2012). We are pleased to note that even during such a difficult period the investments in Ujjivan were able to generate a healthy IRR of 20-24% per annum.

- Since before the crisis, our focus has been on customer service & protection. We are proud to be among the world's first MFIs to meet the SMART Campaign's global standards of customer protection.

- Our most precious resource at Ujjivan is our employees. We are pleased to be ranked second among all financial institutions and seventh overall in India in the Great Place to

Work competition. We use this to benchmark ourselves for our people practices and employee satisfaction.

Conclusion

At the behest of the previous Finance Minister, applications are being sought by the RBI for fresh banking licenses in the endeavor to promote financial inclusion. If regular commercial banks could be the vehicle used to achieve this goal, the problem would have been resolved long ago. Being a banker for over thirty years, I can assure you that they neither have the inclination nor the capacity to provide financial services to the poor. The Governor of RBI has stated in the latest Credit Policy announcements that a study will be conducted to determine the ideal organization to serve the poor. Perhaps the choice will be the small banks, recommended by the Raghuram Rajan Committee a few years ago, or limited license banks which successfully provide financial services to the poor in regions around the world, including our neighbouring SAARC countries. Let us hope we get the answer soon. The obliteration of the savings of millions of poor in the eastern states during the collapse of 'Ponzi schemes' only underlines the urgency for a solution. This problem is not just in East but is all pervasive. Meanwhile, we will soldier on through the myriad regulations to provide these services through various legal entities.

The light at the end of the tunnel has appeared to us at Ujjivan through an independent impact assessment survey, conducted with customers across 9 states over a period of three years. In February 2013 we returned to the nearly 1500 customers from the original 2010 sample of 3200 who are still active Ujjivan borrowers. 87% defined their current state of well-being as "Positive" vs. 60% three years ago. 96% percent of this group reported that they believe that their lives will continue to improve in the next three years. There has been remarkable progress in income growth, especially among our self-employed/small business owners. Monthly incomes for this group rose by 85%. Looking at other quality of life indicators, 63% now have bank accounts and 57% hold Aadhar cards. Validating women's tendency to invest in the family's future welfare, 40% have now enrolled their children in private schools compared to 28% three years ago. We could not be more delighted to be a part of our customers' journeys as they improve the quality of their lives.

Samit Ghosh
May 28, 2013

2013-2014

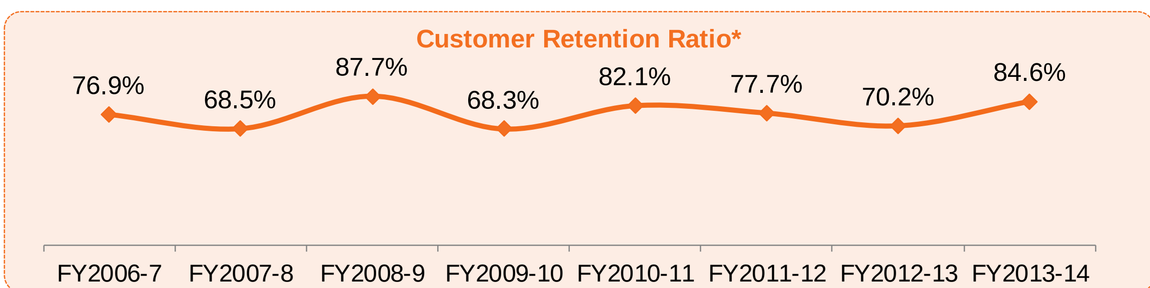
YEAR: 2013-14

This marks the 8th full year of operations of Ujjivan. We started out in November 2005, when we received the NBFC license from the Reserve Bank of India. Our mission was to provide microfinance to the urban & semi-urban poor across India. They constitute a major section of our society with the fastest growth rate due to urban migration. Today the Ujjivan team of over 4600 employees serve over 1.3 million families across 22 states & union territories in India, through 350 branches and four regional offices. We disbursed over Rs.2105 Crores of loans last year, which is the 4th highest in the industry. Our loan book grew by 44% during the year to Rs. 1617 Crores and we are ranked as the 4th largest NBFC-MFI excluding the Andhra based MFIs which are under Corporate Debt Restructuring program.

We consider ourselves as the 'Best of the Best'

- Our active customers increased 29% from 1 to 1.3 million during the year. This compares favorably with the industry growth of 23%. We introduced a comprehensive service quality department in 2009, which is unique to the industry. The standard customer satisfaction surveys do not work with this segment of customers. They are too beholden to us and especially to our field staff. At the same time we along with the industry were plagued by high customer drop-out rates. Customers voted with their feet. We researched the reasons for drop outs and worked out programs to improve customer retention. From the nadir of 68.3% during the crisis years 2009-10, this year, we achieved 85% customer retention.

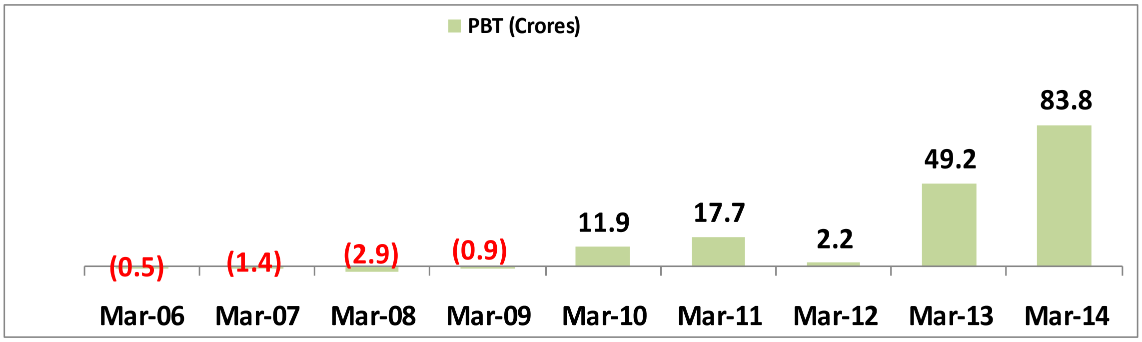
Time series chart of customer retention: 2006-07 to 2013-14



- Our employee strength grew by 28%, well above the industry average growth at 11%. We added a thousand new employees during the year. One of the unique features of our leadership development is the Management Development Program which has been in place since 2008. Today our National Leadership Team includes two members from the first batch of management trainees. From 2009, we participated in the Great Place to Work Institute survey where we competed with the top companies in India across all industries like Google, Intel, NTPC, American Express etc. We are proud to be among the top ten best companies to work for in India. The table below shows our standing:

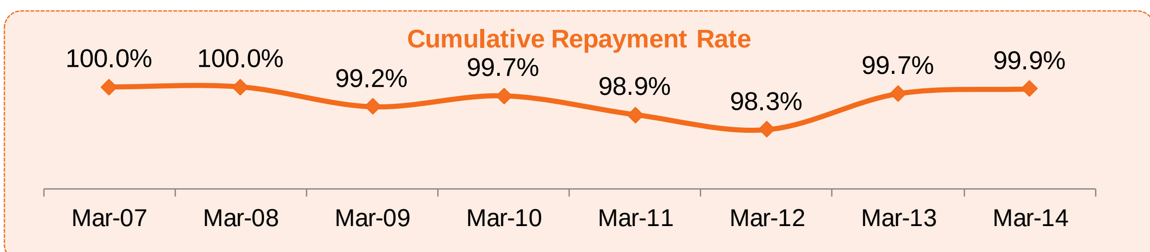
- Our profits before taxes have been among the highest in the industry and grew by 68% over the previous year at Rs. 83 Crores with return on equity of 12%. Our business – gross loan book grew by 44% to Rs. 1617 Crores with return of assets at 2.96%. Our business performance and uninterrupted dividend record from 2011-12, which is also unique in the industry has kept our existing investors happy and attracts a lot of new investors.

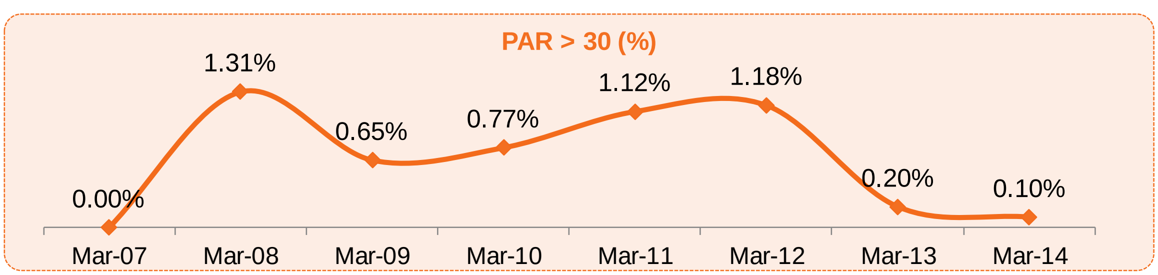
Time Series chart of Ujjivan's profitability.



- Our repayment rate was 99.90% at the year end with Portfolio at Risk over 30 days at 0.1%.This reflects the outstanding credit management processes at Ujjivan. We are one of the very few in the industry which has an independent **credit** function to manage the overall credit process & quality.

Time series charts of repayment rate & PAR>30.





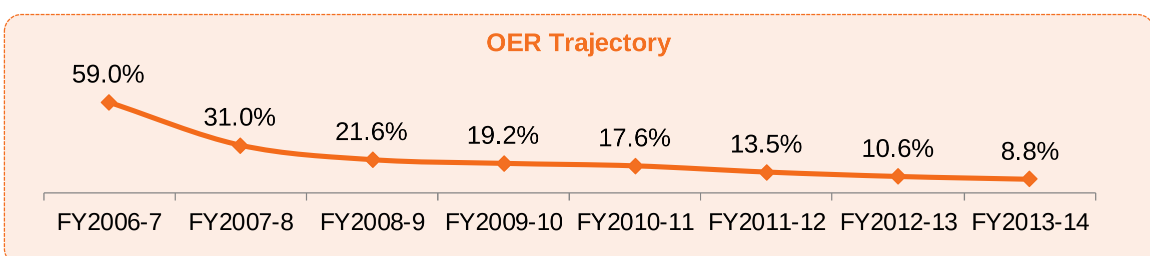
- We have the most diversified customer base & loan portfolio across the geographical expanse of India balanced by regions & states avoiding concentration of risk. Ujjivan since inception has a comprehensive business & risk assessment system to open individual branches or start operations in a state. This led to our decision not to operate in Andhra well before the crisis despite the fact the state was considered the center of microfinance in India. Our wide geographical base gives us a very large launching pad for the next phase of the business and further help play an important role in financial inclusion across the country.

Particulars (As of 31st March 2014)	**South**	**North**	**East**	**West**	**Ujjivan**
Number of Branches	106	81	108	55	350
Gross Outstanding Portfolio (INR Cr)	525.4	379.3	450.7	261.9	1,617.3
Total Customers	429,638	313,645	428,624	214,149	1,386,056

Our initial focus was urban and the semi-urban poor. We opened branches in both these areas. Today we have more branches in the semi-urban areas where we serve both customers living towns and also rural customers living in villages. This gives us access to customers in all three areas: urban, semi-urban and rural.

The biggest threat to Ujjivan when the crisis hit the industry in 2010 was not portfolio quality but our highly expensive and inefficient operating base. The Malegam Committee recommended interest rate of 26% & margin caps 12-10%. Our operating expense ratio (OER) was 17.6% with cost of funds of around 13%. We embarked on an extensive re-engineering program covering all aspects of our business and introduced new technology: bringing branches on line & processing paperless transaction. Today our OER is at 8.8%, which is at par with the best in the industry.

Time series graph of OER.



Dependence on cash for disbursing and collecting loans is one of the biggest problems in the microfinance industry. This makes the operations both inefficient & highly risky. Frequently our staff is attacked by criminals and we are also susceptible to fraud. In addition dependence on cash tarnishes the objective of financial inclusion as MFIs withdraw cash from banks & inject it into the cash economy by disbursing loans in cash. We embarked on a program to introduce cashless customer transactions from 2012. This year we disbursed 50% amounting to more than Rs. 1000 Crores directly to customer's accounts. This was possible by helping customers open bank accounts; activating dormant accounts and training them to operate bank accounts including using ATMs through Parinaam Foundation's Diksha Financial Literacy program. The Diksha program was started in August 20th, 2012. It is widely acknowledged as one of the best programs of its kind. The Reserve Bank of India (RBI) is highly appreciative of this program. We have trained & certified 98,737 customers under Diksha and opened 45, 157 bank accounts. Parinaam spent Rs. 2.4 Crores on this program funded by Citi Foundation and Michael & Susan Dell Foundation. In addition Ujjivan has contributed Rs. 74 lakhs to fund this program bringing the total spend to Rs. 3.1 Crores. This is one of most remarkable achievements of the year which is unparalleled in the industry.

Funding from banks and financial institutions was fairly consistent for the MFI industry. Ujjivan continued to enjoy the benefits of excellent liquidity at optimal costs. The Company added 8 new banking relationships and continues to work on strategic structured deals which will bring domestic capital market funding into the MFI industry. The company raised Rs 1360 crores during the year, an increase of 90% over the previous year's borrowing. The company also received additional funding through Non-convertible Debentures apart from redeeming Rs 100+ crores NCD during the year. This demonstrates the continued confidence of debt stakeholders in Ujjivan. CRISIL awarded a MFI grading of mfR1, the highest rating for MFIs to Ujjivan during 2013-14.

We started the Social Development Program from the first year after we broke even & generated a profit in 2010-11.This was a program to 'give back' to the communities by undertaking small but high impact projects. The projects are chosen by the customer leaders & branch staff of every project. Our initial focus was on programs which benefit children & education. But we gave freedom to local team of customers & staff. Consequently, a wide range of programs were undertaken across the country which earned Ujjivan appreciation from community members and local government officials. We have undertaken 787 programs across the country at cost of Rs.2.31 Crores. This is one of remarkable achievements earns us a lot of good will from across societies.

The Future

Overall it has been a banner year for Ujjivan and it is time to change gears. This closes an important phase in Ujjivan's history. The group lending business is reaching a saturation stage with the industry serving 25 million customers outside Andhra Pradesh. This comprises around 10% of the families who are financially excluded. In order for microfinance institutions to expand into the 90% which still remain unserved, we need to break into new customer segments and develop loans for different loan purposes: micro enterprise, agriculture, animal husbandry, housing, education etc. These new customer segments do not find group loans attractive given the loan size, standard installment structure, group guarantee, time commitments for center meetings etc. We need to break into these products & customer base to widen our net of financial inclusion.

The regulatory environment has seen a positive sea change. Fresh licensing of NBFC-MFIs by the RBI as a specialized category is a recognition of the key role we play in financial inclusion. This has been reinforced with awarding by RBI of the coveted banking license to the largest NBFC-MFI in India – Bandhan. Dynamic supervision by RBI and the self-regulatory disciplines put in place by the Micro Finance Institutions Network (MFIN) has ensured that responsible finance is firmly established.

The discipline of extending every loan based on satisfactory credit history of over 25 million customers has resulted in reducing the risk of over lending & substantially improved the portfolio quality of the entire industry.

The future regulatory changes being initiated with specialized banks and banking licenses available on tap has completely changed the future regulatory landscape for the industry. The long term aspiration of all NBFC-MFIs is to convert itself to bank. The industry will not require the protection of the Microfinance Bill in the future.

Conclusion

It has been a great journey so far & Ujjivan's achievements last year is the crowning glory. It was a year of a great personal loss. Elaine, my wife and partner passed away suddenly on November 28th, 2013 after a brief period of illness. Without Elaine's support, I would not have had the courage or energy to build Ujjivan. A lot of the values of Ujjivan originate from her. She built her pristine, Parinaam Foundation to march in step with Ujjivan. In fitting conclusion to her professional life, Parinaam' s Urban Ultra Poor Program received international recognition and was awarded in New York on December 10th, 2013, the prestigious Urban Ingenuity Award sponsored by Financial Times & Citi Foundation for the most innovative urban program in Asia. Elaine was fully committed to Ujjivan's mission to provide financial inclusion to the poor and help alleviate poverty. She would not like us to miss a step in our long march to help achieve this goal.

Samit Ghosh
May 30, 2014.

2014-2015

YEAR: 2014-15

Customers

It is the stories which our customers tell us of their journey with us. It is the Dhokla lady in Surat - who used to prepare Dhoklas at home and sell them on pavements who took a loan of Rs. 10,000. Three years later when I met her, she had borrowed Rs. 100,000 and had scaled up her business to become a wholesaler of Dhokla in Surat. She was joined in business by her husband and eldest son, and she now employs three karigars. A lady in burkha at our Yelahanka branch who has a Rs. 99,000 loan, has scaled up her one-person tailoring shop to a business powered by ten machines, selling women's garments. She wants another lakh for the Eid seasonal sale.

Another customer in South Pune used her loans to train her sons in martial arts and has now helped her elder son set up a martial arts school. A whole bunch of our customers take higher-education loans for their children. They firmly believe that it is the long-term way out of poverty. Thirty housewives in Garia over the years have turned into successful micro-entrepreneurs. A host of our women customers have availed loans to buy hybrid cows and buffaloes to supplement their family income. The enterprise of our customers and the varied businesses they are engaged in is mind boggling. We pride ourselves on being a customer-focused organisation. And the proof of the pudding is our customer retention.

As our customers move up the economic ladder and/or scale up their business, their financial needs vary, and increase from the simple Group Loan. Our Individual Loans provide the path for financial growth. We have over 70,000 Individual Loan customers. Our success is attributable to our ability to offer appropriate loan products for every stage of business growth as our customers scale up their business and family needs i.e. higher education, housing, etc. In the first eight years, we acquired a million customers as we scaled up and opened our wings across the country in 24 states and union territories. Last year was a tipping point – we added another million customers! Our active customer base today, is 2.2 million.

Employees

It is the stories of our staff and how they have transformed their lives, that gets me to work on Monday mornings. The branch manager of one of our most successful branches joined as a humble field staff. Today she ascribes her branch's success to monitoring performance using her branch dashboard, planning and team work. She will put many of our business school-educated managers to shame. Her husband is in the catering business. Both of them are bringing up two sons, one of whom is studying engineering. We have a diversified workforce with people from a wide range of backgrounds. A quarter of our field staff are women, while 19% of our total employees are women. Customer retention and staff retention are highly correlated. Providing the opportunity for staff to grow and develop in the organisation, is not only good for the employee but also for the business. We continue to be among the top ranked organizations in India under the Economic

Times/Great Place to Work ranking in India and Asia. We used to wonder how we can compete with the likes of Google, Intel, and American Express. It is not our compensation level & work environment. We get the highest score in employee survey on job satisfaction. The respect & appreciation our customers have for our staff, make all the hard work in an unpleasant & risky environment worth it.

Investors

We have always enjoyed an excellent relationship with our investors. Most of our institutional investors have been our partners in progress through their active participation in the board and voluntary support for the various activities we undertake within Ujjivan and Parinaam Foundation. They have actively supported us during periods of industry crisis by bringing in new investors. We have actively assisted our early investors to exit through secondary sales. In the latest round of capital raise of Rs. 600 crore (Rs. 589 crore during the financial year), half of the same was to provide partial or whole exits to our early institutional and individual investors. Investors have been able to generate 20-25% return on their investment in Rupee terms and some of the investors from our first two rounds, who exited in the latest round in the financial year, were able to get 14.6x return on their original investment. This is unparalleled in the industry. The details of both current and past investors along with their feedback, are on our website: www.ujjivan.com/html/our_investors.php

Key Partners – Banks and Financial Institutions

Our biggest partners are the banks and financial institutions which provide us with funding. Last year, we raised debt of Rs. 2,803 crore from banks and financial institutions. We enjoy the finest pricing in the industry and one of the best ratings for a microfinance institution: CARE rated us 'A' on our long term borrowings. We already have a rating of MfR1 from CRISIL which is the highest grading for an MFI. And, Ujjivan has always sought to diversify sources of funding. In 2010 we pioneered Non-Convertible Debenture from foreign financial institutions, which provided us with much needed liquidity during the crisis period. Last year, Ujjivan was the first to source funding from the vast mutual fund market. Ujjivan has been a trailblazer in sourcing new avenues of funds because of the excellent lender confidence it enjoys in the market.

Key Partners – Operations and Technology

The key area in this high volume but low margin business is to constantly work on lowering our operating cost and simultaneously continue to improve the quality of service in terms of loan Turnaround Time (TAT), bring error rates close to zero and constantly move towards cashless transactions. Our success in converting customers to cashless loan disbursement using their bank accounts is unique in the industry. In this quest we have centralized our Operations and Technology Teams at the four regional hubs. We have outsourced our data processing and call centres to partner organisations spread across India and outsourced data centres. We are constantly working on upgrading our technology to improve efficiency and quality of output. We are moving towards paperless processes through use of a document management system, along with handheld devices (tablets and mobile phones) to capture data for loan processing, repayments and handling enquiries. Our entire loan application processing for Individual Loans is performed through tablets, and Group Loan repayments are in the process of being processed on mobile phones. We work extensively with our technology partners. Our goal is to move more and more towards digital technology. As a part of the digital revolution, we have launched a mobile platform, Trucell, to facilitate repayment transactions processing and provide access to customer information for our field staff using Android mobile phones. This improves efficiency and facilitates better customer service. We are the first in the industry to launch e-learning – an easy-to-use self-learning tool to provide real-time training and support to Cashiers. We will be launching similar training tools for other functions in the future.

Community Development Programs

We started the Community Development Program from the year we broke even. These were small but high impact projects – the equivalent of Mr. Fix-it for the community, like repairing a water pump or tank in schools, upgrading local government hospitals, paving a hill track, rain-water harvesting, fixing the local well, building a bus stand, and building and repairing schools toilets.

In the initial years, we focused on upgrading the meagerly-provided government established Anganwadis (crèches) for poor families. Last year, in response to the Prime Minister's call for Swachh Bharat, we switched our attention to building and renovating toilets especially for the girl child in government schools. Last year, we built or renovated 266 toilets in schools across the country with a total spend of Rs. 1.23 crore.

Financial Literacy Program – Diksha

Parinaam Foundation, our sister organisation, has developed one of the finest financial literacy programs in the country. Over the years, they have trained and certified nearly a quarter of a million customers and opened close to a hundred thousand bank accounts for them. This is in line with the government's Jan Dhan Yojana program as well. The RBI has shown great appreciation for the Diksha program.

Overall, it has been a fantastic year for Ujjivan. In terms of business, we have doubled our customer base and our loan book. This is the 6th year of consistently profitable operations. Our Profit Before Taxes (PBT) grew by 37% this year. All through this massive expansion, our portfolio quality has improved. Pictures tell us the entire story and are all the more eloquent.

The Future

The financial inclusion world is in flux. For the first time in the last ten years, it is receiving real attention and not mere lip service from both the national government and the Reserve Bank of India. Prime Minister Modi has put financial inclusion as one of the top agendas of his government with the spectacular launch of Jan Dhan Yojana, MUDRA bank and the various insurance programs. He has set a hectic pace. Yet as a realist, he realises that real financial inclusion for the poor is likely to take 20 years, as per his speech at the Financial Inclusion Conference on the occasion of the 80th anniversary celebrations of the Reserve Bank of India. The Reserve Bank of India, under the leadership of Governor Raghuram Rajan, has taken the proactive step of launching two new types of banks to promote financial inclusion: the Small Finance Bank (SFB) and the Payment Bank. In addition, the big elephant amongst the pack is the possible conversion of the Indian Post Office to a bank. The two new commercial banks, Bandhan and IDFC bank, will also be major players in this field. The Reserve Bank of India, based on the good track record set by MFIs after the crisis in 2010, has considerably liberalized the scope of business for MFIs. One thing is for certain – the environment in which we operate and how we operate is going to change completely in the next few years.

Let us begin with the last – RBI's new guidelines to MFIs. Permitted loan sizes up to Rs. 1 lakh will require a different approach and skill set than the traditional group lending, which most of us are used to. Those who make the transition to individual lending will succeed. The path will be littered with carcasses of irresponsible lenders who take this as a license to grow their portfolio at breakneck speed. We hope this does not adversely impact the industry. We have a head start from our competitors by setting up the Individual Loan business three years ago as a separate vertical.

Second, the SFB license. MFIs have a head start in the race for these licenses, despite 72 contenders in the initial line up. Seventeen NBFC-MFIs have applied. MFIs have an advantage, as they already serve the same market segment. The RBI Governor indicated to us that he would like to see the best MFIs get the license. However, successfully establishing a SFB is like completing a steeple chase race. The first hurdle is to obtain the provisional license. We should learn about that in July/August. MFIs that are successful in the first phase will need to restructure and raise domestic capital in order to be ready to obtain the final license after 18 months. Paucity of domestic capital and legal/regulatory hoops that the organisation has to go through will pose the second major challenge. Once the SFB starts operations, the biggest challenge will be converting the liability side of the balance sheet to conform to that of a bank and comply with CRR and SLR requirements. Finally, the business the SFB has to undertake – which is characterized by very high volumes, low transaction ticket size and customers requiring 'high touch' – will require a radically different business model, which is untested. SFBs will have to innovate using the latest technology and explore uncharted paths in order to succeed. How many of the 72 current contenders will establish and run successful SFBs in the long run is a big question. It will have to start with the selection of the best candidates by RBI. SFB is not for the faint-hearted.

The MUDRA Bank is an excellent initiative to accelerate the process of financial inclusion by providing funding channeled to micro-entrepreneurs. Here again, MFIs have a head start. In order to succeed, it is important that the RBI's regulations for MFIs and Priority Sector work hand-in-hand with the MUDRA initiative. There are challenges of pricing of loans in order to be an economically viable business proposition, and also to ensure that the pricing of loans are politically acceptable. The MUDRA card, which is a good idea to provide working capital for micro-entrepreneurs, will require high level of co-ordination between banks, MFIs and MUDRA. This is a game-changing initiative but success will depend on co-ordination and execution, where all parties have a win-win situation.

The success of Jan Dhan Yojana and the Jan Suraksha insurance programs will depend on the regular commercial banks to be able to service them. Banks are not geared to carry out this type of business in a viable manner. The business will have to shift to the two new commercial banks and SFBs in the future. There are exciting times ahead. Put on your seat belts and enjoy the ride.

Conclusion

What type of organisation is Ujjivan? Is it just 'commercial microfinance'? Is it a 'double bottom line' organisation? Is it a 'social enterprise'? None of these completely describe Ujjivan. Last year, while visiting Whole Foods in New York, I came across a book titled 'Conscious Capitalism'. It describes this new breed of capitalist enterprise of which Whole Foods is a prime example. These are organisations driven by an overarching purpose, rather than the goal of a single stake-holder. The higher purpose could be for doing Good (Amazon, JetBlue, Disney); pursuing Truth (Google, Wikipedia); creating Beauty (Apple, BMW); and pursue a Heroic goal (Grameen Bank, Whole Foods, Ford under the founder, South West Airlines). Our purpose is to provide financial services to the vast number of working poor who are financially excluded.

A purpose-driven organisation has a long-term focus and is not driven by quarterly earnings beholden to the Wall or Dalal Street analysts. The purpose with which the organisation is created must be valued by society. In achieving the purpose of the organisation, interests of all stakeholders are taken care of, not one at the cost of the other. This type of organisation finds resonance in Ujjivan. The all-round success we have achieved so far is because we are an outstanding purpose-driven organisation.

Samit Ghosh
May 30, 2015

2015-2016

YEAR: 2015-16

Dushotsav – Celebration of a decade of serving customers as an NBFC-MFI

We closed the year with spectacular financial results:

- Profit after taxes grew by 134% to 177 Crore
- Gross loan book grew by 65% to Rs 5388.6 crore
- Gross Non Performing assets(GNPA) increased marginally to 0.15% of our portfolio with a cumulative repayment rate of 99.81%
- Cost to Income Ratio declined from 60.4% to 51% and Operating Expense Ratio declined from 8.5% to 7.5%
- Return on Asset of 3.7% compared to 2.5% in the previous year
- Return on Equity of 18.3 % compared to 13.7% in the previous year

This resulted from achieving economies of scale, higher level of efficiency and keeping credit costs at a negligible level. We moderated our Gross Loan Book growth to 65% compared 102% in the previous year.

Our branches grew by 11% and employees by 14%. This year Ujjivan scaled new heights in financial terms as an NBFC-MFI. However we measure our success or failure over the last ten years not just in financial numbers but also in terms of our efficient services across major stakeholders.

Customers: This year we crossed the milestone of 30 lakh customers. We acquired more than 10 lakh new customers second year in a row. Customer retention rate has remained at 86.3 %, one of the highest in the industry. This is despite the fact that we had to drop out existing customers to comply with the regulatory requirement that not more than two MFIs can lend to a customer. The high customer retention rate and the new customer acquisition were key factors in our gross loan book growing by 65% to Rs 5,389 crore and is a reflection of how well customers value our relationship.

Employees: Our employee base increased by almost a 1,000 this year reaching 8,049 and our staff retention rate was 82%. We are among the top 3 companies to work for in India and number one in the microfinance sector in the Economic Times and Great Place to Work Institute survey.

One of the unique employee benefits is the Employee Stock Option Plan (ESOP) schemes for all employees based on performance. This was instituted in 2006 and the sixth ESOP scheme was launched in 2015. Over 54% of our current employees across the organization are recipients of the ESOP. Post our IPO in April 2016, the employees could for the first time see the market value of the ESOPs they hold and this generated excitement and pride in ownership of the Company.

Investors: In the last two years we have been able to provide exit to many of our early investors - Rs 300 crore through private placement in the year 2014-15 and Rs 524 crore through the IPO in 2016-17. All the divesting foreign investors were able to get a return on their investments in Rupee terms exceeding 20%. We have enjoyed excellent relationship with all our institutional investors, many of whom have made very valuable contribution to the Company as members of our Board and also established special relationship with our sister organization – Parinaam Foundation. The remaining individual investors who are largely our angel investors who remained invested for over 10 years are overjoyed in seeing their investment grow to 35X at current market prices.

Ujjivan's Initial Public Offering

Ujjivan's Initial Public Offering (IPO) was a great success and it is covered in a separate section. In this letter I will focus on the objectives of the IPO.

The immediate need to do the IPO was to meet the Reserve Bank of India's pre-requisite that the Small Finance Bank has to be majority domestic owned. In the past, for the microfinance sector equity has been largely funded by foreign institutional investors. Our foreign ownership was in excess of 91%. Given the size of our domestic equity requirement the only alternative was to raise it through IPO restricted only to domestic investors. The domestic market is limited in terms of institutions mainly to insurance companies and mutual funds. The high net worth individuals and public were an uncertain segment due to limited familiarity with the sector. Though finally both these groups very actively participated in the IPOs of both the microfinance institutions, the journey was challenging and required a lot of sessions to bring about familiarity of prospective investors. The journey became more difficult with the announcement of large NPAs by banks and consequent impact on the entire BFSI sector. The results finally indicated that investors are optimistic about the new type of financial institution initiated by RBI - the Small Finance Bank and are not colored by the dismal financial performance, largely of the public sector banks.

For Ujjivan the IPO has a special benefit for majority of the employees across all segments of the organization, who are holders of ESOPs which have been issued almost since inception.

A large number of these employees are our field staff and their supervisors, who are not familiar with equity markets. After this IPO the employees can exercise their ESOPs and build a 'nest egg' for their family.

Finally, it is always our long term objective to have a well-diversified ownership structure. Two years before the IPO, the top ten institutions owned over 91% of Ujjivan. Just prior to the Pre-IPO and the IPO top ten institutions owned more than 81% of the institution. Currently we have more than 41,000 investors in Ujjivan. The institutional investors are balanced between domestic and foreign. More importantly, Ujjivan is not dependent solely on large institutional investors to raise future capital and can freely access the large domestic capital markets. This will provide long term stability in raising equity capital.

Transformation to Small Finance Bank- Moving to the platform of a specialized banking institution

Ten years on the NBFC platform with stellar performance brings a close to one of the major chapters in Ujjivan's history. The RBI opened up a new platform on November 27th, 2014 by issuing guidelines for Small Finance Bank (SFB).These will be specialized banking institutions to provide financial inclusion to the vast un-and under-served sections of our population and not the regular universal bank which largely serves the middle class and affluent in the retail segment and large corporates and institutions in wholesale business. This was done after considerable dialogue with the industry, largely represented by the Micro Finance Institutions Network (MFIN). I had the honor of heading MFIN as the President and worked closely with Alok Prasad who was the CEO during this crucial phase. Much to our delight, on October 7th, 2015, RBI issued an in-principle license for ten institutions of which eight were microfinance institutions including Ujjivan. This will enable us to move to a more stable and less risk prone structure of a bank. NBFCs come under periodic threats on issues like the state money lenders acts; in general finance companies have much lower stature compared to banks among the public. NBFC-MFIs are dependent largely on a single source of expensive funding from banks and hence vulnerable; and are constantly under competitive threat for their successful line of business from banks. More importantly, the SFB will allow us to pursue our long cherished dream of being able to provide a full range of financial services and after five years of operation convert to a full-fledged mass market bank.

The transformation requires intense preparatory work to convert to a bank. First the capital and legal structure needs to be changed. The capital issue was completed with the IPO. The legal structure of converting Ujjivan to a holding company and setting up a banking subsidiary with the requisite capital is now in progress. After this is completed and along with a number of other requirements like bank board members, branch opening plan, independent certification of the IT infrastructure etc., we would be applying for the final license.

Meanwhile the transformation work in the business front is continuing in full force, and had commenced before the in-principle license was issued. Ernst & Young was appointed as the consultants for the overall project. On the technology front, key additions to the current infrastructure is in progress. We are in the process of implementing the Finacle core banking and treasury systems from Infosys; CRM solution from CRM-Next; mobility solutions from I-Exceed; comprehensive risk management system from SAS; upgrading the Human Resource module from RAMCO; Oracle Accounting System, hardware from Oracle, CISCO etc.; Wipro has been engaged as the System Integrator.

Extensive work is in progress on the Human Resources side where key management positions at the leadership level has largely been filled and the second level recruitment is in progress. Competence mapping of existing staff for various positions in the SFB has also been undertaken. Training programs are proposed to be held during the six months prior to the launch. IT training has already commenced. Along with this we have started a 'mindset change' training for existing staff from a loan giving institution to that of an institution which will provide a full range of services including savings.

We plan to consolidate our existing branches and convert them to full service SFB branches. We will open the required number of new Unbanked Rural Branches (URB) over the year as per the SFB guideline requirement. Considerable research and planning has gone into the location of the URBs. We see this as a new business opportunity. These branches will be designed to meet the requirements and aspirations of our target customers. The physical infrastructure of all these branches will require considerable investment and time. We understand that the RBI is planning to come up with a comprehensive policy on new branches later this year. We hope this will give us leeway to pace our branch conversion to ensure that we can do this in a feasible and viable manner.

In order to provide the customers multiple channels/access points, we will supplement the branches with alternate delivery vehicles like ATMs, phone banking, banking correspondents and also internet banking. This is also being planned to be executed in a phased manner

On the product side, we have undertaken considerable research on the savings habits, likes and dislikes of the target market customers. We are designing the products and services accordingly. In addition we are working on remittances and third party insurance products which will be launched in a phased manner. We are also enhancing our loan products for the SME sector.

The Future

We expect to launch Ujjivan Small Finance Bank in a phased manner in the first calendar quarter of 2017. We expect the first 12-18 months to be a stabilization period for the bank to ensure all systems and processes work smoothly and we do a phased expansion of distribution, channels and products. We expect to start on an accelerated growth after this stabilization period. In five years from the date we start the Ujjivan Small Finance Bank, we will work towards converting it to a full-fledged mass market bank.

The financial inclusion space has moved very steadily post the Andhra crisis in 2010. There has been disciplined growth by the microfinance sector under the regulatory oversight by the RBI and self-regulation especially by MFIN. However this is now going to be totally disrupted with major developments which will accelerate the whole process of financial inclusion:

- Entry of eight aspiring Payment Banks especially those with wide distribution network and mobile technology of TELCOs joint ventures. They will compete hard for the payment and deposit business. However the viability of this business will depend on creative solutions and add-ons. The wallet business though currently attractive for those who are un-banked will come under serious threat with the new mobile payment systems being developed by NPCI.

- The ten Small Finance Banks who are still in the running will bring about change by providing a wide range of services, each following their DNA. However the success of the SFBs will depend on scale and how well they are able to widen the net to include the un- and underserved.

- On the liability side with the extensive seeding of the Aadhar biometric identification system, NPCI's payment systems and with the reach of mobile technology, as Nandan Nilkeni points out, the portability of savings accounts and balances will increase dramatically using mobiles. This will have massive disruptive effect which early adopters can take advantage of

- In India e-commerce has taken off. This allows a large number of Micro, Small and Medium sized Business Enterprises to sell their goods and services using these platforms. This will generate a wealth of data for future funding institutions and who can use analytics to extend credit. Already fintech companies are trying to capture this business. This will be a huge opportunity on the asset side of the business.

These are some of the major changes which will disrupt the whole financial inclusion space in the next five years thus changing the entire landscape. The winners will be those who remain at the cutting edge and scale their business. Both RBI and the Government are beating the drums of financial inclusion and ushering in the change.

Samit Ghosh
June 12, 2016

2016-2017

YEAR: 2016-17

Ujjivan Small Finance Bank (USFB) commenced its operations in February, 2017 and launched 5 pilot branches in Bangalore on February 06, 2017. It is too early to discuss performance, so we will focus on the key messages from the long standing founders of the financial inclusion movement during the launch of USFB and the five key challenges which lie ahead.

The launch of the bank branches on February 6, 2017 was not only spectacular but also cerebral. We were very fortunate to have with us Professor Muhammed Yunus, Vijay Mahajan, Sharad Sharma, Biswamohan Mahapatra and Mary Ellen Iskenderian. The key message from Professor Yunus was that in order for these specialized banking institutions to succeed, there is a need for fresh set of rules & regulations from the Reserve Bank of India and the Government, which are appropriate for these institutions. Vijay Mahajan echoed the need for 'regulatory revolution'. Mr. Mahapatra indicated that the Reserve Bank of India (RBI) has been innovative in establishing these specialized institutions within the ambit of Banking Regulations Act. The danger pointed out by Professor Yunus is that if the same rules & regulations governing regular commercial banks are applied to Small Finance Banks (SFB), sooner or later these institutions will end up becoming banks in the same mound and SFB's will lose out on the special purpose they are set up for i.e. Financial Inclusion. We are already seeing this unfold as we try and comply with a host of regulatory & compliance requirements. For example, the much awaited RBI's new 'Branch Authorization Scheme' is a radical new direction of moving away from the traditional brick & mortar branches to the concept of 'banking outlet', yet it has to navigate through the path of the Banking Regulation Act. In order to succeed, it is imperative that the SFB's and the regulators work together to craft a specialized set of rules & regulations, as it did in the past for NBFC-MFI institutions.

The five key challenges which are ahead of us this year are:

Portfolio Quality

Demonetization has possibly brought in significant benefits to the country in its battle against 'black money' and unaccounted wealth. However, for the entire microfinance industry where customers primarily operate in the unorganized sector and cash transactions are the main medium of exchange, it has been a major disruptor. The problem was exacerbated by local politicians who utilized this opportunity to raise the bogey of 'loan waivers' to give false promises to customers and destroy the financial discipline in a number of pockets. The redeeming feature is that unlike the Andhra Crisis, the RBI, State & Central Governments including local administration have largely been supportive of the microfinance institutions (MFI's) and against loan waivers. The problem was initially complicated by allowing banks to collect repayments in demonetized notes in the first two months, but not permitting finance companies including MFI's to do the same. Most customers could not understand this distinction and were confused. The poor portfolio quality was not impacted evenly across the country and surfaced in some major pockets. This could have been due to aggressive lending in the past two years by certain MFI's in those areas. The impact was also felt in areas where livelihood was seriously impacted for micro-entrepreneurs and salaried individuals in the unorganized sector. The MFI industry faced Portfolio at Risk (PAR) ranging from 5% - 20% compared to around 1% prior to demonetization. The RBI provided some relaxation in categorization of non-performing assets & provisioning for those assets which deteriorated during November & December. However, in the current financial year the industry will feel the full impact of the credit cost, which will be significant. Customers are slowly starting to repay the over dues but with a lag effect of 2-4 months and for some of the customers there has been a temporary impairment of livelihood ,further a section of customers who have turned delinquent are new to micro finance, being less than two years old in the system and hence less disciplined. A portion of these over dues is likely to be written-off but it is difficult to estimate at this moment.

In Ujjivan, we have categorized branches with high defaults as affected branches and at these branches the sole focus is on collection. We have seen a positive turnaround from March, though the progress has been slow. We have put in place a number of collection programs to arrest the deterioration & start collection from higher buckets. Customers are also being re-assured that they would get repeat loans if they regularize the present loans. We are also taking measures of curtailing our exposure in locations where the credit discipline has totally broken down. Ujjivan is in the middle of the spectrum in terms of impact on the portfolio quality. We expect that it will take few months to bring back the portfolio quality to normal.

Rolling Out Ujjivan Small Finance Bank across the Country

We decided to roll out our branches in phases for a number of reasons. Our branches have been designed based on customer research and their needs. We also intended to have maximum impact of our new brand identity on the customers, which has been very well received. Despite all the preparation in our infrastructure, channels & technology, there are bound to be teething issues in the first six months. Hence, we commenced our banking operations with 5 branches in Bangalore in February, 2017. In March, we strengthened our presence in Bangalore with the opening of 6 additional branches in Karnataka, 1 in Mumbai, 3 in Ramanagara (Including One UBRB) taking the tally to 15 branches

In the FY 2017-2018 we have rolled out 20 branches across Delhi, Kolkata and Pune. The phased roll-out of branches is helping us gather operational learnings; we are able to access how do we improve our delivery skills and manage our costs. RBI’s long awaited ‘Branch Authorization Policy Guidelines’ was issued on May 18, 2017. This year we plan to convert around 150+ branches to full SFB branches.

Building the Liability Business

One of the observations of Vijay Mahajan during the launch of the Bank was that generating liabilities by competing with existing banks was one the most challenging areas in his experience of managing the Local Area Bank for fourteen areas. Our initial plan is to focus on wholesale liabilities. In order to achieve this effectively, we need to get the 'Scheduled Bank' status. The RBI inspection has been completed and our expectation is that we should receive the Scheduled Bank status shortly. This will considerably ease the process of raising bulk deposits from institutions which will not only help us in funding but will also lower the cost of funds.

Secondly, our focus is opening accounts of our existing microfinance customers and disbursing our loans into these accounts. This process is being undertaken in a phased manner for customers of the SFB branches.

Parallely, the retail liability from open market customers has commenced. Our goal is to attract the underserved customers who keep their savings outside the banking system. This is totally uncharted territory and we are progressing slowly based on research and new offerings to specific customer segments.

Building the Asset Business and our Portfolio Growth

Post Demonetization, our portfolio growth was impacted. We had restricted loan disbursals in affected branches. New customer acquisition was discontinued at these branches and only repeat loans to existing customers were permitted. However the unaffected branches continued with business as usual. From March'2017 onwards, we have seen overall disbursal of loans closer to pre-demonetization levels.

This year, our overall focus would be moderate growth in the microfinance portfolio and higher levels of growth in the micro and small enterprise business & affordable housing business; though these have currently very small bases. We are also exploring new loans products like personal loans to the underserved segments of customers.

We will also be looking at reviewing our microfinance business both in terms of process & products. This is for two reasons. Firstly, the impact of lower collections detoriating our credit quality in a few pockets will require us to review and re-assess our existing processes in future. Secondly, we would be free from a number of restrictions as a SFB and we need to leverage this flexibility in our product offering.

Managing our Costs & Productivity

It was expected that our costs would increase significantly with our investments made in technology, channels, infrastructure, marketing, regulatory compliance and people in our transformation to a Small Finance Bank. However there were unexpected impacts post

November of lower portfolio growth and lower collection efficiencies; therefore there is an additional impact of significant credit cost in terms of credit provisions and write-offs and higher operating expense ratios. All this requires us to bring in special focus on managing our costs & productivity. We will also take advantage of the three years given to us by RBI to convert all our branches to full service SFB branches.

To conclude, this year is going to be extremely challenging. We are confident that we have the requisite strategies & teams in place to overcome these challenges. Our profitability may be under constraints this year but we will build a successful Small Finance Bank through this baptism of fire. We look forward to your continued support.

Samit Ghosh
May 31, 2017.

2017-2018

YEAR: 2017-18

Last year we set ourselves five challenges:

- Overcome the impact of the 'black swan event' demonetization: clean up the bad book;
- Transform to bank and build the infrastructure & people for the future;
- Build the deposit business & replace high cost borrowings we inherited;
- Re-charge the engines of the existing asset business; and
- Contain the cost & improve the productivity to close the year in the black.

I. Battling the Black Swan Event

Portfolio at Risk (PAR) reduced from Rs.650 Crores (10.8 %) in March 2017 to Rs.304 Crores (4.1%) in March 2018. We had estimated our credit cost for the year around Rs.300 Crores; we ended at Rs.311 Crores which includes write-off of Rs.176.5 Crores and balance in incremental provision. The three majorly impacted states were: Uttar Pradesh portfolio which was the first hit has shown healthy recovery of Rs.60 Crores with PAR reduced from 50.4% to 21.2% as portfolio in the state has shrunk. Karnataka with recovery of Rs.58 Crores with PAR reduced significantly from 19.1% to 7.1%. Maharashtra with continued interference from local political leaders has recovery of only Rs.28 Crores, PAR reduced from 15.9 % to 7.3 % largely due to write-offs. Our overall monthly repayment rate has improved from 88.5% to 97.3 %. The repayment rate on loans disbursed post demonetization period stands at 99.6%. Our NNPA for the same period improved from 3.11% to 0.62% respectively. Despite this unforeseen & one-time credit cost of Rs.311 Crores, we were able to close the year with Profit Before Tax of Rs.__ Crores and Profit After Tax of Rs.__ . This was largely achieved because of collection effort put up by the entire microfinance team at the field and the specialized collection we setup to collect from the hard buckets and also recover from written-off loans. This year this team will continue to work on recovery of these loans.

II. Transforming to a Small Finance Bank

The transformation to a bank required us to build on:

- New technology infrastructure;
- Channels like new banking outlets, handheld devices to take banking to the doorstep, bio-metric ATMs, phone, mobile & internet banking;
- Induction of new people from banks & other financial institutions and training of the existing staff to bring in competencies of a banker. We had to establish new business lines and functions such as Treasury, Risk & Compliance etc.

Harnessing the Power of Technology

At Ujjivan, we are committed to serve the underserved and the unbanked and our strategy has been to take them through a user friendly technology journey from assisted to self-service to access financial services. Our journey, commences with a paperless interaction with customers, providing them services at their door-step through hand-held devices, on phone through phone banking, at their finger-tips through internet or mobile and anywhere cash through biometric ATMs & branches.

To meet this goal, the mammoth task for our technology team was to build new systems and channel capabilities, integrate with the legacy systems where necessary and provide a reliable environment for businesses to operate and customers to access services. New systems that have been deployed are Finacle for core banking, Evolute the hand-held device (I-exceed), biometric ATMs, Mobile Banking Apps, Internet Banking, CRM for unified platform, SAS for risk management. These have been integrated with Legacy systems: BR.Net for microfinance loan processing, Sys-Arc for MSE & Housing Loan processing, along with loan origination & collection on mobile applications and finally the Oracle Financials for an Enterprise level consolidation. We work closely with the state-of-the-art payment systems provided by NPCI and our entire technology path is Aadhar based identification of customers.

While new systems were launched with individual vendors, the whole technology platform was brought together by our System Integrator WIPRO. Along with this, is the challenge of managing connectivity with our far-flung distribution system, which is being managed by Tikona. The overall IT infrastructure has stabilized, controls & risk management processes largely in place and the connectivity is stable. New product/service introduction continues at a brisk pace with adequate Change Management in place and further integration to meet all the regulatory norms are still in progress. Individual glitches crop-up which are being resolved in a timely manner.

We are at the same time putting in place all the protective measures against IT risk & cyber security. It is gratifying that Ujjivan was adjudged the Winner of the IT Risk and Cyber Security Initiatives amongst the Small Banks at the Indian Banking Association Technology Awards. We expect to invest Rs.400-500 Crores in technology over a five-year period.

The year ahead, our focus is to leverage technology to launch tailor-made products faster, drive operational efficiencies, improve turn-around time and thereby serve our customers better.

Building multiple channels to reach our customers

We have built 187 banking outlets of which 40 are in unbanked rural centres (URC). These brick and mortar structures are modern customer friendly branches designed specifically to meet customer convenience and establish our brand. These branches have gone through a number of permutations as we progressed to meet local requirements & cost. The URC outlets are ultra-light models. We had slowed down our physical banking outlet expansion this year to manage our overall costs mainly because of unforeseen credit cost relating to demonetization. By the end of March 2019, we plan to have 475 banking outlets.

We have experimented with seven Banking Correspondent outlets this year. These are primarily transaction points and does not really generate business or promote financial inclusion. We may not continue to expand this network.

We have developed hand-held device (Evolute) for our sales & service staff. With this device, we are able to open accounts, take deposits, and do withdrawals. This takes banking to the door-step, reduces account opening to less than 10 minutes and is paperless. It's truly a revolutionary device christened – '*chalta firta bank'*. We have 7011 devices with our sales & service team and this is expected to go up to 10,000 in the current financial year.

We are the only bank in India with all 146 ATMs which are biometric. This has been done specially so that it can service customers who are not comfortable with the Pin, largely our microfinance customers. We have seen active usage of ATMs. This is still the preferred channel for the unserved & underserved customer base.

We have set up an active phone banking centre in Bangalore with 64 seats. They have provided powerful support for us in sales, service & collection. In the current year, we plan to set up another phone banking centre in Pune and expand the scope of services offered through phone banking.

We offer mobile banking currently to over 24,000 users. Our mobile banking app is among the highest customer rated application, rated 4.70 on a scale of 5 in the finance category on the Google Play store. We also offer our services through internet banking and plan to expand the scope by offering internet banking to various segments of customers.

The long term objective of the physical outlets is to establish our brand identity and build trust in the institution. Over time customers will graduate to other channels for which we have laid the railroad.

Staffing for new businesses & function; and building competencies

We started the year with staff strength of 10, 167 and with strict controls closed with 11, 242. During the year we recruited more than 3,554 employees bringing in new skills required in the bank in across multiple businesses and new functions - mainly in the areas of Sales, Credit, Operations, Phone banking, Audit, Treasury, Risk & Compliance, Legal & Collections. Along with this, we had the massive exercise of building competencies required in the bank for our 6,543 strong microfinance staff. Overall, we trained 6,559 staff in the areas of awareness building about the principles of Small Finance Bank, general banking and their roles in the Bank. An area of key importance in capacity building was regulatory compliance. We tied up with experts from relevant fields to deliver trainings in the areas of regulatory and compliance. Our employees have attended trainings conducted by RBI and its affiliates such as NIBM and CAB.

As our technology went through major changes we had to train our staff on the new technology platforms. We have conducted technology training programs to equip our staff, relevant to their role requirements. A significant achievement was to train our field staff on the usage of hand-held devices to capture accurate data in the field and thereby reduce the turnaround time for our customers. This also resulted in increasing their productivity levels.

A unique strength is the Management Trainee (MT) program which has helped us with building a strong talent pool to shoulder larger responsibilities for the Bank. This year we have also enhanced our MT program with the first batch of 14 IIM recruits. This will be further built upon in the years to come.

This year our plan is to recruit 3,429 staff. Our headcount is expected to close at 14,671. We plan to conduct enhanced training programs in the areas of selling skills to build a sales culture in the organisation, function-specific certification programs, refresher trainings for our new business verticals, training programs on debt recovery & train approximately 10,800+ staff. We are also introducing accreditation programs for Credit Approvers & Auditors.

We have introduced structured induction programs to ensure the newly recruited employees go through a detailed induction process before they start their job activities. This approach has helped the new staff settle down in their roles and contribute effectively towards building the Bank. The additional challenge with people coming from diverse backgrounds is to preserve the culture of Ujjivan and build one team.

III. Building the deposit business & reducing the cost of funds

This year our primary focus was to build up our wholesale deposit and reduce our cost of funds. This largely came from the low cost borrowed funds from banks & financial institutions as a microfinance institution which was grandfathered to the bank. Our legacy borrowing were Rs.6816 Crores at the beginning of the year which we were able to reduce to Rs.2463 crores, a reduction of Rs.4353 Crores by either repayment or pre-payment. These were replaced by largely wholesale deposits including CDs Rs.3345 Crores and retail deposits of Rs.427 Crores. This enabled us to reduce our cost of funds from 10.6% to 9.0 %.

We did not focus on the retail deposit for a number of reasons: slowing down of banking outlet opening due to demonetization and operational & technology glitches in our ability to on-board microfinance customers, open savings accounts for them & disburse the loans to these account. These have been all resolved and we expect a robust growth in retail deposit and CASA balances this year.

We have re-organized and established branch banking as a separate vertical (channel/business) which will be primarily responsible for open market liability customers. A separate unit has been set up to focus on sourcing deposits from specialized segment customers like TASC, government & corporate. The wholesale funding group will focus on financial institutions.

IV. Re-charging the engines of business

The month-on-month disbursement levels of microfinance business have breached the demonetization levels despite the restrictions of operations in areas severely impacted. The business is largely to repeat loan customers. We are in the process of re-assessing geographical areas; we will operate at branch level & commence new customer acquisition in most branches. We are also building our rural business with specialized agriculture and allied agriculture products at our URC banking outlets and also existing banking outlets with large rural customer base. We plan to introduce new loan products such as two-wheeler loans and expand the relation with members of customer's family, especially the spouse.

Two businesses have gone through a long incubation period: Micro & Small Business and Housing over the last two years. We brought in new leadership for both businesses and built the team around them so that they start ramping up business. Monthly disbursements have shown steady growth. We are planning to introduce number of new products this year like Working Capital Overdrafts in the MSE business and Composite Loans in the Housing business. Our non-MFI portfolio has grown to 7.2%.

We have done the preliminary work on personal loan business and we plan to launch it in the current year.

We have built a robust Treasury business largely supporting our funding requirements, meeting our statutory reserve requirements and also brought in Rs.22.9 Crores of earnings in PSLC income. Having set the base, we have set ambitious goals for treasury in the current year including starting a small trading business.

Finally, we have established tie-ups with insurance companies and will be offering third party products on life, health and general insurance this year.

V. Contain the cost & improve productivity to close the year in black

The biggest challenge for us this year was to contain the credit cost which swamped us after demonetization. We set a target to contain it around Rs.300 Crores. Having come so close is a remarkable achievement. We had slowed down our banking outlet expansion to balance the growth in the operating costs. We dramatically cut down our marketing expenses, deferring it to the current year. On the personnel side, recruitment was on a tight leash. We were able to contain the Operating Expense Ratio at 9.6%. All this enabled us to close the year at break-even and stay in black. We were able to show quarter by quarter improvement in our financials, which showed our control over a very difficult year.

The current year will be a major investment and growth year. Operating Expense Ratios is likely to initially deteriorate & then improve as we start scaling our businesses.

Looking ahead:

We have proved that we are a resilient organization having come out fighting against all odds. The years to follow will be take-off years for our multiple businesses, expand our customer base and reach through multiple channels. We are establishing the foundations of a great mass market bank.

Samit Ghosh
May 1, 2018

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2018-2019

YEAR: 2018-19

I. Looking back at the year gone by

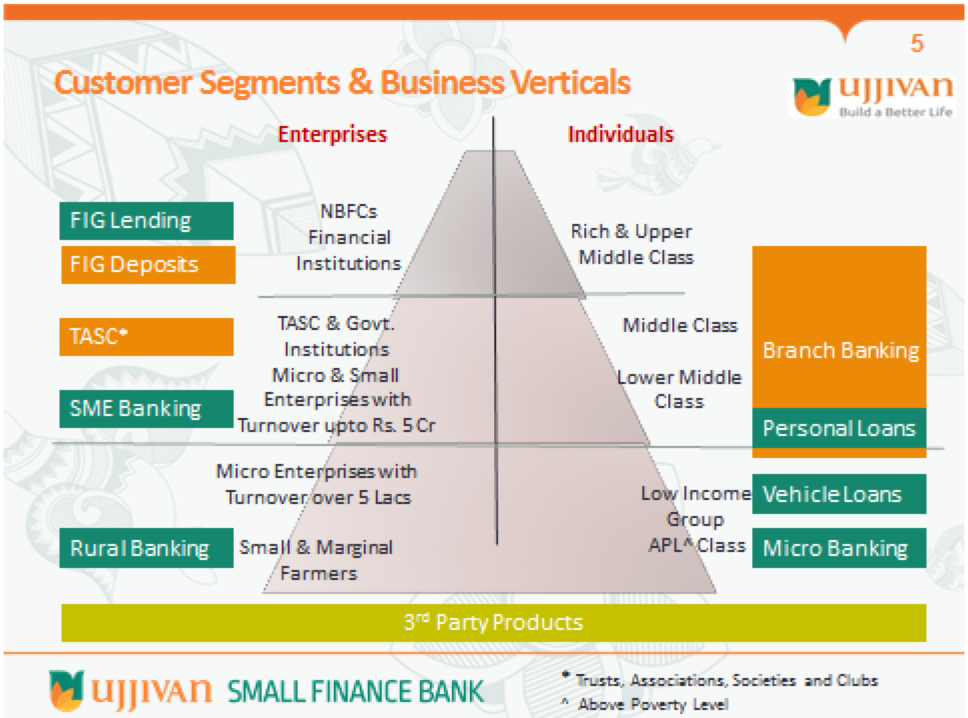
The Financial Year 2018-19 was our first year where we could focus unhindered on:

- Scaling up of the established businesses: Microbanking, Affordable Housing, Micro & Small Business Enterprise, Retail Deposits, Financial Institutions Group, TASC & Treasury
- Setting up new business enterprises & products: Third-party Products in partnership with insurance companies, Personal Lending & Vehicle Finance
- Expanding the use of multiple channels: Branches, ATMs, Phone, Mobile & Internet Banking
- Stabilizing new operations & technology, which are the foundations of the bank and ensuring we meet the standards of the Reserve Bank of India
- Building on the control framework comprising Risk, Compliance, Legal and Audit to meet the higher governance standards of the bank.
- Managing the massive influx of new recruits at all levels, enabling their integration and ongoing training programs to upgrade their overall development

We started the year slowly but built momentum consistently to close the year with excellent financial and business results. The journey has not been easy. We introduced a lot of new technology and digital processes; making full use of Aadhar, India Stack & NPCI infrastructure. Our objective was to introduce paperless account openings & transaction processing at our customer's doorstep, through assisted technology using hand-held devices. We also empowered customers to do their banking through self-service via internet & mobile banking. Setbacks in new processes are inevitable and with the Supreme Court restricting usage of Aadhar, we faced our fair share of obstacles. We have overcome these setbacks as blips in our journey championing technology. While doing all this, we have maintained Ujjivan's position amongst the Top 25 Best Companies to work for in India. We are also the best employer among SFBs ever since we started banking operations, as per the study conducted by Great Place to Work© Institute and The Economic Times.

II. **As a Small Finance Bank we have to reinvent ourselves**

Target Customers & Products: We are looking at a much wider customer base, which extends from the microfinance segment at the bottom of the pyramid to the lower end of the middle class, who still remain underbanked and access financial services largely from the unorganized sector. The Universal Banks mostly serve the affluent and the top half of the middle class. We must focus on the lower half of the middle class & the microfinance customer segment, which constitutes the mass retail market and is nearly 70% of India's population.



The microfinance customer base that we have built over the last 14 years provides us access to 4.5 million households. By extending banking services to all members of a household we can multiply our customer base between 3-4X. The economic well-being & adoption of technology has dramatically changed the lives of this segment of the population. The impact is not even between rural, semi-urban & urban. Microbanking must develop customized products & services to each of these segments to achieve success in the future. A one-size-fits-all approach will not succeed. The key is to design services which specifically meet the needs of different age groups & to keep the products simple. On the business side there is the vast micro & small business enterprises which are underserved and constitute a vast market. Tackling this market; needs a better understanding of the various customer segments and designing products & services for each segment. These customers will easily adopt & appreciate a superior service using technology.

Within the rural areas a number of small & marginal farmers constitute another large potential market. Again, we will need to design our products depending on their farming activities. The risk associated with frequent waiver requests needs to be carefully evaluated.

The potential for affordable housing is also well known. However, the requirement of the rural, town & urban population for housing are different & the legal framework changes from state to state. Success will depend on designing housing loan products customized to each of these segments, while ensuring legal & regulatory risks are covered.

The remittance business using the excellent infrastructure of NPCI is huge and the entire population is fast adopting digital applications. The banks are already being disintermediated by the likes of PayTM.

Business Model: The business model will require us to scale at a fast pace to bring down the cost to income ratio. This can only be done with the support of technology and we have to remain at the cutting edge. Customers will need to be taken through a journey:

'Person to Person' -> 'Assisted Technology'-> 'Self-Service'

The tide is with us, as the poor need technology to avail of these services and that drives faster adoption. We must facilitate this process, through the financial education of customers in collaboration with Parinaam Foundation and deployment of 'digi-buddies' at branches.

"One Bank, One Ujjivan: Over the last year we have developed and upgraded a wide range of products & services across all business verticals. Building separate verticals was necessary to bring focus and develop the specializations required. For the Bank to succeed we need to offer the customer a bouquet of products & services irrespective of verticals. Customer prefer one source of multiple banking products & services and this promotes customer retention even in these fickle times. This is the secret of success for most top performing institutions. The organization needs to 'Fuse' and present themselves as one to the customer.

III. Key tasks ahead in this year

Succession Plan: We will go through a leadership transition this year and induct a new CEO & MD to take Ujjivan to the next phase – transforming to a leading mass market bank while preserving our unique culture and mission. Succession planning & smooth execution is extremely important for any great organization. We, under the leadership of the board, started the process last year and we have completed the first phase with the selection of Nitin Chugh. Nitin has led digital banking in HDFC bank and comes with over 20 years of rich banking experience. The handover process will start mid-August and continue till end of November 2019.

Listing of the Bank: In order to comply with one of the licensing conditions of the Bank, we will work towards listing the Bank for minimum percentage of capital permitted by the regulators. We have been in discussions with the regulators and the door to reverse merge after 5 years of operations is open. We will work towards it and apply closer to the end of the 5th year.

Thanks Giving

I was blessed with the opportunity to find my 'calling' in setting up and leading Ujjivan since inception for last 15 years. This is a rare opportunity to work where your head & heart meet. The journey has seen many highs & few lows. Ujjivan has always come out with flying colours and built an impeccable reputation as a pioneering leader in the financial inclusion space. This has been possible because of the incredible Ujjivan team - past & present; our board members who provided us valuable direction; our investors with all of whom we have enjoyed an excellent relationship; industry colleagues who banded together and worked the way through various crises; various partners who worked with us in multiple areas like technology, law, premises, data processing etc.; various banks & financial institutions who kept us funded; multiple auditors; regulators who have guided us through our various transitions. We believe and strive to be the best to all our key stake holders: customers, staff, investors, partners, regulators and the communities we work in. This generates enormous good will which powers our success.

I would like to close by thanking five outstanding individuals who have been a pillar of strength and without whom Ujjivan would not be what we are today.

Sunil Patel, Chairman of the Bank's board, whose contribution & guidance started well before Ujjivan was born. I had the idea & he put together the business plan, which enabled me to raise the initial capital way back in 2004. Since then he has been engaged in various capacities on our Board to support & guide Ujjivan in his quiet & unassuming way. Sunil & my friendship goes back to our University days in the U.S. at Wharton in 1972-74 and he was one of the reasons why I relocated to Bangalore in 1996.

Mr. K.R. Ramamoorthy, Chairman of the Holding Company Board, who has steadfastly guided us from the inception and ensured that our governance was immaculate. I had approached Mr. Ramamoorthy to chair our board when we started Ujjivan in 2004-5, while he was the Chairman & Managing Director of Vysya Bank. He not only provided us with unstinting support but his reputation rubbed off on us to provide a sheen, which he enjoyed with the regulators & the BFSI space in India. My association with Mr. Ramamoorthy goes back to my days with Bank Muscat 1998-2004.

Carol Furtado, our current Head of Human Resources is one of the eight founding members of the Ujjivan team. She has undertaken multiple key leadership roles in Ujjivan and has been a go-to person in times of crisis. All these diverse roles she took up without a murmur. Her commitment to Ujjivan is unparalleled and is the repository of Ujjivan culture. I worked with her in Bank Muscat and even when Ujjivan was a farfetched idea, she at my request quit her well paid & stable job with Centurion Bank & plunged into the adventure of Ujjivan.

Vandana Viswanathan, our Director for almost as long as I can remember. She initially came to us as a consultant in 2005 through Unitus Capital, one of our early investors to help us build the organization. Vandana is passionate about Ujjivan and continues to play a key role on our Board in multiple areas. At times specially in the areas of human resource management and service quality, we are happy for her to lead the way. She knows us better than we know ourselves.

Elaine Marie Ghosh, my late wife and founder of Parinaam Foundation. She has been the tower of strength for me and a mentor to a lot of leaders in Ujjivan. After retiring from banking in 2004, she and I discussed the possibility of starting Ujjivan. She provided me unstinting support, as she knew this was my dream for a long time. However, with my 24/7 involvement she rued, that she had become a widow! She plunged herself to build Parinaam in her uncompromising manner, as she believed poverty could be alleviated only in a holistic manner. She worked with the same intensity, purely on an honorary basis and in her forthright manner stated that she 'did not intend to make money or fame on the backs of the poor'! She was very pleased that Parinaam was covered extensively by the International Financial Times before Ujjivan. I am happy that her legacy is carried ably by our daughter Mallika.

It is not time to say good bye. I will be associated in a different role on the board of the holding company as a mentor & guide. I believe Nitin will be an excellent leader given his space & freedom and he will take Ujjivan to great heights.

Samit Ghosh
June 23rd, 2019.