MANAGEMENT DISCUSSION AND ANALYSIS

MACROECONOMIC INDICATORS

Beginning FY 2022-23, the global setback that was accentuated due to the COVID-19-induced pandemic had finally subsided. Across the globe, economies targeted to recover aimed to propel stalled growth northward, emerging out of the global contraction. However, this euphoria was short-lived as the Eurozone entered a crisis due to the Russia-Ukraine conflict, resulting in inflated commodity prices that shocked all major developed economies. Due to this double whammy, policymakers worldwide encountered a predicament, with the latest one being liquidity concerns. To counter these issues, Central banks across economies are synchronously adhering to rate hikes led by the Federal Reserve. These rate hikes in US markets incentivised the US dollar to appreciate against most currencies across the globe. This further led to slow global growth, owing to higher interest rates marred by the effects of inflation. On the contrary, the Indian economy was much more resilient due to its strong fiscal policies and robust banking system. This developing economy staged a full recovery in FY 2022-23 well beyond many countries, and ascended the growth path. During the year, the Indian economy witnessed robust GDP growth estimated to be 6.9% for the full year, with real GDP growing 7.7% year-on-year during the first three quarters of fiscal year FY22-23. This handsome growth was corroborated by the Government's strong capex expenditure and buoyant private consumption. Inflation remained high, averaging around 6.7% in FY 2022-23 but the current-account deficit narrowed in Q3 on the back of healthy growth in service exports and easing global commodity prices.

INDIAN BANKING INDUSTRY SCENARIO

The Reserve Bank of India (RBI) started tightening its monetary policy at the commencement of FY 2022-23, limiting the damages caused by foreign capital outflows, rising inflation, and a weakening currency. The RBI hiked policy rates by 250 bps to 6.5% during the year.

Despite that, the banking sector in India has responded in equal measure to the demand for credit. On a year-on-year (y-o-y) basis, non-food bank credit registered a growth of 15.4% in March 2023 compared to 9.7% a year ago. Credit to agriculture and allied activities rose by 15.4% (y-o-y) in March 2023 vs. 9.9% a year ago. However, credit to industry registered a growth of 5.7% (y-o-y) in March 2023, declining from 7.5% in March 2022. Size-wise, credit to large industries rose by 3.0% compared to 2.0% a year ago. The Credit growth of medium industries was 19.6% as against 54.4% a year ago. Credit to micro and small industries registered a growth rate of 12.3% in March 2023 (23.0% a year ago). Within the industry, credit growth to 'basic metal and metal products', 'chemical and chemical products, and 'petroleum, coal products and nuclear fuels' accelerated in March 2023 as compared with the corresponding month of the previous year while that to 'food processing', 'infrastructure' and 'textiles' decelerated. Credit growth in the services sector accelerated to 19.8% (y-o-y) in March 2023 from 8.7% a year ago. This can be attributed to the improved credit offtake by 'Non-Banking Financial Companies (NBFCs)' and 'trade'. Personal Loans registered a growth of 20.6% (y-o-y) in March 2023 compared to 12.6% a year ago, primarily driven by Housing Loans. Not only was the credit demand strong, but banks also intensified their focus on deposits. A sharp increase in deposit rates is currently seen in the industry, leading to a higher inflow of fresh deposits. Owing to the rising interest rate scenario, fresh deposit rates for Public Sector Banks (PSBs), Private Sector Banks (PVBs) and Scheduled Commercial Banks (SCBs) increased m-o-m by 18 bps, 17 bps, and 23 bps, respectively, in the quarter ended March 2023, surpassing pre-pandemic levels. PSBs have been comparatively more aggressive when compared with PVBs, as not only has the increase been higher, but PSBs absolute rates also continue to be higher than PVBs. As interest rates are expected to remain elevated in the near term, concerns over NIM compression remains.

As mentioned earlier, India's GDP recorded growth of 6.9% in FY 2022-23. This indicates that economic activity in the country has remained strong. The total GST collections for FY 2022-23 closed at ₹ 18.10 Lakhs Crores and the average gross monthly collection for the full year was ₹ 1.51 Lakh Crores. The gross revenues in FY 2022-23 were 22% higher than last year. The Purchasing Managers Index (PMI) manufacturing remained robust at 56.4 in March 2023, recording expansion for the 21st consecutive month due to favourable domestic demand. The service sector's activity exhibited buoyancy. These services remained in the expansion zone in March, driven by favourable demand conditions and new business gains. Aggregate demand conditions were resilient in Q4FY 2022-23, even as private consumption showed some signs of a slowdown. Urban demand indicators like passenger vehicle sales and credit card spending registered robust growth in February 2023, while consumer durables contracted in January 2023. Rural demand indicators such as consumer non-durables, tractor and two-wheeler sales, registered healthy growth. Investment activity exhibited buoyancy on the back of the Government's thrust on infrastructure spending, high-capacity utilisation and a revival in corporate investment in certain key sectors. The steady growth in contact-intensive services is expected to remain positive for urban demand. The Government's focus on capital expenditure, capacity utilisation above the long-period average, and moderating commodity prices are also anticipated to bolster manufacturing and investment activity.

The RBI continued to closely monitor the global economic situation in light of increased inflation levels, turmoil in the banking systems of certain advanced economies, tense geopolitical relations, and the challenges posed by tight financial conditions. As per data released by the National Statistical Office (NSO), private consumption and public investment were the major drivers of growth for the Indian economy. Furthermore, the CPI headline inflation persisted above 6%, surpassing the tolerance limit set by the RBI, making it a crucial factor to be closely observed in the upcoming year. Global financial market volatility has surged, which can affect imported inflation risks. Based on RBI surveys, it is expected that the upcoming financial year will see a decline in production costs, along with crude prices being maintained below USD 85 per barrel and a normal monsoon, all of which are likely to help curb inflation. The average daily absorption under the Liquidity Adjustment Facility moderated to ₹ 1.4 Lakhs Crores during February-March from an average of ₹ 1.6 Lakhs Crores in December-January. During FY 2022-23, the money supply expanded by 9.0%, and India's foreign exchange reserves stood at USD 578.4 Billion as of March 31, 2023.

To further strengthen the Indian banking system, the RBI introduced various initiatives to enhance its robustness and credibility, viz., developing an Onshore Non-deliverable Derivative Market. This measure will further deepen the forex market in India and provide improved flexibility to residents in meeting their hedging requirements; enhance the efficiency of regulatory processes, streamlining and simplifying processes for entities to make applications seeking license/authorisation or regulatory approvals from the RBI under various statutes/regulations from a web-based centralised portal named 'PRAVAAH'; and expand the scope of UPI by permitting the operation of pre-sanctioned credit lines at banks through the UPI. In addition, this initiative will foster innovation and facilitate the development of a centralised web portal, enabling the public to search for and claim their unclaimed deposits easily.

Outlook: FY 2023-24

Despite the lingering effects of inflationary pressures, India has strongly recovered from the pandemic. Growth in FY 2023-24 is expected to be aided by robust domestic demand and a rise in capital investment. The financial sector's significantly strengthened balance sheets and reduced bad loan pool compared to the previous year will contribute to India's macroeconomic stability. This will be further reinforced by the expansion of economic activities, moderation in inflation, narrowing of the Current Account deficit to sustainable levels, and a comfortable level of forex reserves.

OUR STRATEGY

The Bank envisions building a technologically-driven and customer-focused leading 'mass-market' bank. The Indian economy is currently experiencing a significant rise from the bottom of the pyramid, with numerous families transitioning into the middle class. These emerging middle-class families are evolving and creating a demand for financial solutions. The Bank aims to capitalise on this opportunity by targeting this segment, which is not deeply penetrated by its larger peers. Also, in the process, the Bank aims to help the Indian socio-economic environment move towards growth and upliftment.

Over the past years, the Bank has strengthened its position, especially by capitalising on positive initiatives implemented after the pandemic. As a result, the Bank has established a robust platform that is well-prepared to seize upcoming opportunities.

Diversified Bouquet of Products

The Bank offers a comprehensive suite of products and services and a personalised customer experience. Over the years, the bank has built a strong base of customers across asset and liability verticals. The Bank is focused on creating need-based products for each of its segments. The Bank intends to enhance its services to MSME customers by introducing products tailored for the semi-formal and formal segments while also transitioning towards relationship banking. This strategic shift involves a focus on providing shorter term products such as supply-chain finance, working capital funding, bill discounting, and other non-fund-based facilities. In housing, the Bank is increasingly moving towards customised offerings targeted at local requirements in various regions. During the fiscal year, the Bank launched a state-level collateral policy catering to diversity in the real-estate market and legal regulations in different states. The Bank also introduced a micro-LAP (Loan Against Property) product designed for small borrowers requiring funding. This product aims to assist small borrowers and their families with a solid repayment history and the capacity to manage higher-ticket loans. By enhancing its fintech alliances, the Bank will further broaden its channels, enabling enhanced customer reach and providing them with superior services. For institutional segments, new products, such as bank guarantees, have been launched, and the working capital product is being worked on. The Bank is working towards expanding its bulk deposit avenues and looking to enhance exposure limits from various mutual funds, insurance companies, and various co-operative banks. On the liability front, its emphasis will be on implementing digital solutions for Government and Institutional businesses, such as the Public Funds Management System (PFMS). Strengthening fintech alliances will further expand the Bank's channels to reach its customers. POS and QR-led acquisition will be key areas of focus as the Bank expands its reach among small and medium retailers. The Bank is continuously enhancing its offerings for the aspiring middle-class segment by offering more value-add products to strengthen the Bank's position as a mass-market bank.

Focus on Digital Banking and Analytics

The Bank has established a dedicated digital banking team to improve customer experience, optimise technology investments, and minimise operational costs. This initiative's key components include digital innovation, API banking, fintech collaborations and partnerships, robotic process automation, artificial intelligence, digital lending, payments, digital marketing, and data analytics and insights. The aim is to leverage these factors to enhance overall efficiency and effectiveness within the Bank's digital ecosystem. The Bank is actively implementing an end-to-end digitisation process to enhance contactless disbursements and repayments. Leveraging data analytics, the Bank will gain actionable insights to facilitate well-informed decision-making. By harnessing its full-stack API banking platform, the Bank intends to collaborate with the fintech ecosystem to offer its customers innovative products and solutions. Additionally, digital channels will play a pivotal role in acquiring new customers and delivering services efficiently.

The Bank leverages technology to provide a better customer experience to the mass-market and aims to expand its digital reach within the country. In line with this objective, the Bank has introduced a novel mobile app called 'Hello Ujjivan'. The primary focus of this app is to cater to the needs of semi-literate or less tech-savvy customers who encounter obstacles like language barriers and difficulty comprehending banking terminology. These challenges often hinder their use of mobile banking services. Being the first of its kind, the app combines various advantages, such as a user-friendly interface, support for vernacular languages, visual communication through pictures, and voice interactions. This unique amalgamation offers customers an experience that fosters deeper digital penetration. In fiscal year 2024, the Bank plans to enhance the app by expanding its range of services, including the addition of loan application functionality.

Increased Customer Penetration Through Multi-Channel Approach

The Bank leverages a strategic blend of physical and digital channels and partnerships to extend its reach and provide added value to customers. The Bank consistently enhances its customer outreach through technology-enabled channels such as Video Banking, Phone Banking, and Business Net Banking. A diverse array of services is currently available, with plans for further expansion throughout the year.

The Bank operates two in-house phone banking facilities that operate round the clock with a team of over 150 phone bankers. These facilities offer comprehensive support in nine languages, serve customers, and generate or convert business leads. Among over one million registered customers, 89% access the services in Indian languages. Presently, more than 200 services are available through Phone Banking, with ongoing efforts to further enhance the offerings. Notable features of the Bank's Phone Banking include a reduced IVR wait time, quicker access to phone bankers, a Straight-Through-Process for certain service requests, and the ability to book term deposits over the phone. The Bank is actively working on transforming this channel into a significant sales platform that would lead to further improvement in field-staff productivity. Furthermore, various initiatives are being implemented to enhance the overall customer experience.

The Bank is committed to offering customers a branch-like experience at their convenience by providing seamless banking services through branchless solutions. In fiscal year 2024, the Bank will introduce Video Banking services to cater to tech-savvy customers who prefer branchless banking. This service aims to enhance trust and confidence in the Bank by enabling face-to-face interactions through video calls. The Video Banking offerings will feature robust multi-layer authentication for security and will be accessible in multiple languages throughout.

To promote its products and services, the Bank extensively utilises the digital platform, employing dedicated programmes that leverage analytics and customise messages to cater to specific target audiences. In addition, the Bank prioritises expanding its customer reach through neighbourhood transaction points, ensuring seamless service for customers who reside at a distance from the branches.

Strengthening Liability Franchise, and Increasing Our Retail Base

The Bank's primary emphasis has been establishing a strong and sticky foundation of retail deposits to support its asset expansion. The Bank has observed promising and robust growth in its retail deposit base, including CASA (Current Account and Savings Account) Deposits and customer acquisition. Anticipating the increase in interest rates, the Bank proactively implemented rate hikes earlier than its competitors. This strategic decision not only bolstered deposit momentum but also contributed to substantial growth in retail deposits for the Bank. Towards the second half of FY 2022-23, the Bank aimed at reducing interest rate premiums over larger peers and successfully reduced the same to a large extent. Consequently, the Bank managed to keep the cost of funds under control despite multiple REPO hikes. The Bank has established a robust foundation among traditional customer segments such as senior citizens, women, enterprises, and TASC (Trusts, Associations, Societies, and Clubs). Additionally, by prioritising digital products and employing a multi-channel approach, the Bank is actively expanding its customer base among new-age segments, including young professionals, established investors, and tech-savvy entrepreneurs.

With a strong emphasis on customer service, the Bank strives to uphold high standards to enhance customer satisfaction and foster long-term retention. To achieve this goal, the Bank consistently invests in technology and provides comprehensive training to its staff, ensuring that the quality of service remains at the forefront of the industry.

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

Responsible Banking For the Unserved and Underserved Segments

With a strong commitment to promoting financial inclusion for unserved and underserved segments, the Bank's focus is on fostering financial discipline among its customers. The bank will continue to educate and train them about the risks associated with excessive debt and multiple borrowings, and the advantages of savings in a bank and obtaining insurance products. Through the Bank's partnership with the Parinaam Foundation, it will offer financial literacy programmes to enhance financial awareness. Furthermore, the Bank is developing an AI platform to assist customers in fulfilling service requests and conducting basic transactions in their preferred language and channel. The Bank aims to encourage its customers to embrace digital channels, providing them with a cost-effective, convenient, secure, and seamless transaction experience.

DIVERSIFY REVENUE STREAMS, CONTROL COSTS

The Bank's primary focus is expanding its portfolio of financial solutions to augment its revenue streams, encompassing fee and non-fund-based revenues. Leveraging its extensive banking outlet network, digital channels, diverse product and service portfolio, and large customer base, The Bank aims to enhance its fee and commission-based business. The Bank's treasury team adeptly trades and manages funds, capitalising on market opportunities. Additionally, the introduction of new products for institutional clients will contribute to fee income growth. The RBI's relief measures have categorised lending by SFBs to MFIs and various other segments as priority sector lending, enabling the Bank to exceed the mandated targets for priority sector advances. Furthermore, the trading of priority sector lending certificates will continue to serve as a significant source of fee income.

GROWING CUSTOMER BASE

As of March 31, 2023, the Bank had 77 Lakhs customers, a growth of around 20% over 65 Lakhs a year ago. This growth was driven by both asset and liability customer growth. On the asset side, The Bank acquired around 10 Lakhs customers during the year, primarily driven by MicroBanking and Housing. On the liability side, the Bank's retail branch banking has been adding around 70,000-75,000 customers every quarter.

FINANCIAL AND OPERATIONAL PERFORMANCE

The financial year started with the ongoing momentum from the second half of FY 2022-23. The business traction continued in the first quarter of fiscal 2023, and with the same trend sustaining throughout the fiscal, the Bank achieved multiple milestones. On the asset side, the Bank crossed the milestone of ₹ 20,000 Crores of disbursement during the year, with Q4FY23 disbursement achieving ₹ 6,000 Crores. The liability franchise continued to race ahead of the asset side, with the CD ratio falling to 94% (including the Bank's IBPC & Securitisation exposure of ₹ 2,174 Crores as of March 31, 2023) and the total deposit book reached ₹ 25,538 Crores – crossing the ₹ 25,000 Crores mark.

The good work done under the Bank's two '100-day' plans continued to yield results in FY 2022-23 with the Bank achieving a major milestone and its highest ever yearly profit of ₹ 1,100 Crores and Q4FY23 having the highest ever quarterly profit of ₹ 310 Crores. The turnaround in the profitability for the bank from (₹) (415) Crores in FY 2021-22 to (₹) 1,100 Crores was aided by multiple aspects in FY 2022-23. The major factors leading to this turnaround were NPA levels going down drastically, supported by improved collections, an increase in yield, an enhancement in productivity, and streamlining the processes helped rationalise personnel costs as well as business-related expenses. The continued effort on the collections front and focus on legal activities resulted in a minimal credit cost of ₹ 18 Crores and a Bad-Debt Recovery Income of ₹ 135 Crores for FY 2022-23. The pre-provision operating profit stood at ₹ 1,485 Crores in FY 2022-23 against ₹ 637 Crores in the previous year.

Overall, total income grew by 50% over the last financial year on the back of strong loan book growth of 33% and an increase in yield on advances and other income. Interest income on advances amounted to ₹ 3,708 Crores, constituting 78% of our total revenue. The yield on the gross loan book in FY 2022-23 stood at 18.4%, compared to 16.6% in the previous year. The high NPA levels in FY 2021-22 led to income derecognition, impacting the yield on the book. In FY 2022-23, the interest income on advances for the Bank increased by 44% over the previous year, which was combined with significantly lower NPA levels throughout the year with (GNPA of 2.6% as of March 31, 2023) and very strong book growth from the previous year. Income on statutory and other investments amounted to ₹ 429 Crores, growing by 81% during the year on account of the higher deposit base and higher SLR maintained for a sufficient liquidity buffer. It constituted 9% of the total income.

Fees and other income, comprising processing fees, profits on the sale of Priority Sector Lending Certificates (PSLC), commission income on the distribution of third-party products, interest or gain on investments, bad debt recovery, and other miscellaneous income, saw a growth of 64% over the last financial year and constituted 12% of the total income against 11% in the previous year. Bad debt recovery saw a growth of 187% over the previous year to ₹ 135 Crores in FY 2022-23 from ₹ 47 Crores in the previous year on the back of strong collections for all the business verticals supported by legal actions.

Commission income on distribution of third-party products increased to ₹ 44 Crores against ₹ 26 Crores, as a result of increasing distribution of retail insurance by cross-selling across businesses, which saw a growth of 63% over the previous year, activation of the distribution channels, and higher credit life commission as a result of higher disbursement volume. Miscellaneous income, comprising annual card maintenance fee income, income from banking operations, foreclosure and late payment charges, and profit on the sale of investments, amounted to ₹ 122 Crores, constituting 21% of fee and other income, and 3% of total income. Income from banking operations grew to ₹ 66 Crores, against ₹ 50 Crores in the previous financial year, on account of increased digital transactions, reflecting greater usage of the accounts.

On the liability side, the Bank saw a scale-up of deposit franchises driven by CASA and retail term deposits. Total CASA grew 35% over March 2022 to ₹ 6,744 Crores in a market where most peers are struggling to add CASA. The Bank anticipated the rate curve and was ahead of the industry in taking rate hikes and building a strong deposit base. The Bank further diversified its liability base by taking sub-debt of ₹ 300 Crores. The year saw multiple REPO hikes, followed by a liquidity crunch in the system. This led to an increase in interest rates across all liability products. As a result of these rate hikes, the on-book cost of funds increased to 6.5% from 6.3% in the previous year. The Bank increased its exposure to IBPC/Securitisation from ₹ 674 Crores as of March 2022 to ₹ 2,174 Crores as of March 2023, which helped the Bank restrict the rise in cost of funds to 25 bps despite sharp REPO rate hikes. Finance Costs increased by 41% compared to the previous year. The bank maintained a healthy LCR of 180% as of March 31, 2023.

NIMs for the fiscal year stood at 9.5%, against 8.8% in the previous fiscal. The increase in yield in FY 2022-23 aided the increase in NIM despite the increase in the cost of funds. Every business vertical reported a better NIM in the current fiscal year for the same reason.

On the expense front, the total operating cost increased by 20% compared to FY 2021-22. This was a combined effect of an increase in headcount, the number of banking outlets, growth in business volume, and upgrades made to the IT infrastructure. The employee expense increased by 15% over the previous financial year as there was an increase in the employee strength of ~1,000 staff, an increase in the average salary, variable pay, and expenditure on employee training and skill enhancement. Other operating costs, comprising occupancy, technology and connectivity, travel and conveyance, cash handling and management, marketing, direct business-related expenses, and other expenses, increased by 27% from the previous year. The increase in expenses from the previous financial year can be attributed to much higher business volume and an increase in occupancy-related expenses due to the addition of 54 new branches. IT expenses also saw an increase as there were upgrades made to the IT infrastructure, both hardware and software, as the bank completed 5-years of operations, thus expanding capacity. The collections expense remained at similar levels as the previous financial year, though it started declining sequentially through the quarters as the portfolio quality improved. With improvements in staff productivity and process-related changes backed by higher income, the cost-to-income ratio for FY 2022-23 reduced significantly to 54.8% against 70.1% in the previous fiscal.

Credit expenses for the year were at abysmally low levels. The total credit cost was ₹ 18 Crores compared to ₹ 1,164 Crores in the previous year. The Bank made an incremental provision of ₹ (32) Crores on standard assets, and ₹ (433) Crores on NPA, and write-offs worth ₹ 483 Crores. The floating provision of ₹ 250 Crores continues to remain on the books, with ₹ 100 Crores being moved to other provisions and ₹ 30 Crores utilised towards Tier-II Capital. The entire floating provision of ₹ 250 Crores is available to make specific NPA provisioning in the future in case of external exigencies, with RBI approval. Provision coverage on the total gross loan book stood at 3.1% as of March 31, 2023, against 7.1% on March 31, 2022. The total cumulative provision on the portfolio stood at ₹ 735 Crores as of March 31, 2023, consisting of ₹ 113 Crores on standard assets and ₹ 621 Crores on NPA (this includes only ₹ 120 Crores of the floating provision). The Provision Coverage Ratio (PCR) for the Bank stood at 98% at the end of the year, while net NPA (NNPA) stood at 0.04% against 92% and 0.6%, respectively, in March 2022.

The Bank's Return on Asset (RoA) on Pre-provision operating profit stood at 5.2% against 2.9% in the previous year, with Return on Equity (RoE) at 31.4% against (13.8)% for FY 2021-22.

Income Statement

As of March 31, 2023, the Bank's balance sheet size stood at ₹ 33,317 Crores, an increase of 41% over ₹ 23,612 Crores at the end of March 31, 2022. The Bank's net worth increased from ₹ 2,803 Crores as of March 31, 2022 to ₹ 4,209 Crores as of March 31, 2023. The Capital to Risk Weighted Asset Ratio (CRAR) stood comfortably at 25.8% as of March 2023, compared to 19.0% as of March 2022, as a result of higher profits and a capital raise done in September 2022.

The Bank's gross loan book closed at ₹ 24,085 Crores, registering a 33% growth over the preceding year. While the Bank's deposit base closed at ₹ 25,538 Crores, growing 40% y-o-y, it was largely driven by healthy growth in CASA or retail term deposits.

DIGITAL INITIATIVES

FY 2022-23 sets the direction of travel for the Bank to dramatically scale the business sustainably while achieving greater efficiency.

The Bank launched 'Hello Ujjivan', a banking app for semi-literate customers with Voice Prompts, voice recognition in 9 languages and 8 dialects, and visual prompts. The Bank has witnessed significant adoption of the app from its customers, with the Bank recording over 97,514 downloads and 4,800 active users (with a minimum of 1 transaction) as of March 2023. This achievement led to the Bank's recognition for innovation at the esteemed Aegis Graham Bell Awards.

In its pursuit to establish a comprehensive remote banking solution that combines the benefits of digital technology with a compassionate human experience, the Bank introduced Video KYC. This groundbreaking initiative also marks the Bank's first foray into cloud-based services, setting the stage for accelerated cloud adoption in the future.

The Bank successfully transformed into a data-driven organisation, implementing decision support systems across various business lines. Extensive analytics and insights were generated and shared throughout the organisation via interactive dashboards, enabling data-driven decision-making at every level.

The Bank has taken a pioneering step in the industry by offering customers the convenience of signing up for digital banking using Aadhaar. This ground-breaking feature significantly reduces barriers for non-tech-savvy customers while ensuring a secure and seamless onboarding process.

The Bank has experienced tremendous growth in UPI adoption, securing the second position among Small Finance Banks (SFBs) and the 32nd position nationwide. Furthermore, it is noteworthy that the Bank ranks 12th nationwide for technical declines on UPI transactions, even as the Bank hits all-time high transaction volumes (as of March 31, 2023).

Digital channels have facilitated self-service deposits amounting to over ₹ 1,090 Crores, showcasing a remarkable growth of over 2 times compared to the previous fiscal year. Additionally, digital repayments received through BBPS - enabled apps surpassed ₹ 2,028 Crores, witnessing a significant increase of 130% from the previous fiscal year.

The Bank has distributed over 2.9 Lakhs UPI QR codes to customers, resulting in credit receipts of over ₹ 300 Crores through these QR codes. Additionally, in FY 2022-23, the Bank introduced 22 new and enhanced Robotic Process Automation (RPA) processes, leading to savings of over ₹ 6 Crores in the reconciliation process and approximately 20,000 person hours across all processes.

Alliance and Electronic Payments

The Bank recently restructured its Channels team, dividing it into two departments: Alliance & Electronic Banking and Phone & Video Banking. The Alliance & Electronic Banking team's primary focus is on enhancing Phygitech points, ensuring the delivery of Secured items like Debit Cards and Cheque Books, and tracking Vendor Management.

Phygitech Points

Besides implementing various other digital initiatives, the Bank has successfully boosted its phygitech points through ATMs, ACRs, and Money Mitra. The Bank has notably expanded its touchpoints through a substantial increase in the number of ATMs and ACRs available to customers. The Bank has:

- 457 ATMs and 60 ACRs (Auto Cash Recyclers) currently.
- Remained at the top among all SFB banks, in the volume of ATM transactions, with a high ATM uptime of over ~98%.
- Started deploying state-of-the-art touchscreen ATMs with multilingual language screens to enhance the customer experience. Braille keypads continue to be part of the ATM features for visually challenged customers.
- ~41% of the ATM transactions among the peer banks.

- Revamped Lollipop for ACRs for general awareness to increase the usage of ACRs for deposits. ATM WIN 10 activity has been completed.

Money Mitra refers to business correspondents who offer assisted banking transaction services to customers. These touchpoints facilitate face-to-face interactions, which contribute to brand building, cross-selling opportunities, and enhanced transaction experiences. Money Mitra will provide services enabled through mobile technology and digital authentication modes.

- 159 branches are active, with 639 Money Mitra agents.
- The overall contribution to cashless repayment is 7%.

The Bank's Card remains the leader among all Small Finance Banks (SFBs) in terms of card usage at ATM channels. There has been a 3% growth in card transactions at ATMs for the Bank, while the industry as a whole has experienced a 2% decline in this regard.

- The Bank is the largest Debit Card issuer among its industry peers, with a card base totalling 8.6 Million users.
- The Bank is the leader among all SFBs in card transactions at the point of sale (POS).
- The Bank has experienced 4% growth in card issuance, surpassing the banking industry's growth of 1% and SFBs' growth of 2%.
- The Bank has introduced contactless cards by issuing all staff the first set of DU Platinum cards.

Vendor Management and Tracking

The Alliance unit within the AEP Department at the Bank is responsible for overseeing the outsourcing activities of the Bank. Its main objective is to ensure that vendors associated with Ujjivan comply with the Bank's established policies and practises, which are aligned with the regulations and guidelines set by governing authorities.

- The Alliance unit serves as the gateway for vendor onboarding, streamlining all vendors' processes.
- This unit diligently tracks and ensures the timely renewal of all vendor agreements to mitigate any risk exposure resulting from the expiration of agreements.

Delivering Customer's Secured items

The fulfillment unit at the Bank plays a crucial role in enhancing the customer experience by delivering various essential items such as debit cards, cheque books, statements of accounts, SMS, or email notifications to customers. This unit places a priority on delivering premium products to further elevate the overall customer experience.

Internal Control Systems and Adequacy Risk Management

The Bank has a strong risk management framework in place to identify, mitigate, and monitor material risks across all its functions. Directed by the Risk Management Committee of the Board (RMCB), the Bank has an adequately staffed risk management team led by its Chief Risk Officer (CRO) to implement the directions of the Board. The team is mainly placed in the Bank's corporate office and also has a presence in each of the regional offices, primarily to aid in cascading the operational risk framework at a granular level. The hallmark of the Bank's Risk Management function is its independence from business sourcing units, with convergence only at the Board level.

Through continuous monitoring and enhancement, the Bank has established a distinct risk architecture with detailed policies and procedures for managing its credit risk. To that effect, key areas in risk identification (Early Warning Systems), risk measurement (ECL-based provisioning framework), risk mitigation (independent oversight by the risk monitoring team), and risk monitoring (High-Risk Branch and Collection productivity trackers) were significantly overhauled and improved upon. During the year, the Bank also validated its internal rating systems/scorecards to aid in objective-based lending with post-pandemic data. Furthermore, the Bank had also put in place a framework to better understand the inherent risk exposure on account of climate-induced physical risks.

Stress Testing continued to form an integral part of credit risk monitoring, wherein sensitivity and scenario-based analysis were regularly performed on the collection rates to compute the incremental default rates and associated credit costs. The Bank had also leveraged Network for Greening the Financial System (NGFS)-prescribed stress scenarios to better understand the interrelationships between default risk and physical risks over a short-term horizon. These models will be subject to continuous enhancements. These tests continue to serve as an important guiding tool for strategic decision-making and assessing overall resilience.

The Credit Risk Management Committee (CRMC) of the Bank meets at least at bi-monthly intervals to review the credit portfolio's performance and provide oversight for credit risk management.

Market risk arises largely from the Bank's statutory reserve management and trading activity in the interest rate market. The risks are managed through real-time monitoring by the Bank's Treasury Mid Office, which works within a well-defined Limit Management Framework that caps risk in various securities through limits/triggers. The risk measures include sensitivity limits, namely PV01, Modified Duration of HFT/HTM Portfolio, Value-at-Risk

(VaR) Limits, and Stop Loss Trigger Levels (SLTL) to name a few.

The Bank has established various limits on **Liquidity risk** management to mitigate funding mismatches and interest rate risks. While the caps on the mismatches to maturity buckets and stock ratio limits help manage liquidity risk, the sensitivity analysis of Net Interest Income (NII) and Market Value on Equity (MVE) helped mitigate interest rate risks. The Bank also maintained a comfortable Liquidity Coverage Ratio (LCR), well above the regulatory limits during the year. During the year, the Bank introduced IRR Value at Risk (IRRVaR) and SLS-based stress tests linked to a contingency funding plan. The Bank regularly undertakes various internal assessments on the behavioural patterns exhibited by depositors with respect to pre-mature withdrawal, utilisation, and tenure of deposits. Tolerance levels are now defined internally as part of the Liquidity Risk Management Framework.

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

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

During the year, RCSA was successfully operationalised and handed over to the First Line of Defence (FLOD) in five business units. The RCSA results will enable the Bank to assess the control testing effectiveness and management of residual risks. The Bank also introduced customised KRI dashboards in three business units for better supervision and oversight. The branch-level gaps were followed up for closure, resulting in an improvement in branch audit scores.

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

On account of **Cyber risks/Information security Risks** and with the ever-increasing global threat landscape, we as an organisation recognise the significance of a robust information security structure and have implemented defence in-depth technologies in order to safeguard customers' interests vested in us as an organisation. The Bank has orchestrated each and every tool in such a manner that none of the acts of a malicious intruder can go undetected. The key elements and the teams working in a chain fashion for managing information security risks are as follows:

1. **Risk assessment and Management:** We conduct regular risk assessments to identify potential vulnerabilities and threats to the Bank.
2. **Policies and procedures:** The Bank has a set of robust information security policies and procedures that set out the path for each and every individual working in the organisation in a secure manner.
3. **Security awareness and training: -** We as an organisation understand that employees play a critical role in maintaining information security. Therefore, as an organisation, we invest in regular training and awareness programmes to educate our workforce about emerging threats, phishing attacks, social engineering techniques, and other security best practises.
4. **Red team:** The Bank has an independent group of experts who simulate real-world attacks and attempt to exploit vulnerabilities. As a result, as an organisation we get valuable insights to enhance the security posture of the organisation.
5. **Blue team:** The Bank has established a 24*7 SOC (Security operation centre) team that detects, analyses, and takes the requisite actions to respond to the incidents.
6. **GRC team:** The Bank has a dedicated GRC (Governance risk and compliance) team to ensure effective management of regulatory requirements, risks, and operational controls.

We, as an organisation, recognise that information security is an ongoing requirement and requires continuous involvement, improvement, and adaptation to the ever-increasing threat landscape.

The Bank regularly participates in Cyber drills conducted by the Institute of Development and Research on Banking Technology (IDRBT) and conducts periodic Disaster Recovery Drills for its technology infrastructure to ensure the availability of critical services in the event of a disaster. The Bank follows a proactive approach instead of a reactive one.

LEGAL

The Bank's Legal team renders its services in the areas of legal advisory and documentation, contract management, support to the infra and admin departments, support to branch banking, employment law, corporate affairs, litigation management, and recovery assistance.

During the year, the team consistently provided timely advice and assistance to support the Bank's business operations, management, and other functions.

During the year, as an initiative towards digitisation of legal processes, the Bank's Legal team onboarded SpotDraft and C1India. Spotdraft, a contract management software, reduces the turnaround time in the execution of agreements and streamlines the contract management system. On the other hand, C1India is an e-auction platform that helps in the disposal of assets taken into possession under SARFAESI in a fair and transparent manner.

In reference to the Bank's recovery and resolution activity, the Legal team collaborated closely with the Collections team to successfully resolve a significant portion of non-performing assets (NPA) utilising various legal tools. These tools include Legal Demand Notices, S.138 notices, Lok Adalats, and actions under the SARFAESI Act, among others. The team organised and executed a notable number of Lok Adalats across different regions, leading to substantial collections within a relatively short timeframe.

The Legal team has been diligently offering timely assistance to address emerging legal requirements and challenges encountered by the Bank. In terms of customer service, the team has played a crucial role in preparing concise documents and agreements across various domains, prioritising customer-centricity and enhancing readability.

Moving forward, the Legal team remains committed to providing comprehensive guidance, striking a balance between business facilitation and compliance with relevant legal and regulatory frameworks. The Legal Team's focus will be on ensuring adherence to applicable guidelines while fostering a favourable environment for business operations.

COMPLIANCE

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

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

INTERNAL AUDIT

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

The Internal Audit Department is appropriately staffed with qualified and competent personnel and has five audit verticals: branch audit, Central Functions, IS Audit, Credit Audit, and Concurrent Audit. An annual audit plan is prepared using a risk-based approach encompassing all the audit areas. The plan was submitted to the ACB for approval. The internal Audit Department reports all significant observations along with the management action plan to the ACB. The ACB assesses the adequacy and effectiveness of the internal audit function, including the structure of the internal audit department, the progress of the annual audit plan, and staffing. It ensures effective and independent review procedures.

VIGILANCE

During the year under review, the Bank focused on the prevention and early detection of fraud. To achieve this, an enterprise-wide Fraud Risk Management System (e-FRMS) was implemented. This system is designed to monitor and identify any abnormal or suspicious activities, thereby enhancing overall security measures and mitigating transaction-related fraud across all customer channels, including core banking, mobile banking, internet banking, debit cards, and UPI. The number of fraud scenarios being monitored was increased by 40%, and a 'prevention mode' was implemented, requiring transactions to undergo scrutiny before being debited from customer accounts.

Furthermore, efforts were made to strengthen the Whistle blower system throughout the financial year. Recognition and rewards, such as the 'Warriors of Vigilance' programme, was introduced to appreciate employees who reported instances of fraud, leading to concrete measures being implemented for prevention and mitigation.

During the review period, the Channels team successfully implemented process improvements suggested by the Vigilance department, specifically in the ATM processes.

The Bank is reporting of digital frauds (CPFIR) through the Reserve Bank's Advanced Supervisory Monitoring System (DAKSH) portal from the existing CPFIR portal as per RBI directions. This aligns with the new regulatory guidelines on fraud re-porting. RBI has advised the Banks that the digital frauds reported in DAKSH also need to be re-ported as fraud through the XBRL platform. During the year, 261 out of 618 skimming/vishing/phishing-related offences totalling ₹ 59.37 Lakhs had no financial impact on the Bank.

Below is a summary of the frauds reported during the reviewed Financial Year:

Particulars	As on March 31, 2023	As on March 31, 2022
Number of frauds reported	618	383
Amount involved in fraud {₹ in Thousands}	97,364	53,053
Amount of provision made for such frauds * {₹ in Thousands}	67,554	26,091
Amount of unamortised provision debit-ed from 'other reserves' as at the end of the year	NA	NA

* Note: The provision amount is net of recovery/write off as at the end of the year

CREDIT

FY 2022-23 has been a year of remarkable turnaround and growth for the Bank as well as for the banking sector in India. The economy remained resilient in spite of inflationary pressure, rate hikes, unemployment rates, and geo-political risk, including global wars and their aftermath effects on supply chain constraints and the economy.

The Credit industry has registered a healthy growth of 18% during FY 2022-23 after a steep reduction for consecutive two financial years (FY) due to the COVID-19-induced economic slowdown. The fiscal year earmarked a significant milestone in credit growth in banking sector with Retail credit registering a growth of 18%, the MSME sector 15%, and the MFI sector seeing an annual growth of 22%.

The learnings from COVID-19 have helped the bank strengthen underwriting policies, processes, portfolio and collection management. Focused efforts were made on implementing key regulatory guidelines and building a strong collection infrastructure, which helped us support existing customers, develop and offer new products, and work on rebuilding customer credit behaviour, while keeping credit costs in check. The continued connection with customers helped us appropriately respond to their needs in a timely manner. This resulted in stabilisation and a return to all-round growth in the credit business during the year.

The ongoing efforts have resulted in a continuous improvement in collections, driven by the implementation of an analytics-based dynamic collection plan by our field teams. This approach is further bolstered by intensified legal actions across various product categories. These efforts have yielded multiple benefits for the Bank, including: (a) Tight control on slippages, ensuring a reduced number of accounts turning into non-performing assets with higher upgrades (b) Provision write-backs, due to improved collections across the buckets and especially in restructured accounts, lead to a reassessment of the required provisions (c) Income earned from the recovery of bad debts, further strengthening the Bank's financial position.

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

Policy/Process changes during FY 2022-23: The Bank is committed to ensuring high asset quality and the best customer experience for its stakeholders and is continually upgrading its underwriting process to ensure the same.

MicroBanking and Rural Banking

The segment emerged strong in the fiscal year, registering its highest growth in the last 5 years, and the segment was the quickest to return to normalcy after absorbing COVID-19-related disruptions. The year has also witnessed key regulatory changes in the microfinance sector, which have created a level playing field for all lenders with an increased focus on risk management and customer protection.

Credit strategy: With the promising growth in the credit industry, a gradual shift was made towards increasing the new-to-bank customer acquisition during the year, while in the previous fiscal the focus was on serving its existing customers. Overall, the YoY portfolio growth was 41% and Micro Individual Loans witnessed a growth of 67% during the year. Underwriting policies were strengthened with the use of market intelligence insights and state-of-the-art technology for underwriting to arrest the inherent credit risks and ensure efficiency in the aftermath of the pandemic and the year of resurgence. Two new products, Gold Loan and Micro-LAP, were introduced during the year to serve the aspiring middle class.

Portfolio management: The Bank significantly strengthened the collection infrastructure to improve recovery from NPA accounts. This included strengthening the team for regular collection follow-ups. The Bank had also increased customer touch points by way of tie-ups to ensure that customers get easy access to deposit their EMIs at partner outlets. A special focus was made on the initial bucket and vintage of accounts, to reduce PAR flow to higher buckets.

The combined measures taken, resulted in collection efficiency remaining stable at over 100% throughout the year. GNPA reduced from 7.6% as of March 31, 2022 to 2.1% as of March 31, 2023 and PAR reduced from 9.2% as of March 31, 2022 to 2.7% as of March 31, 2023.

15 MOB delinquency for MicroBanking and Rural Banking as of March 2023 was at 0.7%, showing a strong credit performance of the post-COVID book.

Housing and MSME

The GNPA for Housing Loans stood at 2.6% and PAR at 5.7% as of March 31, 2023, while the NNPA stood at 0.8% as of March 31, 2023. The incremental credit cost for Housing is less than 0.5% for FY 23. The PCR for the Housing book as of March 31, 2023, is 69.6%. The housing book has a very minimal Resolution Framework (RF) book, which is 26.4 Cr (RF1 & 2), which is 0.7%.

housing book portfolio Quality is in line with the industry. The housing book is well diversified, with an average ticket size of ₹ 12 Lakhs and 39,000+ active borrowers, and 45% of our borrowers in housing are in the bank credit salaried segment. The bank is closely monitoring its portfolio month-on-month and ensuring necessary policy changes are made from time to time and the necessary restrictions are placed in segments/clusters where we are seeing delinquencies. Best in the industry portfolio quality post-COVID-19 with strong monitoring and a dedicated collection team.

The GNPA for MSME Loans stood at 8.80% and PAR at 13.8%, while the NNPA stood at 1.9% as of March 31, 2023. PCR for MSME Loans stood at 80.2% as of March 31, 2023.

On the product policy front, the MSME segment has seen an evolution of clearly defined products based on market segments with skilled teams to take the growth forward in the secured lending space.

Financial Institutions Group (FIGB)

FIGB continued lending to MFI, MSME, Vehicle Finance, and Affordable Housing segment customers. The bank focused on disbursements to externally higher-rated entities, while maintaining portfolio NIM. At the end of the year, the book size was ₹ 1,127 Crores, registering a 32% y-o-y growth over the last year. All accounts except one MFI account were in the standard category. Credit policy is regularly updated to enhance the quality of underwriting. Rigorous monitoring of the portfolio is conducted regularly.

Conclusion

The Bank's efforts during FY 2021-22 and FY 2022-23 are bearing fruit in the form of significant improvement in all credit parameters – (a) asset quality – lower PAR, GNPA, and slippages (b) collections – nearing 100% collections in non-delinquent buckets, and (c) improved TAT.

The Bank aims to proactively source quality borrowers and manage repayments that were well-tested during FY 2022-23 and the bank continues to monitor the existing portfolio quality. With a focus on innovation, leveraging technology, and a customer-centric approach, the bank is well poised for the next level of banking growth in the aspiring middle-income segment.

TECHNOLOGY

The transformation from financial inclusion to digital inclusion requires a robust IT infrastructure with stable, secure and scalable systems. In FY 2022-23, the Bank's IT team engaged in major upgrades across the core infrastructure in Finacle CBS and BR.Net, Branch links, phone banking, and the enterprise service bus (ESB). 283 new Intel servers and 22 SPARC servers were procured for CBS, creating a total of 252 new environments across the application stack for ₹ 896 cores and 800 TB of storage space. Additional purchase was initiated for were initiated for ₹ 3,000 cores and 1500 TB of storage space. 308 projects and enhancements went live during the year, covering regulatory, new product lines, services for revenue generation, enhancing the customer experience, improving operational efficiency, and cost savings. The projects initiated include CRM Upgrade from Gold 3 to Gold 7, Loan Origination System (LOS) across 6 major products, Application monitoring tool (App Dynamics), New AML software, Collection Solution, POSIDEX Upgrade, IMPS Switch Migration to comply with NPCI Guidelines, NPI Module for Treasury and Syslog Implementation. The Bank undertook a major IT infrastructure revamp of its DC & DR, which included a refresh of Networking and Security equipment. Sizeable server capacities were added to fuel the creation of Integrated UAT environments and the deployment of production application environments.

Projects initiated that bring further strength to the current landscape include Active-Active DC & DR, Private cloud implementation enabling server provisioning under 30 minutes and auto scalable infrastructure, a Hyper-converged infrastructure (HCI) platform, a backup solution with ransomware protection, System Reliability Engineering (SRE) implementation, test automation, and a Finacle CBS upgrade.

As a result of these robust changes, the Bank achieved stable systems and witnessed a significant reduction in major issues throughout the year. The number of major issues decreased from 28 in the previous financial year to just 1. Furthermore, there has been an impressive channel availability rate of 99.8%. The UPI (Unified Payments Interface) technical declines have been successfully reduced to less than 1%, surpassing the regulatory benchmark, compared to the previous range of 3% to 5% since November 2022. Notably, The Bank reached a record-high of processing 12 Lakhs UPI transactions in a single day on March 31, 2023. In compliance with the RBI's Master Direction on Outsourcing IT Services, the Bank has already initiated a multi-vendor project that addresses the concentration risk by splitting an existing single vendor contract into 5 towers with multiple vendors. This brings in best-in-class vendors with specialised skillsets to deliver critical and material services for running the Bank's activities.

The Bank continues to invest in new applications and technology for its secured business lines of MSME & Housing. This includes a new Loan Management System (LMS), Early warning system, LOS, Charges module, PFMS, Cash management and Supply chain management.

A new project delivery methodology was embraced to efficiently execute these complex projects, leading to faster delivery due to enhanced resource utilisation, improved collaboration, prioritisation, and flexible deployment.

TREASURY

The Bank has its Treasury office located in the country's financial capital, Mumbai, with a state-of-the-art dealing room. The dealing room infrastructure was upgraded and enhanced with the view of imminently scaling up operations, entering new markets, and launching new products as and when permitted by the RBI and approved by the Bank's board. Treasury also has a full-fledged BCP located in Bangalore with dedicated infrastructure ensuring seamless, uninterrupted Treasury functionality.

The primary responsibility of the Treasury includes compliance with statutory reserve requirements, ALM, liquidity management, trading, PSLC, and client services.

The Bank has Subsidiary General Ledger (SGL) account with the RBI, and is a direct member of Clearing Corporation of India Limited (CCIL), which enables the Treasury to operate on various platforms, such as Negotiated Dealing System-Order Matching (NDSOM), NDS-Call, Triparty Repo Dealing and Settlement (TREPS), FIMMDA Trade Reporting and Confirmation System (FTRAC), Clearcorp Repo Order Matching System (CROMS), Corporate Bond Reporting and Integrated Clearing System (CBRICS), and e-Kuber. The Bank has bilateral limits in place with most major interbank participants.

The Treasury team is guided by the long-term business plan and objectives set by management. The treasury team consists of experienced professionals with a proven track record in balance sheet management and trading. The team manages the Bank's regulatory reserves, including CRR and SLR. Judicious and efficient management of the SLR Portfolio has ensured consistent above-market returns. The portfolio consists of central and state government bonds and treasury bills invested at high yields and lower durations, to absorb shocks in adverse market conditions. There is also an active trading desk, which deals in SLR and non-SLR securities and contributes to the Bank's bottom line, by capitalising on trading opportunities presented by the market. The treasury is focused on reducing the cost of funds, enhancing returns, and contributing positively to the Bank's bottom line.

SERVICE QUALITY

The Bank, believes in a 'Customer-First' approach, as part of its core values, whereby the Bank strives to deliver exceptional service to its customers, by embedding a service culture in its People, Process and Policy enabled by Technology. To put this intent into practice, the Bank has established a dedicated Service Quality department to channel the programmes around customer experience management, quality assurance, customer care and grievance resolution, and customer service compliance.

Over the years, the Bank has defined and established a service index, both at the Bank level and for each of the businesses and key support functions, incorporating key service aspects that impact quality-of-service delivery and customer satisfaction. The Bank's Service Index programme has evolved over the past 5 years. The Service Index goals and targets are defined and agreed upon by each vertical and at the overall bank level, which forms part of the Key Performance Measures of MD & CEO, Heads of each business/function, frontline managers, and sales/service staff. The Bank did exceptionally well during the FY 2022-23, as various initiatives helped improve the Bank level Service Index from 66 points (out of a 100 points scale) in March 2022 to 85 points in March 2023, 19 points jump from the FY 2021-22. The Bank's board and management forums periodically review the progress made on the service quality goals and provide oversight.

The Bank believes that providing the necessary and relevant training to its staff is imperative to ensure superior customer service is offered to all its customers. As a step towards this intent, an initiative called 'Service

Quality Friday School' was implemented during the year for educating branch staff on efficient customer service/ handling customer requests and complaints/life events related services, and case studies. The topics are chosen based on observations on the quality of services delivered by branches, customer feedback, complaints, and the prevailing knowledge gap among front-end staff.

When customers go through certain life events, both good and bad their banking service needs are unique and complex, requiring empathetic, professional, and efficient care and support. The Bank has successfully been running a campaign, 'Aajeevan,' a life events-based banking service, that includes hassle-free and empathetic services towards nomination facilities, joint accounts, settlement of claims of deceased account holders, settlements of insurance claims, priority services to senior citizens, and specially-abled customers. During the year, due to the focused efforts, 94% of service requests were resolved within specified timelines – an improvement from 86% compared to the previous year. Further, through rigorous training on the importance of nomination to staff and higher customer connection, the Bank reduced the number of accounts opened without a nomination from 18% in FY 2021-22 to 8% in FY 2022-23.

Customer care and problem resolution have been areas of special focus. To ensure customers' concerns are addressed, the Bank has established a robust grievance redressal mechanism not only for providing satisfactory resolutions to customer complaints in a time-bound manner but also to identify the root causes of service deficiencies and take corrective measures to eliminate or minimise the instances of customer dissatisfaction. While customer acquisition and digital transaction volumes have grown significantly, the number of complaints in FY 2022-23 remained at similar levels as FY 2021-22. Further, the customers were provided faster resolutions for their service requests and complaints during the year. The resolution of customer complaints within standard turn-around time improved from 90% in the previous year to 96%.

While the Bank has an internal mechanism to measure and track customer service standards, an independent assessment by a research agency was commissioned during FY 2022-23 to assess the current levels of customer satisfaction with the products of 6 major business verticals. The independent assessment shall also help understand customers' perceptions and feedback towards the Bank's services, competitive performance at each touch point, and brand imagery.

During the year, the Bank launched Video KYC services to provide customers with an avenue to complete the KYC for digitally opened accounts, without visiting a Branch. Further, in the upcoming year, the Bank envisions providing video banking facilities, as a measure to promote branch-less banking.

HUMAN RESOURCES

Human resources have consistently served as one of the fundamental pillars of the Bank in the pursuit of its mission and vision. The FY 2022-23 once again demonstrated the significant advantages an organisation can reap by adopting an 'Employee First' approach.

The Bank's unwavering trust in its employees was evident as it consistently surpassed its own quarterly goals, resulting in the most profitable year in the Bank's history. This success was further validated when the Bank was recognised as the 'Best SFB' by its employees in a survey conducted by the Great Place to Work Institute for FY 2022-23. The Bank also achieved the rank of the 45th 'Great Place To Work' in India for FY 2022-23.

In FY 2022-23, the Bank dedicated its efforts to enhancing holistic people development and strengthening organisational capabilities, aiming to provide a comprehensive growth experience for its employees. With a focus on progress, the organisation introduced a new grade structure that offers career growth opportunities based on consistent performance. Additionally, the implementation of a succession policy at the senior management level ensured smooth transitions and effective leadership within the Bank.

Skill enhancement was another important area, and a total of 17,870 employees were taken through various kinds of training and skill enhancement programmes. Flagship programmes for Branch managers in Branch (Learning hour per employee being at 29.8 hours) Banking and Rural Banking and re-skilling programmes for people in Affordable housing, MSME departments, and Credit departments were carried out. On the behavioural training, Customer centricity was a programme that was initiated for branch level employees to improve their skills in providing a better customer experience.

Additionally, improving the supervisory capabilities of the organisation has always been a critical task for the Bank. To address this, the Bank reintroduced first-time supervisory skills training, accompanied by impact assessment programmes conducted before and after the training sessions. In order to instill risk ownership among branch supervisors, programmes on 'First Line of Defence from risk were conducted for branch-level employees. The credit underwriting, vigilance, and audit teams also underwent annual re-skilling and certification programmes to ensure their proficiency and expertise. In the current year, significant attention was given to technical training for the IT, Digital Banking, and Human

Resources teams. To enhance the technical skills of these departments, online training platforms such as Tech-academy and SHRM partners, were introduced. A blended approach to training was adopted, making extensive use of the E-learning platform within the Bank. Several e-learning courses were launched, including essential courses on the Code of Conduct, POSH (Prevention of Sexual Harassment), KYC (Know Your Customer), AML (Anti-Money Laundering), and Information Security.

A well-rounded wellness programme for employees and their families was also an essential area for the Bank. The Bank introduced Emotional Wellness programmes for employees and their families. The re-introduction of free annual health check-ups for all employees and a discounted one for the staff families was done, and 300+ branches participated in the same. The Bank also ensured better employee insurance benefits and enhanced maternity benefits by 50%, introduced robotic and advanced benefits for cancer treatment, and increased the accidental medical expense limit by 67% for all employees. Apart from this, several online health awareness programmes on matters like road safety, cardiovascular disease, yoga awareness and benefits, and cervical cancer were done. A campaign on road safety awareness was carried out throughout the year, looking at road accidents contributing to a large number of accidents among employees.

The Bank strongly upholds the principle of recognising hard work and dedication. In recognition of the employee's contributions to the Bank's turnaround in FY 2021-22, the Small Finance Bank Board and management made the decision to reward them. This announcement of a special annual pay-out (RLSP) generated significant excitement among the employees. Furthermore, in alignment with the core management value of wealth creation for employees, the bank issued a performance-based Employee Stock Ownership Plan (ESOP) in the third quarter.

The Bank placed significant emphasis on a crucial aspect of people management, which is Listening and Transparent Communication. To facilitate this, an AI-Chatbot named Amber was introduced to collect real-time employee feedback and suggestions. The feedback is closely monitored at the Head of HR level, and appropriate corrective actions are taken. Forums like Chai-pe-Charcha (meetings with the leadership team in the corporate office), 'Lunch with the Captain', (an opportunity for employees to share lunch with the MD and CEO and have a discourse with him), townhalls throughout the year, and the flagship Branch Representative Meetings at the ground level provided an opportunity for the Bank to listen to its employees and take corrective actions. Finally, FY 2022-23 turned out to be a year where Ujjivanites were able to bring back the culture of celebrations with the various milestones being created and celebrating a variety of occasions in an organisation as diverse as our country is.