Management Discussion and Analysis

MACROECONOMIC INDICATORS

The beginning of 2022 marked the third year of the COVID-19 pandemic for India and the world, ushering in newer challenges for the healthcare systems and global economies. However, businesses continuity, coupled with rapid vaccination coverage, led to a stronger resilience, pointing towards a GDP growth of 9.2% for FY 2021-22, the highest amongst the world's largest economies.

In FY 2022-23, the Indian economy is expected to bounce back to normalcy, after overcoming COVID's sharp adverse shock. This process has consumed two years, with FY 2020-21, suffering a major contraction, and FY 2021-22, allowing enough recovery to enable the economy to reach back to a real GDP magnitude, only marginally above its pre-pandemic FY 2019-20 level. Even as policymakers have been looking forward to the prospects of a normalised Indian economy, another layer of challenges has gathered momentum in the form of surging prices of global crude and primary products, along with an accentuation of supply-side bottlenecks. These issues in fact, pre-date the recent geopolitical developments.

BANKING INDUSTRY SCENARIO

Bank credit growth revived, post a muted performance last fiscal. Deposit growth, CASA maintained its upward trajectory, reflecting continued preference for precautionary savings; however, it would be interesting to see the deposit trajectory in a rising interest rate scenario.

As per RBI data, on a y-o-y basis, non-food bank credit registered a growth of 9.7% in March 2022 as compared to 4.5% a year ago. Credit to agriculture and allied activities continued to perform well, registering growth of 9.9% in March 2022 as compared to 10.5% in March 2021. A bigger swing came in because of growth in credit to industry, which picked up to 7.1% in March 2022 from a contraction of 0.4% in March 2021. Size-wise, credit to medium industries registered a robust growth of 71.4 % in March 2022 as compared to 34.5 % last year. Credit growth to micro and small industries accelerated to 21.5% from 3.9%, and credit to large industries recorded a marginal growth of 0.9% against a contraction of 2.5% during the same period last year. Within industry, credit growth to 'all engineering', 'beverage and tobacco', 'chemicals and chemical products', 'construction', 'food processing', 'infrastructure', 'leather and leather products', 'mining and quarrying', 'petroleum, coal products and nuclear fuels', 'rubber plastic and their products', 'textiles' and 'vehicles, vehicle parts and transport equipment,' accelerated in March 2022 as compared to the corresponding month of the previous year. However, credit growth to 'basic metal and metal products', 'cement and cement products', 'glass and glassware', 'gems and jewellery', 'paper and paper products' and 'wood and wood products,' decelerated/contracted.

Credit growth to services sector accelerated to 8.9% in March 2022 as compared to 3.0% a year ago, mainly due to significant improvement in credit growth to NBFCs and robust credit offtake in 'trade' and 'transport operators.'

As India enters 'Samvat 2079,' the third wave seems to be behind us, and with the removal of all restrictions, alongside a broadening of vaccination coverage, economic activity is returning to speed. Most sectors of the economy are reaching or have exceeded pre-pandemic levels. Notably, bank credit has gathered pace, and the job market is picking up steam. There is an acceleration in the travel and hospitality sectors. The construction and real estate sectors have also seen momentum.

The Bloomberg Commodity Index hit an 8-year high in early March, with prices soaring across the board, on war-induced supply shocks. The 10-year benchmark yields ended the month of March 2022 at 6.85%, hardening by 67 bps compared to previous year. Benchmark yields remained rangebound even as globally, yields continued to rise, owing to higher inflation and the ongoing Russia-Ukraine conflict, which led to significant rise in commodity prices. With no G-sec supply in the month of March, the domestic markets remained in a narrow range, as investors continued their buying spree to fulfil regulatory requirements. Since mid-March, however, it has been exhibiting two-way movements. Crude oil prices rocketed to a 14-year high of $ 133 per barrel in the first week of March, as Russia threatened to cut-off supply to the European nations that are heavily dependent on Russia for their oil and gas requirements. Although the prices eased subsequently, the domestic macro-economic conditions have begun to improve with the rapid retreat in COVID-19 infections, and the resumption of economic activity in normal modes of functioning. Daily infections plunged to 861 on April 11, 2022 from a peak of 3.47 Lakhs on January 20, 2022.

CPI for the month of March 2022 stood at 6.95%, recording a 9-month high. The inflation has now breached the RBI MPC upper tolerance band of 6%. Inflation is expected to remain high due to rise in commodity prices in the international markets on the back of the ongoing Russia-Ukraine conflict.

The provisional data released by the National Statistical Office (NSO) on July 12, 2022 showed that inflation, measured by year on year (y-o-y) changes in the all-India consumer price index (CPI), eased marginally in June (7.01 per cent) relative to its reading a month ago.

On the expected lines, FED in its FOMC meeting held in the month of May, raised the Federal Funds target range by 50 bps to 0.75% - 1%. The beginning of this hiking cycle came on back of higher inflation, tight labour market conditions, and the current Russia-Ukraine situation, which may also have a long-term bearing on the rates.

GST collections continue to be buoyant, touching an all-time high of ₹1.68 Lakhs Crores in April'22 thus helping the government to further push its initiatives in infrastructure investments.

The Reserve Bank of India (RBI) took various initiatives towards normalisation of liquidity management to pre-pandemic levels by reducing additional liquidity from the market, by conducting regular Variable Reverse Repo Rate (VRRR) Auctions, and with the introduction of the Standing Deposit Facility (SDF) as the basic tool, to absorb excess liquidity, in addition to narrowing the Liquidity Adjustment Facility (LAF) to 0.5% from 0.9%. In the recent off-cycle MPC meeting, RBI hiked the Repo and SDF rate by 40 bps, and also increased the CRR requirement by 50 bps. The increase in CRR will suck out the excess liquidity to about ₹87,000 Crores from the markets.

The RBI, during April-June'22, raised repo rate by 90 bps, and also raised CRR by 50 bps to 4.5%. The move has stemmed from rising inflationary pressures and outward flow of the US dollar. Taking note of the said factors, we expect an upward pressure on yields across the curve. We also expect the long-term yields to inch up at higher levels, owing to inflationary and supply pressure in the coming months. Owing to the above factors, we shall remain watchful and stay invested in lower-to-medium duration of the yield curve.

OUR STRATEGY

The pandemic has ushered in a true VUCA (volatility, uncertainty, complexity and ambiguity) environment. This crisis situation is dominated by unpredictability and uncertainty about the future, with complexities arising in the socio-economic, and healthcare structure. Responding with agility and adaptability in decisions and actions, is the need of the hour.

DIVERSIFIED BOUQUET OF PRODUCTS

Offering a comprehensive suite of products and services as well a personalised customer experience continue to be our cardinal objectives. Over the years, we have created a strong base of customers across asset and liability verticals. Our focus will be on creating need-based products for each of our segments. We shall expand our offerings to MSE customers by offering products for the formal segment, and by moving towards relationship banking, with a focus on shorter tenure products like working capital funding, bill discounting, etc. and non-fund-based facilities. In housing, we intend to launch specific offerings targeted towards local requirements in various regions. Also, we intend to launch micro-LAP products for small borrowers with funding needs, to grow their businesses. Strengthening of fintech alliances will further add to our channels to enable a superior reach to customers. For institutional segments, new products, such as bank guarantee will be launched, with further enhancement of interbank and exposure limit from various mutual funds, insurance companies, and various co-operative banks. On the liability front, our emphasis will be on implementing digital solutions for government and institution businesses, such as Public Funds Management System (PFMS). Strengthening of fintech alliances will further add to our channels to reach to our customers. POS and QR led acquisition shall be a key area of focus as we expand our reach among small and medium retailers. We are continuously enhancing our offerings towards the aspiring middle-class segment, by offering more value-add products to strengthen our position as a mass-market bank.

FOCUS ON DIGITAL BANKING AND ANALYTICS

The Bank has set up a dedicated digital banking team to enhance customer experience, while maximising returns on technology investments, and reducing cost of operations. The main drivers of this initiative are digital innovation, application programming interface (API) banking, fintech engagements and partnerships, robotic process automation, artificial intelligence, digital lending, payments, digital marketing, and data analytics and insights. We shall drive end- to-end digitisation process to strengthen the contactless disbursements and repayments. Data analytics will be utilised for actionable insights to make informed decisions. We will leverage our full-stack API banking platform to partner with the fintech ecosystem for innovative products and solutions, for our customers. Digital channels will be utilised for new customer acquisition and service delivery. We aim to use technology to provide better customer experience to mass-market and increase the coverage of digital reach within the country. With this objective, we are in process to launch a new mobile app, targeted for customers, who are currently not able to use mobile banking due to barriers like language, inability to read / understand banking terminologies.

STRENGTHENING LIABILITY FRANCHISE, AND INCREASING OUR RETAIL BASE

The Bank has been focusing on creating a sticky base of granular retail deposits to fund its asset growth. Our growth on the retail deposit base, CASA deposits, and customer acquisition, has been healthy and encouraging. Also, we offer the competitive rates to our customers, which further aids in garnering deposits. We intend to meet a majority of our funding requirements through Current Account Savings Account (CASA) deposits as well as recurring, and fixed deposits, by building a sticky deposit base, and attracting new customers. We shall drive the usage of our accounts by leveraging our dedicated customer service, and user-friendly apps. Our focus will be on improving the right sourcing mix of customer segments and product variants, with nearly 50% contribution from flagship products with higher balances.

INCREASED CUSTOMER PENETRATION

We plan to use the right combination of physical and digital channels, and partnerships, to expand our reach and deliver value to our customers. We are continually adding more channels to enhance our customer outreach.

- We will develop fintech alliances, as an avenue for low cost acquisition of customers, and providing innovative solutions to them.
- Our phone banking unit provides additional support in terms of servicing and also generating/ converting leads for businesses.

- We extensively use the digital platform to market our products and services through dedicated programs, which use analytics and customise messages for target audience.
- We shall scale up our neighbourhood transaction points to seamlessly service our customers staying far away from our branches.

RESPONSIBLE BANKING FOR THE UNSERVED/ UNDERSERVED SEGMENTS

Committed to financial inclusion of the unserved and underserved segments, and driven towards fostering financial discipline among our customers, we intend to continue training and educating our customers about the risks of over- indebtedness, and multiple borrowing, and the benefits of putting their savings in a bank, and availing insurance products. We shall continue to partner with Parinaam Foundation, to offer financial literacy programs to drive financial awareness. We are also developing an AI platform to help our customers fulfil service requests, and basic transactions in the language and channel of their choice. We shall drive adoption of digital channels among our customers to facilitate a low cost, convenient, safe, and seamless transaction experience, for the customers.

DIVERSIFY REVENUE STREAMS, CONTROL COSTS

Our focus is on supplementing the revenue stream through fee and non-fund-based revenues. We shall leverage our banking outlet network, digital channels, diversified product and service portfolio, and our large customer base, to develop our fee and commission-based business. Our treasury team effectively trades and manages our funds, by capitalising on the opportunities presented by the market. New products for institutional clients will also add to the fee incomes. RBI relief measures have classified lending by SFBs to MFIs as priority sector lending. This will help build priority sector advances in surplus of the targets mandated by the RBI, and trading of priority sector lending certificates will continue to be an important source of fee income.

AT A GLANCE: MARCH 31, 2022

Banking Outlets and ATMs

575 BOs, of that 144 URCs (25% complied)

492 ATMs including 54 ACRs

LOAN PORTFOLIO

- OSP* at ₹18,162 Cr

  (₹15,140 Cr in March 2021), ~20% growth
- Non-MF book at 32%

  (28% in March 2021)

DEPOSIT BALANCE

Deposit ₹18,292 Cr

(₹13,136 Cr in March 2021)

39% growth

Retail: 54%

(48% in March 2021)

CASA: 27.3%

(20.5% in March 2021)

CUSTOMERS

- 64.8 Lakhs Unique Customers

  (59.2 Lakhs in March 2021)
- 62.1 Lakhs Liability Customers

  (55.8 Lakhs in March 2021)

PORTFOLIO QUALITY

GNPA at 7.1%

(7.1% in March 2021)

NNPA at 0.6%

(2.9% in March 2021)

EMPLOYEE

- 16,895 employees

  (16,571 in March 2021)
- Book (Adv. and Dep.) per employee – ₹2.12Cr

  (₹1.7 Cr in March 2021)

PROFITABILITY

PAT – ₹(415) Cr

(₹8 Cr in FY21)

- PPOP ROA – 2.7%

  (4.1% in FY21)
- ROE – (13.8%)

  (0.3% in FY21)

CAPITAL AND FUNDING

Cost of Funds- 6.3%

(7.2% in FY21)

CRAR – 19%

(26% in March 2021)

CUSTOMER GROWTH

As on March 31, 2022, 96% of the customers either had a Savings Bank Account or a Current Account with the Bank, as against 94% in March 2021. This expansion in customer base was driven by large-scale new customer acquisitions, across deposit products as our liability base increased. Our unique customer base grew by 9.5% over the previous year by the end of FY 2021-22.

	Asset and Liability	Asset Only	Liability Only	Total
Mar-21	36.7	3.4	19.1	59.2
Jun-21	35.3	3.3	19.6	58.2
Sep-21	34.3	2.9	22.5	59.7
Dec-21	34.9	2.7	24.5	62.1
Mar-22	35.2	2.7	26.9	64.8

SEGMENT-WISE PERFORMANCE

Assets business

Asset book performed well, growing by 20% y-o-y to ₹18,162 crores. This was despite the second COVID wave, which disrupted operations during H1 FY22. During August 2021, we laid down our 100-day plan with a focus on (a) re-building business volumes, (b) improving portfolio quality and (c) attracting/ retaining good talent. Business picked up well, in line with the strategy, and all the business verticals displayed strength. Micro-banking portfolio, which constitutes 68% of the total book, at year end, grew at 14% y-o-y, while affordable housing and micro and small enterprises, grew around 33% each, which was well-supported by other asset verticals.

Despite all challenges at fore, we ramped up disbursements, and achieved highest ever disbursements of ₹4,809 Crores and ₹4,870 Crores in Q3 FY22 and Q4 FY22, respectively. We improved our productivity levels and acquired a handsome customer base in H2 FY22. As credit demand improved, we selectively increased our ticket sizes for our existing customers to support their growth. We introduced several new products, such as pre-approved loans, and top-up loans, to cater to our micro-banking borrower base. Along with book growth, we equally focused on improving collections. Digital penetration continued to scale-up with the existing customer base, and through partnerships with new fintech channels. Our well-placed digitised processes were significant enablers in building business volumes, and improving collection mechanisms, and these enabled us to significantly surpass disbursement and collection levels, which were clocking pre-pandemic levels, towards the close of FY 2021-22.

Overall, a strong momentum was built up in all business verticals, and FY 2021-22 closed on a healthy note.

MicroBanking

MicroBanking currently serves over 4 million unserved and underserved customers. We focused on managing collection and reviving our business generation. We supported our existing customers to restart their livelihood activities post pandemic, by providing them with repeat and top-up loans. Along the way, we built numerous efficiencies in our business operations through paperless and cashless alternatives. We extended and extensively promoted services digitally, and extensively promoted services, such as digital repayments, mobile banking, and UPI. Our digital initiatives became stronger with one of the first, real-time customer mobile number updation processes, enabling faster digital onboarding. We continued our efforts towards 'Sampoorna family banking,' by offering a holistic suite of products and services, such as group loans, individual loans, savings/ deposit products, two-wheeler loans, insurance, payment solutions, and others. We scaled up our alternate channels including our payments partnerships, mobile banking and UPI adoption, and Ujjivan Pay QR code for banking services. Our business model built on a 'full range of banking services the segment,' 'assisted to self-service,' and 'people and technology' driven approach, has yielded phenomenal results towards business performance and customer satisfaction.

Rural Banking

The Rural Banking vertical is operating through 110 URC branches and 7 business correspondents. The URC branches are spread across 9 states. The percentage share of secured portfolio has increased in H2 FY22. Post COVID, there is a positive change in the overall business parameters, and uptick in credit offtake. With a focus to increase secured loan portfolio, KPC Poultry and KPC pisciculture products (variants catering specific markets) were launched, which would further enhance advances under PSL segment. Additionally, to focus on liability book building, the 'Connect and Scale' programme was launched to target HNI clients across URC branches, along with focus on partnerships for cashless repayment, and cross-selling of other asset products, and as well as TPP business sourcing.

KEY STATISTICS: MICROBANKING AND RURAL BANKING

Particulars	31-03-2021	31-03-2022	Rise
Disbursement (₹in Crs)	6,482	10,668	65%
OSP (₹in Crs)	10,868	12,344	14%

HOUSING

Affordable housing loan products are targeted at the aspiring middle-class population, helping them achieve their dream to buy/construct homes. A majority of them are first-time home buyers, availing benefits of PMAY CLSS scheme. The bank has been diligent in facilitating 4,400+ customers in securing a subsidy under the PMAY-CLSS.

Affordable housing business vertical has been able to grow the book by 33% y-o-y, disbursing ₹1,064 Crores during the year. Portfolio has crossed the milestone of ₹2,700 Crores, with the total number of customers crossing 30,000. Despite the COVID-related restrictions in Q1 FY22, the business picked up fast with Q3 FY22 posting one of the best business figures, so far.

The portfolio quality witnessed slight stress during mid of the fiscal year. However, by enabling fully digitised mode of NACH registration and increased focus on collection, the team has managed to thrive on the OTRR and MRR levels. The team is already working with focused approach to bring portfolio quality to pre-COVID levels.

During the year, we successfully implemented Centralised Credit Processing Unit to Underwrite Bank Credit for salaried profile applications, which has enabled reduction in income sanction TAT. Digital signature and stamping platform for vendors has made vendor onboarding seamless. Affordable housing business aims to leverage existing customer base through the use of in-house digital and analytics tools.

Digital customer onboarding and servicing facility is the top priority for the business along with introduction of managerial and leadership development program. The idea is to provide the best-in-class services to customers, through a dedicated and skilled workforce. Geographical expansion and penetration to expand the business along with segment-specific, timely delivery of products, will be our key focus area.

KEY STATISTICS: HOUSING LOAN

Particulars	31-03-2021	31-03-2022	Rise
Disbursement (₹in Crs)	666	1,064	60%
OSP (₹in Crs)	2,050	2,734	33%

MICRO AND SMALL ENTERPRISES (MSE)

The MSE segment is an essential driver for the Indian economy as it promotes entrepreneurship and develops employment. The sector faced a major setback in the last two financial years, with the onset of the pandemic in March 2020, and the successive waves and lockdowns thereof. The focus area for this year was to responsibly connect with customers, empower the salesforce with digital interventions to enhance their productivity. This enabled us to ensure that the end impact on portfolio quality and product offerings was positive by design. Our fintech partnership which commenced in the last fiscal, is now a robust, fast-growing, high-quality book – one that will be supplemented by more partners in the coming quarters of FY 2022-23. In our pursuit of empowering customers to grow fast in their business and trade, we launched our term loan and overdraft offering under GOI CGTMSE guarantee scheme. Available as term loan and overdraft, offerings under CGTMSE are suitable for MSEs registered in India that seek low-cost working capital, and Capex funding at an affordable pricing, without the mandated ask of a collateral.

The MSE loan portfolio grew to ₹1,710 Crores as of March 2022 from ₹1,286 Crores in March 2021 (33% growth y-o-y), and a total disbursement of ₹1,087 Crores was made during the year.

In FY 2022-23, we aim to introduce several new credit products, continue our focus on relationship banking, and on the formal segment, to meet the working capital requirement in the MSE sector.

KEY STATISTICS: MSE

Particulars	31-03-2021	31-03-2022	Rise
Disbursement (₹in Crs)	517	1,087	110%
OSP (₹in Crs)	1,286	1,710	33%

INSTITUTIONAL LENDING

Financial institutions group lends to the microfinance institutions, non-banking financial companies (NBFCs), and housing finance companies (HFCs) within acceptable credit parameters.

The Bank has grown its institutional lending book in a controlled manner with good rated entities, considering overall business environment, and disbursed ₹715 Crores during the year, and closed with the book at ₹855 Crores (32% y-o-y growth). The book is spread across diverse sectors and 37 distinct clients. The Bank monitors its exposures on regular basis.

We have launched collection, CC/OD accounts for our borrowers, and are working to launch WCDL and fee-based trade finance products like bank guarantees in H1 FY22-23.

VEHICLE LOANS

Vehicle finance remained upbeat against defying the challenges, arising out of COVID -19, and has delivered healthy business of ₹128 Crores against ₹67 Crores for FY 2020-21. The total customer base disbursed in the financial year is ~25k. Our portfolio as of March 2022 stood at ₹162 Crores. We are mostly concentrated on two-wheelers. Diligent expansion in dealer network has resulted in having about 800 dealers on board. A recent partnership with a leading two-wheeler manufacturer has strengthened our visibility amongst the major sales points. We have evolved our business through digital on boarding of customers, giving us flexibility to reach out to more customers. We would continue to focus on building new relationships with dealers, manufacturers, and digital aggregators.

DEPOSIT GROWTH

During FY 2021-22, our deposit book recorded 39% y-o-y growth, driven by largely improving CASA, which grew by 85% y-o-y, closing at 27% of the total deposit book as of March 31, 2022 against 21% in March 2021. The Bank initiated several engagement activities with active customers, to drive transactions and usage of the accounts , resulting in an increase in average balances. We launched several segment-focused products and services to facilitate new account acquisitions.

RETAIL DEPOSITS

Our retail deposits recorded a significant growth during the year, constituting 54% of the total deposit as of March 31, 2022. The branch banking and MicroBanking teams were supported by the MSE and Housing finance teams to drive growth in retail deposits. Through several customer engagement initiatives to promote adoption of digital channels, and drive usage of accounts and diversified products, we witnessed good traction in our retail deposits' business.

BRANCH BANKING UNIT

The Branch Banking unit is predominantly focused on enhancing customer convenience through dedicated products and service offerings to its various customer segments – senior citizens, youth and students, salaried individuals, women, NRI customers, retailers, enterprises, and TASCs (trusts, associations, societies and clubs)

The unit expanded its suite of offerings by introducing 'Classic Savings Account' to serve the mass market customers and becoming the preferred bank for all their banking requirements. Classic Savings Account offers a higher cash deposit limit and free unlimited withdrawal at any USFB branch with no additional charges. Customers also enjoy unlimited free NEFT and RTGS transactions through internet banking and mobile banking. The customers can opt for either Rupay Classic or Rupay Platinum Debit Card along with several linked, multiple benefits. Some other benefits include waiver of debit card AMC, if annual card spend is ₹1,00,000 for the Classic Debit Card and ₹1,50,000 for the Platinum Debit Card. Up to 50% waiver in processing the fees of personal loans, loans against fixed deposits, and overdraft against fixed deposits.

The Bank strives to create a well-diversified customer base through focus on right sourcing mix of various customer segments and product categories. Our products cater to a wide range of customers, ranging from new to bank customers looking for basic banking services to customers, seeking upgraded banking services and features.

Platina fixed deposit, a non-callable retail deposit product, was also introduced in January 2022. This product will help in building a long-term deposit book for the bank from retail customers. In FY 2021-22, ₹195 crores of Platina fixed deposits were booked.

We are relentlessly focused on nurturing existing relationships, increasing customer engagements, and driving active use of the account. We encourage the use of our multilingual, convenient, alternate channels, comprising mobile banking, internet banking, business net banking, debit cards, and POS terminals. The unit collaborated with MSE, Housing, VL, TASC and FIG verticals, leveraging the synergies and delivering a comprehensive range of products and services.

Going forward, the emphasis is on improving the right sourcing mix of customer segments and product variants with nearly 50% contribution from our flagship products. We plan to add new products and services, catering to the need of our targeted customer segments. POS and QR led acquisition shall be a key area of focus as we plan to increase our reach among MSE and retailers. Given the large unexplored potential of the NRI segment, we plan to channelise the branch resources to acquire more NRI relationships through non-face-to-face offerings, which will help eliminate the geographical restrictions and improve customer experience.

Our emphasis will be on implementing digitally-enabled banking solutions for government and institution businesses, such as Public Funds Management System (PFMS) for payment and collection of funds, payment gateway facility to government and TASC customers, and customised POS and QR offering to TASC segment.

Over the last five years of our banking operations, we have created a large and diversified customer base, and we see a huge opportunity in terms of enhancing their wallet share by cross-selling, offering upgrades, and engaging with them through various digital channels. In FY 2022-23, our emphasis will be on engaging with the entire customer base and offering a complete suite of banking solutions.

KEY STATISTICS: RETAIL DEPOSITS (₹ IN CRORES)

₹ in Crore

Particulars	31-03-2021	31-03-2022	Rise
CASA	2,246	4,734	111%
TD	3,997	5,187	30%
Total	6,243	9,921	59%

Particulars	31-03-2021	31-03-2022	Rise
Staff	127	119	-6%
MicroBanking	1,029	1,255	22%
Branch Banking	5,086	8,274	63%
Total	6,242	9,649	55%

INSTITUTIONAL DEPOSITS

We are having dedicated specialised institutional business groups to manage overall relationship with various financial market participants, such as commercial banks, RRBs, mutual funds, cooperative banks, insurance companies, development finance institutions (DFI), capital market participants, NBFCs, etc. and managing business from Non FI segments like various government (centre and state) PSUs, departments, boards, corporations, corporate clients, and TASC (trust, associations, society and club). Institutional Group is instrumental in raising medium, to long-term deposits, depending on the overall funding requirement and ALM position of the Bank.

Institutional Group also develops and utilises alternative/ secondary source of funding, such as refinance, IBPC, securitisation, term loans and lines of credit from banks as secondary source of funding, within overall funding needs. During FY 2021-22, the funds were raised from alternate sources, inter-bank participation certificate (IBPC), securitisation, and term loans. IBPC transactions were successfully executed with different banks, and we have raised short-term low-cost liability for the Bank. Securitisation route also has been used for raising long term, low-cost liability through PTC structure (pass through certificates) on some of our retail loan portfolio to other investor banks/institutions.

The Bank has also developed liability relationships with different public sector undertakings (central/state), government departments/entities, corporates, and also entities like schools, colleges, hospitals, trusts, societies as well, and offer standard/customised banking solutions to these entities.

Despite COVID-19-related disruptions in macro environment, we continued our flagship performance during the year under review. FIG has been prominently involved in raising liabilities for the bank through inter-bank deposits, CDs, term deposits as well as borrowings in the form of IBPC, securitisation and refinance from NABARD, SIDBI and NHB. Institutional Groups has a well-diversified liabilities portfolio across geographies, and different client segments, reducing concentration risks substantially.

In FY 2022-23, the Bank intends to consistently focus on building CASA balances and trade product revenues from various institutional clients. It seeks to expand the asset base by fostering new relationships and enriching current relationships. We are working on various tailor-made products to suit the requirements of various institutional clients.

The team is manned by well experienced resources from the banking industry and well-skilled to explore and develop the market. The team is specialised and small, but present in all regions and major locations of the country, serving the institutional clients.

KEY STATISTICS: INSTITUTIONAL DEPOSITS

₹ in Crore

Particulars	31-03-2021	31-03-2022	Rise
FIG	4,955	6,605	33%
TASC	1,437	875	-39%
CD	407	756	86%
Holding Company	95	135	43%
Total	6,893	8,371	21%

INSURANCE

We offer our borrowers, co-borrowers and their spouses, the option of enrolling under the group insurance scheme run by our insurance partners. Our insurance offerings are targeted at providing financial support to the family of the customer, and eliminating the burden of repayment of outstanding loans, in case of the unfortunate demise of the loan-bearer. There is a huge unmet demand for insurance products among our customers. We have entered into corporate agency arrangement with Bajaj Allianz Life Insurance Co. Ltd., HDFC Life Insurance Co. Ltd. and Aditya Birla Sun Life Insurance Co. Ltd. to provide life insurance solutions to our customers. Similar arrangements have been made with Bajaj Allianz General Insurance Co. Ltd. and ICICI Lombard General Insurance Co. Ltd. for general insurance, and Care Health Insurance Ltd for health insurance. During the year, we introduced new life insurance and health insurance offerings for identified customer segments, scaled up employee IRDA certification efforts, improved our internal processes to remove various operational bottlenecks, adopted several digital initiatives for customer onboarding, and servicing, and focused on quality customer acquisition across business verticals. We launched digitally-enabled IRDA certification process for all employees, in addition to a new health insurance product proposition through end-to-end digital onboarding and fulfilment.

FINANCIAL AND OPERATIONAL PERFORMANCE

The first half of the financial year started with the ongoing difficult phase of the pandemic. After a continued slowdown in businesses, the business volumes increased from Q3, as the economy recovered gradually, and demand stabilised. The Bank ramped up its businesses in H2 FY22 with record volumes across its verticals and ended the year on a high note. Due to high NPA levels, our yields were suppressed, and collection cost and credit cost increased. With the increase in business volumes in H2 FY22, and continued efforts under our two 100-day plans, we were able to turn profitable on quarterly basis in Q4 FY22.Our post-tax profit stood at ₹(415) Crores, as against profit of ₹8 Crores in the previous year, while pre- provisioning operating stood at ₹590 Crores against ₹801 Crores in the previous year.

Overall, the total income grew by a modest 0.6% over the last financial year on the back of a strong loan book growth of 20%. Interest income on advances amounted to ₹2,576 Crores, constituting 82% of our total revenue. On full year basis, FY 2021-22 yields were lower at 16.6% versus 18.5% in FY 2020-21. Although the March 2022 and March 2021 NPAs were at similar levels, the yield in FY 2021-22 was on a lower side compared to FY 2020-21, as the NPA remained inflated for the full year compared to FY 2020-21, where the spike was seen post Q3, as a result of which, the income was recognised during H1 FY21. It was only in H2 FY21 that the NPAs started affecting our revenue recognition. During FY 2021-22, the revenue recognition was affected for the full year, resulting in lower growth in interest income, despite strong growth in advances. The Bank maintained a healthy Provision Coverage Ratio of 92% as on March 31, 2022. Income on statutory and other investments amounted to ₹237 Crores, growing by 15% during the year, on account of the higher deposit base and higher SLR maintained for sufficient liquidity buffer. It constituted 8% of the total income.

Fee and other income, comprising processing fee, profit s on sale of Priority Sector Lending Certificates (PSLC), commission income on distribution of third-party products, interest or gain on investments, and other miscellaneous income, saw a growth of 4% over the last financial year, and constituted 11% of the total income against 10% in the previous year. Income from trading operations reduced to ₹18 Crores, constituting 1% of total income and 6% of other income.

Commission income on distribution of third-party products increased to ₹26 Crores against ₹20 Crores, as a result of increasing distribution of retail insurance by cross-selling across businesses and activation of the distribution channels, across the larger network, backed by higher credit life commission, due to improved disbursement volumes. Miscellaneous income, comprising annual card maintenance fee income, income from banking operations, foreclosure and late payment charges, and profit on sale of investments, amounted to ₹92 Crores, constituting 29% of fee and other income, and 3% of total income. Card maintenance fee grew to ₹29 Crores against ₹20 Crores in the previous year, on account of increased number of active cards. Income from banking operations grew to ₹50 Crores, against ₹33 Crores in the previous financial year, on account of increased digital transactions, reflecting greater usage of the accounts.

Our asset yields dipped to 16.6% for FY 2021-22 against 18.5% in the previous year. On the borrowings side, the scale-up of our retail deposit franchise, growth of CASA, coupled with rate cuts across deposit products, repayment of high-cost refinance, and funding at concessional rates availed from SIDBI and NHB helped reduce the cost of funds to 6.3% from 7.3% in the previous year. Finance Cost increased by a meagre 1% over the previous year, on account of positive rate variance of ₹162 Crores net of negative volume variance of ₹170 Crores, on account of 16% increase in average liabilities, especially deposits.

Our NIM stood at 8.8% against 9.5% in the previous year, declining largely on account of dip in yields due to NPAs. Although there have been signs of improvement in NIM on quarterly basis, we achieved NIM of 10.1% in Q4 FY22.

Our total operating costs increased by 22% from that in FY 2020-21. Personnel costs increased 9% over the previous financial year, majorly due to revival of economy, and increase in business activity for the Bank, which led to higher salary payout made to the employees. There was a modest increase in the number of employees over the previous year, and increase in the average salary for the employees. Other operating costs comprising occupancy, technology and connectivity, travelling and conveyance, cash handling and management, marketing, direct business-related and other expenses, increased by 42% from that in previous year. This increase can be attributed to higher business-related expenses, increase in occupancy-related expenses, and IT expenses. Collection, being one of the prime focus areas for the Bank, the collections cost was higher by ₹77 Crores over previous year. Owing to above factors, the cost to income ratio increased to 71.7% from 60.6% in FY 2020-21.

Our credit expenses for the year increased to ₹1,118 Crores against ₹790 Crores in the previous year. The credit cost was well contained within the guidance of ₹1,200 Crores given by us post external evaluation of asset book. The Bank made an incremental provision of ₹10 Crores on standard assets, and ₹288 Crores on NPA, in addition to floating provisioning of about ₹250 Crores, and write-offs worth ₹788 Crores. The Bank has maintained a conservative provisioning norm, in excess to that mandated by RBI, and made incremental floating provisions to ensure a higher PCR and coverage of net assets. Provisioning coverage stood at 7.3% on the gross advances as on March 31, 2022 against 6.3% in March 2021. Total cumulative provision on portfolio stood at ₹1,330 Crores as on March 31, 2021, consisting of ₹146 Crores on standard assets, and ₹934 Crores on NPA, and additional floating provision of ₹250 Crores. The Provision Coverage Ratio (PCR) for the Bank stood at 92% at the end of the year, while net NPA (NNPA) stood at 0.6% against 60% and 2.9%, respectively, in March 2021.

The Bank's Return on Asset (RoA) on Pre-provision operating profit stood at 2.7% against 4.1% in the previous year, with Return on Equity (RoE) at 13.8% against 0.3% for FY 2020-21.

INCOME STATEMENT

As on March 31, 2022, our balance sheet size stood at ₹23,604 Crores, an increase of 16% over ₹20,380 Crores at the end of March 31, 2021. The Bank's net worth dipped from ₹3,219 Crores as on March 31, 2021 to ₹2,801 Crores as on March 31, 2022. The Capital to Risk Weighted Asset Ratio (CRAR) stood comfortable at 19.0% as of March 2022 against 26.4% as of March 2021.

Our gross loan book closed at ₹ 17,488 Crores, registering a 16% growth over the preceding year, while our deposit base closed at ₹18,292 Crores, growing 39% y-o-y, largely driven by a healthy growth in retail deposits, which grew 59% y-o-y, constituting 54% of total deposits in March 2022 from 48% at the end of March 2021, with good traction in CASA. The Bank's CASA balances (as a % of total deposits) increased from 21% to 27% in the financial year.

DIGITAL INITIATIVES

This year, we laid the foundation of our digital roadmap, and the Bank achieved success in the following areas:

API BANKING AND FINTECH ECOSYSTEM ENGAGEMENT

We have grown stronger with our partnerships in the Indian Fintech ecosystem, having partnered with six fintech partners last financial year. This financial year, the focus was on stabilising and getting a deeper understanding of the fintech ecosystem to co-create innovative products. We have expanded the capabilities of our API stack, to cater to a wider range of cases from the fintech industry; the total number of APIs stand at 169.

We have doubled down on our commitment towards the fintech ecosystem with a sharper focus on the lending side, to cater to the MSE segment through our partner 'Progcap.' Another area of attention is improving collection efficiencies for our existing customers by offering digital modes of collections through our fintech partners.

DIGITAL COLLECTIONS INFRASTRUCTURE FOR LOAN REPAYMENTS

This financial year was a true testament to our efforts of moving collections digitally (with 18%). We have further strengthened the digital collections infrastructure by an addition of 5 lakh touch points through addition of a partner- 'Spice money.'

Internal Process Automation:

Internal process automation through RPA continues to be a key driver of creating internal efficiencies with an addition of 20 more processes automated through RPA, and processing more than 18 Crores of transactions through RPA in the last fiscal.

CHANNELS

FY 2021-22 has been a year of building resilience and strengthening the Alternative Banking Channels of the Bank. Last year has truly tested our mantra of 'One Bank One Ujjivan,' and we came out much stronger by building a more robust system to cater to our customers in the most convenient manner through various channels.

Debit Card

We are one of the largest debit card issuers among the peer banks in the industry, with a card base of 7 million. Our approach over the next years would be to continue to focus on operation efficiency, and digital transactions through cards.

In FY 2021-22, debit cards has contributed to over 30 million transactions, which is 24% of the Bank's transactions, which is also the highest since inception. This year, we have also built the base for international debit cards, to make way for overseas transactions, and near field communication debit (NFC) cards, for contactless POS terminal transactions.

Transaction Touch Points

ATMs and ACRs

The Bank has undertaken various initiatives, centered on improving customer experience by seamless delivery of products and services. The Bank has created a number of touchpoints in terms of ATMs, ACRs and Money Mitra (business correspondents) among many other touch points. The Bank has 492 ATMs, including 54 Auto Cash Recyclers (ACRs).

Ujjivan Small Finance Bank has remained on the top of the ladder among all peer banks in ATM transactions, with high ATM uptime of ~98%, multilingual screens and amenities for the specially-abled people, etc. making Ujjivan SFB ATMs a reliable and convenient partner for customer needs. Cash Recycler machines deployed at the Bank branches contribute to ~40% of the deposit transactions in that branch, and ~80% customers use ATM to withdraw cash for their financial requirements.

Money Mitra

While Bank leverages its robust digital infrastructure to deliver on stakeholder commitments. Its phygital points, such as Money Mitra help in reaching out to customers, and garner trust through face-to-face interactions, helping in brand building, improving transaction efficiency, and fostering cross-sell. With over 200 Money Mitra deployed, the Bank is increasing its footprint in various demographies.

In FY 2021-22, Money Mitra has demonstrated remarkable spirit in its pilot phase, by serving more than 2 Lakhs customers, amounting to ₹147 Crores loan repayment.

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 key risks that the Bank is exposed to in the course of its business are credit risk, market risk, liquidity risk, operational risk and information security risk. The hallmark of the Bank's risk management function is its independence from business sourcing units with the convergence only at the Board level.

CREDIT RISKS

Credit Risk is defined as the possibility of losses associated with diminution in the credit quality of borrowers or counterparties. Losses stem from an outright default, as defined by the regulator. Through continuous monitoring and enhancement, the Bank has established a distinct risk architecture, policies and procedures for managing its credit risk. The Bank has positioned itself predominantly as a retail bank with exposure in segments of microfinance, MSE and affordable housing. The Bank also has a sizable exposure to institutional clients, who are primarily in the BFSI segment. Prior to the pandemic, the Bank had launched new credit offerings in the personal loans and vehicle loans segments, to provide a comprehensive suite of products to our customer segment. The business strategy to cater to these segments is continuously assessed after factoring in the learnings from the pandemic, and the Bank's strategic imperative. There are robust front-end and back-end systems in place, to ensure credit quality and to minimise loss from defaults.

The factors considered while sanctioning retail loans include income, demographics and repayment track records of the borrower and tenor of the loan. Credit risk is managed by a robust customer screening process, caps on exposures and ticket size, based on borrower segments and pricing of loans, based on the inherent risk. This is backed by portfolio diversification strategies, stringent credit approval processes, and periodic post-disbursement monitoring for remedial measures, if warranted.

The Credit Risk Management Committee (CRMC) of the Bank meets at monthly or at more frequent intervals to review the credit portfolio, performance of all loans approved within a defined deviation matrix, and issues relating to loan documentation. During the year under review, the credit risk team has implemented risk scorecards to ensure an objective and standardised credit assessment framework, and to provide a risk categorisation for borrowers. The output from these scorecards is linked to credit decision making and in pricing-related decisions. Factoring the learnings from the pandemic, the Bank has revamped its Early Warning Systems (EWS) to provide proactive insights on the external and internal performance. These warning signals are disseminated to various stakeholders for corrective measures.

The Bank has a conservative and a prudent policy for provisioning of standard and NPA exposure. Our provision for NPAs is higher than the minimum regulatory requirements, while adhering to regulatory norms for the provision of standard assets. During the year, the Bank created a floating provision to eliminate any instances of underestimation in credit risk and to operate as a cover for any future contingencies.

Stress testing forms an integral part of risk monitoring, where sensitivity and scenario-based tests are regularly performed on the collection rates, to compute the incremental default rates and associated credit costs. These tests served as an important guiding tool for strategic decisioning, and in maneuvering from the aftermath of the pandemic.

MARKET RISKS AND LIQUIDITY RISKS

Market risks arise 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. These are monitored on end-of-day basis.

Liquidity Risk is the risk that a bank may not be able to meet its short-term financial obligations due to an Asset–Liability Mismatch (ALM) or interest rate fluctuations. As a part of this process, the Bank has established various limits to mitigate both, liquidity and interest 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 had also maintained a comfortable Liquidity Coverage Ratio (LCR), well above the regulatory limits during the year. During the year, the Bank has also commenced monitoring and reporting of the Net Stable Funding Ratio (NSFR) to meet the RBI mandated requirements. The Bank regularly undertakes various internal assessments of the behavioral patterns exhibited by depositors with respect to pre-mature withdrawal, utilisation, and tenure of deposits. There are now tolerance levels 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 RISKS

The Bank has in place a Board-approved Operational Risk Management policy to mitigate and manage operational risks. The Operational Risk management process is a top-down approach and is driven by strong and sound operating procedures and internal control culture, with well-defined reporting and contingency planning. The Bank is continuously striving to enhance its processes. Manuals, an important spin off to 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.

Business Continuity Management (BCM) was critical during the early months of the previous year on account of the pandemic. The Business Continuity Plans were reviewed and enhanced comprehensively to include the pandemic management. These plans are rigorously tested, and gaps are addressed on an on-going basis.

During the year, the RCSA framework was introduced, and the exercise was completed for all the critical verticals (with an exception to a vertical, which is expected to be completed in the ensuing year) within the Bank. The results from RCSA enable the Bank to assess the control testing effectiveness and in management of residual risks.

For effective management of operational risks, the Bank has constituted an Operational Risk Management Committee (ORMC) chaired by the MD and CEO. The Committee, convened by the Chief Risk Officer, meets at least at quarterly intervals to provide an oversight on key operational risk issues, the summary of which is presented to the Risk Management Committee of the Board. Operational risk within the Bank is managed through a combination of qualitative and quantitative approaches. It includes stringent product and process reviews, diligent User Acceptance Testing (UAT) of changes to systems, Risk Control and Self-Assessment (RCSA) framework, identifying and monitoring of Key Risk Indicators (KRI), data loss management, thematic reviews, scorecards, outsourcing risk reviews, Internal Financial Control (IFC) testing, and Business Continuity Planning (BCP).

INFORMATION SECURITY

The Bank operates in a highly dynamic threat environment and has thus taken a plethora of measures to ensure the safety of customer transactions. The Bank has implemented state-of-the-art security technologies in its infrastructure and monitors the potential threats round-the-clock. A comprehensive strategy encompassing people, process, and technology, is constantly reviewed in the light of emerging threats, the security requirements of the business, and best practices. A 24x7 Cyber Security Operations Centre has been established that identifies potential incidents and takes requisite action to respond, recover, and learn from the incidents. The Bank has adopted an approach of continuous improvement when it comes to security. In the field of emerging technologies, the Bank has embraced artificial intelligence, machine learning, data lake and user behaviour analysis for its Security Operations Centre.

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. In order to keep abreast with the security best practices, the Bank participates in meetings conducted by CISO Forum and Data Security Council of India.

A well-documented Board-approved Information Security Policy is in place.

Legal

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

The team continued to support the business, management and other functions of the Bank during the year through its timely advice and assistance.

As we navigate our way out of the pandemic, one of the core areas of interest for the legal team has been recovery. The legal team along with collections team worked cohesively to achieve substantial recovery through legal tools like issuance of legal demand notices, Sec 138 notices under negotiable instrument act, filing recovery suits, conducting Lok Adalats, initiating action under SARFAESI Act, etc. A remarkable number of Lok Adalats were arranged and executed by the team across regions, which resulted in good collections in a short span of time. As an alternate recovery measure, institutional arbitration (online and offline) was introduced by the team during the year for quick recovery/resolution of personal loans and vehicle loans.

The legal team has been providing prompt support to tackle new legal requirements and challenges faced by the Bank. On customer service front, the team has assisted in preparation of abridged documents/agreements pertaining to various verticals, making it more customer-centric and easy to understand.

This year has also been special since our legal team was the winner of the IDEX Legal Awards, 2021 in the Category of 'Litigation Department of the Year.' In the legal fraternity, these awards are known for their independence and impartiality, making them bona fide and one of the toughest ones to win.

The legal team, during the next year, will continue to provide comprehensive advice, ensuring a balance between ease of business and compliances, with applicable legal/regulatory guidelines.

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. Bank further ensures that more than 50% of its loan portfolio is comprised with loans and advances up to ₹ 25 Lakhs. Bank ensures adherence that at least 25% of its total branches operate in Unbanked Rural Centres (URCs). Bank is also in adherence of ensuring 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.

Bank maintains high level of corporate governance and the compliance culture, deep rooted from the field functionaries to the top management. The compliance framework is well-strengthened with certifications, monitoring and testing. The compliance unit is committed to building a strong adherence culture in the Bank, and the Bank has zero tolerance policy on the regulatory compliance breaches, adhering to statutory compliances in both, letter and spirit. The compliance department further performs compliance risk assessment of the business, support and control functions, and ensures quality of compliance through continuous evaluations as part of the monitoring and testing framework. Bank ensures adherence to the regulatory guidelines on the KYC, and 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 RBI.

INTERNAL AUDIT

The Bank has an independent internal audit department headed by Head of Internal Audit who functionally reports to Audit Committee of the Board (ACB). The Internal Audit Department functions with the objective to provide independent assurance to the Board of Directors and senior management, about the quality and effectiveness of its internal control, risk management, and governance framework.

IAD is appropriately staffed with qualified and competent personnel, and has five audit verticals covering all branches, central functions, IS audit, credit audit, and concurrent audit. An annual audit plan, encompassing all the audit areas, is prepared on a risk-based approach, and submitted to the ACB for approval. 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, progress of annual audit plan and staffing. It ensures effective and independent review procedures.

VIGILANCE

During the year under review, the Bank emphasised on prevention and early detection of fraud. We implemented the enterprise-wide Fraud Risk Management System {eFRMS}, targeted at securing the transactions of the customers, monitoring any unusual activities and enhancing the overall security with a view to mitigating transaction-related fraud. e- FMRS covered all five channels, such as core banking system, mobile banking, internet banking, debit cards, and UPI.

A 'Report to Vigilance' process was also implemented to provide a unified pathway to all Ujjivan employees, for reporting of frauds directly to the vigilance team, helping in bringing down the TAT for initiation of investigations, and acting as a mechanism for regular tracking of cases.

The 'Warriors of Ujjivan - Be Vigilant Awards,' have been spearheaded, in line with RBI directions. The idea is to appreciate employees, who have gone beyond their call of duty, in detection/prevention of fraud. 8 awardees have been finalised for this honour.

Another praiseworthy feat has been receiving of the letter of appreciation from Bengaluru City Police (Kamal Pant IPS, Commissioner of Police, Bengaluru city) for timely responses to Cybercrime Incident Report (CIR) cell, towards preventing and mitigating cyber-crimes.

During the review period, process improvement, suggested by the Vigilance Department to the MicroBanking / Rural Banking vertical, has been implemented.

The fraud reporting guidelines of Central Payment Fraud Information Registry, all payment related frauds, irrespective of value of the fraud, either reported by the customer to the issuer banks or detected by the Bank themselves, shall be reported via Electronic Data Submission Portal (EDSP), within a maximum period of 7 calendar days, from the date of reporting/detection. We have streamlined the same, and from the month of August 2021 onwards, reporting TAT has been brought down and tracked closely.

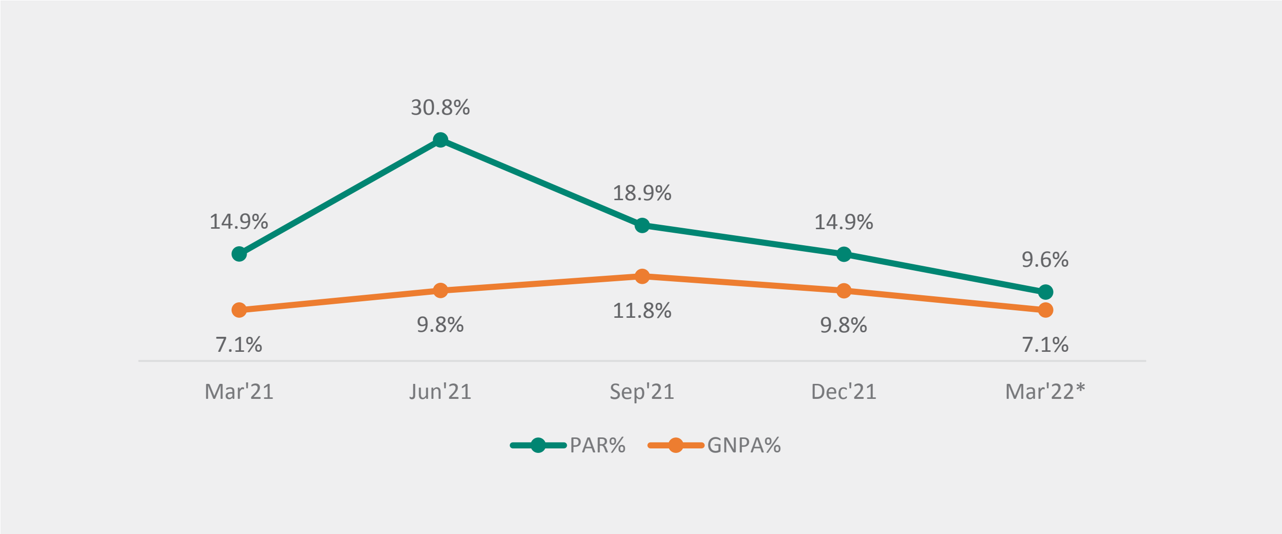
CREDIT

FY 2021-22 was one of the most challenging years for the Bank as well as the industry on a whole. In the middle of April 2021, second wave of the pandemic struck India, impacting the livelihoods of our customers, who had just started to recover from the aftermath of the first wave. The impact was so severe that the nation went into a lockdown for about 2.5 months (mid April 2021 - Jun 2021).

Due to restrictions in mobility, collections got impacted severely, thereby leading to deterioration in portfolio quality. This impacted the profitability of the Bank as well. The Bank, as a prudent measure, made a floating provision of ₹250 Crores in the first quarter of the fiscal.

However, the second half of the financial year saw the economy bouncing back to normalcy. This also resulted in improvement of the business landscape, thereby improving collection efficiency of the Bank, along with increasing demand for credit.

A slew of measures were taken to minimise the impact on our customers' lives in the form of policy, process, strict underwriting and portfolio management. Special focus was on implementing key regulatory guidelines, and 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. Continued connect with customers helped us to appropriately respond to their needs in a timely manner. This resulted in stabilisation of the business during the second half of the year.



*Includes IBPC and Securitisation

MicroBanking and Rural Banking:
The impact of the second wave, and the resulting crisis, was felt at the bottom of the pyramid. Our customers, who engaged in the subsistence business, endured the brunt of this medical and economic crisis, coping with income loss and loss of lives and livelihoods.

Regulatory dispensation (RF2 Framework):
The RBI rolled out a dispensation package of extending the restructuring facility (RF2.0) to impacted customers due to the second wave. The Bank provided restructuring facility to about 3.8 Lakhs customers, who were impacted due to the second wave.

Serving customers in crisis: With the economy slowly recovering in June 2021, the bank implemented multiple changes to its credit policy and processes, to ensure that good customers continue to have access to loans. The bank focused on serving its existing customers, to mitigate inherent risk of new customer acquisition in the aftermath of the pandemic. A robust business continuity process was put in place to address all emerging situations across people, process, and systems. On the lending and underwriting front, we selectively offered credit to affected segments, and used stringent underwriting policies. Processes were tightened to mandate additional visits by senior officials for loan application. This led to the FY disbursed book holding up with 99.5% Cumulative Repayment Rate in March 2022.

Portfolio management: The Bank significantly strengthened the collection infrastructure to improve recovery from NPA accounts. This included strengthening of the team of employees for regular collection follow-ups. The Bank also increased the customer touch points by way of tie-ups, to ensure that customers get easy access to deposit their EMIs at partner outlets.

Special focus was made on initial bucket and vintage of accounts, for reducing PAR flow to higher buckets.

The combined measures taken, resulted in collection efficiency increasing from 93.7% in March 2021 to 100% in March 2022. GNPA reduced from 7.8% as on 31st March 2021 to 7.6% as on 31st March 2022 and PAR reduced from 15.8% as on 31st March 2021 to 9.2% as on 31st March 2022. The Bank has made adequate provisions to cover for any foreseeable future, with the provision on total book, standing at 8.7%.

Housing and MSE:
The GNPA for housing loans stood at 4.7% against 3.6% as on 31st March 2021, while NNPA stood at 2.3% against 2.2% as on 31st March 2021. PCR for housing loans stood at 53% against 39% as on 31st March 2021. The GNPA for MSE loans stood at 11.1% against 10.3% as on 31st March 2021, while NNPA stood at 4.2% against 6.4% as on 31st March 2021. PCR for MSE loans stood at 65% against 40% as on 31st March 2021. The focus was on initiating action under SARFAESI Act in all applicable cases. This resulted in significant improvement in upgrades during Q3 and Q4 of the financial year. The bank restructured 252 accounts worth ₹23 Crores in Affordable Housing and 508 accounts worth ₹67 Crores in MSE, in line with the Covid RF2 regulatory framework. On the policy front, the bank has cut down on high-risk segments, which contributed to higher slippages. The bank has also put some clusters, where delinquencies were too high, on hold for new business generation.

FIG
The year saw the Bank taking a cautious approach to FIG lending to MFI, MSE, Vehicle Finance and Affordable Housing. The bank focused on disbursements to externally higher rated entities, while maintaining portfolio NIM. As at the end of the year, the book size was ₹856 Crores, registering a 32% y-o-y growth over the last year. All accounts except one MFI account was 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 to proactively source quality borrowers, and manage repayments, were well-tested during FY 2021-22. The crisis in the wake of the pandemic has, however, been extraordinary with events unfolding rapidly. The Bank continues to monitor the existing portfolio quality. We believe that our current and proposed investments in people, process, and technology, will help the Bank emerge stronger and better in the future.

OPERATIONS

While FY 2020-21 ended on a high note for operations, FY 2021-22 began with the same challenges with which last year had begun – lockdowns, restrictions on movement of people, etc., on account of the second wave of the pandemic. Amidst the challenging circumstances, the entire team of operations, consisting of over 330 functionaries, spread across four Regional Offices and a Head Office, remained focused on four goals:

- Ensuring that all services to external and internal customers were rendered without any disruptions
- Rolling out initiatives to improve efficiency, productivity, compliance, and quality of customer experience
- Reducing operating costs to the maximum extent possible, and
- Ensuring the safety of all its members.

Our team achieved all these objectives, through a hybrid model of business continuity planning, which involved functionaries adopting a mixed working style of work-from-home, and office, on a rotational basis, ensuring none of the services and activities were disrupted. On all occasions, the team ensured all obligations were fulfilled for external and internal customers. The SLAs were met, average employee productivity remained in excess of 100% throughout the year, and the critical service quality indices showed a steady improvement.

Certain key projects were undertaken during the FY.

- The revised account opening process for individuals, spanning 3 applications (CRM Next, Finacle and I-Exceed), involving six departments (Ops, IT, Branch Banking, MicroBanking, Risk and Compliance) and impacting all 568 branches was launched in November 2021. The revised flow addressed the gaps that existed in the previous account opening flow, improving TAT and quality of data, and reducing errors in its wake.
- E-mandate facility, which allows borrowers of the Bank to register NACH mandates for repayment of loans digitally, by using internet banking and debit cards, was launched in Q3. The process allows borrowers to register NACH mandates, almost instantly (registration of paper / physical mandates takes up to 10 days). Other advantages include:
  - o No rejection due to signature mismatch, clerical errors, overwriting, unclear images, etc., which is very high in case of paper mandates.
  - o Reduces carbon footprint and is eco- friendly since it eliminates the use of paper.
  - o E- mandates can be registered before disbursement.
  - o E-mandates come with a higher debit limit of ₹10 Lakhs (paper mandates have a limit of a lakh).
- Uploading of KYC data of 22 Lakhs ETB customers to Central KYC Registry (CKYCR), which allows these customers to establish account-based relationships with Regulated Entities (banks and NBFCs), by simply quoting their CKYCR number, without having to submit their KYC documents.

  Through the year, the Department remained focused on reducing expenses. A series of measures were undertaken to achieve this.
- A new service provider – Spice Money Limited – was empaneled as a vendor to allow Customer Relationship Officers, the Bank's MicroBanking field staff to offload their daily cash collections at their counters. By Q4, a significant amount of the transactions were being made with Spice Money, leading to lower costs and risk mitigation.
- Two vendors were empaneled by Operations to help the Bank reduce its stock of lower denomination notes (LDN) and coins. This helped branches reduce their unprofitable cash holdings.
- Through various measures, the cost of cash management was reduced from ₹2 per thousand to 67 paise per thousand (65% reduction) by January 2022. YTD savings due to this measure stood at ₹ 90 Lakhs by end of January 2022.
- By automating recovery of NACH 'bounce' charges, leakage of income due to non- recovery of those charges was plugged in December 2021.
- Through use of Robotic Process Automation (RPA) in its reconciliation processes, the Department has saved ₹2.15 Crores YTD.

Amidst all this, the Department remained committed to ensuring the safety of its functionaries during the raging pandemic. The leadership team constantly engaged with the rank and file of the Department, ensuring all members get vaccinated and those afflicted by the disease receive timely assistance.

The financial year remained a challenging one like the previous year, but the team stayed the course, not once throwing in the towel. The Department remains committed to delighting its customers, both external and internal, reducing operating costs significantly, increasing employee productivity and operational efficiency, and above all, making Ujjivan Small Finance Bank the most preferred bank of its customers.

TECHNOLOGY

Our vision thrives on digital banking, powered by technology, to enhance customer experience, increase productivity and optimise operational efficiency. This will drive the Bank to continuously improve the Cost Income Ratio, Product per Customer, and Profitability per Customer. Even with the pandemic impact, 236 projects were successfully launched. The projects were a mélange of regulatory tasks, new products lines, and services for revenue generation, enhancing customer experience and improving operational efficiency, and cost savings. Few business critical projects included Video KYC – e-branch connect for compliance and audit, payment gateway with bill desk, FSS, partnership with Spice money, automated customer engagement platform by MO engage, identifier for HNI customer, AMC charge collection and card repository, staff homes and vehicle loans, revamp of AC opening, strengthening controls of payment ecosystem, fixed to floating projects, UPI QR solution for merchants, key projects on e-KYC, and PAN, capturing GPS location at house visits, and emergency loans. IT systems demonstrated the capability to conduct 69% more financial transactions during the year (~83.1 million transactions vis-à-vis 49 million during previous FY), while maintaining same level of system capacity. IT procurement negotiated savings for FY was ₹31 Crores. Data center high availability led to meet business uptime at 99.8 %. 3 Disaster Recovery drills were coordinated with partners to ensure that Disaster Recovery site is functional. The capacity expansion of Data Center and Disaster Recovery was initiated for 2022-23. For FY 22-23 - the IT team is all geared to focusing on stabilising, securing, and transforming IT application and infrastructure. With the team having the IT cloud ready, and the cloud-enabled application in place, continuity of business and meeting of demand and load with just-in-time scalability, will becoming achievable. The Bank is implementing multiple tools to secure and improve efficacy and security of the applications, in addition to focusing on new products and projects like loan origination, smart statements, ALM and collections management, among others.

TREASURY

The Bank has its Treasury office located in the country's financial capital, Mumbai, with a state-of-the-art dealing room. The primary responsibility of the treasury includes compliance with statutory reserve requirements, ALM, liquidity management, trading and client services.

The Bank has Subsidiary General Ledger (SGL) account with the Reserve Bank of India, 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 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 duration, 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 pandemic has provided a number of learnings to the treasury, which have enabled it to grow in strength. Seamless liquidity and funds management, even from a remote location, are now a given, as also the ability to handle market disruptions and volatility. The treasury is focused on reducing cost of funds, enhancing returns, and contributing positively to the Bank's bottom-line.

SERVICE QUALITY

Superior customer experience and quality of service build the trust and reliability, leading to sustainable relationship between the Bank and the customers. USFB believes that only good customer service differentiates us from others. The service objective of Ujjivan Small Finance Bank is to 'deliver exceptional service to our customers, by embedding service culture in our people, process and policy, enabled by technology'. To drive this intent into practice, the Bank has established a dedicated Service Quality department to channelise the programs around customer experience management, quality assurance, customer care and grievances resolution, and customer service compliance.

Over the years, Ujjivan Small Finance Bank has defined and established service index, both at bank level and for each of businesses, incorporating key service aspects that impact the quality-of-service delivery and customer satisfaction. As the level of internal customer service among the business and support functions lead to the quality of service delivered to customers at the ground, the service index program of the Bank covers key operational, technological, digital banking and other support units as well. The Bank's board and management forums periodically review the progress made on the service quality goals, and provide oversight. Further, the service quality goals are part of the key job responsibilities of the staff, right from the heads of the functions, to sales and service staff at the ground.

When customers go through certain life events, both the good and bad ones, their banking service needs are unique and complex, which require care and support that are empathetic, professional and efficient. The Bank has successfully been running a campaign, 'Aajeevan,' a life events-based banking service, which includes hassle-free and empathetic services towards nomination facility, joint accounts, settlement of claims of deceased account holders, settlements of insurance claims, priority services to senior citizens, and specially-abled customers.

Customer care and problem resolution is an area of special focus for the Bank. As instances of customer complaints are not uncommon in a service industry like banks, USFB has established a robust 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 the customer acquisition and digital transaction volumes have grown multifold in the last 3 years, the number of complaints in FY 2021-22 have reduced by 15% and 38% respectively, when compared to FY 2020-21 and FY 2019-20.

Looking ahead, the Bank is further strengthening its service quality program and avenues to improve the customer connect. While the Bank has an internal mechanism to measure and track its service standards to customers, an independent assessment through a research agency will be commissioned during the FY 2022-23 for assessing the current levels of customer satisfaction. The independent assessment will also help in understanding customers' perception and feedback towards our services, competitive performance on each touch points, and brand imagery.

HUMAN RESOURCES

The year 2021-22 proved that with persistence, all hurdles and impediments can be eradicated, and we can rebuild and achieve progress with a team of passionate and industrious people. Our faith in our people, came through at a time when the organisation most needed it, after the first two quarters marred by Covid issues. We saw the impact of people coming together and aligning to the organisational goals and outperforming in the third and fourth quarters. This was also a year, where the people pillar of USFB's mission was put to test, 'provide professionally rewarding careers to employees and, attract and retain quality talent.' We were able to attract seasoned senior management professionals for the Bank in important roles like Chief Information Officer, Head of Digital Banking and Chief Financial Officer. At the same time, we were able to grow some of the internal talent to senior management level as well. In line with our mission, we are driven to build better lives for our customers as well as employees. This drive has resulted in many accolades. We were certified as a Great Place to work and One of the Best in SFB segment by Great Place to Work® Institute and Economic Times across 20 industries yet again, for the 12th consecutive year. The two areas most impacted during the pandemic were physical interaction with the front-end teams, and also physical induction and trainings. We were able to bring back physical interaction forums like Branch Representative meetings with the branch employees. Physical induction training for the front-end business teams was started across India. The focus on hybrid model of training and certifications was also quite high and the same was driven through our Learning Management System – SWAY@M. This was also a year, where we leveraged the HRMS, implemented last FY, and all HR processes were digitally implemented through the system.

In continuation with the focus on health and safety of our employees, a vaccination drive for employees was prioritised and propelled across the organisation. The result was that 99.68% of employees are vaccinated, and the third Covid wave did not have any major impact on employee health and safety. We also took forward our well-crafted benefits program, which focused on wellness and preventive care. We extended our work-from-home policy, and continued to provide the infrastructure for remote working. We also ensured that services like 'Doctor on Site' from registered medical practitioners, were made available for our employees. Unlimited audio and video consultations with general physicians and dieticians for employees and their families, using 'Doctor on Call' and mental health counsellor services, were made available.

We have a well-established Welfare and Relief Charitable Trust to strengthen our contribution towards employees. The Trust supports beneficiaries affected by unforeseen exigencies. We continued to extend financial support to our colleagues, and their family members, through the Trust, for treatment expenses, related to COVID-19, among others.