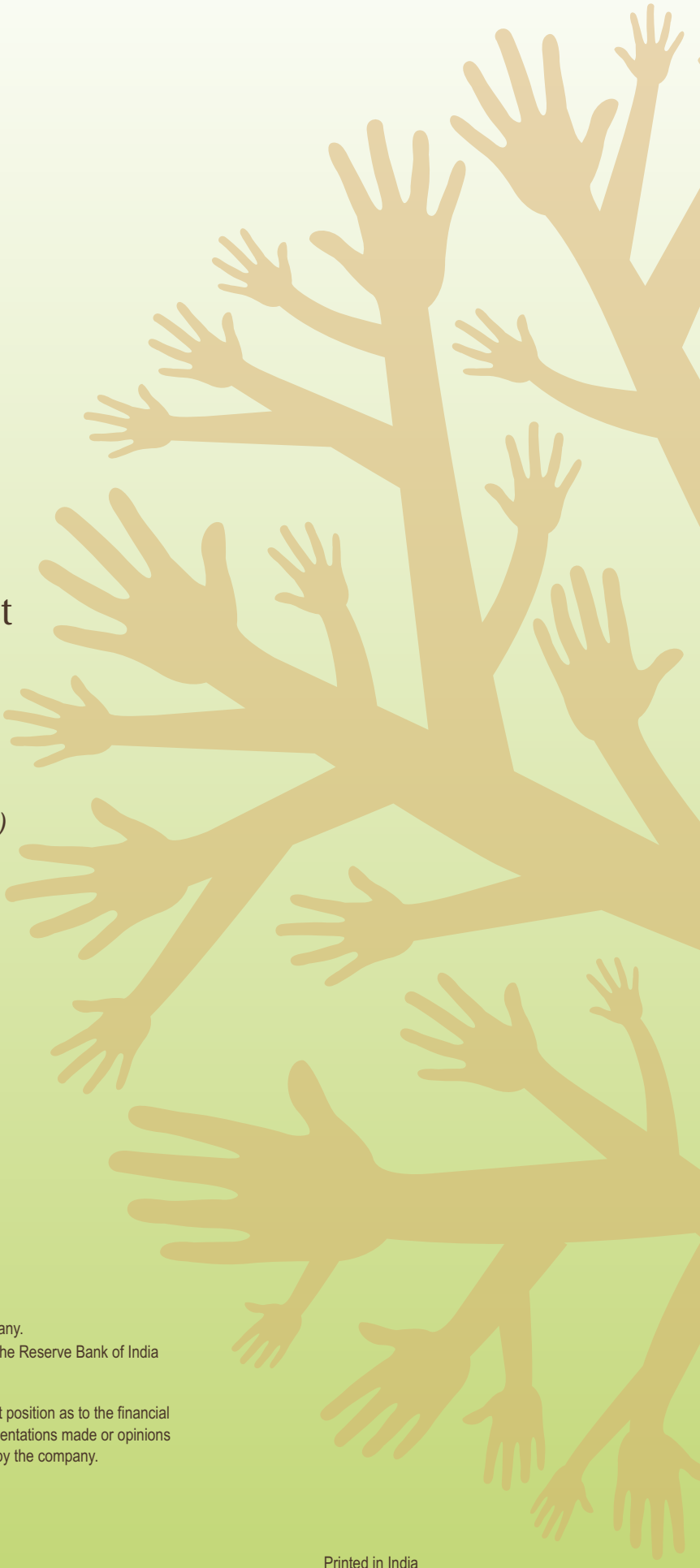
Ujjivan
Build a Better Life



ANNUAL REPORT
2010 - 2011



GREAT PLACE TO WORK®

Top 25 best companies to work for 2011

India

Ranked # 1 in Microfinance industry

Ujjivan is among India's top 15 Best Companies to Work for, and ranks # 1 in Microfinance industry

- 2011 Survey by Great Place to Work Institute (India) and The Economic Times

Legal & Regulatory Framework

Ujjivan Financial Services Pvt. Ltd. is registered as a Non Banking Financial Company.
The Company holds a valid Certificate of Registration dated 31-10-2005 issued by the Reserve Bank of India under section 45 1A of the Reserve Bank of India Act, 1934.

However, the RBI does not accept any responsibility or guarantee about the present position as to the financial soundness of the company or for the correctness of any of the statements or representations made or opinions expressed by the company and for repayments of deposits / discharge of liabilities by the company.

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Letter from Managing Director

"When the tide goes out, we find out who's been swimming without a bathing suit" - Warren Buffet

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

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

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

Since October 2010, it has been crisis management mode.

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

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

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

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

All through the crisis we carried on with our Social Development programs at branch level, working with the staff, customers and community (Refer http://www.ujjivan.com/Social-development). This, along with our work on disaster relief and the various programs we undertake with Parinaam Foundation (www.parinaam.org): Health Camps, Education Scholarship & Loan Interest Refund, and Sports Days for children, have helped us develop a unique bond with the community where we work. This was a major gap which was evident post-crisis especially in Andhra, where the MFI's relationship with customers and community had degenerated into merely that of another 'money lender'.

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

Particulars	Mar-10	Mar-11	Growth 2010-11
Customers	620,624	991,584	60%
Disbursement (Rs. Mn.)	9,319	20,734	122%
Outstanding (Rs. Mn.)	3,700	6,251	69%
Employees	2,830	4,009	42%
Branches	230	351	53%
Repayment Rate	98.96%	98.91%	n/a

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

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

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

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

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

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

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

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

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

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



Samit Ghosh
May 16, 2011



Company Profile

Ujjivan is a Microfinance Institution serving the economically active poor in urban and semi-urban areas. It is a Non Banking Financial Company holding a valid Certificate of Registration dated 31-10-2005 issued by the Reserve Bank of India. Ujjivan has its headquarters in Bangalore, with regional offices in New Delhi, Kolkata & Pune. It has 351 branches in twenty states and union territories across India.

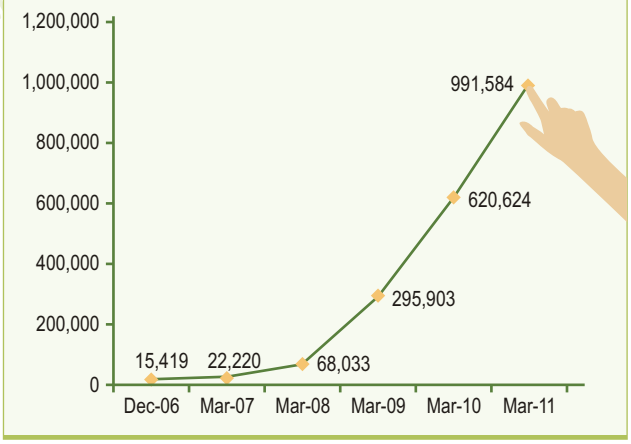
Mission:

Provide financial services to the economically active poor, to help alleviate poverty

Goals:

- Provide full range of financial services required by the customers
- Build an institution which is best in class in all aspects: customer service, innovation, efficiency, work place engagement, leadership, governance and reputation
- Operate a viable business to provide satisfactory returns for investors
- Provide professionally rewarding careers to employees and, attract and retain quality talent
- Holistically approach poverty reduction, in partnership with Parinaam Foundation, through social welfare; healthcare, education, vocational training, community development, shelter, and disaster relief, to enable customers lead a "better life".

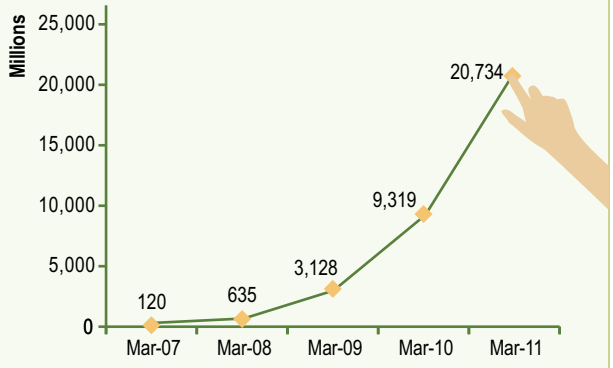
Customer Growth



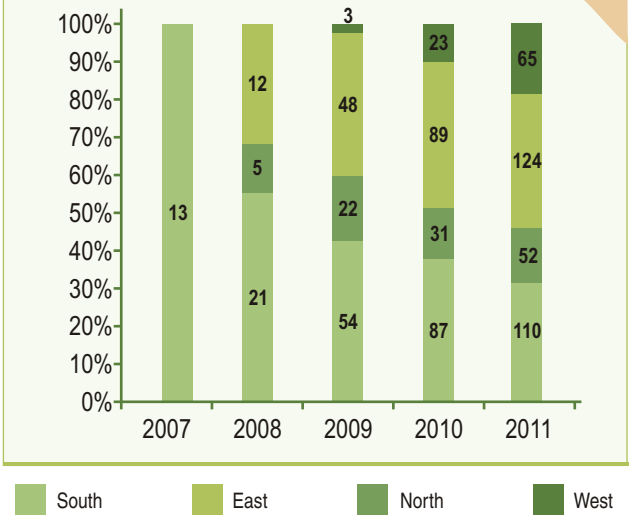
We provide a range of financial products and services to cover our customers' needs. It combines the unique Grameen Bank methodology of selecting, training, selling & servicing customers in the front end with that of technology, process & disciplines of modern retail banking in the back end.

Ujjivan has had an excellent growth phase in the past few years with customer outreach of 991,584 and a cumulative disbursement of Rs.20734 million as on 31st March 2011. It has 4009 employees across the country.

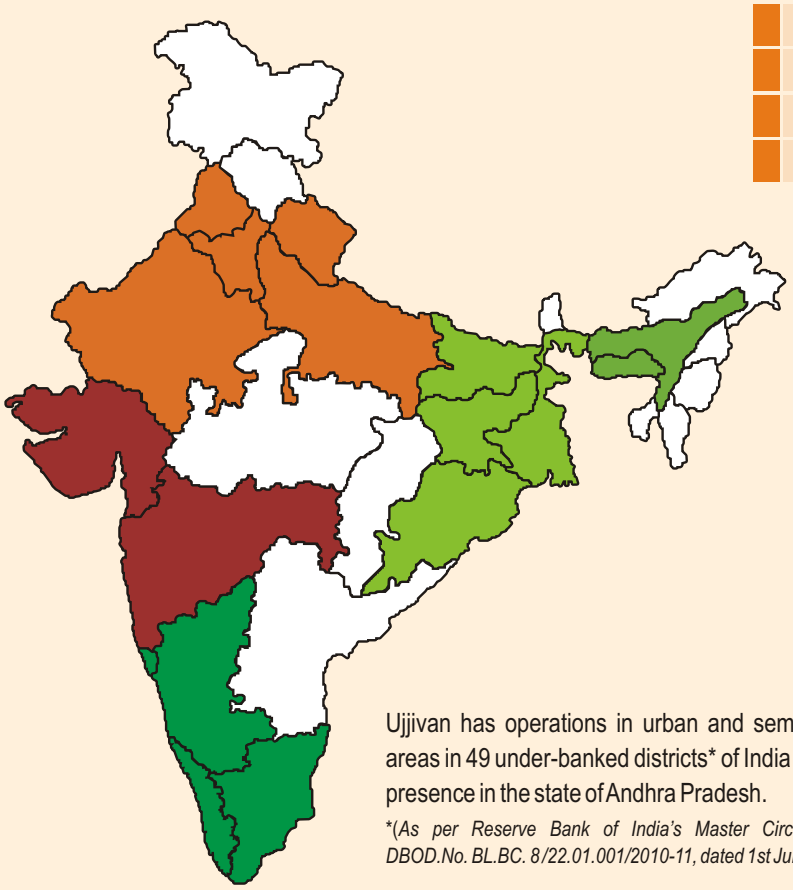
Loan Disbursement Growth



Regional Branch Expansion



Geographical Outreach



Number of States	20
Number of Branches	351
Number of Customers	991,584
Amount of Loans Disbursed	Rs.20734 Million

Ujjivan has operations in urban and semi-urban areas in 49 under-banked districts* of India with no presence in the state of Andhra Pradesh.

(As per Reserve Bank of India's Master Circular No. DBOD.No. BL.BC. 8/22.01.001/2010-11, dated 1st July, 2010)

North
Chandigarh
New Delhi
Haryana
Punjab
Rajasthan
Uttarakhand
Uttar Pradesh

East
Assam
Bihar
Jharkhand
Meghalaya
Orissa
West Bengal

West
Maharashtra
Gujarat

South
Karnataka
Kerala
Tamil Nadu
Goa
Puducherry

Region	No. of States/UTs	Branches	Customers	Amount of Loans Disbursed
South	5	110	306,480	Rs. 8541 Million
East	6	124	367,047	Rs. 7121 Million
North	7	69	182,872	Rs. 3291 Million
West	2	48	135,185	Rs. 1780 Million

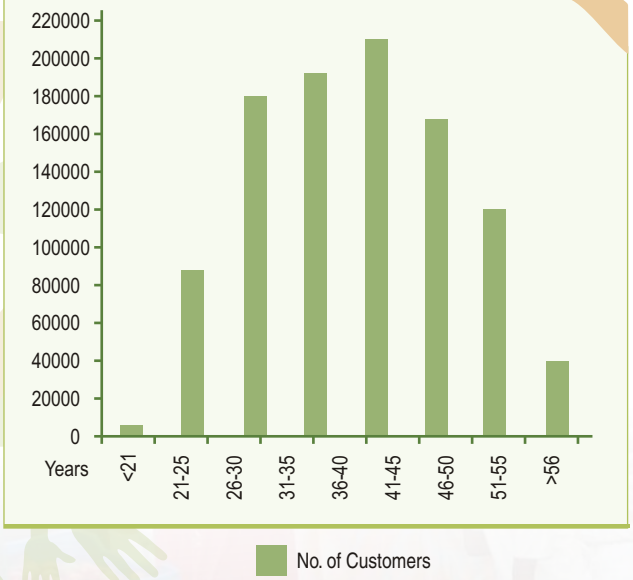
Our Customers

Ujivan's customers are industrious, hard-working women from India's urban and semi-urban areas. They hold a variety of occupations, often owning small shops and tailoring businesses or are employed as housemaids or as piece rate workers in factories.

Some top occupations of Ujjivan customers

- Cloth Sellers
- Factory workers
- Flowers/vegetables vendors
- House Maids
- Milk Suppliers
- Petty traders
- Shopkeepers
- Tailors

Customer breakdown by age



Region-wise customer breakdown by occupation



Key Milestones

2010	
April	First Branch opened in North East India, in Guwahati (Assam)
	First Branch opened in Meghalaya
May	100 Branches in Eastern Region
June	Eastern Region first to serve over 300,000 customers
	100000 families served in Northern Region
	Service Champion Program launched
July	300th Branch in Sikandrabad (Uttar Pradesh)
	First NCD issue listed on BSE (Bombay Stock Exchange)
	Over 750000 customers served across India
August	Social Development Program launched
September	Becomes MFI with largest branch network in Delhi/NCR
October	Wins Srijan MFI Transparency Award in Established MFI category
	100000 families served in the Western Region
November	First Branch opened in Goa
December	Wins Gold Award for Social Performance Reporting on MIX Market
	350th Branch in Guruvayoor (Kerala)
	Crosses 4000 employees
2011	
January	Ujjivan serves 900,000 customers
February	Becomes largest MFI in Mumbai – over 50,000 families served
March	Samit Ghosh invited to be on Board of Women's World Banking