BASEL – PILLAR 3 DISCLOSURES AS ON SEPT 30, 2021

Utkarsh Small Finance Bank Limited (hereafter referred as the "Bank" or "USFBL"), is a wholly owned subsidiary promoted by Utkarsh CoreInvest Limited (formerly known as Utkarsh Micro Finance Limited) incorporated on April 30, 2016 under the provision of the Companies Act, 2013. The Bank is licensed by the Reserve Bank of India to operate as a Small Finance Bank under the Banking Regulation Act, 1949 on November 25, 2016. As per the Business Transfer Agreement, the entire balance sheet of Utkarsh Micro Finance Ltd. (now known as Utkarsh CoreInvest Limited) was transferred to Utkarsh Small Finance Bank Limited as at the close of business on January 21, 2017. Subsequently, soft launching of banking operations commenced on January 23, 2017 with the opening of five branches in Delhi, Patna, Nagpur and Varanasi and full-fledged launching of the banking operations commenced on September 22, 2017. The Bank has entered its fifth full year of business operations. It was included in the second schedule of the RBI Act, 1934 vide a notification dated November 16, 2017 and was accorded the status of a Scheduled Commercial Bank.

The Bank aims to provide affordable & accessible banking services which are process centric, technology enabled and people oriented resulting in reliable, scalable and sustainable institution facilitating socioeconomic change. The purpose is to provide banking products to the unserved and underserved sections of the country, which includes small and marginal farmers, micro and small industries, and other organized sector entities, at an affordable cost.

USFBL has prepared this disclosure document in compliance with the directions of Reserve Bank of India (RBI) vide its circular RBI/2015-16/58; DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015. The document provides a review of key observations pertaining to the Bank's capital adequacy, credit quality, key business highlights and a review of its key risks as at 30th Sept 2021.

I. Scope of Application

The framework of disclosures applies to USFBL. The Bank does not have any subsidiary nor does it have any interest in any insurance entity. All the information in this document are made as a standalone entity.

II. Capital Adequacy Framework and Capital Structure

Framework

The Bank is subject to the capital adequacy framework as per the "Operating Guidelines for Small Finance Bank" from Reserve Bank of India (RBI). As per capital adequacy framework, the Bank is required to maintain a minimum Capital to Risk Weighted Assets (CRAR) of 15% with minimum Tier I capital as 7.5%. As of now, capital conservation buffer and counter cyclical buffer are not applicable for Small Finance Banks (SFBs).

For the purpose of capital adequacy, only credit risk is covered since there is no separate capital charge prescribed for market risk and operational risk as per the direction of RBI. For computation of capital for credit risk of SFBs, RBI has prescribed Basel II Standardized Approach and has permitted the use of external rating based risk weights for rated exposure and regulatory retail approach for small retail loans.

Assessment

For better assessment of the capital, the Bank is having Internal Capital Assessment Process (ICAAP) with Simplified Approach, considering its nature; scope, geographic spread, complexity and quantum of operations. Our risk management practices are in line with the required degree of supervision for a Small Finance Bank

The Bank's ICAAP focuses to ensure that the Bank has sufficient capital to support all the risks inherent to its business and an adequate capital buffer based on the business profile to cover future unforeseen risks upto a certain degree. The change in the level of credit risk, market risk and interest rate risk along with the changes in on- balance sheet and off- balance sheet exposures are assessed under different stress scenarios by the Bank to have better assessment of the capital requirement.

Besides computing CRAR under the Pillar I requirement, the Bank has set up sound corporate governance and control practices to identify, assess and manage risks.

a) Capital Funds

(₹ in Crores)

Sl.	Particulars	Amount as on 30th Sept. 2021
A	**Tier I Capital**	
	Paid-up Share Capital	895.50
	Reserves	636.98
	Innovative Tier 1 Capital instruments	
	Minority Interest	
B	**Deductions**	
	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	
	Securitisation exposures including credit enhancements	
	Deferred Tax Assets	55.57
	Good will and Adjustments for less liquid position	
	Deferred revenue expenditure	32.61
	Intangible assets	18.59
C	**Net Tier 1 Capital**	**1425.71**
D	**Tier II Capital**	
	General Provisions	35.73
	Upper Tier 2 capital instruments	
	Lower Tier 2 capital instruments	219.00
	Investment fluctuation reserve	21.97
E	**Deductions**	
	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	
	Securitisation exposures including credit enhancements	
F	**Net Tier 2 Capital**	**276.70**
	Total Eligible Capital	1702.41

b) Capital Requirement for various Risks and Risk Weighted Assets:

Capital required for Credit Risk given below is arrived at after multiplying the risk weighted assets by 15%.

(₹ in Crores)

Sl.	Particulars	Amount as on 30th Sept. 2021
(a)	**Capital Requirement for Credit Risk:**	
	Portfolios subject to Standardized Approach	910.18
	Securitization	
(b)	**Capital Requirement for Market Risk:**	
	Interest Rate Risk	
	Foreign exchange Risk (including Gold)	
	Equity Risk	
(c)	**Capital Requirement for Operational Risk:**	
	Basic Indicator Approach	
(d)	**Total Capital Requirement (a+b+c)**	**910.18**
(e)	**Total Risk Weighted Assets**	6067.85
(f)	**Total Capital Fund**	1702.41
(g)	**Capital Adequacy Ratio**	
	Common Equity Tier-1	23.50%
	Tier-1	23.50%
	Tier-2	4.56%
(h)	**Total CRAR**	28.06%

C. Leverage Ratio

Leverage ratio is a non-risk based measure of exposure over capital. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements.

Leverage Ratio = Capital Measure (Tier I Capital)/Exposure Measure

As per operating guidelines for SFBs, the Bank is required to maintain leverage ratio of 4.50%.
The Bank's leverage ratio, calculated in accordance with RBI guidelines under consolidated framework, is as follows:

(₹ in Crores)

Sl.	Items	Amount as on 30th Sept. 2021
On-Balance Sheet Exposure		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	12,110.09
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**12,110.09**
Derivative Exposure		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with all derivatives transactions	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	
Securities Financing Transaction Exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	CCR exposure for SFT assets	
15	Total securities financing transaction exposures (sum of lines 12 to 15)	
16	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	48.48
18	(Adjustments for conversion to credit equivalent amounts)	
19	Off-balance sheet items (sum of lines 17 and 18)	**48.48**
Capital and Total Exposures		
20	Tier 1 capital	1,425.71
21	Total exposures (sum of lines 3, 11, 16 and 19)	12,158.58
Leverage Ratio		
22	Basel III leverage ratio	**11.73%**

a) Reconciliation of total published balance sheet size and on balance sheet exposure

Sl.	Particulars	Amount as on 30th Sept. 2021
1	Total consolidated assets as per published financial statements	12,110.09
2	Replacement cost associated with all derivatives transactions, i.e. net of eligible cash variation margin	
3	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
4	Adjustment for entities outside the scope of regulatory consolidation	
5	**On-balance sheet exposure under leverage ratio (excluding derivatives and SFTs)**	**12,110.09**

b) Summary Comparison of accounting assets and leverage ratio exposure

Sl.	Particulars	Amount as on 30th Sept. 2021
1	Total consolidated assets as per published financial statements	12,110.09
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	48.48
7	Other adjustments	
8	Leverage ratio exposure	11.73%

III. Risk Exposure and Assessment

The Risk Appetite of the Bank has been gradually increasing over the years with the experience & confidence gained from its past performance and vision for the future along with it's strong senior management team which is at the helm and steering the Bank to new heights every year.

Major Risks as identified by the Bank are as followed (keeping in mind the area and scale of operations)

1) Credit risk 2) Market risk, 3) Liquidity risk and 4) Operational risk including IT related risk.

The Bank has robust mechanism in place to identify; assess, measure and mitigate each type of risk and to be compliant with the regulatory framework within which each risk parameter has to be complied with across different sections and departments of the Bank in which we are currently operating.

RBI Guidelines on Basel III Capital Regulations have been implemented and the Bank is adequately capitalized as per the current requirements under Basel III. An independent Risk Governance Structure, in line with best practices, has been put in place, in the context of segregation of duties and ensuring independence of Risk Measurement, Monitoring and Control functions.

All stakeholders within the Bank at all levels are communicated the importance of adherence to Risk Management Policies and proper checks are in place to ensure compliance of the same by all with escalation to the next level in case of any breach by anyone. This is a part of the Risk Management Structure and Framework adopted by the Board and enshrined in the overall policy framework to be followed by all.

Utmost compliance to Corporate Governance is stressed at all levels by way of disclosure of all material information through adoption of means available for disclosing the same. Risk transparency is fostered through reporting, disclosure, sharing of information and open dialogue about the risks arising from different activities across the Bank

a) Risk Governance Model

The Bank has a well-defined system of establishing, monitoring and controlling the management of risk within the Bank

This governance model defines three key roles:

- Businesses that take, manage and monitor risk;
- Risk Management to provide policy, guidance and analysis; and
- Internal Audit to provide independent assurance.

Risk Management Department is responsible for setting up the appropriate risk control mechanism, quantifying and monitoring risks.

b) Risk Governance Framework

The Bank has always maintained and encouraged a policy whereby the decision making of the Risk Team should not be guided or be affected in anyways by the material outcome of the decision or the profitability (enhancement in market share or loosening of policies for the benefit of one particular section etc.) it may bring in the short term. Risk Team should be able to take decisions and frame policies for the long term which would be able to guide and serve the Bank for years to come by laying a strong foundation on which we may capitalize as and when opportunities, in line with good corporate social norms and healthy business norms, arise.

c) Governance Committees

- **Board of Directors**

The Board of Directors ("the Board") are the ultimate authority in the Bank to draft and introduce policies.

The Board has however, formed committees to delegate and monitor (including adequate implementation) of the risk management processes, procedures and systems in the Bank.

- **Risk Management Committee of the Board (RMC)**

The Risk Management Committee is a Board level sub-committee. The primary role of the Committee is to provide forward looking guidance on the threat perceptions building within the Bank basis it current operations (including area and scope) or the threat perceptions which the Bank is facing or might face in the future based on the evolving economy outlook and the developing market trends. This committee reports directly to the Board
RMC constitutes:

RMC constitutes:

- o Four members of the Board of Directors, as nominated by the Board, including Managing Director & CEO
- o Chief Risk Officer - Permanent Invitee
- o The Chief Financial Officer- Permanent Invitee
- o The Company Secretary – Convener and Secretary

- **Management Level Committees**

At management level, three separate committees for Credit Risk Management, Operational Risk Management, Asset Liability Management, Information System Security committees and Fraud Risk Council.

These committee's meet at regular intervals to support and share its findings with the Board level committees to help them understand the area's in which operations of the Bank needs to further streamline it processes' and policies along with norms which needs to be made more stringent or relaxed as per the Risk Appetite of the Bank and/or the overall Regulatory Framework within which the Bank operates.

IV. Credit Risk

Credit risk is the risk of loss that may occur due to default of the counterparty or from its failure to meet its obligations as per the terms of the financial contract.

Occurrence of any such event will have an adverse effect on the financial performance of the Bank and also affect its creditability in the market in years to come.

The framework provides a clear definition of roles as well as allocation of responsibilities with regard to ownership and management of risks. Further a clear hierarchy is defined with respect to reporting relationships and Management Information System (MIS) mechanism.

a) Structure and Organization

The Bank faces credit risk through its lending, investment and contractual arrangements. To mitigate the effects of credit risks faced by the Bank, a robust risk governance framework is in place.

The organizational structure for Credit Risk Management is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Credit Risk Management Committee (CRMC)
- Chief Risk Officer (CRO)
- Head - Credit Risk Department
- Credit Risk Department
- Business Units

The Bank has an approved delegation of authorities at various levels to different credit committees or individuals (based on their designation and overall experience) for credit approvals.

The Credit Risk Management Committee at the management level proactively assess portfolio quality, prudential limits and inherent risks. It also frames policies and sets limits to mitigate identified risk. Governance control is vested with the Risk Management Committee (RMC) of the Board, which monitors and provides guidance on the risk assessment and capital adequacy as well as ensures timely and effective implementation of policies. Policies such as the credit risk management policy, investment policy, credit risk policy, product specific credit policies, NPA policy and collection policy are defined to effectively manage credit risk.

b) Strategies and Processes

The Bank has defined and implemented various risk management policies, procedures and standards with an objective to build, sustain and maintain a high quality credit portfolio by proper measurement, monitoring and control of the credit exposures. These policies also address more granular factors such as diversification of the portfolio across companies, business groups, industries, geographies and sectors. The policies reflect the Bank's approach towards lending to borrowers in light of prevailing business environment and regulatory stipulations. All these policies are approved by the Board of Directors of the Bank and are reviewed regularly.

The product specific credit policy details the credit norms to be adhered to for each customer segment within specific products. Credit Committees, comprising of various senior officials from the Bank including representation from the Risk Department, are constituted for approval of various loan proposals. Individuals are also delegated decision making powers based on there designation and experience. All credit proposals other than Micro Finance loans are approved by various committee and individuals as per authority matrix approved by the Board.

Large value exposures are assessed based on qualitative and quantitative parameters. An internal rating model uses these quantitative and qualitative inputs to assess the risk profile of the borrower. Internal rating is reviewed periodically.

The Bank manages concentration risk by adopting the prudential limits as directed by the RBI as well as by putting in place various internal limits. The Bank has put in place internal guidelines on exposure norms in respect of single borrower, groups, industry exposure, etc. based on various guidelines issued by regulators.

c) Credit Risk Measurement

Quantitative dimension of risk management involves measuring risk in credit portfolio, making provisions as per "Master Circular - Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances" and holding capital as per "Master Circular - Prudential Guidelines on Capital Adequacy and Market Discipline-New Capital Adequacy Framework (NCAF)".

Total Net credit risk exposure by facility including others (SLR Investment, Current and fixed asset):

(₹ in Crores)

Sl.	Facility Type	Amount as on 30th Sept 2021
1	Loans & Advances (Net of provisions)	8062.88
	Add: Non SLR Investments	223.58
	Total Fund Based	8286.46
2	Non-Fund Based	
3	Others (SLR Investment, Current and fixed asset)	3930.41
Total		**12216.87**

Total Net credit risk exposure by geography:

(₹ in Crores)

Sl.	Facility Type	Amount as on 30th Sept 2021
1	Domestic	12216.87
2	Overseas	
Total		**12216.87**

Total Net credit risk exposure between secured, unsecured businesses and SLR Investment, Current and fixed asset):

(₹ in Crores)

Sl.	Facility Type	Amount as on 30th Sept 2021
1	Secured Advances (Net of provisions)	1527.37
2	Unsecured Advances (Net of provisions)	6535.51
3	Others	4153.99
Total		**12216.87**

Industry wise Distribution of Gross Advances

(₹ in Crores)

Sl.	Facility Type	Exposure as on 30th Sept 2021	% of Total Exposure
1	Agriculture and Allied Activities	4,925.79	58.16%
2	Micro and Small	189.96	2.24%
3	Professional Services	77.66	0.92%
4	Retail Trade	1,337.64	15.79%
5	NBFCs	666.17	7.87%
6	Other Services	741.18	8.75%
7	Housing Loans (incl. priority sector Housing)	293.19	3.46%
8	Consumer Durables	0.44	0.01%
9	Vehicle/Auto Loans	44.43	0.52%
10	Education Loans	0.09	0.00%
11	Advances against Fixed Deposits (incl. FCNR(B), etc.)	31.14	0.37%
12	Other Retail Loans	162.21	1.92%
	Total	**8,469.90**	**100%**

Residual maturity breakdown of Assets and Liabilities:

(₹ in Crores)

Particulars	Amount as on 30th Sept 2021					
	Loans & Advances (INR)*	Investments (INR)	Deposits (INR)	Borrowings (INR)**	Foreign currency Assets	Foreign currency Liabilities
1 day	178.84	600.05	34.45	0.01	0.00	0.00
2 to 7 days	70.55	35.61	229.01	0.06	0.00	0.00
8 to 14 days	85.89	13.62	87.52	0.07	0.00	0.00
15 to 30 Days	216.67	51.06	167.94	0.17	0.00	0.00
31 Days to 2 months	405.01	118.04	108.05	10.32	0.00	0.00
Over 2 months to 3 months	422.19	112.97	230.35	16.99	0.00	0.00
Over 3 months to 6 months	1127.50	206.89	954.93	218.26	0.00	4.64
Over 6 months to 1 year	1992.59	513.14	2930.25	370.40	0.00	0.00
Over 1 year to 3 years	2565.07	744.96	3217.84	1014.27	0.00	0.00
Over 3 years to 5 years	480.76	30.39	53.94	141.54	0.00	0.00
Over 5 years	517.82	38.84	54.45	195.40	0.00	0.00
Total	**8062.88**	**2465.57**	**8068.73**	**1967.49**	**0.00**	**4.64**

**Amount disclosed are net off provision for NPA*
***Includes foreign currency liabilities and repo*

Classifications of Non-Performing Assets & Provisioning

Advances are classified as Performing Assets (Standard) and Non-performing Assets (NPAs) in accordance with the RBI guidelines on Income Recognition and Asset Classification (IRAC). Further, NPAs are classified into sub-standard, doubtful and loss assets based on the criteria stipulated by RBI. The advances are stated net of specific provisions made towards NPAs, unrealized interest on NPAs, if any etc. Interest on NPAs is transferred to an interest suspense account and not recognized in the Profit and Loss Account until received.

Provision for non-performing advances comprising Sub-standard, Doubtful and Loss Assets is made at a minimum in accordance with the RBI guidelines. In addition, specific loan loss provisions in respect of non-performing assets are made based on management's assessment and estimates of the degree of impairment of advances, based on past experience, evaluation of security and other related factors; the nature of product and delinquency levels. Loan loss provisions in respect of non-performing advances are charged to the Profit and Loss Account and included under Provisions and Contingencies.

Position of Non-performing Assets (NPA):

(₹ in Crores)

Particulars	Amount as on 30th Sept 2021
Gross Advances	**8469.90**
Net Advances	**8055.21**
Gross NPA	700.79
Sub-standard	693.58
Doubtful 1	6.78
Doubtful 2	0.43
Doubtful 3	
Loss	
NPA Provision	**407.02**
Floating Provision	**7.67**
Net NPA	**286.10**
Gross NPA to Gross Advances (%)	**8.27%**
Net NPA to Net Advances (%)	**3.55%**

Movement of Non-performing Assets (NPA Gross):

(₹ in Crores)

Particulars	Amount as on 30th Sept 2021
Opening Balances (As on 1st Apr 2021)	**315.28**
Additions	435.82
Write Offs	5.11
Reductions	45.20
Closing Balances	**700.79**

Movement of NPA Provisions:

(₹ in Crores)

Particulars	Amount as on 30th Sept 2021
Opening Balances (As on 1st Apr 2021)	**198.80**
Add: Provisions made during the period	258.53
Less : Write offs	5.11
Less : Write Back of excess provision	45.20
Closing Balances	**407.02**

Including floating provision of ₹7.67 crore (31 March 2021: ₹7.67 crore)

Movement of provisions for depreciation on investments:

(₹ in Crores)

Particulars	Amount as on 30th Sept 2021
Opening Balance (As on 1st Apr 2021)	**19.36**
Add: Provisions made during the period	11.96
Less : Write offs	
Less : Write Back of excess provision	19.36
Closing Balance	**11.96**

V. Credit Risk- Disclosures for Portfolios Subject to Standardized Approach

In line with the RBI licensing guidelines on Small Finance Banks, Bank ensures that at least 50 per cent of its loan portfolio constitutes loans and advances of upto ₹25 lakh.

The Bank has used the Standardized Approach under the RBI's Basel capital regulations for its credit portfolio.

(₹ in Crores)

Category	Amount as on 30th Sept 2021
Below 100% Risk Weight	11656.95
100% Risk Weight	486.28
More than 100% Risk Weight	1.32
Closing Balance	12156.41

VI. Credit Risk Mitigation- Disclosures for Standardized Approaches

Collaterals & Guarantees

At the time of initial Risk Assessment, we try and understand the repayment capacity of the borrower's in line with the financial health of the business or profession which is being carried out by the borrower. In case of secured loans, the collateral offered by the Borrower is an additional comfort and not an alternative to the stringent or laid down criteria of assessment for the financial health of the Borrower. Though any collateral provided by the Borrower; helps to provide additional comfort in terms of availability to liquidate the same and recover the loan amount. This is further aided by laws such as the 'SARFESI'

Collateral Acceptance Criteria

Assets accepted as collateral shall satisfy the following criteria:

- The market value of the asset is readily determinable or can be reasonably established and verified;
- The asset is marketable and there exists a readily available secondary market for disposing of the asset;
- Bank's right to repossess the asset is legally enforceable and without impediment;
- Bank is able to secure control over the asset if necessary. In the case of a movable asset, bank have either physical custody of the asset (e.g. gold, precious metal) or have the means of locating its whereabouts (e.g. vehicle, machinery or equipment); and bank has the expertise & systems to manage the asset concerned.

VII. Liquidity Risk Qualitative Disclosures

Liquidity refers to the Bank's ability to fund the increase in assets or withdrawals of liabilities and meet both expected and unexpected cash and collateral obligations at reasonable cost without adversely affecting its financial condition. Liquidity risk arises when the Bank finds it difficult to meet such obligations. The Bank's Asset Liability Management Committee (ALCO) is responsible for overseeing the management and governance of liquidity risk.

Liquidity Risk Management in the Bank (standalone) is governed by the Board approved Asset Liability Management (ALM) Policy which provides the framework for its monitoring & management. The Bank actively manages its liquidity risk covering both market funding risk and market liquidity risk. The Bank maintains a diversified funding profile with emphasis on building retail franchise to increase customer deposits. The Bank ensures that there is sufficient liquidity headroom available, including liquid assets, at all times to manage any contingency. Liquidity risk is assessed from both structural and dynamic perspective. The Bank uses liquidity gap analysis to measure cash flow mismatches at different time bands. The cash flows are bucketed based on the residual maturity or expected behavior of assets, liabilities and off-balance sheet items. Bank also manages its liquidity on a dynamic basis to supplement the liquidity gap analysis by estimating net cash outflow or inflows for business units considering their business projection for the next 3 months.

VIII. Market Risk Qualitative Disclosures

Market Risk may be defined as the possibility of loss to a bank caused by changes in the market variables such as interest rates, credit spreads, equity prices, etc. The market risk for the Bank is governed by 'Market Risk Management Policy' and 'Treasury & Investment Policy', which are approved by the Board. These policies ensure that transactions in debt and capital markets are conducted in accordance with acceptable business practices and are as per the extant regulatory guidelines.

a) Structure and Organization

The organizational structure for Market Risk Management is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Asset Liability Management Committee (ALCO)
- Chief Risk Officer (CRO)
- Head - Market Risk Department
- Market Risk Management Unit

Market Risk Management unit is independent of the dealing and settlement functions and reports directly to the Chief Risk Officer.

b) Strategies and Processes

Risk identification entails ensuring all instruments that result in Market Risk both on-balance sheet and off-balance sheet of the Bank are identified and monitored centrally. To achieve this objective, all new instruments/ products in which the Bank engage should be assessed. The Asset Liability Management Committee (ALCO) reviews all new instruments to evaluate whether they result in market risk. Modifications to existing instruments are reported to the ALCO to enable such evaluation.

The Market Risk Division of the Risk Management Department is responsible for the design and implementation of the Bank's market risk management/ALM system. The Division is independent from business and trading units, and provides an independent risk assessment, which is critical to the ALCO's key function of controlling and managing market risks in accordance with the mandate established by the Board and Risk Management Committee. Mid Office of the Bank's Treasury function is attached to the Market Risk Division of Risk Management Department. Mid Office prepares and analyses daily reports on various activities of the Bank's Treasury. The Mid Office, which is responsible for the critical functions of independent market risk monitoring, measurement and analysis, reports to the Bank's Chief Risk Officer through the Head of Market Risk Division.

c) Market Risk Measurement

Adverse movements in interest rates can affect both interest earnings and fair or economic value of the financial instruments. The very nature of the financial intermediation business makes the Bank susceptible to interest rate risk and unmanaged risk could potentially pose a significant threat to the Bank's earnings and capital. Interest rate risk results from both trading book and banking book. The impact of interest rate risk on trading book is actively measured using trading book risk metrics like PV01, duration, etc. For banking book, interest rate risk arises through mismatches in re-pricing of interest rate sensitive assets (RSA), rate sensitive liabilities (RSL) and rate sensitive off-balance sheet items.

For SFBs, Reserve Bank of India has not prescribed capital charge for market risk. Since market risk framework also covers specific risk charge, therefore, to assess the credit risk in the trading book, an external rating based approach is used and risk weighted assets so computed are included under credit risk.

IX. Operational Risk Qualitative Disclosures

Operational Risk is defined as the risk of losses resulting from inadequate or failed internal processes, people and systems or from external events, which includes but is not limited to legal risk. It is inherent in all activities arising out of a bank's business and operations and could result in financial losses, litigation, regulatory fines or other damage to the bank. The severity of impact on the bank, its employee and customers is dependent on the efficacy with which operational risk is managed by the bank. The goal is to keep operational risk at appropriate levels, in light of the bank's financial strength, the characteristics of its businesses, the markets in which it operates, and the competitive and regulatory environment in which it operates.

a) Structure and Organization

The operational risk management governance structure is as follows:

- Board of Directors
- Risk Management Committee of Board (RMCB)
- Operational Risk Management Committee (ORMC)
- Chief Risk Officer (CRO)
- Head - Operational Risk Department
- Operational Risk Unit

Additionally, with a view to ensuring sound practices in respect of governance of the overall Operational Risk, the Bank has outlined policies and processes in respect of Information Security, Business Continuity Planning, Disaster Recovery, Fraud Risk Management Control and Customer Services.

b) Strategies and Processes

The business units and supporting operational functions are accountable for operational risks and controls in their respective areas, which they manage as per the policies, standards, processes, procedures; and operational risk management framework laid down by the independent operation risk management (ORM) function.

ORM along with product and process managers facilitates the business and operation groups for carrying out risk and control self-assessments on a periodic basis. All the new products and processes including modifications thereof are reviewed by the control groups such as risk, compliance, legal and audit.

Bank has an internal framework for reporting and capturing operational risk incidents. Significant incidents reported are investigated to assess weaknesses in controls and identify areas for improvement.

The Bank also has a Whistle blower policy, which is open to employees and vendors for raising their concerns, with full confidentiality, on any fraud, malpractice or any other untoward activity or event. The Bank has separate Risk containment unit to prevent fraudulent applications from entering into the system at the on boarding stage and Fraud Risk Management unit for external fraud investigations.

There is an independent information security group, which addresses information and cyber security related risks. The function is governed by a Board approved policies on information security and cyber security. The Bank carries out periodical awareness exercise to ensure employees are updated on information security practices. The information security function is driven by both technology and process driven controls.

Disaster recovery and Business Continuity Plan (BCP) has also been established by the Bank for significant businesses to ensure continuity of operations and minimal disruption to customer services. These plans are periodically tested and reviewed to ensure their effectiveness.

X. Interest Rate Risk in Banking Book (IRRBB)

Qualitative Disclosure

Interest rate risk is the risk where changes in market interest rates might adversely affect a bank's financial condition. The immediate impact of changes in interest rates is on bank's earnings through changes in its Net Interest Income (NII). A long-term impact of changes in interest rates is on bank's Market Value of Equity (MVE) or Net worth through changes in the economic value of its, liabilities and off-balance sheet positions. The interest rate risk, when viewed from these two perspectives, is known as 'earnings perspective' and 'economic value' perspective, respectively.

The interest rate risk is measured and monitored through two approaches:

Earning at Risk (EAR): Earnings perspective involves analysing the impact of changes in interest rates on accrual or reported earnings in the near term. This is measured using TGA whose focus is to measure the level of a bank's exposure to interest rate risk in terms of sensitivity of its NII to interest rate movements over the horizon of analysis which is usually one year. It involves bucketing of all RSA and RSL and off balance sheet items as per residual maturity/ re-pricing date in various time bands and compute Earnings at Risk (EaR) i.e. loss of income under different interest rate scenarios over a time horizon of one year.

Market Value of Equity (MVE): This approach analyses the dynamic behaviour of economic value of equity with response to varying interest rate scenarios. Broadly, the MVE is defined as the difference between the market value of assets and market value of liability in response to a change in the interest rate. The linkage between the two is established via modified duration of rate sensitive assets and liabilities.

The Duration Gap Analysis (DGA) would involve bucketing of all on- and off- balance sheet Risk Sensitive Assets (RSA) and Risk Sensitive Liabilities (RSL) as per their residual maturity / re-pricing dates in various time bands and computing the Modified Duration Gap (MDG). MDG would be used to evaluate the impact on the Market Value of Equity (MVE) of the bank under different interest rate scenarios.

Modified Duration of an asset or liability measures the approximate percentage change in its value for a 100 basis point change in the rate of interest.

Quantitative disclosure:

Earning at Risk (EAR):

(₹ in Crores)

Change in interest rate	Amount as on 30th Sept 2021
EaR @ 100 bps	19.54
EaR @ 200 bps	39.09
EaR @ 300 bps	58.63

Market Value of Equity (MVE):

	Amount as on 30th Sept 2021
% Change in MVE when there is 100 bps change in interest rates	-1.65%
% Change in MVE when there is 200 bps change in interest rates	-3.31%
% Change in MVE when there is 300 bps change in interest rates	-4.96%

XI. Main features of Regulatory Capital Instruments – Equity Shares

	Disclosure template for main features of regulatory capital instruments	
		Equity Shares
1	Issuer	Utkarsh Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE735W01017 (for Unlisted Equity Shares of the Bank)
3	Governing law(s) of the instrument	Companies Act, 2013 & Banking Regulation Act, 1949 (for subscription to equity shares equivalent to 5% or more of the paid-up share capital by any single investor)
	Regulatory treatment	**Regulatory treatment**
4	Transitional Basel III rules	-
5	Post-transitional Basel III rules	-
6	Eligible at solo/group/ group & solo	-
7	Instrument type	Equity Shares
8	Amount recognised in regulatory capital (` in crore, as of most recent reporting date)	Rs.895.50 crore (as on September 30, 2021 – for fully paid-up equity shares)
9	Par value of instrument	Rs.10/- per equity share
10	Accounting classification	Share Capital
11	Original date of issuance	Equity: (Face/Nominal Value of Equity raised) i) At the time of Incorporation Rs.5,00,000/- ii) Allotment date 07.10.2016 - Rs.99,95,00,000/- iii) Allotment date 20.01.2017 - Rs.200,050,00,00/- iv) Allotment date (through conversion of CCDs) 21.09.2017 – Rs.120,00,00,000/- v) Allotment date 26.03.2018 - Rs.50,00,00,000/- vi) Allotment date (through conversion of CCDs) 21.09.2017 – Rs.267,00,00,000/- vii) Allotment date 18.09.2019 - Rs.22,22,22,220/-

		viii) Allotment date 08.03.2021 - Rs.89,06,16,470/- ix) Allotment date 02.08.2021 - Rs.23,58,49,050/- x) Allotment date 13.08.2021 - Rs.12,57,86,160/- xi) Allotment date 18.08.2021 - Rs.3,14,46,540/- xii) Allotment date 01.09.2021 - Rs.3,45,91,190/- Allotment date 29.09.2021 - Rs.4,40,25,150/-
12	Perpetual or dated	Perpetual (Non-Redeemable)
13	Original maturity date	-
14	Issuer call subject to prior supervisory approval	-
15	Optional call date, contingent call dates and redemption amount	-
16	Subsequent call dates, if applicable	-
	Coupons / dividends	
17	Fixed or floating dividend/coupon	-
18	Coupon rate and any related index	-
19	Existence of a dividend stopper	RBI norms/guidelines as issued from time-to-time
20	Fully discretionary, partially discretionary or mandatory	Discretionary (subject to approval of the Board of Directors)
21	Existence of step up or other incentive to redeem	-
22	Noncumulative or cumulative	-
23	Convertible or non-convertible	-
24	If convertible, conversion trigger(s)	-
25	If convertible, fully or partially	-
26	If convertible, conversion rate	-
27	If convertible, mandatory or optional conversion	-
28	If convertible, specify instrument type convertible into	-
29	If convertible, specify issuer of instrument it converts into	-
30	Write-down feature	-
31	If write-down, write-down trigger(s)	-
32	If write-down, full or partial	-

33	If temporary write-down, description of write-up mechanism	-
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Last (under Co. Act, 2013)
35	Non-compliant transitioned features	-
36	If yes, specify non-compliant features	-

Main features of Regulatory Capital Instruments – Debt instruments

Disclosure template for main features of regulatory capital instruments				
		Debt instrument	**Debt instrument**	**Debt instrument**
1	Issuer	Utkarsh Small Finance Bank Limited	Utkarsh Small Finance Bank Limited	Utkarsh Small Finance Bank Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	INE396P08066	INE735W08012 INE735W08020	INE735W08038
3	Governing law(s) of the instrument	Indian Laws	Indian Laws	Indian Laws
	Regulatory treatment			
4	Transitional Basel III rules	Tier II	Tier II	Tier II
5	Post-transitional Basel III rules	NA	Eligible	NA
6	Eligible at solo/ group/ group & solo	Solo	Solo	Solo
7	Instrument type	Non-Convertible Debentures in the nature of Sub debt qualifying for Tier II	Non-Convertible Debentures in the nature of Sub debt qualifying for Tier II	Non-Convertible Debentures in the nature of Sub debt qualifying for Tier II
8	Amount recognised in regulatory capital (₹ in crore, as of most recent reporting date)	₹0	INE735W08012 – ₹15 crores INE735W08020 – ₹9 crores	₹ 195 Crore
9	Par value of instrument	₹10,00,000/- Per NCD	₹100,000/- Per NCD	₹100,000/- Per NCD
10	Accounting classification	Borrowings	Borrowings	Borrowings
11	Original date of issuance	January 12, 2017	INE735W08012 – July 09, 2018 INE735W08020 – August 30, 2018	June 26, 2020

12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	June 30, 2022	INE735W08012 – July 09, 2025 INE735W08020 – August 30, 2025	June 26, 2027 -
14	Issuer call subject to prior supervisory approval	-	-	-
15	Optional call date, contingent call dates and redemption amount	-	-	June 26, 2025
16	Subsequent call dates, if applicable	-	-	-
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	Coupon – 12.00% p.a.	Coupon – 10.577% p.a.	Coupon – 12.50% p.a.
19	Existence of a dividend stopper	-	-	-
20	Fully discretionary, partially discretionary or mandatory	-	-	-
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-Cumulative or cumulative	Non-Cumulative	Non-Cumulative	Non-Cumulative
23	Convertible or non-convertible	Non-Cumulative	Non-Cumulative	Non-Cumulative
24	If convertible, conversion trigger(s)	NA	NA	NA
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-

29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write-down feature	-	-	-
31	If write-down, write-down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If temporary write-down, description of write-up mechanism	-	-	-
34	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	All other depositors and creditors of the Bank	All other depositors and creditors of the Bank	All other depositors and creditors of the Bank
35	Non-compliant transitioned features	-	-	-
36	If yes, specify non-compliant features	-	-	-

XII. Terms and conditions of Regulatory Capital Instruments

Full Terms and Conditions of Equity Shares of the Bank		
Sr. No.	**Particulars**	**Full Terms and Conditions**
1	Voting shares	89,55,03,678
2	Limits on Voting Shares	1 vote per share (As per RBI norms, no shareholder can exercise more than 26% voting rights in the Bank)
3	Position in Subordination hierarchy	Last (under Co. Act, 2013)
4	Perpetuity	Yes (Non-Redeemable)
5	Accounting Classification	Equity Share Capital
6	Distributions	-
7	Approval for Issuance	Board of Directors, Shareholders, RBI & for allotment Stakeholders' Relationship Committee of the Board