Utkarsh Small Finance Bank

RISK MANAGEMENT POLICY

TABLE OF CONTENTS

1. Background

As per Regulation 17(9)(b) of the Securities Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("**Listing Regulations**"), the board of directors shall be responsible for framing, implementing and monitoring the risk management plan for the listed entity. Further, as per Regulation 21 read with Para – C of Part – D of Schedule – II of SEBI (LODR) Regulations, 2015, the role of the Risk Management Committee shall, inter alia, include to formulate a detailed risk management policy.

It is in this context that this Risk Management Policy ("**Policy**") of Utkarsh Small Finance Bank Limited ("**Bank**") is framed and implemented by its Board of Directors ("**Board**"). The Policy has also been framed in line with various RBI directions on Risk Management in Banks.

2. Risk Management

Principles of Risk Management:

a) The risk management shall provide reasonable assurance in protection of business value from uncertainties and consequent losses.

b) All the employees of the Bank shall be responsible for identifying and mitigating key risks in their respective domain.

c) All the employees of the Bank shall ensure efficient usage / allocation of the resources of the Bank.

d) The occurrence of risk, progress of mitigation plan and its status will be monitored on periodic basis.

3. Risk Management Procedures

Risk management process includes four activities: risk identification, risk assessment, risk mitigation and monitoring & reporting.

Risk Identification

The purpose of risk identification is to identify the events that can have an adverse impact on the achievement of the business objectives. Such Risks may, amongst others, be classified into a) strategic; b) operations; c) financial; d) legal / regulatory; e) human resources; f) environmental; g) natural disasters, h) sectoral, i) sustainability, particularly, ESG related risks, j) information, k) cybersecurity etc. The Committee shall ensure that risks identified are documented in the form of a risk register ("**Risk Register**") to be maintained by the Bank in the electronic form. Risk Register incorporates risk description, category, classification, mitigation plan and the responsible function / department.

Risk Assessment

Assessment involves quantification of the impact (to the extent possible) of risks to determine potential severity and probability of occurrence. Each identified risk is assessed on two factors which determine the risk exposure:

a) Potential impact if the event occurs; and

b) likelihood of the occurrence/ re-occurrence of the event.

Risk categories: After taking into account the existing controls, the risks are assessed to ascertain the current level of risk. Based on the above assessments, each of the risks shall be categorized as – low, medium and high.

Risk Mitigation

All the identified risks shall be mitigated by using any of the following risk mitigation plans:

a) Risk avoidance: By not performing an activity that could carry risk. However, such avoidance can result into losing out on the potential gain that accepting (retaining) the risk may have allowed.

b) Risk transfer: Mitigation by having another party to accept the risk, either partial or total, typically by contract or by hedging / insurance.

c) Risk reduction: Employing methods/solutions that reduce the severity of the loss.

d) Risk retention: Accepting the loss when it occurs. Risk retention is a viable strategy for small risks where the cost of insuring against the risk would be greater than the total losses sustained. All risks that are not avoided or transferred are retained by default.

e) Risk Awareness: Raising awareness about managing risks across the organisation.

Monitoring and reviewing risks

Risk monitoring, reviewing, mitigating and reporting are critical components of risk management process.

Once risks are identified, they shall be prioritized on the basis of impact, dependability on other functions, effectiveness of existing controls, probability of re-occurrence, etc.

Internal auditors shall review the risk register once a year and add any new material risk identified to the existing list. These will be taken up with respective functional/departmental heads for its mitigation.

Existing process of risk assessment of identified risks and its mitigation plan will be appraised to Board on an annual basis.

4. **Risk Management Committee of the Board (RMCB)**

The board shall constitute an RMCB with a majority of non-executive directors (NEDs). The RMCB shall have minimum 03 directors as members, including at least one independent director.

Quorum:

The quorum for RMCB shall be 03 members or 1/3rd of the members of the RMCB, whichever is higher. At least half of the members attending the meeting of the RMCB shall be independent directors of which at least one member shall have professional expertise/ qualification in risk management.

Meetings of RMCB shall be chaired by an independent director who shall not be a Chair of the board or any other committee of the board. The Chair of the board may be a member of the RMCB only if he/she has the requisite risk management expertise. The RMCB shall meet at least once in each quarter. The gap between two meetings of RMCB shall not be more than 180 days.

The Board has formed a Risk Management Committee in accordance with the Listing Regulations (hereinafter referred to as "**Committee**") which shall periodically monitor and review the risk management policy of the Bank and perform such other functions including keeping a check on cyber security and updating it in accordance with the latest technological advancements so that the management can identify and mitigate the risks through properly defined network.

The Committee is also responsible for ensuring that the Bank maintains effective risk management and internal control systems and processes, and provides regular reports to the Board on the effectiveness of the risk management program in identifying and addressing material business risks.

To achieve this, the Committee shall:

a) manage and monitor the implementation of action plans developed to address material business risks within the Bank and its business units, and regularly review the progress of action plans;

b) set up internal processes and systems to control the implementation of action plans;

c) ensure that appropriate methodology, processes and systems are in place to monitor and evaluate risks associated with the business of the Bank;

d) monitor & oversee implementation of the risk management policy, including evaluating the adequacy of risk management systems;

e) regularly monitor and evaluate the performance of management in managing risk;

f) provide management and employees with the necessary tools and resources to identify and manage risks;

g) regularly review and update the current list of material business risks;

h) regularly report to the Board on the status of material business risks; and

i) ensure compliance with regulatory requirements and best practices with respect to risk management.

j) To formulate a detailed risk management policy which shall inter-alia include Business Continuity Plan.

In addition to adherence with the provisions of this Policy, the Committee shall also ensure compliance of the Bank and its employees, as applicable, with the following internal risk management policies of the Bank:

a) Credit Risk Policy;

b) Market and Liquidity Risk Policy;

c) Operation risk Policy;

d) Business Continuity Policy;

e) NPA Management and Restructuring Policy;

f) Fraud Risk Policy;

g) Cyber Security Policy;

h) Data Privacy Policy;

i) Information Systems Security Policy; and

j) Any other policies for risk management as maybe adopted by the Bank from time to time.

The Committee shall keep the board of directors informed about the nature and content of its discussions, recommendations and action to be taken.

The appointment, removal and terms of remuneration of the Chief Risk Officer **(CRO)** [if any], shall be subject to review by the Risk Management Committee.

The Risk Management Committee shall coordinate its activities with other committees, in instances where there is any overlap with activities of such committees, as per the framework laid down by the board of directors.

The RMCB shall have powers to seek information from any employee, obtain outside legal or other professional advice and secure attendance of outsiders with relevant expertise as invitees, if it considers necessary.

5. Responsibility

- Chief Risk Officer (CRO), the functional heads including business heads and operational heads shall be primarily responsible for identifying and mitigating the risks in their respective domains and the overall implementation of this policy in the Bank.

- To implement the actionable emanating from the Risk Management Policy, the executive management team shall frame a document(s) defining the processes (Standard Operating Procedures (SOPs) or Manual of Instructions), which will ensure the compliance with the Policy objectives. Such a process document with due technological enablement will need to be put in place under the supervision of the Audit Committee of the Board with the support of the IT Strategy Committee of the Board (ITSCB), wherever required, to ensure that all standard processes are technologically enabled. It is the responsibility of all employees of the Bank to ensure that such processes are duly implemented both in letter and spirit.

- Such process document will required to be continuously reviewed and updated (as also the Risk Management Policy document), to be in line with the regulatory requirements, changes in statutes and operating environment.

6. Review and Amendment

The Board shall have the power to make, from time to time due to, amongst other things, changes in the risk management regulations / standards / best practices, as appropriate, to amend this Policy upon the recommendation of the Committee and review the Policy from time to time, at least once in two years.

7. Disclosure

The Board shall in the statements laid before the Bank at its general meeting attach its report indicating development and implementation of a risk management policy for the Bank including identification therein of elements of risk, if any, which in the opinion of the Board may threaten the existence of the Bank.

****