Utkarsh Small Finance Bank

RISK MANAGEMENT POLICY

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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.

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**").

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, 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**

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

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

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

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

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

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.

5. 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.

6. 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.