RISK MANAGEMENT POLICY

OF

UJJIVAN FINANCIAL SERVICES LIMITED

Updated February 9, 2023

A. LEGAL FRAMEWORK

Risk Management is a key aspect of the "Corporate Governance Principles and Code of Conduct" which aims to improvise the governance practices across the Company's activities.

Risk management policy and processes will enable the Company to proactively manage uncertainty and changes in the internal and external environment to limit negative impacts and capitalize on opportunities.

B. BACKGROUND & HISTORY

Ujjivan Financial Services Private Limited was originally incorporated as on December 28, 2004 at Bengaluru, Karnataka, India as a private limited company under the Companies Act, 1956 and was registered as a non-banking finance company with the Reserve Bank of India and commenced operations as an NBFC in 2005, with the mission to provide a full range of financial services to the 'economically active poor' who were not adequately served by financial institutions. Subsequently, the Company was converted into a public limited company and the name was changed to Ujjivan Financial Services Limited (hereinafter referred to "the Company" or UFSL). The Company made its maiden public issue in May 2016 and the shares were listed on the Bombay Stock Exchange and National Stock Exchange. With this maiden IPO, the foreign shareholding in the Company was brought down from 80+ to below 49%. This was primarily done to make the Company eligible to float a Small Finance Bank.
The company is a widely held listed company with around 40% institutional shareholding and 60% retail shareholding

After over a decade of successful operations as a non-banking finance Company, in the year 2017, the Company set up a small finance bank christened "Ujjivan Small Finance Bank (USFB)" as a wholly owned subsidiary. In Feb 2017 UFSL transferred its running business of microfinance to USFB through a Business Transfer Agreement and received equity and preference shares of USFB as consideration thereof.

USFB commenced its Banking operations from February 1, 2017. The Bank made a maiden public issue in December 2019 and the shares were listed on the Bombay Stock Exchange and National Stock Exchange in compliance with the RBI regulatory framework.

The Bank has pan-India presence, with over 73.0 lakh customers, 598 banking touchpoints across 254 districts, 25 states and Union Territories as of December 31, 2022.

C. APPLICABLE REGULATORY FRAMEWORK

The company's equity and preference shareholding and deposits with its subsidiary UFSB aggregate over 90% of its total assets viz., Rs 1,810 crore as at December 31, 2022. The company being a non-operating entity does not accept deposits or access public funds. It is therefore registered with the Reserve Bank of India as a systemically important core non-deposit taking investment company (CIC-ND-SI).

The Reserve Bank of India vide circular RBI/2021-22/112 DOR.CRE REC.No 60/03.10.001/2021-22 dated October 22, 2021 has announced "scale based revised regulatory Framework for NBFCs, classifying the NBFCS entities under four layers based on their size, activity, and perceived riskiness.

NBFCs in the lowest layer shall be known as NBFC - Base Layer (NBFC-BL). NBFCs in middle layer and upper layer shall be known as NBFC - Middle Layer (NBFC-ML) and NBFC - Upper Layer (NBFC-UL) respectively. Though the NBFC-CIC falls under NBFC-ML Category, the Company is a non-operative financial holding company (NOFHC), not availing public funds and not having any customer interface and hence it could be categorised under the "Base layer".

Since the Company is a listed Company on the stock exchanges of Bombay Stock Exchange and National Stock Exchange, the Company has to comply with the (i) Securities &Exchange Board of India (Listing Obligations and Disclosure Requirements Regulations as amended.

D. POLICY OBJECTIVE

In the background of the Company's history and the applicable regulatory framework, this Risk Management Policy is prepared with the main objective of articulating the key risks faced by the Company, its overall risk appetite and how the Company would manage the same.

The specific objectives of the Risk Management Policy are:

- To establish a framework for the company's risk management process and to ensure its implementation.
- To ensure compliance with the applicable regulations

E. RISK GOVERNANCE

Risk Management at UFSL (Holding Company)

The Board has constituted a four-member Risk Management Committee (RMC) of the Board, two of the members being independent Directors on the Board. The quorum for the Committee shall be two or one third of the Committee members, whichever is higher, including at least one member of the Board in attendance. The Committee shall meet at least twice in a year and the meetings shall be conducted in such a manner that on a continuous basis, not more than 180 days shall elapse between any two consecutive meetings.

RMC has powers to seek information from any employee, obtain outside legal or other professional advice, and secure attendance of outsiders with relevant expertise, if required.

The board of directors shall define the role and responsibility of the RMC.

The Company Management shall establish a reporting mechanism to inform the RCM and the board on Risks identified, assessed, prioritised and minimised − Existing controls and proposed mitigation plans with timelines and status

Risk Reporting & Disclosures: In the Annual Report, the Company shall disclose the brief description of terms of reference to the Risk Management of Committee, its Composition, names of members of the Committee and Chairperson, meetings held and attendance during the year.

The RMC shall report to the Board of the Company and apprise the Board of the critical matters discussed at the Committee.

Risk Management at UFSB (Subsidiary Bank)

The Bank is a listed entity, managed by an independent Board and its governance structure includes inter alia a Risk Management Committee. The Bank has well laid Risk Governance framework to identify, mitigate and monitor material risks across all its functions. The Bank has an adequately staffed risk management team led by the Chief Risk Officer (CRO), to implement the directions of the Board. There are dedicated teams established within the Bank to assess and monitor credit risks, operational risks, market and ALM risks and information security risks. The risk management team of the Bank functions under the oversight of the Bank's Risk Management Committee. Bank's Risk Management & Audit Committee of the Board reviews the risks faced by the Company at quarterly intervals

Role & Responsibility of the RMC[1]

The Board of Directors of the Company, taking note of the fact that the Company is a non-operating non-deposit taking investment entity with no customer interface, has defined the role and responsibility of the RMC as appropriate to the Company's requirements as under:

- Develop a framework for identification of internal and external risks specifically faced by the Company, in particular financial, operational, sectoral, sustainability, information, cyber security risks or any other risk as may be determined by the Committee
- To ensure that appropriate methodology, processes and systems are in place to identify, analyze, evaluate and monitor and take measures to mitigate risks, including strengthening of systems and process for internal control in a cost effective and timely manner.
- To monitor and evaluate the adequacy of risk management systems of the Company and its subsidiary "Ujjivan Small Finance Bank" based on the publicly disclosed information of the Bank
- To review the investment of the Company in its subsidiary bank at half yearly intervals
- To review the risk management policy, at least once in two years considering the changing industry dynamics
- To keep the board of directors informed about the nature and content of its discussions, recommendations and actions to be taken;
- To do such other acts, deeds and things as may be directed by the Board and required to comply with the applicable laws

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

F. KEY RISKS identified by the RMC

i. Investment Risk

(a) The Company's major investment is its equity investment in its subsidiary bank "Ujjivan Small Finance Bank Ltd" to the extent of 73.68% valued at a cost of Rs. 1,440 crore (Market value as on December 31, 2022 Rs 4,176.11 crore). Market valuation of the investment fluctuates being reflective of the performance of the Bank.

(b) The Company also holds non-convertible, non-cumulative perpetual 11% preference shares issued at par in the Bank. These are AT-1 capital and can be replaced by equivalent or better grade of capital.

Both the equity and preference share investment referred under sub-paras (a) and (b) were issued by the Bank in consideration of the transfer of the microfinance business of the company to the Bank under a Business Transfer Agreement.

Based on the quarterly published financial results of the Bank, the Company's Audit committee and Board under detailed review of the performance of the bank under key parameters and flags any critical issues of concern and request the common Director of the Company on the Board of the Bank to be deliberated upon by Bank's Board if considered necessary for appropriate action.

Audit & Risk Committee also reviews the key risks faced by the bank and bring to the notice of the common Director.

[1] The Company is a non-operating Company with no customer inter-face and hence ESG Risk may not be applicable
2 Plans are afoot for reverse merger of the Company with its subsidiary bank UFSB, subject to regulatory and statutory approvals. Hence Company does not propose preparing any Business Continuity Plan.

(c) **Bank deposits:** The Company places its liquid funds on fixed term deposits at competitive rates with well rated commercial banks including its subsidiary bank UFSB generally for a tenor not exceeding 12 months to mitigate liquidity and interest rate risk. Company's objective has been to preserve the capital and not to expose the liquid funds to market risk.

(d) Operational/ Compliance Risk

UFSL does not have any operating business of its own. It does not have any borrowings and has no customer interface. The subsidiary bank viz., USFB provides IT support to UFSL at arm's length and cost incurred by UFSB in providing this service is reimbursed by the Company. To maintain its operations and comply with the statutory and regulatory obligations under various enactments and regulations, the Company has minimal supporting staff. The compliance officer of the Company ensures due compliance statutory and regulatory compliance. The independent internal auditor undertakes due verification of such compliance under a well laid compliance framework and checklist. The Audit Committee exercises due oversight on such compliance.

The Company has employed qualified internal auditors and at quarterly frequencies the internal audit reports are reviewed by the Audit Committee

G. REVIEW OF THE POLICY:

This policy will be reviewed at least once in two years.

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