Subject: Clarification to media articles titled “RBI Red Flags Ujjivan Small Finance Bank’s Processes & Systems” released by Moneylife on October 26, 2019 and “RBI Flags Shortcomings at Ujjivan Small Finance Bank” in the Economic Times (Mumbai edition) on October 28, 2019, related to our wholly owned subsidiary, Ujjivan Small Finance Bank Limited (herein after referred to as “USFB”).

This is with reference to the captioned media articles.

The points mentioned in the above articles emanate from the RBI’s observations pursuant to its annual financial inspection of USFB as disclosed in the Draft Red Herring Prospectus (DRHP) filed by USFB with SEBI in connection with its proposed IPO.

In this regard, we wish to highlight the status of the observations of the RBI mentioned in the articles.

RBI conducts financial inspections for banks annually for ensuring better processes and controls. USFB’s performance, governance and operations continue to be robust. Most of the observations are operational in nature and pertain to the RBI inspection for the financial year 2017-18 (first year of banking operations of USFB). As disclosed on page 28 of the DRHP, USFB has submitted responses to these observations made by RBI. USFB is regularly updating RBI on the work in progress.

There has been no ‘red flags’ raised by the RBI in respect of USFB’s operations as reported in the media.

Certain observations made by RBI in its inspection have been disclosed in the DRHP in accordance with applicable SEBI regulations.

For the specific points raised by the captioned media articles, please see below our responses.

- **Lack of system to tag PSL advances, mis-categorizing of PSL advances and earning of processing fees on PSL loans:**
  1. USFB was earlier classifying PSL loans manually based on reports. Most of USFB’s loan accounts are currently tagged online.
  2. The PSL loans which did not qualify were removed from PSL classification. Processing fees collected on these accounts were refunded to customers.
  3. A small proportion of USFB’s agricultural loans had been mis-categorized as PSL advances based on erroneous land holding data. These cases had been re-classified as non PSL advances.

- **Lack of rating methodology to assess borrowers:**
USFB had a scorecard based framework in place for rating its borrowers and is working on an automation of rating methodology.

- **High proportion of bulk deposits and concentration of deposits in our top 20 depositors:**
  The concentration of top 20 deposits has substantially decreased from 73.59% (as on March 31, 2018) to 30.14% as on September 30, 2019.

- **Liability products being offered in certain asset centers without RBI’s approval:**
  This issue has since been resolved.

- **Lack of fraud management system, weak customer grievances redressal mechanism and deficiencies in AML & KYC protocols:**
  1. USFB currently has a manual fraud management process which is in the process of being automated.
  2. USFB had a multiple product based customer grievance redressal mechanism and has put in place standard operating procedure to achieve centralized monitoring mechanism.
  3. USFB remains committed to strengthening its AML & KYC protocols including automation.

- **Rate of interest mentioned in certain sanction letters being different from those mentioned in loan agreements:**
  Necessary quality control processes have been put in place to prevent any recurrence of such instances.

- **Discriminatory interest rate on deposits on a particular date for same tenor and same amount:**
  While few cases had been identified in this regard, USFB has implemented additional controls to ensure no recurrence.

- **Non optimizing of core banking software customized for micro loans:**

- **USFB is using core banking system, Finacle for its liability and other new business verticals like Personal Loan, Housing and MSE portfolio etc. Micro banking loans are managed using BR.net system. These systems are well integrated.**

- **Independent functioning of Compliance Department:**
  USFB’s compliance function had been reporting to the Audit Committee of the Board and administratively to Chief Risk Officer. Since February 2019, the administrative reporting has been changed to MD & CEO and is an independent function.

Kindly take the same on record.

Thanking You,

Yours faithfully,

For Ujjivan Financial Services Limited

Sanjeev Barnwal
Company Secretary and Compliance Officer