

Independent Auditor's Report

To the Members of Ujjivan Small Finance Bank Limited

Report on the Audit of the Financial Statements

OPINION

We have audited the financial statements of Ujjivan Small Finance Bank Limited ("the Bank"), which comprise the Balance Sheet as of March 31, 2023, the Profit and Loss account, and the Cash Flow Statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Banking Regulations Act, 1949 as well as the Companies Act, 2013 ("the Act") in the manner so required for Banking Companies and give a true and fair view in conformity with the Accounting Standards prescribed under section 133 of the Act read with Companies (Accounts) Rules, 2014 as amended and other accounting principles generally accepted in India, of the state of affairs of the Bank as at March 31, 2023, its profits and its cash flows for the year ended on that date.

Identification of Non-Performing Assets ('NPA') and Provisioning on Advances

Total Loans and Advances (Net of NPA Provision, floating provision, securitization and IBPC) as on March 31, 2023: ₹ 21,28,96,611 ('000)

Gross NPA as on March 31, 2023: ₹ 63,06,094 ('000)

Provision for NPA as on March 31, 2023 (Excluding floating provision): ₹ 50,15,711 ('000)

(Refer Schedule 9 and Schedule 18 (4.1) to the financial statement)

Key Audit Matter	How our audit addressed the key audit matter
<p>The Reserve Bank of India's ("RBI") guidelines on Income recognition and asset classification ("IRAC") prescribe the prudential norms for identification and classification of non-performing assets ("NPA") and the minimum provision required for such assets.</p> <p>The Bank is required to have Board approved policy as per IRAC guidelines for NPA identification and provision.</p> <p>The Bank is also required to apply its judgement to determine the identification and provision required against NPAs by applying quantitative as well as qualitative factors. The risk of identification of NPAs is affected by factors like stress and liquidity concerns in certain sectors.</p> <p>The provision against advances is based on criteria such as past due status, out of order status etc. The provisions in respect of such NPAs are made based on ageing and classification of NPAs, recovery estimates, value of security and other qualitative factors and is subject to minimum provisioning levels prescribed by the RBI and approved policy of the bank in this regard.</p>	<p>Tested the design and operating effectiveness of key controls (including application controls) over identification of NPAs, provisions thereof and the valuation of securities.</p> <p>Testing of Application controls included testing of reports and system reconciliations as at the year end.</p> <p>Review of controls over calculations of provision of non-performing advances, basis of provisioning in accordance with the Board approved policy.</p> <p>Performed substantive procedures as listed below:</p> <ul style="list-style-type: none"> For sample borrowers, assessed the appropriateness of asset classification and adequacy of related provisioning by performing procedures such as computation of overdue ageing, assessment of borrower level NPA identification and verification of applicable provision rates as per IRAC norms and Bank's Policy; Selected samples of performing loan accounts to assess, independently, whether such loan accounts should be classified as NPA; For selected samples, reviewed the securities valuation performed by the Bank;

BASIS FOR OPINION

We conducted our audit in accordance with the Standards on Auditing (SAs) specified under section 143(10) of the Act. Our responsibilities under those Standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by the Institute of Chartered Accountants of India (ICAI) together with the ethical requirements that are relevant to our audit of the financial statements under the provisions of the Act and the Rules thereunder, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



<p>In addition to this, for restructured accounts, provision is made for erosion/ diminution in fair value of restructured loans, in accordance with the RBI guidelines. Further, NPA classification is made borrower wise whereby if one facility of the borrower becomes an NPA then all facilities of such a borrower will be treated as an NPA.</p> <p>Additionally, the Bank makes provisions on exposures that are not classified as NPAs including identified advances or group advances that can potentially slip into NPA. These are part of standard asset provision.</p> <p>The Management of the Bank also made an assessment of the impact on borrowers account due to Covid -19 pandemic and in line with the COVID 19 Regulatory Package announced by the RBI in respect of moratorium and restructuring of advances as relief measures to the borrowers.</p> <p>Since the identification of NPAs and provisioning for advances require significant level of estimation and given its significance to the overall audit, we have ascertained identification and provisioning for NPAs as a key audit matter.</p>	<ul style="list-style-type: none"> • Considered the data shared by Bank regarding accounts reported as Special Mention Accounts (“SMA”) in RBI’s central repository of information on large credits (CRILC) to identify stress; • Selected samples for standard and overdue accounts to assess compliance with the RBI Circulars on ‘COVID-19 – Regulatory Package’ and ‘COVID-19 Regulatory Package - Asset Classification and Provisioning’; • Selected sample of accounts restructured under RBI Circulars on ‘Micro, Small and Medium Enterprises (MSME) sector – Restructuring of Advances’ and ‘Resolution Framework for Covid-19-related Stress’ to assess compliance with the RBI directions; • Assessed the adequacy of disclosures against the relevant accounting standards and RBI requirements relating to NPAs.
<p>Information Technology (‘IT’) systems and controls impacting financial reporting</p> <p>The Bank’s IT architecture to process key financial accounting and reporting is complex involving number of independent and interdependent IT systems used in the operations of the Bank, and IT controls to process significant transactions volumes at numerous locations. As such there is high reliability on IT systems, appropriate IT general controls and application controls are required to ensure that such IT systems are able to process the data, as required, completely, accurately and consistently for reliable financial reporting.</p> <p>The IT systems and controls, as they impact the financial recording and reporting of transactions, is a key audit matter.</p>	<p>Our Audit procedures with respect to this matter included:</p> <p>We used our internal IT team to perform audit procedures to assess IT systems and controls over financial reporting which included the following:</p> <ol style="list-style-type: none"> 1) General IT controls design, observation and operation: <ul style="list-style-type: none"> • Obtain an understanding of the IT infrastructure and IT systems • Testing the sample of key controls operating over the information technology in relation to financial accounting and reporting systems, including system access, system change management and computer operations. 2) User access controls operation: <ul style="list-style-type: none"> • Reviewed processes followed by the management in respect of access rights granted to applicants relevant to financial accounting and reporting systems. • Assessing the operating effectiveness of controls over granting, removal and appropriateness of access rights. <p>Other areas that were assessed under the IT control environment, included password and security related policies were also part of our audit procedures.</p>

INFORMATION OTHER THAN THE FINANCIAL STATEMENTS AND AUDITOR’S REPORT THEREON

The Bank’s Board of Directors is responsible for the other information. The other information comprises the information in the Director’s Report and Annual Report but does not include the financial statements and our Auditor’s report thereon. The Director’s Report and Annual Report is expected to be made available to us after the date of this auditor’s report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing

so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the Director’s Report and Annual Report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance under SA 720 ‘The Auditor’s responsibilities Relating to Other Information’.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

The Bank’s Board of Directors is responsible for the matters stated in section 134(5) of the Act with respect

to the preparation of these financial statements that give a true and fair view of the financial position, financial performance, and cash flows of the Bank in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under section 133 of the Act and provisions of the Banking Regulation Act, 1949 and the circulars, guidelines and directions issued by the Reserve Bank of India from time to time (RBI Guidelines) as applicable to the Bank. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act and RBI Guidelines for safeguarding of the assets of the Bank and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statement that give a true and fair view and are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those Board of Directors are also responsible for overseeing the Bank's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain

audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances. Under section 143(3)(i) of the Act, we are also responsible for expressing our opinion on whether the Bank has internal financial controls with reference to financial statements in place and the operating effectiveness of such controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management of the Bank.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our Auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our Auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements



for the financial year ended March 31, 2023 and are therefore, the key audit matters. We describe these matters in our Auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 and Section 133 of the Act and relevant rules issued thereunder.
2. As required by sub-section (3) of section 30 of the Banking Regulation Act, 1949, we report that:
 - a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory;
 - b. The transactions of the Bank, which have come to our notice during the course of our audit, have been within the powers of the Bank.
 - c. Since the key operations of the Bank are automated with the key applications integrated to the core banking system, the audit is carried out centrally as all the necessary records and data required for the purpose of our audit are available therein.. We have also covered 20 branches, during the course of audit.
3. As required by Section 143(3) of the Act, we report that:
 - a. We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - b. In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books;
 - c. The Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this Report are in agreement with the books of account.
 - d. In our opinion, the aforesaid financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 and relevant rules made thereunder to the extent

they are not inconsistent with the accounting policies prescribed by RBI.

- e. On the basis of the written representations received from the directors as on March 31, 2023 taken on record by the Board of Directors, none of the directors are disqualified as on March 31, 2023 from being appointed as a director in terms of Section 164 (2) of the Act.
- f. With respect to the adequacy of the internal financial controls with reference to financial statements of the Bank and the operating effectiveness of such controls, refer to our separate Report in "Annexure A".
- g. With respect to the other matter to be included in the Auditor's Report in accordance with the requirements of section 197(16) of the Act, as amended;

The Bank is a Banking Company as defined under Banking Regulation Act, 1949. Accordingly, the requirements prescribed under section 197 of the Act do not apply; and
- h. With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. The Bank has disclosed the impact of pending litigations on its financial position in its financial statements – Refer Schedule 12 and Schedule 18 (26.6) to the financial statements;
 - ii. The Bank has not entered into any long-term contracts nor entered into any derivative contracts as at March 31, 2023 and accordingly no provision is required to be made;
 - iii. There were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Bank;
 - iv. a) Based on the information and explanation provided and as represented to us by the management to the best of its knowledge and belief, other than as disclosed in Schedule 18(41) to the financial statements, no funds have been advanced or loaned or invested (either from borrowed funds or share premium or any other sources or kind of funds) by the Bank to or in any other person(s) or entity(ies), including foreign

- entities ("Intermediaries"), with the understanding, whether recorded in writing or otherwise, that the Intermediary shall, whether, directly or indirectly lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Bank ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries.
- b) Based on the information and explanation provided and as represented to us by the management to the best of its knowledge and belief, other than as disclosed in Schedule 18(41) to the financial statements, no funds have been received by the Bank from any person(s) or entity(ies), including foreign entities ("Funding Parties"), with the understanding, whether recorded in writing or otherwise, that the Bank shall, whether, directly or indirectly, lend or invest in other persons or entities identified in any manner whatsoever by or on behalf of the Funding Party ("Ultimate Beneficiaries") or provide any guarantee, security or the like on behalf of the Ultimate Beneficiaries; and
- c) Based on the audit procedures that have been considered reasonable and appropriate in the circumstances, nothing has come to our notice that has caused us to believe that the representations under sub-clause (i) and (ii) of Rule 11(e), as provided under (a) and (b) above, contain any material misstatement
- v) a. In our opinion, the interim dividends declared and paid by the Bank during the year are in accordance with section 123 of the Act.
- b. As stated in schedule 18(38) to the financial statements, the Board of Directors of the Bank have declared the balance interim preference dividends for the year on May 11, 2023 which in our opinion is in accordance with section 123 of the Act to the extent it applies to declaration of interim dividend.
- c. As stated in Schedule 18(38) to the financial statements, the Board of Directors of the Bank has proposed a final equity dividend for the year on May 11, 2023 which is subject to the approval of the members at the ensuing Annual General Meeting. In our opinion, the dividend proposed is in accordance with section 123 of the Act to the extent it applies to the proposal to pay dividends.
- vi) Proviso to Rule 3(1) of the Companies (Accounts) Rules, 2014 for maintaining books of account using accounting software which has a feature of recording audit trail (edit log) facility is applicable to the Bank with effect from April 1, 2023, and accordingly, reporting under Rule 11(g) of Companies (Audit and Auditors) Rules, 2014 is not applicable for the financial year ended March 31, 2023

For B K Ramadhyani & Co. LLPChartered Accountants
FRN: 002878S/S200021**(Vasuki H S)**Partner
Membership No : 212013
UDIN :
23212013BGWLEA6563Place: Bengaluru
Date: May 11, 2023**Mukund M. Chitale & Co**Chartered Accountants
FRN: 106655W**(Nilesh RS Joshi)**Partner
Membership No. 114749
UDIN :
23114749BGSUKK4049