

## **BASEL II – PILLAR 3 DISCLOSURES AS AT 31 MARCH 2024**

Jana Small Finance Bank Limited (hereinafter called “the Bank”) is subject to BASEL II New Capital Adequacy Framework (NCAF) framework as stipulated by the Reserve bank of India (hereinafter called “RBI”) under Operating Guidelines issued for Small Finance Banks (SFB) (DBR.NBD. No.26/16.13.218/2016-17 dated October 6, 2016). As defined by the RBI, SFBs are required to adopt the standardized approach for credit risk.

Further, no separate charge for market risk and operational risk is prescribed for the time being. Accordingly, the Bank has not considered Market Risk and Operational risk for capital adequacy purposes under Basel II (NCAF).

The Bank has prepared the disclosure document in compliance with the directions of BASEL II (NCAF) (DBR.No.BP.BC.1/21.06.201/2015-16 dated July 1, 2015). The disclosure provides key information on capital, risk exposures, risk assessment processes and hence, the overall capital adequacy of the Bank.

Market discipline (Pillar 3) comprises set of disclosures on the capital adequacy and risk management framework of the Bank. These disclosures have been set out in the following sections.

### **I. Scope of Application**

#### **Qualitative Disclosures**

Jana Small Finance Bank Limited (the “Bank”) headquartered in Bangalore is engaged in providing a wide range of banking and financial services. Originally incorporated on July 24, 2006, the Company registered as a Non-Banking Financial Company (NBFC) on March 4, 2008, classified as a NBFC-MFI effective from September 5, 2013 and became a public limited company with effect from August 10, 2015. The Company converted itself into a Small Finance Bank with effect from March 28, 2018. The Bank has received scheduled status with effect from July 16, 2019.

The bank does not have any subsidiary, associate or joint venture for consolidation purpose. Thus, disclosures in the document pertain to the Bank as a standalone and independent entity.

#### **Quantitative Disclosures**

The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation	N.A
The aggregate amounts (e.g. current book value) of the bank’s total interests in insurance entities, which are risk-weighted	N.A

### **II. Capital Structure**

#### **Qualitative Disclosures**

Bank’s regulatory capital is classified into Tier- I and Tier- II capital as stipulated in BASEL II norms (NCAF) of the RBI.

Tier-I Capital includes Paid up Equity Share Capital, Share Premium, Statutory Reserve, Other Disclosed Free Reserves and other instruments that comply with the requirements specified by the RBI eligible for inclusion and exclusion.

Tier - II Capital includes Subordinate debt instruments, General provision, Investment fluctuation reserve and Investment reserve.

The Bank has an authorized capital of INR 58,500 lakhs comprises of INR 13,500 Lakhs as common equity and INR 45,000 Lakhs as preference share capital. The Bank has issued, subscribed and paid up capital of INR 10,459 Lakhs which comprises

- Common equity capital of INR 10,459 lakhs constituting 104,590,275 shares of INR 10 each, eligible for inclusion in Tier I Capital.

### Quantitative Disclosures

Break up total capital fund as below:

INR in Lakhs

Capital Fund Position as on March 31, 2024		
S.No	Particulars	Amount
<b>(A)</b>	<b>Tier I Capital</b>	<b>3,50,851</b>
A.1	Paid up Equity Share Capital	10,459
A.2	Reserves*	3,40,392
A.3	Non-Cumulative Preference Shares	-
<b>(B)</b>	<b>Deductions</b>	<b>18,608</b>
B.1	Securitisation exposures including credit enhancements	1,048
B.2	Adjustments/deductible items	17,560
<b>(C)</b>	<b>Net Tier I Capital (A-B)</b>	<b>3,32,243</b>
<b>(D)</b>	<b>Tier II Capital</b>	<b>24,559</b>
D.1	Subordinated Debt (amount eligible to be reckoned as Capital fund)	11,000

Break up total capital fund as below:

INR in Lakhs

Capital Fund Position as on March 31, 2024		
S.No	Particulars	Amount
D.2	Investment Fluctuation Reserve	5,769
D.3	Investment Reserve	30
D.4	General Provision	7,760
<b>E</b>	<b>Deductions</b>	<b>1,048</b>
E.1	Securitisation exposures including credit enhancements	1,048
<b>F</b>	<b>Net Tier II Capital (D-E)</b>	<b>23,511</b>
<b>G</b>	<b>Total Capital Funds (C+F)</b>	<b>3,55,754</b>

\*Reserves includes Share Premium, Statutory Reserve, Capital Reserve, General Reserve and Balance in Profit & loss account.

Subordinated Debt eligible for inclusion in Lower Tier – II capital

INR in Lakhs

Particulars	Amount
Total Amount outstanding as at March 31, 2024*	35,000
Of which, amount raised during the year	-
<b>Amount eligible to be reckoned as Capital fund</b>	<b>11,000</b>

\*During the year the Bank has repaid ₹ 8,000 Lakhs of Sub-ordinated debt Tier-II Capital.

**Total Eligible Capital Funds as on March 31, 2024**

**INR in Lakhs**

Particulars	Amount
Tier - I Capital	3,32,243
Tier - II Capital	23,511
<b>Total Eligible Capital</b>	<b>3,55,754</b>

**III: Capital Adequacy**

**Qualitative Disclosures**

The Banks' capital management framework includes an Internal Capital Adequacy Assessment Process (ICAAP). As per the guidelines issued by the RBI on NCAF & ICAAP is a document detailing information on the on-going assessment of the bank's entire spectrum of risks. The document should contain the risk mitigation policies and procedures existing in the Bank and also capture the current and future capital requirements. So the overall objective of the Bank's ICAAP is to address the following issues:

- Identification and assessment of all types of material risks
- Capital requirement for the identified material risks and also under stress scenarios for risks
- Internal organization and processes to manage the above on an on-going basis
- Capital Planning and Management considering the various risks faced by the Bank and their capital requirement based on its growth strategies

Stress testing which is a key aspect of the ICAAP and the risk management framework provides an insight on the impact of extreme but plausible scenarios on the Banks' risk profile and capital position. The bank conducts stress tests under three conditions of increasing adversity, viz, baseline, medium and severe scenarios and assesses the impact of such scenarios on profitability and capital of the Bank. The Bank also conducts stress test on various risk parameters by creating various scenarios and identifying the impact of these scenarios.

There is a robust framework in place for overall capital management of the Bank. This includes:

- **Capital planning:** - In this process, Bank assesses its adequacy of capital buffer, current capital position, capital requirement over a three-year horizon
- **Financial Projection:** - The financial projections arrived at as part of the ICAAP are used by the Bank for managing capital resources and the balance sheet.
- **Capital Adequacy Projection:** - The Risk Weighted Asset for Credit risk is considered in the projections under normal and stressed situations.

**Quantitative Disclosures**

**Capital Requirements for various Risks**

**INR in Lakhs**

S.No.	Particulars	Amount
<b>A</b>	<b>Credit Risk</b>	<b>2,62,764</b>
A.1	Portfolios subject to Standardised approach	2,62,764
A.2	Securitisation exposures	-
<b>B</b>	<b>Market Risk</b>	-
<b>C</b>	<b>Operational Risk</b>	-
<b>D</b>	<b>Total Capital requirement (A+B+C)</b>	<b>2,62,764</b>
<b>E</b>	<b>Total Risk Weighted Assets</b>	<b>17,51,759</b>
<b>F</b>	<b>Total Capital funds of Bank</b>	<b>3,55,754</b>

### Capital Adequacy Ratio

Particulars	Mar-24
Tier - I Ratio	18.97%
Tier - II Ratio	1.34%
<b>Total Capital Adequacy Ratio</b>	<b>20.31%</b>

**Note:** Capital Conservation Buffer and Counter-Cyclical Capital Buffer are not applicable for Small Finance Banks (SFBs) as per the operating guidelines issued by the RBI.

### Risk Exposure and Assessment

The Bank has set up a Risk Management framework headed by the Chief Risk Officer overseeing the activities of Risk Management function viz. Credit Risk, Market Risk and Operational Risk.

Bank has a Risk Appetite Framework (RAF) to set the boundaries of the Bank's risk taking in pursuit of its growth strategy. Regular risk oversight disciplines have been put in place to provide adequate management oversight over credit risks through various risk Committees i.e., Product Risk Committees (for Liabilities, Retail Financial Services - Home loan & LAP and Medium and Small Enterprises – MSE), ALCO, Investment Committee, Operational Risk committees (Functional Operational Risk Committees for each central/Head-office function) and Zonal Operational Risk Committees - ZRMCs for each zone.

All key risks are discussed in the Executive Risk Management Committee (ERMC) of the Bank. The Board exercises oversight over Risk Management through the Risk Management Committee of the Board.

### IV: Credit Risk: General Disclosures

#### Qualitative Disclosures

Credit Risk is defined as the possibility of loss associated with diminution in the credit quality of borrowers or counter-parties. Losses stem from outright default due to inability or unwillingness of a customer or counter-party to meet commitments in relation to lending, trading, settlement and other financial transactions. Alternatively, losses result from reduction in portfolio value arising from actual or perceived deterioration in the credit quality.

#### **Credit Risk Management Policy**

Bank has a Credit Policy which defines the framework relating to sanction and dispensation of credit by way of loans and advances and ongoing customer management. It guides strategies to achieve the corporate objectives in asset portfolio build up in line with ongoing regulatory requirements. Credit Policy governs all types of lending done by the Bank.

The key principles underlying the Credit Policy are as follows:

- Product Program for each product
- Credit underwriting structure is independent of the revenue generating units
- Credit delegation: Delegation of authority, communication of delegation, test programs, tracking performance of credits under delegation
- Credit due diligence

- Credit performance management - articulates MIS, limits and monitoring, review and data reporting
- Collateral management
- Credit risk transfer and credit loss recognition
- Legal, regulatory and compliance aspects

### **Credit Risk Monitoring**

Credit Risk is monitored through the Early Warning Systems (EWS) and/or Portfolio performance review conducted through the monthly Product Risk Committees (PRCs) and the Executive RMC. In addition, ad-hoc reviews may be undertaken as and when required.

### **Credit Concentration Risk**

Credit concentration Risk denotes the risk arising from an uneven distribution of counter-parties in credit or from a concentration in industries, sectors or geographical regions which may generate losses large enough to jeopardise the Bank's position. The credit risk in the Bank's credit portfolio arises mainly from default risk and portfolio risk. The Bank addresses the default/counterparty risk for various categories of assets by providing capital as per Standardized Approach.

To measure credit concentration risk, Bank monitors secured vs. unsecured mix and uses Herfindahl-Hirschman (HHI) index to measure geography concentration risk.

### **Definition of Past Due and Impaired -**

The Bank classifies its loans and advances into performing and non-performing loans in accordance with, Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances dated April 1, 2023. An NPA is defined as a loan or an advance where: -

- i. interest and/ or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,
- ii. the account remains 'out of order' for 90 days in respect of an Overdraft/Cash Credit (OD/CC),
- iii. the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,
- iv. the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops, the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
- v. The amount of liquidity facility remains outstanding for more than 90 days, in respect of a securitisation transaction undertaken in terms of guidelines on securitisation.
- vi. in respect of derivative transactions, the overdue receivables representing positive mark-to-market value of a derivative contract, if these remain unpaid for a period of 90 days from the specified due date for payment.

Non-Performing Investments (NPI) provision will be governed by RBI Master circular - Classification, Valuation and Operation of Investment Portfolio of Commercial Banks (Directions), 2021.

- (i) An NPI is one where interest/ instalment (including maturity proceeds) is due and remains unpaid for more than 90 days.
- (ii) The above shall apply, mutatis mutandis to preference shares where the fixed dividend is not paid. If the dividend on preference shares (cumulative or non-cumulative) is not declared/paid in any year it shall be treated as due/unpaid in arrears and the date of balance sheet of the issuer for that particular year shall be reckoned as due date for the purpose of asset classification.

- (iii) In the case of equity shares, in the event the investment in the shares of any company is valued at Re.1 per company on account of the non-availability of the latest balance sheet, those equity shares shall be reckoned as NPI.
- (iv) If any credit facility availed by the issuer is NPA in the books of the bank, investment in any of the securities, including preference shares issued by the same issuer shall also be treated as NPI and vice versa.
- (v) In case of conversion of principal and/or interest into equity, debentures, bonds, etc., such instruments shall be treated as NPA ab initio in the same asset classification category as the loan, if the loan's classification is substandard or doubtful on implementation of the restructuring package and provision shall be made as per the norms
- (vi) Government guaranteed investment
- Investment in State Government Guaranteed securities, shall attract prudential norms for identification of NPI and provisioning, when interest/ instalment of principal (including maturity proceeds) or any other amount due to the bank remains unpaid for more than 90 days.
  - Bank's investments in bonds guaranteed by Central Government shall not be classified as NPI until the Central Government has repudiated the guarantee when invoked. However, this exemption from classification as NPI is not for the purpose of recognition of income. The Bank follows extant RBI guidelines for resolution of stressed assets, including classification and up gradation of restructured loans

### Quantitative Disclosures

#### Total Risk Exposures:

INR in Lakhs

S.No.	Exposure Type	Amount
1	Fund Based*	32,52,905
2	Non-Fund Based**	46,443
	<b>Total</b>	<b>32,99,348</b>

#### Geographic Distribution of Exposures

INR in Lakhs

S.No.	Exposure Type	Domestic	Overseas
1	Fund Based*	32,52,905	-
2	Non-Fund Based**	46,443	-
	<b>Total</b>	<b>32,99,348</b>	-

\* Fund based Exposure is computed as per Basel II guidelines.

\*\*Non-fund-based exposure for purpose of computation of CRAR includes undrawn limits of Overdrafts, yet to be disbursed portion of Secured Housing and Contingent exposure.

**Industry type Distribution of Advances Exposures (i.e. Gross Advances)**
**INR in Lakhs**

S.No.	Industry Classification	Fund Based	Non-Fund Based
1	Agriculture and Allied Activities	5,15,052	69
2	Housing Loan	4,55,169	16,505
3	Retail Trade	1,91,185	5,076
4	NBFCs	1,05,054	378
5	Infrastructure	12,337	19,016
6	Tourism, Hotel and Restaurants	27,329	34
7	Textiles	16,905	67
8	All Engineering	15,609	1,026
9	Food Processing	16,240	26
10	Wholesale Trade (other than Food Procurement)	11,896	673
11	Basic Metal and Metal Products	9,644	133
12	Transport Operators	9,180	130
13	Gems and Jewellery	6,817	65
14	Vehicles, Vehicle Parts and Transport Equipment	6,049	7
15	Construction	5,524	3
16	Cement and Cement Products	5,464	18
17	Rubber, Plastic and their Products	3,353	21
18	Chemicals and Chemical Products (Dyes, Paints, etc.)	2,904	14
19	Wood and Wood Products	2,362	53
20	Paper and Paper Products	1,812	21
21	Professional Services	1,548	15
22	Beverages (excluding Tea & Coffee) and Tobacco	678	2
23	Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	562	10
24	Computer and Related Activities	322	-
25	Glass & Glassware	246	3
26	Leather and Leather products	249	0
27	Mining and Quarrying	50	-
28	Industry - Others	80,787	236
29	Service – Others	2,69,028	2,547
30	Retail Loans	5,74,203	294
	<b>Total</b>	<b>23,47,558</b>	<b>46,443</b>

**Bank's exposure to the segment stated below was more than 5% of the Total Exposure(Fund and Non-fund based) as at March 31, 2024:**

S.No.	Industry Classification	Percentage of total exposure
1	Agriculture and Allied Activities	22%
2	Housing loan	20%
3	Retail Trade	8%

**Residual contractual maturity breakdown of Assets and Liabilities**
**INR in Lakhs**

As at March 31, 2024	Deposits	Advances*	Investments	Borrowings	Balances with banks and money at call and short notice
Day – 1	30,201	687	2,69,177	700	1,00,376
2-7 Days	63,683	22,347	8,913	-	-
8-14 Days	36,626	8,086	5,768	988	-
15-30 Days	27,542	56,476	7,457	-	-
31 Days and up to 2 months	55,188	80,652	10,906	18,654	595
Over 2 months and up to 3 months	88,980	87,774	17,968	34,213	451
Over 3 months and up to 6 months	2,56,572	2,13,545	60,317	1,24,169	-
Over 6 months and up to 1 year	5,26,419	3,62,719	1,15,341	99,069	332
Over 1 Year and up to 3 years	11,51,283	5,73,151	1,23,544	1,91,440	1,050
Over 3 Years and up to 5 years	20,172	1,76,168	54,312	26,772	50
Over 5 years	459	7,29,522	66	25,141	-
<b>Total</b>	<b>22,57,125</b>	<b>23,11,127</b>	<b>6,73,769</b>	<b>5,21,146</b>	<b>1,02,854</b>

**Amount of Gross NPAs**
**INR in Lakhs**

Category	Amount
Sub-standard	39,026
Doubtful1	9,718
Doubtful2	642
Doubtful3	47
Loss	-
<b>Total</b>	<b>49,433</b>

**NPA Ratios as on March 31, 2024**

Particulars	March 31, 2024
Gross NPA to Gross Advances	2.11%
Net NPA to Net Advances	0.56%

**INR in Lakhs**

S.No.	Particulars	Amount
A	Standard Advances	22,98,126
B	Gross NPAs	49,433
C	Gross Advances (A+B)	23,47,558
D	Gross NPAs as a percentage of Gross Advances (B/C) (in %)	2.11%
E	Deductions	36,431
E.1	Provisions held in the case of NPA Accounts as per asset classification (including additional Provisions for NPAs at higher than prescribed rates).	28,563
E.2	Provisions in lieu of diminution in the fair value of restructured accounts classified as NPAs	70
E.3	Provisions in lieu of diminution in the fair value of restructured accounts classified as standard assets	-
E.4	Part payment received and kept in Suspense Account or any other similar account	7,798



S.No.	Particulars	Amount
F	Net Advances (C-E)	23,11,127
G	Net NPAs (B-E)	13,002
H	Net NPAs as percentage of Net Advances (G/F) (in %)	0.56%

**Movement of NPAs (Gross) and Provision for NPAs**
**INR in Lakhs**

S.No.	Particulars	Amount
	<b>Movement of NPAs</b>	
A	Opening balance	70,919
B	Additions during the year#	1,11,096
C	Reductions during the year#*	1,32,582
<b>D</b>	<b>Closing balance (A+B-C)</b>	<b>49,433</b>
	<b>Movement of provisions for NPAs</b>	
E	Opening balance	24,119
F	Provisions made during the year	59,256
G	Write-off	46,944
H	Write-back of excess provisions	-
<b>I</b>	<b>Closing balance (E+F-G-H)</b>	<b>36,431</b>

#Additions and reductions does not include accounts which turned NPA during a particular month and subsequently moved out of NPA in the same month.

\* Balancing figure

**Movement of Standard Asset Provisioning**
**INR in Lakhs**

S.No.	Particulars	Amount
	<b>Movement of Standard Assets Provision</b>	
A	Opening balance#	13,566
B	Additions during the year	6,251
C	Reductions during the year	11,403
<b>D</b>	<b>Closing balance (A+B-C)#</b>	<b>8,414</b>

# Provision is maintained at rates higher than the regulatory minimum, on standard advances based on evaluation of the risk and stress in unsecured advances in SMA category as approved by the Board. Additional provision of ₹ 4.51 crores on standard advances is made as at March 31, 2024 (March 31, 2023: 71 crores)

**Non-Performing Investments**
**INR in Lakhs**

Particulars	Amount
<b>Amount of Non Performing Investments</b>	<b>NIL</b>
<b>Amount of provisions held for non-performing investments</b>	<b>NIL</b>
<b>Movement of provisions for depreciation on Investments</b>	
Opening balance	-
Provisions made during the year	13,766
Write-off	-
Write-back of excess provisions	-
<b>Closing balance</b>	<b>13,766</b>

## V: Credit Risk: Disclosures for Portfolios Subject to the Standardised Approach

### Qualitative Disclosures

As defined in the operating guidelines for Small Finance Banks (SFB), SFBs are required to assess credit risk as per BASEL II Standardized Approach. Accordingly, the Bank has measured the capital requirements for credit risk as per Standardized Approach.

The loan book of the Bank predominantly comprises regulatory retail category loans. During the current year, the Bank has focussed on building secured book in Affordable Housing, Micro-housing loans and MSE loans, Loans to Financial Institutions, Vehicle loans and Gold loans. As a result, bank's secured book as of March 31, 2024 constitutes over 58% of total portfolio. To measure credit risk, different risk weights for different asset classes are applied by the Bank, as defined in BASEL II (NCAF) framework.

Lending to large value customers are risk-weighted as per the ratings assigned by Eligible Credit Rating Agencies (ECRA) as prescribed by the RBI.

### Quantitative Disclosures

Details of Total Risk Exposure based on Risk Weight		INR in Lakhs	
Particulars	Fund Based*	Non-Fund Based**	
Below 100% risk weight	21,09,601	32,748	
100% risk weight	2,23,109	13,691	
More than 100% risk weight	79,211	4	
<b>Total</b>	<b>24,11,921</b>	<b>46,443</b>	

\*Fund based exposure include all exposures (after risk mitigation) including Investments and other assets except Cash and Balances with the RBI.

\*\*Non-fund-based exposure for purpose of computation of CRAR includes undrawn limits of Overdrafts, yet to be disbursed portion of Secured Housing and Contingent exposure.

## VI: Credit Risk Mitigation: Disclosures for the Standardised Approaches

### Qualitative Disclosures –

The acceptable collateral should have the following features:

- **Identifiable and itemised in valuation reports:** The underlying collateral of the credit facility should be clearly identifiable and collateral description should be covered in the Credit appraisal memo/valuation report
- **Lien created:** The Bank should have a security interest or specific lien on the collateral and the requirements of legal certainty should be met. Bank's charge on the collateral must be created in line with defined regulations and requirements
- **Liquidity:** The collateral should be in a form that can be liquidated in the event of default or bankruptcy of the borrower.
- **Enforceable:** The Bank should have the legal right to repossess the security in case the borrower defaults and the collateral should be easy to repossess as per the provisions of law

- **Value discoverable in the market:** The collateral should be periodically revalued according to the changing market conditions and therefore the current value of the collateral should be easily discoverable in market.

**Eligible financial collaterals accepted by the Bank:**

- Cash (as well as certificates of deposit or comparable instruments, including fixed deposit receipts issued by the lending bank) on deposit with the bank which is incurring the counterparty exposure.
- Gold ornaments and jewellery held by customers. However, the value of the collateralized jewellery is arrived at after notionally converting these to 99.99 purity.

**Eligible non-financial collaterals accepted by the Bank:**

- Immovable Property- Residential property, Commercial Property, Industrial property and warehouse property.
- Land (only accepted as a part of a basket of collateral).

**Other collaterals accepted by the Bank**

- Book debts/Receivables
- Stock
- Two wheeler Vehicles

**Collateral Valuation**

With respect to collateral valuation, the following principles are complied with:

- All collaterals (where applicable) are to be valued by either the in-house or empanelled valuer unless stated otherwise
- The collateral valuation represents the current fair market value under which the collateral could be sold under an arm's length contract on the date of valuation
- The Bank has not accepted second or lesser priority rights. However, if the collateral is established on a paripassu charge basis with other parties, the pro-rata part of the value of the collateral to be taken
- Collateral revaluations are updated at a frequency as described in "Credit Policy" approved by the Board in line with the RBI guidelines
- The value of the collateral pledged shall not be materially dependent on the credit performance of the borrower

**Credit Risk Mitigation**

The Bank adopts a standardized approach for credit risk mitigation which substitutes the risk weighting of the collateral for the risk weighting of the borrower for the collateralised portion of the exposure subject to the following conditions –

- The Bank has the right to liquidate or take legal possession of the collateral, in a timely manner, in the event of default, insolvency or bankruptcy of the borrower.
- Where the collateral is held by a custodian, suitable steps are taken to ensure that the custodian segregates the collateral from its own assets.

- Suitable processes are in place to ensure that any legal conditions required for declaring the default of the borrower and liquidating the collateral are observed.
- Cross-collateralization clause applies to all the collateral posted by the borrower. In case of default of one of the credit facilities by the borrower, the Bank must have the legal right to seize any or all assets pledged by the borrower.

### **Covenants**

Depending upon the financial situation of the borrower, the Bank may stipulate covenants in the loan agreements requiring the borrower to:

- Periodically submit its income/financial documents
- Refrain from paying dividends, repurchasing shares, borrowing further, or other specific, voluntary actions that negatively affect the company's financial position.
- Repay the loan in the full, at the Bank's request, under certain events such as changes in the borrower's debt-to-equity ratio or interest coverage ratio.
- With a view to monitoring the end-use of funds, the Bank may ask the borrowers to present a specific certification from the auditors regarding usage of funds by the borrower under a separate mandate.

### **Guarantees**

The Bank may opt for **Service Guarantee Deposits** that are direct, explicit, irrevocable and unconditional. This could also provide protection in calculating capital requirements.

### **Inter-Bank Risk Participation**

The Bank transfers advances through inter-bank participation. In accordance with the RBI guidelines, in the case of participation with risk, the aggregate amount of the participation issued by the Bank is reduced from advances. In case of participation with non-risk sharing, the aggregate amount of participation is classified as borrowings.

### **Risk Mitigation for Retail Portfolio**

#### **Operations / systems**

The Bank has well defined processes for credit administration, credit risk measurement and monitoring. Credit administration consists of relationship management phase, transaction management phase and portfolio management phase. The Bank has systems for monitoring risks for various products and borrower segments which raises an alert whenever the exposure exceeds the substantial exposure levels. The Bank conducts regular portfolio review to identify any emerging problems that may result in the inability of borrowers to pay back taking into account geographical concentrations and/or industry concentrations.

#### **Diversification**

The Bank maintains a diversified portfolio of credit facilities granted to borrowers as well as a diversified pool of borrowers. The Bank also observes the prudential exposure norms set by the RBI as well as its own internal exposure limits. The Bank will pursue diversification across the following dimensions:

- Diversification basis type of offerings (Unsecured/Secured)
- Diversification by geography (state of origination)

## Quantitative Disclosures

### Total Exposure covered by eligible financial collateral

INR in Lakhs

Particulars	Amount	Credit Risk Mitigate (CRM)	Net Exposure
<b>Eligible Financial Collateral</b>			
Loan against bank's own deposit	35,089	35,089	-
Gold	29,053	29,052	1
<b>Portfolio Covered by Guarantees</b>			
Emergency Credit Line Guarantee Scheme (ECLGS)	10,764	10,764	-
Credit Guarantee Scheme for MFIs (CGSMFI)	7,530	5,647	1,882

## VII: Securitisation and Transfer of loan Exposures: Disclosure for Standardised Approach

### Qualitative Disclosures

The Bank undertakes securitisation / loan assignment transactions with the objective of maximising return on capital employed, managing liquidity, and maximising yield on asset opportunities.

The RBI issued "Revised Securitisation Guidelines" on September 24, 2021 (hereinafter, the revised securitisation guidelines") covering both Securitisation and Loan Assignment transactions separately. The said guidelines define minimum holding period, minimum retention requirements, due diligence, credit monitoring, stress testing requirements etc. For loan assignment transactions, credit enhancement has been disallowed under the revised guidelines.

The Bank undertakes sale transactions through both securitisation and loan assignment routes. The Bank participates in Securitisation and Loan Assignment transactions in the following roles:

- **Originator / Seller:** The Bank originates assets in its book and subsequently sells down them through the securitisation or assignment route
- **Servicing and Collection Agent:** For assets securitized, the Bank undertakes the activity of collections and other servicing activities
- **Liquidity facility provider:** In case of sale transactions undertaken through the securitisation route, the Bank may also provide liquidity facility. This is a type of credit support used to meet temporary collection mismatches on account of timing differences between the receipt of cash flows from the underlying performing assets and the fulfilment of obligations to the beneficiaries.
- **Credit enhancement provider:** Under the revised securitisation guidelines, the Bank may provide credit enhancement on Securitisation 'sale' transactions undertaken by the Bank / a third party for meeting shortfalls arising on account of delinquencies and prepayment losses in the underlying pool sold.

**Credit Risk:** In case of Securitisation transactions, where credit enhancement is provided by the originator or any third party, as permitted under the Securitisation guidelines, the investor bears the loss in case the shortfalls in collections exceed the credit enhancement provided. If credit enhancement is provided in the form of a corporate guarantee, the investor bears the loss that could arise due to default by the guarantor. In case of Loan Assignment transactions, the assignee bears the loss arising from defaults/delinquencies by the underlying obligors.

**Market Risk:** Mark to Market risks arising on account of interest rate fluctuations.

**Liquidity Risk:** This is the risk arising on account of absence of a secondary market, which provides exit Options to the investor/participant. This risk would be applicable only in case of securitisation transactions.

**Servicer Risk:** Servicer risk is the risk arising on account of the inability of a collection and processing agent to collect monies from the underlying obligors and operational difficulties in processing the payments. In long tenor pools, the investor is exposed to the risk of servicer defaulting or discontinuing its operations in totality.

**Regulatory and Legal Risk:** These are risks arising on account of non-compliance of transaction structures with the extant regulatory guidelines which may result in higher risk weight and hence, higher capital charge being applied on the transaction or the Bank not being able to classify the transactions as priority sector lending. These risks also arise when transactions are not compliant with the applicable laws which may result in the transaction being rendered invalid. Conflict between the provisions of the transaction documents and those of the underlying financial facility agreement or non-enforceability of security/claims due to imperfection in execution of the underlying facility agreements with the borrowers could also lead to an increase in legal risk. Risk could also arise due to issues on interpretation of tax laws leading to changes in scheduled transaction cash flows.

The Bank also purchase loans through the direct assignment route, for meeting the shortfall in Priority Sector Lending (PSL) sub-targets and same are classified under the advances.

The Bank also enters into sale of stressed assets in-line with the Operating guidelines applicable for Small Finance Bank and Master Direction on “Transfer of loan exposure” dated September 24, 2021.

### **Accounting policy**

Assets transferred through securitisation and direct assignment of cash flows are de-recognised when they are sold (true sale criteria being fully met with) and consideration is received. Sales / transfers that do not meet true sale criteria are accounted for as borrowings. For a securitisation or direct assignment transaction, the Bank recognises profit upon receipt of the funds and loss is recognised at the time of sale.

On sale of stressed assets, if the sale is at a price below the net book value (i.e., funded outstanding less specific provisions held), the shortfall is charged to the Profit and Loss Account and if the sale is for a value higher than the net book value, the excess provision is credited to the Profit and Loss Account in the year when the sum of cash received by way of initial consideration and / or redemption or transfer of security receipts issued by SC/RC exceeds the net book value of the loan at the time of transfer.

In respect of stressed assets sold under an asset securitisation, where the investment by the bank in security receipts (SRs) backed by the assets sold by it is more than 10 percent of such SRs, provisions held are higher of the provisions required in terms of net asset value declared by the Securitisation Company ('SC') / Reconstruction Company ('RC') and provisions as per the extant norms applicable to the underlying

loans, notionally treating the book value of these SRs as the corresponding stressed loans assuming the loans remained in the books of the Bank.

The Bank invests in Pass through Certificates (PTCs) issued by other Special Purpose Vehicles (SPVs). These are accounted at acquisition cost and are classified as investments. The Bank also buys loans through the direct assignment route which are classified as advances. These are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised based on effective interest rate method.

Bank recognizes Excess Interest Spread (EIS) only on cash basis and Over Collateralization, if any, is included in the Gross Advances and it is provided for as per the provisioning norms of RBI.

Direct Assignment portfolio bought by the Bank, if any, are classified as advances. These are carried at acquisition cost unless it is more than the face value, in which case the premium is amortised over the tenor of the loans.

#### Quantitative Disclosures: Banking Book

INR in Lakhs

Particulars	Amount
The total amount of exposures securitised by the bank during the financial year	1,23,356
Securitized losses recognised by the bank during the current year	-
Amount of assets intended to be securitised within a year	-
of above, amount of assets originated within a year before securitisation	-
The total amount of exposures securitised and unrecognised gain or losses on sale	-
<b>On-balance sheet securitisation exposures retained or purchased</b>	
- Farm Credit	-
<b>Risk weight bands break-up of securitisation exposures retained or purchased</b>	
- 75% Risk weight	-
- 100% Risk weight	-
Exposures that have been deducted entirely from Tier I capital	1,048

#### The Bank has transferred the non-performing assets (NPAs) as per the details below to ARC:

Particulars	Mar-24
No. of accounts	3,72,175
Aggregate principal outstanding of loans transferred (In Lakhs)	1,34,149
Weighted average residual tenor of the loans transferred (Years)	3.23
Net book value of loans transferred (at the time of transfer) (In Lakhs)	60,268
Aggregate consideration (In Lakhs)	60,371
Additional consideration realized in respect of accounts transferred in earlier years	-

#### Quantitative Disclosures: Trading Book

INR in Lakhs

Particulars	Amount
Exposures securitised by the bank for which the bank has retained some exposures and which is subject to the market risk	-
on-balance sheet securitisation exposures retained or purchased	-
Exposures that have been deducted entirely from Tier I capital	-



## VIII: Market Risk in Trading Book

### Qualitative Disclosures

Market risk is defined as ‘the risk that the value of ‘on’ or ‘off’ balance sheet positions will be adversely affected by movements in market interest, currency exchange rates, equity and commodity prices’.

#### **Risk Identification and assessment –**

Risk identification entails ensuring that all instruments on and off the balance sheet of the Bank that give rise to market risk are identified and monitored centrally. The Bank is exposed to the following types of market risk on account of its trading and Balance Sheet Management activities:

The Bank is exposed to **interest rate risk** through its investment portfolio, comprising both trading book and banking book investments. The Bank is also exposed to interest rate risk on account of forex trading transactions as permitted, interest rate derivatives as permitted and preference share holdings.

**Equity risk** arises due to equity investments in the investment portfolio. Equity risk refers to probable loss on account of erosion in market value of securities held. The Bank is exposed to equity risk through its trading book investments in listed / unlisted equity and mutual funds.

**Basis Risk** arises from the imperfect co-relation between changes in the rates earned and paid on different instruments with otherwise similar repricing characteristics. The same shall be measured as difference between MTM of the underlying position and the gain/loss on hedging instrument.

#### **Risk measurement**

The Bank has adopted suitable metrics to ensure that the market risk to which it is exposed is within its risk tolerance and appetite. The risk appetite statement will be defined subsequently post issuance of SFB guidelines for market risk. Metrics to be employed like PV01, Modified Duration, Counterparty Credit Risk, Stress Testing and Hedge effectiveness are articulated in the Market Risk Management Policy.

#### **Risk Monitoring**

The Bank has established suitable position and risk based limits to ensure that market risk exposure is maintained within its risk appetite and tolerance. Accordingly, Loss Limits and Risk Limits has proposed as under for both Trading (FVTPL - HFT category) and Available for Sale (AFS Category). A summary of all limit breaches is presented to the ALCO for ratification, along with suitable analysis into the cause of the limit breach, remedial actions proposed and the status of execution of the same.

## IX: Operational Risk

### Qualitative Disclosures

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Based on the definition adopted, operational risk as exists in front line business functions, operations and control functions.

The bank has in place a board approved Operational Risk Management Policy. Operational Risk Management (ORM) policy is establish explicit and consistent standards for Operational Risk Management and Measurement to enhance systematic and proactive identification, assessment,



measurement, monitoring, mitigation and reporting of the operational risks at the Bank level. The objectives of operational risk management policy are –

- Develop an operational risk management and measurement framework commensurate to the Bank's risk profile, risk appetite, regulatory requirements and industry good practices.
- Embed operational risk management processes into day to day business of the Bank.
- Create a strong internal control environment and implement risk mitigation measures/tools in a cost-effective manner.
- Create a culture of risk awareness at JSFB where emerging risks are promptly identified and assessed for further action.

In line with Operational Risk Management Policy, the Bank has put in place Operational Risk Governance structure comprising Risk Management committee (RMC) and Functional Operational Risk Committee (FORC).

Bank's Board has constituted the executive RMC comprising Senior Management of the Bank for implementation of Operational Risk Management. FORC consisting of heads of different functions of the Bank, reports to the RMC. Objectives of the FORC are as follows:

- Ensure the effective application of the Risk Management Framework in the Bank of any related operational risk policies and procedures and any directives, policies and procedures defined by the RMC.
- Develop objective operational risk identification and measurement capabilities in consensus with mandate of RMC and regulatory and statutory requirements.
- Ensure that there are robust processes to minimize regulatory or statutory breaches in the operations across the Bank.
- Ensure that the relevant risk related processes & control processes are effectively implemented and are being adhered to across the Bank.
- Ensure risk controls parameters including policies, control standards, risk exposure limits and other forms of risk mitigation measures are adequate and effective in reducing gross operational risk exposures to acceptable levels of residual risk
- Monitor all material operational risk exposures in accordance with operational risk policies and procedures and any directives, policies and procedures defined by RMC
- Review the findings of Internal Audit, Statutory Audit and regulators on material risk issues and take suitable remedial measures.

## **X: Interest Rate Risk in the Banking Book (IRRBB)**

### **Qualitative Disclosures**

Interest rate risk refers to fluctuations in the Bank's Net Interest Income and the value of its assets and liabilities arising from internal and external factors. Internal factors include the composition of the Bank's assets and liabilities, borrowings, loans and investments, quality, maturity, interest rate and re-pricing period of deposits. External factor covers general economic conditions.

Rising or falling interest rates impact the Bank depending on the Balance Sheet positioning. Interest rate risk is prevalent on both the asset as well as the liability sides of the Bank's Balance Sheet. Bank's liabilities comprise of deposits, Capital and reserves, borrowings and other liabilities. Deposits bear a fixed interest rate.

On the asset side, Bank's Investments to a large extent carry a fixed rate of return and are subject to fall in value when interest rates rise, whereas the interest rate on all loans up to the first three years of a loan is fixed and from three years onwards it is floating.

The following Table summarizes the impact of rising and falling interest rate scenarios on the Net Interest Income (NII) depending on the composition of the rate sensitive assets and liabilities in the portfolio:

<b>Impact on NII</b>		
Portfolio Sensitivity	Impact on Net Interest Income	
	Increase in Interest Rates	Decrease in Interest Rate
RSA > RSL	+	-
RSA < RSL	-	+

(RSA=Rate Sensitive Assets; RSL = Rate Sensitive Liabilities)

The Risk, the Bank may bear on account of interest rate volatility, has been linked to the Bank's Capital and Reserve. Changes in Interest rate on Assets and Liabilities affect the Bank in as much as they result in change in:

- Net Interest Income (NII) on account of different re-pricing date for assets and liabilities.
- Profit/Loss from trading activities.
- Market Value of Equity (i.e. Capital and Reserves) on account of change in value of Assets and Liabilities

The impact of interest rate changes on NII and provisioning for depreciation may not move in tandem, as these are dependent on various factors. In a rising interest rate scenario, the Bank may gain in NII but may get adversely affected on account of higher provisioning for depreciation on the investment portfolio held in the AFS and HFT category.

As stipulated by RBI, Statement of Interest Rate Sensitivity (Re-pricing Gaps) is prepared to monitor the gaps.

Interest Rate Risk in the Fixed Income Portfolio of Bank's investments is managed through Duration Analysis. Bank carries out Duration Gap Analysis (to estimate the impact of change in interest rates on the economic value of Bank's Assets and Liabilities thereby arriving at changes in Market Value of Equity (MVE).

### **Quantitative Disclosures**

Details of Parallel Rate shock on Earnings and Market value of equity as on March 31, 2024 are given below.

	<b>INR in Lakhs</b>	
<b>Interest Rate Risk in Banking Book</b>	<b>+ 200 bps</b>	<b>-200 bps</b>
Earnings at Risk (EaR)	1367	(1367)
Market Value of Equity (MVE)	22,142	(22,142)

**XI: Summary comparison of accounting assets vs. Leverage ratio Exposure Measure**

		INR in Lakhs
S.No.	Items	Amount
1	Total consolidated assets as per published financial statement	31,73,921
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	-
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	(18,608)
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	97,057
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	23,697
7	Other adjustments	-
<b>8</b>	<b>Leverage ratio exposure</b>	<b>32,76,067</b>

**XII: Leverage Ratio Common Disclosure**

		INR in Lakhs
S.No.	Items	Amount
<b>On-balance sheet exposures</b>		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	31,73,921
2	Asset amounts deducted in determining Basel II Tier 1 capital	(18,608)
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	<b>31,55,313</b>
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	-
5	Add-on amounts for PFE associated with all derivatives transactions	-
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	-
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-
8	(Exempted CCP leg of client-cleared trade exposures)	-
9	Adjusted effective notional amount of written credit derivatives	-
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	-
11	Total derivative exposures (sum of lines 4 to 10)	-

S.No.	Items	Amount
<b>Securities financing transaction exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	97,057
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	-
14	CCR exposure for SFT assets	-
15	Agent transaction exposures	-
16	Total securities financing transaction exposures (sum of lines 12 to 15)	<b>97,057</b>
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposure at gross notional amount	23,697
18	(Adjustments for conversion to credit equivalent amounts)	-
19	Off-balance sheet items (sum of lines 17 and 18)	<b>23,697</b>
<b>Capital and total exposures</b>		
20	Tier 1 capital	<b>3,32,243</b>
21	Total exposures (sum of lines 3, 11, 16 and 19)	<b>32,76,067</b>
<b>Leverage ratio</b>		
22	Basel III leverage ratio	10.14%