BASEL II – PILLAR 3 DISCLOSURES 31 MARCH 2021

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 for Small Finance Banks (SFB) (DBR.NBD. No.26/16.13.218/2016-17 dated October 6, 2016). As defined by the RBI in its operating guidelines for Small Finance Banks, 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 this 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). This 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”) (Formerly known as Janalakshmi Financial Services Limited), 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) with the Reserve Bank of India on March 4, 2008.

Pursuant to issue of Small Finance Bank license by the Reserve Bank of India (RBI) under section 22(1) of the Banking Regulation Act, 1949, the name of the company was changed to Jana Small Finance Bank Limited (the “Bank”) on January 29, 2018. The company commenced banking operations with effect from March 28, 2018.

The Bank was notified as a Scheduled Bank with effect from July 16, 2019 vide publication in the Gazette of India (Part III - Section 4) dated July 27 – August 02, 2019. Accordingly, Jana Small Finance Bank Limited is included in the second schedule of the Reserve Bank of India Act, 1934.

The bank does not have any subsidiary, associate or joint venture for consolidation purpose and does not have any interest in any insurance company. 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, Statutory Reserves, Other Disclosed Free Reserves, Non-Cumulative Compulsorily Convertible Preference Shares and other instruments that comply with the requirements specified by the RBI.

Tier - II Capital includes Subordinate debt instruments, General provision & Investment reserves.

The Bank has an authorized capital of Rs. 35,000 lakhs comprises of Rs. 10,000 Lakhs as common equity and Rs. 25,000 Lakhs as preference share Capital. The Bank has issued, subscribed and paid up capital of Rs. 20,073 Lakhs which comprises

- Common equity capital of Rs. 5,073 lakhs constituting 50,727,257 shares of Rs.10 each, eligible for inclusion in Tier I Capital.

- Non-Cumulative Compulsorily Convertible Preference share capital of Rs. 15,000 Lakhs constituting 150,000,000 shares of Rs. 10 each, eligible for inclusion in Tier I as per the regulatory requirements.

Quantitative Disclosures

Break up total capital fund as below: **Rs. in Lakhs**

Capital Fund Position as on March 31, 2021		
S.No.	**Particulars**	**Amount**
A	**Tier I Capital**	**1,09,160**
A.1	Paid up Equity Share Capital	5,073
A.2	Reserves*	89,087
A.3	Non-Cumulative Preference Shares	15,000
B	**Deductions**	**1,691**
B.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
B.2	Securitisation exposures including credit enhancements	-
B.3	Adjustments/deductible items	1,691
C	**Net Tier I Capital (A-B)**	**1,07,469**
D	**Tier II Capital**	**34,414**
D.1	Subordinated Debt	28,320
D.2	Investment Reserve	2,124
D.3	General Provision	3,970
E	**Deductions**	**-**
E.1	Investments in instruments eligible for regulatory capital of financial subsidiaries/associates	-
E.2	Securitisation exposures including credit enhancements	-
F	**Net Tier II Capital (D-E)**	**34,414**
G	**Total Capital Funds (C+F)**	**1,41,883**

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

Subordinated Debt eligible for inclusion in Lower Tier – II capital **Rs. in Lakhs**

Particulars	Amount
Total Amount outstanding as at March 31, 2021	70,100
Of which, amount raised during the year	-
Amount eligible to be reckoned as Capital fund	**28,320**

Total Eligible Capital Funds as on March 31, 2021 **Rs. in Lakhs**

Particulars	Amount
Tier - I Capital	1,07,469
Tier - II Capital	34,414
Total Eligible Capital	**1,41,883**

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 Reserve Bank of India (RBI) on New Capital Adequacy Framework (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 not covered under Pillar 1
- 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.
- **Threshold of Capital Adequacy:** - JSFB will maintain a minimum Capital Adequacy Ratio of 1% over and above the regulatory minimum (currently prescribed by RBI as 15%).

As a measure of prudence, the Bank has planned to maintain capital adequacy ratio of 1% over and above the regulatory minimum (currently prescribed by RBI as 15%).

Quantitative Disclosures

Capital Requirements for various Risks

Rs. in Lakhs

S.No.	Particulars	Amount
A	**Credit Risk**	**1,37,214**
A.1	Portfolios subject to Standardised approach	1,36,352
A.2	Securitisation exposures	862
B	**Market Risk**	**-**
C	**Operational Risk**	**-**
D	**Total Capital requirement (A+B+C)**	**1,37,214**
E	**Total Risk Weighted Assets (Credit)**	**9,14,759**
F	**Total Capital funds of Bank**	**1,41,883**

Total and Tier I Capital Ratio

Particulars	Mar-21
Tier - I Ratio	11.75%
Tier - II Ratio	3.76%
Total Capital Adequacy Ratio	**15.51%**

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 Framework Structure headed by the Chief Risk Officer overseeing the activities of Risk Management Function viz. Credit Risk Management, Market Risk Management and Operational Risk Management.

JSFB 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 meeting disciplines have been put in place to provide adequate management oversight over credit risks through Product Risk Committees i.e., Liability committee, Retail Financial Services (RFS) committee, Micro-housing Loans (MHL) committee and Micro and Small Enterprises (MSE) committee and Affordable Housing Loan (AHL) committee, Market and Liquidity Risks (ALCO and Investment Committee) and Operational Risk committees (Functional Operational Risk Committees for each central function, Zonal Operational Risk Committees for each zone and Information Risk Committee).
All key risks are discussed in the Executive Risk Management Committee (Executive RMC) 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 credit quality.

Credit Risk Management Policy

The Bank has in place a Credit Policy which defines the road map in matters 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 regulatory requirements updated from time to time. The Policy also governs all types of lending done by the Bank.

The key principles underlying the policy framework at the Bank are as follows:-

- A Product Program for each product
- A credit underwriting structure independent of the revenue generating units
- Credit delegation: Articulates 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 Process

Credit Risk is monitored via the Early Warning Systems (EWS) and regular Portfolio performance review conducted through the monthly Product Risk Committees (PRCs) and the executive RMC. In addition, adhoc 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 under Pillar 1 as per Standardized Approach of Basel II.

The Bank's portfolio risk in turn comprises intrinsic concentration risk and the same is assessed, measured and quantified under Pillar 2 as per ICAAP. As per the industry standards, the banks utilize Risk Limits Tree method to measure credit concentration risk.

Definition of Past Due and Impaired -

As defined by the RBI vide circular DBR.No.BP.BC.2/21.04.048/2015-16 dated July 01, 2015, a non performing asset (NPA) is loan 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,
v. the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,
vi. 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 dated February 1, 2006.
vii. 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.

Consequent to the outbreak of COVID-19 pandemic, the Indian government has announced a lockdown in March 2020. Subsequently, the lockdown has been lifted by the government, but regional lockdowns continue to be implemented in areas with a significant number of COVID-19 cases. While the situation improved substantially during the course of the financial year FY 21, the outbreak of the second wave in March 2021 and the resultant business disruption due to lock-downs is likely to place further stress on the financials.

The impact of COVID-19, including changes in customer behaviour and pandemic fears, as well as restrictions on business and individual activities, has led to significant volatility in global and Indian financial markets and a significant decrease in global and local economic activities. The slowdown during the year led to a decrease in loan originations and in collections efficiency. This may lead to a rise in the number of customer defaults and consequently an increase in provisions there against.

The extent to which the COVID-19 pandemic, including the current "second wave" that has significantly increased the number of cases in India, will continue to impact the Bank's operations and financial results will depend on ongoing and future developments, which are highly uncertain, including, among other things, any new information concerning the severity of the COVID-19 pandemic and any action to contain its spread or mitigate its impact whether government-mandated or elected by the Bank.

On August 6, 2020, the RBI issued a circular that permits lenders to implement a resolution plan, along with asset classification benefits, for eligible corporate and individual borrower segments. Lenders have to ensure that the resolution facility is provided only to specified borrowers impacted by COVID-19.

The Honorable Supreme Court of India, vide an interim order dated September 03, 2020 in the writ petition (Gajendra Sharma Vs Union of India & Anr), had directed that the accounts which were not declared Non-Performing Assets ('NPA') till August 31, 2020 shall not be declared as NPA till further orders. Accordingly, an account which was not classified as NPA as at August 31, 2020, had not been classified as NPA subsequently as per the RBI's Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRAC norms). The interim order granted to not declare accounts as NPA stood vacated on March 23, 2021 vide the Judgment of the Honorable SC in the matter of Small Scale Industrial Manufacturers Association vs. UOI & Others and other connected matters. In accordance with the instructions in paragraph 5 of the RBI circular dated April 07, 2021 issued in this connection, the Bank has continued with the asset classification of borrower accounts as per the extant RBI instructions / IRAC norms.

Quantitative Disclosures

Total Credit Risk Exposures **Rs. in Lakhs**

S.No.	Exposure Type	Amount
1	Fund Based*	19,06,472
2	Non-Fund Based	9,959
	Total	**19,16,431**

*Total Assets as per the Balance sheet except amount deductible under BASEL II (NCAF)

Geographic Distribution of Exposures **Rs. in Lakhs**

Category	Fund based facilities*	Non-fund based facilities
Domestic	19,06,472	9,959
Overseas	-	-
Total	**19,06,472**	**9,959**

*Total Assets as per the Balance sheet except amount deductible under BASEL II (NCAF)

Industry type Distribution of Exposures (Gross Advances) **Rs. in Lakhs**

S.No.	Industry Classification	Fund Based	Non-Fund Based
1	Agriculture and Allied Activities	1,62,033	
2	NBFCs	64,284	
3	Retail Trade	61,972	
4	Professional Services	35,722	
5	Tourism, Hotel and Restaurants	12,711	
6	All Engineering	7,529	
7	Textiles	6,391	
8	Food Processing	6,235	
9	Gems and Jewellery	4,359	
10	Basic Metal and Metal Products	3,224	
11	Chemicals and Chemical Products (Dyes, Paints, etc.)	2,332	
12	Construction	2,223	
13	Transport Operators	1,880	
14	Infrastructure	1,863	

15	Beverages (excluding Tea & Coffee) and Tobacco	1,812	
16	Wholesale Trade (other than Food Procurement)	1,731	
17	Rubber, Plastic and their Products	1,479	
18	Paper and Paper Products	1,411	
19	Vehicles, Vehicle Parts and Transport Equipments	1,056	
20	Wood and Wood Products	941	
21	Cement and Cement Products	821	
22	Leather and Leather products	421	
23	Glass & Glassware	312	
24	Petroleum (non-infra), Coal Products (non-mining) and Nuclear Fuels	114	
25	Retail Loans – Others	7,23,689	9,959
26	Service – Others	63,166	
27	Industry – Others	15,423	
	Total	**11,85,134**	**9,959**

Residual contractual maturity breakdown of Assets and Liabilities **Rs. in Lakhs**

As at March 31, 2021	Deposits	Advances	Investments	Borrowings	Balances with banks and money at call and short notice
Day – 1	2,797	1,351	2,68,957	205	1,65,452
2-7 Days	18,980	16,443	3,478	2,945	2,300
8-14 Days	16,707	-7,352	2,761	-	-
15-30 Days	26,182	55,659	5,013	-	-
31 Days and up to 2 months	62,281	46,938	10,450	20,800	-
More than 2 months and up to 3 months	72,629	32,895	12,234	1,828	397
Over 3 months and up to 6 months	1,80,483	1,13,107	27,147	47,169	10,607
Over 6 months and up to 1 year	2,96,406	2,48,564	47,526	61,916	537
Over 1 Year and up to 3 years	5,16,260	3,04,148	82,177	2,06,337	404
Over 3 Years and up to 5 years	44,955	1,13,414	9,901	1,36,847	-
Over 5 years	913	2,36,025	135	3,485	51
Total	**12,38,593**	**11,61,192**	**4,69,779**	**4,81,532**	**1,79,748**

Amount of Gross NPAs **Rs. in Lakhs**

Category	Amount
Sub-standard	80,033
Doubtful1	3,053
Doubtful2	2,543
Doubtful3	170
Loss	-
Total	**85,799**

NPA Ratios **Rs. in Lakhs**

S.No.	Particulars	Amount
A	Standard Advances	10,99,335
B	Gross NPAs	85,799

C	Gross Advances (A+B)	11,85,134
D	Gross NPAs as a percentage of Gross Advances (B/C) (in %)	7.24%
E	Deductions	23,931
E.1	Provisions held in the case of NPA Accounts as per asset classification (including additional Provisions for NPAs at higher than prescribed rates).	23,081
E.2	Provisions in lieu of diminution in the fair value of restructured accounts classified as NPAs	850
E.3	Provisions in lieu of diminution in the fair value of restructured accounts classified as standard assets	-
F	Net Advances (C-E)	11,61,203
G	Net NPAs (B-E)	61,868
H	Net NPAs as percentage of Net Advances (G/F) (in %)	5.33%

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

S.No.	Particulars	Amount
	Movement of NPAs	
A	Opening balance	32,081
B	Additions during the year#$	82,819
C	Reductions during the year#*	29,101
D	**Closing balance (A+B-C)**	**85,799**
	Movement of provisions for NPAs	
E	Opening balance	18,043
F	Provisions made during the year^	29,158
G	Write-off	23,270
H	Write-back of excess provisions	-
I	**Closing balance (E+F-G-H)**	**23,931**

#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

$ Outstanding balance as of March 31, 2021 has been considered in 'Additions during the year' for accounts which are classified as NPA post vacation of standstill of NPAs as per the Supreme Court judgement dated March 23, 2021 and the RBI circular dated April 07, 2021.

^Represent provision made during the year (including write offs) as per the Profit & Loss account.

The Honourable Supreme Court of India (Hon'ble SC), vide an interim order dated September 03, 2020 in the writ petition (Gajendra Sharma Vs Union of India & Anr), had directed that the accounts which were not declared Non-Performing Assets ('NPA') till August 31, 2020 shall not be declared as NPA till further orders. Accordingly, an account, which was not classified as NPA as at August 31, 2020, had not been classified as NPA subsequently as per the RBI's Master Circular - Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances (IRAC norms).

The interim order granted to not declare accounts as NPA stood vacated on March 23, 2021 vide the judgement of the Hon'ble SC in the matter of Small Scale Industrial Manufacturers Association vs. UOI & Ors. and other connected matters. In accordance with the instructions in paragraph 5 of the

RBI circular dated April 07, 2021 issued in this connection, the Bank has continued with the asset classification of borrower accounts as per the extant RBI instructions / IRAC norms.

Non-Performing Investments **Rs. in Lakhs**

Particulars	Amount
Amount of Non Performing Investments	**NIL**
Amount of provisions held for non-performing investments	**NIL**
Movement of provisions for depreciation on Investments	
Opening balance	-
Provisions made during the year	40
Write-off	-
Write-back of excess provisions	-
Closing balance	**40**

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

<u>Qualitative Disclosures</u>

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 retail category loans. During the current year, the Bank has focussed on building secured book in MSE, Gold loans, Affordable Housing and Micro-housing loans to entities. 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.

As on March 31, 2021, the Bank has residual outstanding of "grandfathered" borrowings. An additional risk weight of 25% is imposed on the assets on which charge/lien has been created in accordance with the guidelines prescribed by the RBI.

<u>Quantitative Disclosures</u>

Details of Credit Risk Exposure based on Risk Weight **Rs. in Lakhs**

Particulars	Amount*
Below 100% risk weight	12,78,655
100% risk weight	2,20,277
More than 100% risk weight	1,12,896
Total	**16,11,828**

*Credit risk exposures include all exposures (after risk mitigation) including Investments and other assets except Cash and Balances with the RBI

VI: Credit Risk Mitigation: Disclosures for the Standardised Approaches

<u>Qualitative Disclosures –</u>

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 would be ornaments and jewellery held by our customers. However, the value of the collateralized jewellery should be arrived at after notionally converting these to 99.99 purity.
- Life insurance policies with a declared surrender value of an insurance company which is regulated by an insurance sector regulator.

Eligible non-financial collaterals accepted by the Bank:

- Immovable Property- Residential and Commercial Property
- Land

Other collaterals accepted by the Bank:

- Raw materials, Stock in trade and other goods
- Book debts/Receivables
- 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
- Collateral valuation activity is de-centralised

- 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
- The value of the collateral pledged shall not be materially dependent on the performance of the borrower

Credit Risk Mitigation

The Bank adopts the 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 into 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, in 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 First Loss Default Guarantees (FLDGs) 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 as a risk mitigation tool. 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 the advances.

Risk Mitigation for Retail Portfolio

Operations / systems
The Bank have in place 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 in place 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 studies of the various industries and geographical locations to identify any emerging problems that may result in the inability of borrowers to pay back.

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 Rs. in Lakhs

Particulars	Amount	Credit Risk Mitigate (CRM)	Net Exposure
Eligible Financial Collateral			
Loan against bank's own deposit	14,463	14,463	-
Gold	60,333	56,395	3,938
Portfolio Covered by Guarantees			
Emergency Credit Line Guarantee Scheme (ECLGS)	11,219	11,219	-

VII: Securitisation 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 May 7, 2012 (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

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.

Accounting policy

Securitisation transaction of its receivables entered into by the Bank, if any, is subject to the Minimum Holding Period ('MHP') criteria and the Minimum Retention Requirements ('MRR') of RBI, to Special Purpose Vehicles ('SPVs') in securitisation transactions. Such securitized receivables are de-recognized in the balance sheet when they are sold (true sale criteria being fully met with) and consideration is received by the Bank. Sales / Transfers that do not meet these criteria for surrender of control are accounted for as secured borrowings. In respect of receivable pools securitised-out, the Bank provides liquidity and credit enhancements, as specified by the rating agencies, in the form of cash collaterals / guarantees and / or by subordination of cash flows, in line with RBI guidelines. The Bank also acts as a servicing agent for receivable pools securitised-out.

In accordance with the RBI guidelines for securitisation of standard assets, the profit/premium arising from sell down/securitisation to be amortised over the life of the transaction based on the method prescribed in the guidelines and the loss, if any, arises in the sell down/securitisation transaction, is recognised upfront in the statement of profit or loss account.

Direct Assignment transaction of its receivables entered into by the Bank, if any, is similar to asset-backed securitisation transactions through the SPV route, except that such portfolios of receivables are assigned directly to the purchaser and are not represented by Pass Through Certificates ('PTCs'), subject to the RBI prescribed MHP criteria and the MRR. The Bank does not provide any liquidity or credit enhancements on the direct assignment transactions undertaken.

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 **Rs. in Lakhs**

Particulars	Amount
The total amount of exposures securitised by the bank during the financial year	-
Securitised 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	-
On-balance sheet securitisation exposures retained or purchased	
- Farm Credit*	7,660
Risk weight bands break-up of securitisation exposures retained or purchased	
- 75% Risk weight	7,660
Exposures that have been deducted entirely from Tier I capital	-

* The amount represents the total outstanding as at March 31, 2021 for direct assignment deals.

Quantitative Disclosures: Trading Book **Rs. 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 (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 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 consisting Risk Management committee and Functional Operational Risk Committee. The Risk Monitoring Committee (Board level subcommittee) has put in place Risk Management Committee (RMC) consisting of Senior Management of the Bank for implementation of Operational Risk Management. Functional Operational Risk Committee (FORC) consisting heads of different functions of the Bank, reports to Risk Management committee (RMC). The objectives of Functional Operational Risk Committee (FORC) are as follows.

- To 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.
- To develop objective operational risk identification and measurement capabilities in consensus with mandate of RMC and regulatory and statutory requirements.
- To build up a database of operational risk emanating from Business/ Functional incidents in the past.
- To ensure that there are robust processes to minimize regulatory or statutory breaches in the operations across the Bank.
- To ensure that the relevant risk related processes & control processes are effectively implemented and are being adhered to across the Bank.
- To review its terms of Reference at least annually or on account of changes in the regulatory/ statutory environment and recommend modifications where ever required.
- To 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
- To monitor all material operational risk exposures in accordance with operational risk policies and procedures and any directives, policies and procedures defined by RMC
- To review the findings of Internal Audit, Statutory Audit and regulators on material risk issues and take suitable remedial measures.

- To direct appropriate follow up action in response to material events, risk issues or themes that are brought to the committee's notice.
- To ensure that material gross and residual risk exposures, control weakness, losses and near misses are reported to the RMC.
- To ensure any areas of potential overlap with Risk Control Area, Business or Function are brought to the notice of the RMC for resolution.

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 factors cover 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 a large portion of the Bank's Loans and Advances are linked to the Marginal Cost of Lending Rate which is variable.

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:

Impact on NII

Portfolio Sensitivity	Impact on Net Interest Income	
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 by RMD to

monitor the gaps.

Interest Rate Risk in the Fixed Income Portfolio of Bank's investments is managed through Duration Analysis. Bank also carry 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, 2021 are given below.

Rs. in Lakhs

Interest Rate Risk in Banking Book	+ 200 bps	-200 bps
Earnings at Risk (EaR)	5302.68	(5302.68)
Market Value of Equity (MVE)	12,880.01	(12,880.01)

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

Rs. in Lakhs

S.No.	Items	Amount
1	Total consolidated assets as per published financial statement	19,08,118
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	-
4	Adjustments for derivative financial instruments	-
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	-
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off- balance sheet exposures)	4,746
7	Other adjustments	-
8	**Leverage ratio exposure**	**19,12,864**

XII: Leverage Ratio Common Disclosure

Rs. in Lakhs

S.No.	Items	Amount
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	19,08,118
2	Asset amounts deducted in determining Basel III Tier 1 capital)	(1,691)
3	**Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)**	**19,06,427**
	Derivative exposures	
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)**	-
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	-
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)**	-
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	**4,746**
18	(Adjustments for conversion to credit equivalent amounts)	-
19	**Off-balance sheet items (sum of lines 17 and 18)**	**4,746**
	Capital and total exposures	
20	**Tier 1 capital**	**1,07,469**
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	**19,11,173**
	Leverage ratio	
22	**Basel III leverage ratio**	**5.6%**