Basel-III --- Pillar-3 disclosures as on 31.12.2015

Table DF - 2 : Capital adequacy;

1. Qualitative disclosure	
1.1 A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	
i) The Bank assesses its Capital Adequacy as per the guidelines of RBI, which are based on the framework of Basel Committee on Banking Supervision. These guidelines on Basel III have been implemented from 1st April 2013 in a phased manner. The minimum capital required to be maintained by the Bank is 9 percent with minimum Common Equity Tier 1 (CET1) of 5.5%. Stress analysis is conducted on half yearly basis or as required to see the impact on capital adequacy ratio (CAR) in medium horizon. ii) The Bank assesses its capital requirement based on business projections and opportunities for growth that are in line with the strategic intent of the Bank. The business projections are mapped to credit, market and operational risks which allows for assignment of regulatory capital besides providing capital headroom to meet growth projections. As part of the Internal Capital Adequacy Assessment Process (ICAAP), Bank also assesses adequacy of capital under stress conditions for gauging the adequacy of capital to support not only three primary risks of credit, market and operational risk but other residual risks like interest rate risk in banking book, liquidity risk, credit concentration risk, strategic risk and reputational risk.	
2. Quantitative Disclosures	Amount in ₹ million
2.1 Capital requirements for credit risk	• **43614.6**
• Portfolio subjected to standardized approach (@9%CRAR)	• 43614.6
• Portfolios subjected to the IRB approaches	• Nil
• Securitization exposures	• Nil
2.2 Capital requirement for market risk (under Standardized duration approach**)**	• **2194.0**
• Interest rate risk	• 1857.8
• Foreign exchange risk (including gold)	• 19.8
• Equity risk	• 316.4

2.3 Capital requirement for operational risk		• **4727.3**	
• Basic indicator approach:		• 4727.3	
2.4 Common Equity Tier 1, Tier 1 and Total Capital ratios:			
Name of the Entity	**Common Equity Tier 1 ratio**	**Tier 1 ratio**	**Total capital ratio**
J&K Bank Ltd	**11.15%**	**11.15%**	**1.34%**

Risk Exposure and Assessment

Objectives and Policies

Organisational Structure---- Risk Management

The very nature of the banking business involves managing complex and variable risks in a disciplined and effective manner, more so in today's rapidly changing business environment for banks. The Bank has developed required skills to manage key areas of banking risks viz. credit risk, market risk and operational risk. The Bank's risk management architecture has been created and functions in tune with the RBI guidelines, which ensures that policies, procedures and processes are strictly followed for measuring and managing all types of risks on an enterprise-wide basis so as to achieve the organizational goals. The risk management system is overseen by Board of Directors of the bank, with Integrated Risk Management Committee (IRMC), a board level sub-committee entrusted with the overall responsibility of ensuring that adequate structures, policies and procedures are in place and implemented for risk management in the Bank. The IRMC of Board is supported by three separate Executive level Committees viz, Credit Risk Management Committee (CRMC), Asset-Liability Management Committee (ALCO) and Operational Risk Management Committee (ORMC) to ensure effective management of credit, market and operational risks respectively. Above executive level committees are in turn assisted / supported by respective risk management support groups for credit, operational, market and liquidity risks These support groups provide support functions to the above committees through analysis of risks and reporting of risk positions and making recommendations as to the level and degree of risks to be undertaken.

Table DF – 3: Credit Risk

General disclosures --- Credit Risk

Credit Risk is the possibility of loss that a bank may be subjected to, on account of changes or deterioration in the credit profile / credit quality of borrowers and counterparties. The Bank is exposed to credit risk through lending and capital market activities. The Credit Risk Management Policy aims at ensuring sustained growth of healthy loan portfolio while identifying and managing credit risks, both at transaction and portfolio levels. This entails striking a balance between risk and return, thereby ensuring optimization of values for all stakeholders and at the same time striving towards maintaining / increasing the bank's market share.

The Bank manages its credit risk through following strategies:

a) Well defined credit risk management structure to identify measure, monitor and control / mitigate credit risk from loan origination to disbursement and post disbursement monitoring has been laid out.
b) Credit Risk Management Policy lays down the roles and responsibilities, risk appetite, key processes and reporting framework. Credit Risk Mitigation and Collateral Management Policy detailing various tools for credit risk mitigation are prudently followed.
c) Board approved Investment Policy of the Bank addresses credit risks related to investment activities undertaken by the Bank, prescribing prudential limits, methods of risk measurement and hedges required in mitigation of risks arising in investment portfolio.
d) Corporate credit is managed through rating of borrowers and thorough risk vetting of individual exposures at origination and thorough periodic review after sanctioning. Retail credit to individuals and small business is managed through definition of product criteria, appropriate credit filters and subsequent portfolio monitoring.

e) Industry wise segment ceilings on aggregate lending by the Bank.

f) Individual borrower wise ceilings on lending as well as borrower group wise lending ceilings linked to the Bank's capital funds.

g) The Bank has rating tools specific to market segments such as large corporate, SME, financial companies, project finance etc to objectively assess underlying risks associated with such exposures. The credit rating models use a combination of quantitative and qualitative inputs to arrive at a 'point-in-time' view of diverse risk factors of counterparty and also for taking credit decisions in a consistent manner.

h) Allowing credit exposures as per the credit rating of borrowers upto defined thresholds of risk levels. The approach also includes diversification of credit portfolio rating category wise but within the acceptable risk parameters.

i) The Bank's entire current business is within India and hence there is no geographic ceiling on lending in India or outside India. Further, there is also no ceiling on lending within a State in India.

j) A mechanism of clear and well defined delegation of authority operates within the Bank in regard to decision making, which links risk and exposure amount to level of approval.

k) Regular review of all credit sanctioning powers delegated to various sanctioning levels so as to continuously strengthen the credit processes, and monitoring oversight are undertaken.

l) Approval processes with respect to credit proposals are preceded by study of risks and preliminary due diligence particularly while sourcing fresh credit accounts.

m) Credit audit system and loan review mechanism function independently of the credit processing / credit approval system and ensure effective loan monitoring, management / mitigation of credit and operational risks in the loan portfolio.

1. Qualitative Disclosures: The general qualitative disclosure requirement with respect to credit risk including:

1.1.1 Definition of NPA and impaired account

An asset including a leased asset becomes non-performing when it ceases to generate income for the bank. A non performing asset (NPA) is a loan or an advance where:

a. Interest and/or installment of principal remain overdue for a period of more than 90 days in respect of a term loan
b. The account remains 'out of order' as indicated in paragraph 1.1.2 below, in respect of an Overdraft / Cash Credit (OD/CC)
c. The bill remains overdue for a period of more than 90 days in case of bills purchased and discounted
d. The installment of principal or interest thereon remains overdue for two crop seasons for short duration crops
e. The installment of principal or interest thereon remains overdue for one crop season for long duration crops.
f. In respect of securities, where interest/principal is in arrears for a period of more than 90 days.

An account is also classified as NPA if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

1.1.2 'Out of Order' status: An account is treated as 'Out of Order' if the outstanding balance remains continuously in excess of the sanctioned limit / drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit / drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not sufficient to cover the interest debited during the same period, these accounts are treated as "out of order".

1.1.3 Overdue: Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

1.2 Discussion of the bank's credit risk management policy.

The credit risk management policy of the bank aims at ensuring sustained growth of healthy loan portfolio while evolving a well- defined system to identify measure, monitor and control various risks attached to credit portfolio of the Bank. This entails reducing exposures in high risk areas, concentrating more on the promising industries / sectors / segments, striking balance between risk and return on assets and ensuring optimization of stakeholders value. The policy also seeks to achieve prudent credit growth –both qualitative and quantitative- while adhering to the prudential norms with balanced sectoral deployment of credit to control credit concentration across Industries, sectors, segments and at the same time increasing the market share. The policy also aims at ensuring consistency and standardization of credit practices. There is a defined credit appraisal & credit approval authority, reporting cum monitoring / follow-up system and loan review mechanism/ credit audit system in place at the Bank.

2. <u>Quantitative Disclosures</u>	Amount in ₹ million
2.1 Total gross credit risk exposures – Fund based and Non-fund based separately, broken down by major types of credit exposures.	**a) On Balance Sheet--- 745249.4** **b) Off Balance sheet--- 72817.0** **Total ----------- 818066.4**
2.2 Geographic distribution of exposures:	
• Overseas	• **Nil**
• Domestic	• **818066.4**
2.3 Industrial type distribution of exposure, Fund based and Non-fund based separately.	Major industry type exposure is given separately as per Annexure- A.
2.4 Residual contractual maturity breakdown of assets,	Residual maturity is provided separately as per Annexure- B.
2.5 Amount of NPAs (Gross)	• **33394.6**
• Substandard	• 9186.2
• Doubtful	• 15733.7
• Loss	• 8474.7
2.6 Net NPAs	• **12149.8**
2.7 NPA Ratios	

• **Gross NPAs to gross advances**	• **6.81%**
• **Net NPAs to net advances**	• **2.60%**
2.8 Movement of Gross NPAs	
• Opening balance (01.10.2015)	• **30816.8**
• Additions during the quarter	• 3312.2
• Reductions during the quarter • Closing balance (31.12.2015)	• **734.4** • **33394.6**
2.9 Movement of Specific Provisions (NPAs)	
• Opening balance (01.10.2015)	• **17380.3**
• Provisions made during the year	• 2875.0
• Write-off	• ----
• Write back of excessive provisions	• **---**
• Any other adjustment, including transfers between provisions	• **----**
• Closing balance (31.12.2015)	• **20255.3**
3.0 Write offs booked directly to the income statement	• **Nil**
3.1 Recoveries booked directly to the income statement	• **Nil**
4.0 Amount of non-performing investment	• 2983.5
4.1 Amount of provisions held for non-performing investment	• 1687.2
4.2 Movement of provision for depreciation on investments.	
• Opening balance as on 01.10.2015	• 22.5
• Provisions made during the period	• 14.2
• Write-off	• 0.0
• Write back of excessive provision	• 19.9

• Closing balance	• 16.8

5.0 Major industry wise break up of NPAs & Specific Provisions

Industry	NPAs	Provisions
• **Food Processing**	337.40	208.66
• **Basic Metal & Metal Products**	258.09	77.36
• **Infrastructure**	160.52	47.15
• **Textiles**	156.08	65.83
• **All Engineering**	96.04	43.14
• **Chemicals & Chemical Products**	92.58	59.66

5.1 Geography wise distribution of NPAs

• Kashmir Region (including ladakh)	• 4232.7
• Jammu Region	• 1967.8
• North zone (includes states of Delhi, UP, Uttrakhand, West Bengal, Rajasthan, Bihar)	• 10716.4
• Upper North zone (includes states of Punjab & Himachal Pradesh)	• 588.0
• Mumbai Zone (includes states of Maharashtra, Gujarat, Madhya Pradesh, Goa & Chhattisgarh)	• 13575.9
• South Zone (includes states of Karnataka, Kerala, Tamil Nadu & Andhra Pradesh)	• 2313.8

Table DF – 4 : Disclosure for portfolio subject to Standardised Approach

1. Qualitative Disclosures:

1.1 For portfolio under the standardized approach:

• **Names of credit rating agencies used, plus reasons for any changes.**	• The Bank's exposure being mainly domestic, rating agencies like CARE, CRISIL, ICRA, India Ratings, Brickwork Ratings and SMERA have been identified for rating of exposure as per RBI guidelines. Designated rating agencies are used irrespective of types of corporate exposures.

• **Type of exposure for which each agency is used.**	• For exposures with a contractual maturity of less than or equal to one year (except cash credit, overdraft and other revolving credits), short-term ratings given by approved rating agencies are used. For cash credit, sanctioned overdrafts and other revolving credits (irrespective of the period) and for term loan exposures of over one year, long term ratings are used.
• **A description of the process used to transfer public issues rating onto comparable assets in the banking book**	• Public issue ratings are used for comparable assets of borrower in the banking book as follows: - i) In cases where the borrower has a specific assessment for an issued debt - but the bank's claim is not an investment in this particular debt - the rating applicable to the specific debt (where the rating maps into a risk weight lower than that which applies to an unrated claim) is applied to the bank's unassessed claim if the Bank's exposure ranks *pari passu* or senior to the specific rated debt in all respects and the maturity of the unrated Bank's claim is not later than the maturity of the rated claim. i) If either the issuer or single issue has been assigned a low quality assessment which maps into a risk weight equal to or higher than that which applies to unrated claims, an unassessed claim on the same counterparty that ranks pari-passu or is subordinated to the rated exposure is assigned the same risk weight as is applicable to the low quality assessment.

2. <u>Quantitative Disclosures</u>	Amount in ₹ million
2.1 Exposure amount after risk mitigation subjected to the standardized approach, amount of bank's outstanding (rated and un-rated) in the following three major risk buckets as well as those that are deducted:	
• Below 100% risk weight	• 444161.2
• 100% risk weight	• 179975.3
• More than 100% risk weight	• 143357.7

Annexure-A
Amount in ₹ million

Industry-wise Deployment of Credit and Investment Exposures		
`S.No	**Industry**	Amount
1	**Mining and quarrying (including Coal)**	**810.0**
2	**Food Processing**	**6441.1**
	Out of 2	
	Sugar	2.3
	Edibile oils & Vanaspati	1425.6
	Tea	1.4
	Others	5011.8
3	**Beverage & tobacco**	**1683.9**
4	**Textiles**	**15566.9**
	Out of 4	
	Cotton Textiles	2147.5
	Jute Textiles	77.1
	Man - Made Textiles	3676.4
	Other Textiles	9665.9
5	**Leather & Leather Products**	**1160.6**
6	**Wood & Wood Products**	**687.8**
7	**Paper & Paper Products**	**1186.9**
8	**Petroleum, Coal Products and Nuclear fuels**	
9	**Chemicals and Chemical Products**	**14939.8**
	Out of 9	
	Fertiliser	349.3
	Drugs & Pharmaceuticals	1576.9
	Petro Chemicals	11575.6
	Others	1438.0
10	**Rubber, Plastic & their Products**	**3237.7**
11	**Glass and Glassware**	**16.3**
12	**Cement and Cement Products**	**8185.0**
13	**Basic Metal and Metal Products**	**27839.6**

	Out of 13	
	Iron & Steel	26092.0
	Other Metal & Metal Products	1747.6
14	**All Engineering**	**4137.6**
	Out of 14	
	Electronics	1383.2
	Others	2754.4
15	**Vehicles, Vehicle Parts and Transport equipment**	**738.8**
16	**Gems and Jewellery**	**1848.5**
17	**Construction**	**1155.1**
18	**Infrastructure**	**63041.3**
	Out of 18	
	Power	33988.4
	Telecommunication	7450.7
	Roads & Ports	8465.4
	Other Infrastructure	13136.8
19.	**Other Industries**	**9440.5**
	Total Industry (Micro & Small, Medium and Large)	**162117.4**

Annexure -B

Residual contractual maturity of assets as on 31.12.2015

Amount in ₹ million

INFLOWS	Next day	2 to7 days	8 to 14 days	15 to 28 days	29 Days & upto 3 months	Over 3 Months & upto 6 months	Over 6 Months & upto 1 year	Over 1 Year & upto 3 years.	Over 3 Years & upto 5 years.	Over 5 years	Total
1. Cash	3098.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3098.3
2. Balance with RBI	0.0	0.0	0.0	1950.4	1172.5	1152.4	2360.5	9386.3	6038.4	231.8	22292.2
3. Balance with other Banks											
(I) Current Account	747.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	747.1
(ii) Money at call and short notice, term Deposits and other placements	0.0	0.0	0.0	0.0	2000.0	0.0	0.0	0.0	0.0	0.0	2000.0
4. Investments (Standard)	17710.0	740.0	1417.1	1730.3	18860.8	4461.1	23475.6	37885.7	29907.2	63888.0	200075.8
5. Advances (performing)											
(I) Bills purchased & Discounted (including bills under DUPN)	113.1	282.8	361.3	355.0	6191.5	291.2	70.1	0.1	1.4	0.0	7666.6
(ii) Cash credits, overdrafts & Loans repayable on demand	87.5	524.8	612.3	1224.6	5423.3	7872.6	16182.5	127710.8	0.0	0.0	159638.5
(iii) Term Loans	2769.7	220.2	6919.2	12243.6	27109.3	23116.9	40125.7	133223.7	27619.0	11503.0	284850.4
(iv) Prepayment of Term Loans	186.8	1120.8	1569.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2877.3
6. NPAs + NPIs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8073.6	7059.7	15133.3
7. Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7338.9	7338.9
8. Other Assets											
(I) Inter -office adjustment	34.6	207.5	242.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	484.3
(ii) Leased Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(iii) Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35131.8	35131.8

9. Reverse Repos	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
10. Swaps(Sell/Buy)/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
11. Expected Increase in Deposits.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
12. Interest receivable/Accrued but not due	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
13. Unavailed portion of CC/OD/DL component of working capital	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
14.L.C./B.G(Inflows)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
15. Export Refinance from RBI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
16. Others (Specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3914.8	3914.8
C. TOTAL INFLOWS	24747.1	3096.3	11121.8	17503.9	60757.4	36894.2	82214.5	308206.6	71639.6	129068.1	745249.3

LEVERAGE RATIO

Leverage ratio is a non-risk based measure of exposure over capital. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements. The Basel III leverage ratio is defined as the ratio of capital measure (the numerator) to exposure measure (the denominator), expressed as a percentage.

The capital measure used for the leverage ratio at any particular point in time is the Tier 1 capital measure applying at that time under the risk-based framework. Total exposure measure is the sum of the on-balance sheet exposures, derivative exposures, securities financing transaction (SFT) exposures and off- balance sheet (OBS) items.

$$\text{Leverage ratio} = \frac{\text{Capital Measure (Tier 1 Capital)}}{\text{Exposure Measure}}$$

As on 31.12.2015 — Amount in ₹ million

Tier 1 Capital	63654.4
Exposure Measure	818350.0
Leverage Ratio	7.78%