J&K Bank

Disclosures under Prudential Guidelines on Capital Adequacy & Market Discipline for the year ended 31.03.2009

Table DF-1: Scope of application **Amount in Crore Rupees**

Qualitative disclosure	
a)The name of the top bank in the group to which the Framework applies.	a) The Jammu and Kashmir Bank Ltd.
b) An outline of differences in the base of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group:	b) JKB Financial Services Ltd. Sponsored by the bank has been fully consolidated in line with the RBI guidelines and accounting standards issued by ICAI.
(i) That are fully consolidated;	i) JKB Financial Services Ltd. with 100% holding.
(ii) That are pro-rata consolidated;	ii) Nil
(iii) That are given a deduction treatment and	iii) JRB & KRB (two regional rural banks).
(iv) That are neither consolidated nor deducted (e.g. where the investment is risk weighted).	iv) MetLife India
Quantitative Disclosures	
c) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries.	c) Entire investment in JRB, KRB (the two sponsored regional rural banks) and jkb financial services ltd. is deducted from Tier-I Capital of the bank for capital adequacy calculation.
d) The aggregate amount (e.g. current book value) of the bank's total interests in the insurance entities, which are risk weighted as well as their name, their country of incorporation or Residence, the proportion of ownership interest and if different, the proportion or voting, power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using deduction.	d) The Bank has invested in the capital of MetLife India Co. ltd., which is incorporated in India and has head office in India.Our stake in MetLife India is to the order of (13.94%). This entire investment is taken as Capital Market exposure as per RBI guidelines carrying RW of 125%. Bank has got two representatives on MetLife board enjoying equal voting rights.The company's address is: MetLife India Insurance Company Ltd Brigade Seshamahal 5, Vani Vilas Road Basavangudi Bangalore - 560004

Table DF - 2 : Capital Structure

Qualitative disclosure	
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instrument eligible for inclusion of tier 1 or in the upper tier 2.	a) The Bank has not issued any capital or debt instruments eligible for inclusion in Tier 1 or Tier 2 Capital of the Bank.

Amount in Crores

Quantitative Disclosures	
b) The amount of tier 1 capital, with separate disclosure of:	
• Paid up capital;	• **48.49**
• Statutory and other disclosed free reserves	• **2511.24**
• Capital Reserves	• **63.13**
• Other capital instruments;	• **0.00**
• Amount deducted from tier 1 capital, including goodwill and investment.	• **20.75**
Total Tier I Eligible Capital (net of deductions)	• **2602.11**
c) The total amount of tier 2 capital (net of deductions from tier 2 capital) is	**127.69**
d) Debt capital instruments eligible for inclusion in upper tier 2 capital	
• Total Amount outstanding	• **Nil**
• Of which amount raised during the current year	• **Nil**
• Amount eligible to be reckoned as capital funds	• **Nil**
c) Subordinated debt eligible for inclusion in lower tier 2 capital	
• Total amount outstanding	• **Nil**
• Of which the amount raised during the current year	• **Nil**
• Amount eligible to be reckoned as capital funds	• **Nil**
d) Other deductions from capital if any is **Nil**	

g) Total eligible capital is	**2729.80**

Table DF - 3 : Capital adequacy;

Amount in Crores

Qualitative disclosure	
a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	a) The bank is computing capital charge in accordance with methodology prescribed under RBI guidelines on capital adequacy. Sensitivity analysis is conducted annually or more frequently as required, on the movement of capital adequacy ratio (CAR) in the medium horizon of 3 years, considering the projected growth in advances and the impact of Basel II framework etc. CAR of the bank is estimated to be well above the regulatory CAR of 9% in the medium horizon of 3 years. However, to maintain adequate capital, the bank has ample options to augment its capital resources through eligible Tier-I and Tier-II Debt/Capital instruments as and when required. The bank has put in place the ICAAP policy to be reviewed annually, which will enable the bank to maintain the economic capital, thereby reducing substantial Capital Risk.
Quantitative Disclosures	
b) Capital requirements for credit risk:	
• Portfolio subjected to standardized approach (@9%CRAR)	• **1476.17**
• Portfolios subject to the IRB approaches	• **Nil**
• Securitization exposures	• **Nil**
c) **Capital requirement for market risk is Standardized duration approach:**	**85.27**
• Interest rate risk	• **65.90**
• Foreign exchange risk (including gold)	• **2.39**
• Equity risk	• **16.98**
d) Capital requirement for operational risk	
• Basic indicator approach	• **135.78**
e) Total and tier 1 capital ratio (Basel-II)	
• For the top consolidated group; and For significant bank subsidiaries (stand alone or sub consolidated depending on how the framework is applied.)	• **Total CRAR 14.48%** • **Tier-I CRAR 13.80%**

Table DF - 4 : Credit risk-General disclosure

Amount in Crores

Qualitative disclosure

a) The general qualitative disclosure requirement with respect to credit risk including:

• Definition of past due and impaired (for accounting purposes);	• Any account or bill wherein the repayment of principal or interest remains overdue for more than 90 days is declared as NPA. In case of agricultural advances the period is between two consecutive crop periods. If an account receives credits, which is less than the interest applied during the period or where the limit remains overdrawn as on date of Balance sheet, it is declared as irregular. A bill or loan is declared overdue if it remains unpaid on its due date.
• Description of approaches followed for specific and general allowances and statistical methods;	• In respect of securities, where interest/principal is in arrears, the bank does not reckon income on the securities and makes appropriate provisions for the depreciation in the value of the investment. A non-performing investment is similar to a NPA in classification as defined above.
• Discussion of the bank's credit risk management policy.	• The bank has a credit risk Management policy in place, which is aimed at supporting the business strategies, achieving target earnings with satisfaction of its customer needs and maintaining a sound credit portfolio. It also seeks to achieve prudent credit growth –both qualitative and quantitative- and adhere to the prudential norms with balanced sectoral and diversified growth of credit. The bank has put in place prudential limits for controlling credit concentration across Industries, sections and geographies. The bank has a well-defined credit appraisal & approval authority, legal support, reporting cum monitoring and follow-up system.

• For banks that have partly, but not fully adopted either the foundation IRB or the advanced IRB approach, a description of the nature of exposures within each portfolio that are subject to the 1) standardized 2) foundation IRB, and 3) advanced IRB approaches and of managements plans and timing for migrating exposures to full implementation of the applicable approach.	• The bank is following standardized approach as prescribed by RBI for computing capital for credit risk.

Quantitative Disclosures

Amount in Crores

b) Total gross credit risk exposures, plus average gross exposure Fund based and Non-fund based separately, broken down by major types of credit exposure.	b) Total Funded **21219.70** Non Funded **3697.45** G Total **24917.15**

Geographic distribution of exposures:

• Overseas	• **Nil**
• Domestic	• **24917.15**
c) Industrial type distribution of exposure, Fund based and Non-fund based separately.	d) Major industry type exposure is given separately in annexure A.
d) Residual contractual maturity breakdown of assets,	e) Residual contractual maturity is given separately in annexure B.

e) **Amount of NPAs (Gross) are**	**559.27**
• Substandard	• **248.37**
• Doubtful	• **266.18**
• Loss	• **44.71**
f) **Net NPAs are**	**287.51**
• Gross NPAs to gross advances	• **2.64**
• Net NPAs to net advances	• **1.38**

i) Movement of NPAs (Gross)	
• Opening balance	• **485.23**
• Additions	• **401.89**
• Reductions • Closing balance	• **327.85** • **559.27**
j) Movement of provisions for NPAs	
• Opening balance	• **280.70**
• Provisions made during the period	• **55.81**
• Write-off	• **66.03**
• Write back of excessive provisions	• **0.00**
• Closing balance	• **270.48**
k) Amount of non-performing investment is 74.731	
l) Amount of provisions held for non-performing investment is 70.73	
m) Movement of provision for depreciation of investment	
• Opening balance	• **37.94**
• Provisions made during the period	• **42.09**
• Write-off	• **2.23**
• Write back of excessive provision	• **0.00**
• Closing balance	• **77.80**

Annexure-B
Statement of Residual Contractual Maturity of Assets

Amount in Crores

	Next Day	2 to7 Days	8 to 14 Days	15 to 28 Days	29 Days & Upto 3 Mnths	Over 3 Mnths & upto 6 Mnths	Over 6 Mnths & upto 1 Yr	Over 1 Yr. Upto 3 Yrs.	Over 3 Yrs. Upto 5 Yrs	Over 5 Years	Total
1. Cash	152.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**152.05**
2. Balance with RBI	792.91	0.00	0.00	60.16	122.43	144.55	108.16	687.37	202.00	33.32	**2150.90**
3. Balance with other Banks											
(I) Current Account	57.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**57.50**
(ii) Money at call and short notice,											
term Deposits and other placements	0.00	2513.31	0.00	0.00	401.00	0.00	0.00	0.00	0.00	0.00	**2914.31**
4. Investments	1.50	561.70	46.60	123.18	1221.36	504.24	384.38	898.69	1679.75	5314.93	**10736.33**
5. Advances (performing)											
(I) Bills purchased & Discounted											
(including bills under DUPN)	21.91	131.44	153.35	74.18	203.94	44.80	0.00	0.00	0.00	0.00	**629.62**
(ii) Cash credits, overdrafts & Loans											
repayable on demand	0.00	100.00	100.00	300.00	300.00	200.00	290.78	5163.13	0.00	0.00	**6453.91**
(iii) Term Loans	5.70	115.51	63.18	157.82	924.71	904.81	2038.09	5264.48	2718.55	1384.06	**13576.91**
6. NPAs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	269.97	**269.97**
7. Fixed Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	199.41	**199.41**
8. Other Assets											
(I) Inter -office adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
(ii) Leased Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
(iii) Others (Tangible Assets)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
9. Reverse Repos	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
10. Swaps(Sell/Buy)/											
maturing forwards	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
11. Expected Increase in Deposits.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
12. Interest receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
13.L.C.(Inflows)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
14. Export Refinance from RBI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
15. Others (Specify)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	552.35	**552.35**
C. TOTAL INFLOWS	**1031.57**	**3421.96**	**363.13**	**715.34**	**3173.44**	**1798.40**	**2821.41**	**12013.67**	**4600.30**	**7754.04**	**37693.26**

Annexure-A

	MAJOR INDUSTRY TYPE EXPOSURES OUTSTANDING AS ON 31.03.2009	AMT IN CRORES
SL NO	Sector	Amount
2.1	Mining & Quarrying (incl. Coal)	12.54
2.2	Food Processing	122.88
2.2.1	Sugar	46.00
2.2.2	Edible Oils & Vanaspati	41.34
2.2.3	Tea	0.00
2.2.4	Others	35.54
2.3	Beverage & Tobacco	103.94
2.4	Textiles	281.10
2.4.1	Cotton Textiles	204.65
2.4.2	Jute Textiles	0.09
2.4.3	Man Made Textiles	0.69
2.4.4	Other Textiles	75.67
2.5	Leather & Leather Products	36.27
2.6	Wood & Wood Products	18.48
2.7	Paper & Paper Products	51.55
2.8	Petroleum, Coal Products & Nuclear Fuels	0.11
2.9	Chemical & Chemical Products	230.98
2.9.1	Fertiliser	0.89
2.9.2	Drugs & Pharmaceuticals	72.92
2.9.3	Petro Chemicals	125.18
2.9.4	Others	31.99
2.10	Rubber, Plastic & their Products	27.24
2.11	Glass & Glass Ware	0.87
2.12	Cement & Cement Products	464.24
2.13	Basic Metal & Metal Products	974.59
2.13.2	Iron & Steel	688.57
2.13.2	Other Metal & Metal Products	286.02
2.14	All Engineering	177.55
2.14.1	Electronics	148.72
2.14.2	Others	28.83
2.15	Vehicles, Vehicle Parts & Transport Equipments	14.80
2.16	Gems & Jewellery	10.57
2.17	Construction	20.83
2.18	Infrastructure	2,935.75
2.18.1	Power*	1680.59
2.18.2	Telecommunications	624.52
2.18.3	Roads & Ports	327.13
2.18.4	Other Infrastructure	303.51
2.19	Other Industries	1,209.78
	Industry (Total of Small, Medium & Large Scale)	6694.07
	Others (rest of the advances)	14525.63
	Total as per G L	21219.70

Table DF - 5: (A) Credit risk:

Disclosure for portfolio subject to the standardized approach

Qualitative disclosure	
a) For portfolio under the standardized approach:	a) For portfolio under the standardized approach
• Names of credit rating agencies used, plus reasons for any changes.	• The banks exposure being mainly domestic, the rating agencies like CARE, CRISIL, ICRA, FITCH India, have been identified for rating of exposure as per guidelines of RBI. Designated rating agencies may be used irrespective of types of corporate exposures. •
• Type of exposure for which each agency is used; and	• 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, overdraft 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 issues ratings is used for comparable assets of borrower in the banking book as follows: - i) If either the issuer or single issue has been assigned a rating which maps into a risk weight equal to or higher than that which applies to unrated claims, a claim on the same counterparty, which is not rated by any chosen credit rating agency, will be assigned the same risk weight as is applicable to the rated exposure, if this claim ranks *pari passu* or junior to the rated exposure in all respects. ii) In case where the borrower-constituent/counter party has issued a debt (which is not a borrowing from the Bank), the rating given to that debt is applied to the Bank's unrated exposures, if the Bank's exposures ranks pari-pasu or senior to the specific rated debt in all respects and the maturity of unrated Banks exposure is not later than the maturity of rated debt.

J&K Bank

Quantitative Disclosures	Amount in Crores
b) For 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	• **31455.10**
• 100% risk weight	• **12370.68**
• More than 100% risk weight	• **2522.26**
• Deduction	• **nil**

Table DF - 6 :Credit risk mitigation: disclosure for standardized approach

Credit risk mitigation: disclosure for standardized approach

Amount in Crores

Qualitative disclosure	
a) The general qualitative disclosure requirements with respect to credit risk mitigation including:	a) A credit mitigation and Collateral Management Policy, addressing the Bank's approach towards the credit risk mitigants used for capital calculation is in place
i) Policies and processes for and an indication of the extent to which the bank makes use of on and off balance sheet netting.	i) The objective of this policy is to enable classification and valuation of credit risk mitigants in a manner that allows regulatory capital adjustment to reflect them.
ii) Policies and processes for collateral valuation and management	ii) The policy adopts the comprehensive Approach, which allows full offset of collateral (after appropriate haircuts) against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. The following issues are addressed in the policy: a) Classification of credit risk mitigants b) Acceptable credit risk mitigants c) Documentation and legal process requirements for credit risk mitigants. d) Valuation of collateral e) Custody of collateral f) Insurance g) Monitoring of credit risk mitigants

iii) The description of the main type of collaterals taken by the bank;	iii) Cash or cash equivalent (Bank deposits, NSC's, KVIP's, LIC policy, gold, Central state government Securities etc.
iv) The main type of guarantor counterparty and their creditworthiness; and	iv) Following entities are accepted as eligible guarantors in line with RBI guidelines Sovereign entities including ECGC, CGTSME, PSE's, banks and primary dealers, other guarantors that have external rating of AA or above.
v) Information about (market or credit) risk concentration within the mitigation taken	v) The Bank has a diversified portfolio of assets which are secured by collaterals like a) Eligible collaterals defined above b) Guarantees by sovereigns and well rated Corporates c) Fixed assets and current assets of the counterparty.

Quantitative Disclosures

Amount in Crores

• For disclosure credit risk portfolio under the standardized approach, the total exposure that is covered by:	• Exposure covered by Deposits/Cash	**1978.15**
• Eligible financial collaterals; after the application of haircuts.	• Exposure covered by Other Eligible Collaterals	**43.36**
Total		**2021.51**

J&K Bank

Asset Securitisation

Table -7

Securitisation: disclosure for standardized approach

Qualitative disclosure a) The general qualitative disclosure requirement with respect to securitisation, including a disclosure of: • The bank's objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities; • The role played by the bank in the securitisation process and an indication to the extent of the bank's involvement in each of them; and • The regulatory capital approach that the bank follows for its securitisation activities. b) Summary of the bank's accounting policies for Securitisation activities, including: • Recognition of gain on sales and • Key assumption for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes; c) Names of ECAIs used for Securitisation and the type of Securitisation exposure for which each agency is used.	Bank is not undertaking any securitisation activity at present

Quantitative Disclosures	
d) The total outstanding exposure securitised by the bank and subject to the Securitisation framework by exposure type. e) For exposure securitised by the bank and subjected to the Securitisation framework. • Amount of impaired/past due asset securitised; and • Losses recognized by the bank during the current period broken down by the exposure type. f) Aggregate amount of Securitisation exposure retained or purchased broken down by exposure type. a) Aggregate amount of Securitisation exposure retained or purchased broken down into a meaningful number of risk weight bands. Exposures that have been deducted entirely from tier1 capital, credit enhancing I/Os deducted from total capital, and other exposure deducted from total capital should be disclosed separately by type of underlying exposure type. b) Summary of securitisation activity presenting a comparative position for two years, as a part of the notes on account to the balance sheet: • Total number of book value of loan asset securitisation – by the type of underlying assets; • Sale consideration received for the securitised assets and gain/loss on the sale on account of securitisation; and Form and quantum (outstanding value) of services provided by way of credit enhancement, liquidity support, post securitisation asset servicing, etc.	**NA**

Market Risk

Table DF - 8: Market risk in trading book

Amount in Crores

Qualitative disclosure a) The general qualitative disclosure requirement for market risk including the portfolio covered by securitised approach. b) General disclosures for market risk including portfolios covered by the IMA. .A description of the soundness of the banks methodologies in assessing the capital adequacy, stress testing, and back-testing/validating the accuracy and consistency of the internal models and modeling processes.	a) The HFT and AFS portfolios are covered by the 'Standardized Duration' approach for calculation of Market Risk: • Market Risk Management group set under the overall supervision of Market Risk Management Committee of the Board is responsible for identification, assessment, monitoring and reporting of Market risk. Board approved Trading Policies and Investment policies with defined Market Risk Management parameters for each asset class are in place. Risk monitoring is an ongoing process with the position reported to the top management and the ALCO at the stipulated intervals. • Risk measurement and reporting is based on parameters such as Modified Duration, maximum permissible exposures, net open position limit, and Gap limits in line with global best practices. b) Market risk is calculated on trading portfolio under standardized duration method, as per directives of RBI, which is complimented by stress testing periodically.
Quantitative Disclosures c) The capital requirement for:	c) **Total 85.27**
• Interest rate risk;	• **65.90**
• Equity position risk; and	• **16.98**
• Foreign exchange risk	• **2.39**
• Commodity risk	• **nil**
d) For portfolios under the IMA, • The high, mean, and low VaR values over the reporting period and period-end. • A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important "outliers" in back-test results.	Bank is following the standardized duration method as per RBI directives.

Table DF – 9

Operational risk

Amount in Crores

Qualitative disclosure * In addition to general qualitative disclosure requirement, the approach (es) for operational risk capital assessment for which the bank qualifies.	The purpose of operational risk management is to identify, measure, asses and mitigate the probable losses owing to failure in internal systems and control or due to external unforeseen factors. The Bank has a separate operational risk management desk, which continuously evaluates on possible loopholes of systems and processes and accordingly appraises risk management committee about any adverse future impacts. An operational risk policy is in place to guide in various operational impacts and policy lines on internal functioning. The business continuity plan has also been put in place. Bank has in place a robust investment control mechanism and MIS for mitigation and control of operational risks. Capital charge for operational risk is computed as per the Basic Indicator Approach prescribed by RBI. Under this approach, capital allocation is: **135.78 Crore**

Table DF - 10 : Interest rate risk in the banking book (IRRBB)

Amount in Crores

Qualitative disclosure a) The general qualitative disclosure requirement. Including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency IRRBB measurement.	a) The impact of fluctuation in interest rate on liabilities and assets has a direct impact on earnings and hence the market value of Equity. Banks ALCO is assigned the job of periodically monitoring and controlling the risks and returns, funding and deployment, setting Banks lending and deposit rates and directing the investment activities of the Bank. Risk Management Committee of Board reviews various decisions of ALCO for managing Market Risk. The ALM department of the Bank is putting up a periodical exercise/reports for calculation of effects due to interest rate fluctuations through Gap Analysis & Simulations. Bank also carries out duration Gap Analysis to estimate the impact of changes in interest rate on economic value of Banks Assets and Liabilities and thus arrives at changes in market value of equity.
Quantitative Disclosures b) The increase (decline) in earning and economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method of measuring IRRBB, broken down by currency (where the turnover is more than 5 percent turnover).	b) <u>Changes on account of</u> <u>Interest rate volatility</u> • Changes in net interest income **(21.93)** (with 2% change in interest rates for both assets and liabilities) • Change in market value of equity **13.79%** (with 1% change in interest rates for both assets and liabilities).

J&K Bank