

CLSA India Forum

J&K Bank: Anticipating and Adapting

November 3rd, 2008
New Delhi



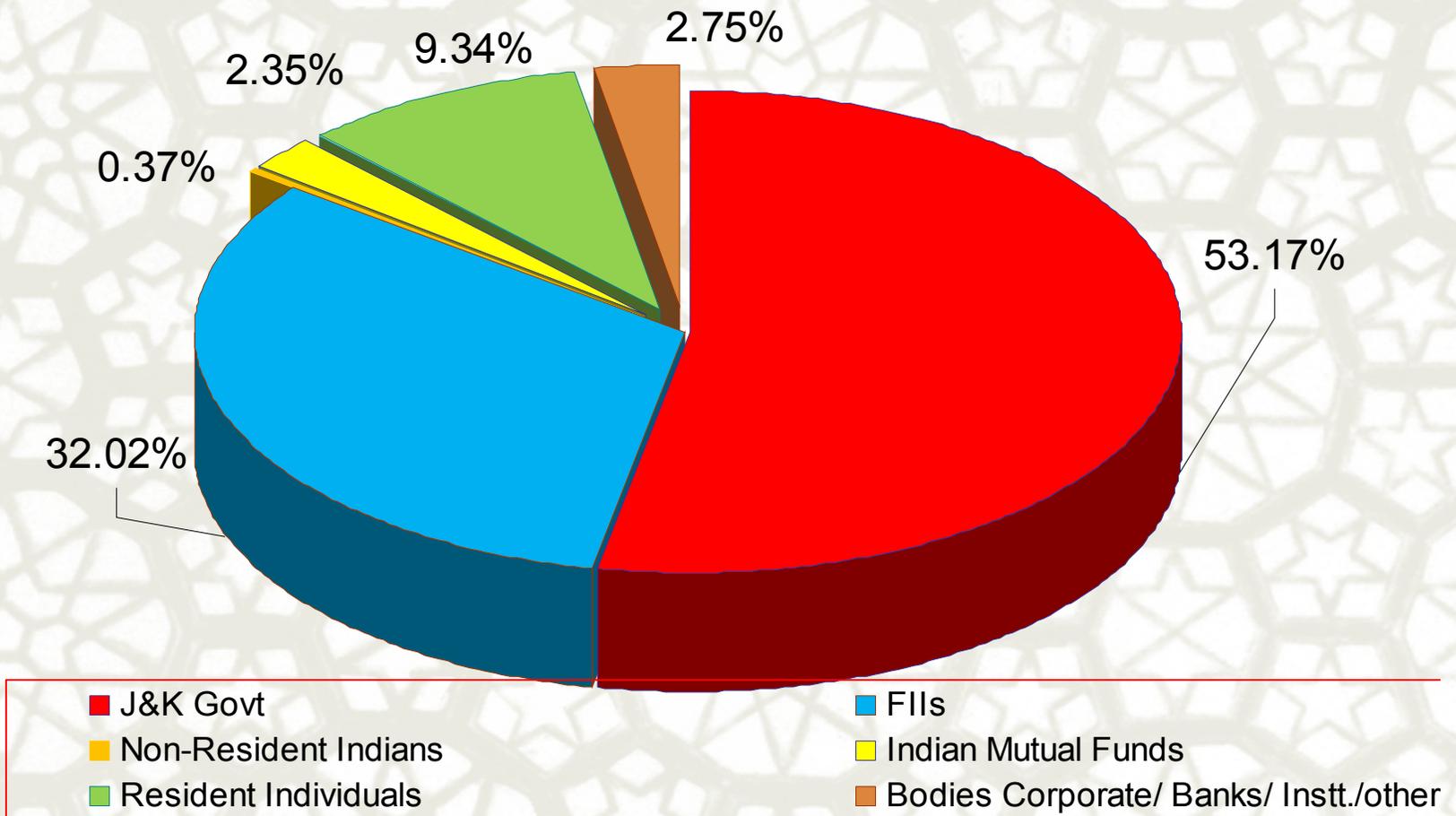
Basic facts

- Incorporated in 1938 as a limited liability company
- Listed on National stock exchange (NSE) and Bombay stock exchange (BSE)
- 53 per cent owned by J&K Government
- Rated "P1 +" by Standard and Poor-CRISIL: highest degree of safety
- Four decades of uninterrupted profitability and dividends

Subsidiaries and Investments

- J&K Bank Financial Services Ltd
 - Providing Depository Services
 - Offering Stock Broking Services
- Insurance JV with MetLife International
- Distributor of
 - Life Insurance products (MetLife)
 - General Insurance (Bajaj Allianz)
- Two Regional Rural Banks

Shareholding Pattern



As on October 24, 2008

Best of both worlds

- Private Bank despite government's majority holding
- Public ownership:
 - Stability
 - Safety
- Private functioning:
 - Efficiency
 - Growth

Anticipating Issues

“The real issue is not growth but managing growth. Two aspects stand out – liability management and asset quality”.

“This stems from the belief that in short to medium run, banking is more about liability management rather than asset planning.”

(Annual Report 2005-2006)



Anticipating Developments

“At present the biggest structural problem in the banking sector is a high degree of mismatch between the need for and availability of credit. The obverse holds true for the liabilities side”.

“Banks with regional dominance are best equipped to address this crisis. Domain knowledge, banking infrastructure, cultural moorings and social networks all work in their favour to deliver”

(Annual Report 2005-2006)

Evolving Strategies:

- To do all this in a meaningful manner for a structurally and geographically diverse conomy like India, two things are required:
 - region-specific credit policies that suit the sub-national growth impulses and context, and
 - productization of finance to suit local enterprises.

(Annual Report 2006-2007)

Strategic Inference

- ♦ Smaller banks — focused and niche players — with regional dominance to outperform.
 - Banking verticals with defined slivers of business
 - Focus on SMEs and the informal segment
- ♦ Bi polar structure to emerge
- ♦ Muddled middle of the Indian banking sector to get squeezed.

Advocating conservatism

“The dangers of managing a business (or for that matter, an economy) in uncertain environs lie in under estimating the extent and intensity of the downside”

(Annual Report 2007-2008)

Adapting to Change

- ◆ Business model:
 - Flexible
 - Adaptable
- ◆ Making liabilities the driver
- ◆ Insulate earnings from environment
 - Linking asset to local needs
 - Linking liabilities to local sources

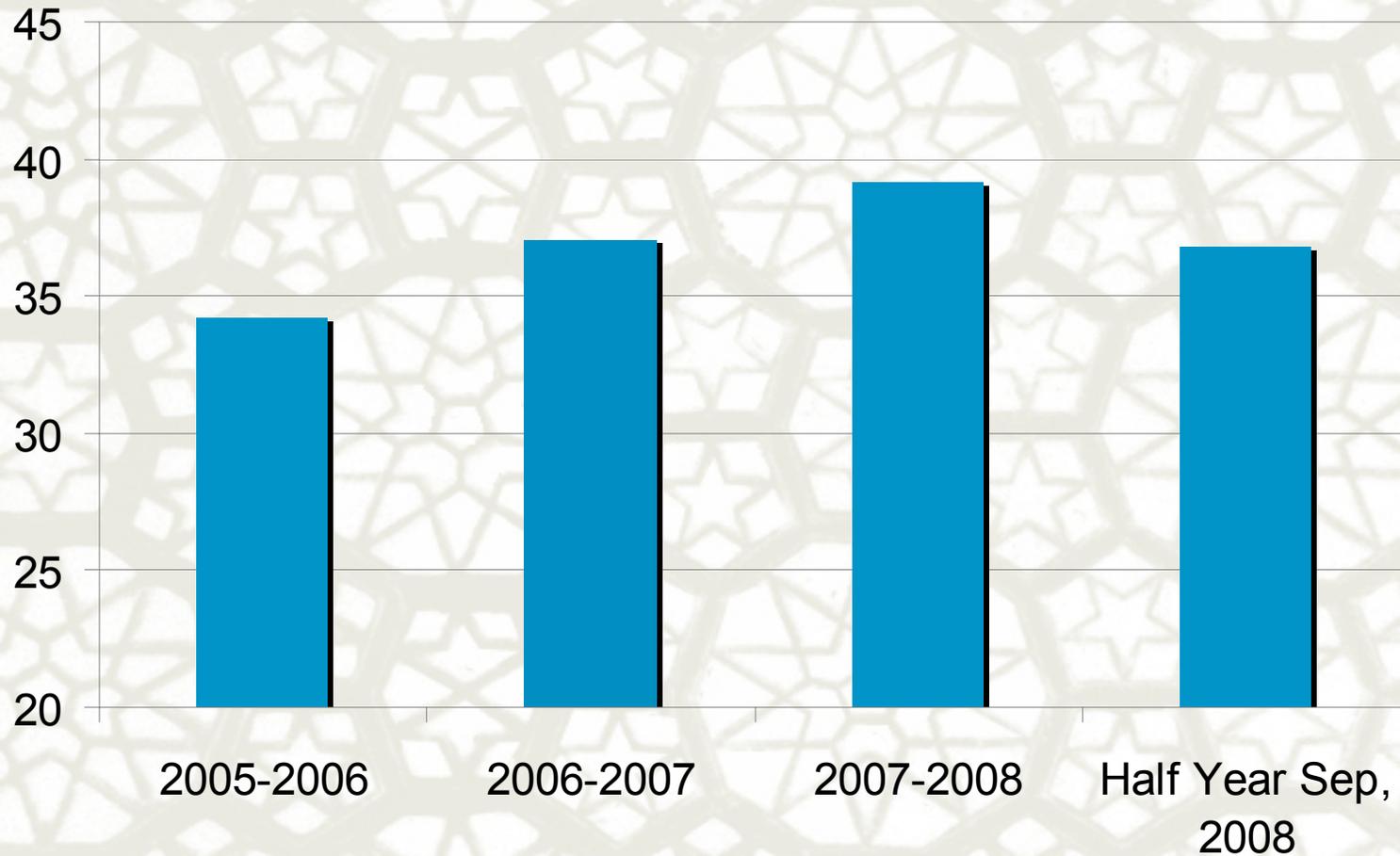
Results

- Conservatism and consolidation of the last three years has paid off
- The critical choice was not to sacrifice medium to long-term growth to meet a short-term goal, be it business, incomes or profits.
- Our priority is to ensure sustained long-term profitability.

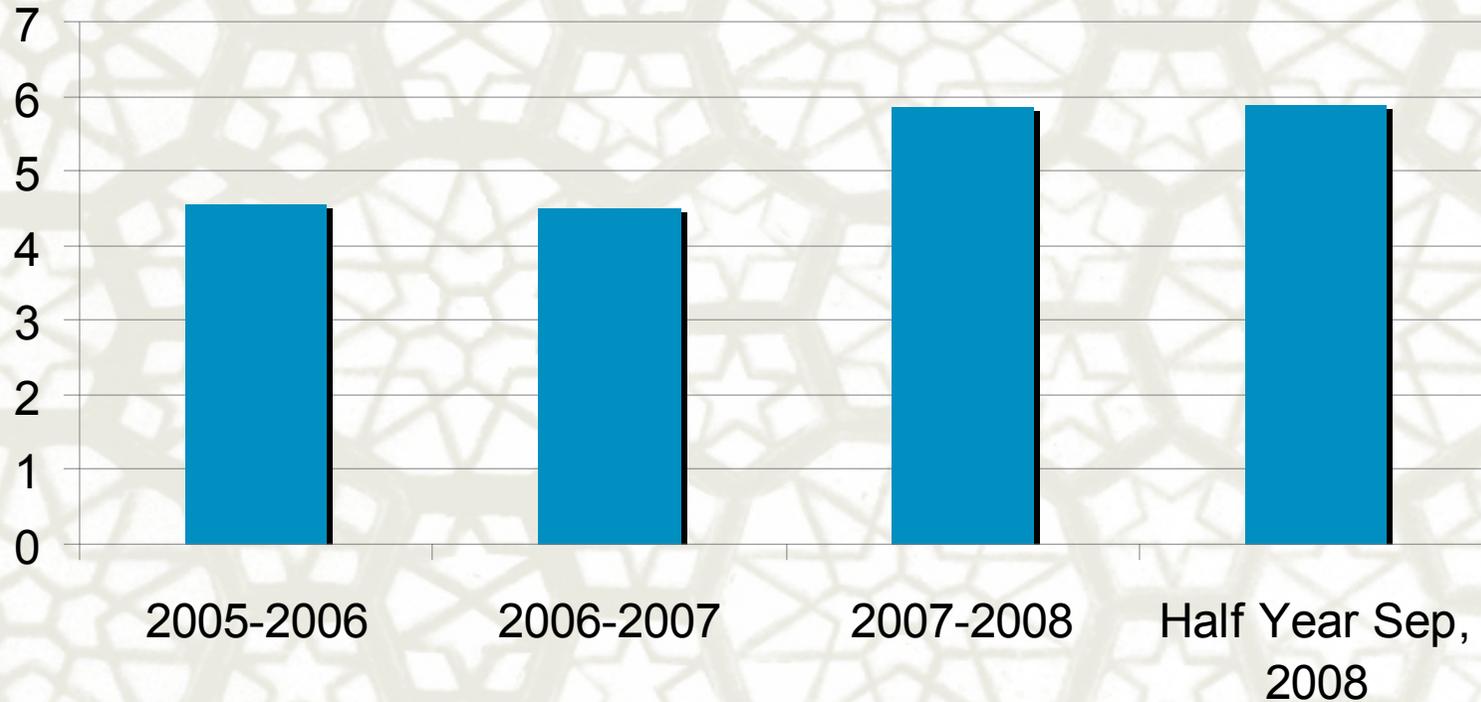
Results

- ◆ Despite adverse environment:
 - Earnings were robust,
 - Net interest margins increasing
 - Impairment was reduced
 - Cost to income reduced
 - Return on Equity rising
 - Return on Assets up and above peer group levels.

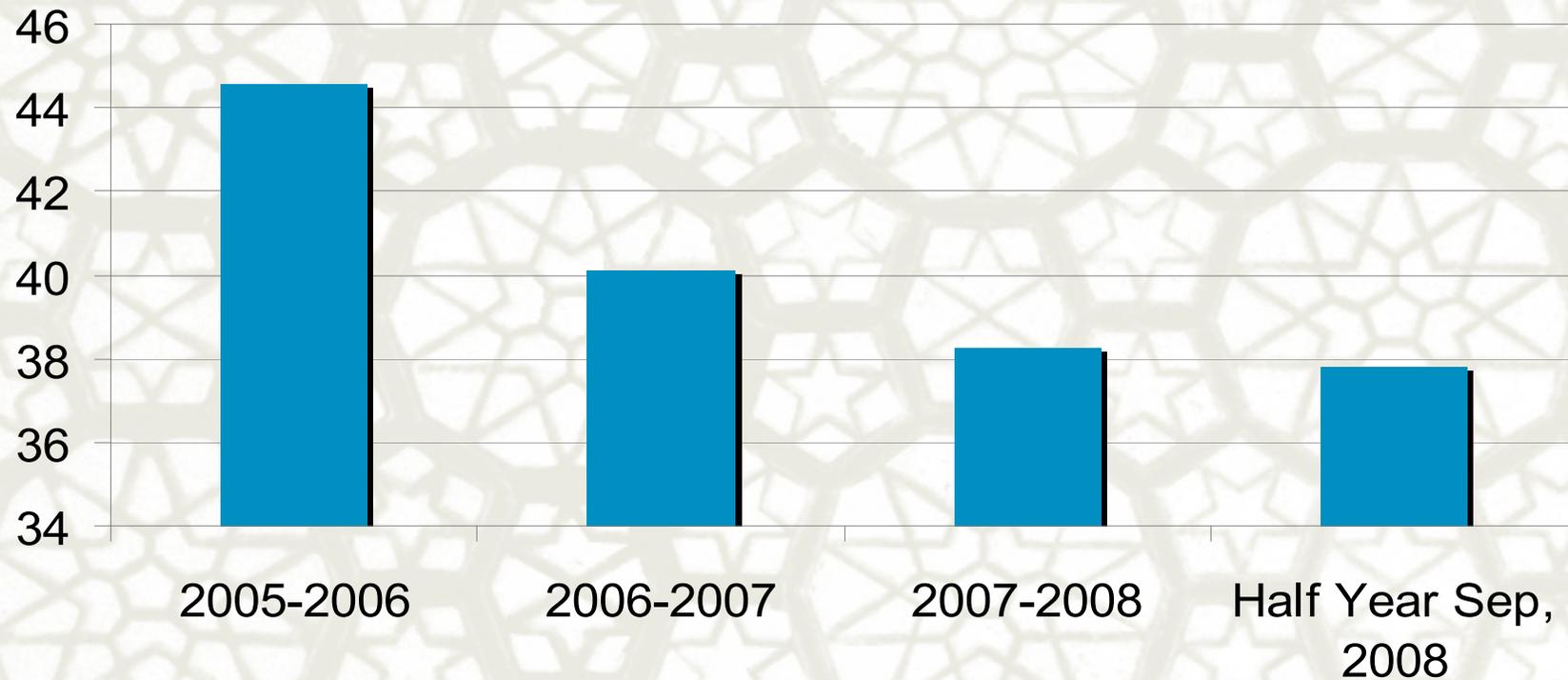
Better liability structure : CASA



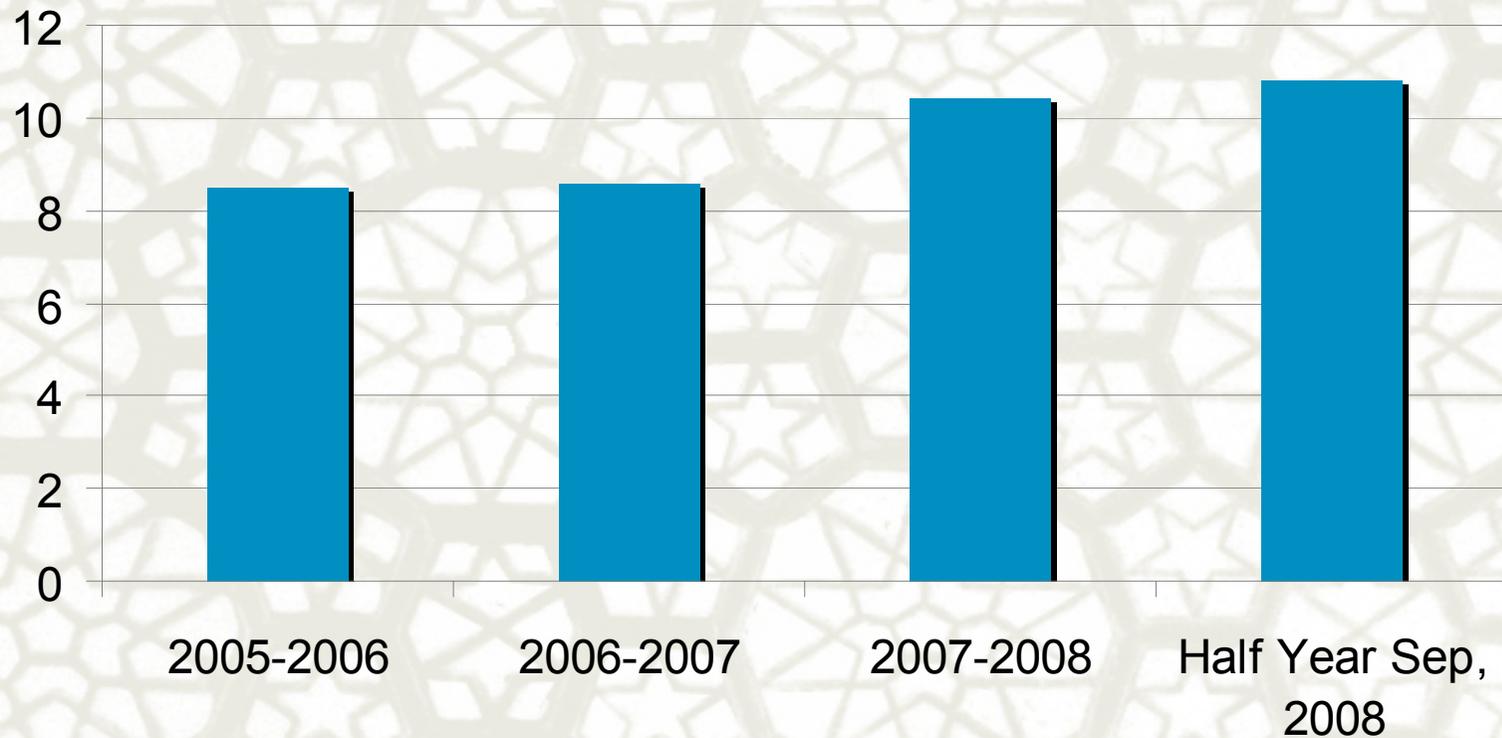
Cost of Deposits : Declining



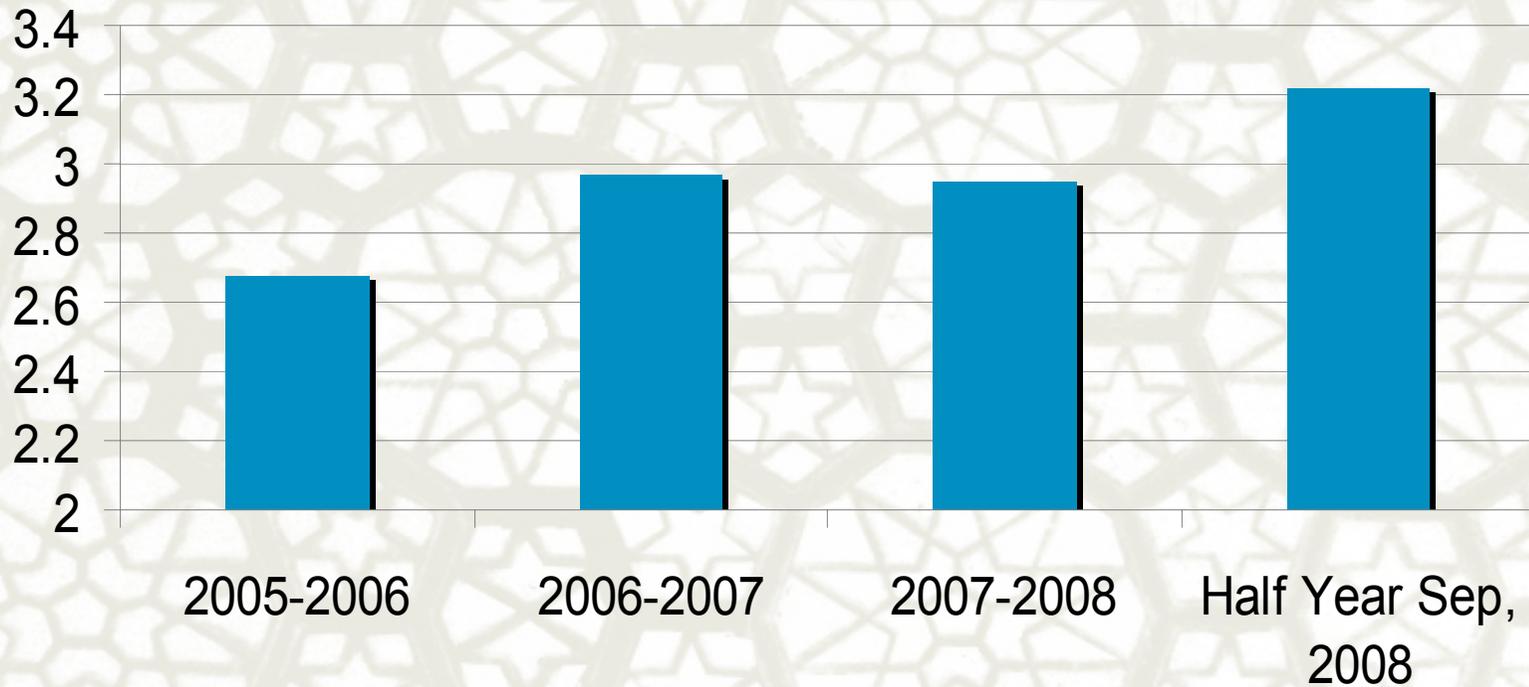
Cost to income ratio : Sharp drop



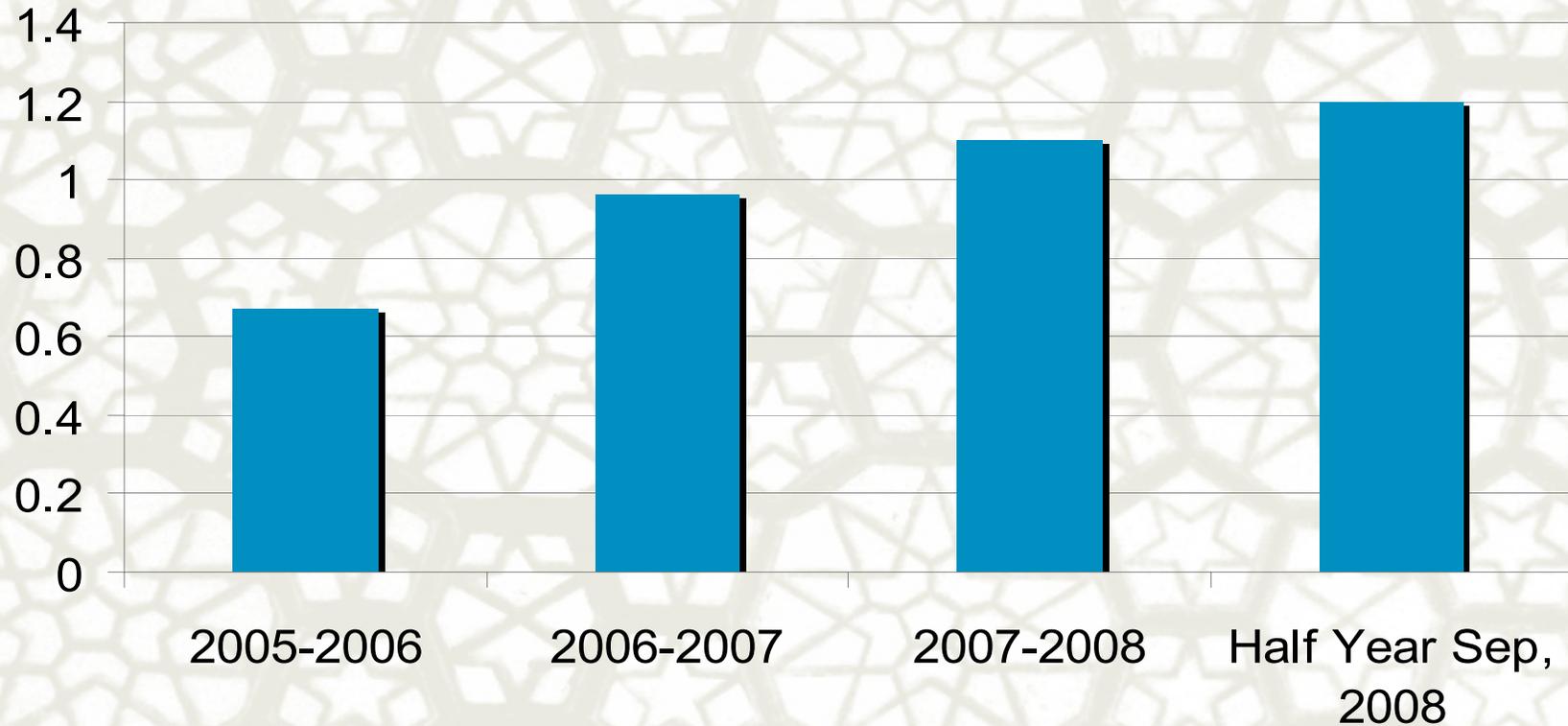
Advances Yield : Increasing



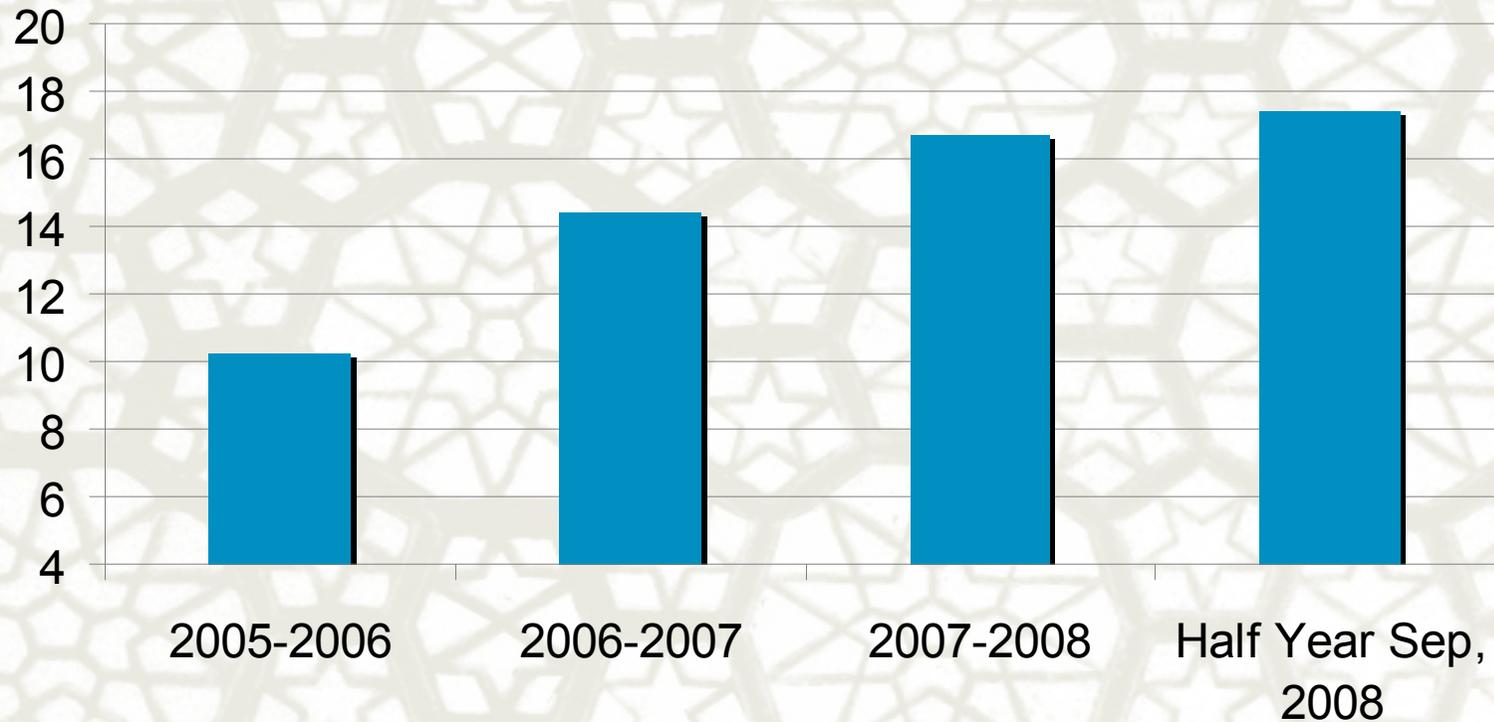
NIIMs : Rising



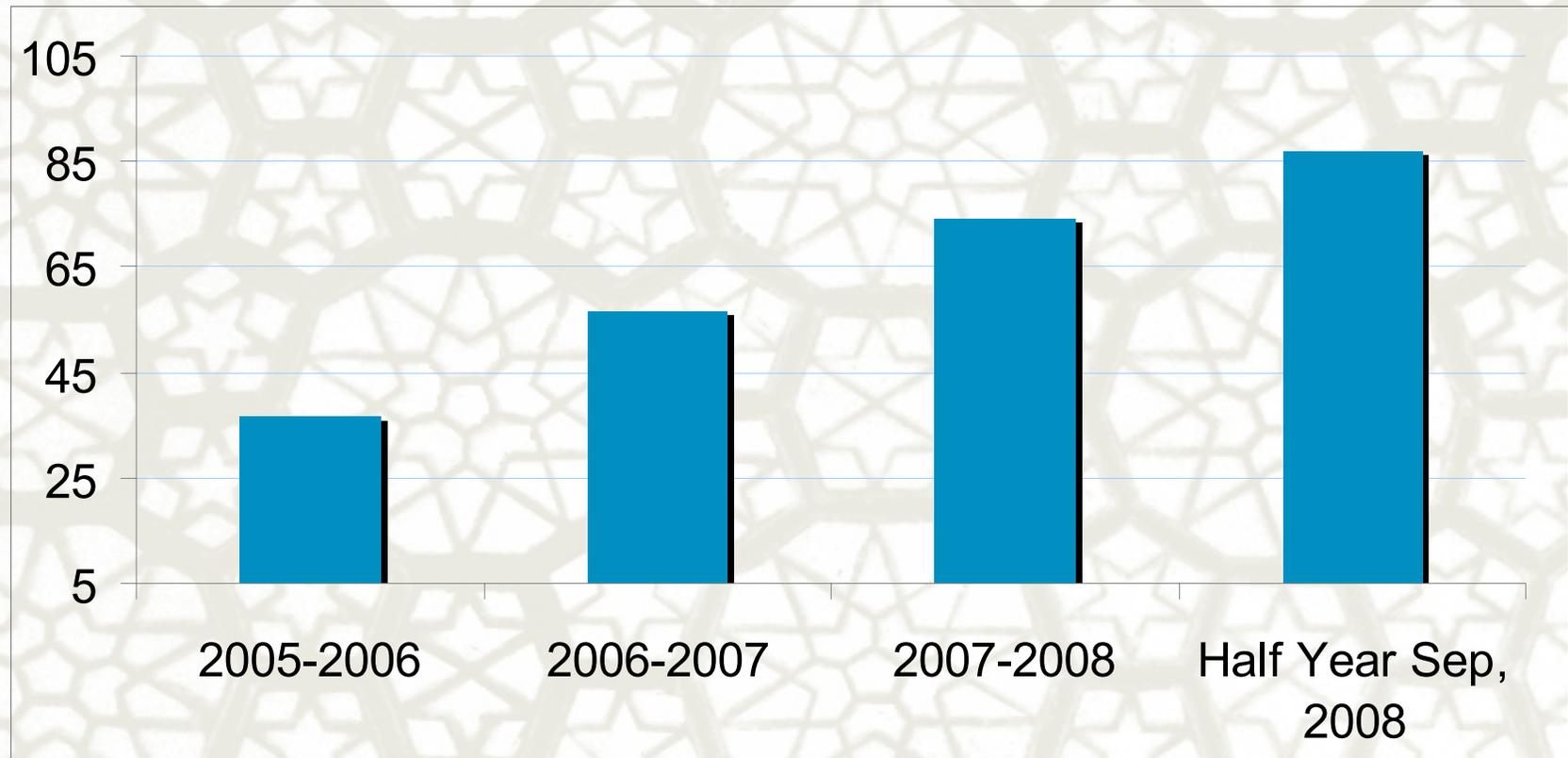
Return on assets : Constant rise



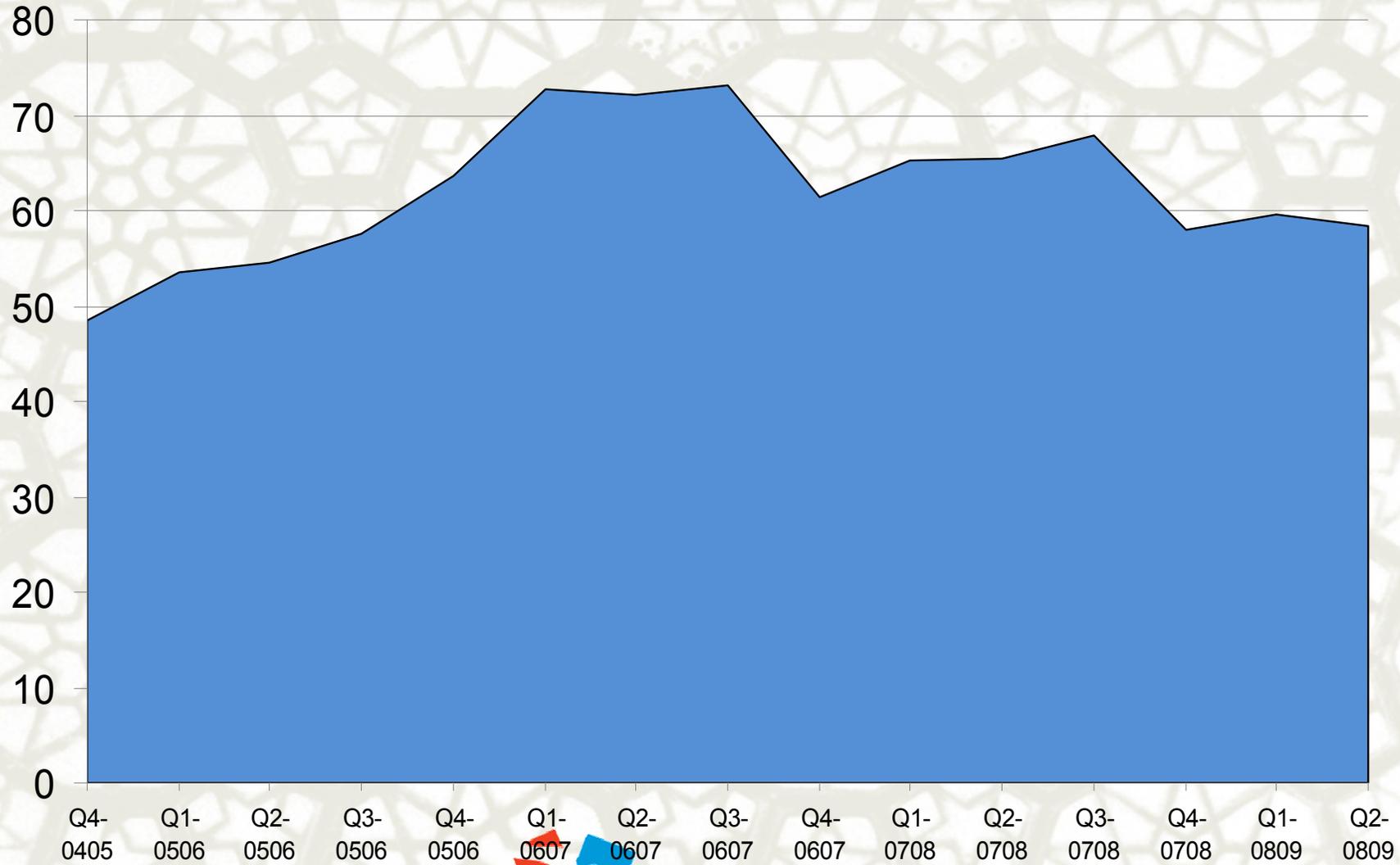
Return on equity



Earning per share



NPA coverage



Financial : Valuations ratios

| | 2005-2006 | 2006-2007 | 2007-2008 |
|---|-----------|-----------|-----------|
| Earning per Share (annualized) | 36.48 | 56.62 | 74.26 |
| Net Asset Value | 371.2 | 414.36 | 476.28 |
| Adjusted Book Value | 343.43 | 374.43 | 434.3 |
| Price to book value ratio | 1.23 | 1.73 | 1.35 |
| Price to adjusted book value ratio | 1.33 | 1.91 | 1.48 |
| Price Earning Ratio (On Annualised EPS) | 12.5 | 12.63 | 8.65 |
| Market Cap. To Deposits (%) | 9.41% | 13.77% | 10.89 |
| Market price as on date (Rs.) | 456.05 | 715.85 | 642.1 |
| No. of Shares | 48477702 | 48477702 | 48477802 |

Profitability Ratios

| | 2005-2006 | 2006-2007 | 2007-2008 |
|--|-----------|-----------|-----------|
| Net Interest Margins (%) | 2.68% | 2.97% | 2.95% |
| Interest Spreads (%) | 2.61% | 2.79% | 2.64% |
| Yield on Advances (Av) (%) (annualized) | 8.48% | 8.58% | 10.44% |
| Yield on Investments (Av) (%) (Annualized) | 6.22% | 6.20% | 6.70% |
| Cost of Deposits (Av) (%) (annualized) | 4.55% | 4.50% | 5.85% |
| Return on Assets (%) (annualized) | 0.67% | 0.96% | 1.10% |
| Return on equity (%) (annualized) | 10.21% | 14.42% | 16.68% |
| Gross Profit to AWF (%) (annualized) | 1.69% | 2.02% | 2.12% |
| Net Profit to AWF (%) (annualized) | 0.70% | 1.00% | 1.17% |

Asset Quality:

| | 2005-2006 | 2006-2007 | 2007-2008 |
|----------------------------------|-----------|-----------|-----------|
| Gross NPAs (Rs. in Mns) | 3702 | 5018 | 4852 |
| Net NPAs (Rs. in Mns) | 1339 | 1936 | 2036 |
| Gross NPA Ratio (%) | 2.52% | 2.89% | 2.53% |
| Net NPA Ratio (%) | 0.92% | 1.13% | 1.08% |
| NPA Coverage Ratio (%) | 63.64% | 61.43% | 58.05% |
| Gross NPA to Net Worth Ratio (%) | 20.57% | 24.98% | 21.02% |

Operating ratios:

| | 2005-2006 | 2006-2007 | 2007-2008 |
|---|-----------|-----------|-----------|
| Operating Expenses to AWF (%) (annualized) | 1.36% | 1.35% | 1.31% |
| Operating Expenses to Total Income (%) | 19.00% | 18.08% | 15.06% |
| Operating expenses to other income (%) | 311% | 232.48% | 164.73% |
| Staff Cost to Total Income (%) | 10.59% | 10.69% | 8.43% |
| Interest Earned to AWF (%) | 6.71% | 6.89% | 7.93% |
| Non Interest Income to AWF (%) | 0.44% | 0.58% | 0.80% |
| Capital Adequacy Ratio (%) | 12.14% | 13.24% | 12.80% |
| Tier I | 11.76% | 12.60% | 12.14% |
| Tier II | 0.38% | 0.64% | 0.66% |

Efficiency Ratios:

| | 2005-2006 | 2006-2007 | 2007-2008 |
|--|-----------|-----------|-----------|
| Cost to Income Ratio (%) | 44.57% | 40.13% | 38.24% |
| CD Ratio (%) | 61.67% | 67.79% | 66.04% |
| CASA Ratio (%) | 34.17% | 37.02% | 39.16% |
| Business per Employee (Rs. In Mns) | 55.57 | 61.74 | 62.82 |
| Net Profit per Employee (Rs. In Mns) | 0.26 | 0.4 | 0.48 |
| Business Per Branch (Rs. In Mns) | 845.61 | 937.34 | 934.60 |
| Net Profit per Branch (Rs. in Mns) (Annualized) | 3.94 | 6.09 | 7.09 |

Recap

- ◆ J&K Bank will outperform the sector
- ◆ With rising margins and lower costs, even as
- ◆ Economic growth in India declines and
- ◆ Banking sector slows down in uncertain environment and wavering policy prescriptions

Thank you!

