

The Quiet Transformation

2005-2009



Business strategy: 2005-2012

- Two legged business model:
 - Increase lending in J&K, which is
 - high margin, low volume

- Target niche lending in rest of the country, to
 - Improve margins and build volumes

- Universal Bank in J&K

- Corporate bank in rest of the country

Phase I (2005-2009): Looking inward

- Change in composition of advances
 - In terms of geography: from ROI to J&K
 - In terms of asset types: from low margin to high margin

- A greater focus on liability management
 - Increase low cost retail deposits
 - Increase the maturity structure

- Restructure lending in ROI :
 - Re-pricing
 - Reduce consortium lending
 - Improve WC to TL ratio

Inward strategy: Analytics

- J&K accounts for:
 - 1% of India's population
 - 0.6% of India's GDP

- J&K accounts for:
 - 0.2% of India's personal credit
 - 0.12% of India's productive credit

- Low capital consumption

- Closed economy: No leakages

Sectoral worldview:

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

Contextual Strategic **inference**:

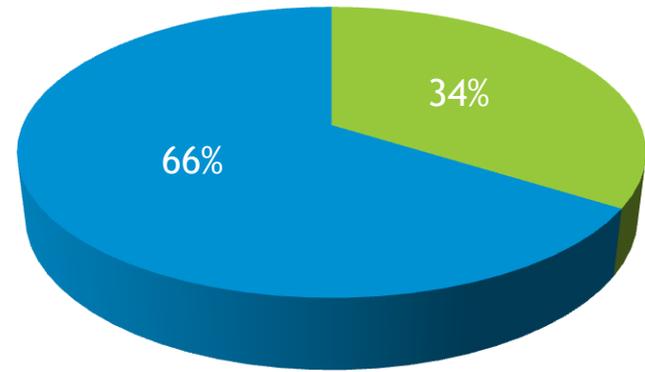
- In the current and emerging environment, what is required is:
 - Region-specific credit policies that suit the sub-national growth impulses and context
 - Productisation of finance to suit local enterprises

Strategic shift: CONTOURS



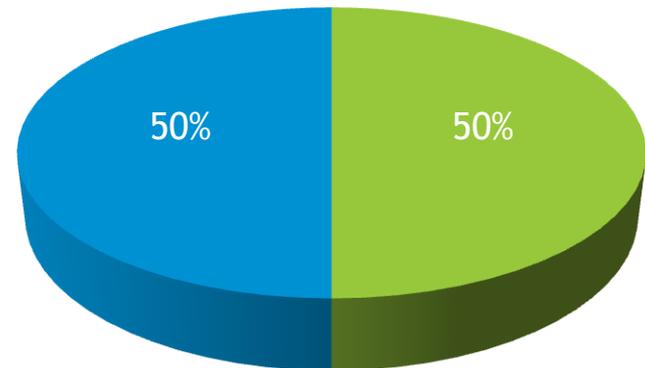
Loan Book: By Geography

2004



■ J&K ■ ROI

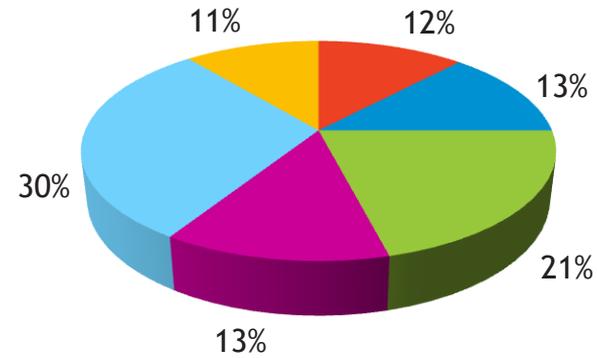
2009



■ J&K ■ ROI

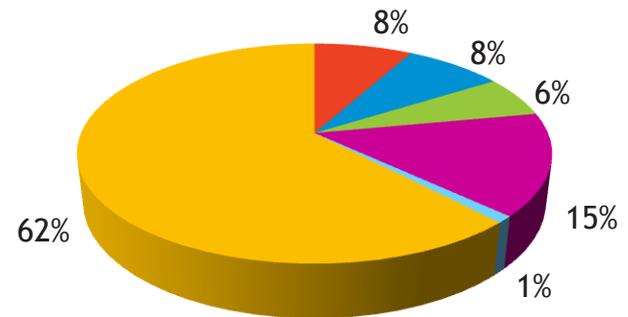
Sector-wise advances (2009)

Within J&K



- Agriculture
- Trade
- Personal
- SME
- Government
- Corporate

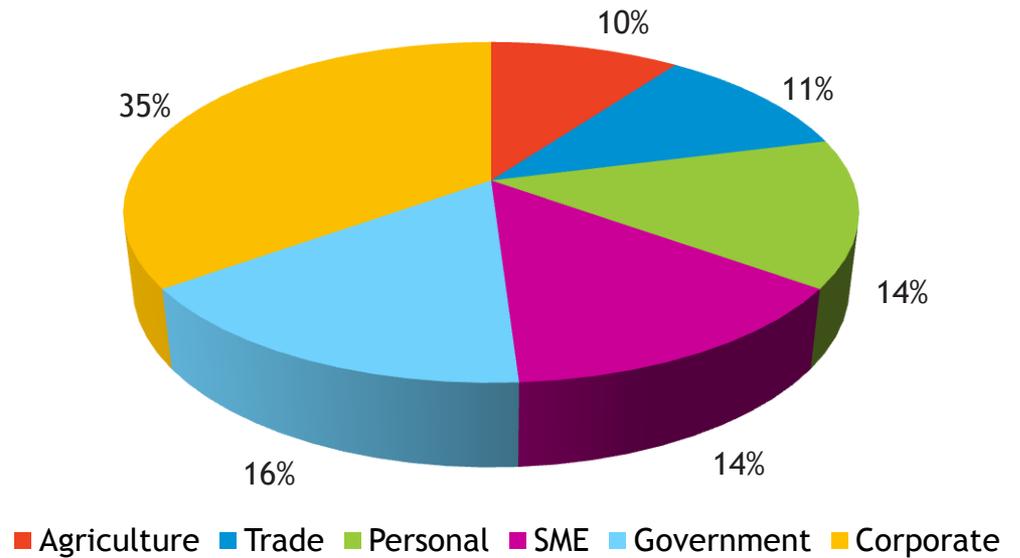
Rest of India



- Agriculture
- Trade
- Personal
- SME
- Government
- Corporate

Sector-wise advances (2009)

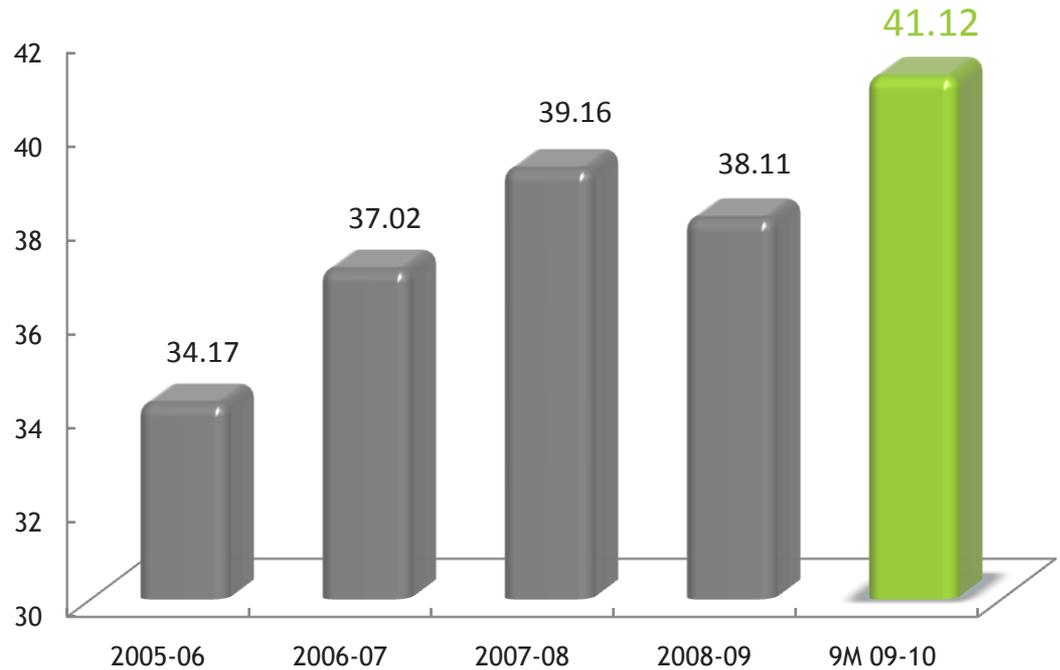
The Bank as Whole



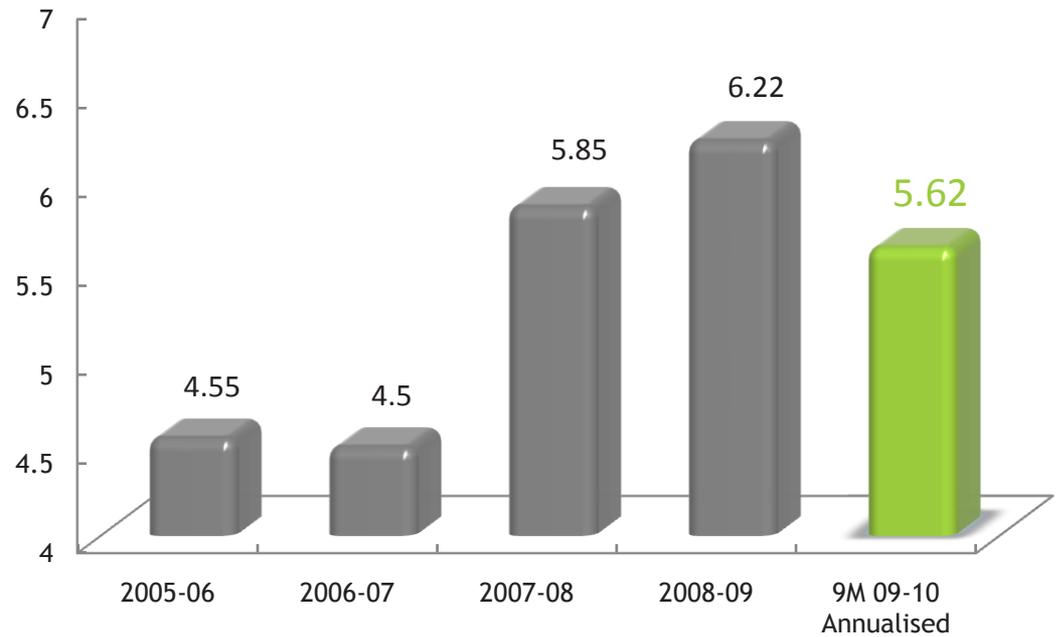
Strategic shift: RESULTS



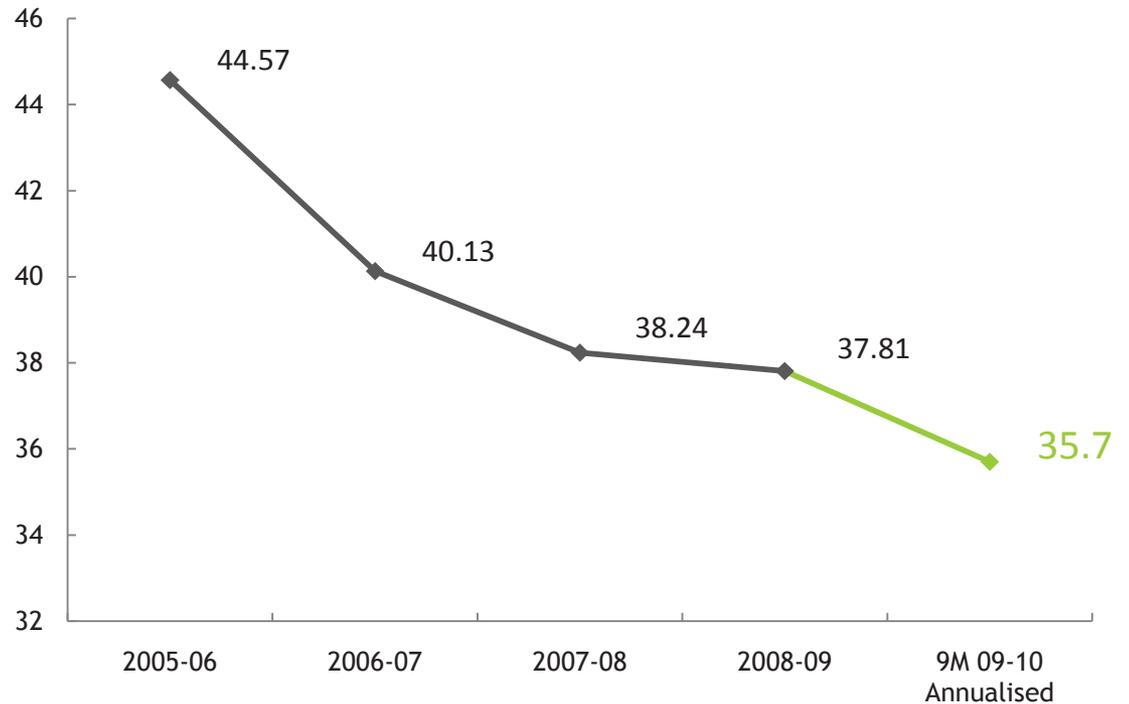
Liability Structure: Increasing CASA (%)



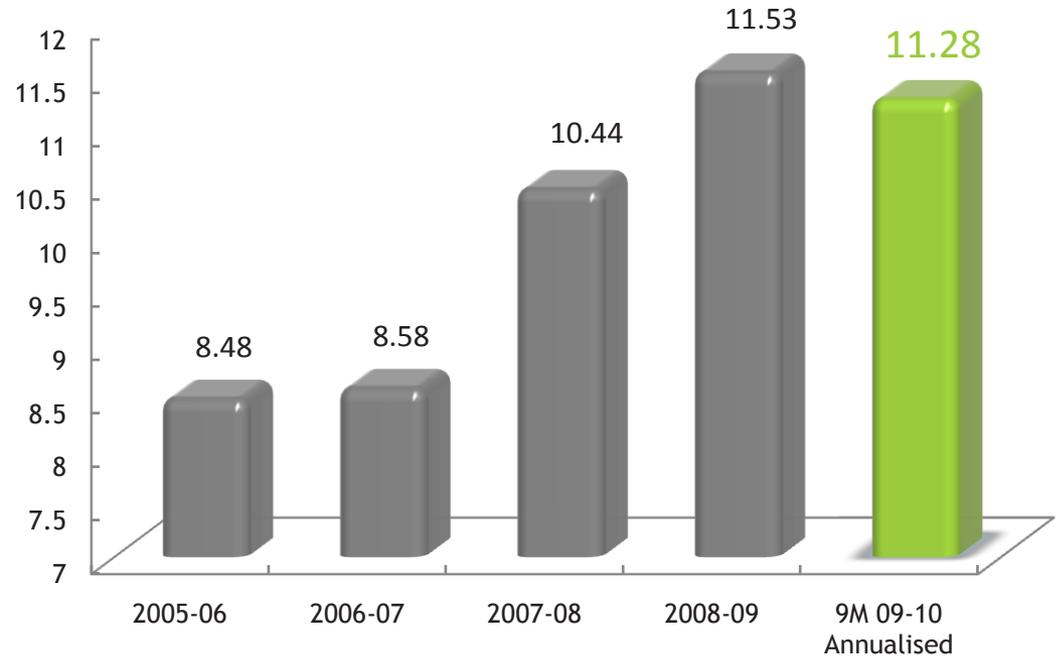
Cost of Deposits(%): Stable



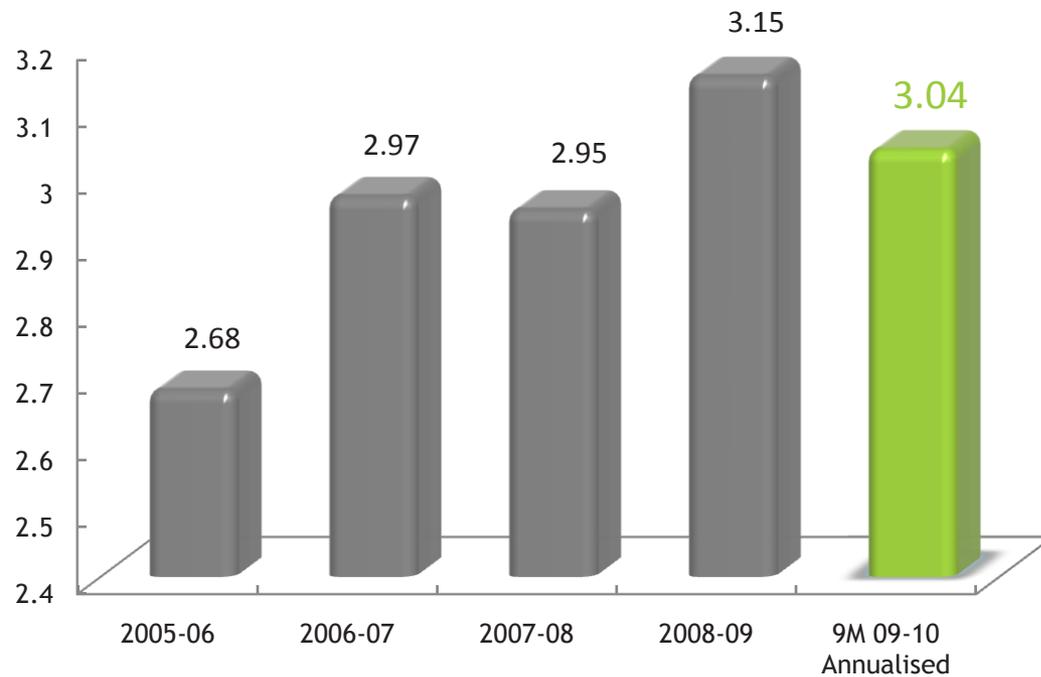
Cost to Income Ratio (%): Sharp drop



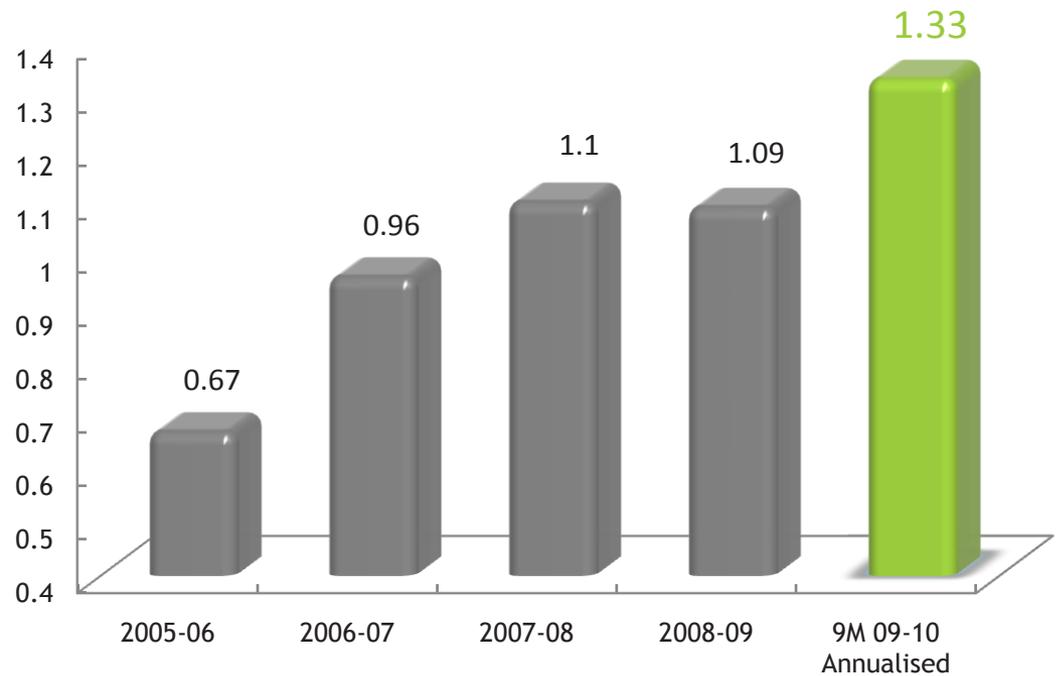
Advances Yield (%) Increasing



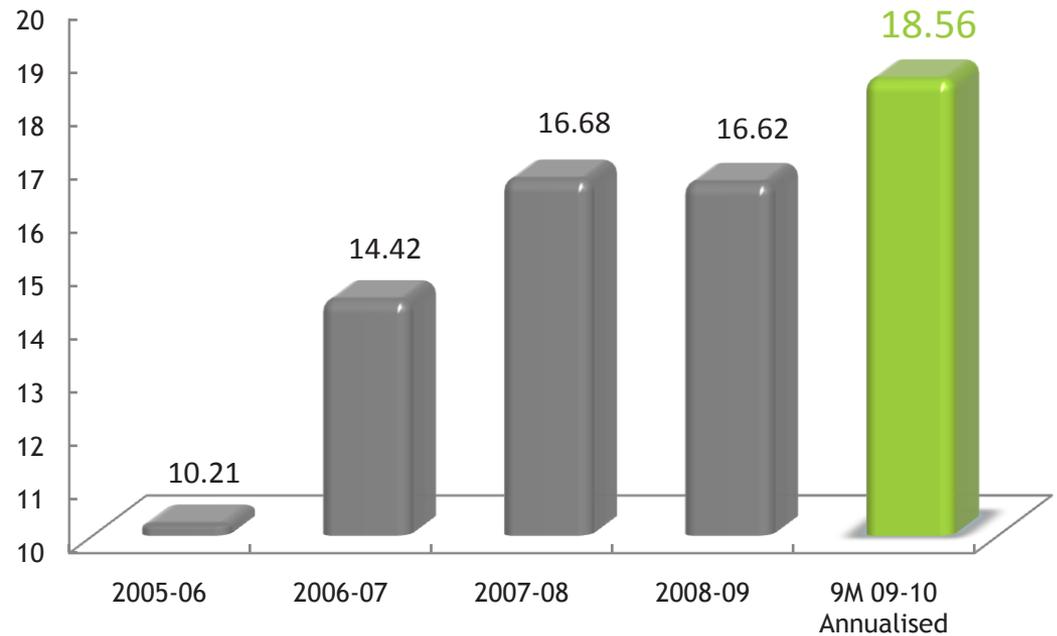
NIIMs(%): Rising



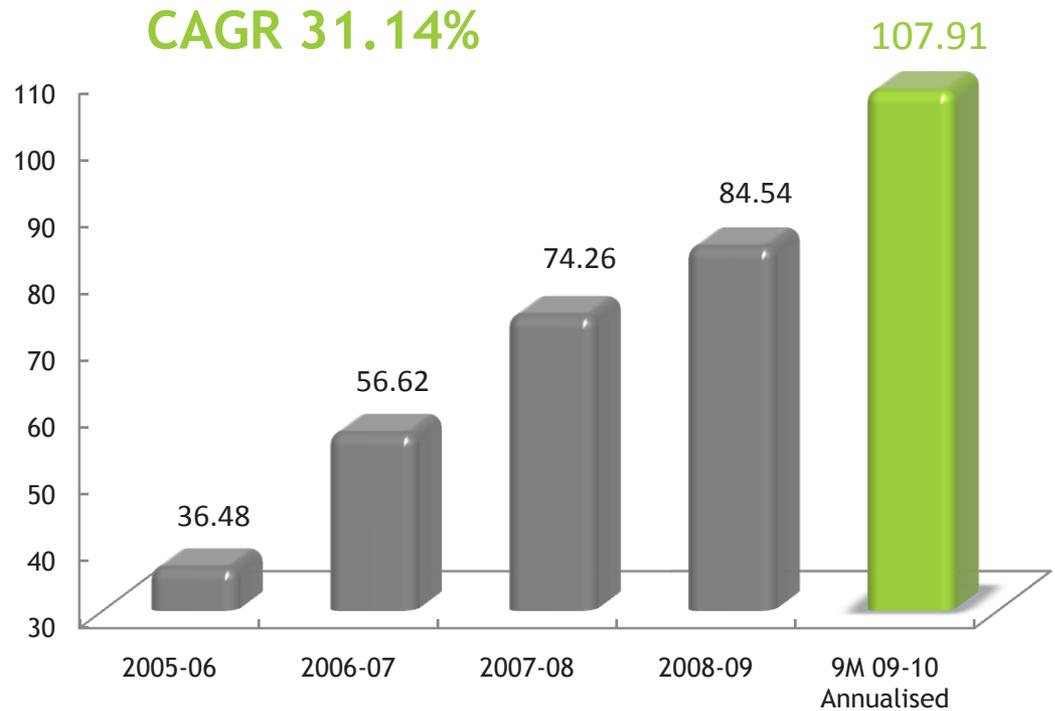
Return on Assets (%): Consistent rise



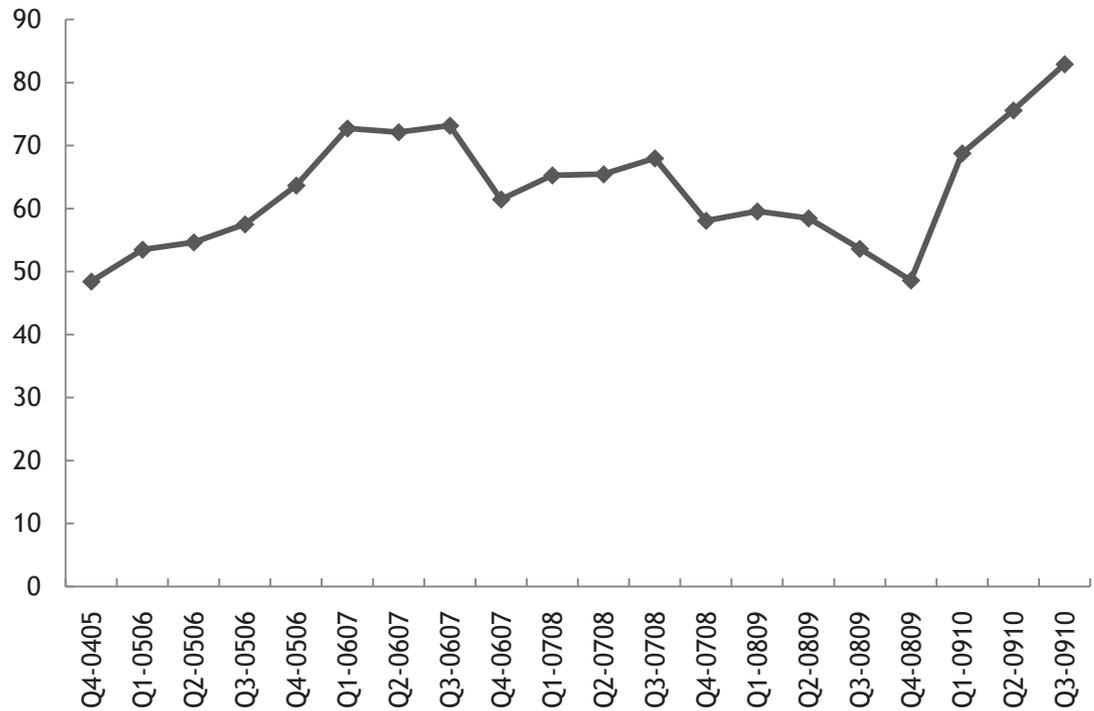
Return on Equity (%): On the rise



Earnings per share (Rs.):
Steady growth



NPA Coverage (%) International levels



Financial: Valuation Measures

	2005-06	2006-07	2007-08	2008-09	9M 09-10
Earnings per share (annualized) (Rs.)	36.48	56.62	74.26	84.54	107.91
Net Asset Value (Rs.)	371.20	414.36	476.28	541.04	621.97
Adjusted Book Value (Rs.)	343.43	374.43	434.30	481.74	605.71
Price to book value ratio	1.23	1.73	1.35	0.91	0.91
Price to adjusted book value ratio	1.33	1.91	1.48	1.02	0.94
Price Earning Ratio (on Ann EPS)	12.50	12.64	8.65	5.80	5.26
Market Cap to Deposits (%)	9.41%	13.77%	10.89%	7.21%	8.18%
Market price as on date (Rs.)	456.05	715.85	642.10	490.65	568.00
No. of Shares	48477702	48477702	48477802	48477802	48477802

NPA cover with standard asset
provision over 109.45%

Profitability Measures

	2005-06	2006-07	2007-08	2008-09	9M 09-10
Net Interest Margins (%)	2.68	2.97	2.95	3.15	3.04
Yield on Advances (Av) (%) (annualised)	8.48	8.58	10.44	11.53	11.28
Cost of Deposits (Av) (%) (annualised)	4.55	4.50	5.85	6.22	5.62
Return on Assets (%) (annualised)	0.67	0.96	1.10	1.09	1.33
Return on Equity (%) (annualised)	10.21	14.42	16.68	16.62	18.56

Asset Quality

	2005-06	2006-07	2007-08	2008-09	9M 09-10
Gross NPA (in Rs. mn)	3701.90	5018.30	4852.30	5592.70	4602.70
Net NPAs (in Rs. mn)	1338.70	1935.70	2035.50	2875.10	788.30
Gross NPA (%)	2.52	2.89	2.53	2.64	2.17
Net NPA (%)	0.92	1.13	1.08	1.37	0.38
NPA Coverage (%)	63.64	61.43	58.05	48.59	82.87
Gross NPA to Net Worth (%)	20.57	24.98	21.02	21.32	15.27

Operating Measures

	2005-06	2006-07	2007-08	2008-09	9M 09-10
Operating Expenses to AWF (ann.)	1.36	1.35	1.31	1.34	1.39
Operating Income to Total Income (%)	19.00	18.08	15.06	14.56	15.46
Operating Expenses to Other Income (%)	311.00	232.47	164.73	192.15	127.71
Staff cost to Total Income (%)	10.59	10.69	8.43	8.62	9.69
Interest Earned to AWF (%)	6.71	6.89	7.93	8.48	7.92
Capital Adequacy Ratio (Basel I) (%)	12.14	13.24	12.80	13.46	16.04
Tier I (%)	11.76	12.60	12.14	12.77	12.91
Tier II (%)	0.38	0.64	0.66	0.69	3.13
Capital Adequacy Ratio (Basel II) (%)				14.48	18.08
Tier I (%)				13.80	14.54
Tier II (%)				0.68	3.54

Efficiency Measures

	2005-06	2006-07	2007-08	2008-09	9M 09-10
Cost to Income Ratio (%)	44.57	40.13	38.24	37.81	35.70
CD Ratio (%)	61.67	67.79	66.04	63.42	61.74
CASA Ratio (%)	34.17	37.02	39.16	38.11	41.12
Business per Employee (in Rs. mn)	55.57	61.74	62.82	70.72	70.54
Net profit per Employee (in Rs. mn)	0.26	0.40	0.48	0.54	0.68
Business per Branch (in Rs. mn)	845.60	937.30	934.60	1011.90	1021.50
Net Profit per Branch (in Rs. mn) (Annualised)	3.94	6.09	7.09	7.69	9.81

Snap shot comparison

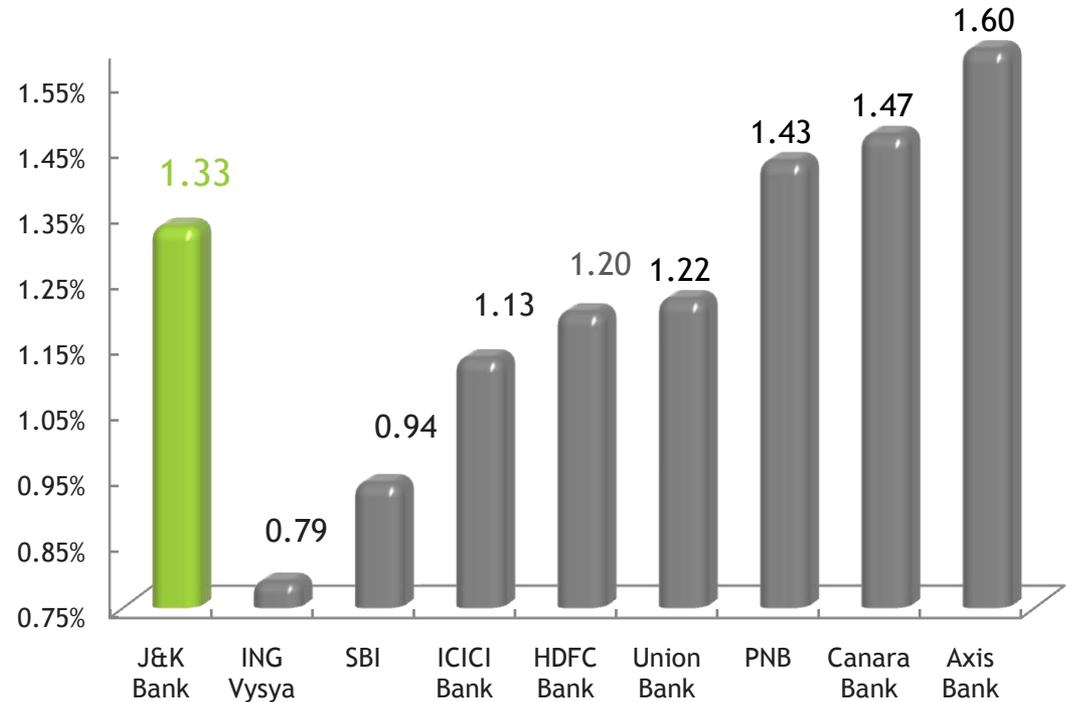
Performance Indicators	2004	2009
Return on Assets (%)	0.45	1.33
Return on Equity (%)	9.70	18.56
NPA % Advances	1.02	0.38
Coverage (%)	38	83
Cost to Income (%)	46.6	35.7
CASA (%)	28	40
NIIMS (%)	2.2	3.4
EPS (Rs.)	32.5	108
Net Profit (Rs. bn)	1	5

Strategic shift: PEER REVIEW



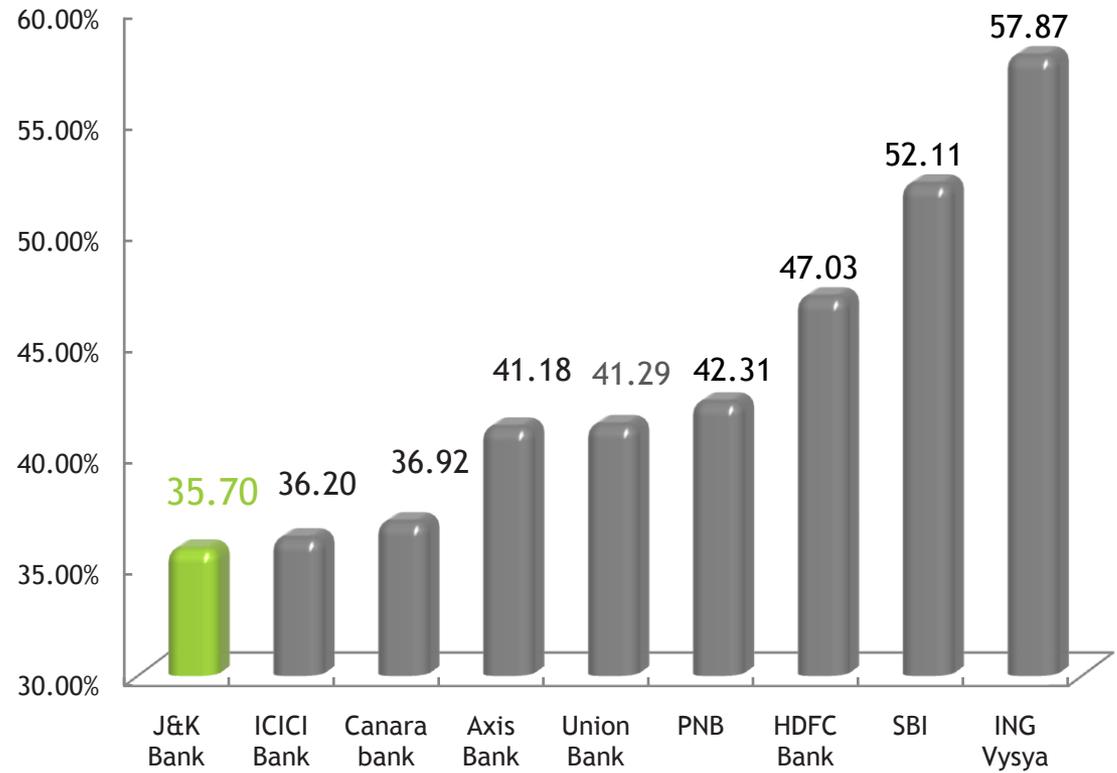
Return on Assets (%) (Annualised)

As on Dec, 2009



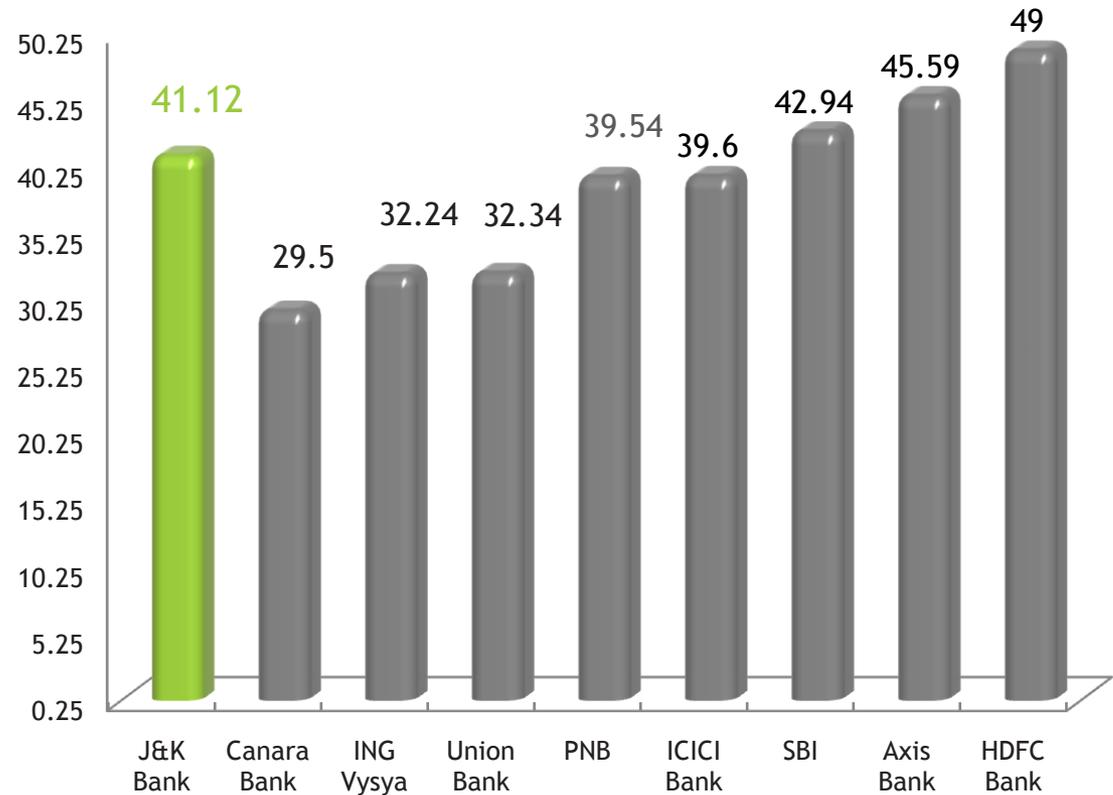
Cost to Income (%)

As on Dec, 2009



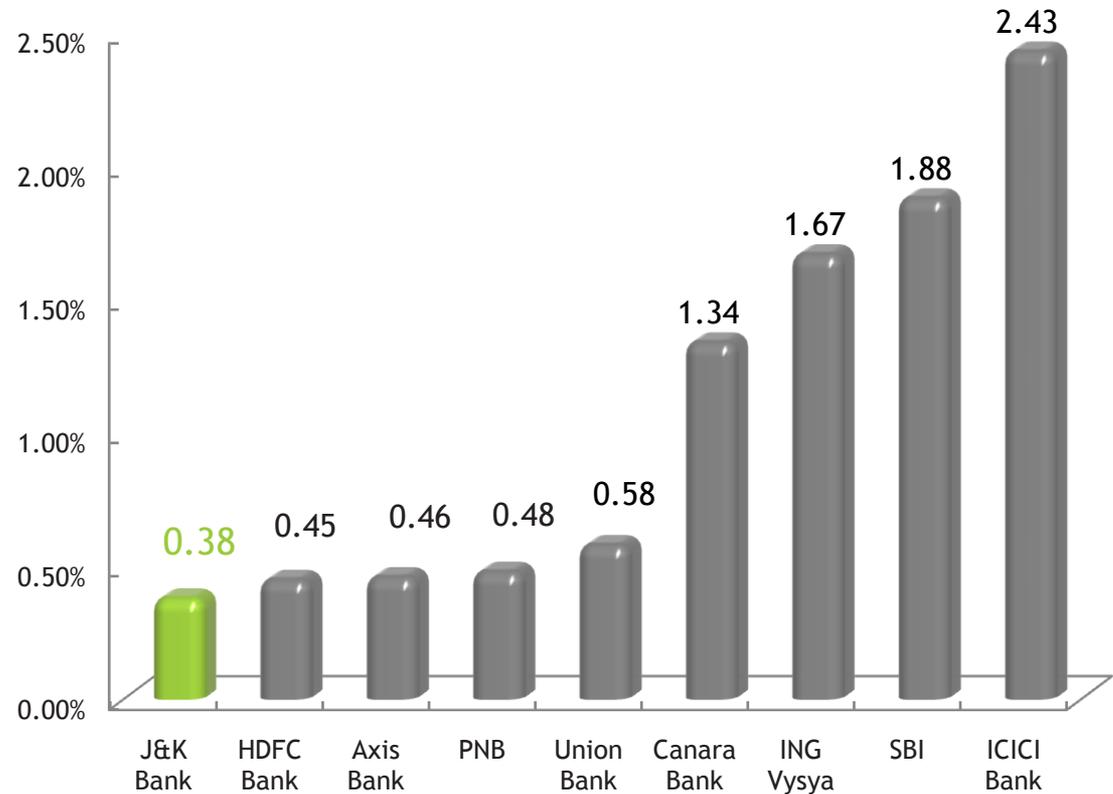
As on Dec, 2009

CASA Ratio (%)



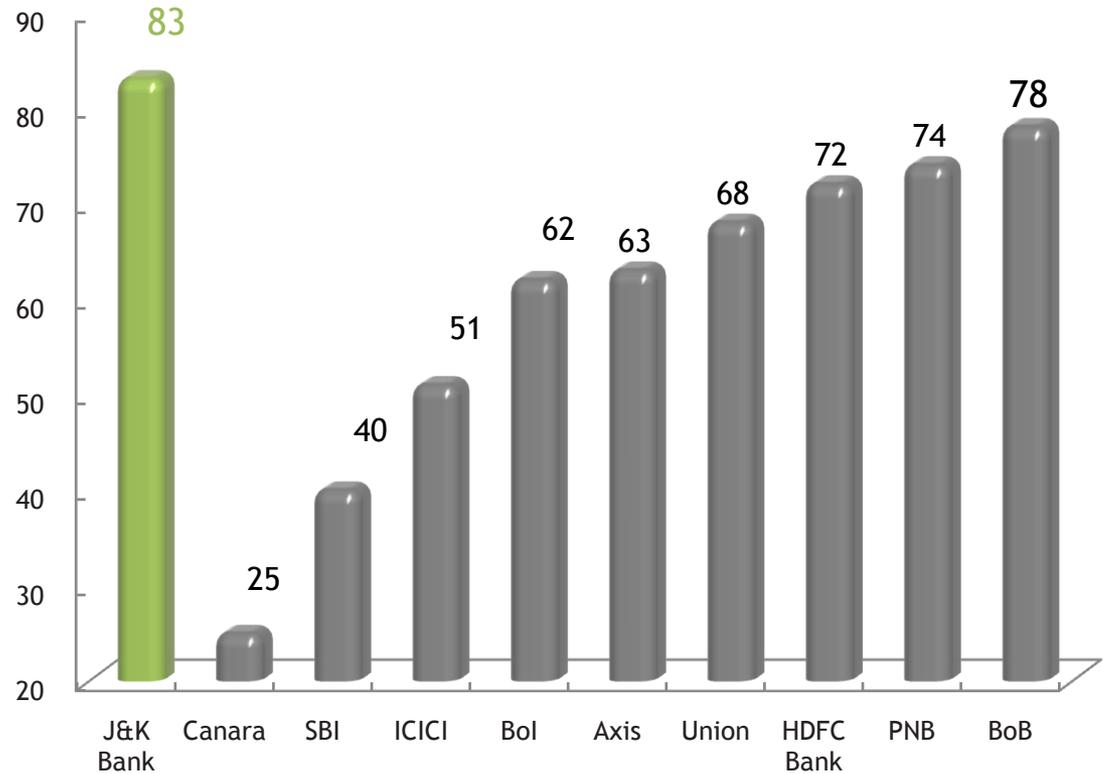
Net Impaired Loans (%)

As on Dec, 2009



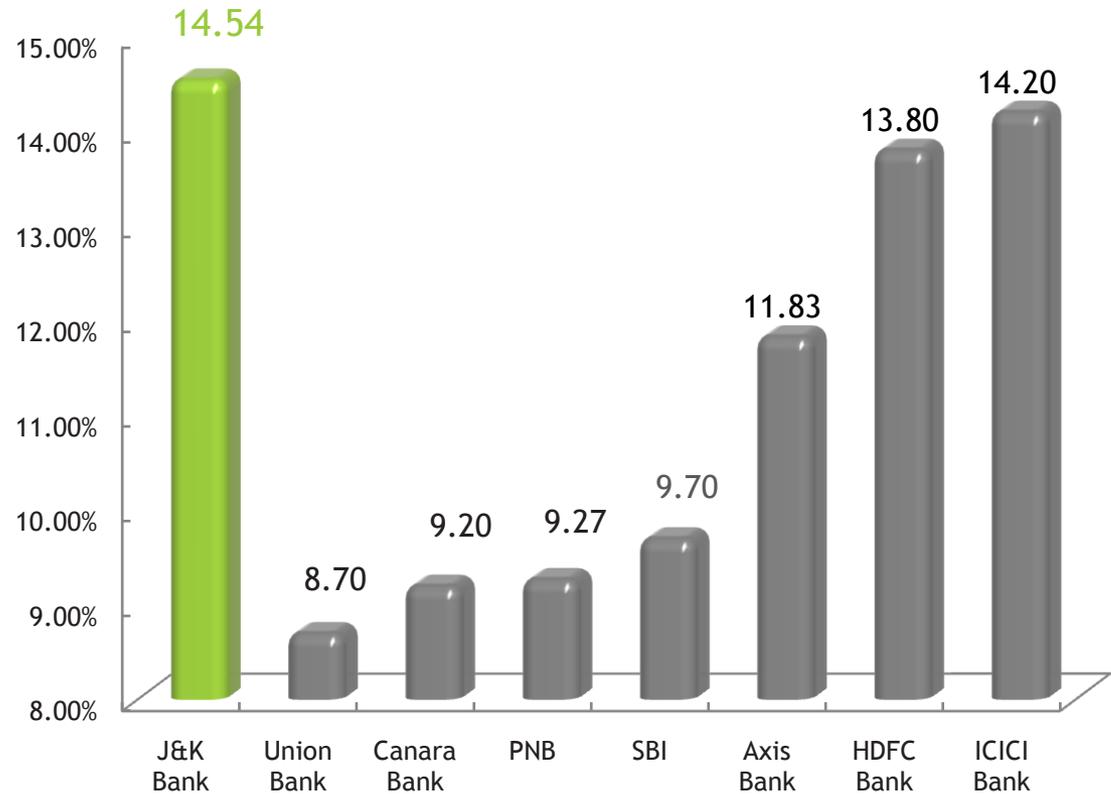
As on Dec, 2009

Coverage
Ratio (%):
Highest in
India



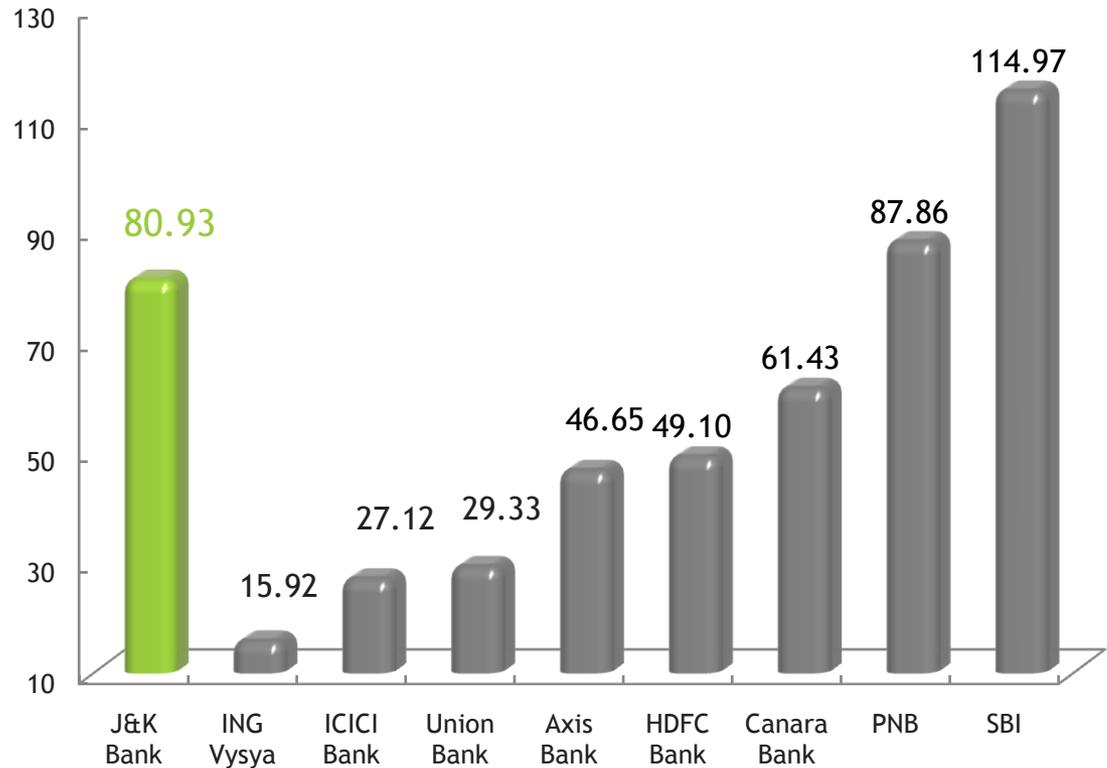
Highest Tier I Capital (%) (Basel II)

As on Dec, 2009



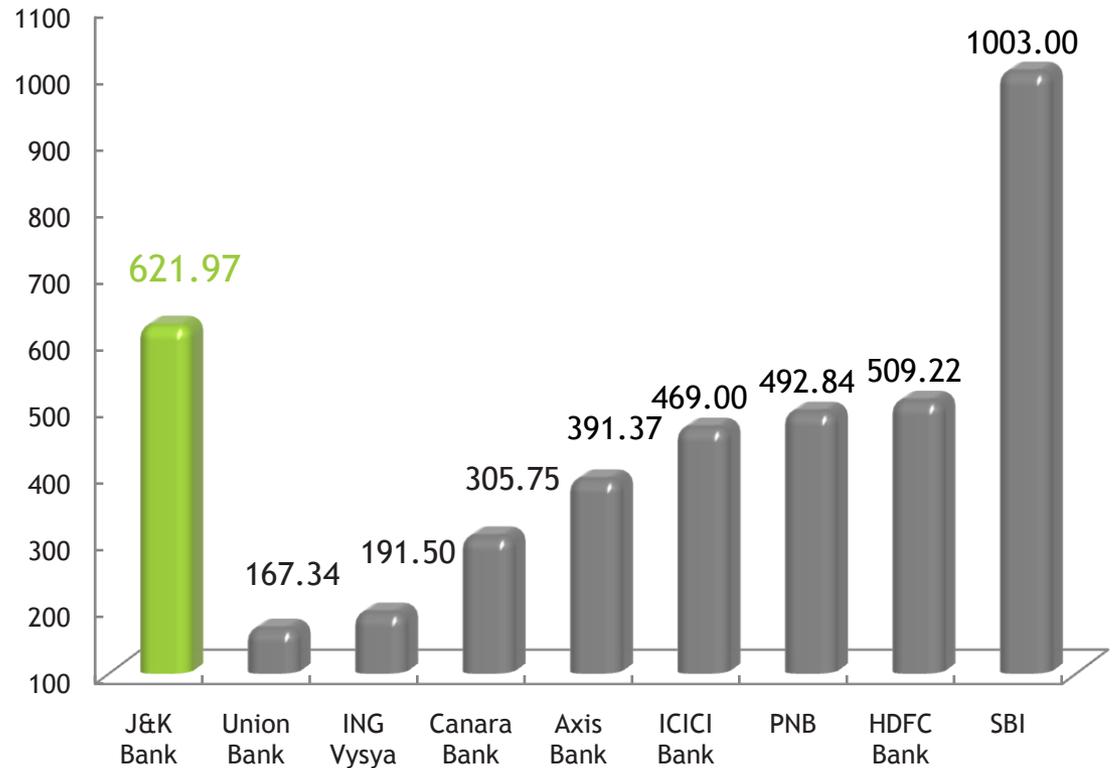
Earnings per Share (Rs.)

As on Dec, 2009



As on Dec, 2009

Book value (Rs.)



Phase II (2009-2012): Growth

- Phase I completed

- Earning side of the balance sheet among the top three in the banking industry.

- Phase II of strategy: Growth was to start in 2009; deferred due global and national macroeconomic environment

- Tier II issue of Rs. 6 billion; preparing for CD growth

Plans ahead



Ground work for Growth

- Raised Rs. 6 billion as long term resource in the form of Tier II capital

- Making liabilities the driver

- Improving CD ratio

- Insulate earnings from environment
 - Linking asset to local needs
 - Linking liabilities to local sources

Phase II: Size and Structure

- Business growth
 - Specialist bank in ROI
 - Universal Bank in J&K

- Focus on size
 - Inorganic growth
 - Organic

- Structural reorganization
 - Towards a financial conglomerate

Carving a niche, nationally

Nationally, focus on:

- Under-serviced areas with high turnover

- Specialised sectoral lending

- Specialist branch chain – leather, grains, spices

- A specialist bank outside

Specialist strategy

- Leveraging intellectual capital by replicating J&K commercial agriculture lending in rest of India

- Mismatch between growth sources and credit supply

- High growth and yield areas under-serviced in terms of credit

- Major sectors like plantations and commercial agriculture still financed informally

The J&K edge

- Normal banks have corporate, SME and retail banking divisions
-
- Comparatively, we have corporate, SME and special banking divisions

Third party products

- Make branch network a distribution channel for financial products

- Reduce incentive for major banks to enter J&K

- Beef up non-interest incomes

- Reduce income volatility

- Make assets sweat harder

- Improve business per branch per person

Investment banking

- Leveraging our core competence of domain and geographical expertise, and having
-
- J&K Government a captive client
 - State Government investing USD 240 billion in power over the next four years
 - Mandated to take Power Development Corporation public

Interesting inorganic opportunities

- Converting J&K Gramin Bank into an MFI
-
- Making 1,200 Common Service Centres as banking correspondents over the next one year
-
- Exploring inorganic opportunities for JKBFSL to beef up earnings and increase momentum



J&K Bank

THANK YOU

March 2010