J&K Bank:
Consciously Conservative;
Creatively Expansionary.

Investor Meetings organised by:

CREDIT SUISSE

February 8, 2010

Hongkong

J&K Bank

Structure of Presentation

- Profile of the Bank
- Business Strategy
- Phases of Change
- Performance and Outcome
- Comparative Position

Basic facts

- Incorporated in 1938
- Listed on NSE & BSE
- 53 per cent owned by J&K Government
- Rated "P1+" by S&P: highest degree of safety
- Four decades of uninterrupted profitability and dividends

J&K Bank

One of a Kind

- Private sector bank despite government’s majority holding
- Sole banker and lender of last resort to the Government of J & K
- Only private sector bank designated as RBI’s agent for banking business
- Carries out banking business of the Central Government:
  - Direct Tax collection
  - Indirect Tax collection
  - Utility payment collection

J&K Bank

Facets and Roles

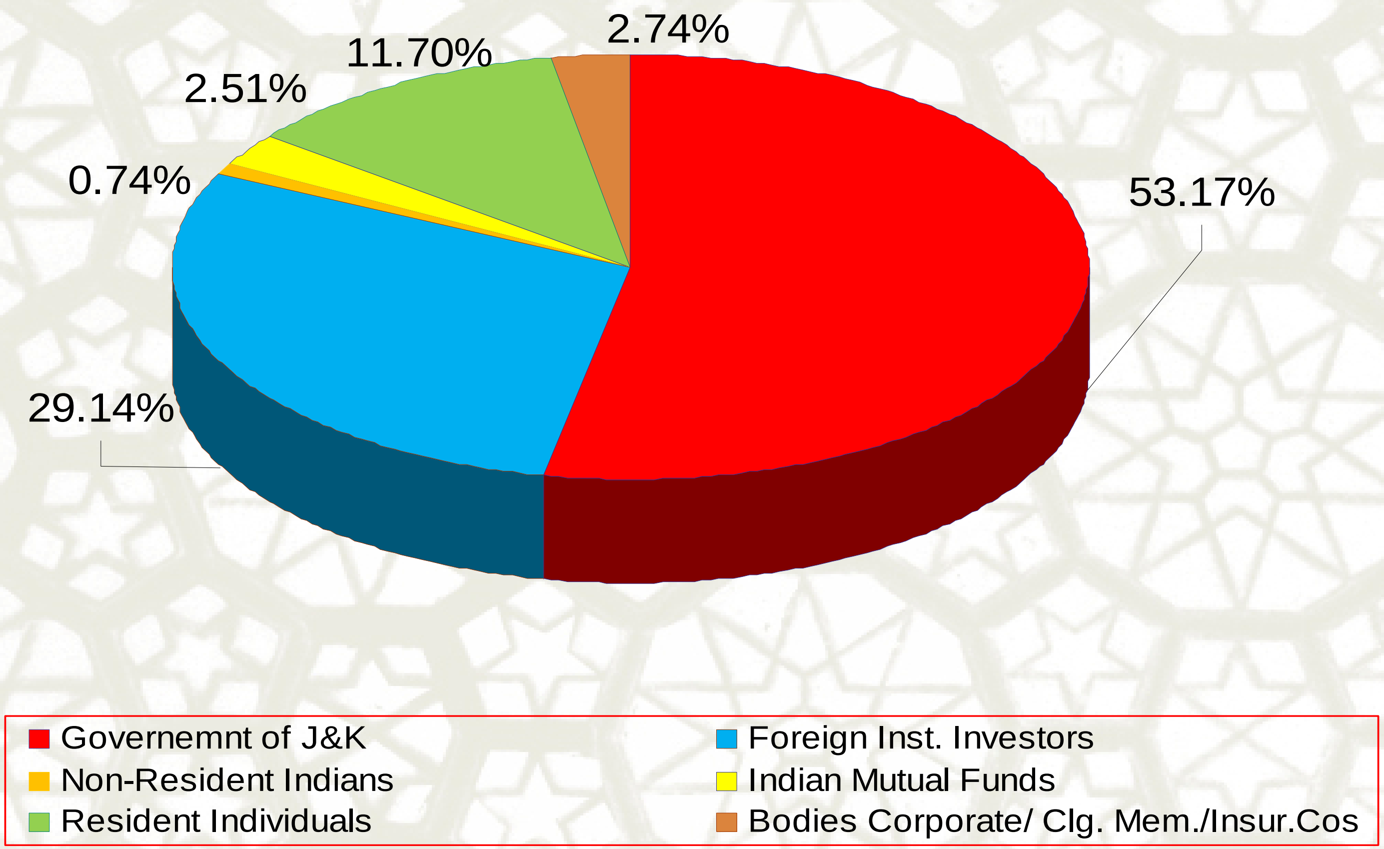
- Commercial Bank
- Development Financing Institution
- Financial Services Provider
- Central bank of J&K
- Intermediary Institution

Regional Goliath

- Dominates a Region
  - 380 branches in the state
  - 220 ATMs
- Controls a Geography
  - branch in every block of J&K
- Possess a Community:
  - adult population of 86 lakh,
  - 37 lakh account holders of J&K Bank
- Monopolises Business in J&K
  - 87 per cent share in advances
  - 70 per cent share in deposits

J&K Bank

Shareholding Pattern



As on Jan 22, 2010

Best of both worlds

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

J&K Bank

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; partner: MetLife
  - General Insurance; partner: Bajaj Allianz
- J&K Gramin Bank

J&K Bank

THE QUIET TRANSFORMATION

2005 - 2009

J&K Bank

Snap shot comparison:

VARIABLE:	2004	2009
1. Return on Asset	0.45	1.33
2. Return on Equity	9.70	18.56
3. NPA % Advances	1.02	0.38
4. COVERAGE	38 %	83 %
5. COST/NCOME	46.6 %	35.7%
6. NIIMS	2.28	3.4
7. EPS	32.5	108
8. NET PROFIT	Rs 1bn	Rs 5 bn

J&K Bank

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

J&K Bank

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

J&K Bank

Inward strategy: Analytics

- J&K accounts for :
  - 1 per cent of India's population
  - 0.6 per cent of India's GDP
- J&K accounts for:
  - 0.2 per cent of India's personal credit
  - 0.12 per cent of India's productive credit
- Low capital consumption
- Closed economy: No leakages

J&K Bank

Sectoral worldview:

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

J&K Bank

Contextual Strategic inference:

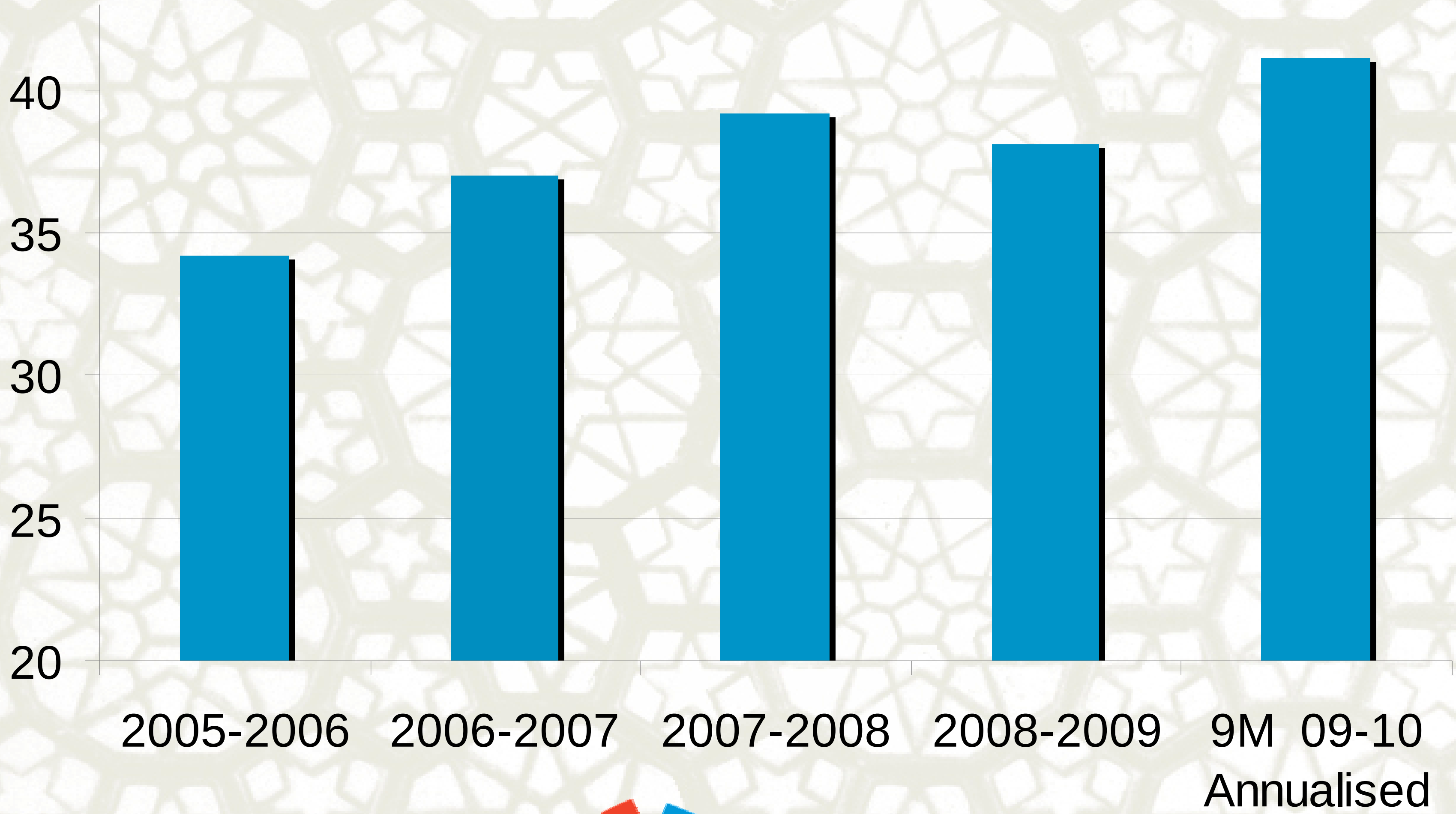
In the current and emerging environment, what is required is:

- region-specific credit policies that suit the sub-national growth impulses and context, and
- productisation of finance to suit local enterprises.

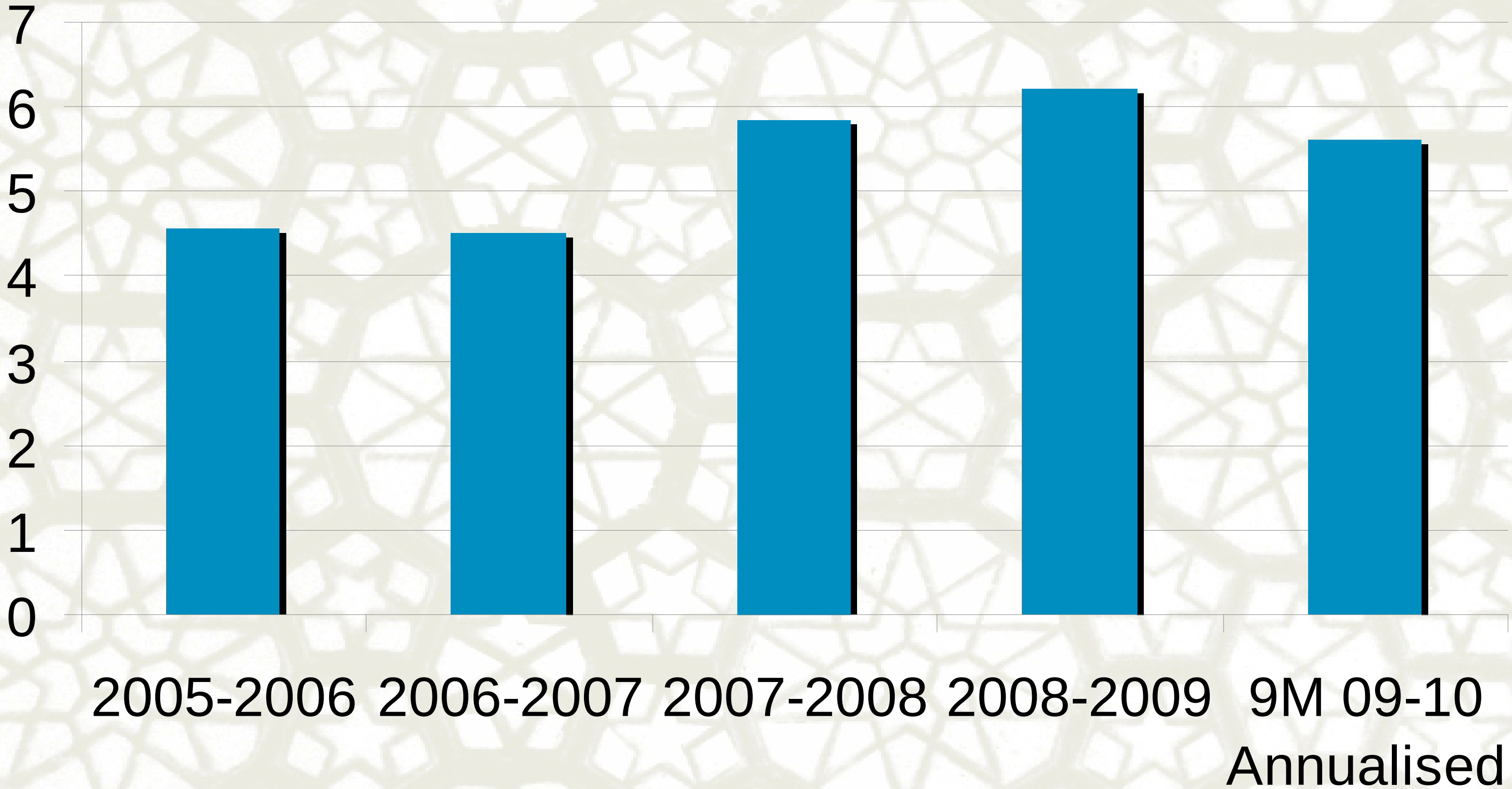
(Annual Report 2006-2007)

Strategic shift: Results

Liability Structure : Increasing CASA



Cost of Deposits : Stable



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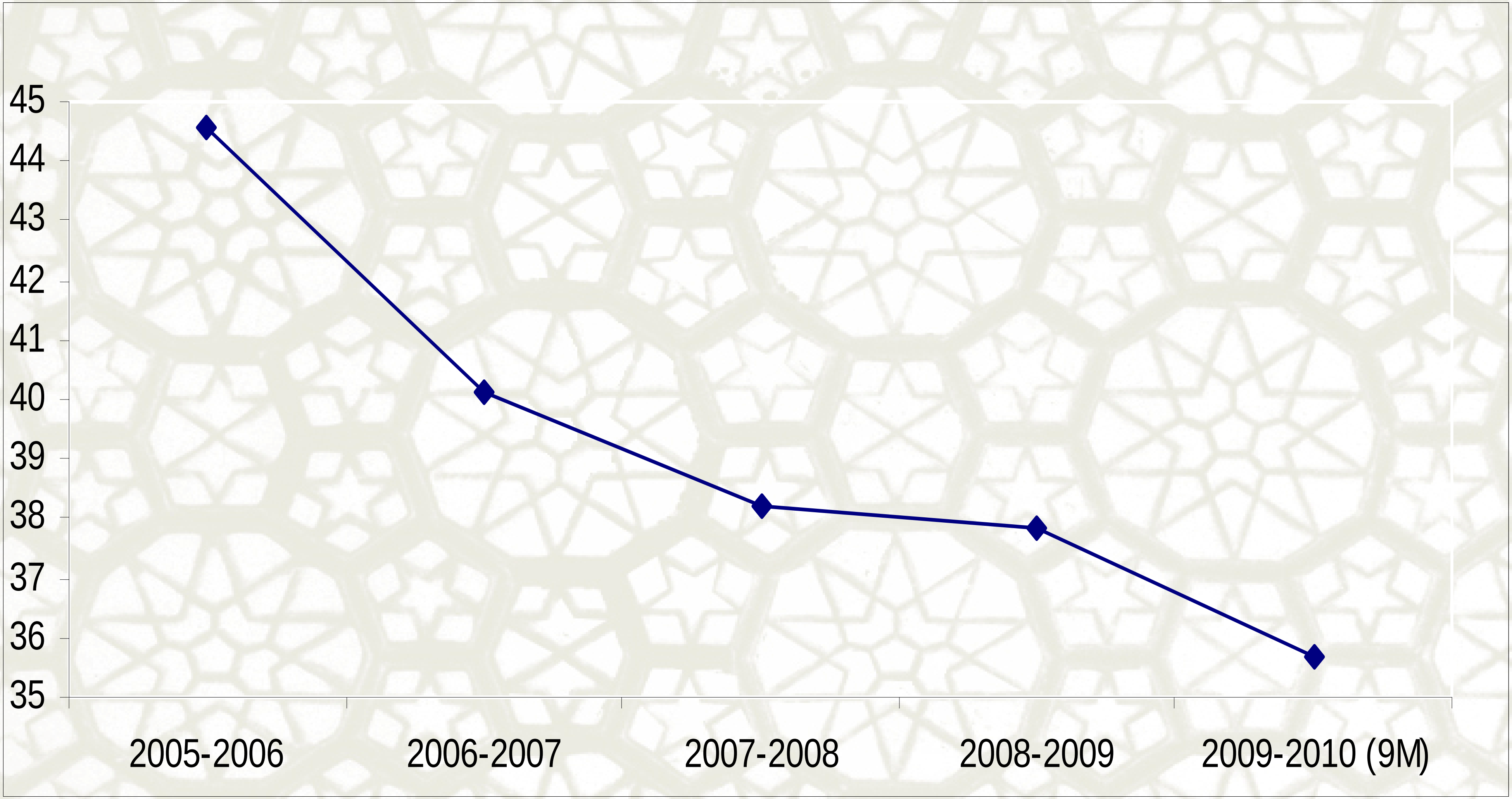
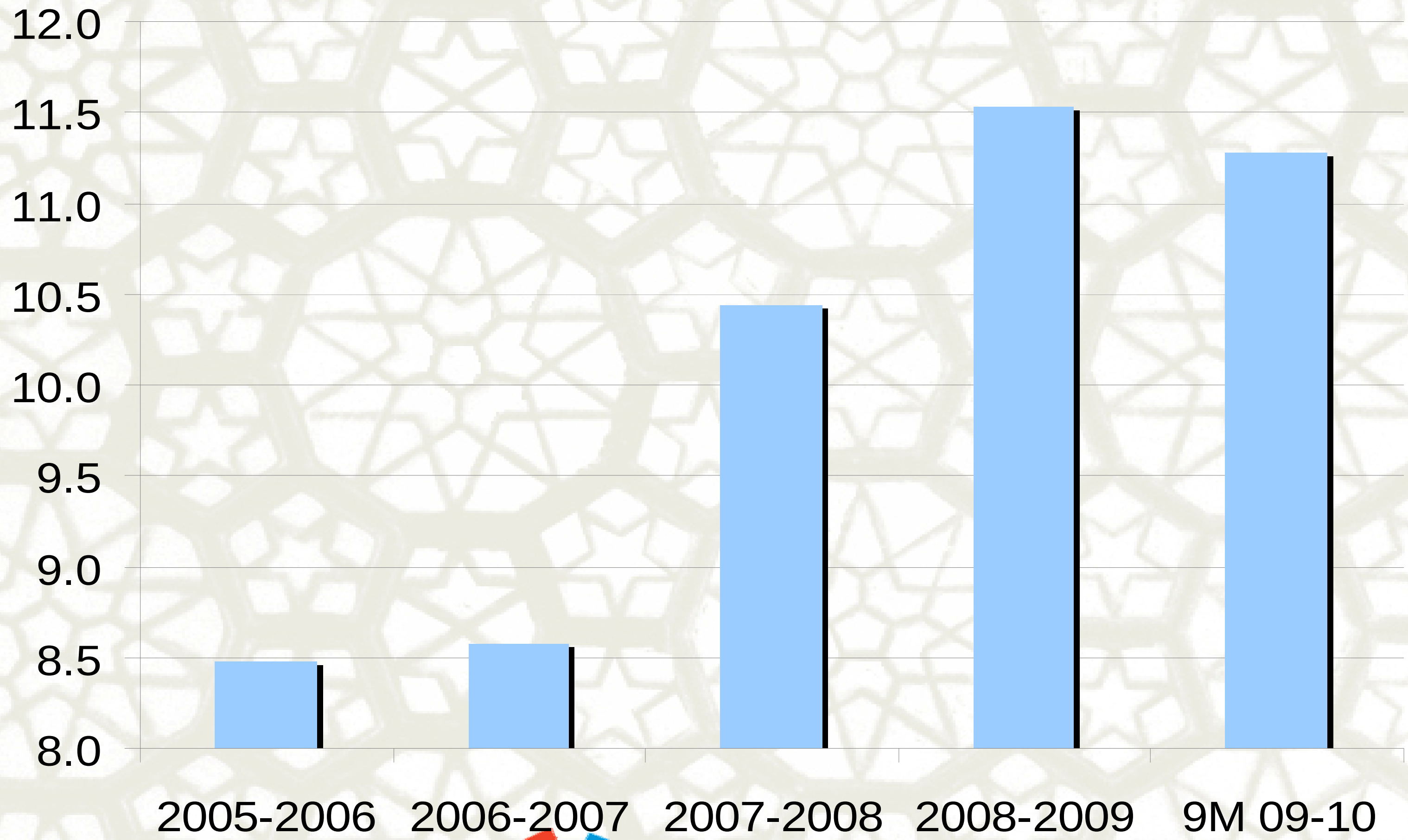
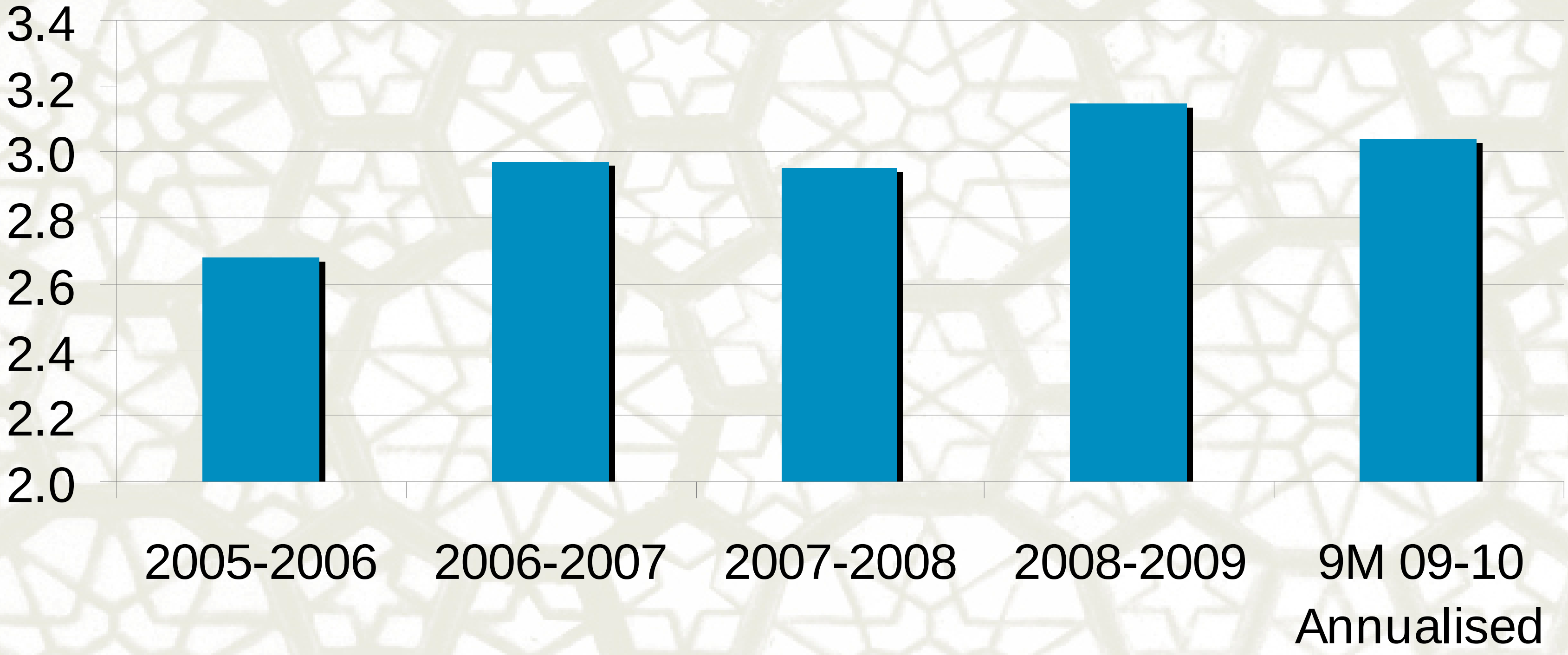
Cost to Income Ratio : Sharp drop



Advances Yield : Increasing



NIIMs : Rising



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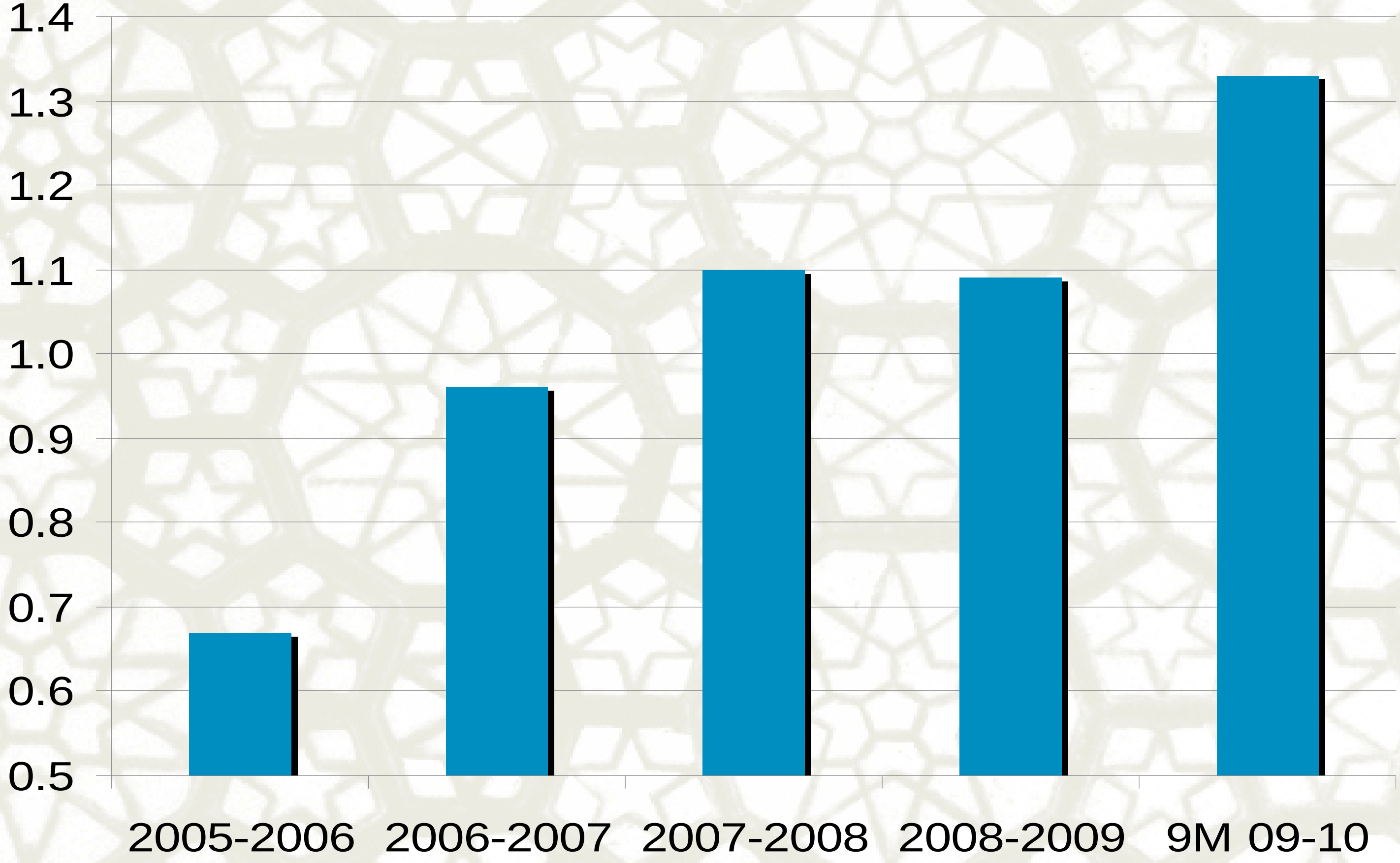
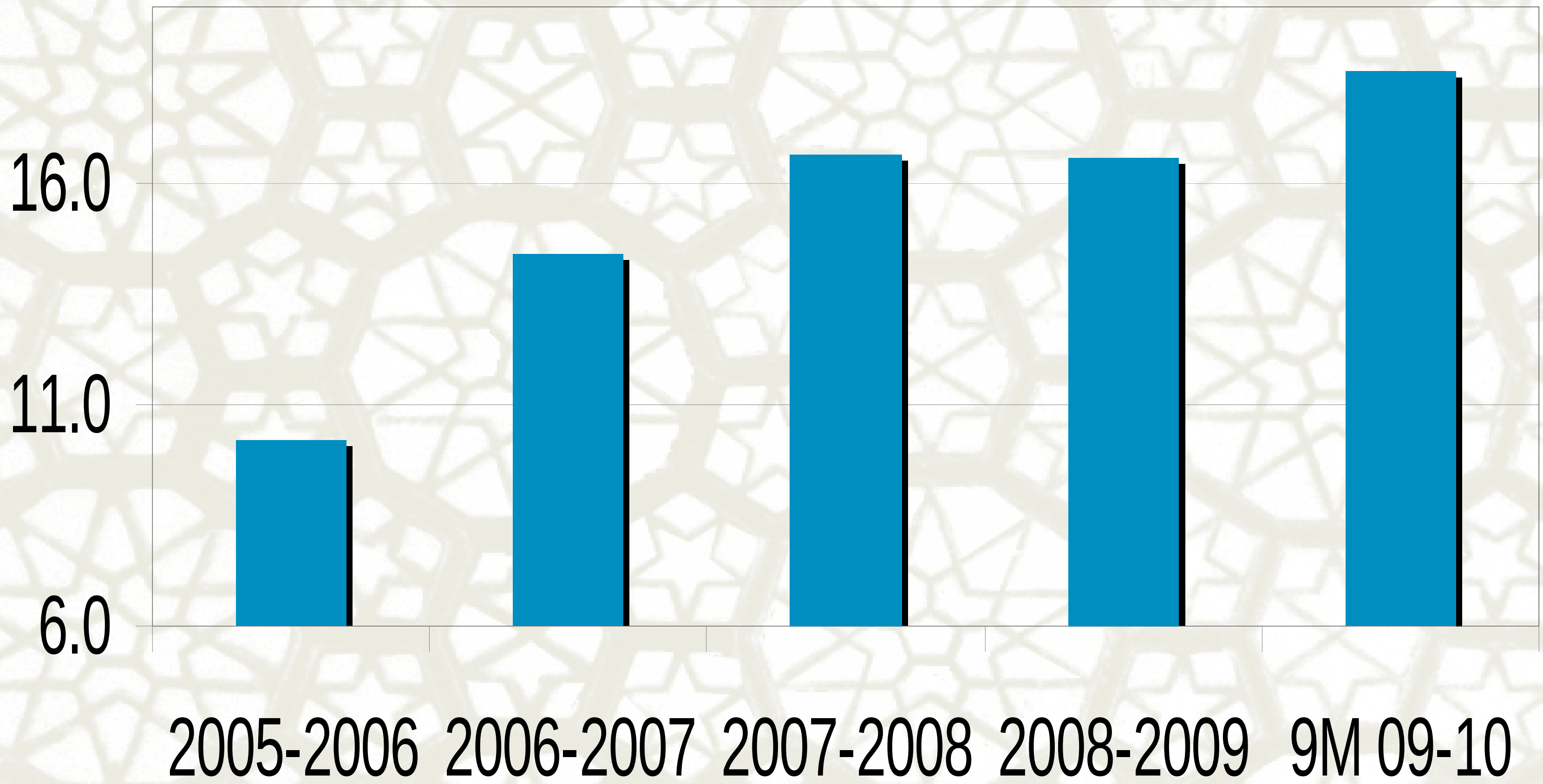
Return on Assets : Constant rise

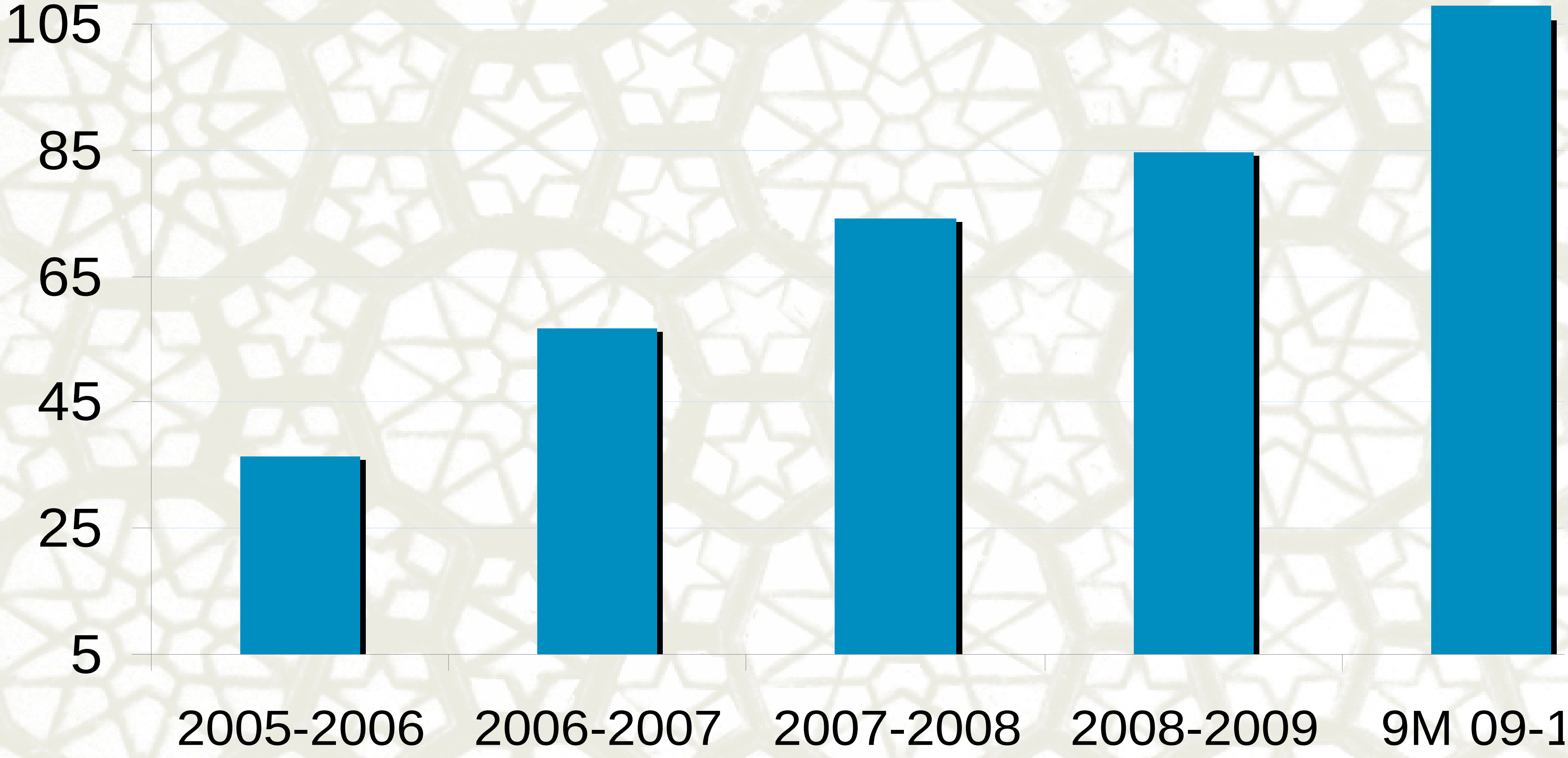


Return on Equity: On the rise

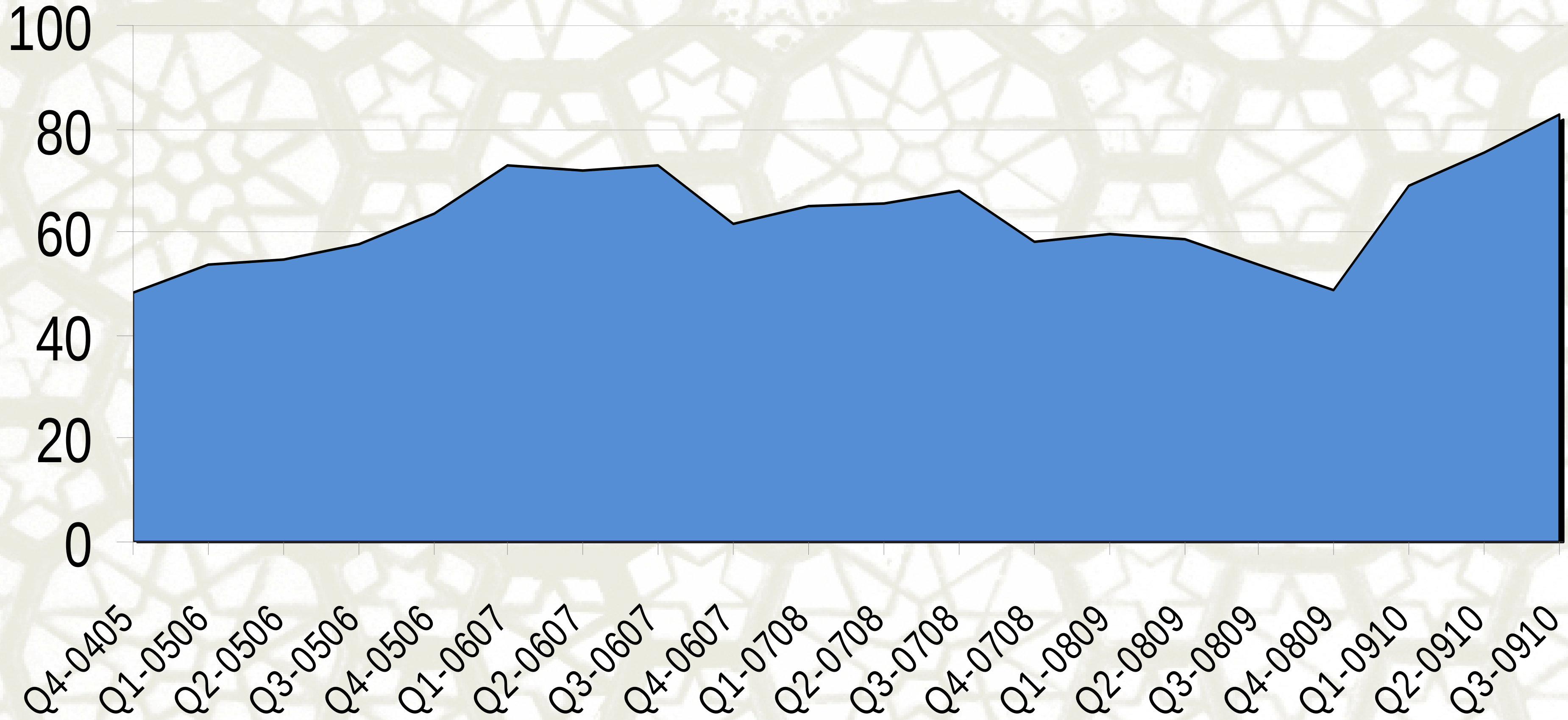


Earnings per share

CAGR 33.50%



NPA Coverage: International levels



Financial : Valuation Ratios

	2005-06	2006-07	2007-08	2008-09	9M 09-10
Earning per Share (annualized)	36.48	56.62	74.26	84.54	107.91
Net Asset Value	371.20	414.36	476.28	541.04	621.97
Adjusted Book Value	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

J&K Bank

Profitability Ratios

	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) (%)(ann.)	8.48%	8.58%	10.44%	11.53%	11.28%
Cost of Deposits (Av) (%) (annualized)	4.55%	4.50%	5.85%	6.22%	5.62%
Return on Assets (%) (annualized)	0.67%	0.96%	1.10%	1.09%	1.33%
Return on equity (%) (annualized)	10.21%	14.42%	16.68%	16.62%	18.56%

Asset Quality:

	2005-06	2006-07	2007-08	2008-09	9M 09-10
Gross NPAs (in Rs Cr)	370.19	501.83	485.23	559.27	460.27
Net NPAs (in Rs. Cr)	133.87	193.57	203.55	287.51	78.83
Gross NPA Ratio (%)	2.52%	2.89%	2.53%	2.64%	2.17%
Net NPA Ratio (%)	0.92%	1.13%	1.08%	1.37%	0.38%
NPA Coverage Ratio (%)	63.64%	61.43%	58.05%	48.59%	82.87%
Gross NPA to Net Worth Ratio (%)	20.57%	24.98%	21.02%	21.32%	15.27%

Operating Ratios:

	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 Expenses 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
Non-Interest Income to AWF (%)	0.44	0.58	0.80	0.70	1.09
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

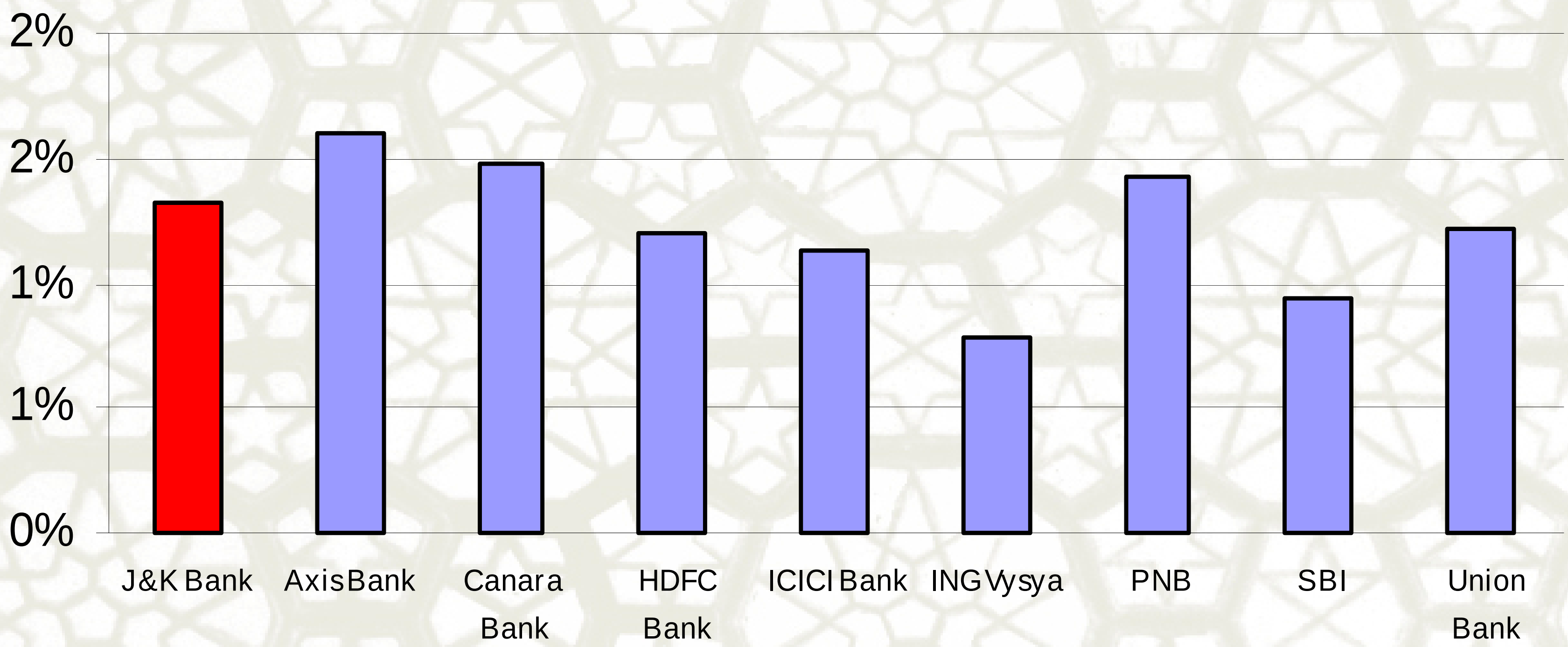
J&K Bank

Efficiency Ratios:

	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 Cr)	5.56	6.17	6.28	7.07	7.05
Net Profit per Employee (In Rs. Lakh)	2.60	4.01	4.76	5.37	6.78
Business Per Branch (In Rs. Cr)	84.56	93.73	93.46	101.19	102.15
Net Profit per Branch (In Rs. Lakh) (Annualized)	39.40	60.86	70.87	76.89	98.14

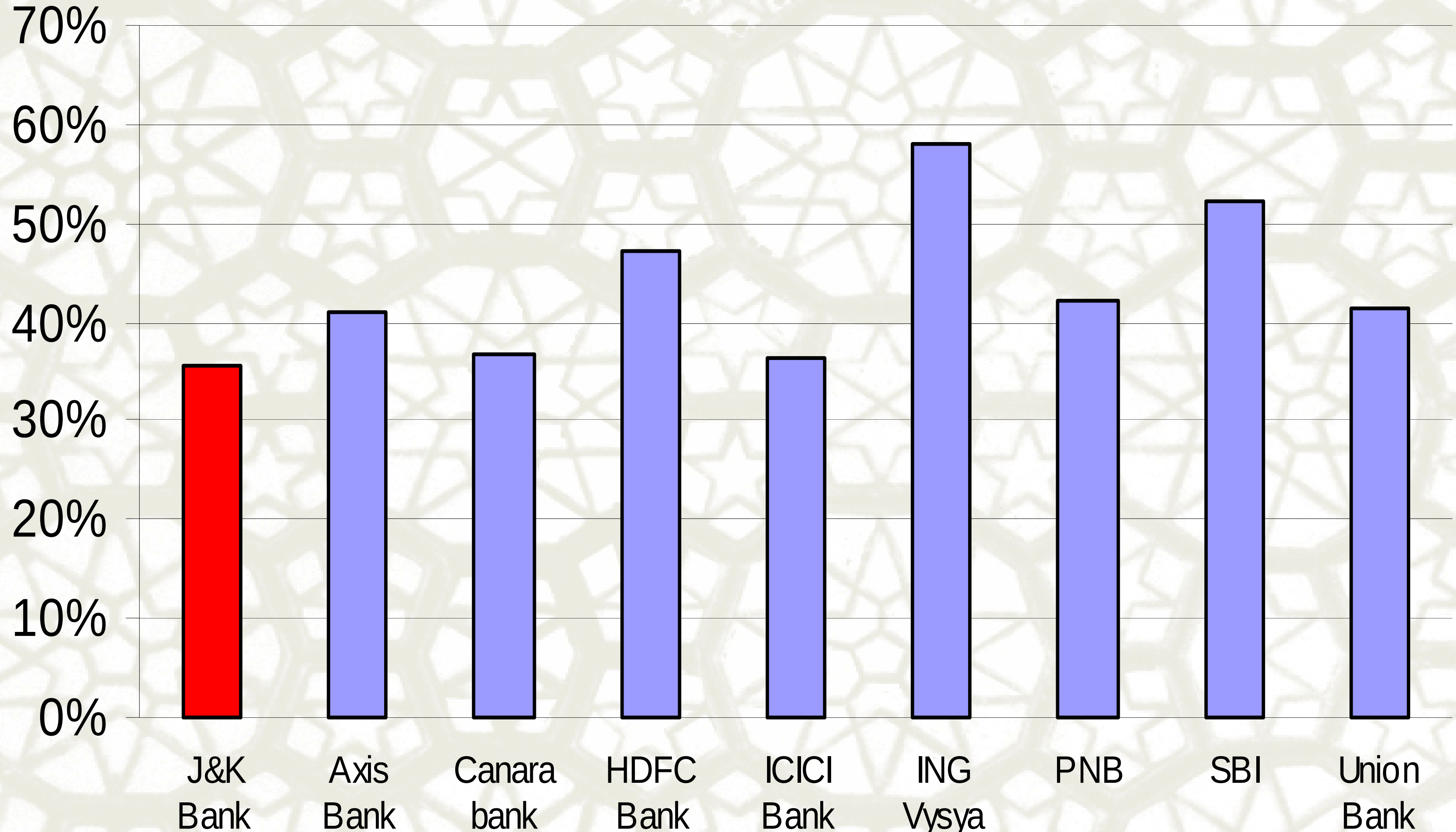
J&K Bank

RoA (Annualized)



As on Dec, 2009

Cost to Income



As on Dec, 2009

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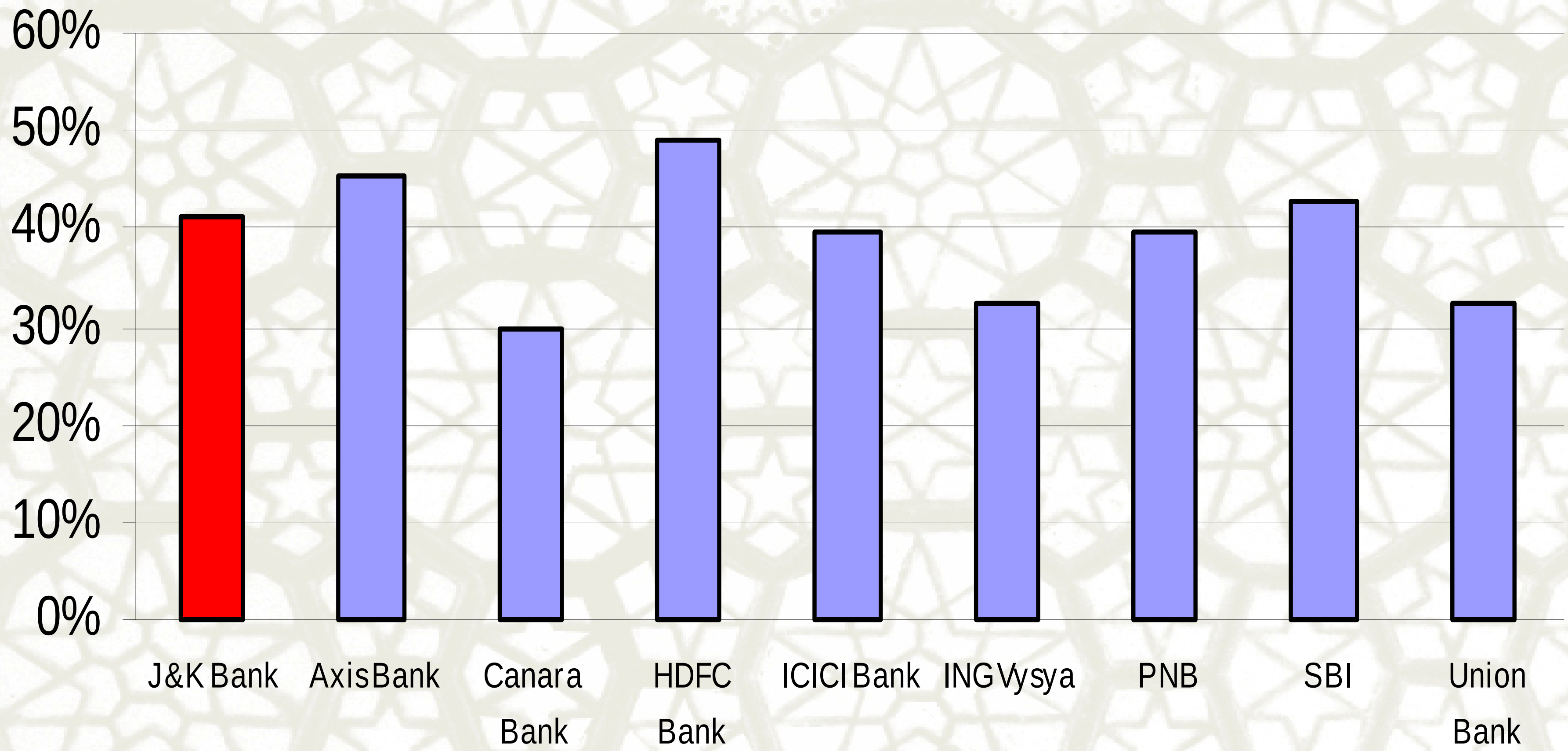
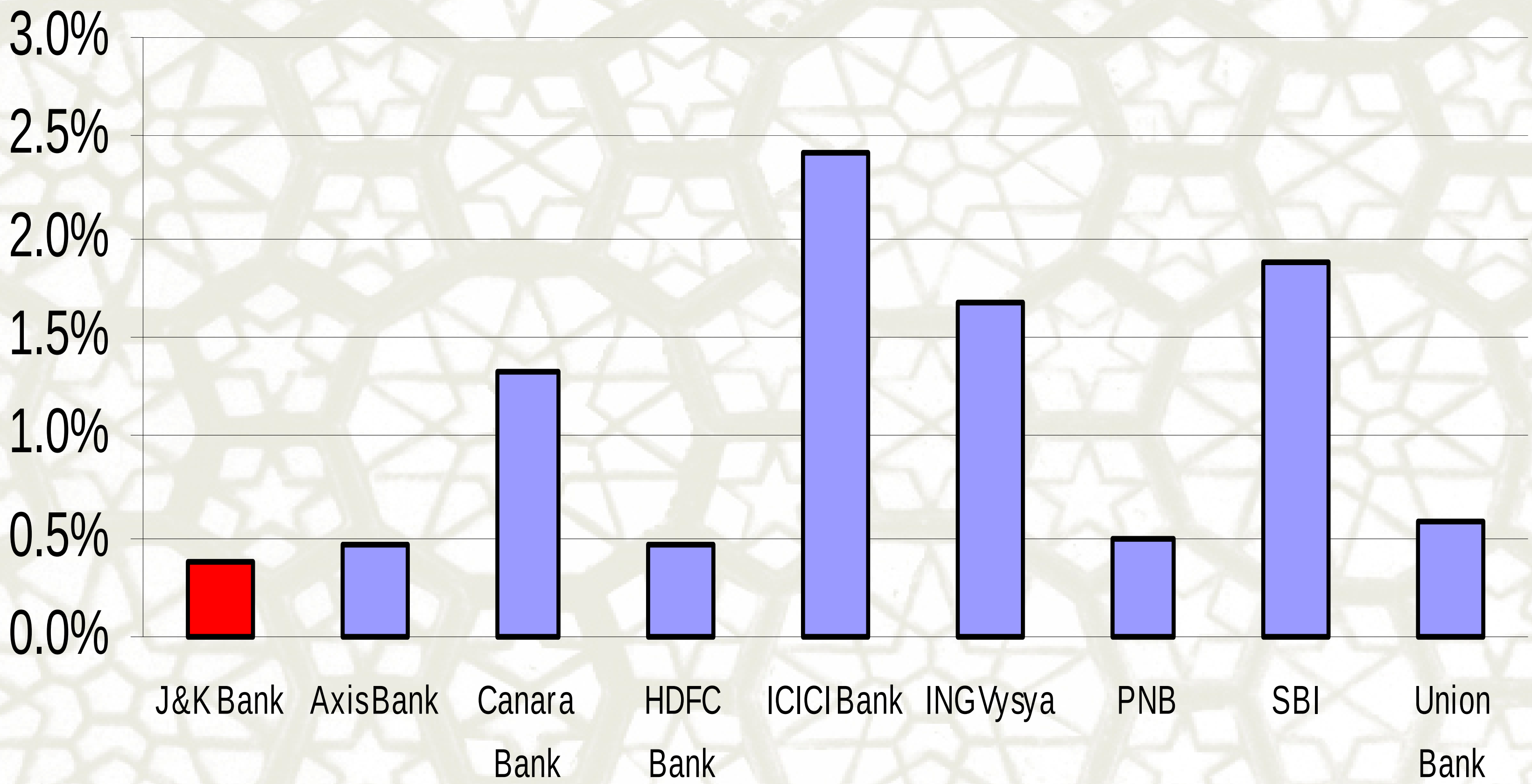
CASA Ratio



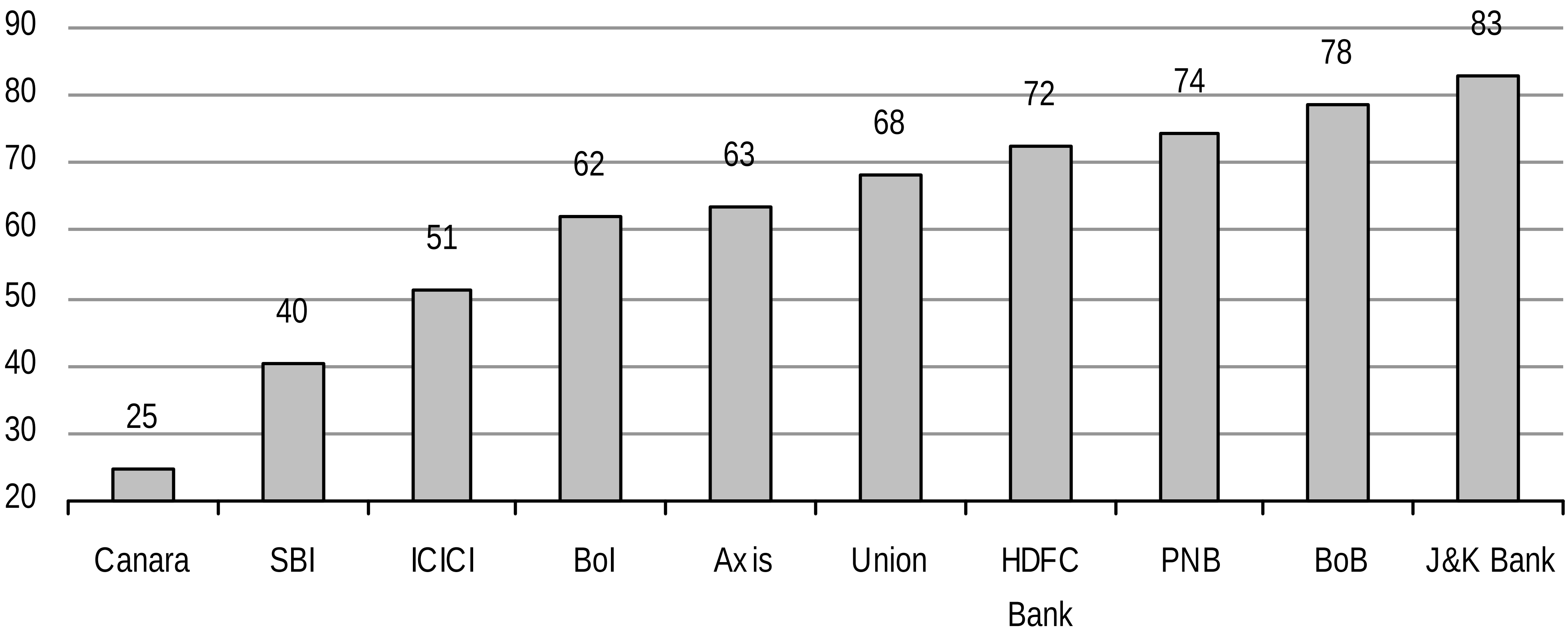
As on Dec, 2009

Net Impaired Loans

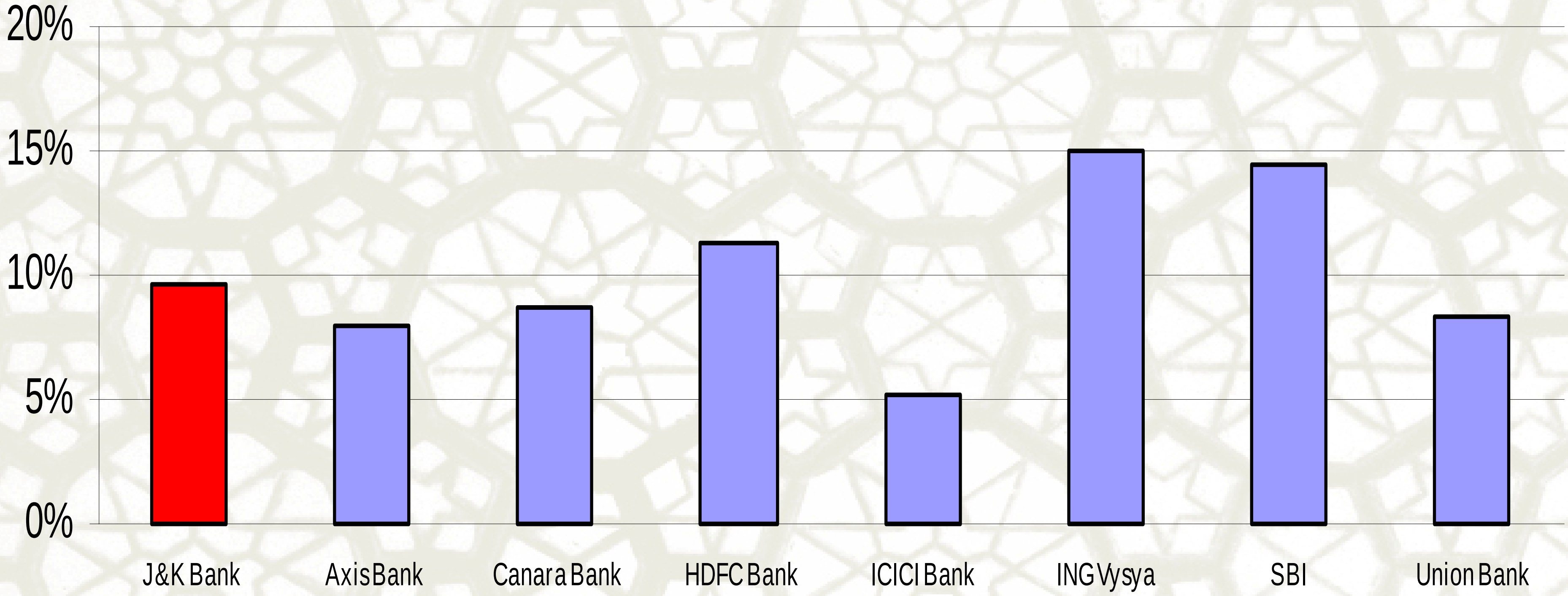


As on Dec, 2009

Coverage Ratio: Highest in India



Staff Expenses to Total Income



As on Dec, 2009

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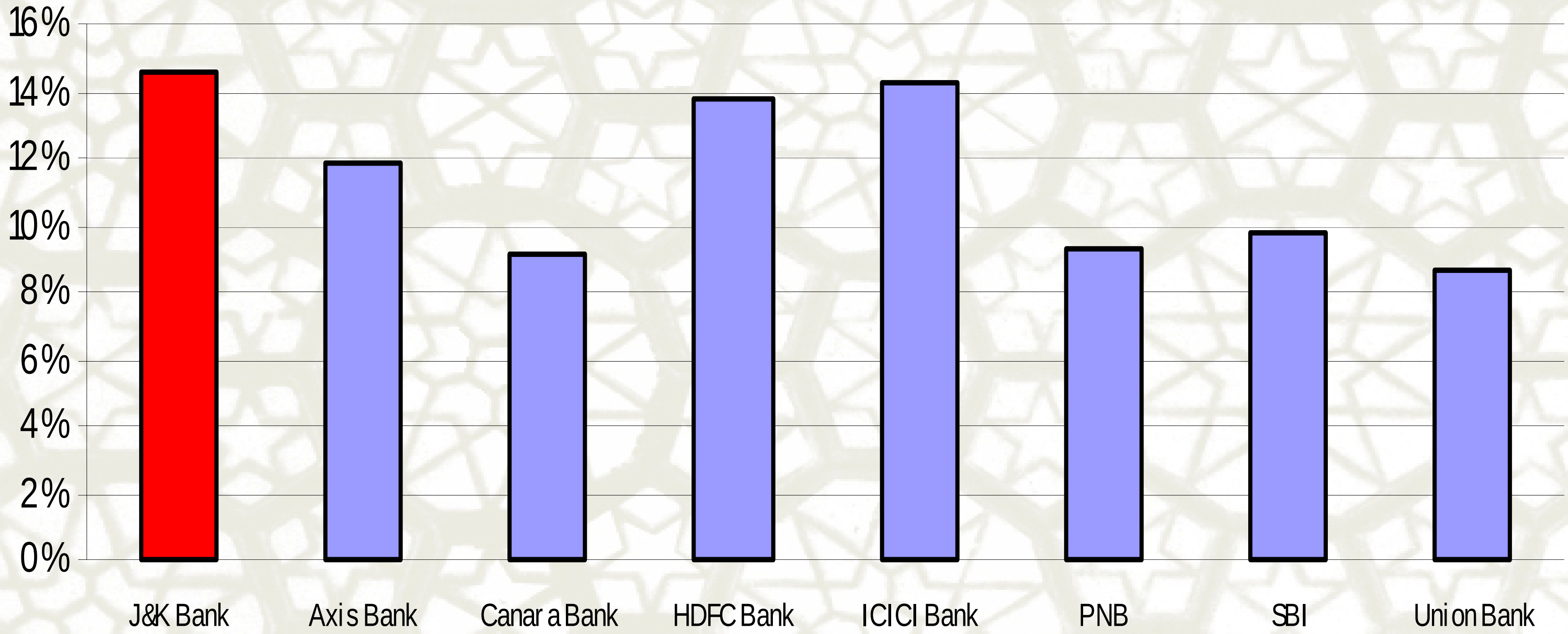
Highest Tier I Capital (Basel II)



As on Dec, 2009

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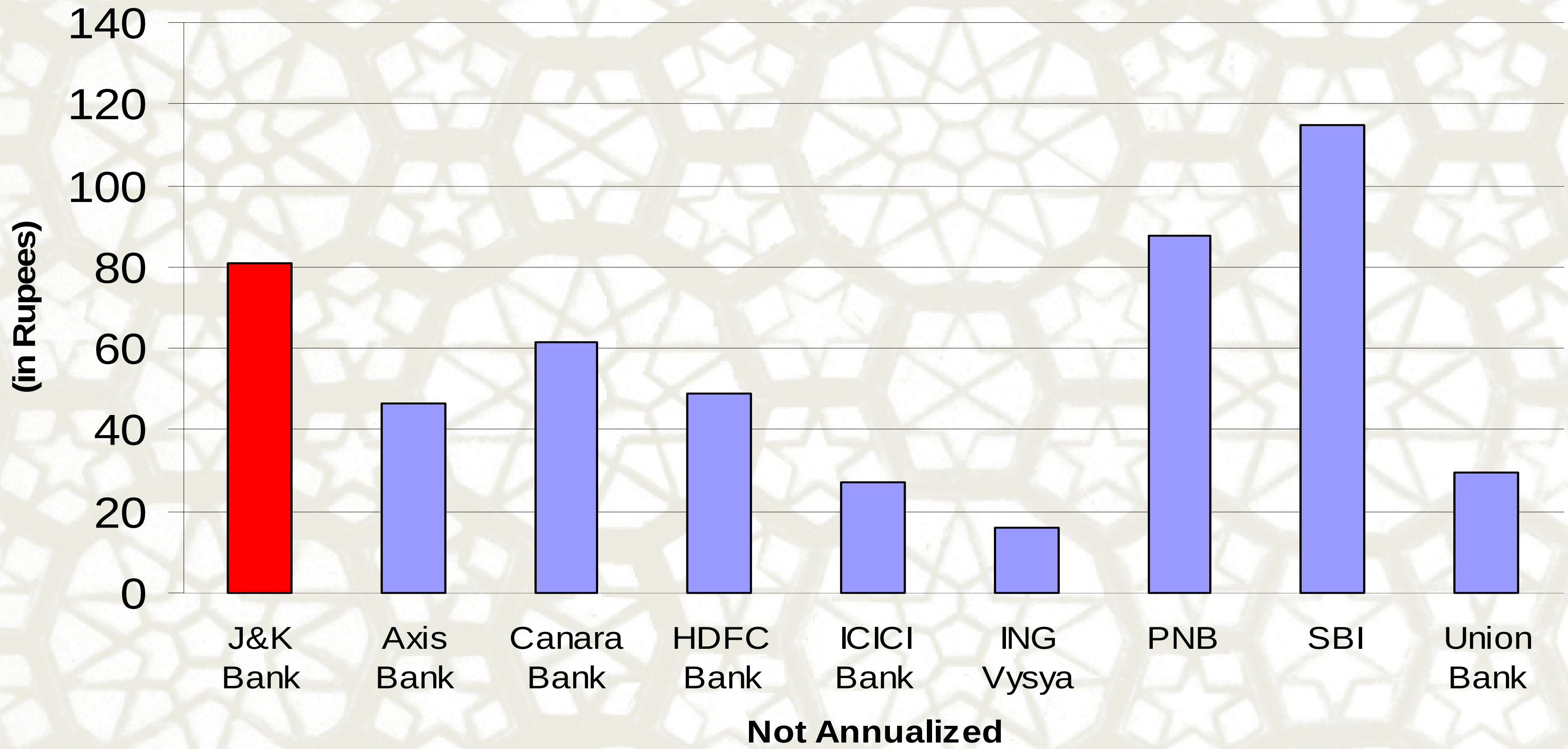
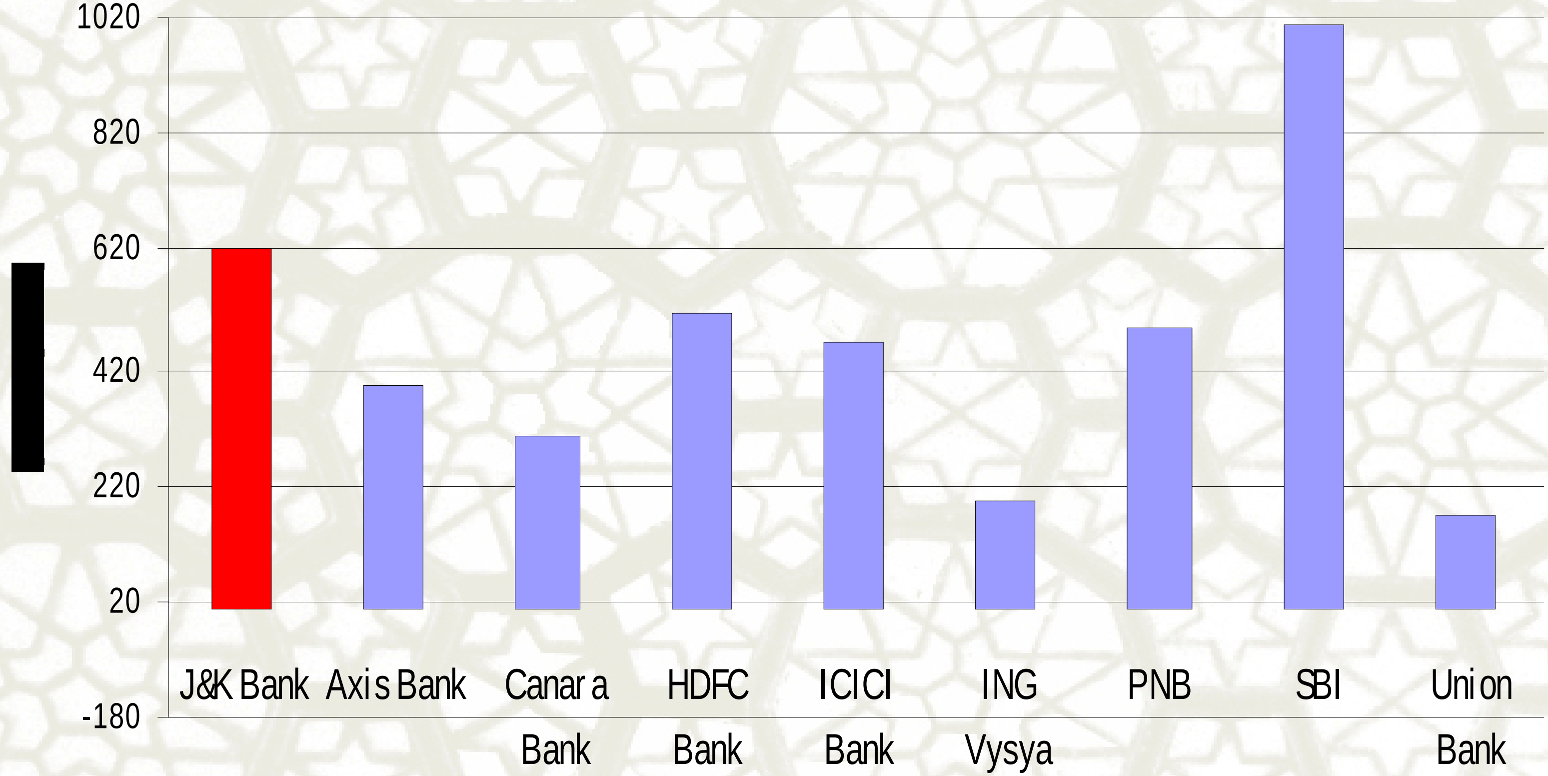
Earnings per Share



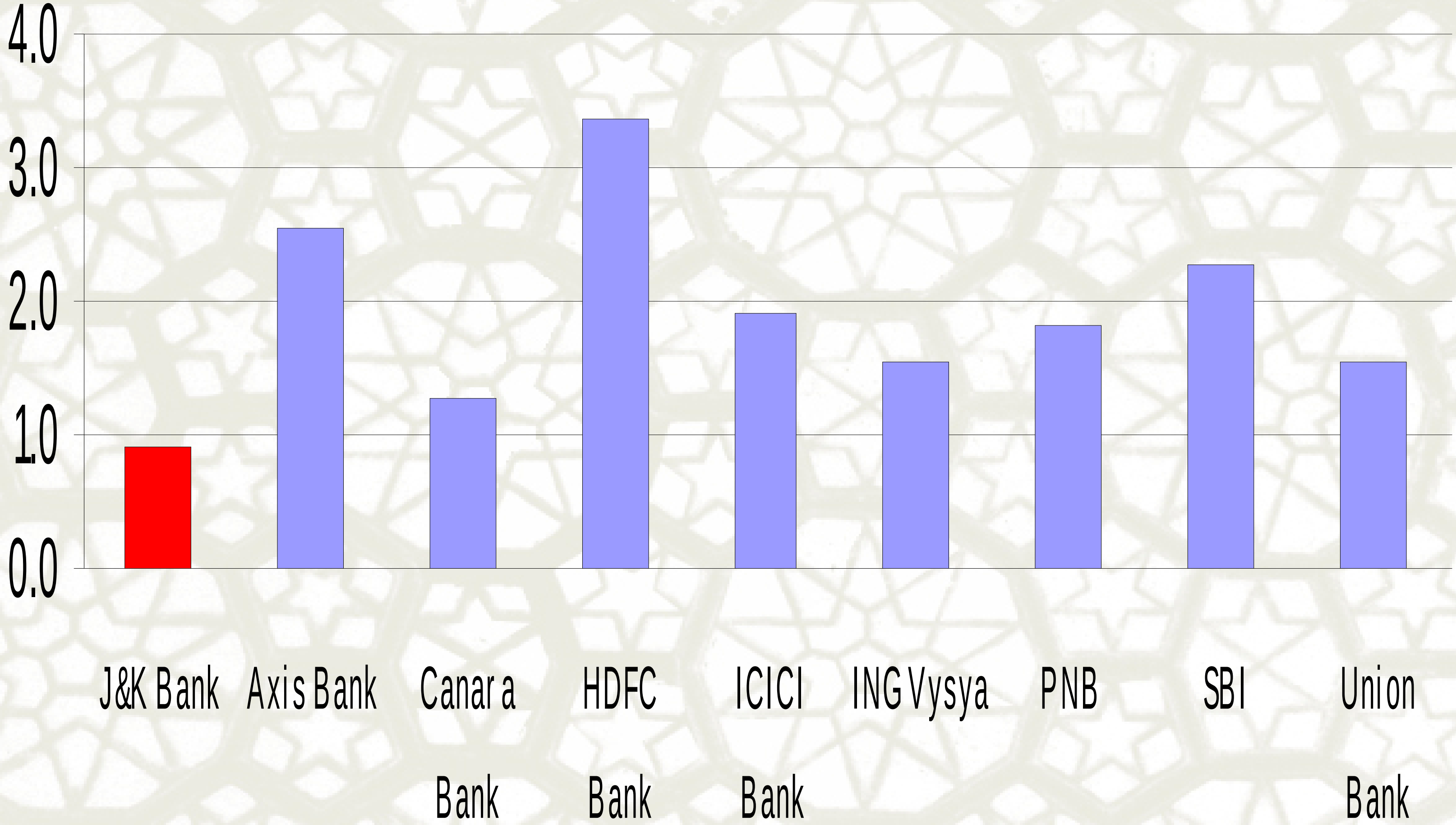
As on Dec, 2009

Book Value



As on Dec, 2009

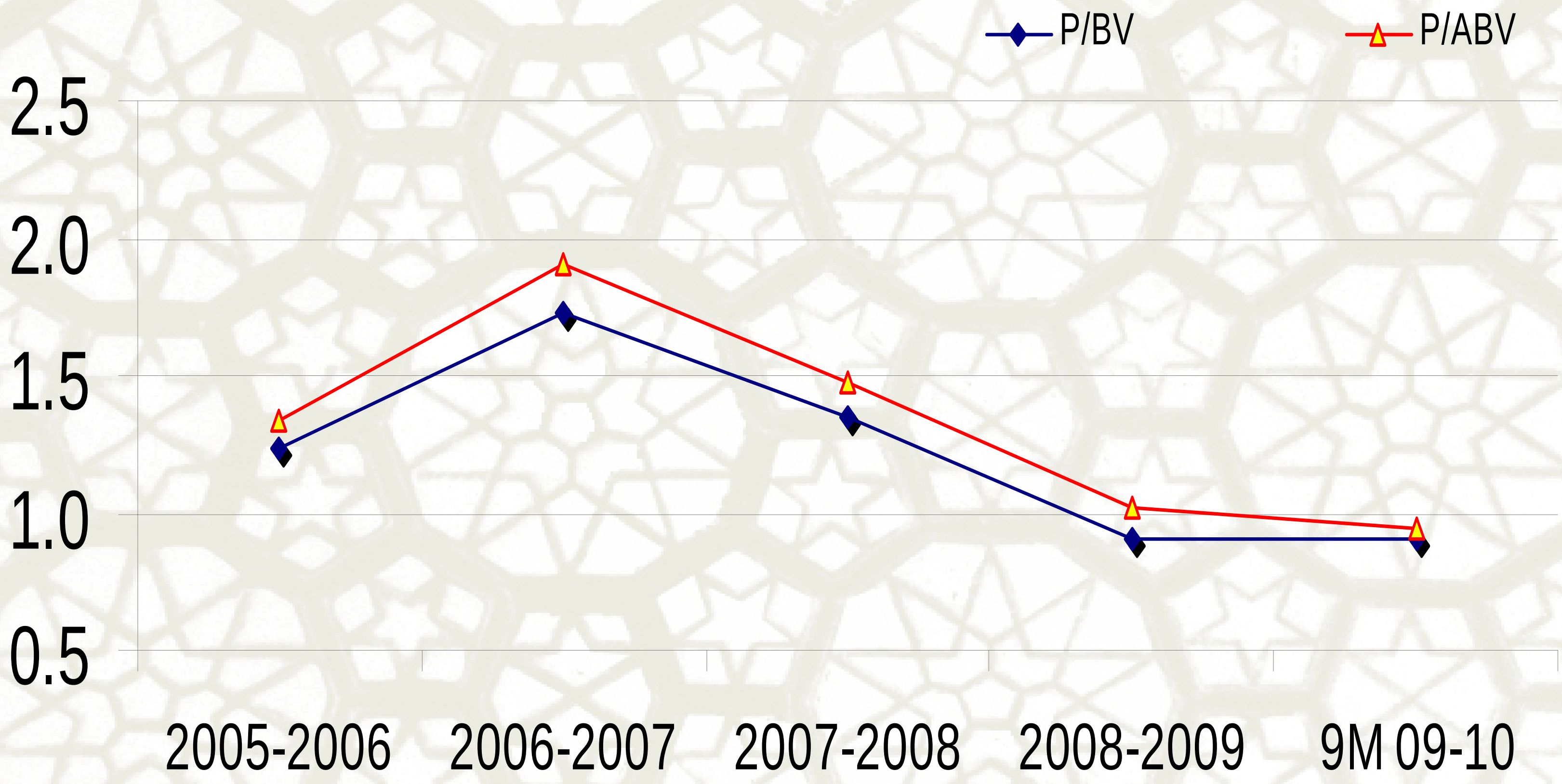
Price to Book Value



As on Dec, 2009

The "Kashmir" question!

(Price/Book Value Ratio and Price/Adjusted Book Value Ratio)



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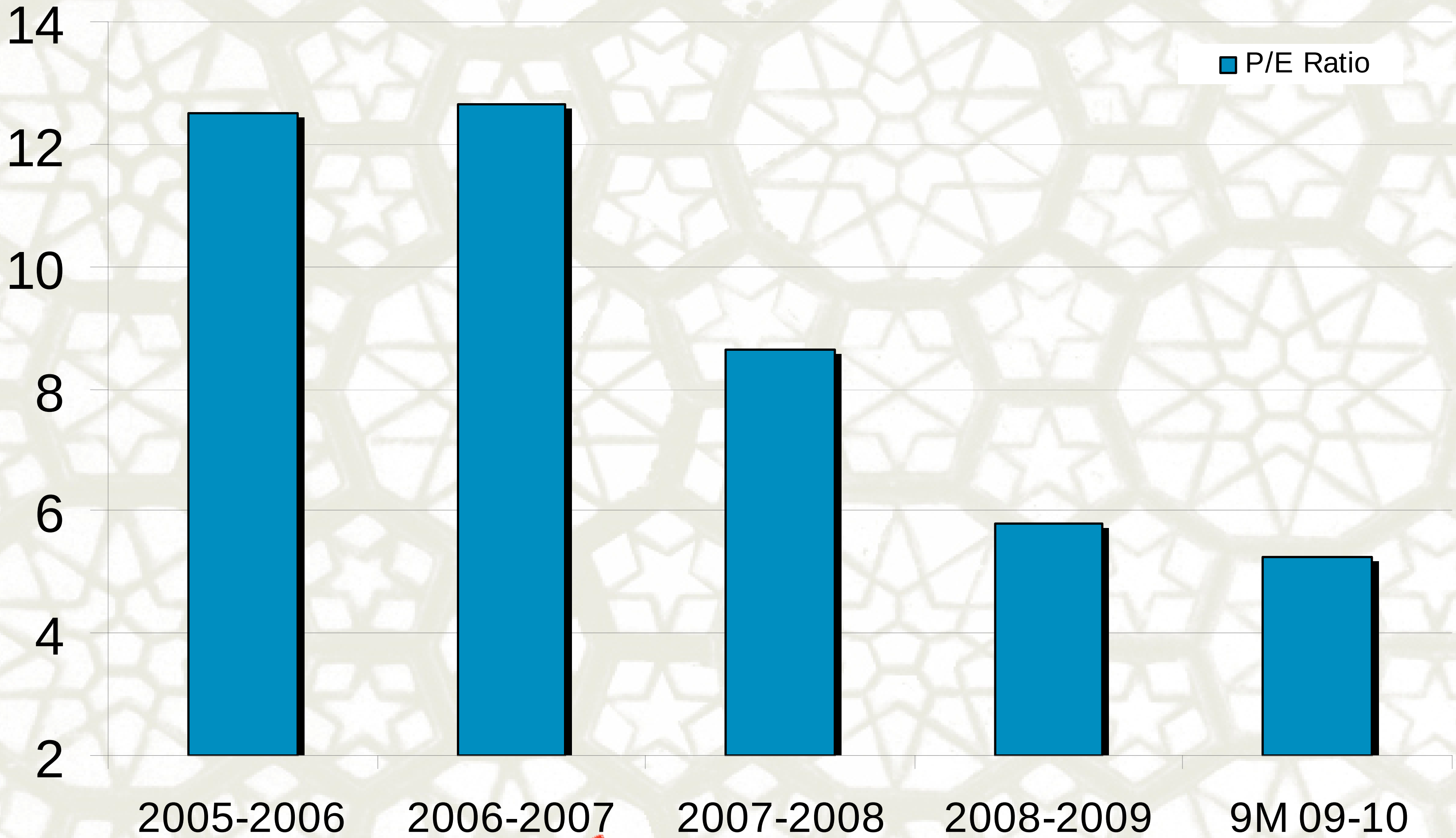
The Puzzle!



J&K Bank

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 600 crore;preparing for gowth cd

J&K Bank

Anticipating adversity & advocating conservatism

"The financial sector is moving from uncertainty to adversity…..the dangers of managing a business in such environs lies in under estimating the extent and intensity of the downside. This should be avoided by erring on the side of conservatism"

(Annual Report 2007-2008)

J&K Bank

Virtues of conservative approach

- Opting for slow loan growth but better leveraging meant that despite adverse environment:
  - Earnings are robust,
  - Net interest margins increasing
  - Seasoned loan book
  - Impairment lower
  - Cost to income reduced
  - Return on Equity rising
  - Return on Assets up and above peer group levels.

J&K Bank

Ground work for Growth

- Raised Rs 600 crore as long term resource in the form of Tier II capital
- Making liabilities the driver
- Maintaining low CD ratio
- Insulate earnings from environment
  - Linking asset to local needs
  - Linking liabilities to local sources

J&K Bank

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

New financial products

- Mismatch between growth sources and credit supply
- High growth and yield areas under-serviced in terms of credit
- Major sectors like horticulture still financed informally
- Artisan economy not financed
- Leveraging intellectual capital by replicating J&K commercial agriculture lending in rest of India

New business initiatives

- Innovative financial products
- Monetizing the Bank's branch network
- Third party product distribution
- Investment banking
- Venture capital financing
- Channel financing

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 $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 1400 Common Service Centres as banking correspondents over the next one year
- Exploring inorganic opportunities for JKBFSL to beef up earnings and increase momentum

Thank you!

J&K Bank