

**Board Secretariat****Investor Brief for June 2022**

A Very **Good Morning** and Warm Welcome to all the participants.

Despite the continuing geo-political strife and inflationary pressures, the onset of the year has seen some positive developments as well. The economic growth is witnessing some uptick especially in the services sector owing to easing of pandemic woes. Other sectors also held firm despite the adverse headwinds. While uncertainty still looms, most economists predict a better future. The three recent rate hikes totaling 140 basis points by RBI due to elevated inflation which remains above the tolerance level of 6% resulted in MTM losses for most of the banks during Q1 when the yields surged to as high as 7.50% for 10-year benchmark. However, the rate hike was well anticipated and already discounted and as such did not bring much selling pressure in the capital market.

At our home-turf - JK & Ladakh - an accelerated level of activity is being observed. The mainstay of the economy - tourism - is witnessing an unprecedented growth with over 10 million tourists visiting J&K during the first seven months (Jan - July) of the year. The large tourist influx is causing revival of tourism & related activities like Hotels, Restaurants, taxi / shikara operators, house-boats, handicrafts and resulting in creation of employment for significant populace. Building of infrastructure - Roads, Rail Links, Tunnels - for maintaining all-weather connectivity with the rest of the country is also catalyzing economic development in the UT. Spurred by the Center's industrial package of Rs. 28400 crores providing capital / interest subsidy plus other incentives and supplemented by the enabling industrial policy of the UT, the government has received investment proposals of over Rs. 50,000 crores from large domestic and global investors / industrialists. Out of these proposals, the government has already allotted industrial land for projects worth Rs. 36,000 crores. The industrial development is expected to create 4 lakh employments opportunities in the UT.

The other major sector of the JK economy i.e. agriculture - or more precisely commercial horticulture - is also expected to do better this year owing to favourable weather conditions, availability of large number of controlled atmosphere (CA) stores for post-harvest stage, better logistics availability for transportation to various mandis of the country.

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The anticipated surge in economic development in the Bank's backyard is bound to create a fast-moving cycle of investments-finance-savings. The Bank with its outreach, familiarity, brand acceptance is poised to be the major beneficiary of this hyper-development phase.

The government employees and pensioners of J&K and Ladakh remain a substantial and focus customer segment of the Bank contributing significantly to the deposit and loan book of the Bank. The Bank besides maintaining salary and pension accounts of this segment provides a bouquet of customized personal loan products with lowest delinquency.

In the rest of the country, owing to our small size and limited presence, we have to play selectively - selective markets & selective segment - to increase our share of the pie. This shall mostly be achieved through collaborations - tie-ups with reputed builders for home loans, engagement of DSAs, collaborative models with Fintechs - and large ticket lending to PSUs and good rated corporates to increase volumes. We are looking at increasing the contribution from Rest of India to the Bank's overall loan book to about 40% in the short-to-medium term and take it to 50% level in the longer term. This shall ensure diversification of our credit portfolio, mitigation of concentration risk and reduce over reliance on one region. The Bank shall reposition itself as a pan-India player with a regional dominance.

Capitalizing on the emerging opportunities, realizing the corporate objectives, maintaining the customer centric approach and taking on the competition require a well reinforced institutional framework - capacity, capability and the infrastructure. We too have taken a number of transformative and strategic initiatives - augmenting capital base, organizational restructuring, succession planning, capacity building, business process re-engineering, etc - to succeed in this highly competitive arena.

Last year we augmented our capital (T1 & T2) by fresh infusion of Rs. 1100 crores and total plow-back of profit (Rs. 500 Crore). This year also we are planning to raise up to Rs. 2000 Crores in tranches (T2 of Rs. 1500 Crore and CET-1 of Rs. 500 crore). The T2 issuance may be in the 2<sup>nd</sup> and 3<sup>rd</sup> quarter while the CET-1 raise may happen in the latter part of the FY. Internal accruals are also expected to be at a higher level this fiscal.

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Let me inform all the stakeholders that during the June quarter, the Bank migrated to the latest version of core banking solution i.e Finacle 10 to pave way for the other major initiatives on BPR, Data Analytics, CRM, Fintech engagement, intelligent Decision Support system, etc. With this migration, the Bank has joined the league of top banks using the upgraded version which offers multiple additional functionalities including API integration with more security features. As had been the experience of other banks during such migration, we too encountered some intermittent disruptions during the process which had some bearing on the business and customer service temporarily. The new version has mostly stabilized and the Bank is ready to fully leverage the system and realize the embedded benefits.

Now quickly on to the numbers for Q1, the Bank has clocked a YoY growth of 6% in Deposits and 8% in Advances. J&K UT which contributes 88% of Deposits, 72% Advances and 82% overall business of the Bank has registered 6% growth in Deposits and 10% in Advances. Growth recorded in Ladakh UT is impressive with Deposits growing at 11% and Advances at 19% over the year. Rest of India continues to record positive growth in Advances for second consecutive quarter, albeit moderated on account of some large NPAs amounting to about Rs. 250 Crores getting adjusted during the quarter. The Bank continues to maintain CASA of over 55% and consequently the cost of deposits remained at 3.60% compared to 3.67% Q1 last year and 3.58% in March Qr. NIM is also maintained at a healthy level of 3.46% in line with our guidance.

The overall operating results have registered marked improvement - Net Interest Income increasing by 7% on YoY and 6% on QoQ basis; Operating Income up by 4% YoY and 6% QoQ; with PAT growth of 59% on YoY and 48% on sequential basis. Employee expenditure was bound to come down on sequential basis owing to the one-off provision made in last quarter. However, the non-employee OPEX has also significantly come down by 12% compared to the previous quarter - the result being that Cost-to-Income ratio which was hovering well above 70% levels for three consecutive quarters has moderated to below this threshold and our endeavor shall be to bring it down to about 60% by the year end and to industry average in the next 1 to 2 years.

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On the Asset Quality side, the Gross NPA ratio has improved when compared with June 2021 level but it has worsened on sequential basis. The Finacle-10 migration issues played some spoil-sport affecting upgrade of NPAs. However, post stabilization of the system there has been significant improvement in the NPA numbers. Pertinently, last year the Bank had technically written off NPAs aggregating to Rs. 760 crores during Q2 which had brought down the GNPA figure. During June quarter, 3 large advances aggregating to around Rs. 250 crore got adjusted and a good number of NPAs are expected to get resolved in the near-term. The Bank continues to maintain provision coverage ratio in excess of 80%. The credit cost for the quarter was well below 1%.

Capital Adequacy ratio is above 13% without reckoning the quarterly PAT reckoning whereof would result in an improvement of over 20 basis points in CRAR.

On the Treasury Operations front we were able to stave off MTM losses as we had, in anticipation of hardening of yields, maintained a fairly small trading book and the investments under the AFS category were mainly in T-Bills under SLR and Certificate of Deposits (CDs) under non-SLR. We were on the positive side of the curve and still have adequate short-term surplus that can be deployed at better yields. Yield on investments has improved by 8 basis points sequentially (QoQ).

We maintain our guidance on growth & profitability as communicated during my previous interaction with you.

We acknowledge your guidance, support and trust and we expect it to continue in the coming days.

I will be glad to have your questions now.....Thank you very much.