

Investor Brief for March 2023

A Very Good Morning (actually it is a very early morning) and Warm Welcome to all the participants.

First let me tender my regrets that we had to postpone the Earnings Call due to some exigencies.

Following on with the gloom cast by Covid-19, global economy has been struggling with overlapping crises over the last two years - be it the geopolitical conflicts, monetary policy tightening through incessant policy rate hikes or the latest liquidity troubles after a series of global bank crises. While the impact appears to have been contained to some extent yet the adverse impacts on economic growth are quite visible.

With the fears on the global economic front notwithstanding, many market analysts believe that this could well be India's decade basis the consumption-driven growth driven by a large, young and rising share of the upper-middle income population. Incidentally, IMF has projected India's growth rate for FY 2023-24 at 5.9% and average 6.1% over the next 5 years. However, future growth will be contingent on investments and India emerging as an attractive investment destination.

Non-food credit growth of banks in India for FY'2023 increased by 15.4% primarily due to improved credit off-take in services and agriculture sector with personal loans growing at a shade above 20%. Significant improvement has been recorded in asset quality with banks' gross NPA falling to below 5% level. Owing to inflation concerns, RBI, over the last one year, has increased the policy Repo rate by 250 basis points resulting in increased borrowing costs, rise in EMIs and some moderation in credit offtake especially in the last quarter of FY'2023.

For our home turf i.e. J&K, FY 2023 has been a wonderful year. A year buzzing with activity on account of infrastructure development - rail, road / tunnels, smart cities and social infra, - unprecedented tourist inflow - 1.88 crore during calendar year 2022 - and consequent upsurge in overall economic activity. The environment is further enthused due to upcoming events scheduled in the UT with regard to the G-20 summit.

The government estimates suggest tourist inflow to surpass 2 crore during calendar year 2023. Significant push in the Budget for FY 2024 for Capex at Rs. 41,500 crore (35% of total budget of Rs. 118,500 Crore of the UT), clearance of investment proposals of above Rs. 30,000 Crore with land bank of over 47,000 Kanals for creation of 42 industrial estates, etc are all harbingers of an accelerated growth phase in the UT. Ladakh UT also is experiencing commensurate growth in infra and tourism sectors.

As we announce the annual financial results, I am reminded of an oft-repeated adage 'All is well that ends well'. In our case FY 2022-23 has not only ended well but has concluded on a high and historic note of success.

During my first interaction with you last year, some friends had advised me not to over commit on promises of delivery till I was more acquainted with the Bank, its working culture, its strengths, weaknesses and opportunities. But during the first three months at the Bank itself I had gauged the potential and the intrinsic value that the Bank had which only required to be unlocked in a calibrated manner. Now a year later, looking back to my

assessment and envisaged outcome vis-a-vis these set of numbers, I feel immensely proud to state that on most counts we have delivered better-than-promised results.

Today, I see an unmistakable shift in performance as well as the functioning of Bank. Right from operations and business to compliance and vastly improved corporate governance, the leap from turn-around to transformation in the Bank is as perceptible as it is promising. While making our balance-sheet stronger with every passing quarter, we have now entered into a progressive-phase wherein business-growth coupled with process-excellence is all set to yield even better returns for all the stakeholders of Bank.

I am delighted to share with you our record-breaking annual net of **Rs 1197 Cr**, which is a historic and highest-ever annual profit for the Bank. While growing **139% YoY** annually we have also clocked an unprecedented quarterly net at **Rs 476 Cr**.

Our record annual profits reflect not only the improving operational efficiency but brings to fore the resilience, resolve and enterprising capabilities of our highly dedicated workforce. In a way we have met market expectations and honoured the trust reposed in us by all our stakeholders. We have navigated through challenges, adapted well to changing market dynamics, emerged stronger than ever and raring to scale newer heights of growth and prosperity.

Our deposit growth was 6.4% on YoY and 3.5% sequentially QoQ. Our Net Advances grew at 17% on YoY and 6% on QoQ basis which broadly corresponds to the industry credit growth and an improvement over our market guidance. Among the sectors, Housing Loans recorded growth of around 20% YoY. Rest of India loan book buoyed by Corporate credit growth recorded YoY increase of about 22%. In JK & Ladakh Consumer Loans and Housing Loans recorded growth of 19% apiece.

On the operating results, improvement is conspicuous on every parameter be it pre-provisioning or bottom-line;

Interest Income is up by 25% YoY for Q4 and 17% for the FY;

Net-Interest Income is up by 22% YoY for the quarter and 21% for the FY;

Despite proportionately providing for the Wage Revision (which is due from Nov 2022), **Operating Profit** is up by 75% YoY for the year.

Cost-to-Income ratio has moderated to 66.22% for the year against 77.18% in previous year despite creation of proportionate provision for the wage revision which is due from Nov'2022. The trend is evident and we are on course to bring it gradually down to industry level by addressing the factors.

The highlight of the performance during the year is reflected in the vastly improved Asset Quality. Our GNPA has come down to 6% level while NNPA is well below 2% which are decadal lows on these parameters. We had envisaged a net recovery of Rs. 1000 crore in NPA. The achievement far exceeds the guidance with net recoveries of Rs. 1300 crore in NPAs and another Rs. 120 crore in technically written-off loans. We continue to maintain a provision coverage of above 85% level. With stabilization of the upgraded core banking solution, we have greatly tied over the slippages also which had been elevated during the first three quarters due to some technical issues.

Another major highlight is the reinforcement of Balance Sheet strength by augmenting the Capital Adequacy. We raised Tier-2 bonds over Rs. 1000 crore in Q3 and the significant internal accruals during the year have resulted in an improved CRAR of 15.39% with CET-1 above 11%.

Here I would like to inform you that the Bank had launched ESPS during Q4 for raising up to Rs. 300 crore of Equity Capital from employees and the issue was fully subscribed. However, owing to observations of the Statutory Auditors regarding transfer of amounts by some employees from their general purpose pre-existing personal loans (Salary Overdraft and Consumption Loan) to their Savings Bank account used for subscribing to issue, we, as a matter of adopting prudent Corporate Governance standards, have not reckoned the amount in the Capital and a decision in this regard shall be taken after getting clarifications / clearance.

The Bank has also on-boarded Merchant Banker to explore sale of stake in PNB-Metlife.

Employee productivity & profitability has improved significantly.

Net Interest Margin during Q4 was at 3.94% and for the FY 2023 it stood at 3.89%. There has been some increase in cost of deposits due to higher growth rate in Term Deposits which is a result of the hardening of interest rates prompting some shift from saving to Term deposits. However, our CASA at 54.10% is at a healthy level.

We expect our NIM to remain strong as a good amount of our dated Securities portfolio (about 8000 crore) at lower current yields is getting redeemed this year which will get reinvested at higher yields improving our returns on investment portfolio.

Board of Directors of the Bank have recommended Dividend at 50% of the Face Value of shares. Bank had paid the last dividend to its shareholders for FY'2016 so the resumption has been after seven long years.

Looking ahead, we recognize that the financial landscape is constantly evolving. But we are highly optimistic about our growth for the current year. With various transformational projects underway, we expect a surge in business along with upward movement in other financial indicators. Growth across all segments will be our prime focus besides increasing our footprint in strategic areas of the country as part of business-expansion and risk-diversification while retaining our stronghold in J&K and Ladakh.

Let me put it on record that striking a balance between digital presence and physical relevance, we have set out on to a transformational drive that will accelerate business growth while enhancing customer experience and adding delight to their digital journeys.

Towards this end we are making rapid advances in becoming a tech-bank by adapting to best global practices and investing in advanced technologies from Open Banking API, STP Platforms and Cloud Adoption to AI and ML Based Analytics to drive innovation and improve business outcomes.

Lastly, as we celebrate this milestone, we remain mindful of the complex challenges that lie ahead due to ever-changing global and regional economic landscape. But with a deeply dedicated team, the support of our customers, and our unwavering commitment to excellence, we are confident as well as prepared to adapt to new realities.

Together, we have achieved this historic milestone, and I look forward to our collective journey towards a shared-future filled with even greater achievements.

Once again I thank you all and acknowledge your guidance, support and trust and we expect it to continue in the coming days.

For FY'2024, our guidance will be;

Credit Growth of 15%

NIMs ~ 3.75%

CASA ~ 55%

Cost to Income ~ 60%

RoA ~ 0.90%

RoE ~ 14%

GNPA ~ 4.50%

NNPA ~ 1.50%

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

Concluding remarks after Q&A session

Thank you, _____, and thank you to all the participants for joining in today. For any further questions, queries, comments or anything else, the team is always available and you can also direct your queries to our Investor Relations desk and we will definitely respond...