

India Unplugged : The wave continues

Global Investor Conference

March 12 – 14, 2007

New York

 **BARCLAYS
CAPITAL**

 **kotak**
Institutional Equities

 **J&K Bank**

Structure of Presentation

- Profile
- Plan
- Performance
- Perspective
- Potential

Profile

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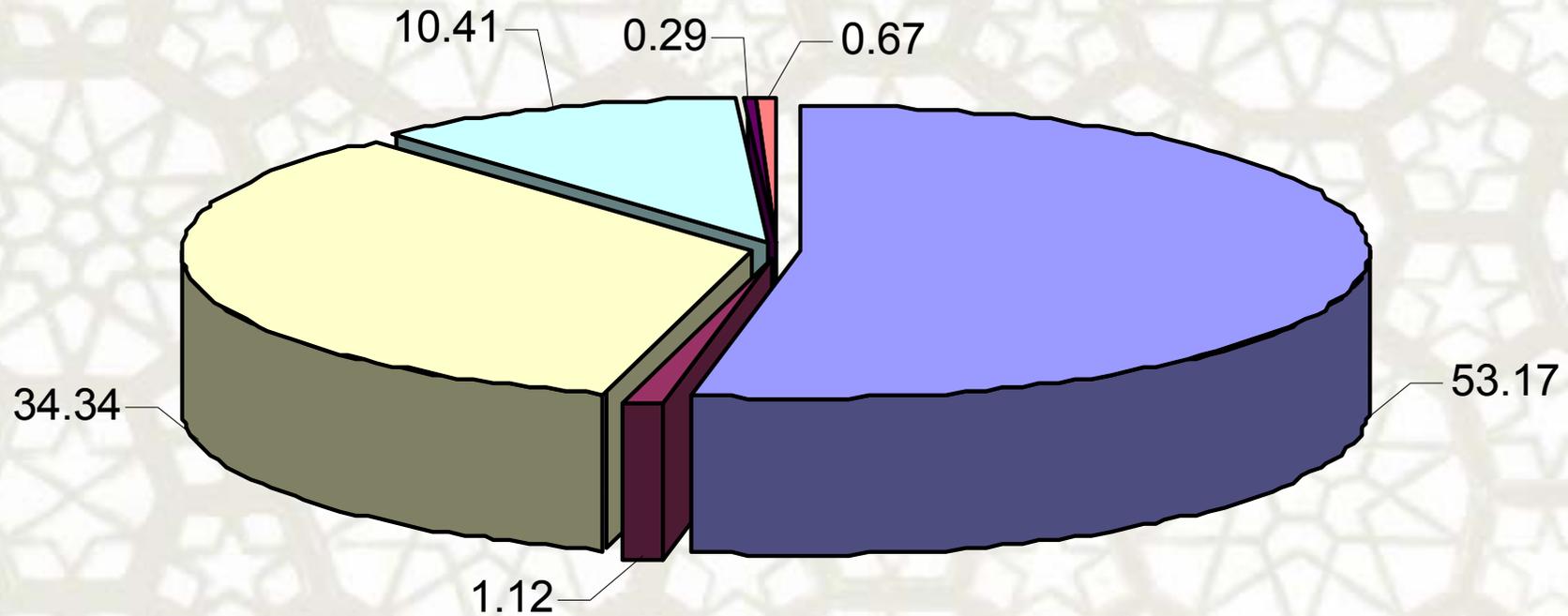
Basic facts

- Incorporated in 1938 as a limited liability company
- Governed by the Companies Act and Banking Regulation Act of India
- Regulated by the Reserve Bank of India and SEBI
- 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



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Shareholding Pattern



- | | |
|---------------------------|------------------------------|
| ■ GOVERNMENT OF J&K | ■ INDIAN MUTUAL FUNDS |
| ■ FOREIGN INST. INVESTORS | ■ RESIDENT INDIVIDUALS |
| ■ NON RESIDENT INDIANS | ■ Bodies Corporat/Banks/Insu |

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As on March 2, 2007

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
- Collects taxes for Central Board of Direct Taxes in J & K



Differentia specifica

- Operating in a “closed” economy:
 - limited Leakages
 - lending akin to reserve money
- More lending within the state:
 - more incomes are generated
 - low cost saving deposits
- Virtuous cycle of lending and saving
 - liquidity remains within the bank’s system, giving:
 - Rising yields
 - Better margins
 - Higher profitability



Infrastructure

- Fastest growing bank with 516 branches
- 98 per cent business computerized
- Anywhere, Tele-banking and SWIFT
- Internet, SMS and Mobile Banking
- Globally connected ATM network
- Mobile ATM Service
- Global Access Debit & Credit Cards
- Live on RTGS System of RBI



Other Services:

- Insurance joint venture with MetLife International .
- Distributor of:
 - Life Insurance products of MetLife (India) Pvt. Ltd. and
 - Non-Life Insurance products of Bajaj Allianz General Insurance Co. Ltd
- Providing Depository Services
- Offering Stock Broking Services
- Collection Agent for utility services provided by State and private sector

Plan

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New business strategy

- **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
 - Specialist bank in rest of the country

Operational aspects

- A 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
- A more focused balance sheet

Carving a niche, nationally

- Nationally, lending in consortium to large corporates
 - Reduces margins
- To improve margins focus on:
- Under-serviced areas with high turnover
- Specialised sectoral lending
- Specialist branch chain - leather, grains, spices
- Re-pricing
- A universal bank in J&K and a specialist bank outside

New business initiatives

- To meet the growing needs of the economy, the Bank is taking the following new initiatives:
 - Innovative financial products
 - Monetizing the Bank's branch network
 - Third party product distribution
 - Investment banking
 - Venture capital financing
 - Channel financing

New financial products

- Mismatch between sources of growth and credit supply
- High growth and yield areas, e.g commodity financing, under serviced in terms of credit
 - Horticulture continues to be financed informally
 - Artisan economy not financed
- Size of horticulture business - Rs.12 to 15 Bn
 - Current exposure is Rs.1.5 Bn
- Size of Artisan business - Rs. 4 to 6 Bn.
 - Current exposure is Rs. 0.6 Bn
- Need for customized financial products to tap these high yielding markets not just in the state but also outside

Third party product distribution

- The extensive branch network will be used as a distribution channel for financial products of all financial service providers
- The bank will charge a fee and or a commission for:
 - Services rendered
 - Infrastructure provided
- This strategy will:
 - Beef-up the non-interest income of the Bank
 - Reduce volatility of incomes and profits
 - Make hard assets sweat more
 - Improve business per branch per person

Investment banking

- J&K Bank has a captive client in the State Govt.
- State Govt. is investing 240 Bn in power alone for which it requires:
 - Investment advisory
 - Loans syndications
- Mandated to take corporations like Power Development Corporation public
- Such services will be delivered at a fee
- J&K Bank's core competence viz-a-viz competition is extensive domain and geographical knowledge.

Organizational restructuring

- With a view to meet the growing needs of the Bank in tune with the changing and competitive banking environment, bank has taken the following new initiatives:
- Engaged a Brand Strategist
- Re-designing its visual brand image and give it a very distinctive and contemporary bank personality
- Engaging the services of HR consultants aligning people strategy to business strategy
- Redrawing the organization structure with a view to make it efficient, effective, excellent and value driven.

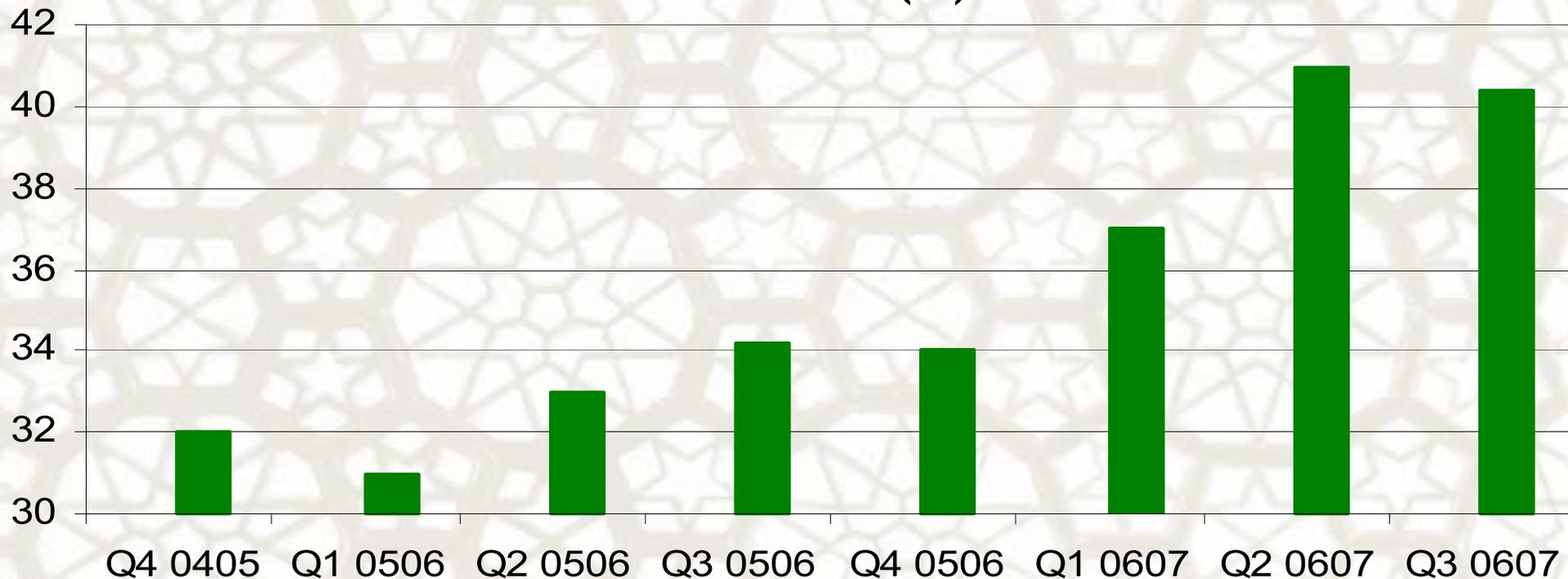
Performance

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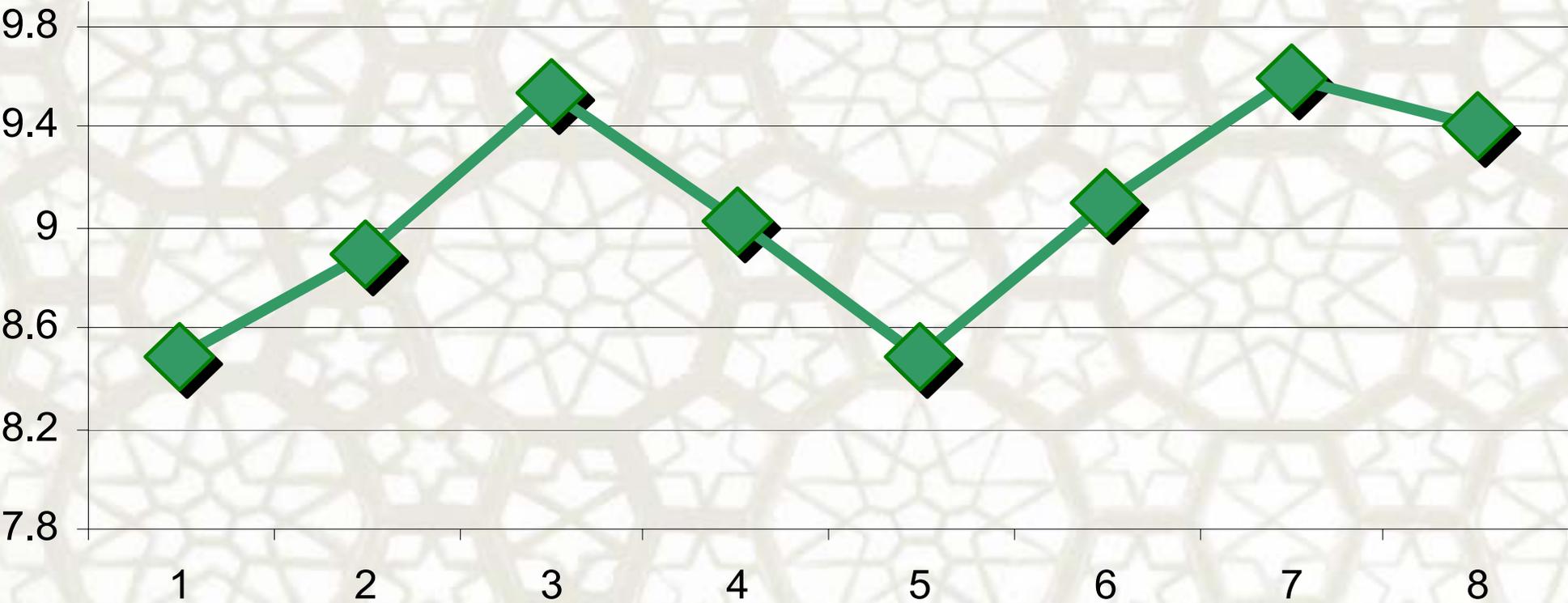
Better liability structure

CASA RATIO (%)



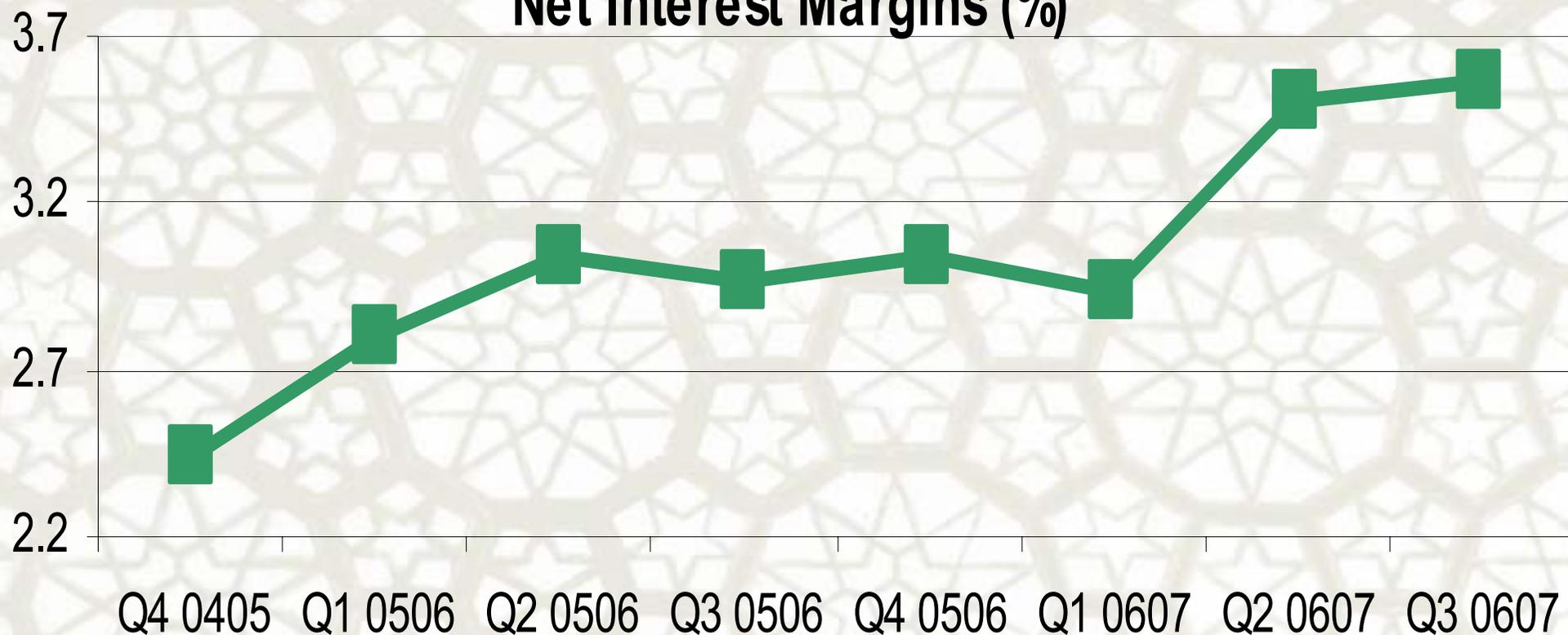
Higher asset pricing

ADVANCES YIELD (%)

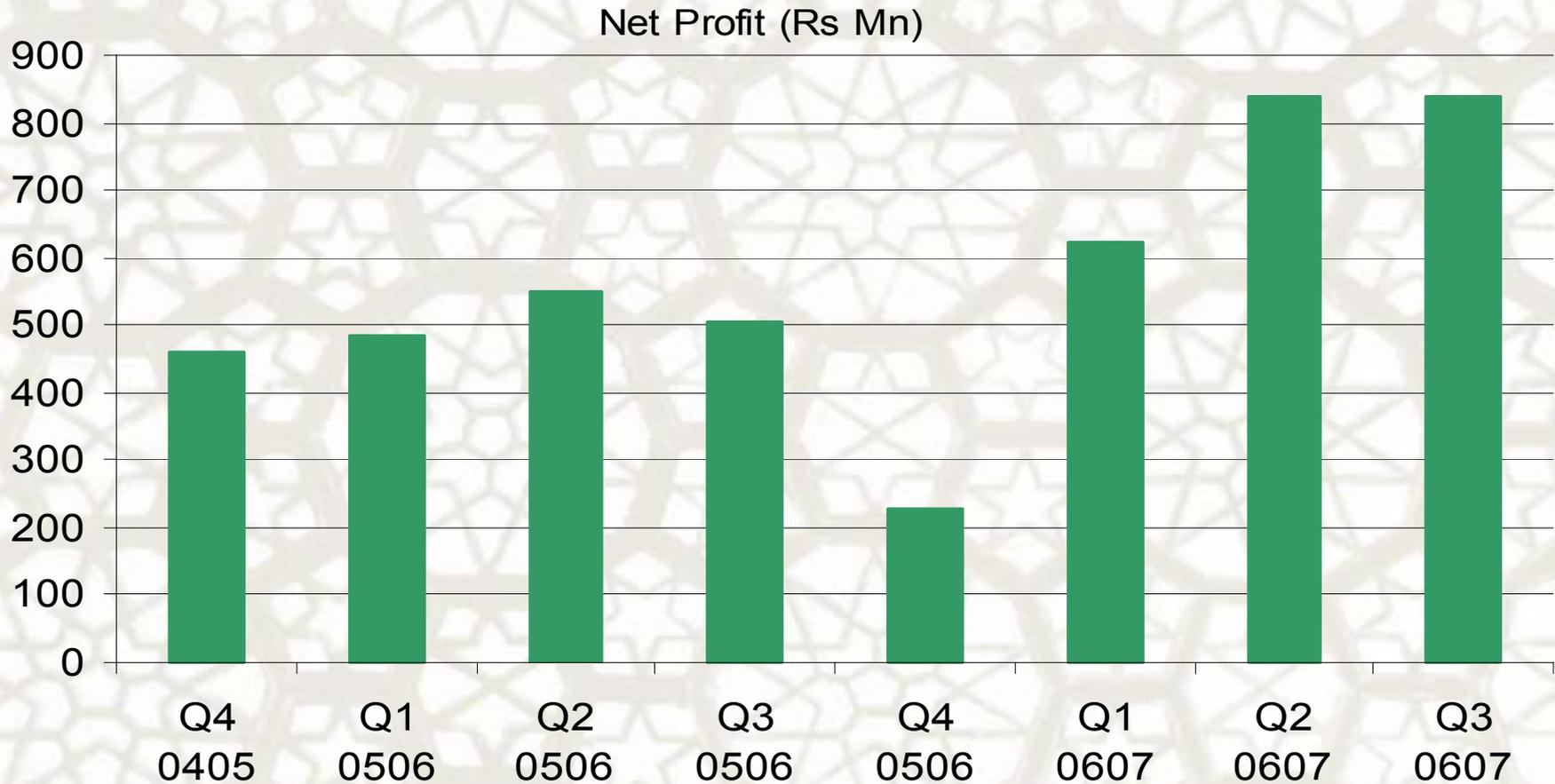


Rising margins

Net Interest Margins (%)



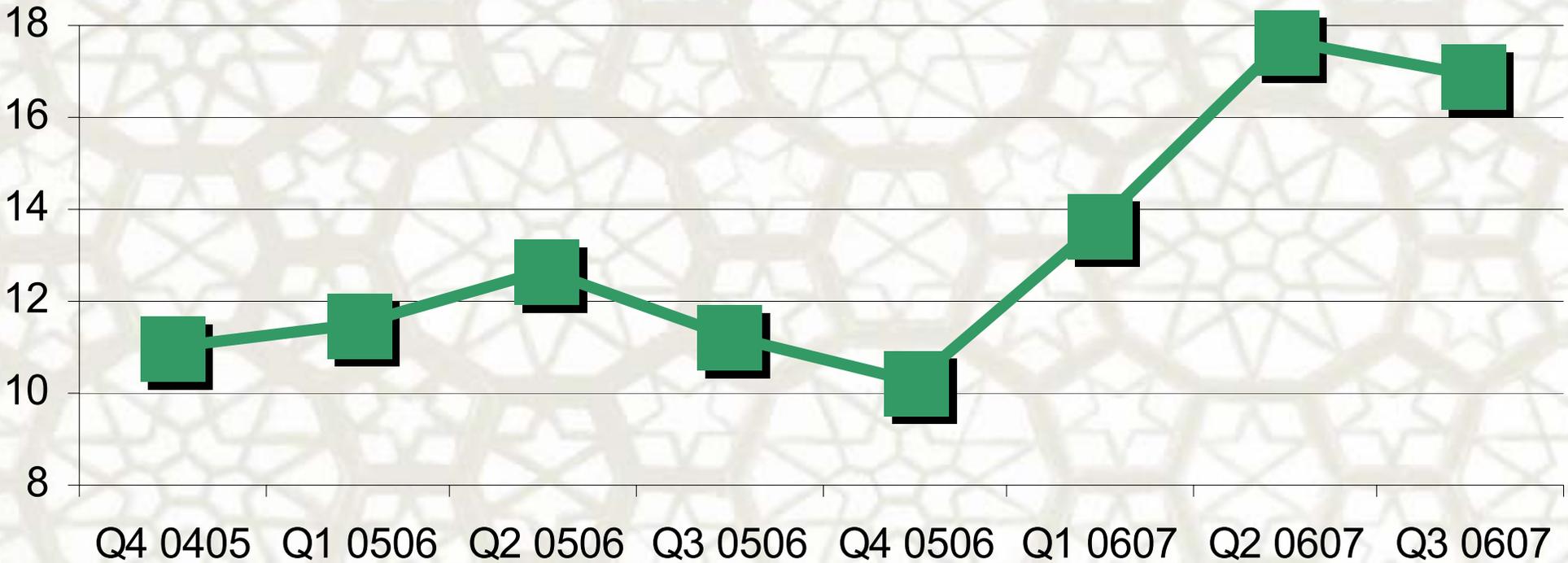
Increasing profitability



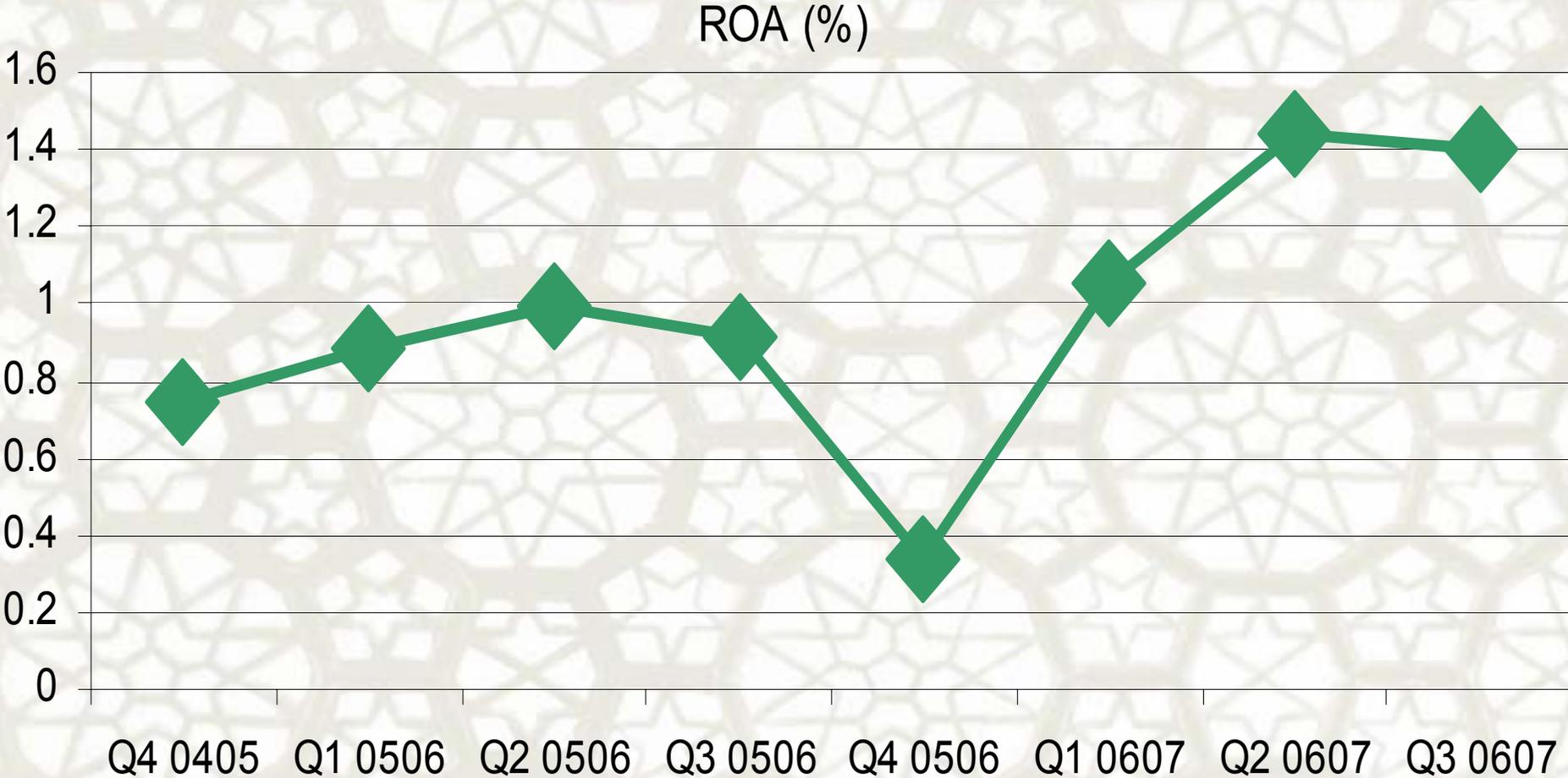
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Return on Equity

ROE (%)

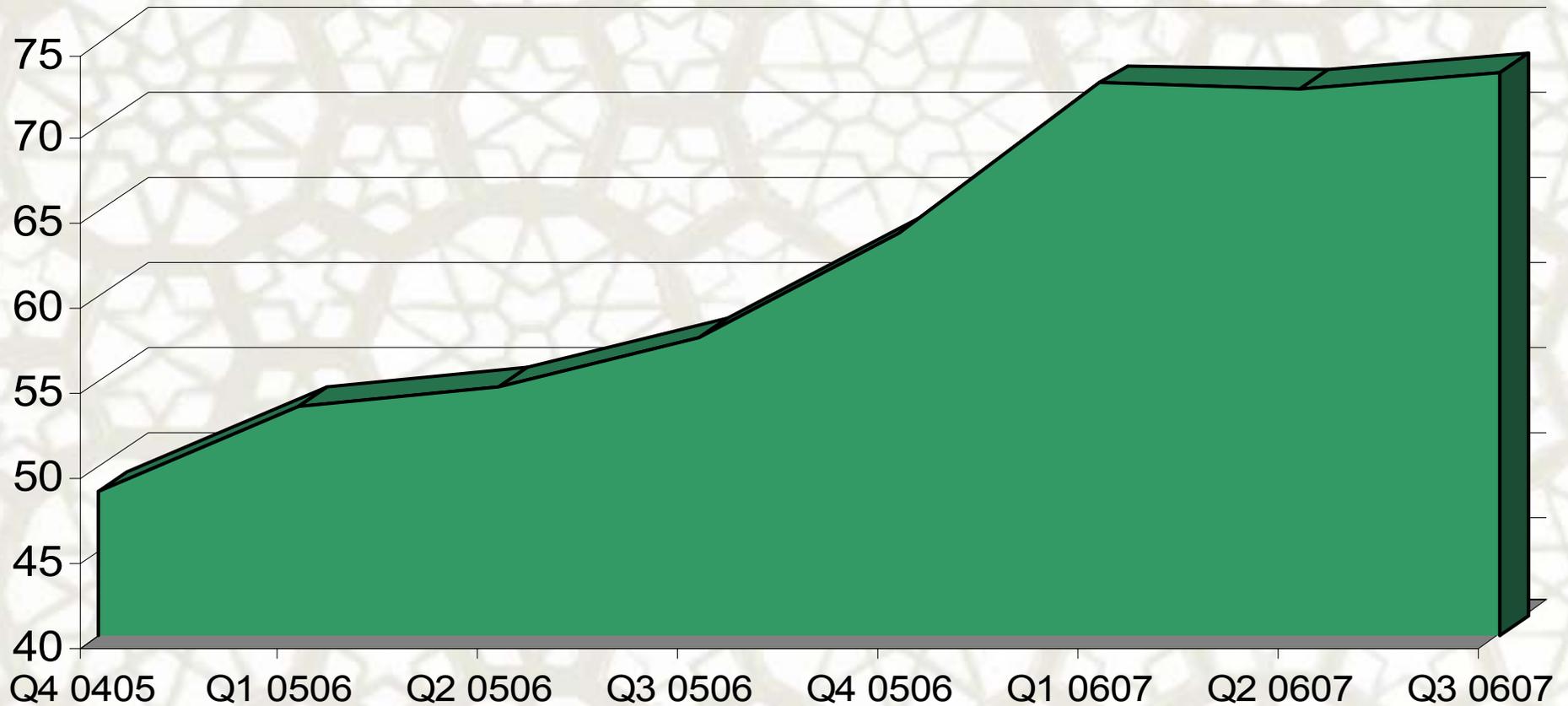


Return on Assets



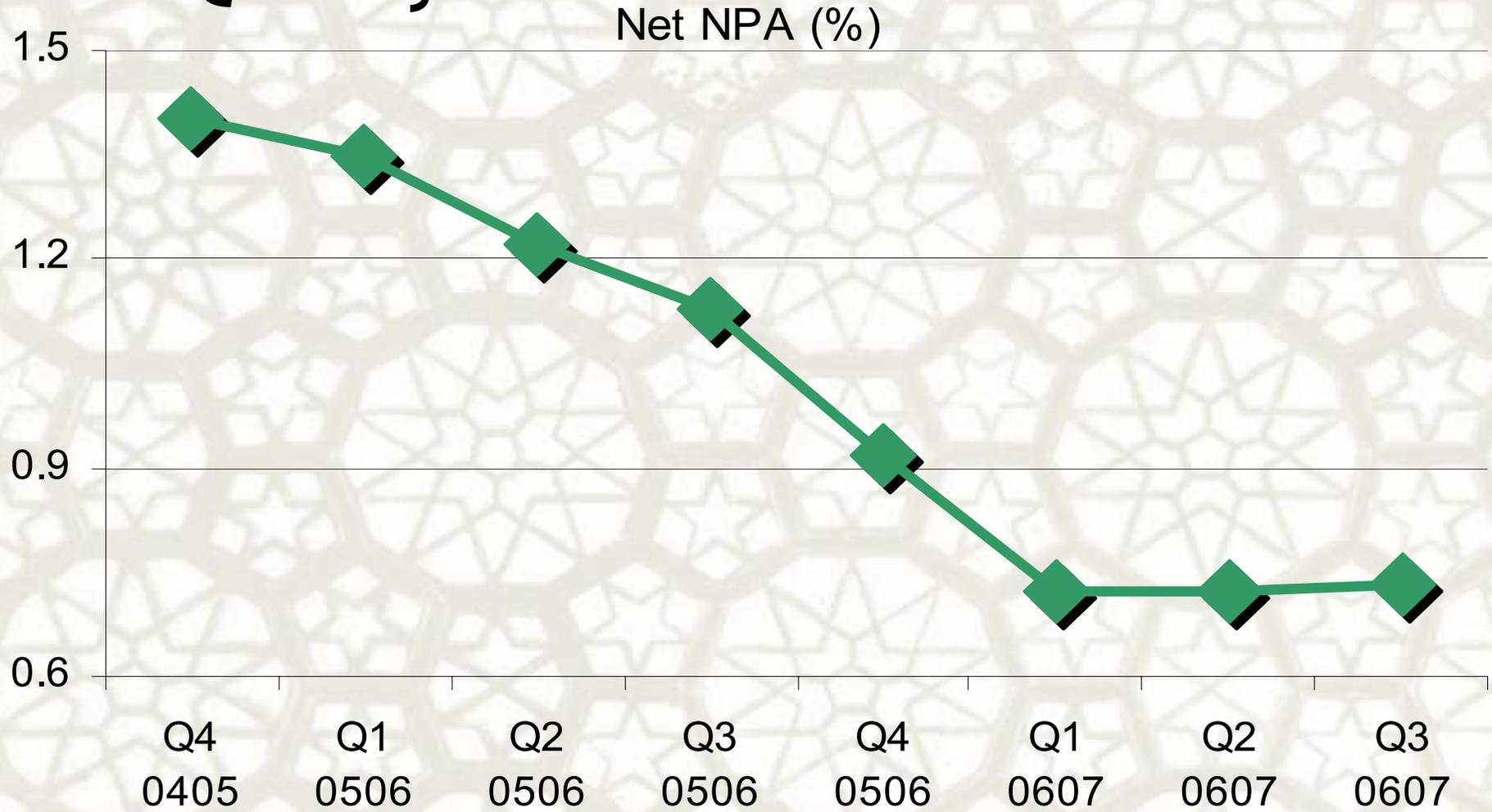
NPA coverage

NPA COVERAGE RATIO (%)



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Asset Quality



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J&K Bank

27
Inverted scale

Financial Results- Q3 / Nine Months

Particulars	Q3	Q3	% Change	9 Months	9 Months	% Change
	2006-07	2005-06		2006-07	2005-06	
Interest Earned	4631	4148	12%	13783	12594	9%
Interest Expended	2680	2538	6%	8128	7844	4%
Net Interest Income	1951	1610	21%	5655	4751	19%
Other Income	379	319	19%	1063	810	31%
Net Total Income	2329	1929	21%	6717	5561	21%
Operating Expenses	888	868	2%	2631	2470	6%
Operating Profit	1442	1061	36%	4086	3090	32%
Provisions & Contingencies	353	280	26%	944	890	6%
PBT	1089	780	40%	3142	2201	43%
Tax Provision	250	274	-9%	850	660	29%
Net Profit	839	506	66%	2292	1541	49%
Share Capital	485	485	0%	485	485	0%
EPS in Rs. (Annualised)	69.22	41.78	66%	63.04	42.37	49%
Net Interest Margins	0.89%	0.74%		2.42%	2.09%	
Net Interest Margins (Annualised)	3.56%	2.97%		3.22%	2.78%	
Deposits	202958	195745	4%	202958	195745	4%
Advances	148312	121143	22%	148312	121143	22%
Investments	69901	74290	-6%	69901	74290	-6%

Key Financial Ratio

S.No.	Ratios	Quarter ended 31.12-2006	Quarter ended 31-12- 2005	Nine Months ended 31-12- 06	Nine Months ended 31-12-05	Year ended 31-03-06
1	Earning per Share	17.30	10.45	47.28	31.78	
	Annualized	69.22	41.78	63.04	42.37	36.48
2	Net Asset Value	418.48	375.32	418.48	375.32	371.20
3	Adjusted Book Value	396.03	347.21	396.03	347.21	343.43
4	Net Interest Margins (%)	0.89%	0.74%	2.42%	2.09%	
	Annualized	3.56%	2.97%	3.22%	2.8%	2.68%
5	Interest Spreads (%)	0.82%	0.72%	2.24%	2.03%	
	Annualized	3.30%	2.89%	2.99%	2.71%	2.61%
6	Yield on Advances (Av) (%)	2.35%	2.26%	6.67%	6.78%	
	Annualized	9.41%	9.03%	8.90%	9.03%	8.48%
7	Yield on Investments (Av) (%)	1.59%	1.65%	4.64%	5.20%	
	Annualized	6.34%	6.58%	6.19%	6.93%	6.22%
8	Cost of Deposits (Av) (%)	1.26%	1.28%	3.62%	3.75%	
	Annualized	5.04%	5.13%	4.83%	5.00%	4.55%
9	Return on Assets (%)	0.35%	0.23%	0.96%	0.69%	
	Annualized	1.40%	0.91%	1.27%	0.93%	0.67%
10	Return on Average Networkth (%)	4.22%	2.82%	11.97%	8.84%	
	Annualized	16.89%	11.29%	15.97%	11.79%	10.21%
11	Cost to Income Ratio (%)	38.12%	45.01%	39.16%	44.43%	43.32%
12	CD Ratio (%)	73.08%	61.89%	73.08%	61.89%	61.67%
13	CASA Ratio (%)	40.42%	34.18%	40.42%	34.18%	34.17%
14	Business per Employee (Rs. In Mns)	51.36	46.34	51.36	46.34	55.57
15	Net Profit per Employee (Rs. In Mns.)	0.12	0.07	0.34	0.23	0.00
	Annualized	0.49	0.30	0.45	0.30	0.26
16	Gross NPAs (Rs. in Mns)	4051	3206	4051	3206	3702
17	Net NPAs (Rs. in Mns)	1088	1363	1088	1363	1339
18	Gross NPA Ratio (%)	2.68%	2.61%	2.68%	2.61%	2.52%
19	Net NPA Ratio (%)	0.73%	1.13%	0.73%	1.13%	0.92%
20	NPA Coverage Ratio (%)	73.13%	57.49%	73.13%	57.49%	63.64%
21	Staff Cost to Total Income (%)	10.42%	11.07%	10.79%	10.63%	10.46%
22	Capital Adequacy Ratio (%)	14.57%	14.40%	14.57%	14.40%	12.14%
	Tier I	14.10%	14.03%	14.10%	14.03%	11.76%
	Tier II	0.47%	0.37%	0.47%	0.37%	0.38%

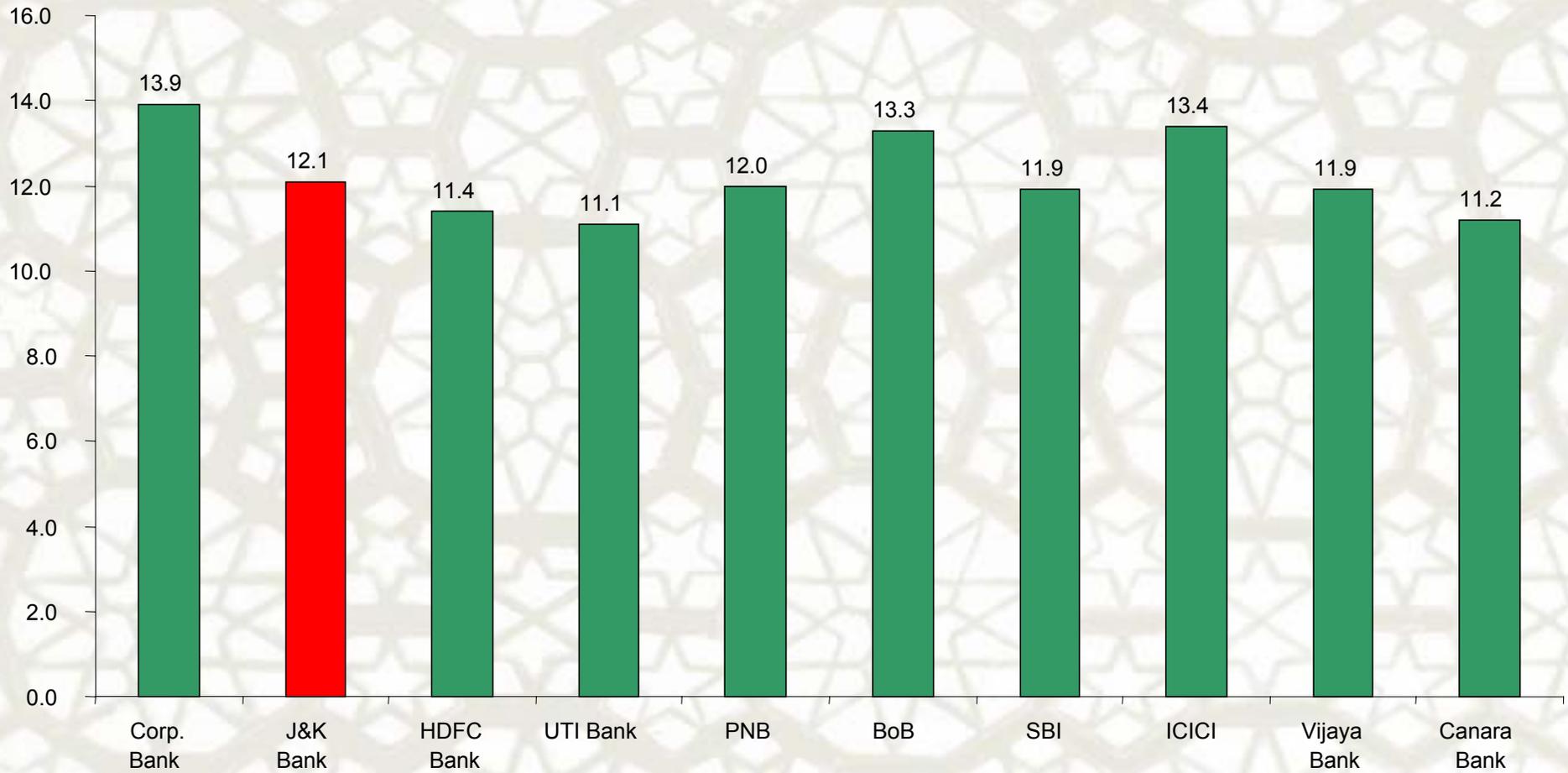


Perspective

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Capital Adequacy

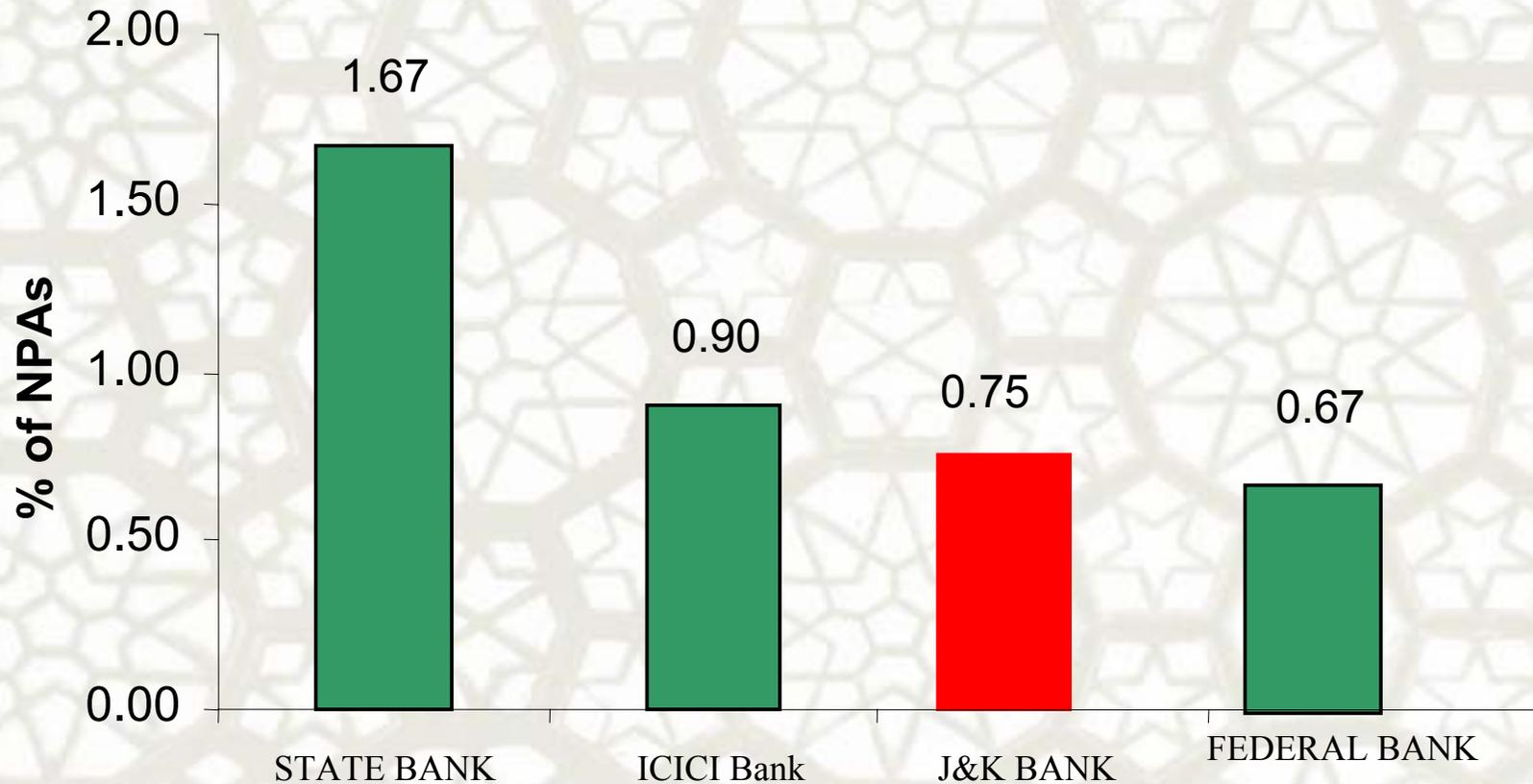


* AS ON 31st MARCH 2006

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Asset Quality



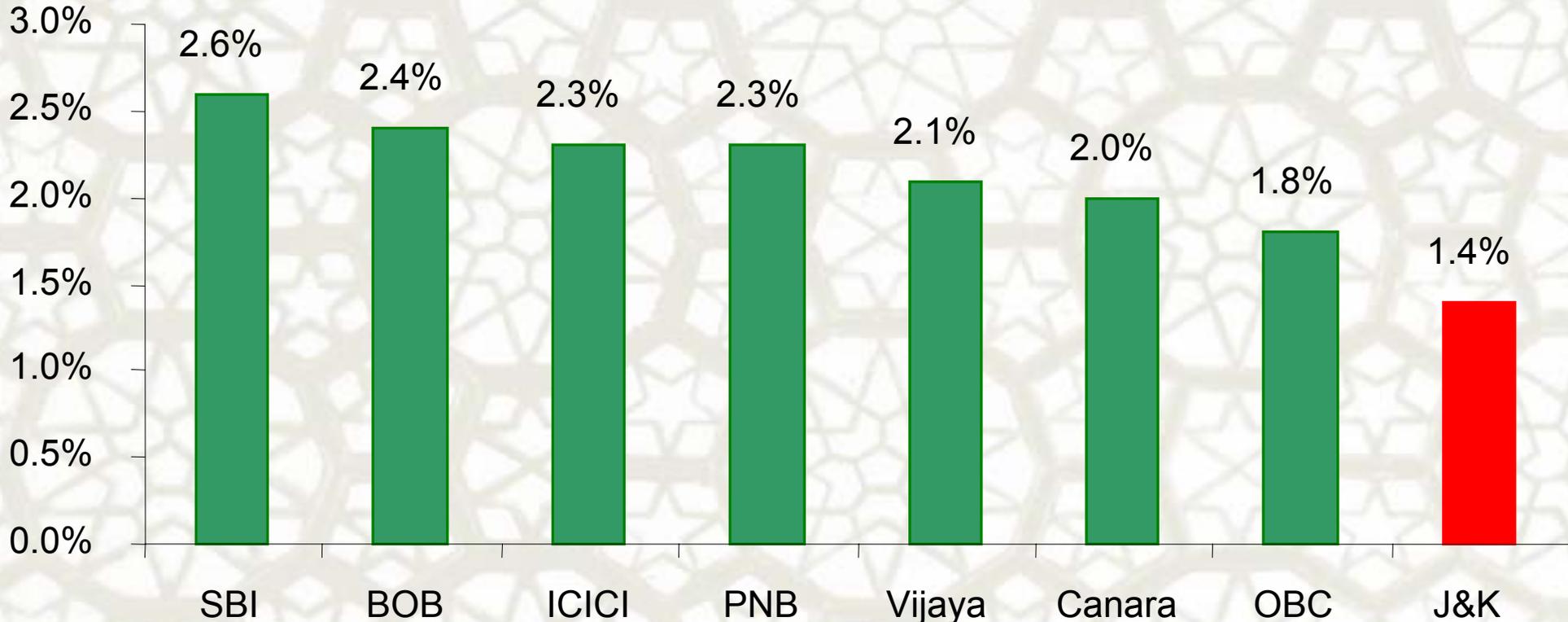
* AS ON 30TH SEPT, 2006

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Operating Costs

Operating Cost / Average Earning Assets



* AS ON 31st MARCH 2006

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Potential

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Triad of potential

- A. Normalisation and Normal growth effect
- B. Reconstruction impact
- C. Equalisation potential

Normalisation of Conditions

➤ **Socio-Political situation:**

➤ Domestic changes:

- Democratically elected sub-national government
- Local body election after 32 years
- Same party in power at the Centre and the State after 24 years
- First time a coalition government at the state level

➤ International peace process:

- Srinagar-Muzaffarabad road opened after 52 years
- Visa requirement within the greater Jammu and Kashmir abolished
- Full diplomatic relations between India and Pakistan restored

Economics of Peace:

A. Pure growth effect

- Increased level of economic activity due to improved socio-political situation
- As a result, bank's business opportunity set widens

For example:

- Tourist inflow in 2006 has already crossed 1989 levels:
 - Income multiplier of tourism sector is 1.66
 - Private sector investments in tourist infrastructure
 - Credit to tourism industry has picked up

J&K Economy : Basic Indicators

Total Population	1.01 crore
Area	1,01,387 sq kms
Density	100 per sq km (325)
Per capita Income	Rs 16,190 (Rs 23,222)
Population BPL	3.48% (26.10%)
Literacy	55.52% (64.84%)
Unemployment rate :	4.21 (3.09)

Economic Infrastructure

Road Length (Kms/100SqKm)	35.71	(104.64)
Telephones/100 of population	7.76	(13.57)
Post offices/Lakh of Population	15	(14)
Bank offices per 100 SqKm	0.85	(2.18)
Average population per bank office	13000	(16000)
Hospital Beds per lakh	111	
Doctors per lakh	48	

Structural Indicators

- Average land holding : 0.66 hectares (1.41)
- Cultivators /Total workers : 42.40% (31.65)
- Agri Labouers/TW : 6.56% (26.55)
- HH workers : 6.25% (4.21%)
- Gross Area irrigated : 41% (40)

Inter regional variations

- **Bank Branches/Area**

- Leh : 1 branch per 3000 sq km
- Jammu : 1 branch per 15 kms

- **Bank branches /Population**

- Kupwara : 20,000 people per branch
- Leh : 1000 people per branch

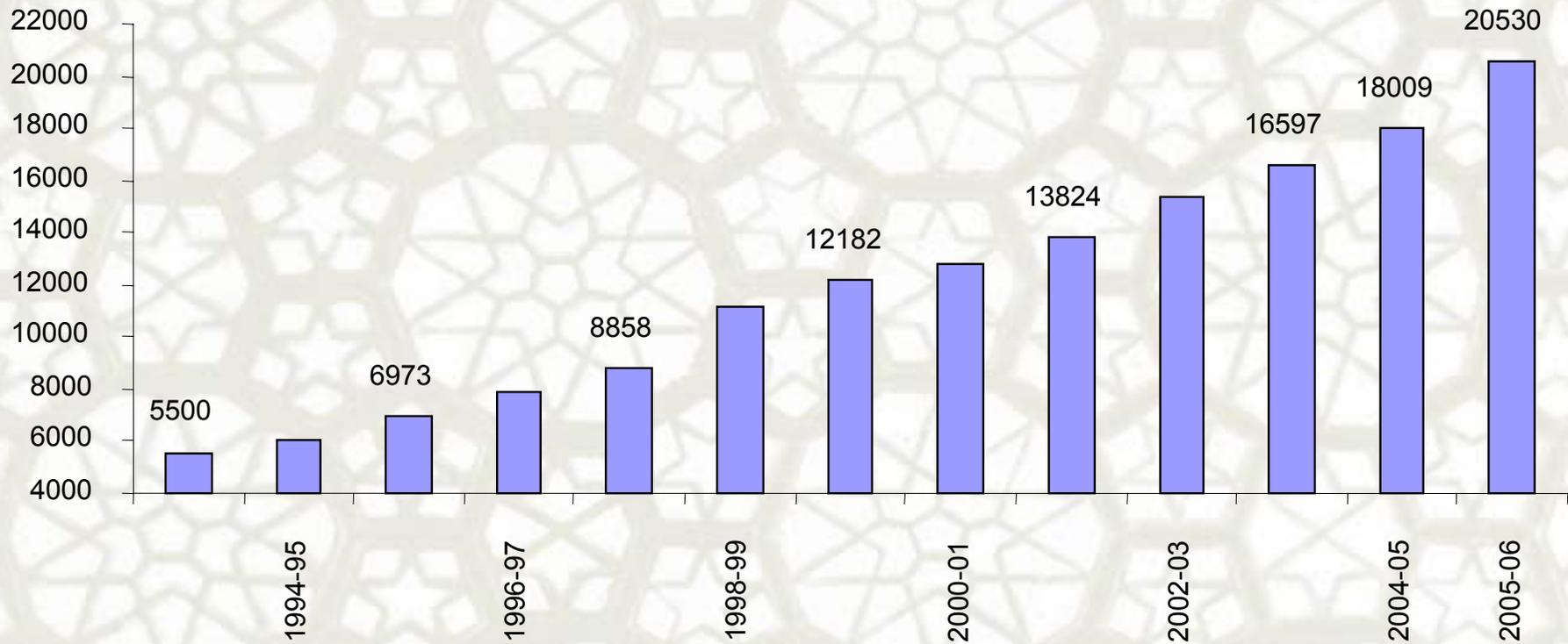
- **CD Ratio**

- Kargil : 11.41%
- Srinagar : 81.99%

- **Per Capita Income**

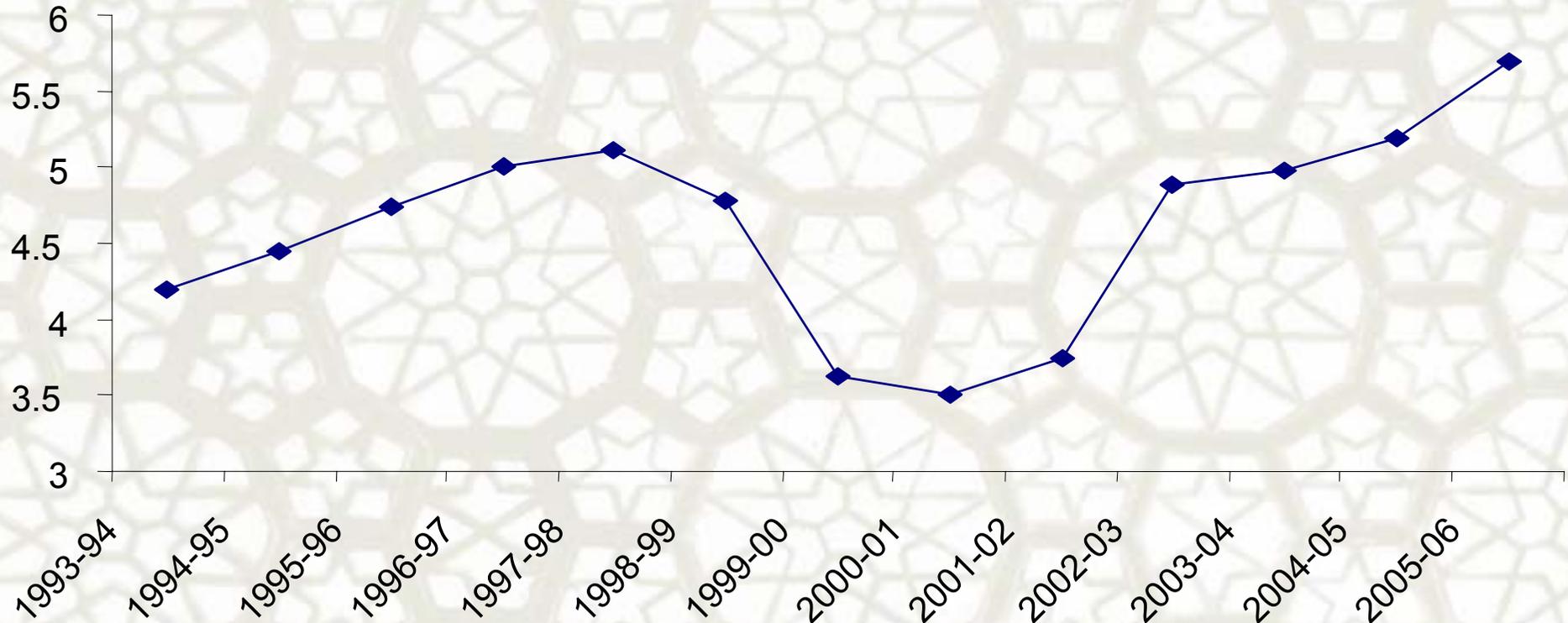
- Srinagar : Rs 17896
- Kupwara : Rs 9999

State Income:



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Economic Growth: Trends



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Reconstruction Impact

B. Normalcy plus economic reconstruction

- Economic growth accelerates due to reconstruction of economy through :
 - * autonomous investments in physical infrastructure
 - * Induced investment in production activity

Example:

Acceleration of Economic growth:

- | | |
|------------------------------------|---------------|
| ➤ State SDP growth : | 13.5 per cent |
| ➤ Commercial Agricultural growth : | 9.7 per cent |
| ➤ SMEs projected at : | 16.3 per cent |

Peace through Economic Reconstruction

➤ Prime Minister's Reconstruction Plan:

- Timeframe : 2005-06 to 2008-09
- Size : Rs 240 bn
- Focus areas: Power, Roads, Hospitals and Tourist Infrastructure

➤ Asian Development Bank's Multi-sectoral Investment Plan:

- Timeframe : 2005-06 to 2009-10
- Size : Rs 20 bn
- Focus areas : Rural connectivity, Urban Infrastructure

➤ Japanese Bank of Industrial Cooperation:

- Timeframe : 2007-08 to 2010-11
- Size : Rs 35 bn
- Focus areas : Water supply and Urban sanitation

Staggering Numbers

- Prime Minister's Reconstruction Plan: Rs 240 bn
- Asian Development Bank's Multi-sectoral Investment: Rs 20 bn
- Japanese Bank of Industrial Cooperation: Rs 37 bn
 - In addition to this,
- Normal spending plans: Rs 45 bn p.a
- Three year autonomous expenditure of: Rs 340 bn+
- All this money will be managed by and will pass through the banking channels of the Jammu and Kashmir Bank
- And this is not all.....

Private Investment :Picking Up

➤ Quantity:

- Investment in the SME sector till July 2005 : Rs 35 bn
- Proposals in the pipeline: Rs 120 bn
- The flow of funds is in the range of : Rs 500 bn

➤ Quality:

- Top notch Indian corporates:
 - Bharti
 - Reliance (ADA) Infocom
 - Mahindra and Mahindra
 - Lupin Laboratories
 - Essar telecom

Credit gap

- J&K accounts for 0.70 per cent of national GDP
 - Yet, it absorbs only 0.30 per cent of total national credit
- Productive sectors of the economy account for less than 5 per cent of the credit disbursed in J&K
 - Comparable national average is 30 per cent
- J&K accounts for 1 per cent of India's population
 - Yet it accounts for only less than 0.2 per cent of personal credit disbursed in India

Potential via equalisation

From current levels to “Catch up” with national average:

- Of personal finance, credit has to triple
- Of credit intensity, credit in J&K has to increase five-fold

But by then,

- National average would have risen....
- Game of catching up will drive and sustain volumes and asset growth of the Bank

Bottom line impact

Per capita Income levels rise:

- savings rate increases;
- financial savings increase proportionally

Capacity for servicing personal loans will increase

With such a massive investment dose:

- inflation likely to increase
- real rate of interest will decline...
- making mortgages more attractive

Retail lending increases

Trickle down impact

Crowding in of investment:

- public investment in infrastructure will induces private investment with backward and forward linkages
- Credit demand for financing SME's and ancillaries associated with infrastructural projects picks up
- Credit demand for induced demand : financing private sector projects

SME lending will increase

To sum up

- New strategy has started paying off
- Consolidation Phase will now give way to margin enhancing growth phase, led by
 - High growth of J&K
 - Reconstruction
 - Specialised lending
- Better financial intermediation through innovation
- Raising J&K level of credit absorption to national levels

Thank You!

March 13, 2007



53