

**Board Secretariat**Ref:-JKB/BS/F3652/2022/112  
Date: 29<sup>th</sup> August, 2022

**National Stock Exchange of India Limited**  
Exchange Plaza 5<sup>th</sup> Floor  
Plot No. C/1 G-Block  
Bandra Kurla Complex  
Bandra (E) Mumbai - 400 051  
Symbol: J&KBANK

**The BSE Limited**  
Phiroze Jeejeebhoy Towers  
Dalal street  
Mumbai - 400 001  
Scrip Code: 532209

**SUB:- Intimation of Revision in Ratings under the SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015**

Dear Sirs,

Pursuant to Regulation 30(6) of SEBI (Listing Obligations and Disclosure Requirement) Regulations, 2015 (the 'Listing Regulation'), please be informed that Brickwork Ratings India Pvt Ltd ('Brickwork') has reaffirmed the ratings for the bonds of Rs.1500.00 Crores issued by the Bank and has changed the outlook from Negative to Stable, as per the details given below:

Instrument	Amount Rs Crs.		Tenor	Rating	
	Previous	Present		Previous (28 July, 2022)	Present
Tier II bonds (under Basel III)	1000.00	500.00	Long Term	BWR AA-/ Negative Reaffirmed	BWR AA-/Stable/ Reaffirmed, with change in outlook
Additional Tier 1 bonds (under Basel III)	1000.00	1000.00		BWR A/ Negative Reaffirmed	BWR A/Stable/ Reaffirmed, with change in outlook

The communication from Brickwork along with the rationale for revision in credit rating received by the Bank is enclosed.

This is for your information and appropriate dissemination.

Thanking you

Yours faithfully  
For Jammu and Kashmir Bank Limited

(Mohammad Shafi Mir)  
Company Secretary

**RATING RATIONALE**

**25 August 2022**

**The Jammu and Kashmir Bank Limited**

**Brickwork Ratings reaffirms the ratings for the bonds of Rs.1500.00 Crs and changes the outlook from Negative to Stable of The Jammu and Kashmir Bank Limited.**

**Particulars:**

Instrument	Amount Rs Crs.		Tenor	Rating	
	Previous	Present		Previous (28 July,2022)	Present
Tier II bonds (under Basel III)	1000.00	<b>500.00</b>	Long Term	BWR AA-/ Negative Reaffirmed	<b>BWR AA-/Stable/ Reaffirmed, with change in outlook</b>
Additional Tier I bonds (under Basel III)	1000.00	<b>1000.00</b>		BWR A/ Negative Reaffirmed	<b>BWR A/Stable/ Reaffirmed, with change in outlook</b>
<b>Total</b>	3000.00	<b>1500.00</b>	<b>Rupees One Thousand and five hundred Crs.Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for the definition of the ratings

\*\* Details of Bank Loan Facilities/NCD/Bonds/Commercial Paper are provided in Annexure-I&II

**RATING ACTION / OUTLOOK**

Brickwork Ratings (BWR) reaffirms to BWR AA-/Stable for the Basel III Tier II bonds, BWR A/Stable for the Basel III Additional Tier I bonds of the Jammu and Kashmir Bank Ltd (J&K bank or the bank), as tabulated above. The outlook has been revised to Stable.

The rating, inter alia, factors in J&K bank’s strong support from the Government of Jammu and Kashmir (Govt of J&K), comfortable resource profile and adequate capitalisation. The ratings are, however, constrained by the average asset quality and earnings profile, along with the regional concentration of the bank.

The outlook has been revised from negative to stable on account of the improving earning profile and asset quality. While the bank’s deposit franchise and position in the union territory (U.T) of Jammu and Kashmir (J&K) remains strong, with the improvement in the economic environment in the (U.T) post abrogation of Article 370, the Bank has seen an improvement in its SMA I & II accounts as well. Stress accounts related to hotels and restaurants in the region which are seeing improved business due to the gradual recovery of tourism and increased levels of economic activities in the region post COVID-19 pandemic lockdown relaxation have helped in reducing the rate of incremental slippages which should support asset quality metrics in the medium term. The Bank’s CASA ratio stood at 55.74 % in Q1 FY23, which is among the highest in the Industry.

## KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED

Additional Tier-I Instruments (under Basel III): The differentiating features of non-equity Tier-I capital instruments (under Basel III) are the discretionary payment of coupons by the bank and principal write-down upon the breach of a pre-specified trigger. These features increase the risk attributes of non-equity Tier-I instruments over those of Tier-II instruments under Basel III. To factor in these risks, BWR notches down the rating on these instruments from the bank's Tier-II bonds. The rating on J&K bank's Tier-I bonds (under Basel III) has, therefore, been lowered by two notches from its Tier-II bonds (under Basel III) rating. The factors on which the rating of Additional Tier-I capital instruments (under Basel III) are lowered, were due to the lower profitability of the J&K bank as of 30 June 2022. However, the revenue reserves of the bank were comfortable and the bank ensures timely coupon payments.

Note on Tier-II Instruments (under Basel III): The distinguishing feature of Tier-II capital instruments under Basel III is the existence of the point of non-viability (PONV) trigger, and the occurrence of such a situation may result in the loss of principal to investors, entailing into default on the instrument by the issuer. According to the Basel III guidelines, the PONV trigger will be determined by the RBI. BWR believes that the PONV trigger is a remote possibility in the Indian context, given the robust regulatory and supervisory framework and the systemic importance of the banking sector. The inherent risk associated with the PONV feature is adequately factored into the rating on the instrument.

## KEY RATING DRIVERS

BWR has principally relied on audited financials up to FY22 ,Q1 FY23 and publicly available information and information/clarifications provided by the bank.

### Credit Strengths:-

- **Strong support from the Govt. of J&K:** The Govt. of J&K holds a 68.03 % stake in the bank. The bank benefits from the continuing support received from the Govt of J&K, considering its majority shareholding and the importance of the bank in its regions of operation in J&K and Ladakh. The Govt of J&K has consistently infused capital into the bank, including the infusion of Rs 500.00 Crs. in March 2020 and Rs 500.00 Crs. for FY22, and has made a budgetary allocation for the further capital infusion of Rs. 200 Crs. for FY23. The bank also plans to raise up to Rs 2,000.00 Crs. through a mix of debt and equity in the current fiscal year 2022-23. The bank's board of directors have approved the capital raise plan. The rating also takes comfort from the strategic importance of the bank to the union territories and demonstrated capital support from the Govt. of J&K on an ongoing basis.
- **Comfortable resource profile:** J&K bank had a comfortable resource profile because of its stable deposit base, with over ~88% of deposits from J&K(U.T), where the bank has a strong market penetration as of 30 June 2022. The share of the low-cost current account and savings account (CASA) deposits in total deposits was high at 55.74%, as on 30 June 2022, this was one of the highest among its peers. The cost of deposits remained stable over the period at 3.60% as of Q1FY23 compared with 3.65% as of FY22. The borrowings of the bank were limited to only 1.4% of balance sheet size at Rs.1870.00 Crs. in Q1 FY23, compared to 2% of the balance sheet size at Rs 2370.00 Crs as on 31 March 2022 and Rs. 2015.00 Crs. as on 31 March 2021.

- **Adequate capitalisation levels:** The bank continues to receive support from the Govt of J&K apart from the substantial shareholding of 68.03% as of 30 June 2022. The bank received Rs.500.00 Crs. of capital infusion in Q4 FY20 from the J&K Govt. and the CRAR was up by 103 bps YoY on account of internal accruals, infusion by J&K Govt. of Rs. 500.00 Crs., employee stock purchase scheme (ESPS) of Rs. 150.00 Crs, qualified institutional placements (QIP) of Rs. 93.50 Crs. in the form of equity capital and the Tier-II Bond issue of Rs. 360.00 Crs. in FY22. As of 31 March 2022, the bank had a total CAR of 13.23%, Tier I ratio of 11.73% and CET-1 ratio of 10.35%. As of 30 June 2022 the bank had a total CAR of 13.02%, Tier I ratio of 11.55% and CET-1 ratio of 10.19 % which are well above the regulatory requirements.

#### **Credit Risks:-**

- **Average asset quality:** The Gross NPAs reduced from 9.6% in March 2021 to 8.67% in March 2022. However it increased to Gross NPA rose to 9.09 % in Q1FY23 mainly due to fresh slippages. The levels of slippages to the NPA of Rs.3131 Crs for FY22, as against Rs.1107 Crs for FY21. The fresh NPAs amounted to Rs.2206 Crs. in Q1FY23 against Rs.613 Crs. in Q1FY22, and this remains a monitorable. The bank's SMA 2 book is at 1.87% of the gross advances in Q1 FY23. Furthermore, the bank's standard restructured advances which were at Rs.1551.93 Crs (2.06% of gross advances) as of 31 March 2022 decreased to Rs.1460 Crs. in Q1 FY23(1.96% of Gross Advances). The bank is focussing on improving the asset quality.
- **Regional concentration and challenging operating environment:** J&K bank has 72.41% of its advances, and 88.46 % of its deposits from J&K (U.T), indicating a regional concentration in the bank's business operations. However the bank is focusing on diversification of its credit portfolio and expanding geographically. Additionally, owing to the regional concentration of the bank, natural calamities and socio-political disturbances make the operating environment challenging for the bank. However, the bank has managed these challenges through taking corrective timely measures and with adequate support from the government and regulatory bodies.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

To arrive at its ratings, BWR has applied a standalone approach, and its rating methodology is as detailed in the Rating Criteria below (hyperlinks provided at the end of this rationale).

Basel III-compliant bonds are subject to the guidelines/regulations of the Reserve Bank of India (RBI) and as detailed in the term sheet of the respective issues. BWR considers them as highly complex instruments in terms of published criteria. BWR has rated Basel III instruments; however, restrictions by the regulator on coupon servicing on any of the outstanding bonds due to the non-meeting of regulatory guidelines would be a key rating sensitivity.

#### **RATING SENSITIVITIES**

The Jammu and Kashmir bank's ability to grow profitably and improve the asset quality while maintaining deposits and capitalisation will be key rating sensitivity factors.

**Positive:** Maintaining and strengthening the capital adequacy levels from the current levels and

a substantial improvement in net profits.

**Negative:** Substantial deterioration in asset quality in the near to medium term and its impact on the net profits and capital adequacy level.

### LIQUIDITY INDICATORS: ADEQUATE

The bank’s liquidity profile was comfortable, with a reported average liquidity coverage ratio (LCR) for the quarter ended 31 March 2022 at 209.16%, which is well above the prescribed minimum requirement of 100%.

Cash and cash balance with Reserve Bank of India of Rs.5631 Crs. ,Balance with Banks & Money at Call & Short Notice of Rs.745 Crs. and investments of Rs.34,269 Crs as of 30 June 2022 seems adequate to repay maturing debt.

### BANK’S PROFILE

The Jammu & Kashmir Bank, headquartered in Srinagar, was founded in 1938 and commenced operations in 1939; it is the first state-owned bank by the Government of Jammu & Kashmir, with a shareholding of 68.03% as of 30 June 2022.

The bank received the scheduled bank status in 1971 and was declared an A class bank by the RBI in 1976. The bank benefits from the systemic support received from the Govt of J&K, considering the importance of the bank in its regions of operation in J&K and Ladakh, for creating an unchallenged market position and market penetration in those territories. As of 30 June 2022, the bank had 980 branches and 1410 ATMs. The bank’s managing director and chief executive officer (MD & CEO) is Mr. Baldev Prakash and is supported by a team of 10 directors.

As of 30 June 2022, the bank had a total asset size of Rs.1,28,375 Crs. and business of Rs.1,84,071 Crs. The net advances were at Rs.71,926 Crs, with 27% of corporate loans, 37% of retail loans, 11% of agriculture loans, 11% of trade loans, 11% of SME and 2% of other products.

### KEY FINANCIAL INDICATORS

Key Financial Indicators	Unit	FY 2020	FY 2021	FY 2022
Result Type		Audited	Audited	Audited
Total business	Rs.Crs.	162,817	174,903	1,85,111
Net Interest Income	Rs.Crs.	3707	3771	3911
Net Profits	Rs.Crs.	-1139	432	502
Gross NPA	%	11.0	9.6	8.6
Net NPA	%	3.5	2.9	2.4
PCR	%	78.6	81.9	84.2
CET-1 ratio	%	8.4	8.8	10.3
Tier I Ratio	%	9.9	10.3	11.7
Total CAR	%	11.4	12.2	13.2

**NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY IF ANY  
- NIL**

**RATING HISTORY FOR THE PREVIOUS THREE YEARS[including withdrawal & suspended]**

S. No	Name of Instrument	Type	Current Rating		Rating History for the past 3 years			
			Amount in Crs.	Rating	28 Jul 22	09 Jul 21	09 Jul 20	26 Jun 19
1	Tier II Bonds (under Basel III)	Long term	500.00	BWR_AA-/ Stable (Reaffirmed)	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Credit watch with Negative Implications (Reaffirmed)
			0.00		Withdrawn^	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Credit watch with Negative Implications (Reaffirmed)
2	Tier II Bonds (under Basel III)		0.00		Withdrawn due to full redemption#	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Credit watch with Negative Implications (Reaffirmed)
			0.00		Withdrawn^	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Negative (Reaffirmed)	BWR_AA-/ Credit watch with Negative Implications (Reaffirmed)
3	Additional Tier I bonds (under Basel III)		1000.00	BWR_A/ Stable (Reaffirmed)	BWR_A/ Negative (Reaffirmed)	BWR_A/ Negative (Reaffirmed)	BWR_A/ Negative (Reaffirmed)	BWR_A/ Credit watch with Negative Implications (Downgrade)

#Rs.500.00 Crs. Basel III Tier II bond is fully repaid on 24 June 2022 due to maturity.

^Withdrawn at the request of the bank. The bank informed that no amount has been raised under the said bonds using BWR ratings and the bank does not intend to utilize the said unutilized portion of Rs.500.00 Crs. from each tranche.

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit

[www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- **General Criteria**
- **Bank & Financial Institutions**
- **Capital Instruments issued by banks and Financial Institutions**

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## The Jammu and Kashmir Bank Limited

### ANNEXURE I

#### Details of Bank Loan Facilities rated by BWR - NIL

### ANNEXURE II

#### INSTRUMENT (NCD/Bonds/CP/FDs) DETAILS

Instrument	Issue Date	Amount Rs. Crs.	Coupon rate	Maturity Date	ISIN Particulars
Tier II Bonds (under Basel III)	28-Dec-17	500.00	9.25%	27-Dec-24	INE168A08046
Additional Tier I bonds (under Basel III)	14-Jun-18	1000.00	10.5%	Perpetual	INE168A08061
Total		1500.00			

### ANNEXURE III

#### List of entities consolidated - None; Standalone approach followed

**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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