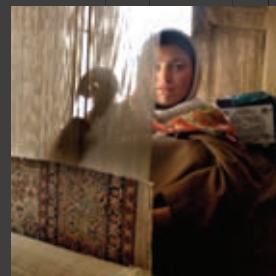
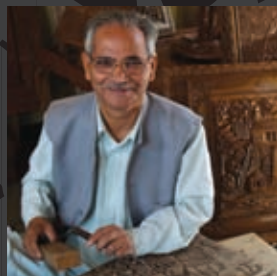
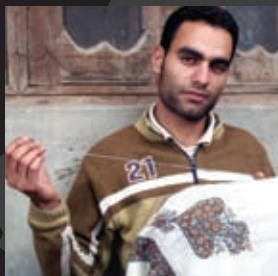


# Global maladies Local remedies



**Chairman's Speech**  
at the AGM on 26th September, 2009





**Haseeb A. Drabu**  
Chairman & CEO

**Dear Shareholders and Stakeholders,**

It is my privilege to welcome all of you to the 71st Annual General Meeting of the J&K Bank. The Annual Report for 2008-09, along with the relevant notices and disclosures has already been circulated amongst members, and with your permission, I take them as read.

All of you who are here today are, of course, the shareholders. But for the management team and employees of the Bank, you are more than shareholders. In addition to having financial equity in the Bank, you have also invested in the emotional equity of the Bank. It is this that makes this Bank special for you and makes you special for the Bank.

As you can see from the latest Annual Report, the Bank has financial investors from across the world, including United States of America, United Kingdom, Mexico, Singapore, France, Germany, Norway, Hong Kong and United Arab Emirates. Yet, while we are accountable to all the foreign investors for the profitability of the Bank, we are answerable to you as well. Not only for the profitability but also for the overall performance and functioning of the Bank. This is not a part of any shareholder agreement, but it is an article of faith for all of us at the Bank.

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Globalisation is no longer an academic issue or a distant economic regime that should only engage the policy makers. It is now a reality that affects the lives of everyone. The impact of the collapse of Lehman Brothers, whose name not many might have heard, was felt in downtown Srinagar in Lal Bazaar. The bankruptcy of Bear Stearns shook the foundations of Bari Brahamna.

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The year 2008-2009 has been dominated by concerns that emanated in the developed world but were quickly transmitted to around the globe and became universal concerns. Most of you, I am sure, have in one way or the other discussed these concerns and difficulties.

The most important realization that has dawned on us is that no matter how insulated we may consider the J&K economy to be, it has been proven beyond any doubt that we are now interconnected with and indeed, interdependent on the rest of the world.

Globalisation is no longer an academic issue or a distant economic regime that should only engage the policy makers. It is now a reality that affects the lives of everyone. The impact of the collapse of Lehman Brothers, whose name not many might have heard, was felt in downtown Srinagar in Lal Bazaar. The bankruptcy of Bear Stearns shook the foundations of Bari Brahamna. The taking over of Fannie Mae and Freddie Mac by US Federal Government meant that many aspirants in Mendhar didn't get a housing loan. All these people may never be able to understand the nuances of the crisis, but it is they who have felt the nick, niggle and the pinch.

The slowdown has not only hit economies across the globe unevenly; it has affected businesses differentially and impacted financial institutions disproportionately. At a macroeconomic level, there may be a case for a complete restructuring of what is now being seen as a fundamentally flawed financial and monetary system. This is easier theorized than it is operationalised. Also, business units can neither initiate this kind of an overarching change nor can they afford the luxury of waiting for radical change in the environment to happen.

In other words, it is not possible for firms to wait for global systemic solutions to the extant global problems. They need

to find ways and means to maximize their bottom lines within the given economic situation, such as it may be.

By and large, all financial institutions have addressed the recessionary issue in a self preserving manner, and rightly so. However, the J&K Bank which sees itself not only as a Commercial Bank but also as Development Finance Institution for the J&K economy has tried to address the problem at all three levels – businesses, institution and people. This has been done based on our understanding that businesses and people in J&K are the prime stakeholders in the Bank.

If the businesses in J&K suffer, the bank will not grow as it has grown in the last four years. Most of the growth in the last four years has come from within J&K. This has been so, as a matter of choice not compulsion; commitment not constraints, and strategy not shortcomings.

It is this commitment to J&K that has informed our conceptual, strategic and operational response to the global slowdown. The J&K bank believes that response to the global downturn must be tailored to local circumstances.

Everyone talks about the gloom on the money markets, liquidity conditions and volumes in the debt markets. Very few talk of how all this transforms into harsher borrowing conditions for small businesses and tougher times for ordinary people. We do. There are many things ethical and socially conscious banks can do. And the J&K Bank has shown the way. We are at the forefront to help families and businesses in harder times.

During an economic downturn, 'localism' becomes more, not less important. The impact of localized economic initiative is far greater and faster than the larger macroeconomic stimulus packages. Surely the macroeconomic packages can't be substituted but if these are complemented by local initiatives, it hones their effectiveness on the ground. The Annual Report for the year puts together some case studies that bring together examples of this: how the J&K Bank has tried to make a real difference to peoples' lives.

No sooner than we felt the distress in business that we launched our first initiative January this year. This was followed with another package and an interest rate cut.

We have set out a range of ways in which we have been able to help people through tough times. To pick but a few, the J&K Bank offered Artisans Livelihood Finance Scheme, or the Crafts Survival Scheme. These are concrete ways in which we are ensuring that some of society's most vulnerable people are able to keep their head above water.

At an institutional level, for the Bank itself, we have weathered the storm exceptionally well. Of course, being a part of a well-regulated conservative system definitely helped.

The calibrated financial sector liberalization, low defaulter ratio, absence of complex financial products, regular intervention by Central Bank, proactive adjustment of monetary policy and pervasive prudential norms within a so called close banking culture has succeeded in insulating the banking industry in India from the distress caused by the global financial turmoil.

Even as the overall environment turned adverse, the overall sentiment got dampened and the confidence got shaken, the systemic robustness ensured that advancing crisis was tempered to credit crisis; the great depression was moderated to a slowdown; the financial meltdown was restricted to equity markets; the liquidity problem was not allowed to get amplified into a solvency issue. If anything, the domestic asset price bubble was a bigger cause for concern than the global meltdown *per se*. It was more the internal overheating of the economy, than the fallout of the global crises that warranted caution. Not that the two are mutually exclusive, but their dynamics are relatively independent.

Considering the fact that the bulk of high credit growth in India during the last two to three years was concentrated, emanating as it was from two or three sectors, it was obvious that most Indian banks had lent some part of their portfolio in the asset price bubble. With about 50 to 75 per cent of the total lending having been done in this period, the loan book of the banking sector was not seasoned to weather the global storm.

With economic slowdown being a stark reality, it raised legitimate concerns about the possibility of impairment of these assets that had been created of late. Well founded as

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The J&K Bank's balance sheet is fully leveraged, cost efficiency is at the highest ever level and is now among the best in the industry, the efficiency of using assets to generate earnings has more than doubled in the last four years, the profit that we have generated with shareholders' money has more than doubled.

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these concerns were, they were temporarily postponed, if not resolved by the Reserve Bank's restructuring initiative. The manner in which the package was designed, it was evident that the RBI was betting on growth happening within a year or so. Should the recovery be delayed, as it appears now, the banking sector may not be totally out of the woods, just yet.

This is especially so in view of the fairly aggressive monetary policy interventions to keep interest rates low. Repeatedly policy rates were reduced but even before the year ended it became obvious that by the third quarter of 2009, there will be pressure on market rates of interest to rise. This was only to be reaffirmed when the Government of India announced its massive borrowing program in March. With the spectre of inflation hauntingly close, the coming quarters will test the policy makers as well as the players.

From the happenings of the 2008-2009, the Bank has drawn two lessons - one of strategy and the other for operations. First, that global problems can have local remedies. Second, that in this phase of exceptional uncertainty, the best course is to remain conservative but creatively so; what we at the J&K Bank call 'creatively conservative'. In the case studies at the beginning of the Annual Report, we have showcased how the J&K Bank tried to offer local remedies to a global problem. In the limited context of our main constituency of J&K it has worked well. Not only have the short-term pains been alleviated, even the medium and long-term prospects have been put on a firmer footing.

As for creative conservatism, the J&K Bank on its part had seen the asset price build up fairly early. As such, starting from 2006 we adopted a more defensive approach in credit growth and gave special attention to the geography of credit. As a consequence, not only does the J&K Bank today has one of the most seasoned loan books in the banking industry in India, it also has a large part of its assets in geographies that have been least affected by the asset price bubble.

Having sounded enough cautions and shown exceptional conservatism, let me say that this downturn, like the ones before it and the ones that will happen in future, will not last forever! There are already signs of recovery, though weaker than expected, pointing to the fact that it may be a bit delayed.

We have to now prepare ourselves to ride the boom as and when it happens. In the last four years, we have been able to transform the Bank in every which way you look at it; the financials are much better, and so are the fundamentals. The balance sheet is fully leveraged, cost efficiency is at the highest ever level and is now among the best in the industry, the efficiency of using assets to generate earnings has more than doubled in the last four years, the profit that we have generated with shareholders' money has more than doubled. All this happened even as business crossed the Rupees half a lac crores mark.

Now it is time for the Bank to change the orbit and look at some big initiatives that will take us into the bigger league. No sooner than the environment improves, we shall be ready with the right strategic moves. The next step is to do a business volume of Rupees one lac crores!

In having got this far, the Bank has got invaluable guidance from the Board of Directors. I have personally learnt a lot from each one of them and the Bank has benefited enormously from their wisdom. I acknowledge the unstinting support from the Reserve Bank of India and express my gratitude.

The Bank also has got assistance and cooperation from NABARD, SIDBI, IBA, Stock Exchanges, Department of Company Affairs, Registrar of Companies, Comptroller and Auditor General, Central Government and above all the Government of Jammu and Kashmir.

It is with great joy that I acknowledge one debt that the Bank owes: to its employees at different levels. It is because of them that the Bank has been a star performer and has shown consistent growth and profits for the last seven decades. More than anyone else, it is the employees of the Bank, past and present, who are responsible for the Bank being where it is today.

With warm regards,

**Haseeb A. Drabu**