Global maladies
Local remedies

J&K Bank
Serving To Empower

Annual Report 2008-09

The Jammu & Kashmir Bank is the only Bank in the country with majority ownership vested with a state government – the Government of Jammu & Kashmir. It is the sole banker and lender of last resort to the Government of Jammu & Kashmir.

The J&K Bank functions as a universal bank in Jammu & Kashmir and as a specialised bank in the rest of the country. It is also the only private sector bank designated as RBI's agent for banking business, and carries out the banking business of the Central Government, besides collecting central taxes for CBDT.

The J&K Bank follows a two-legged business model whereby it seeks to increase lending in its home state which results in higher margins despite modest volumes, and at the same time, seeks to capture niche lending opportunities on a pan-India basis to build volumes and improve margins.

The J&K Bank operates on the principle of 'socially empowering banking' and seeks to deliver innovative financial solutions for household, small and medium enterprises.

The Bank, incorporated in 1938, and is listed on the NSE and the BSE. It has a track record of uninterrupted profits and dividends for four decades. The J&K Bank is rated P1+, indicating the highest degree of safety by Standard & Poor and CRISIL.

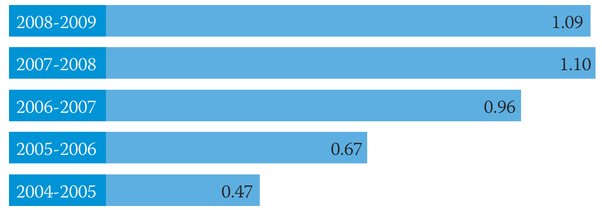
VISION

"To catalyse economic transformation and capitalise on growth."
Our vision is to engender and catalyse economic transformation of Jammu and Kashmir and capitalise from the growth induced financial prosperity thus engineered. The Bank aspires to make Jammu and Kashmir the most prosperous state in the country, by helping create a new financial architecture for the J&K economy, at the center of which will be the J&K Bank.

MISSION

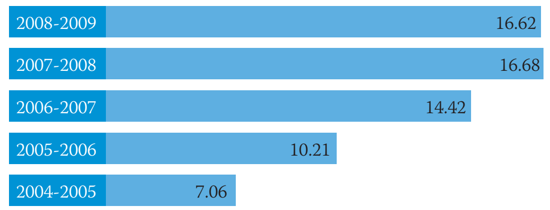
Our mission is two-fold: To provide the people of J&K international quality financial service and solutions and to be a super-specialist bank in the rest of the country. The two together will make us the most profitable Bank in the country.

THE TRANSFORMATION YEARS



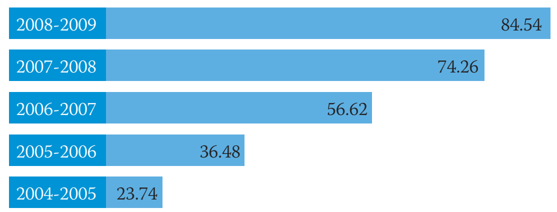
Return on Assets (per cent)

Net Interest Income Margins (per cent)

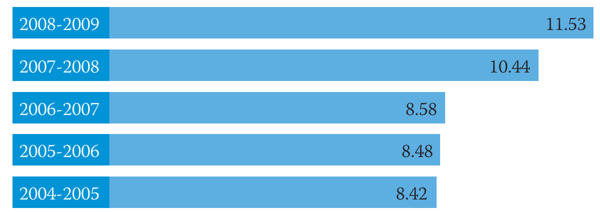


Return on Equity (per cent)

Cost to Income (per cent)



Earnings Per Share (Rs.)



Advances Yield (per cent)

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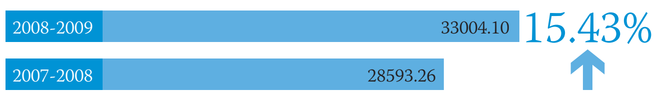
HIGHLIGHTS 2008-09

Business Turnover (Rs. in crores)



Total Deposits (Rs. in crores)

Net Profit (Rs. in crores)

Book Value per share (Rs.)

GLOBAL SLOWDOWN, LOCAL SOLUTIONS

The origins and causes of the downturn may be global. But it is clear that the slowdown has hit different places in different ways. The J&K Bank believes that our response to the downturn must be tailored to local circumstance. During an economic downturn, localism becomes more, not less important.

Money worries are headline news during an economic slowdown, But for a majority of the people financial hardship is a real fact of life. Gloom on the money markets transforms into harsher borrowing conditions for small businesses and tougher times for ordinary people.

The J&K Bank, being an ethical and socially conscious bank has been at the forefront to help families and businesses in harder times. The case studies that follow bring together examples of just this; how the J&K Bank, committed to its people, is trying to make a real difference to people lives.

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 Bank offered artisans the Livelihood Finance Scheme, or, the Crafts Survival scheme. These are concrete ways in which we are ensuring that some of society's most vulnerable sections are able to keep their head above water.

Across the state, thousands of vulnerable individuals and families are missing out on cash payments that would make their lives easier. Through such schemes, we are providing them support to tide over bad times.

As well as improving people's lives, these benefits contribute to the local economy. Where income to vulnerable households is maximized, economic hardship is reduced. This increases the amount of money spent in the area, which supports local jobs and businesses.

“We had no formal channels of finance. We used to work for meagre wages for some master craftsman or a carpet dealer who would provide us raw materials for carpet production.”

– Ali Mohammad Akhoon, craftsman

FROM WALL STREET TO SULTAN MOHALLA

The economic meltdown, although a global phenomenon, impacted different geographies in varying ways and degree. At J&K Bank, we believe that corrective action for this downturn has to be local and customised to the ground situation. In recessionary times, local solutions are more important.

Sultan Mohalla is a long way from the world's financial hub in New York, where it all began.

Here, nobody knew about the behemoth broking houses and their flawed geniuses, who led the world into the most intense recession since the Great Depression.

SPECIAL PACKAGES FOR THE HANDICRAFTS INDUSTRY

Category A

For exporters, traders, retailers and manufacturers.

Product

J&K Bank Handicrafts Sustenance Finance

- Available under Tripartite agreement
- Outside Tripartite agreement

Beneficiaries

Exporters, traders, manufacturers with mutual securing of backward and forward linkages through a tripartite agreement between the bank, the borrower and the craftsmen. However finance on similar terms was also provided to stakeholders who wanted to opt out of the trilateral agreement.

Nature of finance

Working Capital Term Loan

Scale of finance

Rs. 2 lac to Rs. 50 lac depending on the credit requirements of each category of beneficiaries.

Repayment

In 8 EMIs after a moratorium of 18 months

Category B

For artisans

Name of the Product

- J&K Bank Craftsmen Livelihood Finance (For Artisans covered under Trilateral Agreement)
- J&K Bank Dastakar Finance (For Artisans outside the Trilateral Agreement)

Beneficiaries

All artisans, craftsmen and other people associated with

- Carpet Weaving
- Shawl Embroidery
- Kani Shawl Weaving.
- Chain Stitch
- Crewel Embroidery
- Wood Carving
- Papier-Mâché

Type of Finance

Working Capital

Scale of Finance

The scale of finance and repayment was worked on the basis of working cycle for each activity and the unit capacity utilization.

“You know, there’s a lot of talk in this country about the federal deficit. But I think we should talk more about our empathy deficit – the ability to put ourselves in someone else’s shoes; to see the world through the eyes of those who are different from us – the child who’s hungry, the steelworker who’s been laid-off, the family who lost the entire life they built together when the storm came to town. When you think like this – when you choose to broaden your ambit of concern and empathize with the plight of others, whether they are close friends or distant strangers – it becomes harder not to act; harder not to help.”

- Barack Hussein Obama

Thanks to the cascading impact on the world economy, ‘depression’ spread like wild fire leaving the denizens of Sultan Mohalla and innumerable such communities with an uncertain future caused by the global meltdown in demand.

Sultan Mohalla is a picturesque hamlet set amongst the craggy land masses and the algae ridden waters of the Dal Lake. Within these beautiful environs, a few hundred artisan families live out their desperate, fear ridden lives, deprived of their livelihoods and their future. The carpet weaving looms that brought incomes and livelihoods to these people are quiet. This ominous silence spreads gloom.

The looms are silent because of the drying up of bulk orders from merchants and the buyers from the western countries.

Their lives, which were already a hand to mouth existence, became even worse.

Even hope, that eternal optimistic flame was flickering in the strong tempest that came from the west.

“Those were really desperate times for the whole artisan community. We had no idea of what to do,” says Ali Mohammad Akhoon, a craftsman who presides over an informal body of fellow artisans and also pursues their loan cases at the Bank.

“We had no formal channels of finance. We used to work for meagre wages for some master craftsman or a carpet dealer who would provide us raw materials for carpet production,” he recollects.

The deficit of empathy did not (thankfully) last long.

The J&K Bank intervened and adopted the whole village, and assumed responsibility for their economic rehabilitation. We provided them with customised, tailor made banking solutions to survive the downturn and keep their livelihoods going in a sustainable manner.

The flames of hope now burn with a renewed vigour.

While the macro level stories about monetary issues make the front page of newspapers, for most people, it is their own financial crunch that is the banner headline. The macro issues make for harsh borrowing conditions and brings tough times for ordinary people and small businesses.

WHO TOOK AWAY ALL THE MONEY?

For all the knowledge we have of the recession, and its causes, there is no straight answer that will satisfy the bemused Mohammed Abbas Hang, troubled as he is with the basic issues of feeding and sustaining his family. The esoteric world of high finance and fancy asset derivatives are meaningless to him. He is a victim.

He was a victim even before the economic troubles set in, but at least then, he was able to earn some money. In the earlier days, he survived because of the merchant who gave him raw materials and bought his labour. Even though he owned the loom and was the master weaver who made the carpet, it was the merchant who cornered most of the profits, leaving him with measly wages that just about kept body and soul together. The irony was he was the actual producer, the asset owner and the craftsman, yet what he produced did not contribute to his well being as much as it did to the merchant’s.

Then came the recession, and it was almost the proverbial last straw that would break his back.

"When I earn money I know what I spend it on. Food. Clothes. Fuel. Wool. But you say the whole world has lost money – where did it all go?"

- Mohammed Abbas Hang, carpet weaver, resident of Sultan Mohalla

"Who will educate my daughters?"

Mohammad Abbas Hang, carpet weaver, with his family

What would he do if people stopped buying carpets?

SUSTAINING ENTERPRISE

Providentially, the J&K Bank stepped in to right this situation.

We understood that Abbas was the victim of unfair trade arrangements and a cyclical market. His craftsmanship was not in doubt, but what he suffered from was the lack of sustaining power to wait out the recession.

Under the Scheme we lent him a term loan to buy raw materials and sustain his productivity .What he found was not just an alternative source of funding to the merchant, but the freedom from an exploitative economic arrangement and the power to negotiate prices of his carpets. Even in a sluggish economy, the disintermediation alone would contribute to his improved prospects.

Though his economic problems are not yet fully resolved, Mohammed Abbas Hang is one of the people who smile and look forward to a brighter future in Sultan Mohalla.

And that, for us is our first dividend.

Being a socially conscious bank means looking beyond the business and commercial issues and intervening to make a real difference in the lives, livelihoods dreams and hopes of people. After all when we invest in or fund a business, we are actually financing the people who run the enterprise.

"I brought them into this world, and I am responsible for them – how can I tell my daughters that the buyers have flown like the startled flock of pigeons?" asks Abbas.

THE CHALLENGE OF TOMORROW

The cyclical boom and bust mean nothing to Abbas, and knowing he had no answer, he had settled into an uneasy silence. He kept looking at his hands, and then at the loom. Even the merchant with whom he had worked for nearly three decades had nothing for him but words of consolation.

Abbas dreaded tomorrow. He had responsibilities – a family with five daughters and his extended family of three sisters.

The two eldest daughters Sahida and Fatima worked with him on the looms, while his other children Mubeena (16), Nuzhat (12), Tahira (10) and Zahir Hussain (18) studied.

He had dreamt of educating his three younger daughters and helping them find a calling other than the looms – but now, even that seemed uncertain. Nuzahat, the fourth daughter of Abbas is a class 6 student at the Government middle school. Little Nuzhat aspires to be a teacher and her sister Tahira, a class 4 student, dreamt of studying medicine.

His wife, children and his sisters depended on him. Alas, he did not have anyone to depend on.

HELP AT HAND

Then a thought struck him – Hadn't Murtaza, his cousin living at Lal Chowk spoken about how the J&K Bank helped him when he was seeking finance? Could he too? There was nothing to be lost anyway. Abbas decided to go to the Bank.

He embraced Tahira, who was standing near him, and said, "Who knows little one, maybe there is hope, after all." With a kiss and a hug, he started off.

At the Bank, we could read everything on Abbas' eyes and his demeanour.

Abbas found a sympathetic reception at the Bank and he came away not just with money to tide him over, but a solution to his systemic predicament.

The Bank financed his requirement of working capital and left him enough to tide him over for the season. They would also help him market his carpets and assured him of a 'buyer of last resort' if required.

That night Abbas Baig slept soundly. In the morning, he stepped out to see the light dawning over the hills, and he raised his hands in a silent prayer.

Hope had returned into his abode. So had warmth and security.

For us at J&K Bank, this was the meeting point of social commitment and 'for profit' perspective.

"Handicrafts in Kashmir are much more than a business. It is our connect to our tradition, our history and an inseparable part of our social tapestry. In fact you could call it the expression of our collective emotions," says Dr. Haseeb A. Drabu, Chairman & CEO, J&K Bank.

Obviously, financing craftsmen, helping them to overcome the impact of the slowdown and aiding the restructuring of their economic relationships, was much more than a business decision. We understood that the loss of our craft and skills was not just another anonymous business closing down, it was the loss of one of Kashmir's greatest assets and part of our identity. We knew that uniquely in the case of these craftsmen, financing the person was akin to financing an asset that could generate returns for years to come.

The J&K Bank has various schemes such as Dastkar Finance, KhatamBand Finance or the Artisan Livelihood Finance tailored to meet the requirements of artisans, and keep their livelihoods going.

Sultan Mohalla gains pride, loses prejudice.

Today, we have contributed our might to bringing pride back to this small hamlet of artisans. We also went one step ahead and provided solutions that would foster healthy business relationships based on market reality and not on exploitative prejudice and avarice. We have acted not just as a banker, but a concerned Kashmiri citizen.

"I too can succeed, if only I have the opportunity and the finance. With enough funding, I will not be dependent on the exploitative middleman and I can get true value for the work I do."

– Mohammed Khalil , walnut wood carver, from Lal Bazaar

I HAVE THE WILL. I NEED A WAY.

There are many ways in which the J&K Bank intervenes to improve the future of craftsmen and architects. The Artisans Livelihood Finance Scheme and the Crafts Survival Scheme are specifically tailored to help craftsmen overcome their limitations and achieve success.

Carving wood was more than a profession or business for Mohammed Khalil.

It was a passion that he lived for, since the age of twelve. At an age when his peers flocked to school, he would stay back, engrossed in the slow revelation of beauty that happened, while his hands worked the wood.

In his gifted hands the wood would be transformed into beautiful floral patterns of the legendary Kashmiri wall panels. The once valuable walnut wood became an invaluable and cherished piece of traditional art. A thing of beauty that would give joy forever, to its owners, as it did to its creator.

"For years, I never actually calculated what I received as against what I 'could' earn. The act of carving itself was a payment for me."

But when it dawned on him that the merchants who bought his carved panels earned more than him, by just selling to buyers in other places, he decided it was time to change. By then Khalil's signature carving had earned him goodwill and recognition in the market.

GETTING WINGS

"I knew there was a wide open sky, and I wanted to fly high… all I needed were wings!"

The 'wings' he required was an initial investment of Rs. 1.5 lac, which he received from the J&K Bank.

Armed with this modest sum, he started approaching his buyers directly, bypassing the middleman and merchants. Soon he started exhibiting his wares in exhibitions in major markets like New Delhi. The profits soared, and he knew that his ambition had taken wing, and that the sky itself was not the limit!

There is a thin dividing line between art and craft, even though one without the other is impossible to achieve!

This is equally true when you compare an entrepreneur and a successful enterprise. The dividing line is thin, and one cannot be without the other. Khalil's new found business acumen worked wonders for his bottom-line and soon he owned a grand showroom in New Delhi's Zakir Nagar area besides a two storied house, a workshop and a residential apartment in a downtown locality of Srinagar. There was a new bounce to Khalil's stride and his family was proud of his success.

After achieving success in New Delhi, Khalil explored the international markets.

He travelled to countries like Japan, UAE, Romania, Germany and the UK, displaying his hand carved panels. His products found a ready market in these countries.

His extraordinary talent won him several state and national awards, including the prestigious National Award for Art & Craft in 1997, and the Shilp Guru Award in 2005, and the state Award for outstanding contribution to the field of art & craft in 2007.

COUNTERING THE UNEXPECTED

In everyway you could look at it, he was a success story!

Then the recession struck. Khalil too, suffered. His rapid expansion required him to invest substantial amounts and with his sales diminishing, he found himself without work!

He had lost his wings, and was grounded. Once again, Khalil turned to the J&K Bank.

Our Handicrafts Sustenance Package gave Khalil much needed relief and support .

A timely additional disbursement of Rs. 4.5 lac helped him re-establish his business. Khalil was once again able to manage his workshop, pay salaries and continue to support his family.

The Handicrafts Sustenance Package has eliminated uncertainty of the future for craftsmen and infused a new found positivism in their lives.

A clear evidence of this was the turning down of a job offer given to Khalil by the State's Chief Secretary Mr. S.S. Kapoor.

"It is not the money, it's how one earns it that matters," said his son Riyaz when we inquired about his father's decision not to take up a job. After all, our work has brought us recognition, money as well as awards!

This response is for us a true bonus, given our involvement in the success of Khalil's career.

Mohammed Khalil and his team at work

> If you truly want to help craftsmen, you need to help them when they require your support and cash the most. A true friend is one who is there at your side in bad times.

- Gulab Nabi Malik, shawl weaver, Hardshura Village, near Gulmarg

GIVE ME DEBT, BUT WITH DIGNITY!

Across the state, there are thousands of craftsmen who are in great need of support and assistance by way of cash infusions and continued line-of-credit through their business cycle. At J&K Bank we offer assistance that will enable craftsmen make a success of their lives and contribute to the local economy.

They had already experienced debt the other way around.

Ghulam Nabi Malik lived in Hardshura, a small village of mud and wood houses, surrounded by maize fields. The village is located some seven kilometers west of Srinagar, on the road to Gulmarg.

A muddy lane leads to the single storeyed house of the Maliks. You can see the family sitting on the porch, engrossed in the embroidery work on shawls that are spread across their laps. There is Ghulam Nabi Malik, his wife and their three daughters. Their heads are bowed and their nimble hands move in sync to an age-old rhythm, stitching the intricate designs of the prized Kashmiri shawls. This craft, prized the world over, transforms the Kashmiri shawl into a piece of art, and adds many times the value of the shawl to its price tag. Sozni embroidery is also done on stoles and garments.

30 YEARS OF SOZNI

Malik and his family have depended on Sozni for the past thirty years for a livelihood. Even though their craftsmanship adds great value to the fabric, and earns a fortune for the shop keepers around the world and the merchants who commission work, it earns but a pittance in the form of wages for the family. The main reason for this is the lack of bargaining power, and the inability of craftsmen to approach the retailers directly. Shrewd middlemen reap

Manzoor Ahmed Parray, Malik's colleague

Shazia, Malik's daughter

"It is the neglect of timely repair that makes rebuilding necessary."
- Richard Whately

a fortune by simply keeping the craftsmen dependent on them.

While there was little to be earned, there was also no dignity.

Often, the merchant would delay payments to them. Even then Malik had no choice but to abide by the merchant's bidding. Despite the brilliance and creativity of their craft, their lives had been reduced to drudgery and despair.

Then came the recession. With buyers shying away from placing an order, the merchants stopped commissioning any work. The very livelihood of craftsmen like Malik and the other thousand families in the village was at risk.

Their unpleasant dream had just turned into a nightmare!

Wishful thinking screamed out for a saviour. But, was 'debt with dignity' asking for too much in these circumstances?

A 'stitch in time' saved the situation

As the recession deepened, its impact on the Sozni craftsmen's families increased manifold.

It was rendering the very fabric of the society asunder, and there was a real fear, that the craft itself would die away; with its practitioners seeking other opportunities.

It was then, in the darkest hour that the J&K Bank stepped in.

The Kunzar Branch adopted the Hardshura village for handicraft financing. The Bank drafted a comprehensive plan to counter the impact of the recession on the handicraft industry.

We motivated and encouraged the inhabitants of the area to avail of the financing facility for their own upliftment as well as to promote the crafts of Kashmir.

DASTKAR FINANCE – A STITCH IN TIME

Dastkar Finance Scheme is a specialised scheme, aimed at extending the benefits of banking to the neglected and un-banked segments of the state, specifically artisans. The scheme is ideal for artisans like carpet weavers, shawl embroiders and kani shawl weavers among others.

The Scheme provides artisans finance for looms, tools and designs as well as working capital for raw materials and wages. The loan takes into consideration the working cycle involved and disburses the loan in phased quarterly instalments subsequent to verification of the work-in-progress. This ensures proper end use, quality control and timely completion.

Malik's daughters: Shazia, Afroza and Rifat with their mother Fatima

Cheerful moments in the Malik household

DEBT WITH DIGNITY

The Bank has specially devised means to eliminate the dependence of artisans on exploitative middlemen. To ensure a fair price realisation for the craftsmen, the Bank has tied up with local business bodies who have agreed to be buyers of 'last resort' of the produce of the artisans financed by the Bank. This arrangement gives the artisans a higher floor price and better bargaining power with the trade.

A TRANSFORMATION IN THE MALIK HOUSEHOLD

Ghulam Nabi Malik was one of the beneficiaries of the Dastkar Finance Scheme. With capital infusion from the Bank, Malik today not only embroiders shawls and stoles, but owns them! The Maliks also provide work to other artisans of the area as well. He is not only able to pay his fellow artisans well, but he also earns a healthy profit from his enterprise. His income has doubled from Rs. 5,000 a month to Rs. 10,000!

His eldest daughter Rifat now studies is in the final year of her B.A. Both she and her younger sister Afroza work at home and earn enough to fund their studies, besides helping their family finances. Their youngest sister Shazia (16) is elated that they do not have to borrow money from others any longer. Malik now sends his two sons – Naseer (13) and Sajad (11) to private schools.

Far from being burden, their lives have taken on a new meaning and they work to a purpose.

There are several such stories in Hardshura.

Each one of them is testimony to the fact that combining the sensibility of a social enterprise with the 'for profit' norms will bring prosperity to the borrower, the lender and to society.

Banking, the J&K Bank way.

CHAIRMAN'S STATEMENT

Haseeb A. Drabu
Chairman & CEO

> No doubt these are difficult times, but they also are most interesting and rewarding. They challenge us, they test us and occasionally they even bring out the best in us.

There is an ancient Chinese curse which says, 'May you live in interesting times!' The times that all bankers and finance professionals are living in currently, are nothing if not interesting. No doubt these are difficult times, but they also are most interesting and rewarding. They challenge us, they test us and occasionally they even bring out the best in us. So the saying is as much a blessing as it is a curse.

In these times, to be a part of a well-regulated conservative system, which was earlier seen as an albatross, has turned out to be our biggest alleviator. The calibrated liberalization of the financial sector, low defaulter ratio, absence of complex financial products, regular intervention by the 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.

Given that the manner in which financial sector and markets have not only got interlinked, but also become interdependent

In the developed world, the crisis originated in the financial sector and then impacted the real economy. In the developing economies the causality and sequencing has been the other way, with the real sector being hit first and the financial sector thereafter.

in the regime of globalization, it was obvious that the crisis, no matter where it originated, would traverse sectors and transcend boundaries. As indeed it did. It is impossible for the lending institutions to stay insulated as they were at the epicenter of this crisis. Indian economy and its institutions were affected.

The sequencing of the crisis and the transmission mechanism were different compared to the developed economies. In the developed world, the crisis originated in the financial sector and then impacted the real economy. In the developing economies the causality and sequencing has been the other way, with the real sector being hit first and the financial sector thereafter.

Even as the overall economic environment turned adverse, the overall sentiment dampened and the confidence was shaken; the systemic robustness ensured that advancing crisis was tempered to credit crisis; the great depression was moderated to a slowdown; financial meltdown was restricted to an equity markets crash caused by net repatriation of $ 13 billion by FIIs of equity divestment; 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 crisis that warranted caution. Not that the two are mutually exclusive, but their dynamics are relatively independent.

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 changes in the environment to happen. It is not possible for firms to wait for a global systemic solution 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.

Considering the fact the bulk of high credit growth in India during the last two to three years was concentrated, on two or three sectors, it was obvious that most Indian banks had lent some part of their portfolio into the asset price bubble.

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 crisis that warranted caution.

Policy rates were reduced repeatedly, but even before the year ended it became obvious that by the third quarter of 2009, there will be pressure for market rates of interest to rise. This was only to be reaffirmed when the Government of India announced its massive borrowing programme in March.

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 a stark reality, it raised legitimate concerns about the possibility of impairment of these assets that had been created of-late. Well founded as 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. Policy rates were reduced repeatedly, but even before the year ended it became obvious that by the third quarter of 2009, there will be pressure for market rates of interest to rise. This was only to be reaffirmed when the Government of India announced its massive borrowing programme in March. With the specter of inflation hauntingly close, the coming quarters will test the policy makers as well as the players.

From the happenings of the 2008-09, two lessons can be drawn – one each from the strategy and operational point of view. 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 this 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 Jammu & Kashmir, 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. It is not an adequately

From the happenings of the 2008-09, two lessons can be drawn – one each from the strategy and operational point of view. 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'.

Not only does J&K Bank have 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 pre-crisis bubble in asset prices.

recognized fact that magnitude and nature of the credit crisis is limited in certain areas of the country, which are under serviced to such an extent that the credit/GDP is less than 25 per cent. In addition, there is a sectoral dimension to credit distribution. The sector wise deployment of credit in Jammu & Kashmir is such that it is largely outside those sectors that are amenable to asset price bubble. Take for instance the case of horticulture, trade and services. As a consequence, not only does the J&K Bank have 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 pre-crisis bubble in asset prices.

In these times, at an operational level, the creativity lies in making the condition of the borrower more relevant than its capability; its past performance more relevant than the promise it holds for the future; and its stamina to endure and survive more critical than its strength. This done, even in an adverse environment – which is likely to continue for another four to six quarters – efficiency gains, productivity enhancements and cost economies will provide the required thrust to the bottom line.

Haseeb A. Drabu

BOARD OF DIRECTORS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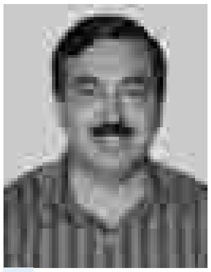
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1 Haseeb A. Drabu, Chairman & Chief Executive

A professional economist by training, Dr. Drabu has been on the Board of Directors of the Bank since 11th July, 2003. His past stints include those with the Planning Commission, The Economic Advisory Council of the Prime Minister and the Tenth Finance Commission. He was the National Editor of the financial daily Business Standard and was appointed as a member of the High Powered Committee on Economic Reforms for Jammu & Kashmir. He also worked as a consultant to the Asian Development Bank. He has been a member of Prime Minister's Task Force on J&K, CII's Banking Panel, Member of the Management Committee of the Indian Banks' Association, Member of the High Level Technical Committee on Minorities and Advisory Committee of the National Disaster Management Authority, among others.

2 M. S. Verma

A career banker with over 45 years of experience in the Indian financial sector, Maya Shanker Verma is the former Chairman of State Bank of India. He has also been the honorary advisor to the Reserve Bank of India and the non-executive Chairman of IDBI Bank. In March 2000, Mr. Verma was appointed by the Government of India as Chairman of Telecom Regulatory Authority of India. He is a director on a number of reputed companies that include PTC India Ltd., Visa Steel Ltd., Shriram Transport Finance Company Ltd. and the Asian Heart Institute & Research Centre.

3 G. P. Gupta

Mr. Gupta is the Ex-Chairman and Managing Director of IDBI and has the distinction of serving as the Chairman of premier institutions such as UTI, SIDBI, and the National Stock Exchange of India Ltd. He has been a Member of LIC and GIC, as well as the Director on Board of various companies such as the Exim Bank of India, Infrastructure Development Finance Company Ltd., Indian Airlines Ltd., Discount & Finance House of India Ltd. and Securities Trading Corporation of India Ltd. He is an ex Council Member, Indian Institute of Bankers and President, Entrepreneurship Development Institute of India, Ahmedabad. His numerous other directorships include those in Swaraj Engines Ltd., SIDBI Venture Capital Ltd., PTC India Ltd., Su-Raj Diamonds & Jewellery Ltd. and Idea Cellular Ltd.

4 Sudhanshu Pandey, IAS

Mr. Pandey, a member of the IAS, is Commissioner/Secretary to Government, Finance Department, J&K. He has served as Managing Director, SIDCO, Director & PS to MoS, Ministry of Commerce and Industry, GOI, Director & PS to MoS, Ministry of External Affairs, GoI, Counsellor and Director, Tagore Centre for Information, Education, Commerce and Culture, Embassy of India, Berlin and Divisional Commissioner, Jammu. Mr. Pandey is the recipient of Governor's Medal (1997), and also the State Government Medal (2008), in recognition of his exemplary services for the state of J&K. He holds directorships in various other companies such as JKPCC, JK Cements, Jammu and Kashmir Industries, JK Handloom Development Corporation, JKTDC, J&K SIDCO, J&K SICOP, J&K Handicrafts and J&K State Cable Corporation Ltd.

5 **Narendra Jadhav**

Dr. Jadhav's multi faceted career spans academics, economics, policy making and writing. He is a member of the Planning Commission, Government of India, and before this, was Vice Chancellor of the University of Pune. He has served in the Reserve Bank of India for more than 30 years. He was the Principal Advisor and Chief Economist with the Reserve Bank and played an important role in macroeconomic policy making in India. He has served as Advisor to Executive Director for India at the International Monetary Fund (IMF); Senior Economic Advisor to various governments including that of Ethiopia. He was involved in the reconstruction of the economy of Afghanistan as Chief Economic Counsellor. A prolific writer, he has authored 11 books chiefly on economic and social issues and has won numerous awards for his contribution to society.

6 **A. K. Mehta**

Mr. Mehta has a longstanding association with the Bank, dating back to 1972 and has served it in various executive capacities as part of the Bank's Corporate Management Team. He has also been the Chairman of Jammu Rural Bank - a rural bank sponsored by the J&K Bank. He has been instrumental in our tie-ups with MetLife International and with Bajaj Allianz General Insurance Co. and MetLife India Insurance Co. Ltd. for distribution of Non-Life and Life Insurance Products. His other areas of specialisation include Finance & Financial Services, Planning & Development, Accounts and Estates.

7 **Abdul Majid Mir**

Mr. Abdul Majid Mir has more than 36 years of experience in banking. He has held various important and senior positions at J&K Bank, as part of its Corporate Management Team. He has extensive experience and knowledge in the fields of Finance, Credit, Trade Finance, Foreign Exchange, Treasury, Corporate and Retail Banking, Deposits & Liability Management & Risk Management. He is also a Director in JKB Financial Services Ltd.

8 **B. L. Dogra**

A Fellow Member of the Institute of Chartered Accountants of India, Mr. Dogra is the founder of M/s Dogra Associates, a Firm of Chartered Accountants. Mr. Dogra has also served on the Board of Directors of Punjab National Bank and has been the Chairman of J&K Chapter of Northern India Regional Council of the Institute of Chartered Accountants of India. He has also been associated with social and sports associations of the State. He has a rich and varied experience in the field of Banking and Insurance, which has facilitated healthy rejuvenation of the Bank's business.

9 **G. M. Dug**

A renowned figure in the hospitality industry in Jammu and Kashmir, Mr. Dug has played an active role in the affairs of Kashmir Hotel & Restaurant Association (KHARA) of which he has acted as Secretary General and President. He has also held prestigious positions with the Kashmir Chamber Of Commerce & Industry (KCC&I) and has been its President on two occasions. He has been a member on the Board of several well-known State Government Undertakings. He is also a director of the J&K Tourism Development Corporation.

Note : Detailed profiles of Directors is provided on page 114 of this report.

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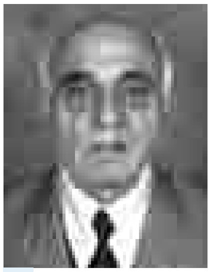

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EXECUTIVE COMMITTEE

1	**Haseeb A. Drabu**	Chairman & CEO
2	**A. K. Mehta**	Executive Director & COO
3	**Abdul Majid Mir**	Executive Director & CFO
4	**Ajit Singh**	Sr. President
*	**Tafazal Hussain**	President
*	**Sahibzada Gh Mohi-u-din**	President
5	**Kuldeep Kumar Sharma**	President
6	**Parvez Ahmed**	President & Secretary
7	**Ghulam Ahmad Regoo**	President
8	**Abdul Rashid**	President

** Not in Picture*

VICE PRESIDENTS

Suman Durswal
Shamsher Singh Nathyal
Madan Lal Gupta
Nazir Ahmed Parimoo
Mohammd Amin Narchoor
Raja Abdul Latif
Mohamad Afzal Khan
Bashir Ahmed Lone
Om Prakash Sharma
Fazal-e-Mehboob Gani
Javeed Mustafa Rafiqi
Vagish Chander
Shafat Ahmad Banday
Meera Jamwal
Roop Krishan Shah
Surjeet Singh Sehgal
Abdul Rouf Bhat
Abdul Rashid
Mohammad Syed Wani
Surender Krishan Bhat
Nayeem-ullah
Khursheed Ahmad Pandit
Syed Abdul Hamid
Mohammad Altaf Bhat
Mohammad Sidiq Wani
Pushap Kumar Tickoo
Rajesh Kumar Chibber
Mohammad Amin Mir

CORPORATE INFORMATION

Board of Directors

Haseeb A. Drabu	Chairman & CEO
M. S. Verma	Director
G. P. Gupta	Director
Sudhanshu Pandey,IAS	Director
Narendra Jadhav	Director
A. K. Mehta	Executive Director
Abdul Majid Mir	Executive Director
B. L. Dogra	Director
G. M. Dug	Director

President & Secretary

Parvez Ahmed

Auditors

Gupta Gupta & Associates
Chartered Accountants

Verma Associates
Chartered Accountants

Baweja & Kaul
Chartered Accountants

Registered Office

Corporate Headquarters
M. A. Road, Srinagar – 190 001

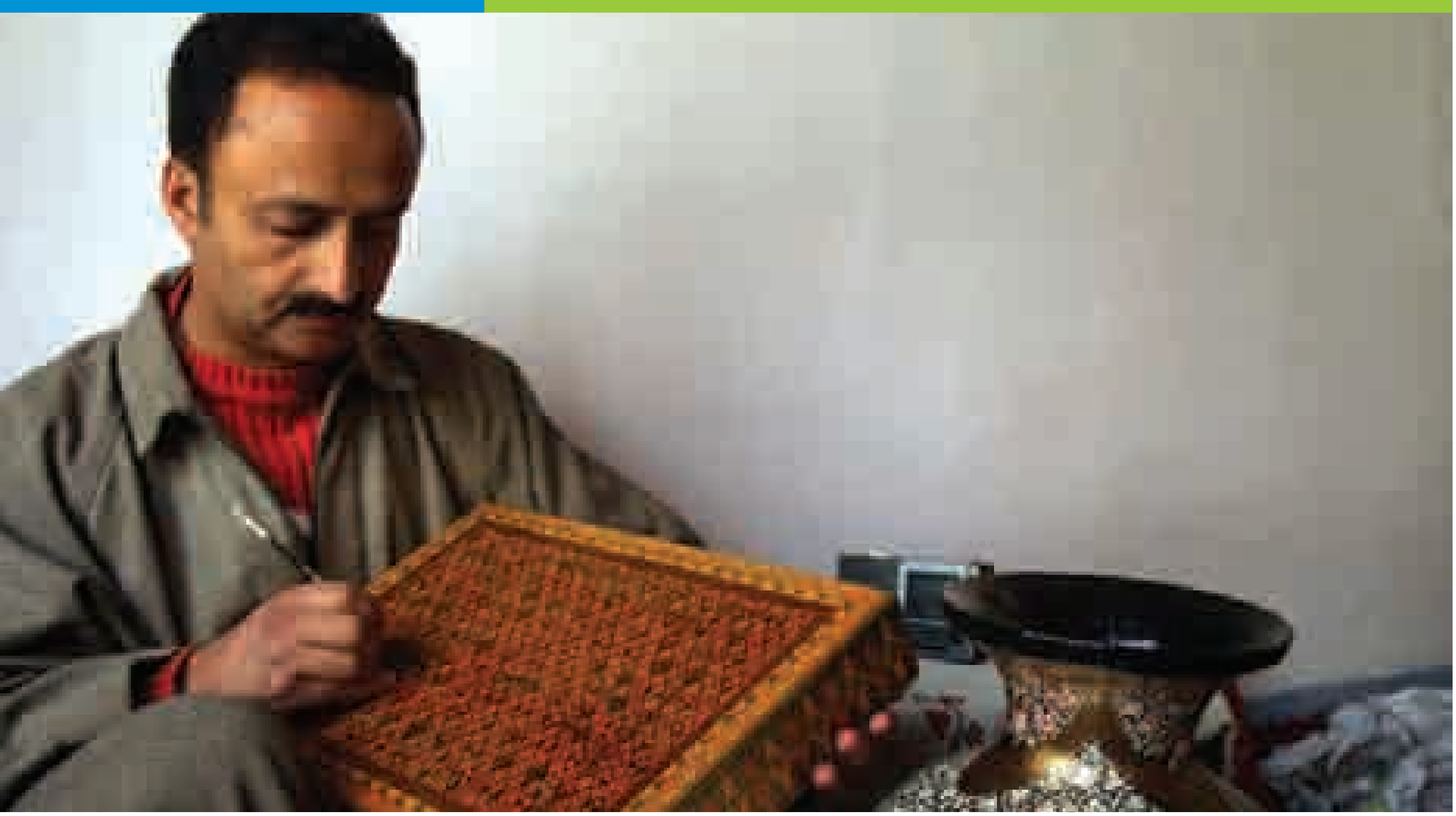
Registrar & Share Transfer Agents

Karvy Computershare Private Limited
Unit J&K Bank Limited
Plot No. 17–24, Vittalrao Nagar, Madhapur
Hyderabad - 500 081
Tel. (040) 23420838, Fax (040) 23420814


Badam Vaêr
J&K Bank


Express.


CORPORATE FUNCTIONS' REPORT



RISK MANAGEMENT

AN INCREASED FOCUS

The focus on Risk Management has gained more importance than ever before owing to the recent financial turmoil that the world has been witness to. The Bank has been working on several initiatives to streamline and upgrade the existing risk management systems to bring them in tune with the prevailing International Best Practices in Risk Management and also cover the entire spectrum of various risks which the Bank is exposed to.

The Bank has a risk management structure in place to control and mitigate these risks. Within the overall structure, various responsibility centers from top to the bottom have been defined to devise and implement Risk Management policies and processes. The broad objective is to safeguard and enhance asset quality along with creation of efficient, secure, and value driven business.

INTERNATIONAL NORMS AND STANDARDS

The Bank has migrated to the 'New Capital Adequacy Norms' from 31st March, 2009. The Bank has adopted the Standardized Approach for computation of capital for credit risk, Standardized Duration method for market risk and Basic Indicator Approach for operational risk. The capital requirements as per the new norms are lower than the capital requirements under earlier norms which stems from higher quality of our asset book. The Bank has put in place an appropriate MIS for calculation of capital requirements. The Bank intends to move towards Advanced Approaches for capital charge computations and various initiatives like collection of historical recovery rates and loss data have been undertaken.

CREDIT RISK MANAGEMENT

The Bank has put in place a credit risk management structure to identify, measure, monitor, control and mitigate credit risk right from the loan origination to its disbursement. With an endeavour to enhance credit risk management procedures and credit evaluation, the Bank has put in place an elaborate risk rating framework which includes internal risk rating models for broad lending segments of large corporate, small and medium scale business, personal loans, housing loans, infrastructure loans, non banking financial company loans and project finance loans. The rating framework is designed to act as a remote Bank-wide centralized database of the borrowers with ready DSS and MIS to help in managing our portfolio both at micro and macro level. The Bank has put in place credit audit system for effective management and mitigation of credit and operational risks in the loan portfolio.

MARKET RISK MANAGEMENT

An appropriate system has been implemented to capture all material sources of market risk. Various prudential limits have been put in place for taking exposures across all segments of market and the Bank has been able to contain market risk in Investment portfolio effectively. The Bank is undertaking Traditional Gap analysis and Duration Gap analysis for measuring potential liquidity risk and interest rate risk. This serves as a decision support tool for improving our asset liability management and thereby earnings. The Bank also undertakes stress-testing exercise on a regular basis to supplement the market risk management policies and strategies.

OPERATIONS RISK MANAGEMENT

The Bank has necessary operational risk management structure in place and has devised operational risk policy for identification of operational risk areas, capturing various operational risk events and putting in place internal controls to mitigate these operational risks. To ensure continuity of business operations in the event of any abnormal disruption, the Bank has formulated an enterprise-wide business continuity plan. The Bank has a robust internal control and audit mechanism and reporting system for managing and mitigating the operational risks.

The Bank has developed and put in place Internal Capital Adequacy Assessment Process commensurate with its size, level of complexity, risk profile and scope of operations. The ICAAP document focuses on identification, measurement and mitigation of all material risks affecting the Bank's business. It also provides for an effective Capital Management Plan in sync with the desired capital level, current and future capital requirements and capital sources, among others.

TECHNOLOGY

AN ALL-PERVADING TECHNOLOGY ENVIRONMENT

The Bank is continuing its effort to make every single process technology driven. Towards this end, computerization and networking of all distribution channels and offices has gathered momentum. During 2008-09, 103 business units were rolled over to Finacle (CBS) bringing the total number of branches on Finacle to 330. Out of the total branch network of 575 units, 510 are computerized and out of these 456 are networked. The number of ATMs has gone up to 246 as at end March 2009.

A SYSTEM DRIVEN APPROACH TO STAKEHOLDER DELIGHT

The Bank has developed a robust Management Information System (MIS) hosting the complete credit portfolio database of the Bank. In addition to the regulatory returns, the MIS is doubling as a real-time DSS tool providing information about parametric distribution, maturity profiling and NPA tracking of the portfolio, among others.

To instill customer-centric approach in marketing of products and services, the Bank is installing a 'Customer Relationship Management' (CRM) solution for profiling of customers, understanding their needs, recommending solutions and resolving their queries.

HUMAN RESOURCES

MOTIVATION THROUGH GROWTH

The HR system has been transformed in order to meet the requirements of customer service by implementing / redefining / redesigning HR policies. The pledge of career development, skill advancement, compensation improvement, and revamped Performance Management System made in the project *'Naye Subah'* has been accomplished in its true spirit and is continuing with ever more improvements.

Career progression and succession planning were given due consideration and over 3000 promotions were effected across all cadres. With an aim of guiding the Bank through the current rough market conditions by utilizing the proficiency and experience of the senior management, the superannuation age of the officers was enhanced from 58 to 60 years. Further, employees of the Bank have been divided into different bands such as operational, executive and leadership ones to harness their potential and to groom them as future leaders.

SKILL DEVELOPMENT

To equip the employees with right skill sets and give an analytical dimension to their operations in line with the needs of new business dimensions, appropriate and adequate trainings were imparted to the employees of the Bank. These training events were conducted at the Bank's own training institutes like the Technology Training Centre Srinagar/Jammu, Staff Training Colleges Srinagar/Jammu in addition to other institutes like NIBSCOM, NIBM, IDRBT and FICCI. During 2008-09, as many as 3600 employees were imparted training in different aspects of credit, forex, risk management, HR, KYC/Anti Money Laundering and customer service.

PROFITABLE EFFICIENCY

The impact of the revamped HR system of the Bank is reflected in the efficiency and productivity of the workforce. The business per employee has increased to Rs. 5 crore and the profit per employee has risen sharply to Rs. 5 lac. The cost to income (efficiency) ratio of the Bank at 37.81 per cent is amongst the best in the industry.

CORPORATE GOVERNANCE

GOING BEYOND REGULATION

The J&K Bank has been committed to all the basic tenets of good Corporate Governance well before the Securities and Exchange Board of India and the Stock Exchanges pursuant to Clause 49 of the Listing Agreement mandated these. Now, it is our endeavour to go beyond the letter of Corporate Governance codes and apply it innovatively in a more meaningful manner, thereby making it relevant to the organization that is operating in a specific environment, which is different from the generic Anglo-Saxon one.

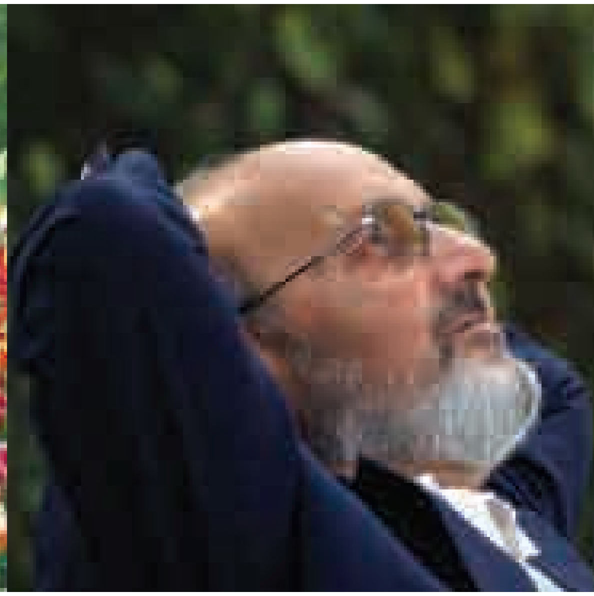
In line with its vision, the Bank intends to apply Corporate Governance innovatively in a transitional economy like Jammu & Kashmir. The Bank wants to use Corporate Governance as an instrument of economic and social transformation. In due course, we would set our targets of social and economic reporting as a part of annual disclosures. This will help us conceptualize and contextualize the form and content of Corporate Governance in a developing state. Given the fact that the J&K Bank is and is seen as a great success of 'public-private partnership,' it expected to play a role in social transformation of the economy. This lends urgency to implementation of good governance practices which go beyond the Corporate Governance code.

INCREASING RELEVANCE IN OUR HOST STATE

Operating in an environment that is emerging from a situation of civil strife, the issue of Corporate Governance assumes a different and greater relevance. We, as the prime corporation of Jammu & Kashmir, have a vested interest in making the state a safe place for business. The Bank has a key role to play in providing public and private services, financial infrastructure and employment. As such, the efficiency and accountability of the corporation is a matter of both private and public interest and governance, therefore, comes at the top of the agenda. The fact that the Bank is state owned but professionally managed, having a large size of international investors, governance is critical. For us, Corporate Governance is concerned with the systems of laws, regulations and practices, which will promote enterprise, ensure accountability and trigger performance. The J&K Bank, for one, stands for being more accountable, practice self-policing and make financial transactions transparent and constitutional.

PARTNERING NATIONAL DEVELOPMENT

We seek to be partners in the economic and social transformation of the nation. In our context there is a need to redefine the role of our Directors to make the J&K Bank an engine of social transformation. As an eminent corporate jurist, Chancellor William T. Allen from the US says, "A corporate director has civic responsibility. The people, who accept this responsibility, do it conscientiously and well deserve our respect as they are serving a nation. But those who as directors are passive and view their role as mere advisers, are pliable and pleasant but do not insist on a real monitor's role, do small service to anyone and deserve little respect." Our directors belong to the former category.

CUSTOMER SERVICE

CONNECTING CONSCIOUSLY

Being cognizant of customer aspirations, the Bank has become a service provider that is knowledgeable, yet warm and approachable. We seek to meet the highest standards of customer orientation by encouraging polite, respectful behaviour with the customers, and providing quick, responsible and helpful service. Towards this end, an invigorated service credo 'I am listening' was championed which aims to sensitize the employees to take customer service to the pinnacle where customer is empowered – to voice dissent, to suggest, to ask, to opine, to request – and assured to be listened to with humility.

STRATEGY IN ACTION

Some of the steps taken to engage more effectively with our customers include:

a. ISO 9001-2008 certification of business units

b. Facilitation of cross – LoC trade

c. Corporate Agency arrangement with ECGC to facilitate Exporters / Importers.

d. Devising processes that enable faster processing:

   i. e-NoC for faster credit approval

   ii. Enabling RTGS/NEFT across all business units to facilitate quick, easy and economical remittances.

   iii. e-Tax payment facility

   iv. On-line utility bill collection / payment gateway

   v. Cash Management Services for corporates

SOCIAL SUSTAINABILITY

APPROACHING BUSINESS WITH RESPONSIBILITY

As a responsible and socially conscious institution, the J&K Bank has a well articulated Corporate Social Responsibility (CSR) policy. The Bank seeks to recognize its obligations towards society and aims to integrate the CSR ideals into its mission for optimizing both business and social performance.

SUPPORTING SOCIETY

The Bank has established its credentials for the economically underprivileged by contributing towards various philanthropic activities aimed at ameliorating their sufferings. Be it the differently-abled or patients with serious ailment who lack reliable means of survival, the Bank has supported them all through. Realizing its responsibility towards the future of orphaned children, the Bank has adopted several of them by providing financial support either through various orphanages where they are sheltered or directly to the orphans by bearing their educational or other expenditures.

Keeping alive its tradition of supporting orphans and physically challenged persons and the importance of computer education for such people, the Bank donated five computer systems and a printer to an orphanage run by a local NGO, CHINAR Foundation and two computers and a printer to the J&K Sports Association for Deaf & Dumb.

PROMOTING SELF-SUSTENANCE

During the year, the Bank not only continued to support education of orphans by way of bearing the cost of their education but also provided scholarship to meritorious students of Craft Development Institute pursuing different technical courses in craft development.

The Bank adopted students of the Voluntary Medicare Society, an organization engaged with caring for physically challenged children besides donating hand peddled tricycles to the Sultan-ul-Arifeen Artificial Limb & Clipper Fitment Center for use by physically challenged people.

During the year the Bank provided financial assistance for treatment of number of destitute patients suffering from different ailments and provided support to the Cancer Society of Kashmir for treatment of those patients who cannot afford it. The Bank continued to enthusiastically support number of non-governmental agencies engaged in welfare of the poor and the destitute.

SUPPORTING SPORT

With an aim to developing a sports culture in the state and promote football among the masses, the Bank, in May 2008, sponsored the 62nd Edition of Santosh Trophy, a national level football tournament. The Bank also supported a number of individual sports persons helping them participate in national and international events.

DIRECTORS' REPORT

Dear Members,

1. Your Board of Directors have pleasure in presenting the Seventy-first Annual Report of your Bank together with the audited Balance Sheet, Profit and Loss Account and the report on business and operations for the year ended 31st March, 2009.

   1.1 The Bank has put in place a well articulated frame work of 3 Ps (People, Process, Products) to identify and execute new initiatives to accelerate business growth on sound and sustainable lines. This framework is also designed to improve customer engagement at all customer touch points. Innovation is actively encouraged. People initiatives include new programmes for leadership development, succession planning, incentives for high performers, performance enhancement programmes etc. Process initiatives include centralization of back office functions, separation of credit marketing and approval process and feed forward MIS to Branches. Product initiatives include offering timely, affordable, customer-centric and non-commoditized products to the customers. The Bank is actively chalking out strategies to take the Bank to higher growth trajectory.

2. Performance at a glance

2.1 The aggregate business of the Bank crossed yet another psychological mark and stood at **Rs. 53,934.51 crore** at the end of the financial year 2008-09. The total business of the Bank increased by **Rs. 6,458.64 crore** from the previous year's figure of **Rs. 47,475.87 crore,** registering a growth of **13.60%.**

2.2 The total deposits of the Bank have grown by **Rs. 4,410.84 crore** from **Rs. 28,593.26 crore** as on 31st March, 2008 to **Rs. 33,004.10 crore** as on 31st March, 2009, registering growth of **15.43%.** During the same period CASA deposits of the Bank have grown by more than **12%** contrary to the declining trend in the industry.

2.3 The Bank continued its prudent approach in expanding quality credit assets in line with its policy on Credit Risk Management. The net advances of the Bank increased by **Rs. 2,047.80 crore** from **Rs. 18,882.61 crore** as on 31st March, 2008 to **Rs. 20,930.41 crore** as on 31st March, 2009, registering growth of **10.84%.**

During the year, focused attention was given for accelerated lending under the agriculture sector which recorded a growth of **269%.** The overall priority sector credit portfolio showed a growth of **40%** during the same period.

2.4 The Bank, in line with its policy stance, has recorded higher credit growth in J&K State than in rest of India. However, due to tumultuous situation in the state for some time as also the global economic turmoil, the overall credit growth has remained moderate. Moreover, with a view to maintain immunity against the financial sector meltdown, the Bank has reduced its exposure to Financial Markets by **54%** and to the Real Estate sector by about **32%.**

2.5 The performance of the Bank in recovery of NPAs during the year continued to be good. During the year, the Bank effected cash recovery, up-gradation of NPAs and technical write-off of **Rs. 327.85 crore** compared to **Rs. 244.53 crore** in the previous year.

2.6 Investment portfolio of the Bank increased by **22.59%** from **Rs. 8,757.66 crore** as on 31st March 2008 to **Rs. 10,736.33 crore** as on 31st March, 2009. The investment book comprises of 71% SLR and 29% Non-SLR investments.

3. Insurance Business

3.1 The Bank earned an income of **Rs. 26.80 crore** from the Insurance Business, registering a growth of **25.2%** over the last year's income of **Rs. 21.41 crore.**

3.2 In life insurance, the Bank mobilized a business of **Rs. 101.10 crore,** recording a growth of **28.33%** over the last year's business of **Rs. 78.78 crore.** In non-life business, the Bank mobilized a business of **Rs. 40.53 crore** as against **Rs. 36.72 crore** mobilized during the preceding year.

4. Income Analysis

4.1 Interest income of the Bank recorded a growth of **Rs. 553.89 crore** from **Rs. 2,434.23 crore** in the year 2007-08 to **Rs. 2,988.12 crore** [+22.75%] in the year 2008-09, as against the interest expenses which grew by **22.42%** from **Rs. 1,623.79 crore** during the year 2007-08 to **Rs. 1,987.86 crore** during the year 2008-09. The Net Interest Income recorded a growth of **Rs. 189.82 crore** [+23.42%] during the same period.

4.2 The Net Income from operations [Interest Spread plus Non-interest Income] increased to **Rs. 1,245.31 crore** in the financial year 2008-09 from **Rs. 1,055.45 crore** in the financial year 2007-08 recording a growth of **17.99%.**

4.3 The Operating Expenses showed an increase of **16.66%** during the financial year 2008-09 and stood at **Rs. 470.86 crore** as compared to **Rs. 403.61 crore** in 2007-08.

4.4 The Cost to Income ratio [operating expenses to Net Operating Income] improved marginally from **38.24%** in the financial year 2007-08 to **37.81%** in the financial year 2008-09.

5. Gross Profit

5.1 The Gross Profit for the financial year 2008-09 stood at **Rs. 774.45 crore** as compared to **Rs. 651.84 crore** in the financial year 2007-08 registering an increase of **Rs. 122.61 crore [+18.81%].**

5.2 The Asset Utilisation Ratio [percentage of Gross Profit to Average Working Funds] stood at **2.27%** in the financial year 2008-09 [previous year 2.23%].

6. Provisions

6.1 The Provision for Loan Losses, Provision on Standard Assets, Taxation and others aggregated to **Rs. 364.62 crore** in the financial year 2008-09 as compared to **Rs. 291.83 crore** in the financial year 2007-08.

7. Net Profit and Dividend

7.1 The Bank registered a Net Profit of **Rs. 409.84 crore** for the financial year 2008-09 compared to **Rs. 360 crore** in the financial year 2007-08 recording growth of **14%.**

7.2 The Board of Directors have recommended dividend of **169%** for the financial year 2008-09.

7.3 In terms of extant guidelines, the Bank will pay the dividend distribution tax for the financial year 2008-09. Accordingly the total outflow on account of Dividend for the year 2008-09 will be **Rs. 95.90 crore** including the dividend distribution tax.

8. Net Worth and CRAR

8.1 The Net Worth of the Bank improved to **Rs. 2,622.86 crore** as on 31st March 2009 from **Rs. 2,308.92 crore** as on 31st March, 2008.

8.2 The Capital to Risk Adjusted Assets Ratio [CRAR] stood at **13.46%** as on 31st March, 2009 as against **12.80%** as on 31st March, 2008 which is well above the norm of 9% stipulated by the Reserve Bank of India. The Tier I component of CRAR is **12.77%** as on 31st March, 2009 compared to **12.14%** as on 31st March, 2008.

8.3 The Bank has implemented new capital adequacy framework w.e.f. 31st March 2009. Under new norms, Bank's CRAR works out to **14.48%,** which is higher than the CRAR as computed under BASEL I norms. The advantage has stemmed mainly from higher rated Investment / Credit portfolios. The Tier I component of CRAR under new norms is **13.80%** as against **12.77%** under BASEL I.

8.4 Tier I leverage ratio of the Bank stands at **6.96%** as on 31 March, 2009 against **7.05%** as on 31 March, 2008.

8.5 The Return on Net Worth, Earnings Per Share and Book Value per Share for the financial year 2008-09 stood at **16.62%, Rs. 84.54 and Rs. 541.04** respectively, against **16.68%, Rs.74.27** and **Rs.476.29** respectively for the previous year.

9. Branch Network

9.1 During the financial year 2008-09, **22** branches were added, thereby taking the number of branches to **530** as on 31-03-2009, spread over **20** states and **1** union territory. The area-wise breakup of the branch network (excluding Extension counters) is as under:

Area	Branches
Metro	041
Urban	166
Semi-Urban	119
Rural	204

9.2 During the year, our Bank was entrusted with management of Bankers' Clearing House at Budgam and it stands established with seven members / sub-members.

10. IT initiatives during 2008-09

10.1 Conscious efforts have been made to leverage the Bank's existing IT infrastructure as also to develop new technological solutions with the prime objective of increasing customer convenience and providing multiple delivery channels for easy access to banking services. Some of the major initiatives are highlighted below:

- 53 branches have been computerized during the year taking the total count of computerized branches as on March 31, 2009 to 510 out of a total branch count of 575 (including Extension Counters / Service Branches).
- 103 branches have been migrated to Core Banking Platform during 2008-09 taking the total count of branches on CBS as on March 31, 2009 to 330.
- 35 new ATMs have been installed during the year taking the aggregate number of ATMs to 246 as at end of 2008-09.
- eBanking facility has been made available at all the 330 CBS branches of the Bank, with the number of eBanking users crossing 11500 mark.
- The Bank has integrated with more than 300 billers / online merchants like BSNL, Air Tel, LIC, Metlife, Tata Sky, Make My Trip etc. for the purpose of providing online bill payment / shopping facility to its customers.
- The Bank has successfully migrated to 100% CTS clearing at NCR Delhi.
- All the CBS branches of the Bank have been enabled for RTGS and NEFT facility.
- Anywhere banking facility has now been made available at 456 branches as against 313 branches as at the end of previous year.
- An online MIS software application has been developed, which facilitates centralized regulatory reporting and also serves as a DSS tool.

11. Advertising and Publicity

11.1 During the year, concerted efforts were made for brand building and the Bank continued to communicate messages on its products, services, interest rates and performance to the customers, shareholders and the general public through advertisements and outdoor publicity units.

12. Corporate Social Responsibility

12.1 As in the previous years, the Bank took several measures during 2008-09, including but not limited to the following, to fulfil its social commitment.

- Providing of computer systems for Orphanages, Sports Association for hearing impaired and those with speech disorders.
- Launching Scholarship programme for meritorious students of Craft Development Institute.
- Providing paddled tricycles for handicapped people.
- Providing financial assistance for treatment of destitute patients.
- Supporting NGOs engaged in welfare of poor.

13. Lead Bank Responsibility

The J&K Bank is the only Private Sector Bank in the country assigned with the responsibility of convening State Level Bankers' Committee meetings. The Bank continued to discharge its Lead Bank responsibility in 12 out of 22 districts of J&K State satisfactorily.

13.1 The J&K SLBC launched its website www.jkslbc.com with features of members log in.

13.2 Financial Literacy-cum-Credit Counseling Centres were operationalized in Anantnag and Ganderbal districts.

13.3 During the FY 2008-09 the following meetings were conducted by the Bank:

- Three quarterly State Level Bankers' Committee (SLBC) meetings;
- Three Special monthly SLBC meetings to review progress in implementation of the IBA package on MSMEs in the backdrop of the global meltdown;
- One meeting of the Sub-Committee of J&K SLBC for Relaxation to Trade & Industry in J&K State;
- One meeting of the Sub-group of J&K SLBC for rationalization of ticket-size in Priority Sector Lending;
- Three Steering Committee meetings and one meeting of all member banks of J&K SLBC to review the position and ensure successful implementation of the Agriculture Debt Waiver/ Debt Relief Scheme –2008 in J&K State;

- The district level and block level meetings such as DCC/ DLRC/ BLBC and Standing Committee meetings were held as per schedule in all the lead districts of the State.

14. Regional Rural Banks

14.1 The performance of two sponsored RRBs has improved considerably during 2008- 09.

14.2 The Jammu Rural Bank has registered an operating profit of Rs. 16.75 crore during 2008-09 against Rs. 12.60 crore as on ending March 2008 recording an impressive annual growth of 33%. The deposits of the Bank have increased by Rs.95.86 crore from Rs. 724.41 crore as on ending March 2008 to Rs. 820.27 crore as on ending March 2009 recording a growth rate of 13.23%. Advances have increased by Rs.26.21 crore from Rs. 228.10 crore as on ending March 2008 to Rs. 254.31 crore as on ending March 2009 with a growth rate of 11.49%.

14.3 Kamraz Rural Bank has turned around after six years by registering an operating profit of Rs. 1.14 crore during 2008-09. Deposits of the Bank have increased by Rs. 23.48 crore from Rs. 327.79 crore as on ending March 2008 to Rs. 351.27 crore as on ending March 2009 recording growth of 7.16%. Advances have increased by Rs. 12.82 crore from Rs. 118.63 crore as on ending March 2008 to Rs. 131.45 crore as on ending March 2009 with a growth rate of 10.80%.

15. Corporate Governance

15.1 The corporate governance framework of the Bank spans multi-dimensional parameters, including but not limited to;

- Ethical business practices
- Ownership of corporate actions
- Independence of Board and Auditors
- Treating business partners fairly
- Putting stakeholders' interests first and foremost
- Transparency and propriety

16. Board of Directors

16.1 Mr. B. B. Vyas, IAS, Government Nominee Director, was recalled by the State Government in pursuance to Government Order dated 31st March, 2009 and in his place, Mr. Sudhanshu Pandey was appointed as Director on the Board of the Bank.

16.2 Directors place on record their deep appreciation for the valuable services rendered by Mr. B. B. Vyas, IAS during his tenure as Director of the Bank.

16.3 With a view to broad-base the Board, eminent personalities - Dr. Narendra Jadhav, Mr. Maya Shankar Verma and Mr. G. P. Gupta were appointed/re-appointed as additional Directors of the Bank. The Bank has gained immensely from their incisive observations, guidance, wide ranging expertise and practical acumen.

16.4 Mr. G. M. Dug appointed as Director in casual vacancy caused due to the resignation of Mr. Umar Khurshid Tramboo, shall cease to be Director at the ensuing general meeting.

17. Name of the Board of Directors

Haseeb A. Drabu	Chairman & CEO
M. S. Verma	Director
G. P. Gupta	Director
Sudhanshu Pandey, IAS	Director
Narendra Jadhav	Director
A. K. Mehta	Executive Director
Abdul Majid Mir	Executive Director
B. L. Dogra	Director
G. M. Dug	Director

18. Directors' Responsibility Statements

The Directors confirm that in the preparation of the Annual Accounts for the year ended 31st March, 2009:

18.1 The applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

18.2 The accounting policies framed in accordance with the guidelines of the Reserve Bank of India, were consistently applied;

18.3 Reasonable and prudent judgment and estimates were made so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit of the Bank for the year ended on 31st March, 2009;

18.4 Proper and sufficient care was taken for the maintenance of adequate accounting records in accordance with the provisions of applicable laws governing Banks in India and the accounts have been prepared on a going concern basis.

19. Particulars Of Employees

PARTICULARS OF EMPLOYEES AS PER SECTION 217(2A) OF THE COMPANIES ACT, 1956, READ WITH THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES, 1975, FOR THE YEAR ENDED 31st MARCH, 2009, ARE AS UNDER:

19.1 EMPLOYED THROUGHOUT THE FINANCIAL YEAR AND IN RECEIPT OF REMUNERATION AGGREGATING RS. 24,00,000/- OR MORE PER ANNUM

Name and Age (Years)	Haseeb A. Drabu (47)
Designation Nature of duties	Chairman & CEO
Remuneration	Rs. 37,48,000
Qualification	M & D.Phil Economics
Experience (years)	17 years
Date of employment	09.06.2005
Last employment	Economic Advisor, Government of J&K

(Remuneration includes Basic salary, DA and contribution to provident fund.)

19.2 EMPLOYED FOR PART OF THE FINANCIAL YEAR AND IN RECEIPT OF REMUNERATION AGGREGATING RS. 2,00,000/- OR MORE PER MONTH

–NIL–

20. Acknowledgements

20.1 The Directors thank the valued customers, shareholders, well-wishers and correspondents of the Bank in India and abroad for their goodwill, patronage and support.

20.2 The Directors acknowledge with gratitude the valuable and timely advice, guidance and support received from Government of India, Government of Jammu & Kashmir, Reserve Bank of India, Securities and Exchange Board of India (SEBI), Insurance Regulatory Developmental Authority (IRDA), NABARD, SIDBI, IBA, FIMMDA, FEDAI, Stock Exchanges, Department Of Company Affairs, Registrar of Companies, Comptroller & Auditor General, Financial Institutions and the Statutory Central Auditors of the Bank in the functioning of the Bank.

20.3 The Directors place on record their deep appreciation of the valuable contribution of the members of the staff at all levels for the progress of the Bank during the year and look forward to their continued co-operation in realisation of the corporate goals in the years ahead.

For and on behalf of the Board of Directors

Haseeb A. Drabu
Chairman & CEO

Place : Srinagar (J&K)
Dated : 24th August, 2009

1. THE CONTEXT OF CRISIS

1.1 Financial Crisis that went global

With the benefit of hind sight, fair amount of research and extensive analysis that has been done now, a more accurate and appropriate way to describe the economic events of the year 2008 is that it was a financial crisis that assumed global proportions rather than a global financial crisis.

The difference is more than merely semantic.

- First, implicit in this description, is the fact that the origins of the crisis were localized, both in terms of geography, i.e. United States as well as in terms of asset class, i.e. mortgages.
- Second, it draws attention to the speed and extent of transmission, across sector and spaces, of a localized crisis in an integrated global economy.
- Third, is that the crisis was not as sudden as it gets conveyed. It was building over a period of time. Its transmission was rapid, not its creation.
- Fourthly, it points to the extent to which the global economic system is subject to the influence of the fiscal, financial and monetary policies of one country, i.e., United States.
- Finally, it leaves scope to appreciate the fact that the vulnerability of any economy to the crisis was directly linked to the degree of integration, prudential systems and monetary management of that economy.

Had it been a global economic crisis, it would have impaired both markets and institutions. But as we have seen so far, that was far from the case. Equity markets were affected across the globe, domestic bond markets, both government securities markets as well as the corporate bond markets were affected only marginally. The foreign exchange markets, though, did see some short term turbulence. All this while, there was no institutional crisis. Nowhere, for instance, except in the place of origin of the crisis, did liquidity problem become a wide spread solvency issue. As such, this distinction helps in contextualizing the impact of the crisis on other economies, including the Indian economic system.

1.2 Anticipation and action

Some of these concerns were articulated even at the institutional level of J&K Bank. In 2007, J&K Bank had anticipated some of the developments by stating that, "...many of the symptoms of the current economic condition have a long term dimension that will pose risks for sustainable growth in the year ahead." Our Annual Report 2007-08, cautioned that "the extent and intensity of the downside is being underestimated." Advocating a conservative approach in the year ahead, the Report said, "In the year ahead, conservatism would be the best course for Indian banks. This is the time to strengthen internal systems and controls and exploit productivity and efficiency gains to enhance the bottom line." As such, the basic strategy underlying our performance has been adapting to the changed environment, nationally and regionally.

Notwithstanding the fact that there was consciousness in the Bank about the obvious under pricing of risk in the domestic economy, any institution, especially of the size of J&K Bank could not have altered it. The only recourse available to the Bank was to go slow in its asset build up, alter the composition of its asset book and get back to basics. This, more than the slackening of the credit demand at the macro economic level, explains the slow credit growth of the Bank.

2. GLOBAL CRISIS & INDIAN BANKING: MINIMIZING VULNERABILITIES

2.1 Economic slow down, compounded

The financial sector meltdown impacted India at a time when the economy was already in the midst of a cyclical slowdown triggered by monetary contraction. The fears of over-heating of the economy and its recognition of the build up of risks in the global financial system had prompted the Reserve Bank of India to begin monetary tightening fairly early. The effect of the unprecedented global adversity started reflecting in the macroeconomic performance of the Indian economy, particularly in the second half of 2008-09.

Attention was repeatedly being drawn to the limitations of the global financial architecture and importance was being given to self-insurance through build up of foreign exchange reserves, especially in light of strong capital inflows. Counter-cyclical regulatory measures were being undertaken and these were flagged off by proactive liquidity management.

The sharp increase in global fuel and food prices in the first quarter of 2008 aggravated inflationary concerns and resulted in further monetary tightening that saw interest rates being regularly hiked until August 2008. Overall demand slowed down resulting in several sectors reporting negative growth in the last two quarters of the fiscal.

Expectedly, with this kind of monetary contraction that was done, it resulted in a slowing down of the economy with the GDP growth coming down to levels of 6 per cent from 9 per cent in the previous year, and the projection for the future years being repeatedly downgraded.

This slow down along with the significant deterioration in global financial conditions since mid-September 2008, led to severe disruptions in the short-term funding markets, widening of risk spreads, sharp fall in equity prices and inactivity in the debt markets. Consequently, the strain on the balance sheets of financial institutions was in the offing.

2.2 Impact on financial markets

The immediate transmission of the financial crisis to India was through a cessation of credit flows and drying up of bond and credit markets globally which made corporates substitute overseas funds with domestic funds. This was reflected in the spiking of overnight call money rates that rose to nearly 20 per cent in October and early November 2008. At the same time, there was lower expansion in credit relative to the expansion in deposits. This caused a decline in the incremental credit-deposit ratio of banks to 64.4 per cent at end March 2009 from 73.6 per cent a year ago.

At the same time, foreign institutional investors withdrew from the Indian markets to provide the much-needed liquidity to their parents in the United States or Europe. This resulted in a net repatriation of almost $13 billion by the FIIs in 2008 on account of equity disinvestments. Though small in volume, it resulted in a sharp decline in equity prices and market capitalization levels.

Besides, there had been large-scale redemption of holdings with mutual funds which put further pressure on liquidity. Thus, while the Indian banking sector remained largely unscathed by the financial crisis, it could not escape a liquidity crisis and a credit crunch. This in turn has had its impact on investment and consumption and the real economy slowed down further.

2.3 RBI to the rescue

By and large, the Indian banking system has been left untouched by the unfolding crisis. This was not only due to regulatory restrictions, but also because of limited exposure of the Indian banks to the US mortgage backed securities. The reserve requirements set by RBI proved effective and ensured that the RBI and the banking system have enough muscle to support the economy whenever there is a slowdown or a liquidity crisis.

However, in view of the exceptionally high credit growth and that too concentrated in a few sectors, the Reserve Bank had in a pre-emptive policy action tightened prudential norms. This was done by increasing provisioning requirements and changing the risk weights for these sectors in order to safeguard financial stability; provisioning norms for standard assets were also raised across the board except for agriculture and SMEs.

These tightened provisioning norms and risk weights were subsequently rolled back in the wake of slowdown so that flow of credit is ensured to the productive sectors of the economy. This 'dynamic provisioning' approach has facilitated adequate buffers within the banking system. Therefore, unlike the banking system in the western world, domestic banks have not recorded losses and there has been no need for a government bailout.

2.4 Indian Banks – a healthy picture

Apart from the regulatory and prudential framework that they operated in, it must be said to the credit of Indian banks that even during the years of high credit growth, i.e. 2004-2007, there was no significant relaxation of lending standards. Bank loans to individuals for housing have been backed by prudent loan-to-value ratios.

As a result, Bank balance sheets remain healthy and adequately capitalized. Growth in bank credit remained strong up to October 2008 but has decelerated since.

The financial system is working normally and there has been no need for any enhancement of government guarantee for bank deposits or banks' other liabilities. In view of the strong balance sheets and the transparency in the operations, there is no mistrust between banks and the inter-bank money market has been working throughout the period normally. There was some volatility in the call money rate, but this resulted from the sudden reversal in capital flows and resultant tightening of liquidity in September-October 2008. Thus, the Indian banking system is displaying none of the distresses that the Western banking systems have has exhibited since the start of the sub-prime crisis.

The main impact over the past few months has been the reduction in net capital inflows and the significant correction in the domestic stock markets. This was triggered by the sell-off in the equity market by FIIs. The reduced foreign funding and the lackluster domestic capital market had put pressures on some segments of the financial system, such as NBFCs and mutual funds.

As alternative sources of funding dried up and also due to the substantial correction in stock prices, there were large redemption pressures on mutual funds. These were, however, managed by reduction in Statutory Reserve requirements as also by various other initiatives taken by Reserve Bank of India. This way the conservative regulatory policies and the focus on safety have paid off.

2.5 Policy support, no bailouts

With growth plummeting and credit crisis beginning to show up, RBI shifted gears to give the economy some air to breathe. This policy prescription aimed at not only infusing growth but also ensuring financial stability and providing financial institutions with some safety valve, if not a safety net. This is precisely what happened: the monetary policy stance of the Reserve Bank shifted from concerns related to inflation in the first half of 2008-09 to arresting the moderation of growth and maintaining financial stability in the second half.

Liquidity management operations changed course beginning mid-September 2008. The knock-on effects of the severe disruptions in international financial markets began to be felt in the domestic financial markets. The use of liquidity management tools such as the cash reserve ratio and the open market operation, including the market stabilisation scheme and the liquidity adjustment facility (LAF), was thus modulated in accordance with the evolving conditions in financial markets.

In view of the international financial turmoil and its possible impact on the domestic monetary and liquidity conditions on the backdrop of easing inflationary pressure, RBI reduced the cash reserve ratio by a total 400 basis points from 9 per cent to 5 per cent since October 11, 2008.

Further, the repo rate and the reverse repo rate under LAF were progressively reduced from 9 per cent to 5 per cent and 6 per cent to 3.5 per cent, respectively. The repo rate remained the effective policy rate for the 2nd and 3rd quarters when the LAF was in the injection mode. Since December 2008, reverse repo rate is the effective policy rate as the average daily absorption through LAF has been in excess of Rs. 1 lac crore.

As a consequence of decisive policy action, bank deposit and lending rates, which had firmed up until October 2008, started easing. Interest rates offered by public sector banks on deposits of maturity of one year to three years reduced by 50–150 bps by March 2009 as compared to December 2008. The benchmark prime lending rates declined by about 100 basis points.

The yield on the 10 year G Sec firmed up during the first half of 2008-09 peaking at over 9 per cent in July before moderating to levels of 5.5 and 6.5 per cent by the end of the fiscal year.

2.6 Stimulating demand through deficit

Even as this happened, there was no perceptible pick up in credit demand. Monetary policy was only pushing the string. It was time to pull the string with some fiscal action. Accordingly, a set of wide ranging fiscal stimuli intended to boost demand was announced comprising debt relief, transfer payments, government spending and tax sops was announced. The stimulus package offered an important opportunity to pursue policies that can both boost demand in the short run, as well as strengthen potential output.

The net impact of all the fiscal stimuli, including the additional tax sops of the vote on account got crystallized in the form of a very large fiscal deficit and an equally large borrowing program of the government. The public sector borrowing requirement, taking into account the oil and fertilizer bonds, seemed unmanageably high.

In view of this renewed fiscal deterioration, the credit rating agency Standard and Poor's has changed its outlook on long-term sovereign credit rating for India from stable to negative.

The internal imbalances spilled on to the external side. The rupee/US dollar exchange rate which was Rs. 39.99 per dollar at end March, 2008 fell to Rs. 52.09 per dollar on 5th March, 2009, before recovering to Rs. 50.95 per dollar at end March 2009. As on 31st March, 2009, the Indian rupee had depreciated by 21.5 per cent against the US dollar over its level on 31st March, 2008.

2.7 Strategies to minimize future risk

These trends point to the fact that many of the counter-cyclical measures, that were taken could pose a threat to long-term growth and sustainability if not properly and promptly unwound; for example, the liquidity pumped into the system by the central banks could pose an inflationary threat. For this reason, measures need to be designed and implemented in the least distortive manner. Also needed is a clear and credible plan and timeline for phasing them out as recovery takes hold, without choking the economy.

This is why, contrary to popular belief, the real challenge lies ahead. The post-crisis policy framework will need to be built around the following – better risk management, improved regulatory and governance framework, monetary stability and fiscal sustainability. Implementing necessary reforms and restoring sound public finances in a way that does not hamper the recovery in the medium term will be a major challenge. Credible fiscal consolidation plans may require tax reforms, including the broadening of tax bases to ensure sustainable revenues. None of this was evident in the final budget that was presented.

3. J&K BANK: INSULATING EARNINGS FROM THE ENVIRONMENT

3.1 Lessons learnt

While the RBI initiated measures at the macro level to instill order, stability and sustainability in the financial markets, it is up to the individual financial institutions to address the stability issue at micro level.

From the standpoint of strategy, the biggest lesson drawn from the events of 2008 is not to under price risk. The need is to look beyond the individual risks – credit, market and operational – owing to their inter-linkages and correlations.

From an operational perspective, the need to focus on costs and putting in place sound cost management systems for scientific pricing of products and services cannot be overemphasized. In addition, a constant monitoring of costs for elimination of wastes and inefficiencies, product profitability analysis, design / redesign of products is also an imperative.

From a policy perspective, what stands out in such times of crisis, which in good times is not a priority, is the need for, and significance of, developing and testing contingency funding plans. The dependence on purchased liquidity and high-frequency volatile wholesale deposits can prove ruinous. It has to be curtailed by focusing on core business and stored liquidity. Associated with this is the tolerance level vis-à-vis asset-liability mismatch which has to be reworked by carrying out behavioral analysis of inordinate maturity liabilities and assets – demand and saving deposits, and cash credits.

3.2 New strategies

All these can be evidenced in the performance of the J&K Bank in 2008-09. Having anticipated some of the emerging trends early on, the Bank was well prepared to handle the eventuality. As we had been pointing out in our Annual reports, there were four pillars to our new strategy:

- First, changing the composition of assets in terms of geography, size and sector. From large corporate lending to small and medium enterprises lending with better yield and highly securitized.

- Second, the single minded focus on liability management, in terms of quality and type as well as costs.
- Third, coverage of impaired assets for imparting stability.
- Fourth, to see the treasury not as a source of profits but more as a fund management activity.

3.3 Benefits of new strategies

It is indeed quite fortuitously, that this is exactly what was required to weather the crisis safely! The shift in our asset composition meant that the Bank was not lending into the asset price bubble. Since we were growing the 'small' loan book it meant that our rate of growth of advances was slow. Both these resulted in the Bank having the most seasoned loan book in the industry. This is a hugely comforting factor at a time when impairment is a big area of concern. Consequently, the advances portfolio of the bank is adequately diversified – across geographies, segments and, borrowers. Personal finance including housing loans constitutes only 15 per cent of the total advances. Secured Advances constitute 90.6 per cent of the total advances. As on March 2009, 27 per cent of the loan portfolio of the Bank is externally rated and 36 per cent has been rated internally.

Giving precedence to liability management over asset planning, as we did, resulted in the Bank being comfortably liquid and on top of the situation. The Bank was able to maintain ratio of CASA deposits to total deposits above 38 per cent contrary to the declining trend in the industry. Focus on core deposits has been the mantra of the Bank with minimal dependence on purchased liquidity.

The numbers reflect the virtue of our strategy. Over the last three years advances yield jumped from 8 per cent to nearly 12 per cent; cost of funds never exceeded 6 per cent. The two together resulted in the net interest margins expanding to over 3.25 per cent.

The return on assets has more than doubled from 0.6 per cent to 1.3 per cent; return on equity, without leveraging is up from 11 per cent to 18 per cent. This is equivalent to 25 per cent on a leveraged basis.

The emphasis on cost efficiency delivered positive results as the cost to income ratio dropped from 44 per cent to 38 per cent; amongst the lowest in the industry.

A conservative approach to treasury operations meant a complete insulation from mark-to-market losses. The investment book of the Bank constitutes of 71per cent SLR and 21 per cent of Non-SLR securities. The duration of the investment book was 3.73 years as on 31st March, 2009. 94 per cent of Non-SLR securities is rated and out of this 92 per cent are rated AA and above.

Yet another benefit of the new strategy has been that the burning rate of capital has been low. All the sectors that the new strategy focused on have low risk weights compared to those for the corporate lending. This has meant that the Bank got even more well-capitalized. The ratio of Tier I capital to Risk Weighted Assets stands at 12.77 per cent as on 31.03.09. Tier I leverage ratio of the Bank is 6.96 per cent. The Bank has been generating adequate internal accruals to supplement the capital requirement for credit growth. For the moment we can grow for another three years without need to raise capital to sustain growth of around 20 to 25 per cent.

3.4 Dominance in J&K State

The Bank, in the last three years or so, has consolidated its dominance in the state of Jammu & Kashmir. Even though the Bank commands 43 per cent of distribution network, it holds 65 per cent of deposits and more than 70 per cent of share of total advances in J&K. Both these shares have gone up substantially over the last three years. So has the credit-deposit ratio of the Bank in the state which has doubled from 20 per cent to 42 per cent.

Given the position that we have and have built for ourselves in J&K, it is enjoined upon us to think like a developmental financial institution and assume additional responsibilities of economic and social development of the state. This role has gained even more significance in the current situation.

Some of the state's cultural industries – especially handicrafts – are bearing the brunt of the global recession. The Bank has introduced tailor-made products for this sector to ensure that there is least impact of the adverse global conditions on the industry.

Among other initiatives, is a rather unique one, called the artisan livelihood finance scheme. The idea is not only to finance the production of crafts but also to ensure that the artisan gets a subsistence advance that will help him tide over a period where he is not able to sell his products or has to resort to distress sale to survive.

Outlook

Now having delivered on the financials and analytics exactly as was promised three years ago and also having met most of our commitments to the state of our origin, the Bank has to move on to the next level. Otherwise, it will keep oscillating with excellent ROEs and ROAs.

With the balance sheet numbers being exactly where we want them to be, the next level has to be an orbital change. The focus in this stage will be growth, both organic as well as inorganic, and a focused restructuring of the operations outside of Jammu & Kashmir. The restructuring will primarily be geared towards improving the yields on advances in the rest of the country by becoming a niche or a specialist lending institution there.

The other aspect of growth will be structural reorganization of the Bank to make it a financial conglomerate. In the medium term the idea is to:

a) convert the existing J&K Gramin Bank, in which J&K Bank holds 35 per cent stake, into a full fledged micro- finance institution,

b) to build a subsidiary financial services company that will provide the full range of financial services, and,

c) to partner with a technology company to form a banking technology company which can cater to the ever growing technology demands of the J&K economy. The same can be used to deliver solutions for distribution of various financial products across the state. Some initial steps have already been taken in this direction.

FINANCIAL STATEMENTS

AUDITORS' REPORT

on the Financial Statements

To
The Shareholders of
The Jammu & Kashmir Bank Limited

1. We have audited the attached Balance Sheet of **The Jammu & Kashmir Bank Limited** as at 31st March, 2009 and also the Profit and Loss Account of the bank and the cash flow statement annexed thereto for the year ended on that date in which are incorporated the returns of 32 branches/offices audited by us and 538 Branches/Offices audited by other auditors. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement(s). An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the Provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

4. We report that:

   a. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of the audit and have found them to be satisfactory.

   b. The transactions of the Bank which have come to our notice have been within the powers of the Bank.

   c. The returns received from the offices and branches of the bank have been found adequate for the purpose of our audit.

5. In our opinion the Balance Sheet, Profit & Loss Account and Cash Flow Statement comply with the accounting standards referred to in Sub-section (3C) of Section 211 of the Companies Act,1956.

6. We further report that:

   (i) The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account and the returns.

   (ii) In our opinion, proper books of account as required by law have been kept by the bank so far as appears from our examination of those books.

   (iii) The reports on the accounts of the branches audited by the branch auditors have been dealt with in preparing our report in the manner considered necessary by us.

   (iv) As per information and explanation given to us the Central Government has, till date, not prescribed any cess payable under Section 441A of the Companies Act, 1956.

   (v) On the basis of written representation received from the directors and taken on record by the Board of Directors none of the Directors is disqualified as on 31st March, 2009 from being appointed as a director in terms of clause (g) of Sub-Section (1) of Section 274 of the Companies Act, 1956.

7. Attention is invited to Note 29.2 para (b) of Schedule 18 to "Notes on Accounts" in respect of Commission charged from the State Govt. of Jammu & Kashmir for handling Govt. business and for transactions of pension disbursement for the period from 1st April, 2005 to 20th August, 2008 whereby the Bank has refuted the claim of Govt. for this period.

8. In our opinion and to the best of our information and according to the explanation given to us, the said accounts together with the notes thereon give the information required by the Banking Regulation Act, 1949 as well as the Companies Act, 1956 in the manner so required for the Banking Companies and give a true and fair view in conformity with the accounting principles generally accepted in India.

   (i) In the case of the Balance Sheet, of the state of affairs of the Bank as at 31st March,2009.

   (ii) In the case of the Profit and Loss Account of the Profit for the year ended on that date; and

   (iii) In the case of the Cash Flow statement, of the cash flows for the year ended on that date.

	For Gupta Gupta & Associates Chartered Accountants	For Verma Associates Chartered Accountants	For Baweja & Kaul Chartered Accountants
	(CA. Rakesh K. Gupta)	(CA. Madan Verma)	(CA. Samvit K. Gurtoo)
Place : Srinagar	Partner	Partner	Partner
Dated : 31st May, 2009	(M. No.093301)	(M.No. 081631)	(M.No. 090758)

BALANCE SHEET

as at 31st March, 2009

Particulars	Schedules	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
CAPITAL AND LIABILITIES			
Capital	1	484,922	484,922
Equity Share Warrants (Note: 29.3(a) of Schedule 18)		–	280,950
Reserves and Surplus	2	25,743,684	22,323,351
Deposits	3	330,041,036	285,932,630
Borrowings	4	9,966,265	7,517,861
Other Liabilities and Provisions	5	10,696,711	11,020,157
TOTAL		**376,932,618**	**327,559,871**
ASSETS			
Cash and Balance with Reserve Bank of India	6	23,029,505	32,199,667
Balance with Banks & Money at Call & Short Notice	7	29,718,115	12,172,743
Investments	8	107,363,347	87,576,631
Advances	9	209,304,113	188,826,118
Fixed Assets	10	1,994,143	1,920,015
Other Assets	11	5,523,395	4,864,697
TOTAL		**376,932,618**	**327,559,871**
Contingent Liabilities	12	91,409,177	112,644,286
Bills for Collection		9,490,429	6,285,380
Principal Accounting Policies	17		
Notes on Accounts	18		

The Schedules Referred to above and to attached Cash Flow Statement form an integral part of the Balance Sheet

Sd/-
(Haseeb A. Drabu)
Chairman & CEO

Sd/-
(M. S. Verma)
Director

Sd/-
(G. P. Gupta)
Director

Sd/-
(A. K. Mehta)
Executive Director

Sd/-
(Abdul Majid Mir)
Executive Director

Sd/-
(B. L. Dogra)
Director

Sd/-
(G. M. Dug)
Director

Sd/-
(Parvez Ahmed)
President & Company Secretary

Sd/-
(Shafat A. Bandey)
Vice President

Place : Srinagar
Dated : 31st May, 2009

In terms of our report of even date annexed

For Gupta Gupta & Associates
Chartered Accountants

Sd/-
(CA. Rakesh K. Gupta)
Partner
M.No. 093301

For Verma Associates
Chartered Accountants

Sd/-
(CA. Madan Verma)
Partner
M.No. 081631

For Baweja & Kaul
Chartered Accountants

Sd/-
(CA. Samvit K. Gurtoo)
Partner
M.No. 090758

Place : Srinagar
Dated : 31st May, 2009

PROFIT & LOSS ACCOUNT

for the year ended 31st March, 2009

	Particulars	Schedules	Year Ended 31.03.2009 (Rs. '000' Omitted)	Year Ended 31.03.2008 (Rs. '000' Omitted)
I	INCOME			
	Interest Earned	13	29,881,197	24,342,304
	Other Income	14	2,450,539	2,450,133
	TOTAL		**32,331,736**	**26,792,437**
II	EXPENDITURE			
	Interest Expended	15	19,878,612	16,237,917
	Operating Expenses	16	4,708,607	4,036,141
	Provisions and Contingencies		3,646,162	2,918,337
	TOTAL		**28,233,381**	**23,192,395**
III	NET PROFIT		**4,098,355**	**3,600,042**
	TOTAL		**32,331,736**	**26,792,437**
IV	APPROPRIATIONS			
	TRANSFERED TO			
i)	Statutory Reserve		1,023,389	900,010
ii)	Capital Reserve		–	–
iii)	Revenue and Other Reserve		2,115,992	1,820,924
iv)	Proposed Dividend		819,671	751,406
v)	Tax on Dividend		139,303	127,702
	TOTAL		**4,098,355**	**3,600,042**
	Principal Accounting Policies	17		
	Notes on Accounts	18		
	Earnings per Share (Basic / Diluted)		84.54	74.26

The Schedules Referred to above form an integral part of the Profit & Loss Account

Sd/- (Haseeb A. Drabu) Chairman & CEO	Sd/- (M. S. Verma) Director	Sd/- (G. P. Gupta) Director
Sd/- (A. K. Mehta) Executive Director	Sd/- (Abdul Majid Mir) Executive Director	Sd/- (B. L. Dogra) Director
Sd/- (G. M. Dug) Director	Sd/- (Parvez Ahmed) President & Company Secretary	Sd/- (Shafat A. Bandey) Vice President

Place : Srinagar
Dated : 31st May, 2009

In terms of our report of even date annexed

	For Gupta Gupta & Associates Chartered Accountants	For Verma Associates Chartered Accountants	For Baweja & Kaul Chartered Accountants
Place : Srinagar Dated : 31st May, 2009	Sd/- (CA. Rakesh K. Gupta) Partner M.No. 093301	Sd/- (CA. Madan Verma) Partner M.No. 081631	Sd/- (CA. Samvit K. Gurtoo) Partner M.No. 090758

SCHEDULES

to the Balance Sheet as at 31st March, 2009

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 1 - CAPITAL		
Authorised Capital		
100,000,000		
Equity Shares of Rs.10/- each	1,000,000	1,000,000
Issued		
48,499,602 Equity Shares of Rs.10/- each	484,996	484,996
Subscribed And Paid-Up Capital		
48,477,802		
Equity Shares of Rs. 10/- each	484,778	484,778
Add Forfeited Shares (21800 shares)	144	144
TOTAL	**484,922**	**484,922**

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 2 - RESERVES & SURPLUS		
I. Statutory Reserves		
Opening Balance	6,270,262	5,370,252
Additions during the year	1,023,389	900,010
TOTAL	**7,293,651**	**6,270,262**
II. Capital Reserves		
Opening Balance	350,304	350,304
Additions during the year	280,950	–
TOTAL	**631,254**	**350,304**
III. Share Premium		
Opening Balance	867,791	867,791
Additions during the year	–	–
TOTAL	**867,791**	**867,791**
IV. Revenue and Other Reserves		
Opening Balance	14,834,994	13,014,070
Additions during the year	2,115,994	1,820,924
TOTAL	**16,950,987**	**14,834,994**
TOTAL (I,II,III & IV)	**25,743,684**	**22,323,351**

SCHEDULES

to the Balance Sheet as at 31st March, 2009

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 3 - DEPOSITS		
A I. Demand Deposits		
i) From Banks	658,332	588,105
ii) From Others	45,593,458	42,361,535
TOTAL	**46,251,790**	**42,949,640**
II. Saving Bank Deposits	79,534,851	69,025,383
III. Term Deposits		
i) From Banks	39,541,942	25,858,176
ii) From Others	164,712,453	148,099,431
TOTAL	**204,254,395**	**173,957,607**
TOTAL A (I+II+III)	**330,041,036**	**285,932,630**
B I. Deposits of branches in India	330,041,036	285,932,630
II. Deposits of branches outside India	Nil	Nil
TOTAL B (I+II)	**330,041,036**	**285,932,630**
SCHEDULE 4 - BORROWINGS		
I. Borrowings in India		
i) Reserve Bank of India	–	–
ii) Other Banks	3,507	1,059
iii) Other Institutions & Agencies	9,962,758	7,074,302
TOTAL	**9,966,265**	**7,075,361**
II. Borrowings outside India	–	442,500
Secured borrowings included in I & II above	Nil	Nil
GRAND TOTAL (I & II)	**9,966,265**	**7,517,861**
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS		
i) Bills Payable	3,135,491	3,230,474
ii) Inter Office Adjustments (Net)	512,634	2,379,573
iii) Interest Accrued on Non-cumulative deposits	972,674	783,844
iv) Provision Against Standard Assets	1,387,390	1,254,490
v) Other (Including Provisions)	4,688,522	3,371,776
TOTAL :- (I to V)	**10,696,711**	**11,020,157**
SCHEDULE 6 - CASH & BALANCES WITH RESERVE BANK OF INDIA		
I. Cash in Hand (Including Foreign Currency Notes)	1,520,490	1,173,070
II. Balance with Reserve Bank of India		
i) In Current Account	21,509,015	31,026,597
ii) In Other Accounts	–	–
TOTAL	**23,029,505**	**32,199,667**

SCHEDULES

to the Balance Sheet as at 31st March, 2009

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 7 - BALANCE WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. In India		
i) Balance with Banks		
a) In Current Accounts	431,962	533,415
b) In Other Deposit Accounts	4,064,034	571,876
TOTAL (i)	**4,495,996**	**1,105,291**
ii) Money At Call and Short Notice		
a) With Banks	25,133,125	11,020,861
b) With Other Institutions	–	–
TOTAL (ii)	**25,133,125**	**11,020,861**
TOTAL (i & ii)	**29,629,121**	**12,126,152**
II. Outside India		
i) In Current Accounts	88,994	46,591
ii) In Other Deposit Accounts	–	–
iii) Money at Call & Short Notice	–	–
TOTAL II of (i , ii & iii)	**88,994**	**46,591**
GRAND TOTAL (I & II)	**29,718,115**	**12,172,743**
SCHEDULE 8 - INVESTMENTS		
I. Investments in India		
Gross	108,141,335	87,956,077
Less: Provision for Depreciation	777,988	379,446
Net Investments	107,363,347	87,576,631
i) Government Securities	76,051,941	69,362,971
ii) Other Approved Securities	208,608	370,821
iii) Shares (Pref. + Equity)	493,678	606,559
iv) Debentures and Bonds (incl Suitfile)	11,009,595	9,470,566
v) Sponsored Institutions and Joint Venture	2,423,774	2,300,930
vi) Others		
a) Certificate of Deposit	5,005,117	–
b) Mutual Funds	483,517	1,097,409
c) SIDBI	2,579,975	–
d) NABARD	992,450	–
e) Inv. In Subsidiary	50,000	–
f) Rural Housing Development	739,325	–
g) Commercial Paper	391,563	–
h) Rural Infrastructure Development Fund (NABARD)	6,933,804	4,367,375
TOTAL (I)	**107,363,347**	**87,576,631**
II. Investments Outside India		
i) Government Securities	Nil	Nil
ii) Subsidiaries and/or Joint Ventures abroad	Nil	Nil
iii) Others (Swap)	Nil	Nil
TOTAL (II)	–	–
TOTAL (I & II)	**107,363,347**	**87,576,631**
III. Investments Category-Wise		
a) Held to Maturity	79,511,496	63,791,288
b) Held for Trading	774,081	223,609
c) Available for Sale	27,077,770	23,561,734
TOTAL (a+b+c)	**107,363,347**	**87,576,631**

SCHEDULES

to the Balance Sheet as at 31st March, 2009

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 9 - ADVANCES		
A i) Bills Purchased and Discounted	6,378,546	7,141,458
ii) Cash Credits, Overdrafts and Loans Repayable on Demand	65,382,376	65,465,188
iii) Term Loans	137,543,191	116,219,472
TOTAL	**209,304,113**	**188,826,118**
B i) Secured by Tangible Assets	182,772,746	152,087,302
ii) Covered by Bank/Govt. Guarantees	6,967,848	11,461,531
iii) Unsecured	19,563,519	25,277,285
TOTAL	**209,304,113**	**188,826,118**
C **I. Advances in India**		
i) Priority Sector	73,459,471	48,743,293
ii) Public Sector	11,325,520	35,844,576
iii) Banks	59,032	3,041,128
iv) Others	124,460,090	101,197,121
TOTAL	**209,304,113**	**188,826,118**
II. Advances Outside India		
i) Due from Banks	Nil	Nil
ii) Due from Others	Nil	Nil
GRAND TOTAL (I & II)	**209,304,113**	**188,826,118**
SCHEDULE 10 - FIXED ASSETS		
I. Premises		
a) Gross Block at the beginning of the year	1,734,002	1,718,932
Additions during the year	103,869	15,076
	1,837,871	**1,734,008**
Deductions during the year	–	–
TOTAL (a)	**1,837,871**	**1,734,008**
Depreciation to date	824,862	742,709
	1,013,009	**991,299**
b) Advance against flats	–	–
c) Constructions work in progress	31,261	97,852
TOTAL (I) [a+b+c]	**1,044,270**	**1,089,151**
II. Other Fixed Assets		
(Including Furniture & Fixtures)		
Gross Block at the beginning of the year	2,979,147	2,617,327
Additions during the year	371,733	365,643
	3,350,880	**2,982,970**
Deductions during the year	9,774	3,823
	3,341,106	**2,979,147**
Depreciation to date	2,391,234	2,148,283
TOTAL (II)	**949,873**	**830,864**
GRAND TOTAL (I & II)	**1,994,143**	**1,920,015**

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 11 - OTHER ASSETS		
I. Interest Accrued but not Due	2,104,547	1,753,906
II. Interest Accrued and Due	1,624	3,290
III. Inter Office Adjustment (Net)	–	–
IV. * Tax paid in Advance/Tax Deducted at Source (Net of Provisions)	717,738	539,670
V. Stationery and Paper in Hand	22,923	27,159
VI. Deferred Tax Asset	96,915	64,388
VII. Others	2,579,648	2,476,284
TOTAL	**5,523,395**	**4,864,697**
* Includes both IncomeTax as well as Fringe Benefit Tax		
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. Claims against the Bank not acknowledged as debts	197,588	131,644
II. Liability for partly paid investments	90,000	–
III. Liability on account of outstanding Forward Exchange Contracts	54,434,589	69,961,442
IV. Guarantees given on behalf of constituents		
a) In India	9,527,030	8,872,881
b) Outside India	33,670	41,219
V. Acceptances, Endorsements & Other Obligations	25,537,000	33,052,200
VI. Other items for which the Bank is Contingently liable	1,589,300	584,900
TOTAL	**91,409,177**	**112,644,286**

SCHEDULES

to the Profit & Loss Account for the year ended 31st March, 2009

Particulars	Year Ended 31.03.2009 (Rs. '000' Omitted)	Year Ended 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 13 - INTEREST EARNED		
I. Interest/Discount on Advances/Bills	22,949,060	18,775,582
II. Income on Investments	6,619,990	5,413,497
III. Interest on Balances with R.B.I and Other Inter-Bank Funds	312,147	153,225
TOTAL	**29,881,197**	**24,342,304**
SCHEDULE 14 - OTHER INCOME		
I. Commission, Exchange & Brokerage	834,216	832,384
II. Profit on Sale of Investments (Less loss on sale of investments)	791,380	901,555
III. Profit on revaluation of Investments (Less loss on revaluation of investments)	(164,226)	(183,280)
IV. Profit on Sale of Land, Buildings & Other Assets	–	–
V. Profit on Exchange Transactions (Less Loss on E/Transactions)	146,704	120,317
VI. Income earned by way of Dividends etc. from Subsidiaries, Companies and/or Joint Venture abroad/in India	267,966	214,073
VII. Miscellaneous Income	574,499	565,084
TOTAL	**2,450,539**	**2,450,133**
SCHEDULE 15 - INTEREST EXPENDED		
I. Interest on Deposits	19,147,916	15,727,574
II. Interest on RBI/Inter-Bank Borrowings	730,685	510,343
III. Others	11	-
TOTAL	**19,878,612**	**16,237,917**
SCHEDULE 16 - OPERATING EXPENSES		
I. Payments to and Provisions for the Employees	2,787,748	2,257,713
II. Rent, Taxes and Lighting	307,565	269,709
III. Printing and Stationery	45,376	45,134
IV. Advertisement and Publicity	73,622	77,225
V. Depreciation on Bank's Property	325,109	321,615
VI. Directors Fees, Allowances and Expenses	2,591	2,615
VII. Auditors Fees & Expenses (Including Branch Auditor's Fees & Expenses)	56,448	56,124
VIII. Law Charges	10,718	9,567
IX. Postage, Telegrams, Telephones etc.	49,864	46,226
X. Repairs and Maintenance	64,532	78,634
XI. Insurance	221,467	179,362
XII. Other Expenditure	763,567	692,217
TOTAL	**4,708,607**	**4,036,141**

SCHEDULE 17

Principal Accounting Policies

PRINCIPAL ACCOUNTING POLICIES

1. Accounting Conventions

The accompanying financial statements are prepared by following the going concern concept and on the historical cost basis unless otherwise stated and conform to the statutory provisions and practices prevailing within the Banking Industry in the country.

2. Transactions involving Foreign Exchange

i. Monetary Assets and Liabilities as on balance sheet date have been translated using closing rate as at year end announced by Foreign Exchange Dealers Association of India.

ii. Exchange differences arising on settlement of monetary items have been recognised as income or as expense in the period in which they arise.

iii. The premium or discount arising at the inception of a forward exchange contract, which is not intended for trading or speculation purpose has been amortised as expense or income as on the balance sheet date.

3. Investments

The investment portfolio of the Bank (SLR & Non SLR securities) is classified into three categories in accordance with the RBI guidelines viz,

a. Held to maturity.

b. Available for sale.

c. Held for trading.

For disclosure in Balance sheet, the investments are disclosed as per the existing six classifications viz,.

i. Government Securities,

ii Other approved securities,

iii Shares,

iv. Debentures and Bonds,

v. Investment in Subsidiaries and Joint Venture,

vi. Others (CP, CD, Mutual fund units, RIDF etc.).

The valuation has been carried out as per RBI guidelines more specifically detailed hereunder:

i) Investments classified under “Held to maturity” category are carried at acquisition cost and not marked to market. Any premium on acquisition is amortized over the remaining period of the security on a straight-line basis.

ii) The individual scrips in the “Available for sale” and “Held for trading” category are marked to market at the rate provided by FIMMDA/ PDAI on quarterly and monthly intervals respectively. While the net depreciation under each classification is recognized and fully provided for, the net appreciation under each classification is ignored.

OTHER INVESTMENTS:

a) Investments in sponsored institutions are valued at carrying cost and shares of other companies which are neither quoted on stock exchanges nor the latest balance sheet is available are valued at rupee one per company.

b) Debentures and bonds are valued at market price, if quoted, otherwise at appropriate YTM published by FIMMDA/ PDAI.

c) Treasury Bills and Commercial papers are valued at carrying cost.

d) Units of Mutual funds are valued at market price, if quoted, otherwise at lower of re-purchase price or Net Asset Value (NAV).

Profit and loss on sale of investment from AFS and HFT category is recognized in profit and loss account. However, in case of profit on sale of investment under HTM category, an equivalent amount of profit is appropriated to capital reserve account.

4. Advances

i) Classification of Advances and Provisions thereof have been made as per the Income Recognition and Asset Classification norms formulated by the RBI viz, Standard, Sub-Standard, Doubtful and Loss Assets and accordingly requisite provisions have been made thereof.

ii) Advances are shown net of provisions required for NPA's. Provisions for advances classified as Standard Assets is shown under Other Liabilities & Provisions.

5. Fixed Assets

a) Premises and other fixed assets are accounted for at historical cost.

b) Premises include free hold as well as lease hold properties.

c) Premises include capital work in progress.

d) Depreciation is provided on diminishing balance method in accordance with the provisions of Income Tax Act 1961, as per the rates prescribed in Income Tax Rules given below:

S.No.	Heads	Rates
A	Furniture & Fixtures (including electric fittings)	10%
B	Wooden partitions	100%
C	Vehicles	15%
D	Plant & Machinery	15%
E	Premises	
	i) Office Premises	10%
	ii) Residential & STC buildings	5%

e) However, in terms of RBI guidelines depreciation on computers (including ATMs) along with major softwares is charged at the rate of 33.33% on straight-line method for the full year even if the computers (including ATMs) have been purchased during the second half. The same treatment of depreciation has been given to the Mobile Phones. In respect of Computer software, not forming integral part of computers, acquisition cost has been charged fully in the year of purchase. The expenditure incurred towards furniture & fixture on building (M-6G) being used as Chairman's residence has been treated as asset of the Bank under this head. The expenditure on repairs and renovation of this building has been charged to revenue, as the building is not owned by the Bank, hence not capitalized.

f) Depreciation on additions to Assets made upto 30th September of the year is provided for at full rates and on additions thereafter at 50% of the rates. No depreciation is provided on assets sold/ discarded during the year.

g) Leasehold properties are amortized over the period of lease.

6. Employees Benefits

i) Short-term employee benefits are charged to revenue in the year in which the related service is rendered.

ii) In respect of employees who have opted for provident fund scheme matching contribution is made.

iii) Contribution to Defined Benefit Plans (Gratuity, Pension and Leave Encashment) has been made as per AS 15 (Revised 2005) issued by the Institute of Chartered Accountants of India. The Bank has opted an irrevocable choice to recognize the increase in its defined benefit liability determined as per Actuarial valuation as an expense on a straight-line basis over a period of five years from 01.04.2007.

7. Voluntary Retirement Scheme Expenditure (VRS)

The expenditure incurred on VRS has been amortized equally over a period of five years in conformity with RBI guidelines.

8. Income Recognition and Expenditure booking

Income and expenditure is accounted for on accrual basis unless otherwise stated.

a) Interest and other income on advances/ investments classified as Non Performing Assets/ investments are recognized to the extent realized in accordance with guidelines issued by the Reserve Bank of India.

b) Recovery in Non Performing Assets is appropriated first towards the interest and there after towards principal/ arrears of asset.

c) Interest on overdue term deposits is provided at Savings Bank Rate of Interest.

d) Fee, commission (other than insurance commission), exchange, locker rent and insurance claims are recognized on realization basis.

e) Income from interest on income tax/ other tax refunds is accounted for on the basis of orders passed by the Competent Authorities.

f) Unforeseen income/ expenses are accounted for in the year of receipt/ payment.

g) Stationery issued to branches has been considered as consumed.

9. Credit Card reward Points

The Bank has estimated the probable redemption of reward points by not using actuarial method but has made 100% provision for redemption against the loyalty points as on close of balance on 31.03.2009.

10. Profit

The net profit is disclosed in the profit and loss account after providing for

i) Income Tax, wealth tax, Fringe Benefit Tax and Deferred Tax.

ii) Standard Assets, Non Performing Advances/ Investments as per RBI guidelines.

iii) Depreciation/ amortization on Investments.

iv) Transfer to contingency reserves.

v) Other usual and necessary provisions.

11. Taxation

Tax expense include current tax, Fringe Benefits Tax and Deferred Tax determined in accordance with the provisions of Income/Wealth Tax Act, and the accounting standards issued by The Institute of Chartered Accountants of India.

The deferred tax charge or credit is recognized using the tax rates that has been enacted or substantially enacted by the balance sheet date. In terms of accounting standard 22 issued by ICAI, provision for deferred tax liability is made on the basis of review at each balance sheet date and deferred tax assets are recognized only if there is virtual certainty of realization of such assets in future. Deferred Tax Assets/ Liabilities are reviewed at each balance sheet date based on developments during the year.

12. Contingency Funds

Contingency funds have been grouped in the Balance Sheet under the head "Other Liabilities and Provisions".

NOTES ON ACCOUNTS

1. Reconciliation/ adjustment of inter bank/ inter Branch transactions, Branch suspense and sundry deposits is in progress on an ongoing basis. The impact, in the opinion of the management of the unreconciled entries, if any, on the financial statements would not be material.

2. Tax paid in advance/ tax deducted at source includes amount adjusted by Income Tax Department in respect of various disputed demands. Based on the favorable appellate orders and interpretation of law, no further provision has been considered by the management in respect of the disputed demands.

3. Fixed Assets

i) Documentation formalities are pending in respect of certain immovable properties held by the Bank valued at Rs. 4.38 crores (Previous year Rs. 2.31 crores). In respect of immoveable properties valued at Rs.12.82 Crores (Previous Year Rs.12.10 Crores) bank holds agreement to sell along with possession of the Properties.

ii) The Bank has also acquired certain fixed assets generating cash, parked under respective heads, for the promotion and development of its business.

iii) The Bank has been consistently following the method of charging depreciation on fixed assets on diminishing balance as per the rates prescribed in Income Tax Rules which is higher in totality as compared to rates prescribed in Schedule XIV of the Companies Act, 1956.However, the depreciation on computers (including ATMs) along with major software and mobile phones as per RBI guidelines has been computed at the rate of 33.33% on straight-line method.

iv) Depreciation on Banks property includes amortization in respect of leased properties amounting to Rs. 34.54 lacs.

4. Capital

Particulars	31.3.2009	31.3.2008
CRAR (%)		
Basel –I	13.46%	12.80%
Basel-II	14.48%	N A
CRAR – Tier I capital (%)		
Basel – I	12.77%	12.14%
Basel –II	13.80%	N A
CRAR – Tier II capital (%)		
Basel –I	0.69%	0.66%
Basel –II	0.68%	N A
Amount of subordinated debt raised as Tier II capital	NIL	NIL

Government of Jammu and Kashmir holds 53.17% of equity shares of the Bank (previous year 53.17%)

Investments

5. The bank has made no profit on sale of HTM category securities during the year, as such no appropriation was made (previous year Rs. nil) to capital Reserve Account.

6. The Bank is yet to receive scrips / Certificates /Bonds of Rs. 22.11 crores. It includes Rs. 7.17 crores and Rs. 14.94 crores being equity participation in Jammu Rural Bank and Kamraz Rural Bank respectively. Investments include Rs.1 Crore in Equity Shares of The Jammu & Kashmir Development Finance Corporation Ltd. as subscriber to its Memorandum for Rs.10.00 crores.

7. The total investment of the Bank in the Metlife India Insurance Co Pvt.Ltd stood at Rs.220.27 crores as on 31.03.2009 (Previous year Rs 220.27 crores). With regard to provisioning in respect of Banks investment in Metlife India Insurance Co,Reserve Bank of India vide their letter No.DBOD-BP-07099/21-04-141/2008-09 dated April 2009 has allowed the bank to continue holding its investment in Held to Maturity category upto September 30th 2009. In terms of said permission of RBI in case bank does not exit by 30th September,2009 the investment may be transferred to AFS Category on 1st October, 2009 and thereafter the investment may be valued based on average of two valuations for which the bank shall obtain a minimum two independent valuation reports.

8. Details of investments

(Rs. in crores)

S. No.	Items	31.3.2009	31.3.2008
1.	**Value of investments**		
	Gross value of investments		
	a) In India	10,814.13	8,795.61
	b) Out side India	Nil	Nil
	Provision for depreciation		
	a) In India	77.80	37.94
	b) Out side India	Nil	Nil
	Net value of investments		
	a) In India	10,736.33	8,757.67
	b) Out side India	Nil	Nil
2.	**Movement of provision held towards the depreciation on investments**		
	i) Opening balance	37.94	23.09
	ii) Add: Provisions made during the year	42.08	19.23
	iii) Less: Write-off/ write back of excess provisions during the year	2.22	4.38
	iv) Closing balance	77.80	37.94

9. The participation of Repo Transactions is as under

(Rs. in crores)

Particulars	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	Outstanding as on 31.03.09
Securities sold under repos	0.00	400.00	8.27	0.00
Securities purchased under reverse repos	0.00	1,050.00	97.15	0.00

10. Non-SLR Investment portfolio

11. Issuer Composition of Non SLR Investments

(Rs. in crores)

S. No.	Issuer	Amount	Extent of Private Placement (i)	Extent of below Investment grade (ii)	Extent of unrated Securities (iii)	Extent of unlisted Securities (iv)
1	PSUs	171.60	0.00	0.00	0.00	0.00
2	Fis	403.06	0.00	24.99	24.99	24.99
3	Banks	191.24	0.00	0.00	3.05	3.05
4	Private Corporates	263.75	47.11	49.74	34.74	59.18
5	Subsidiaries/Joint Venture	247.38	0.00	0.00	0.00	0.00
6	Others	1,910.50	36.62	0.00	0.00	20.78
	TOTAL	**3,187.53**	**83.73**	**74.73**	**62.78**	**108.00**
7	Provision held towards depreciation	77.25	0.00	0.00	0.00	0.00
	TOTAL	**3,110.28**	**83.73**	**74.73**	**62.78**	**108.00**

The Bank's investment in unlisted securities as on 31-03-2009 is 6.05% (previous year 5.90 %) which is well within the RBI stipulated limit of 10%.

11.1 NON-SLR NON-PERFORMING INVESTMENTS

(Rs. in crores)

Particulars	Amount as on 31.03.2009
Opening Balance	74.07
Additions during the year	19.89
Reductions during the year	19.22
Closing Balance	74.73
Total Provision held including Floating provisions of Rs2.76 Crores	73.49

11.2 THE VALUE OF INVESTMENTS UNDER THREE CATEGORIES VIZ., HELD FOR TRADING, AVAILABLE FOR SALE AND HELD TO MATURITY ARE AS UNDER:

(Rs. in crores)

Particulars	As on 31.03.2009				As on 31.03.2008			
	HFT	AFS	HTM	Total	HFT	AFS	HTM	Total
Government securities	75.94	1,386.60	6,142.65	7,605.19	15.05	1,787.50	5,133.75	6,936.30
Other approved securities	0.00	0.00	20.86	20.86	0.00	0.00	37.08	37.08
Shares (Equity & Pref.)	1.47	32.89	15.00	49.36	7.31	31.29	22.06	60.66
Debentures & bonds	0.00	700.26	400.70	1,100.96	0.00	427.65	519.41	947.06
Subsidiaries & joint venture	0.00	0.00	27.71	27.71	0.00	0.00	230.09	230.09
Others	0.00	588.02	1,344.83	1,932.85	0.00	109.74	436.74	546.48
SUBTOTAL	**77.41**	**2,707.77**	**7,951.15**	**10,736.33**	**22.36**	**2,356.18**	**6,379.13**	**8,757.67**
Reverse repo	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GRAND TOTAL	**77.41**	**2,707.77**	**7,951.15**	**10,736.33**	**22.36**	**2,356.18**	**6,379.13**	**8,757.67**

12. Derivatives

12.1 No Forward rate agreements/ interest rate Swaps being undertaken by the bank during the year.

12.2 The bank has not entered into exchange traded interest rate derivatives transactions during the year

Disclosures on Risk exposures in derivatives

Qualitative Disclosures

The only derivatives traded by the Bank in the foreign exchange market are forward contracts. Forward contracts are being used to hedge /cover the exposure in foreign exchange arising out of merchant transactions and trading positions.

To cover the risks arising out of above derivatives, various limits like AGL and IGL have been prescribed which are monitored through VaR.

Outstanding forward exchange contracts held for trading are revalued at the exchange rates for appropriate maturity rates as announced by FEDAI at the year-end exchange rates and the resultant gain/ loss is taken to revenue.

Quantitative Disclosures

(Rs. in crores)

S. No.	Particulars	Currency derivatives	Interest rate derivatives
i)	Derivatives (Notional Principal Amount)		
	a) For hedging	Nil	Nil
	b) For trading	Nil	Nil
ii)	Marked to market positions [1]		
	a) Asset (+)	Nil	Nil
	b) Liability (-)	Nil	Nil
iii)	Credit exposure [2]	Nil	Nil
iv)	Likely impact of one percentage change in interest rate (100*PV01)		
	a) on hedging derivatives	Nil	Nil
	b) on trading derivatives	Nil	Nil
v)	Maximum & Minimum of 100*PV01 observed during the year		
	a) on hedging	Nil	Nil
	b) on trading	Nil	Nil

13. Asset Quality

Non Performing Asset **(Rs. In crores)**

Particulars	31.03.2009	31.03.2008
Net NPAs to Net Advances (%)	1.38%	1.07%
Movement in Gross NPAs		
a) Opening Balance	485.23	501.83
b) Additions during the year	401.89	227.93
c) Reductions during the year	327.85	244.53
d) Closing balance	559.27	485.23
Movement in Net NPAs		
a) Opening Balance	203.55	193.57
b) Additions during the year	346.09	197.93
c) Reductions during the year	261.82	188.06
d) Closing balance (after reducing interest suspense amounting to Rs.1.29 crores previous year 0.98 crores)	287.51	203.55
Movement of Provision for NPAs (excluding provision on standard assets)		
a) Opening Balance *	280.70	307.17
b) Add/Transfer Provision made during the year	55.80	30.00
c) Less write-off	66.03	56.47
d) Closing Balance *	270.48	280.70

*Including floating provision of Rs.52.90 crores.

14. Details of assets subjected to restructuring

(Rs. in crores)

Item	No. of Accounts	31.03.2009	No. of Accounts	31.03.2008
Total amount of loan assets subjected to restructuring rescheduling renegotiation.	7316	607.16	27	254.92
Of which under CDR	2	31.92	3	48.63
The amount of standard Assets subjected to restructuring rescheduling renegotiation	7075	574.31	27	254.92
Of which under CDR	2	31.92	3	48.63
The amount of Sub-standard Assets subjected to restructuring rescheduling renegotiation.	240	26.85	Nil	Nil
Of which under CDR	Nil	Nil	Nil	Nil
The amount of Doubtful Assets subjected to restructuring rescheduling renegotiation.	1	6.00	Nil	Nil
Of which under CDR	Nil	Nil	Nil	Nil
Note (i)=iii+v+vii.	**7316**	**607.16**	**27**	**254.92**

Particulars of Accounts Restructured

(Rs. in crores)

		CDR Mechanism	SME Debt Restructuring	Others
Standard advances restructured	No. of Borrowers	2	1769	5304
	Amount outstanding	31.92	141.04	401.35
	Sacrifice(diminution in the fair value)	2.37	5.20	9.03
Sub standard advances restructured	No. of Borrowers	0	59	181
	Amount outstanding	0	1.27	25.58
	Sacrifice (diminution in the fair value)	0	0.06	0.43
Doubtful advances restructured	No. of Borrowers	0	0	1
	Amount outstanding	0	0	6.00
	Sacrifice (diminution in the fair value)	0	0	0.44
TOTAL	No. of Borrowers	2	1828	5486
	Amount outstanding	31.92	142.31	432.90
	Sacrifice (diminution in the fair value)	2.37	5.26	9.90

15. Additional Disclosure regarding restructured accounts

S. No.	Disclosures	Number	Amount (Rs. in crores)
1.	Application received up to March 31,2009 for restructuring , in respect of accounts which were Standard as on September 1,2008	7327	810.41
2.	Of (I), proposals approved and implemented as on March 31,2009 and thus became eligible for special regulatory treatment and classified as standard assets as on the date of the balance sheet	7075	574.31
3.	Of (1), proposals approved and implemented as on March 31,2009 but could not be upgraded to the standard category.	240	26.85
4.	Of (1), proposals under process /implementation which were standard as on 31st March, 2009	11	203.25
5.	Of (1), proposals under process / implementation which turned NPA as on March 31,2009 but are expected to be classified as standard assets on full implementation of the package	1	6

16. Details of Financial Assets Sold to Securitization/ Reconstruction Company for Asset Reconstruction.

The Bank has not securitized any asset during the year.

SCHEDULE 18

Notes on Accounts

17. Details of floating provisions

17.1 ADVANCES

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
Opening balance	52.90	52.90
Additions made during the year	0.00	0.00
Utilization made during the year	0.00	0.00
Closing balance	52.90	52.90

17.2 INVESTMENTS

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
Opening balance	2.76	2.76
Additions made during the year	0.00	0.00
Utilization made during the year	0.00	0.00
Closing balance	2.76	2.76

18. Provisions on standard Assets

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
Provision towards Standard Assets	138.74	125.45

Provision on standard assets has been arrived at Rs138.74 Crores, in accordance with RBI guidelines, against which the bank is already holding provision of Rs125.45 Crores as on 31.03.2008. Hence, provision of Rs13.29 Crores has been made during the year.

19. Customer Complaints

	Particulars	
A	No of complaints pending at the beginning of the year	72
B	No of complaints received during the year	244
C	No of complaints redressed during the year	221
D	No of complaints pending at the end of the year	95

20. Awards passed by the banking ombudsman

	Particulars	
A	No of unimplemented Awards at the beginning of the Year	Nil
B	No .of Awards passed by the banking ombudsman during the year	Nil
C	No of Awards implemented during the year	Nil
D	No of unimplemented Awards pending at the end of the year	Nil

21. Business Ratios

		31.3.2009	31.3.2008
i)	Interest income as a percentage to working fund. *	8.77%	8.36%
ii)	Non-Interest income as a percentage to working funds. *	0.72%	0.84%
iii)	Operating profit as a percentage to working funds. *	2.27%	2.23%
iv)	Return on Assets. **	1.09%	1.09%
v)	Business (deposits plus advances) per employee***	Rs. 5.00 Crores	Rs. 5.96 Crores
vi)	Profit per employee	Rs. 0.05 Crores	Rs. 0.05 Crores

* Working funds are the average of total of assets as reported to RBI in Form X.
** Assets are the total assets as at the close of the year.
*** Deposits (other than inter-bank deposits) & Gross Advances are as at the close of the year.

22. Asset Liability Management

(I) MATURITY PATTERN OF CERTAIN ITEMS OF ASSETS AND LIABILITIES AS ON 31.03.2009

(Rs. in crores)

Particulars	1 to 14 days	15Days to 28days	29 days & upto 3 mths	Over 3 mths & upto 6 mths	Over 6mths & upto 1 Yr	Over I Yr & upto 3Yrs	Over 3Yrs & upto 5Yrs	Over 5 Yrs.	Total
Deposits	948.61	492.54	3,156.31	3,225.61	2,293.45	17,516.93	5,207.73	162.92	**33,004.10**
Borrowings	0.00	0.00	0.00	500.98	495.00	0.65	0.00	0.00	**996.63**
Investments	609.80	123.18	1,221.36	504.24	384.38	898.69	1,679.75	5,314.93	**10,736.33**
Advances	691.09	532.00	1,428.65	1,149.61	2,328.87	10,427.61	2,718.55	1,654.03	**20,930.41**

(II) DETAILS OF FOREIGN CURRENCY ASSETS / LIABILITIES (MATURITY PATTERN) AS ON 31.03.2009

Liabilities (Rs. in crores)

Particulars	1 to 14 days	15 Days to 28 days	29 days & upto 3 mths	Over 3 mths & upto 6 mths	Over 6 mths & upto 1 Yr	Over 1 Yr.	Total
USD	151.55	207.35	1,617.84	916.73	152.49	9.08	**3,055.04**
EURO	18.11	0.41	50.42	41.11	19.37	0.70	**130.12**
GBP	6.73	0.73	0.07	0.96	0.59	7.55	**16.63**
J.YEN	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
AUD	0.04	0.00	0.00	0.00	0.00	0.00	**0.04**
CAD	0.00	0.00	0.41	0.00	0.00	0.00	**0.41**
CHF	9.65	0.00	0.00	0.00	0.00	0.00	**9.65**
TOTAL	**186.08**	**208.49**	**1,668.74**	**958.80**	**172.45**	**17.33**	**3,211.90**

Assets (Rs. in crores)

Particulars	1 to 14 days	15 Days to 28 days	29 days & upto 3 mths	Over 3 mths & upto 6 mths	Over 6mths & upto 1 Yr	Over 1 Yr.	Total
USD	164.23	225.71	1,589.14	917.09	154.98	0.00	**3,015.15**
EURO	18.61	3.99	44.03	42.07	18.06	0.00	**126.76**
GBP	7.39	1.67	7.61	0.96	0.00	0.00	**17.63**
J.YEN	0.18	0.00	0.00	0.00	0.00	0.00	**0.18**
AUD	0.00	0.35	0.21	0.00	0.00	0.00	**0.56**
CAD	0.36	0.29	0.45	0.00	0.00	0.00	**1.10**
CHF	9.65	0.00	0.00	0.00	0.00	0.00	**9.65**
SAR	0.23	0.00	0.00	0.00	0.00	0.00	**0.23**
TOTAL	**200.65**	**232.01**	**1,641.44**	**960.12**	**173.04**	**0.00**	**3,207.26**

The data on ALM has been compiled on the basis of information furnished by the branches/offices. In cases where the authenticity could not be verified, the computation has been done on the basis of assumption and estimates made by the management and relied upon by the auditors.

23. Lending to Sensitive Sector

EXPOSURE TO REAL ESTATE SECTOR

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
1. Direct exposure		
i) Residential mortgages		
a) Individual housing loans upto Rs. 20 lakhs (Previous year upto Rs. 15 lakhs)	660.65	592.94
b) Others	92.24	106.39
Lending's fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented;		
ii) Commercial real estate		
Lending's secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc). Exposure would also include non-fund based (NFB) limits.	1,541.68	1,584.42
iii) Investment in mortgage backed securities and other securitised exposures		
a) Residential	Nil	Nil
b) Commercial real estate	Nil	Nil
2. Indirect exposure		
(Fund based & non fund based exposure on National Housing Bank and housing finance companies)	270.20	343.06

23.1 EXPOSURE TO CAPITAL MARKET

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
1. Investments made in equity shares	274.42	270.11
2. Investments in bonds/ convertible debentures	0.00	0.00
3. Investments in units of equity-oriented mutual funds	92.00	92.00
4. Advances against shares to individuals for investments in equity shares (including IPOs/ ESOPS), bonds and debentures, units of equity oriented mutual funds	0.00	0.00
5. Secured and unsecured advances to stock brokers and guarantees issued on behalf of stockbrokers and market makers	37.11	177.54
TOTAL (1+2+3+4+5)	**403.53**	**539.65**
6. of 5 above, the total finance extended to stock brokers for margin trading	Nil	Nil

23.2 ADVANCES TO COMMODITIES SECTOR

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
1. Cash crop	106.73	77.37
2. Edible oils	338.75	460.24
3. Agriculture produce	423..62	260.67
4. Other sensitive commodities	28.39	11.00
TOTAL	**897.49**	**809.28**

24. The Government of India has notified Relief Scheme viz., "Agricultural Debt Waiver & Debt Relief Scheme-2008," for giving debt waivers to marginal & small farmers and to other farmers who have availed direct agricultural loans. Preliminary claims have been lodged with RBI for Rs.21.20 crores being the amount waived, out of which Rs.8.69 crores have been received.

25. Risk category wise country exposure

(Rs. in crores)

(Category)	Risk Category	Exposure (net) as at March 2009	Provision held as at March 2009	Exposure (net) as at March 2008	Provision held as at March 2008
A1	Insignificant	24.62	0.00	34.13	0.00
A2	Low	0.73	0.00	0.86	0.00
B1	Moderate	Nil	Nil	Nil	Nil
B2	High	Nil	Nil	Nil	Nil
C1	Very high	Nil	Nil	Nil	Nil
C2	Restricted	Nil	Nil	Nil	Nil
D	Off-Credit	Nil	Nil	Nil	Nil
	TOTAL	**25.35**	**0.00**	**34.99**	**0.00**

26. Details of Single borrower limit, Group borrower limit exceeded by the bank

(Rs. in crores)

Name of Borrower	Exposure ceiling	Limit Sanctioned	Maximum Outstanding	Outstanding as on 31.03.2009
State Government of J&K	Rs. 923.57crores	Rs. 1,700.00 Crores	Rs. 2,603.08 Crores	Rs. 2,518.75 Crores

27. Miscellaneous

DETAILS OF PROVISIONS

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
Tax expense		
i) Current tax *	220.31	216.46
ii) Deferred Tax Liability/ (Asset)	–	(2.18)
iii) Fringe Benefit Tax	1.95	1.70
Provision against NPA's	55.80	30.00
Provision for standard assets	13.29	24.55
Provision for depreciation on investments	42.08	19.24
Provision for funded interest term loan	NIL	NIL
Provision for Debts Restructured (investments only)	NIL	NIL
Provision for Non performing Investment	12.87	NIL
Provision for frauds and embezzlements	0.80	1.06
Provision for diminution in the fair value of restructured /rescheduled advances	17.52	–
Other provisions & contingencies	–	1.00
TOTAL	**364.62**	**291.83**

* The current years tax liability includes the provision for Wealth Tax of Rs.64 lacs pertaining to previous years.

28. Information in respect of Accounting Standards issued by the Institute of Chartered Accountants of India

28.1 ACCOUNTING STANDARD 5 – NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

There are no material Prior Period items included in Profit & Loss Account required to be disclosed as per Accounting Standard–5 read with RBI Guidelines.

28.2 ACCOUNTING STANDARD 9- REVENUE RECOGNITION

There are no material items of income, which are required to be disclosed as per Accounting Standard – 9, read with RBI guidelines.

28.3 ACCOUNTING STANDARD 15 – RETIREMENT BENEFITS

a) Total VRS liability of the Bank amounting to Rs. 39.83 Crores has been fully amortized equally in five years in terms of RBI guidelines..

b) In view of Accounting Standard 15 (Revised 2005) issued by The Institute of Chartered Accountants of India, the Bank in respect of its Defined Benefit Plans (Pension, Gratuity, and Leave Encashment) on first adopting this statement as on 1-04-2007, has a transitional Liability of Rs. 149.70 crores as per Actuarial Valuation. The 1/5th of this liability on a straight-line basis amounting to Rs. 29.94 crores has been recognized as an expense during the year 2008-09 (2nd year) and the remaining unrecognized amount of Rs. 89.82 crores is spread over to next three years.

c) The disclosures required under Accounting Standard 15 "Employee Benefits- issued by The Institute of chartered Accountants of India are as under:

Defined Contribution Plan

Contribution to Defined Contribution Plan, recognized are charged off for the year are as under:

(Rs.)

Particulars	
Employer's Contribution to Provident Fund	58,305,191.67

Defined Benefit Plans

The Employee's Gratuity Fund Scheme, Pension Fund and Leave Encashment are defined benefit plans.

In view of Accounting Standard 15 (Revised 2005) issued by The Institute of Chartered Accountants of India , the Bank in respect of its Defined Benefit Plans(Pension, Gratuity ,and Leave Encashment) on first adopting this statement as on 1-04-2007, has a transitional Liability of Rs. 149.70 crores as per Actuarial Valuation. The 1/5th of this liability on a straight-line basis amounting to Rs. 29.94 crores has been recognized as an expense during the year 2008-2009 and the remaining unrecognized amount of Rs. 89.82 crores is spread over to next three years.

The present value of obligation is determined based on Actuarial Valuation using the Projected Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation.

CHANGES IN THE PRESENT VALUE OF THE OBLIGATION AND IN THE FAIR VALUE OF THE ASSETS

Present value of Obligation	Gratuity Funded	Pension Funded	Leave Encashment un funded
Present Value Of obligation 01-04-2008	910,381,276	3,345,934,225	371,206,199
Interest Cost	70,836,276	261,993,831	29,080,866
Current Service Cost	40,959,874	260,721,638	21,402,466
Past Service Cost	0	0	0
Benefits Paid	(49,855,648)	(142,022,669)	(15,390,754)
Actuarial (gain) loss on Obligation	(85,259,390)	(280,357,442)	(43,756,940)
Present Value Of obligation 31-03-2009(Projection)	887,062,388	3,446,269,583	362,541,837
Fair value of plan Assets 01-04-2008	585,905,820	2,964,251,723	0
Expected Return On plan assets	49,166,406	242,599,932	0
Contributions	57,190,033	110,812,618	15,390,754
Benefits Paid	(49,855,648)	0	(15,390,754)
Actuarial gain (Loss) Plan Assets	847,729	(216,917,689)	0
Fair value of plan Assets 31-03-2009	643,254,340	3,100,746,584	0
Total Actuarial gain (loss) to be recognized	86,107,119	63,439,753	43,756,940
Balance Sheet Recognition			
Present Value Of Obligation	887,062,388	3,446,269,583	362,541,837
Fair Value Of Plan Assets	(643,254,340)	(3,100,746,584)	0
Liability (assets)	243,808,048	345,522,999	362,541,837
Unrecognized Past Service Cost	0	0	0
Liability (asset) recognized in the Balance Sheet**	243,808,048	345,522,999	362,541,837
Less: Liability already recognized	0	0	100,405,735
Plus : 1/5th Amortized Transitional Liability Total of three plans : Rs 299402918	89,095,141	152,255,772	58,052,005
Less: Transition Remaining Total of three plans : Rs. 898208754	267,285,423	456,767,315	174,156,016
Current Year Liability/(Asset) Total of three plans: Rs. 252661313	65,617,766	41,011,456	146,032,091
Profit & Loss – Expenses			
Current Service Cost	40,959,874	260,721,638	21,402,466
Interest Cost	70,836,276	261,993,831	29,080,866
Expected Return On plan assets	(49,166,406)	(242,599,932)	0
Net Actuarial gain (loss) recognized in the year	(86,107,119)	(63,439,753)	(43,756,940)
Past Service Cost	0	0	0
Expenses Recognized in the statement of Profit & Loss	(23,477,375)	(216,675,784)	6,726,392
Actual Return on Plan Assets			
Expected Return on plan assets	49,166,406	242,599,932	–
Actuarial gain (Loss) plan assets	847,729	(216,917,689)	–
Actual Return on plan assets	50,014,135	25,682,243	–
Movement in the net Liability recognized in the Balance Sheet			
Opening net Liability	324,475,456	381,682,502	371,206,199
Expenses	(23,477,375)	216,675,784	6,726,392
Contribution	(57,190,033)	(252,835,287)	(15,390,754)
Closing Net Liability	243,808,048	345,522,999	362,541,837
Actuarial Assumption			
Mortality Table (L.I.C.)	1994-96 Ultimate	1994-96 Ultimate	1994-96 Ultimate
Discount Rate (Per Annum)	8%	8%	8%
Expected rate of return on plan assets (p.a.)	8%	8%	N.A
Rate of escalation in salary	5%	5%	5%
Disability	Nil	Nil	Nil
Attrition	1%p.a	1%p.a	1%p.a
Retirement age	60 years	60years	60years

The above information is certified by the actuary

28.4 ACCOUNTING STANDARD 17 – SEGMENT REPORTING

i) The Bank has recognized business segment as its primary reportable segment under AS-17 classified into treasury, Corporate/ Wholesale banking, Retail banking and other banking Business. The necessary disclosure is given below

(Rs. in crores)

Description	31.3.2009	31.3.2008
A. Segment Revenue (Income)		
i) Treasury Operations	773.42	643.58
ii) Corporate/Wholesale Banking	980.71	939.05
iii) Retail Banking	1,450.86	1,072.57
iv) Other Banking Business	28.17	24.04
TOTAL INCOME FROM OPERATIONS	**3,233.16**	**2,679.24**
B. Segment Results (Profit before tax)		
i) Treasury Operations	(34.31)	0.09
ii) Corporate /Wholesale Banking	266.10	301.19
iii) Retail Banking	374.17	252.59
iv) Other Banking Business	26.14	22.11
TOTAL PROFIT BEFORE TAX	**632.09**	**575.98**
C. Segment Assets		
i) Treasury Operations	14,067.16	10,393.56
ii) Corporate/Wholesale Banking	11,824.62	11,170.75
iii) Retail Banking	11,797.46	11,187.85
iv) Other Banking Business	4.02	3.83
TOTAL	**37,693.26**	**32,755.99**
D. Segment Liabilities		
i) Treasury Operations	2,360.77	2,357.93
ii) Corporate/wholesale Banking	10,883.34	9,536.27
iii) Retail Banking	24,449.11	20,861.76
iv) Other Banking Business	0.04	0.03
TOTAL	**37,693.26**	**32,755.99**
E. Net Segment Assets/Liabilities		
i) Treasury Operations	11,706.39	8,035.62
ii) Corporate /Wholesale Banking	941.28	1,634.49
iii) Retail Banking	(12,651.65)	(9,673.91)
iv) Other Banking Business	3.98	3.80
TOTAL	**0.00**	**0.00**

ii) As the Bank does not have any overseas branch there is no requirement as to reporting of geographical segment

28.5 ACCOUNTING STANDARD 18 – RELATED PARTY DISCLOSURES

Figures as at 31.03.2009 (Rs. in crores)

Items/Related Party	Kamraz Rural Bank (Associates)	Jammu Rural Bank (Associates)	JKB Financial Services Ltd.
Deposits	137.45	430.00	Nil
Advances	3.07	Nil	Nil
Investments	16.62	5.48	5.00
Interest Paid	0.09	Nil	Nil
Interest/Commission Received	5.17	36.30	Nil
Salary	Nil	Nil	Nil

Items/Related Party	K.M.P Dr. H. A. Drabu (Chairman)	K.M.P Mr. A. K. Mehta (ED)	K.M.P Mr. Abdul Majid Mir (ED)
Deposits			
Advances	0.2547	0.0366	0.0398
Investments	Nil	–	–
Interest paid	0.0235	0.0031	0.0028
Interest/Comm Received	–	–	–
Salary	0.3748	0.1036	0.0988

Bank is holding 35% each in Jammu Rural Bank & Kamraz Rural Bank and 100% in JKB Financial Services Ltd.

K.M.P (Key Management Personnel)

28.6 ACCOUNTING STANDARD 20 – EARNING PER SHARE

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
Net Profit available to Equity Share Holders	409.84	409.84
Weighted Average No. of Equity Shares	48,477,802	48,477,802
Basic Earning per share (in Rupees)	84.54	74.26

28.7 ACCOUNTING STANDARD –21 (CONSOLIDATED FINANCIAL STATEMENTS)

The Bank has a fully owned subsidiary company "JKB Financial Services Ltd." in terms of the approval of Reserve Bank of India vide its letter No DBOD.FSD.No./1124/24.01.001/2007-08 dated July 31,2007. The investment towards the capital of subsidiary company is Rs. 5.00 Crores. The consolidated financial statements are placed accordingly in terms of AS 21 issued by the Institute of Chartered Accountants of India.

28.8 ACCOUNTING STANDARD 22 – ACCOUNTING FOR TAXES ON INCOME

The Bank has accounted for Income Tax in compliance with Accounting Standard 22 accordingly deferred Tax assets and liabilities are recognized.

(Rs in thousands)

Timing Difference	DTA	DTL
Depreciation on Assets	Nil	3725
Leave encashment	1,00,640	Nil

Net DTA 96915

Tax Impact 32527

28.9 ACCOUNTING STANDARD 26-INTANGIBLE ASSETS

The Bank has incurred an amount of Rs. 0.66 crores on Brand names bifurcated into two heads namely Business Unit Signage and Brand Strategy Project. Expenditure on Business Unit Signage amounting to Rs. 0.60 crores has been debited under the head Furniture & Fixture, whereas, Brand strategy project expenses amounting to Rs.0. 06 crores has been charged to Profit & Loss account treating it as a Revenue expenditure for the reason that the Bank cannot declare dividend to shareholders without writing it off completely in view of the provisions of the Banking Regulation Act, 1949. Accordingly, the Bank has not evaluated useful life of this Brand strategy project over which the expenses could be amortized.

28.10 ACCOUNTING STANDARD 28 – IMPAIRMENT OF ASSETS

Majority of Fixed Assets of the Bank are considered as Corporate Assets and not cash generating assets and in the opinion of Management there is no material impairment in these Fixed Assets. Regarding other Fixed Assets generating cash there is no material impairment. As such no provision is required as per AS-28 issued by ICAI.

28.11 ACCOUNTING STANDARD 29- PROVISIONS AGAINST CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In respect of Contingent Liabilities under each class shown as per Schedule 12, in the opinion of the Management, the possibility of any out flow in settlement is remote hence no provision is required to settle the obligations. Further as the Bank does not have any overseas subsidiary no letter of comfort has been issued.

29. Other Disclosures

29.1 FOREIGN EXCHANGE

a) The net funded exposure of the Bank in respect of Foreign Exchange transactions with each country is within 1% of the Total Assets of the Bank and hence no Provision and Disclosure is required to be made as per the RBI Circular No. 96/21.04.103/2003 dated: 17.06.2004.

b) Claims pending with ECGCI amounts to Rs. 21.52 Crores (Previous year Rs. 8.08 Crores)

29.2 a) Commission, exchange and brokerage under the head other income of schedule 14 to Profit and Loss Account includes a sum of Rs.18.97 crores (net of Rs. 8.03 crores excess booked as per RBI guidelines in the financial year 2005-06) booked on an estimated basis on handling of Govt. business and for transactions of pension disbursements of State Govt. of Jammu & Kashmir for the year subject to reconciliation in terms of MOU signed with Govt. of Jammu & Kashmir on 21.08.2008.

b) The Govt. of Jammu & Kashmir has objected to charge of commission on Govt. business/ pension disbursement and sought refund along with interest for the period prior to 01.08.2008 ignoring its earlier letter number FD/BKG/137/2008 dated 29.05.2008 as the desired para to charge such commission for the years 2005-06, 2006-07and period 01.04.07 to 20.08.2008, finds no place in the MOU presently signed with Govt. of Jammu & Kashmir in this behalf.

The Bank has disputed the claim vide its letter No. S&BD/534/2009-50 dated May 14,2009 that the commission has been charged at the rates which have been specified for such transactions by Reserve Bank of India and after the concurrence of Govt. pending formal MOU in this regard. The management of the Bank is of the firm opinion that the present MOU has to be read along with the aforementioned letter dated 29.05.2008 issued by the Govt. in this behalf.

The commission which has been booked in the period prior to 21.08.08 is Rs. 80.04 Crores. Estimated interest on the amount up to 31.03.2009 works out to Rs. 31.14 Crores.

29.3 a) The Bank has forfeited Rs 2809.05 lacs received from the State Government of Jammu & K as 10% of the advance payment for subscribing to 4092140 convertible share warrants allotted by way of preferential allotment on 15.09.2007. Since the right to convert the share warrants in equity share warrants was not exercised by the State Government within the stipulated time i-e before 15th march 2009 , nor the balance amount has been paid , the advance amount of 10 % received against these share warrants amounting to Rs 2809.50 Lacs has been forfeited in Board Meeting dated 14.03.2009 and transferred to Capital Reserve Account consequent upon cancellation of share warrants allotted to the State Government.

b) The proposed issue of GDR, has been deferred due to prevailing market conditions and expenditure incurred on the issue has been charged to Revenue.

29.4 Hitherto the Bank has been paying interest on overdue term deposits as and when such deposits were renewed. However from current year the bank has changed its policy of charging interest on overdue term deposits in conformity with guidelines of Reserve Bank of India. Accordingly the bank has provided interest of Rs.5.27 Crores on overdue term deposit in CBS branches and adhoc interest of Rs. 0.20 Crores in case of Non-CBS branches. The change in accounting policy has reduced the Profits by Rs.5.47 Crores.

29.5 Penalty imposed by Reserve Bank of India during the year Nil (Previous year Nil).

Movement in provision for credit card reward point is set out below

(Rs. in crores)

Particulars	
Opening Provision balance as on 01.04.2008	0.23
Provisions made during the year 2008-09	0.19
Redemption made during the year	0.15
Closing balance at the end of year	0.27

30. The Principal Accounting Policies (Schedule 17) and Notes on Accounts (Schedule 18) form an integral part of these Accounts.

31. Previous year figures have been regrouped / rearranged where ever necessary and possible to conform to current year figures.

Sd/-
(Haseeb A. Drabu)
Chairman & CEO

Sd/-
(M. S. Verma)
Director

Sd/-
(G. P. Gupta)
Director

Sd/-
(A. K. Mehta)
Executive Director

Sd/-
(Abdul Majid Mir)
Executive Director

Sd/-
(B. L. Dogra)
Director

Sd/-
(G. M. Dug)
Director

Sd/-
(Parvez Ahmed)
President & Company Secretary

Sd/-
(Shafat A. Bandey)
Vice President

Place : Srinagar
Dated : 31st May, 2009

In terms of our report of even date annexed

For Gupta Gupta & Associates
Chartered Accountants
Sd/-
(CA. Rakesh K. Gupta)
Partner
M.No. 093301

For Verma Associates
Chartered Accountants
Sd/-
(CA. Madan Verma)
Partner
M.No. 081631

For Baweja & Kaul
Chartered Accountants
Sd/-
(CA. Samvit K. Gurtoo)
Partner
M.No. 090758

Place : Srinagar
Dated : 31st May, 2009

PART IV OF SCHEDULE VI

to the Companies Act, 1956

(71st Annual Report 2008 - 09)

I. REGISTRATION DETAILS

Registration No.	4 6	State Code	0 7
Balalnce Sheet Date	3 1 0 3 2 0 0 9		

II. CAPITAL RAISED DURING THE YEAR (AMT IN 000"S)

Public Issue	N I L	Rights Issue	N I L
Bonus Issue	N I L		

III. POSITION OF MOBILISATION AND DEPLOYMENT OF FUNDS (AMT IN 000"S)

Total Liabilities	3 7 6 9 3 2 6 1 8	Total Assets	3 7 6 9 3 2 6 1 8
SOURCES OF FUNDS			
Paid Up Capital	4 8 4 9 2 2	Reserves and Surplus	2 5 7 4 3 6 8 4
Secured Loans	N I L	Unsecured Loans	9 9 6 6 2 6 5
Deposit	3 3 0 0 4 1 0 3 6		
APPLICATION OF FUNDS			
Net Fixed Assets	1 9 9 4 1 4 3	Investments	1 0 7 3 6 3 3 4 7
Advance	2 0 9 3 0 4 1 1 3	Misc.Expenditure	N I L
Net Current Asssets	4 7 5 7 4 3 0 4	Accumulated Losses	N I L

IV. PERFORMANCE OF BANK (AMT IN 000"S)

Total Income	3 2 3 3 1 7 3 6	Total Expenditure	2 4 5 8 7 2 1 9
Profit Before Tax	6 3 2 0 9 9 5	Profit After Tax	4 0 9 8 3 5 5
Earning per Share in Rs.	8 4 . 5 4	Dividends Rate (%)	1 6 9 . 0 3

V. GENERIC NAMES OF PRINCIPAL PRODUCTS/ SERVICES (AS PER MONETARY TERMS)

Item Code No (ITC Code)	N I L
Item Code No (ITC Code)	B A N K I N G S E R V I C E S

CASH FLOW STATEMENT

for the year ended 31st March, 2009

Particulars		Year Ended 31.03.2009 (Rs. '000' Omitted)	Year Ended 31.03.2008 (Rs. '000' Omitted)
CASH FLOW FROM OPERATING ACTIVITIES		9,653,551	9,013,273
CASH FLOW FROM INVESTING ACTIV ITIES		-399,231	-407,179
CASH FLOW FROM FINANCING ACTIVITIES		-879,108	-371,289
NET CHANGE IN CASH AND CASH EQUIVALENTS		8,375,210	8,234,805
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR		44,372,410	36,137,605
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		52,747,620	44,372,410
A	**CASH FLOW FROM OPERATING ACTIVITIES**		
	a) Interest received during the year from Advances/Investments	29,532,221	24,046,724
	b) Other Income	2,450,539	2,450,133
	c) Interest paid on deposits etc.	-19,689,782	-16,042,595
	d) Operating expenses including Provisioning & Contingencies	-6,132,129	-4,794,726
	e) Adjustment for depreciation	325,109	321,615
	TOTAL (a to e)	**6,485,960**	**5,981,152**
	f) Deposits	44,108,406	33,989,683
	g) Borrowings	2,448,404	1,315,966
	h) Investments	-19,786,716	-13,654,701
	i) Advances	-20,477,995	-18,026,697
	j) Other liabilities & provisions	-592,141	2,364,867
	k) Other Assets	-99,127	-820,343
	TOTAL (a to k)	**12,086,791**	**11,149,926**
	l) Less Tax Paid	2,433,240	2,136,653
	TOTAL (A)	**9,653,551**	**9,013,273**
B	**CASH FLOW FROM INVESTING ACTIVITIES :**		
	a) Fixed Assets	-399,231	-407,179
	b) Investment in Sponsored Institutions.	0	0
	TOTAL (B)	**-399,231**	**-407,179**
C	**CASH FLOW FROM FINANCING ACTIVITIES**		
	a) Share Capital	0	1
	b) Equity Share Warrants	0	280,950
	c) Dividend & Divident Tax Paid	-879,108	-652,240
	TOTAL (C)	**-879,108**	**-371,289**
D	**CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR**		
	a) Cash in hand & Balance with R.B.I	32,199,667	18,547,684
	b) Balance with Banks & Money at Call & Short Notice	12,172,743	17,589,922
	TOTAL (D)	**44,372,410**	**36,137,606**

CASH FLOW STATEMENT

for the year ended 31st March, 2009

Particulars		Year Ended 31.03.2009 (Rs. '000' Omitted)	Year Ended 31.03.2008 (Rs. '000' Omitted)
E	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
	a) Cash in hand & Balance with R.B.I	23,029,505	32,199,667
	b) Balance with Banks & Money at Call & Short Notice	29,718,115	12,172,743
	TOTAL (E)	**52,747,620**	**44,372,410**

Note:

This statement has been prepared in accordance with direct method.

Sd/-
(Haseeb A. Drabu)
Chairman & CEO

Sd/-
(M. S. Verma)
Director

Sd/-
(G. P. Gupta)
Director

Sd/-
(A. K. Mehta)
Executive Director

Sd/-
(Abdul Majid Mir)
Executive Director

Sd/-
(B. L. Dogra)
Director

Sd/-
(G. M. Dug)
Director

Sd/-
(Parvez Ahmad)
President & Company Secretary

Sd/-
(Shafat A. Bandey)
Vice President

Place : Srinagar
Dated : 31st May, 2009

The above cash flow statement has been taken on record by the Board of Directors in its meeting held on 31st May, 2009 at Srinagar.

Sd/-
President & Company Secretary

AUDITORS' CERTIFICATE

We have verified the attached Cash Flow Statement of THE JAMMU & KASHMIR BANK LIMITED which has been compiled from and is based on the Audited Financial Statements for the year ended 31st March, 2009 and 31st March, 2008. To the best of our knowledge and belief and according to the information and explanations given to us, it has been prepared pursuant to clause 32 of the Listing Agreement with the Stock Exchanges.

For Gupta Gupta & Associates
Chartered Accountants
Sd/-
(CA. Rakesh K. Gupta)
Partner
M.No. 093301

For Verma Associates
Chartered Accountants
Sd/-
(CA. Madan Verma)
Partner
M.No. 081631

For Baweja & Kaul
Chartered Accountants
Sd/-
(CA. Samvit K. Gurtoo)
Partner
M.No. 090758

Place : Srinagar
Dated : 31st May, 2009

COMMENTS OF C & AG

COMPTROLLER AND AUDITOR GENERAL OF INDIA, HAS NO COMMENTS UPON OR SUPPLEMENT TO THE AUDITOR'S REPORT UNDER SECTION 619(4) OF THE COMPANIES ACT, 1956 ON THE ACCOUNTS OF JAMMU AND KASHMIR BANK LTD.,FOR THE YEAR ENDED 31 ST MARCH 2009.

AUDITORS' REPORT
on the Consolidated Financial Statements

To
The Board of Directors
The Jammu & Kashmir Bank Limited

1. We have examined the attached Consolidated Balance Sheet of **The Jammu & Kashmir Bank Limited** and its subsidiary JKB Financial Services Ltd as at 31st March 2009, and the Consolidated Profit and Loss Account and the Consolidated Cash Flow Statement for the year then ended in which are incorporated the

   i) Audited accounts of the Bank in which are incorporated the returns of 32 branches/Offices audited by us and 538 Branches/Offices audited by other auditors.

   ii) Audited accounts of one subsidiary JKB Financial Services Ltd audited by other auditor.

   These Consolidated financial statements are the responsibility of the Bank's management and have been prepared by the Bank's management on the basis of separate financial statements and other financial information of different entities in the group. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards generally accepted in India. These Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement(s). An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements. We believe that our audit provides a reasonable basis for our opinion.

3. We have jointly audited the financial statements of the bank whose financial statements reflects total assets of Rs. 37,693 Crore as at 31st March 2009 and total revenue of Rs. 3, 233 Crore and net cash flows amounting to Rs. 837 Crore for the year then ended.

4. We did not audit the financial statements of its subsidiary JKB Financial Services Ltd whose financial statements reflect total assets of Rs.5 Crore as at 31st March 2009, and total revenue of Rs.Nil Crore and net cash flows amounting to Rs.5 Crore for the year then ended. These financial statements have been audited by other auditor, whose report has been furnished to us, and our opinion, in so far as it relates to the amounts included in respect of other entity, based solely on the report of the other auditor.

5. We report that the consolidated financial statements have been prepared by the Bank's management in accordance with the requirement of Accounting Standard 21 – Consolidated Financial Statements, Accounting Standard 23 – Accounting for investment in Associates in Consolidated Financial Statements and Accounting Standard 27 – Financial Reporting of Interest in Joint Ventures issued by the Institute of Chartered Accountants of India and the requirements of Reserve Bank of India.

6. Attention is invited to Note No.29.2 of Notes to Accounts of the J & K Bank Ltd. in respect of commission charged from the State Govt. of Jammu & Kashmir for handling Govt. business and for transactions of pension disbursement for the period from 01.04.2005 to 20.08.2008 whereby the Bank has refuted the claim of Govt. for this period.

7. Based on our audit and consideration of report of other auditor on separate financial statements and on the other financial information of the components, and to the best of our information and explanations given to us we are of the opinion that the attached Consolidated Financial Statements, give a true and fair view in conformity with the accounting principles generally accepted in India:

   a) in the case of the Consolidated Balance Sheet on the state of affairs of the Group as at 31st March 2009;

   b) in the case of the Consolidated Profit and Loss account of the consolidated profits of the Group for the year ended on that date; and

   c) in the case of Consolidated Cash Flow Statement of the Cash Flows of the Group for the year ended on that date.

	For Gupta Gupta & Associates Chartered Accountants	For Verma Associates Chartered Accountants	For Baweja & Kaul Chartered Accountants
	(CA. Rakesh K. Gupta)	(CA. Madan Verma)	(CA. Samvit K. Gurtoo)
Place : Srinagar	Partner	Partner	Partner
Dated : 31st May, 2009	(M. No.093301)	(M.No. 081631)	(M.No. 090758)

CONSOLIDATED BALANCE SHEET

as at 31st March, 2009

Particulars	Schedules	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
CAPITAL AND LIABILITIES			
Capital	1	484,922	484,922
Equity Share Warrants (Note: 29.3(b) of Schedule 18)		-	280,950
Reserves and Surplus	2	25,743,575	22,323,351
Deposits	3	329,991,036	285,932,630
Borrowings	4	9,966,265	7,517,861
Other Liabilities and Provisions	5	10,696,762	11,020,157
TOTAL		**376,882,560**	**327,559,871**
ASSETS			
Cash and Balance with Reserve Bank of India	6	23,029,505	32,199,667
Balance with Banks & Money at Call & Short Notice	7	29,718,115	12,172,743
Investments	8	107,313,347	87,576,631
Advances	9	209,304,113	188,826,118
Fixed Assets	10	1,994,143	1,920,015
Other Assets	11	5,523,336	4,864,697
TOTAL		**376,882,560**	**327,559,871**
Contingent Liabilities	12	91,409,177	112,644,286
Bills for Collection		9,490,429	6,285,380
Principal Accounting Policies	17		
Notes on Accounts	18		

The Schedules Referred to above and to attached Cash Flow Statement form an integral part of the Balance Sheet

Sd/-
(Haseeb A. Drabu)
Chairman & CEO

Sd/-
(M. S. Verma)
Director

Sd/-
(G. P. Gupta)
Director

Sd/-
(A. K. Mehta)
Executive Director

Sd/-
(Abdul Majid Mir)
Executive Director

Sd/-
(B. L. Dogra)
Director

Sd/-
(G. M. Dug)
Director

Sd/-
(Parvez Ahmed)
President & Company Secretary

Sd/-
(Shafat A. Bandey)
Vice President

Place : Srinagar
Dated : 31st May, 2009

In terms of our report of even date annexed

For Gupta Gupta & Associates
Chartered Accountants

Sd/-
(CA. Rakesh K. Gupta)
Partner
M.No. 093301

For Verma Associates
Chartered Accountants

Sd/-
(CA. Madan Verma)
Partner
M.No. 081631

For Baweja & Kaul
Chartered Accountants

Sd/-
(CA. Samvit K. Gurtoo)
Partner
M.No. 090758

Place : Srinagar
Dated : 31st May, 2009

CONSOLIDATED PROFIT & LOSS ACCOUNT

for the year ended 31st March, 2009

Particulars		Schedules	Year Ended 31.03.2009 (Rs. '000' Omitted)	Year Ended 31.03.2008 (Rs. '000' Omitted)
I	**INCOME**			
	Interest Earned	13	29,881,197	24,342,304
	Other Income	14	2,450,539	2,450,133
	TOTAL		**32,331,736**	**26,792,437**
II	**EXPENDITURE**			
	Interest Expended	15	19,878,612	16,237,917
	Operating Expenses	16	4,708,715	4,036,141
	Provisions and Contingencies		3,646,163	2,918,337
	TOTAL		**28,233,490**	**23,192,395**
III	**NET PROFIT**		**4,098,246**	**3,600,042**
	TOTAL		**32,331,736**	**26,792,437**
IV	**APPROPRIATIONS**			
	TRANSFERED TO			
i)	Statutory Reserve		1,023,389	900,010
ii)	Capital Reserve		–	–
iii)	Revenue and Other Reserve		2,115,883	1,820,924
iv)	Proposed Dividend		819,671	751,406
v)	Tax on Dividend		139,303	127,702
	TOTAL		**4,098,246**	**3,600,042**
	Principal Accounting Policies	17		
	Notes on Accounts	18		
	Earnings per Share (Basic/Diluted)		84.54	74.26

The Schedules Referred to above form an integral part of the Profit & Loss Account

Sd/-
(Haseeb A. Drabu)
Chairman & CEO

Sd/-
(M. S. Verma)
Director

Sd/-
(G. P. Gupta)
Director

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(A. K. Mehta)
Executive Director

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Director

Sd/-
(Parvez Ahmed)
President & Company Secretary

Sd/-
(Shafat A. Bandey)
Vice President

Place : Srinagar
Dated : 31st May, 2009

In terms of our report of even date annexed

For Gupta Gupta & Associates
Chartered Accountants
Sd/-
(CA. Rakesh K. Gupta)
Partner
M.No. 093301

For Verma Associates
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For Baweja & Kaul
Chartered Accountants
Sd/-
(CA. Samvit K. Gurtoo)
Partner
M.No. 090758

Place : Srinagar
Dated : 31st May, 2009

SCHEDULES

to the Consolidated Balance Sheet as at 31st March, 2009

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 1 - CAPITAL		
Authorised Capital		
100,000,000		
Equity Shares of Rs.10/- each	1,000,000	1,000,000
Issued		
48,499,602 Equity Shares of Rs.10/= each	484,996	484,996
Subscribed and Paid-Up Capital		
48,477,802		
Equity Shares of Rs. 10/- each	484,778	484,778
Add Forfeited Shares (21800 shares)	144	144
TOTAL	**484,922**	**484,922**

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 2 - RESERVES & SURPLUS		
I. Statutory Reserves		
Opening Balance	6,270,262	5,370,252
Additions during the year	1,023,389	900,010
TOTAL	**7,293,651**	**6,270,262**
II. Capital Reserves		
Opening Balance	350,304	350,304
Additions during the year	280,950	–
TOTAL	**631,254**	**350,304**
III. Share Premium		
Opening Balance	867,791	867,791
Additions during the year	–	–
TOTAL	**867,791**	**867,791**
IV. Revenue and Other Reserves		
Opening Balance	14,834,994	13,014,070
Additions during the year	2,115,885	1,820,924
TOTAL	**16,950,879**	**14,834,994**
TOTAL (I,II,III & IV)	**25,743,575**	**22,323,351**

SCHEDULES

to the Consolidated Balance Sheet as at 31st March, 2009

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 3 - DEPOSITS		
A I. Demand Deposits		
i) From Banks	658,332	588,105
ii) From Others	45,543,458	42,361,535
TOTAL	**46,201,790**	**42,949,640**
II. Saving Bank Deposits	79,534,851	69,025,383
III. Term Deposits		
i) From Banks	39,541,942	25,858,176
ii) From Others	164,712,453	148,099,431
TOTAL	**204,254,395**	**173,957,607**
TOTAL A (I+II+III)	**329,991,036**	**285,932,630**
B I. Deposits of branches in India	329,991,036	285,932,630
II. Deposits of branches outside India	Nil	Nil
TOTAL B (I+II)	**329,991,036**	**285,932,630**
SCHEDULE 4 - BORROWINGS		
I. Borrowings in India		
i) Reserve Bank of India	–	–
ii) Other Banks	3,507	1,059
iii) Other Institutions & Agencies	9,962,758	7,074,302
TOTAL	**9,966,265**	**7,075,361**
II. Borrowings outside India	–	442,500
Secured borrowings included in I & II above	Nil	Nil
GRAND TOTAL (I & II)	**9,966,265**	**7,517,861**
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS		
i) Bills Payable	3,135,491	3,230,474
ii) Inter Office Adjustments (Net)	512,634	2,379,573
iii) Interest Accrued on Non-cumulative deposits	972,674	783,844
iv) Provision Against Standard Assets	1,387,390	1,254,490
v) Other (Including Provisions)	4,688,573	3,371,776
TOTAL (I to V)	**10,696,762**	**11,020,157**
SCHEDULE 6 - CASH & BALANCES WITH RESERVE BANK OF INDIA		
I. Cash in Hand (Including Foreign Currency Notes)	1,520,490	1,173,070
II. Balance with Reserve Bank of India		
i) In Current Account	21,509,015	31,026,597
ii) In Other Accounts	–	–
TOTAL	**23,029,505**	**32,199,667**

SCHEDULES

to the Consolidated Balance Sheet as at 31st March, 2009

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 7 - BALANCE WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. In India		
i) Balance with Banks		
a) In Current Accounts	431,962	533,415
b) In Other Deposit Accounts	4,064,034	571,876
TOTAL (i)	**4,495,996**	**1,105,291**
ii) Money At Call and Short Notice		
a) With Banks	25,133,125	11,020,861
b) With Other Institutions	–	–
TOTAL (ii)	**25,133,125**	**11,020,861**
TOTAL (i & ii)	**29,629,121**	**12,126,152**
II. Outside India		
i) In Current Accounts	88,994	46,591
ii) In Other Deposit Accounts	–	–
iii) Money at Call & Short Notice	–	–
TOTAL II of (i , ii & iii)	**88,994**	**46,591**
GRAND TOTAL (I & II)	**29,718,115**	**12,172,743**
SCHEDULE 8 - INVESTMENTS		
I. Investments in India		
Gross	108,091,335	87,956,077
Less: Provision for Depreciation	777,988	379,446
Net Investments	107,313,347	87,576,631
i) Government Securities	76,051,941	69,362,971
ii) Other Approved Securities	208,608	370,821
iii) Shares (Pref. + Equity)	493,678	606,559
iv) Debentures and Bonds (incl Suitfile)	11,009,595	9,470,566
v) Sponsored Institutions and Joint Venture	2,423,774	2,300,930
vi) Others		
a) Certificate of Deposit	5,005,117	–
b) Mutual Funds	483,517	1,097,409
c) SIDBI	2,579,975	–
d) NABARD	992,450	–
e) Inv. In Subsidiary	–	–
f) Rural Housing Development	739,325	–
g) Commercial Paper	391,563	–
h) Rural Infrastructure Development Fund (NABARD)	6,933,804	4,367,375
TOTAL (I)	**107,313,347**	**87,576,631**
II. Investments Outside India		
i) Government Securities	Nil	Nil
ii) Subsidiaries and/or Joint Ventures abroad	Nil	Nil
iii) Others (Swap)	Nil	Nil
TOTAL (II)	**–**	**–**
TOTAL (I & II)	**107,313,347**	**87,576,631**
III. Investments Category-Wise		
a) Held to Maturity	79,461,496	63,791,288
b) Held for Trading	774,081	223,609
c) Available for Sale	27,077,770	23,561,734
TOTAL (a+b+c)	**107,313,347**	**87,576,631**

Particulars			As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 9 - ADVANCES				
A	i)	Bills Purchased and Discounted	6,378,546	7,141,458
	ii)	Cash Credits, Overdrafts and Loans Repayable on Demand	65,382,376	65,465,188
	iii)	Term Loans	137,543,191	116,219,472
	TOTAL		**209,304,113**	**188,826,118**
B	i)	Secured by Tangible Assets	182,772,746	152,087,302
	ii)	Covered by Bank/Govt. Guarantees	6,967,848	11,461,531
	iii)	Unsecured	19,563,519	25,277,285
	TOTAL		**209,304,113**	**188,826,118**
C	**I.**	**Advances in India**		
		i) Priority Sector	73,459,471	48,743,293
		ii) Public Sector	11,325,520	35,844,576
		iii) Banks	59,032	3,041,128
		iv) Others	124,460,090	101,197,121
	TOTAL		**209,304,113**	**188,826,118**
	II.	**Advances Outside India**		
		i) Due from Banks	Nil	Nil
		ii) Due from Others	Nil	Nil
GRAND TOTAL (I & II)			**209,304,113**	**188,826,118**
SCHEDULE 10 - FIXED ASSETS				
I.	**Premises**			
	a)	Gross Block at the beginning of the year	1,734,002	1,718,932
		Additions during the year	103,869	15,076
			1,837,871	**1,734,008**
	Deductions during the year		–	–
	TOTAL (a)		**1,837,871**	**1,734,008**
	Depreciation to date		824,862	742,709
			1,013,009	**991,299**
	b)	Advance against flats	–	–
	c)	Constructions work in progress	31,261	97,852
	TOTAL (I) [a+b+c]		**1,044,270**	**1,089,151**
II.	**Other Fixed Assets**			
	(Including Furniture & Fixtures)			
	Gross Block at the beginning of the year		2,979,147	2,617,327
	Additions during the year		371,733	365,643
			3,350,880	**2,982,970**
	Deductions during the year		9,774	3,823
			3,341,106	**2,979,147**
	Depreciation to date		2,391,234	2,148,283
	TOTAL (II)		**949,873**	**830,864**
GRAND TOTAL (I & II)			**1,994,143**	**1,920,015**

SCHEDULES

to the Consolidated Balance Sheet as at 31st March, 2009

Particulars	As at 31.03.2009 (Rs. '000' Omitted)	As at 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 11 - OTHER ASSETS		
I. Interest Accrued but not Due	2,104,547	1,753,906
II. Interest Accrued and Due	1,624	3,290
III. Inter Office Adjustment (Net)	–	–
IV. * Tax paid in Advance/Tax Deducted at Source (Net of Provisions)	717,738	539,670
V. Stationery and Paper in Hand	22,923	27,159
VI. Deferred Tax Asset	96,915	64,388
VII. Others	2,579,590	2,476,284
TOTAL	**5,523,336**	**4,864,697**
* Includes both IncomeTax as well as Fringe Benefit Tax		
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. Claims against the Bank not acknowledged as debts	197,588	131,644
II. Liability for partly paid investments	90,000	–
III. Liability on account of outstanding Forward Exchange Contracts	54,434,589	69,961,442
IV. Guarantees given on behalf of constituents		
a) In India	9,527,030	8,872,881
b) Outside India	33,670	41,219
V. Acceptances, Endorsements & Other Obligations	25,537,000	33,052,200
VI. Other items for which the Bank is Contingently liable	1,589,300	584,900
TOTAL	**91,409,177**	**112,644,286**

SCHEDULES

to the Consolidated Profit & Loss Account for the year ended 31st March, 2009

Particulars	Year Ended 31.03.2009 (Rs. '000' Omitted)	Year Ended 31.03.2008 (Rs. '000' Omitted)
SCHEDULE 13 - INTEREST EARNED		
I. Interest/Discount on Advances/Bills	22,949,060	18,775,582
II. Income on Investments	6,619,990	5,413,497
III. Interest on Balances with R.B.I and Other Inter-Bank Funds	312,147	153,225
TOTAL	**29,881,197**	**24,342,304**
SCHEDULE 14 - OTHER INCOME		
I. Commission, Exchange & Brokerage	834,216	832,384
II. Profit on Sale of Investments (Less loss on sale of investments)	791,380	901,555
III. Profit on revaluation of Investments (Less loss on revaluation of investments)	(164,226)	(183,280)
IV. Profit on Sale of Land, Buildings & Other Assets	–	–
V. Profit on Exchange Transactions (Less Loss on E/Transactions)	146,704	120,317
VI. Income earned by way of Dividends etc. from Subsidiaries, Companies and/or Joint Venture abroad/in India	267,966	214,073
VII. Miscellaneous Income	574,499	565,084
TOTAL	**2,450,539**	**2,450,133**
SCHEDULE 15 - INTEREST EXPENDED		
I. Interest on Deposits	19,147,916	15,727,574
II. Interest on RBI/Inter-Bank Borrowings	730,685	510,343
III. Others	11	–
TOTAL	**19,878,612**	**16,237,917**
SCHEDULE 16 - OPERATING EXPENSES		
I. Payments to and Provisions for the Employees	2,787,748	2,257,713
II. Rent, Taxes and Lighting	307,565	269,709
III. Printing and Stationery	45,376	45,134
IV. Advertisement and Publicity	73,622	77,225
V. Depreciation on Bank's Property	325,109	321,615
VI. Directors Fees, Allowances and Expenses	2,591	2,615
VII. Auditors Fees & Expenses (Including Branch Auditor's Fees & Expenses)	56,448	56,124
VIII. Law Charges	10,718	9,567
IX. Postage, Telegrams, Telephones etc.	49,864	46,226
X. Repairs and Maintenance	64,532	78,634
XI. Insurance	221,467	179,362
XII. Other Expenditure	763,676	692,217
TOTAL	**4,708,715**	**4,036,141**

SIGNIFICANT ACCOUNTING POLICIES AND NOTES ON ACCOUNTS

1. BASIS OF PREPARATION

The financial statements have been prepared on historical cost basis and conform in all material aspects to Generally Accepted Accounting Principles (GAAP) in India, which encompasses applicable statutory provisions, regulatory norms prescribed by Reserve Bank of India (RBI), Accounting Standards and pronouncements issued by Institute of Chartered Accounts of India (ICAI) and prevailing practices in Banking Industry of India.

2. CONSOLIDATION PROCEDURE

Consolidated Financial Statements of the J & K Bank and its Subsidiary viz JKB Financial Services Ltd have been prepared on the basis of

i. their audited financial statements in accordance with the AS-21 " Consolidated Financial Statements issued by the Institute of Chartered Accounts of India

ii. Line by line aggregation/ combination of like items of assets and liabilities, income and expenses after eliminating material intra group balances/ transactions, unrealized profits /losses and making necessary adjustments wherever required to conform to the uniform accounting policies. The financial statements of the subsidiary have been drawn up to the same reporting date as that of parent.

iii. Minority Interest in the net results of the operations and net assets represents the part of profit/loss and net assets not owned by the parent and consists of

a) The amount of equity attributable to the minority at the date on which the investment in subsidiary is made and

b) The minority share of movements in equity since date of parent – subsidiary relationship came into existence.

A. SIGNIFICANT ACCOUNTING POLICIES FOLLOWED BY THE PARENT

1. Accounting Conventions

The accompanying financial statements are prepared by following the going concern concept and on the historical cost basis unless otherwise stated and conform to the statutory provisions and practices prevailing within the Banking Industry in the country.

2. Transactions involving Foreign Exchange

i) Monetary Assets and Liabilities as on balance sheet date have been translated using closing rate as at year end announced by Foreign Exchange Dealers Association of India.

ii) Exchange differences arising on settlement of monetary items have been recognised as income or as expense in the period in which they arise.

iii) The premium or discount arising at the inception of a forward exchange contract, which is not intended for trading or speculation purpose has been amortised as expense or income as on the balance sheet date.

3. Investments

The investment portfolio of the Bank (SLR & Non SLR securities) is classified into three categories in accordance with the RBI guidelines viz,

a) Held to maturity

b) Available for sale.

c) Held for trading.

For disclosure in Balance sheet, the investments are disclosed as per the existing six classifications viz,.

i. Government Securities,

ii. Other approved securities,

iii. Shares,

iv. Debentures and Bonds,

v. Investment in Subsidiaries and Joint Venture,

vi. Others (CP, CD, Mutual fund units, RIDF etc.).

The valuation has been carried out as per RBI guidelines more specifically detailed hereunder:

i) Investments classified under "Held to maturity" category are carried at acquisition cost and not marked to market. Any premium on acquisition is amortized over the remaining period of the security on a straight-line basis.

ii) The individual scrips in the "Available for sale" and "Held for trading" category are marked to market at the rate provided by FIMMDA/ PDAI on quarterly and monthly intervals respectively. While the net depreciation under each classification is recognized and fully provided for, the net appreciation under each classification is ignored.

Other Investments:

a) Investments in sponsored institutions are valued at carrying cost and shares of other companies which are neither quoted on stock exchanges nor the latest balance sheet is available are valued at rupee one per company.

b) Debentures and bonds are valued at market price, if quoted, otherwise at appropriate YTM published by FIMMDA/ PDAI.

c) Treasury Bills and Commercial papers are valued at carrying cost.

d) Units of Mutual funds are valued at market price, if quoted, otherwise at lower of re-purchase price or Net Asset Value (NAV).

Profit and loss on sale of investment from AFS and HFT category is recognized in profit and loss account. However, in case of profit on sale of investment under HTM category, an equivalent amount of profit is appropriated to capital reserve account.

4. Advances

i) Classification of Advances and Provisions thereof have been made as per the Income Recognition and Asset Classification norms formulated by the RBI viz, Standard, Sub-Standard, Doubtful and Loss Assets and accordingly requisite provisions have been made thereof.

ii) Advances are shown net of provisions required for NPA's. Provisions for advances classified as Standard Assets is shown under Other Liabilities & Provisions.

5. Fixed Assets

a) Premises and other fixed assets are accounted for at historical cost.

b) Premises include free hold as well as lease hold properties.

c) Premises include capital work in progress.

d) Depreciation is provided on diminishing balance method in accordance with the provisions of Income Tax Act 1961, as per the rates prescribed in Income Tax Rules given below: -

S.No.	Heads	Rates
A	Furniture & Fixtures (including electric fittings)	10%
B	Wooden partitions	100%
C	Vehicles	15%
D	Plant & Machinery	15%
E	Premises	
	i) Office Premises	10%
	ii) Residential & STC buildings	5%

e) However, in terms of RBI guidelines depreciation on computers (including ATMs) along with major softwares is charged at the rate of 33.33% on straight-line method for the full year even if the computers (including ATMs) have been purchased during the second half. The same treatment of depreciation has been given to the Mobile Phones. In respect of Computer software, not forming integral part of computers, acquisition cost has been charged fully in the year of purchase. The expenditure incurred towards furniture & fixture on building (M-6G) being used as Chairman's residence has been treated as asset of the Bank under this head. The expenditure on repairs and renovation of this building has been charged to revenue, as the building is not owned by the Bank, hence not capitalized.

f) Depreciation on additions to Assets made upto 30th September of the year is provided for at full rates and on additions thereafter at 50% of the rates. No depreciation is provided on assets sold/ discarded during the year.

g) Leasehold properties are amortized over the period of lease.

6. Employees Benefits

i) Short-term employee benefits are charged to revenue in the year in which the related service is rendered.

ii) In respect of employees who have opted for provident fund scheme matching contribution is made.

iii) Contribution to Defined Benefit Plans (Gratuity, Pension and Leave Encashment) has been made as per AS 15 (Revised 2005) issued by the Institute of Chartered Accountants of India. The Bank has opted an irrevocable choice to recognize the increase in its defined benefit liability determined as per Actuarial valuation as an expense on a straight-line basis over a period of five years from 01.04.2007.

7. Voluntary Retirement Scheme Expenditure (VRS)

The expenditure incurred on VRS has been amortized equally over a period of five years in conformity with RBI guidelines.

8. Income Recognition and Expenditure booking

Income and expenditure is accounted for on accrual basis unless otherwise stated.

a) Interest and other income on advances/ investments classified as Non Performing Assets/ investments are recognized to the extent realized in accordance with guidelines issued by the Reserve Bank of India.

b) Recovery in Non Performing Assets is appropriated first towards the interest and there after towards principal/ arrears of asset.

c) Interest on overdue term deposits is provided at Savings Bank Rate of Interest.

d) Fee, commission (other than insurance commission), exchange, locker rent and insurance claims are recognized on realization basis.

e) Income from interest on income tax/ other tax refunds is accounted for on the basis of orders passed by the Competent Authorities.

f) Unforeseen income/ expenses are accounted for in the year of receipt/ payment.

g) Stationery issued to branches has been considered as consumed.

9. Credit Card reward Points

The Bank has estimated the probable redemption of reward points by not using actuarial method but has made 100% provision for redemption against the loyalty points as on close of balance on 31.03.2009.

10. Profit

The net profit is disclosed in the profit and loss account after providing for:

i) Income-Tax, wealth tax, Fringe Benefit Tax and Deferred Tax.

ii) Standard Assets, Non Performing Advances/ Investments as per RBI guidelines

iii) Depreciation/ amortization on Investments

iv) Transfer to contingency reserves.

v) Other usual and necessary provisions.

11. Taxation

Tax expense include current tax, Fringe Benefits Tax and Deferred Tax determined in accordance with the provisions of Income/Wealth Tax Act, 1961 and the accounting standards issued by The Institute of Chartered Accountants of India.

The deferred tax charge or credit is recognized using the tax rates that has been enacted or substantially enacted by the balance sheet date. In terms of accounting standard 22 issued by ICAI, provision for deferred tax liability is made on the basis of review at each balance sheet date and deferred tax assets are recognized only if there is virtual certainty of realization of such assets in future. Deferred Tax Assets/ Liabilities are reviewed at each balance sheet date based on developments during the year.

12. Contingency Funds

Contingency funds have been grouped in the Balance Sheet under the head "Other Liabilities and Provisions".

B. NOTES ON ACCOUNTS

The subsidiary considered in the preparation of the consolidated financial statements

Name of the Subsidiary Company	:	JKB Financial Services Ltd
Country of incorporation	:	India
Voting Power held	:	99.97%

- The Subsidiary Company has not started commercial operations pending clearance from stock exchange, though certificate of commencement of business has been obtained w.e.f 07.11.2008 from Registrar of companies J&K. The Company has accordingly prepared profit & loss account for the period 27.08.08 to 31.03.2009(The amount of expenses/loss not being material / substantial, the Company has not prepared any preoperative account.
- Preliminary expenditure includes expenses incurred prior to incorporation period and has been paid by its parent entity.

Disclosures required by accounting standards

1. ACCOUNTING STANDARD 5 – NET PROFIT OR LOSS FOR THE PERIOD, PRIOR PERIOD ITEMS AND CHANGES IN ACCOUNTING POLICIES

   There are no material Prior Period items included in Profit & Loss Account required to be disclosed as per Accounting Standard–5 read with RBI Guidelines.

2. ACCOUNTING STANDARD 9- REVENUE RECOGNITION

   There are no material items of income, which are required to be disclosed as per Accounting Standard – 9, read with RBI guidelines.

3. ACCOUNTING STANDARD 15 – RETIREMENT BENEFITS

   a) Total VRS liability of the Bank amounting to Rs. 39.83 Crores has been fully amortized equally in five years in terms of RBI guidelines..

   b) In view of Accounting Standard 15 (Revised 2005) issued by The Institute of Chartered Accountants of India, the Bank in respect of its Defined Benefit Plans (Pension, Gratuity, and Leave Encashment) on first adopting this statement as on 01-04-2007, has a transitional Liability of Rs. 149.70 crores as per Actuarial Valuation. The 1/5th of this liability on a straight-line basis amounting to Rs. 29.94 crores has been recognized as an expense during the year 2008-09 (2nd year) and the remaining unrecognized amount of Rs. 89.82 crores is spread over to next three years.

c) The disclosures required under Accounting Standard 15 "Employee Benefits"- issued by The Institute of chartered Accountants of India are as under:

Defined Contribution Plan

Contribution to Defined Contribution Plan, recognized are charged off for the year are as under:

(Rs.)

Particulars	
Employer's Contribution to Provident Fund	58305191.67

Defined Benefit Plans

The Employee's Gratuity Fund Scheme, Pension Fund and Leave Encashment are defined benefit plans.

In view of Accounting Standard 15 (Revised 2005) issued by The Institute of Chartered Accountants of India , the Bank in respect of its Defined Benefit Plans(Pension, Gratuity ,and Leave Encashment) on first adopting this statement as on 01-04-2007, has a transitional Liability of Rs. 149.70 crores as per Actuarial Valuation. The 1/5th of this liability on a straight-line basis amounting to Rs. 29.94 crores has been recognized as an expense during the year 2008-2009 and the remaining unrecognized amount of Rs. 89.82 crores is spread over to next three years.

The present value of obligation is determined based on Actuarial Valuation using the Projected Unit Credit Method, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation.

CHANGES IN THE PRESENT VALUE OF THE OBLIGATION AND IN THE FAIR VALUE OF THE ASSETS

Present value of Obligation	Gratuity Funded	Pension Funded	Leave Encashment un funded
Present Value Of obligation 01-04-2008	910381276	3345934225	371206199
Interest Cost	70836276	261993831	29080866
Current Service Cost	40959874	260721638	21402466
Past Service Cost	0	0	0
Benefits Paid	(49855648)	(142022669)	(15390754)
Actuarial (gain) loss on Obligation	(85259390)	(280357442)	(43756940)
Present Value Of obligation 31-03-2009(Projection)	887062388	3446269583	362541837
Fair value of plan Assets 01-04-2008	585905820	2964251723	0
Expected Return On plan assets	49166406	242599932	0
Contributions	57190033	110812618	15390754
Benefits Paid	(49855648)	0	(15390754)
Actuarial gain (Loss) Plan Assets	847729	(216917689)	0
Fair value of plan Assets 31-03-2009	643254340	3100746584	0
Total Actuarial gain (loss) to be recognized	86107119	63439753	43756940
Balance Sheet Recognition			
Present Value Of Obligation	887062388	3446269583	362541837
Fair Value Of Plan Assets	(643254340)	(3100746584)	0
Liability (assets)	243808048	345522999	362541837
Unrecognized Past Service Cost	0	0	0
Liability (asset) recognized in the Balance Sheet**	243808048	345522999	362541837
Less: Liability already recognized	0	0	100405735
Plus : 1/5th Amortized Transitional Liability Total of three plans : Rs 299402918	89095141	152255772	58052005
Less: Transition Remaining Total of three plans : Rs. 898208754	267285423	456767315	174156016
Current Year Liability/(Asset) Total of three plans: Rs. 252661313	65617766	41011456	146032091
Profit & Loss – Expenses			
Current Service Cost	40959874	260721638	21402466
Interest Cost	70836276	261993831	29080866
Expected Return On plan assets	(49166406)	(242599932)	0
Net Actuarial gain (loss) recognized in the year	(86107119)	(63439753)	(43756940)
Past Service Cost	0	0	0
Expenses Recognized in the statement of Profit & Loss	(23477375)	(216675784)	6726392
Actual Return on Plan Assets			
Expected Return on plan assets	49166406	242599932	–
Actuarial gain (Loss) plan assets	847729	(216917689)	–
Actual Return on plan assets	50014135	25682243	–
Movement in the net Liability recognized in the Balance Sheet			
Opening net Liability	324475456	381682502	371206199
Expenses	(23477375)	216675784	6726392
Contribution	(57190033)	(252835287)	(15390754)
Closing Net Liability	243808048	345522999	362541837
Actuarial Assumption			
Mortality Table (L.I.C.)	1994-96 Ultimate	1994-96 Ultimate	1994-96 Ultimate
Discount Rate (Per Annum)	8%	8%	8%
Expected rate of return on plan assets (p.a.)	8%	8%	N.A
Rate of escalation in salary	5%	5%	5%
Disability	Nil	Nil	Nil
Attrition	1%p.a	1%p.a	1%p.a
Retirement age	60 years	60years	60years

The above information is certified by the actuary

4. ACCOUNTING STANDARD 17 – SEGMENT REPORTING

i) The Bank has recognized business segment as its primary reportable segment under AS-17 classified into treasury, Corporate/ Wholesale banking, Retail banking and other banking Business. The necessary disclosure is given below:-

(Rs. in crores)

Description	31.3.2009	31.3.2008
A. Segment Revenue (Income)		
i) Treasury Operations	773.42	643.58
ii) Corporate/Whole sale Banking	980.71	939.05
iii) Retail Banking	1,450.86	1,072.57
iv) Other Banking Business	28.17	24.04
TOTAL INCOME FROM OPERATIONS	**3,233.16**	**2,679.24**
B. Segment Results (Profit before tax)		
i) Treasury Operations	(34.31)	0.09
ii) Corporate /Wholesale Banking	266.10	301.19
iii) Retail Banking	374.17	252.59
iv) Other Banking Business	26.14	22.11
TOTAL PROFIT BEFORE TAX	**632.09**	**575.98**
C. Segment Assets		
i) Treasury Operations	14,067.16	10,393.56
ii) Corporate/Wholesale Banking	11,824.62	11,170.75
iii) Retail Banking	11,797.46	11,187.85
iv) Other Banking Business	4.02	3.83
TOTAL	**37,693.26**	**32,755.99**
D. Segment Liabilities		
i) Treasury Operations	2,360.77	2,357.93
ii) Corporate/wholesale Banking	10,883.34	9,536.27
iii) Retail Banking	24,449.11	20,861.76
iv) Other Banking Business	0.04	0.03
TOTAL	**37,693.26**	**32,755.99**
E. Net Segment Assets/Liabilities		
i) Treasury Operations	11,706.39	8,035.62
ii) Corporate /Wholesale Banking	941.28	1,634.49
iii) Retail Banking	(12,651.65)	(9,673.91)
iv) Other Banking Business	3.98	3.80
TOTAL	**0.00**	**0.00**

ii) As the Bank does not have any overseas branch there is no requirement as to reporting of geographical segment

5. ACCOUNTING STANDARD 18 – RELATED PARTY DISCLOSURES

Figures as at 31.03.2009 (Rs. in crores)

Items/Related Party	Kamraz Rural Bank (Associates)	Jammu Rural Bank (Associates)	JKB Financial Services Ltd.
Deposits	137.45	430.00	Nil
Advances	3.07	Nil	Nil
Investments	16.62	5.48	5.00
Interest Paid	0.09	Nil	Nil
Interest/Commission Received	5.17	36.30	Nil
Salary	Nil	Nil	Nil

Items/Related Party	K.M.P Dr. H. A. Drabu (Chairman)	K.M.P Mr. A. K. Mehta (ED)	K.M.P Mr. Abdul Majid Mir (ED)
Advances	0.2547	0.0366	0.0398
Investments	Nil	–	–
Interest paid	0.0235	0.0031	0.0028
Interest/Comm Received	0.0019	–	–
Salary	0.3748	0.1036	0.0988

Bank is holding 35% each in Jammu Rural Bank & Kamraz Rural Bank and 100% in JKB Financial Services Ltd.

K.M.P (Key Management Personnel)

6. ACCOUNTING STANDARD 20 – EARNING PER SHARE

(Rs. in crores)

Particulars	31.3.2009	31.3.2008
Net Profit available to Equity Share Holders	409.84	360.00
Weighted Average No. of Equity Shares	48477802	48477802
Basic Earning per share (in Rupees)	84.54	74.26

7. ACCOUNTING STANDARD –21 (CONSOLIDATED FINANCIAL STATEMENTS)

The Bank has a fully owned subsidiary company "JKB Financial Services Ltd." in terms of the approval of Reserve Bank of India vide its letter No DBOD.FSD.No./1124/24.01.001/2007-08 dated July 31,2007. The investment towards the capital of subsidiary company is Rs. 5.00 Crores. The consolidated financial statements are placed accordingly in terms of AS 21 issued by the Institute of Chartered Accountants of India.

8. ACCOUNTING STANDARD 22 – ACCOUNTING FOR TAXES ON INCOME

The Bank has accounted for Income Tax in compliance with Accounting Standard 22 accordingly deferred Tax assets and liabilities are recognized.

(Rs in thousands)

Timing Difference	DTA	DTL
Depreciation on Assets	Nil	3725
Leave encashment	1,00,640	Nil

Net DTA	96915
Tax Impact	32527

9. ACCOUNTING STANDARD 26-INTANGIBLE ASSETS

The Bank has incurred an amount of Rs. 0.66 crores on Brand names bifurcated into two heads namely Business Unit Signage and Brand Strategy Project. Expenditure on Business Unit Signage amounting to Rs. 0.60 crores has been debited under the head Furniture & Fixture, whereas, Brand strategy project expenses amounting to Rs.0. 06 crores has been charged to Profit & Loss account treating it as a Revenue expenditure for the reason that the Bank cannot declare dividend to shareholders without writing it off completely in view of the provisions of the Banking Regulation Act, 1949. Accordingly, the Bank has not evaluated useful life of this Brand strategy project over which the expenses could be amortized.

10. ACCOUNTING STANDARD 28 – IMPAIRMENT OF ASSETS

Majority of Fixed Assets of the Bank are considered as Corporate Assets and not cash generating assets and in the opinion of Management there is no material impairment in these Fixed Assets. Regarding other Fixed Assets generating cash there is no material impairment. As such no provision is required as per AS-28 issued by ICAI.

11. ACCOUNTING STANDARD 29- PROVISIONS AGAINST CONTINGENT LIABILITIES AND CONTINGENT ASSETS

In respect of Contingent Liabilities under each class shown as per Schedule 12, in the opinion of the Management, the possibility of any out flow in settlement is remote hence no provision is required to settle the obligations. Further as the Bank does not have any overseas subsidiary no letter of comfort has been issued.

12. OTHER DISCLOSURES

12.1 Foreign Exchange

a) The net funded exposure of the Bank in respect of Foreign Exchange transactions with each country is within 1% of the Total Assets of the Bank and hence no Provision and Disclosure is required to be made as per the RBI Circular No. 96/21.04.103/2003 dated: 17.06.2004.

b) Claims pending with ECGCI amounts to Rs. 21.52 Crores (Previous year Rs. 8.08 Crores)

12.2

a) Commission, exchange and brokerage under the head other income of schedule 14 to Profit and Loss Account includes a sum of Rs.18.97 crores (net of Rs. 8.03 crores excess booked as per RBI guidelines in the financial year 2005-06) booked on an estimated basis on handling of Govt. business and for transactions of pension disbursements of State Govt. of Jammu & Kashmir for the year subject to reconciliation in terms of MOU signed with Govt. of Jammu & Kashmir on 21.08.2008.

b) The Govt. of Jammu & Kashmir has objected to charge of commission on Govt. business/ pension disbursement and sought refund along with interest for the period prior to 01.08.2008 ignoring its earlier letter number FD/BKG/137/2008 dated 29.05.2008 as the desired para to charge such commission for the years 2005-06, 2006-07and period 1.4.07 to 20.08.2008, finds no place in the MOU presently signed with Govt. of Jammu & Kashmir in this behalf.

The Bank has disputed the claim vide its letter No. S&BD/534/2009-50 dated May 14,2009 that the commission has been charged at the rates which have been specified for such transactions by Reserve Bank of India and after the concurrence of Govt. pending formal MOU in this regard. The management of the Bank is of the firm opinion that the present MOU has to be read along with the aforementioned letter dated 29.05.2008 issued by the Govt. in this behalf.

The commission which has been booked in the period prior to 21.08.08 is Rs. 80.04 crores and the interest element upto 31.03.2009 on an estimate works out to Rs. 31.14 Crores.

12.3

a) The Bank has forfeited Rs 2809.05 lacs received from the State Government of Jammu & K as 10% of the advance payment for subscribing to 4092140 convertible share warrants allotted by way of preferential allotment on 15.09.2007. Since the right to convert the share warrants in equity share warrants was not exercised by the State Government within the stipulated time i-e before 15th march 2009 , nor the balance amount has been paid , the advance amount of 10 % received against these share warrants amounting to Rs. 2809.50 Lacs has been forfeited in Board Meeting dated 14.03.2009 and transferred to Capital Reserve Account consequent upon cancellation of share warrants allotted to the State Government.

b) The proposed issue of GDR, has been deferred due to prevailing market conditions and expenditure incurred on the issue has been charged to Revenue.

12.4 Hitherto the Bank has been paying interest on overdue term deposits as and when such deposits were renewed. However from current year the bank has changed its policy of charging interest on overdue term deposits in conformity with guidelines of Reserve Bank of India. Accordingly the bank has provided interest of Rs.5.27 Crores on overdue term deposit in CBS branches and adhoc interest of Rs. 0.20 Crores in case of Non-CBS branches. The change in accounting policy has reduced the Profits by Rs.5.47 Crores.

Movement in provision for credit card reward point is set out below

(Rs. in crores)

Particulars	
Opening Provision balance as on 01.04.2008	0.23
Provisions made during the year 2008-09	0.19
Redemption made during the year	0.15
Closing balance at the end of year	0.27

13. The Principal Accounting Policies (Schedule 17) and Notes on Accounts (Schedule 18) form an integral part of these Accounts.

14. Previous year figures have been regrouped / rearranged where ever necessary and possible to conform to current year figures.

Sd/-
(Haseeb A. Drabu)
Chairman & CEO

Sd/-
(M. S. Verma)
Director

Sd/-
(G. P. Gupta)
Director

Sd/-
(A. K. Mehta)
Executive Director

Sd/-
(Abdul Majid Mir)
Executive Director

Sd/-
(B. L. Dogra)
Director

Sd/-
(G. M. Dug)
Director

Sd/-
(Parvez Ahmed)
President & Company Secretary

Sd/-
(Shafat A. Bandey)
Vice President

Place : Srinagar
Dated : 31st May, 2009

In terms of our report of even date annexed

For Gupta Gupta & Associates
Chartered Accountants
Sd/-
(CA. Rakesh K. Gupta)
Partner
M.No. 093301

For Verma Associates
Chartered Accountants
Sd/-
(CA. Madan Verma)
Partner
M.No. 081631

For Baweja & Kaul
Chartered Accountants
Sd/-
(CA. Samvit K. Gurtoo)
Partner
M.No. 090758

Place : Srinagar
Dated : 31st May, 2009

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st March, 2009

Particulars			Year Ended 31.03.2009 (Rs. '000' Omitted)	Year Ended 31.03.2008 (Rs. '000' Omitted)
CASH FLOW FROM OPERATING ACTIVITIES			9,653,551	9,013,273
CASH FLOW FROM INVESTING ACTIV ITIES			-399,231	-407,179
CASH FLOW FROM FINANCING ACTIVITIES			-879,108	-371,289
NET CHANGE IN CASH AND CASH EQUIVALENTS			8,375,210	8,234,805
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			44,372,410	36,137,605
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR			52,747,620	44,372,410
A	CASH FLOW FROM OPERATING ACTIVITIES			
	a)	Interest received during the year from Advances/Investments	29,532,221	24,046,724
	b)	Other Income	2,450,539	2,450,133
	c)	Interest paid on deposits etc.	-19,689,782	-16,042,595
	d)	Operating expenses including Provisioning & Contingencies	-6,132,237	-4,794,726
	e)	Adjustment for depreciation	325,109	321,615
	TOTAL (a to e)		**6,485,852**	**5,981,152**
	f)	Deposits	44,058,406	33,989,683
	g)	Borrowings	2,448,404	1,315,966
	h)	Investments	-19,736,716	-13,654,701
	i)	Advances	-20,477,995	-18,026,697
	j)	Other liabilities & provisions	-592,090	2,364,867
	k)	Other Assets	-99,069	-820,343
	TOTAL (a to k)		**12,086,792**	**11,149,926**
	l)	Less Tax Paid	2,433,241	2,136,653
	TOTAL (A)		**9,653,551**	**9,013,273**
B	CASH FLOW FROM INVESTING ACTIVITIES :			
	a)	Fixed Assets	-399,231	-407,179
	b)	Investment in Sponsored Institutions.	0	0
	TOTAL (B)		**-399,231**	**-407,179**
C	CASH FLOW FROM FINANCING ACTIVITIES			
	a)	Share Capital	0	1
	b)	Equity Share Warrants	0	280,950
	c)	Dividend & Divident Tax Paid	-879,108	-652,240
	TOTAL (C)		**-879,108**	**-371,289**
D	CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR			
	a)	Cash in hand & Balance with R.B.I	32,199,667	18,547,684
	b)	Balance with Banks & Money at Call & Short Notice	12,172,743	17,589,922
	TOTAL (D)		**44,372,410**	**36,137,606**

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31st March, 2009

Particulars		Year Ended 31.03.2009 (Rs. '000' Omitted)	Year Ended 31.03.2008 (Rs. '000' Omitted)
E	CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		
	a) Cash in hand & Balance with R.B.I	23,029,505	32,199,667
	b) Balance with Banks & Money at Call & Short Notice	29,718,115	12,172,743
	TOTAL (E)	**52,747,620**	**44,372,410**

Note:

This statement has been prepared in accordance with direct method.

Sd/- (Haseeb A. Drabu) Chairman & CEO	Sd/- (M. S. Verma) Director	Sd/- (G. P. Gupta) Director
Sd/- (A. K. Mehta) Executive Director	Sd/- (Abdul Majid Mir) Executive Director	Sd/- (B. L. Dogra) Director
Sd/- (G. M. Dug) Director	Sd/- (Parvez Ahmad) President & Company Secretary	Sd/- (Shafat A. Bandey) Vice President

Place : Srinagar
Dated : 31st May, 2009

The above cash flow statement has been taken on record by the Board of Directors in its meeting held on 31.05.2009 at Srinagar.

Sd/-
President & Company Secretary

AUDITORS' CERTIFICATE

We have verified the attached Cash Flow Statement of THE JAMMU & KASHMIR BANK LIMITED which has been compiled from and is based on the Audited Financial Statements for the year ended March 31, 2009 and March, 31, 2008. To the best of our knowledge and belief and according to the information and explanations given to us, it has sbeen prepared pursuant to clause 32 of the Listing Agreement with the Stock Exchanges.

	For Gupta Gupta & Associates Chartered Accountants	For Verma Associates Chartered Accountants	For Baweja & Kaul Chartered Accountants
Place : Srinagar Dated : 31st May, 2009	Sd/- (CA. Rakesh K. Gupta) Partner M.No. 093301	Sd/- (CA. Madan Verma) Partner M.No. 081631	Sd/- (CA. Samvit K. Gurtoo) Partner M.No. 090758

TABLE -1 : SCOPE OF APPLICATION

Qualitative disclosure	
a) The name of the top bank in the group to which the Framework applies.	a) The Jammu and Kashmir Bank Ltd.
b) An outline of differences in the base of consolidation for accounting and regulatory purposes, with a brief description of the entities within the group: i) That are fully consolidated; ii) That are pro-rata consolidated; iii) That are given a deduction treatment and iv) that are neither consolidated nor deducted (e.g. where the investment is risk weighted).	b) JKB Financial Services Ltd. Sponsored by the bank has been fully consolidated in line with the RBI guidelines and accounting standards issued by ICAI. i) JKB Financial Services Ltd. with 100% holding. ii) Nil iii) JRB & KRB (two regional rural banks) iv) MetLife India

Quantitative disclosure	
c) The aggregate amount of capital deficiencies in all subsidiaries not included in the consolidation i.e. that are deducted and the name(s) of such subsidiaries in the group:	c) Entire investment in JRB, KRB (the two sponsored Regional Rural Banks) and JKB Financial Services Ltd. is deducted from Tier-I Capital of the bank for capital adequacy calculation.
d) The aggregate amount (e.g. current book value) of the bank's total interests in the insurance entities, which are risk weighted as well as their name, their country of incorporation or Residence, the proportion of ownership interest and if different, the proportion or voting, power in these entities. In addition, indicate the quantitative impact on regulatory capital of using this method versus using deduction.	d) The Bank has invested in the capital of MetLife India Co. ltd., which is incorporated in India and has head office in India. Our stake in MetLife India is to the order of (13.94%). This entire investment is taken as Capital Market exposure as per RBI guidelines carrying RW of 125%. Bank has got two representatives on MetLife board enjoying equal voting rights. The company's address is: MetLife India Insurance Company Ltd Brigade Seshamahal 5, Vani Vilas Road Basavangudi Bangalore - 560004

TABLE -2 : CAPITAL STRUCTURE

Qualitative disclosure	
a) Summary information on the terms and conditions of the main features of all capital instruments, especially in the case of capital instrument eligible for inclusion of tier 1 or in the upper tier 2.	a) The Bank has not issued any capital or debt instruments eligible for inclusion in Tier 1 or Tier 2 Capital of the Bank.

Quantitative disclosure			(Rs. in crores)
b)	The amount of tier 1 capital, with separate disclosure of		2602.11
	i)	Paid up capital;	48.49
	ii)	Statutory and other disclosed free reserves	2511.24
	iii)	Capital Reserves	63.13
	iv)	Other capital instruments;	0.00
	v)	Amount deducted from tier 1 capital, including goodwill and investment.	20.75
c)	The total amount of tier 2 capital (net of deductions from tier 2 capital).		127.69
d)	Debt capital instruments eligible for inclusion in upper tier 2 capital		
	i)	Total Amount outstanding	Nil
	ii)	Of which amount raised during the current year	Nil
	iii)	Amount eligible to be reckoned as capital funds	Nil
e)	Subordinated debt eligible for inclusion in lower tier 2 capital		
	i)	Total amount outstanding	Nil
	ii)	Of which the amount raised during the current year	Nil
	iii)	Amount eligible to be reckoned as capital funds	Nil
f)	Other deductions from capital if any.		Nil
g)	Total eligible capital.		2729.80

TABLE -3 : CAPITAL ADEQUACY

Qualitative disclosure	
a) A summary discussion of the bank's approach to assessing the adequacy of its capital to support current and future activities.	a) The bank is computing capital charge in accordance with methodology prescribed under RBI guidelines on capital adequacy. Sensitivity analysis is conducted annually or more frequently as required, on the movement of capital adequacy ratio (CAR) in the medium horizon of 3 years, considering the projected growth in advances and the impact of Basel II framework etc. CAR of the bank is estimated to be well above the regulatory CAR of 9% in the medium horizon of 3 years. However, to maintain adequate capital, the bank has ample options to augment its capital resources through eligible Tier-I and Tier-II Debt/Capital instruments as and when required. The bank has put in place the ICAAP policy to be reviewed annually, which will enable the bank to maintain the economic capital, thereby reducing substantial Capital Risk.

Quantitative disclosure	(Rs. in crores)
b) Capital requirements for credit risk:	1467.62 @9% (On RWA of 16306.89)
i) Portfolio subjected to standardized approach	On Balance Sheet 35093.28 Of Balance Sheet 4867.44
ii) Portfolios subject to the IRB approaches	Nil
iii) Securitisation exposures	Nil
c) Capital requirement for market risk Standardized duration approach	85.27
i) Interest rate risk	65.90
ii) Foreign exchange risk (including gold)	2.39
iii) Equity risk	16.98
d) Capital requirement for operational risk basic indicator approach	135.78
e) Total and tier 1 capital ratio	(Basel-II)
For the top consolidated group; and For significant bank subsidiaries (stand alone or sub consolidated depending on how the framework is applied.)	Tier-I CRAR 13.80%
	Tier-II CRAR 0.68%
	AGGREGATE 14.48%

TABLE -4 : CREDIT RISK-GENERAL DISCLOSURE

Qualitative disclosure	
a) The general qualitative disclosure requirement with respect to credit risk including:	
i) Definition of past due and impaired (for accounting purposes);	i) Any account or bill wherein the repayment of principal or interest remains overdue for more than 90 days is declared as NPA. In case of agricultural advances the period is between two consecutive crop periods. If an account receives credits, which is less than the interest applied during the period or where the limit remains overdrawn as on date of Balance sheet, it is declared as irregular. A bill or loan is declared overdue if it remains unpaid on its due date.
ii) Description of approaches followed for specific and general allowances and statistical methods;	ii) In respect of securities, where interest/principal is in arrears, the bank does not reckon income on the securities and makes appropriate provisions for the depreciation in the value of the investment. A non-performing investment is similar to a NPA in classification as defined above.
iii) Discussion of the bank's credit risk management policy.	iii) The bank has a credit risk management policy in place, which is aimed at supporting the business strategies, achieving target earnings with satisfaction of its customer needs and maintaining a sound credit portfolio. It also seeks to achieve prudent credit growth –both qualitative and quantitative- and adhere to the prudential norms with balanced sectoral and diversified growth of credit. The bank has put in place prudential limits for controlling credit concentration across industries, sections and geographies. The bank has a well-defined credit appraisal & approval authority, legal support, reporting cum monitoring and follow-up system.
iv) For banks that have partly, but not fully adopted either the foundation IRB or the advanced IRB approach, a description of the nature of exposures within each portfolio that are subject to the 1) standardized 2) foundation IRB, and 3) advanced IRB approaches and of managements plans and timing for migrating exposures to full implementation of the applicable approach.	iv) The bank is following standardized approach as prescribed by RBI for computing capital for credit risk.

Quantitative disclosure		(Rs. in crores)
b) Total gross credit risk exposures, plus average gross exposure	b) Money at call and short notice/cash	
Fund based and Non-fund based separately,	With RBI/money with other banks	5274.76
broken down by major types of credit exposure.	Investments	10736.33
	Advances	20930.41
	Fixed Assets	199.42
	Other assets	552.34
	Total Fund based	37693.26
	Total Non fund	10310.90
c) Geographic distribution of exposures:	c) The bank has no international presence.	
	Two major region wise (fund based) exposures are	
i) Overseas	Within J&K state	10358.65
ii) Domestic	Outside J&K state	10861.06
d) Residual contractual maturity breakdown of assets.	d) Residual contractual maturity is given as per annexure-I.	
e) Industrial type distribution of exposure, Fund based and Non-fund based separately.	e) Major industry type exposure is given as per annexure-II.	

Quantitative disclosure				(Rs. in crores)
f)	Amount of NPAs (Gross)	f)	NPA's Gross	559.27
	i) Substandard		Substandard	248.37
	ii) Doubtful		Doubtful	266.18
	iii) Loss		Loss	44.71
g)	Net NPAs	g)	Net NPAs	287.51
h)	NPA Ratios	h)	NPA Ratios	
	i) Gross NPAs to gross advances		Gross NPAs to gross advances	2.64
	ii) Net NPAs to net advances		Net NPAs to net advances	1.38
i)	Movement of NPAs (Gross)	i)	Movement of NPAs (Gross)	
	i) Opening balance		Opening balance	485.23
	ii) Additions		Additions	401.89
	iii) Reductions		Reductions	327.85
	iv) Closing balance		Closing balance	559.27
j)	Movement of provisions for NPAs	j)	Movement of provisions for NPAs	
	i) Opening balance		Opening balance	280.70
	ii) Provisions made during the period		Provisions made during the period	55.80
	iii) Write-off		Write-off	66.03
	iv) Write back of excessive provisions		Write back of excessive provisions	0.00
	v) Closing balance		Closing balance	270.47
k)	Amount of non-performing investment	k)	Amount of non-performing investment	74.73
l)	Amount of provisions held for non-performing investment	l)	Amount of provisions held for non-performing investment	70.73
m)	Movement of provision for depreciation of investment	m)	Movement of provision for depreciation of investment	
	i) Opening balance		Opening balance	37.94
	ii) Provisions made during the period		Provisions made during the period	42.09
	iii) Write-off		Write-off	2.23
	iv) Write back of excessive provision		Write back of excessive provision Closing balance	0.00
	v) Closing Balance		Closing balance	77.80

ANNEXURE-I

Statement of Residual Contractual Maturity of Assets

(Rs. in crores)

Particulars	Next Day	2 to7 Days	8 to14 Days	15 to 28 Days	29 Days & Upto 3 Mnths	Over 3 Mnths & upto 6 Mnths	Over 6 Mnths & upto 1 Yr	Over 1 Yr. Upto 3 Yrs.	Over 3 Yrs. Upto 5 Yrs	Over 5 Years	**Total**
1. Cash	152.05	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**152.05**
2. Balance with RBI	792.91	0.00	0.00	60.16	122.43	144.55	108.16	687.37	202.00	33.32	**2150.90**
3. Balance with other Banks											
i) Current Account	57.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**57.50**
ii) Money at call and short notice, term Deposits and other placements	0.00	2513.31	0.00	0.00	401.00	0.00	0.00	0.00	0.00	0.00	**2914.31**
4. Investments	1.50	561.70	46.60	123.18	1221.36	504.24	384.38	898.69	1679.75	5314.93	**10736.33**
5. Advances (performing)											
i) Bills purchased & Discounted (including bills under DUPN)	21.91	131.44	153.35	74.18	203.94	44.80	0.00	0.00	0.00	0.00	**629.62**
ii) Cash credits, overdrafts & Loans repayable on demand	0.00	100.00	100.00	300.00	300.00	200.00	290.78	5163.13	0.00	0.00	**6453.91**
iii) Term Loans	5.70	115.51	63.18	157.82	924.71	904.81	2038.09	5264.48	2718.55	1384.06	**13576.91**
6. NPAs	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	269.97	**269.97**
7. Fixed Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	199.41	**199.41**
8. Other Assets											
i) Inter -office adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
ii) Leased Assets	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
iii) Others (Tangible Assets)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
9. Reverse Repos	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
10. Swaps(Sell/Buy)/ maturing forwards	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
11. Expected Increase in Deposits.	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
12. Interest receivable	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
13. L.C.(Inflows)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
14. Export Refinance from RBI	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	**0.00**
15. Others (Specify)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	552.35	**552.35**
C. TOTAL INFLOWS	**1031.57**	**3421.96**	**363.13**	**715.34**	**3173.44**	**1798.40**	**2821.41**	**12013.67**	**4600.30**	**7754.04**	**37693.26**

ANNEXURE-II

Major Industry Type Exposures

(Rs. in crores)

Sector	
Mining & Quarrying (incl. Coal)	12.54
Food Processing	122.88
Sugar	46.00
Edible Oils & Vanaspati	41.34
Tea	0.00
Others	35.54
Beverage & Tobacco	103.94
Textiles	281.10
Cotton Textiles	204.65
Jute Textiles	0.09
Man Made Textiles	0.69
Other Textiles	75.67
Leather & Leather Products	36.27
Wood & Wood Products	18.48
Paper & Paper Products	51.55
Petroleum, Coal Products & Nuclear Fuels	0.11
Chemical & Chemical Products	230.98
Fertiliser	0.89
Drugs & Pharmaceuticals	72.92
Petro Chemicals	125.18
Others	31.99
Rubber, Plastic & their Products	27.24
Glass & Glass Ware	0.87
Cement & Cement Products	464.24
Basic Metal & Metal Products	974.59
Iron & Steel	688.57
Other Metal & Metal Products	286.02
All Engineering	177.55
Electronics	148.72
Others	28.83
Vehicles, Vehicle Parts & Transport Equipments	14.80
Gems & Jewellery	10.57
Construction	20.83
Infrastructure	2,935.75
Power*	1680.59
Telecommunications	624.52
Roads & Ports	327.13
Other Infrastructure	303.51
Other Industries	1,209.78
Industry (Total of Small, Medium & Large Scale)	**6694.07**

TABLE -5 : (A) CREDIT RISK: DISCLOSURE FOR PORTFOLIO SUBJECT TO THE STANDARDIZED APPROACH

Qualitative disclosure	
a) For portfolio under the standardized approach: i) Names of credit rating agencies used, plus reasons for any changes.	a) For portfolio under the standardized approach i) The banks exposure being mainly domestic, the rating agencies like CARE, CRISIL, ICRA, FITCH India, have been identified for rating of exposure as per guidelines of RBI. Designated rating agencies may be used irrespective of types of corporate exposures.
ii) Type of exposure for which each agency is used; and	ii) For exposures with a contractual maturity of less than or equal to one year (except cash credit, overdraft and other revolving credits), short-term ratings given by approved rating agencies are used. For cash credit, overdraft and other revolving credits (irrespective of the period) and for term loan exposures of over one year, long term ratings are used.
iii) A description of the process used to transfer public issues rating onto comparable assets in the banking book	iii) Public issues ratings is used for comparable assets of borrower in the banking book as follows: - i) If either the issuer or single issue has been assigned a rating which maps into a risk weight equal to or higher than that which applies to unrated claims, a claim on the same counterparty, which is not rated by any chosen credit rating agency, will be assigned the same risk weight as is applicable to the rated exposure, if this claim ranks pari passu or junior to the rated exposure in all respects. ii) In case where the borrower-constituent/counter party has issued a debt (which is not a borrowing from the Bank), the rating given to that debt is applied to the Bank's unrated exposures, if the Bank's exposures ranks pari-pasu or senior to the specific rated debt in all respects and the maturity of unrated Banks exposure is not later than the maturity of rated debt.

Quantitative disclosure		(Rs. in crores)
b) For exposure amount after risk mitigation subjected to the standardized approach, amount of bank's outstanding (rated and un-rated) in the following three major risk buckets as well as those that are deducted:	b) Banks credit exposure after risk mitigation subject to standardized approach in following three buckets:	
i) Below 100% risk weight	Below 100% risk weight	24920.69
ii) 100% risk weight	100% risk weight	7553.31
iii) More than 100% risk weight	More than 100% risk weight	2619.28
iv) Deduction	Nil	35093.28

TABLE -6 : CREDIT RISK MITIGATION: DISCLOSURE FOR STANDARDIZED APPROACH

Qualitative disclosure	
a) The general qualitative disclosure requirements with respect to credit risk mitigation including:	a) A credit mitigation and collateral management policy, addressing the Bank's approach towards the credit risk mitigants used for capital calculation is in place.
i) Policies and processes for and an indication of the extent to which the bank makes use of on and off balance sheet netting.	i) The objective of this policy is to enable classification and valuation of credit risk mitigants in a manner that allows regulatory capital adjustment to reflect them.
ii) Policies and processes for collateral valuation and management	ii) The policy adopts the Comprehensive Approach, which allows full offset of collateral (after appropriate haircuts) against exposures, by effectively reducing the exposure amount by the value ascribed to the collateral. The following issues are addressed in the policy: a) Classification of credit risk mitigants b) Acceptable credit risk mitigants c) Documentation and legal process requirements for Credit risk mitigants. d) Valuation of collateral e) Custody of collateral F) Insurance g) Monitoring of credit risk mitigants
iii) The description of the main type of collaterals taken by the bank;	iii) Cash or cash equivalent (Bank deposits, NSC's, KVIP's, LIC policy, gold, Central state government Securities etc.
iv) The main type of guarantor counterparty and their creditworthiness; and	iv) Following entities are accepted as eligible guarantors in line with RBI guidelines: Sovereign entities including ECGC, CGTSME, PSE's, banks and primary dealers, other guarantors that have external rating of AA or above.
v) Information about market or credit risk concentration within the mitigation taken	v) The Bank has a diversified portfolio of assets which are secured by collaterals like a) Eligible collaterals defined above b) Guarantees by sovereigns and well rated corporates c) Fixed assets and current assets of the counterparty.

Quantitative disclosure		(Rs. in crores)
b) For disclosure credit risk portfolio under the standardized approach, the total exposure that is covered by:	b)	
i) Eligible financial collaterals, after the application of haircuts.	Deposits/Cash	1986.55
	Others	42.09
	Total	2028.64

TABLE -7 : SECURITISATION: DISCLOSURE FOR STANDARDIZED APPROACH

Qualitative disclosure	
a) The general qualitative disclosure requirement with respect to securitisation, including a disclosure of: i) The bank's objectives in relation to securitisation activity, including the extent to which these activities transfer credit risk of the underlying securitised exposures away from the bank to other entities; ii) The role played by the bank in the securitisation process and an indication to the extent of the bank's involvement in each of them; and iii) The regulatory capital approach that the bank follows for its securitisation activities. b) Summary of the bank's accounting policies for Securitisation activities, including: i) Recognition of gain on sales and ii) Key assumption for valuing retained interests, including any significant changes since the last reporting period and the impact of such changes; c) The names of the eligible collateral used for securitisation and type of securitisation exposure for which each agency is used.	Bank is not undertaking any securitisation activity at present

Quantitative disclosure	
d) The total outstanding exposure securitised by the bank and subject to the Securitisation framework by exposure type. e) For exposure securitised by the bank and subjected to the Securitisation framework. i) The amount of impaired/past due asset securitised and ii) Losses recognised by the bank during the current period broken down by the exposure type. f) Aggregate amount of Securitisation exposure retained or purchased broken down by exposure type. g) Aggregate amount of Securitisation exposure retained or purchased broken down into a meaningful number of risk weight bands. Exposures that have been deducted entirely from tier1 capital, credit enhancing I/Os deducted from total capital, and other exposure deducted from total capital should be disclosed separately by type of underlying exposure type. h) Summary of securitisation activity presenting a comparative position for two years, as a part of the notes on account to the balance sheet: i) Total number of book value of loan asset securitisation – by the type of underlying assets; ii) Sale consideration received for the securitised assets and gain/loss on the sale on account of securitisation; and Form and quantum (outstanding value) of services provided by way of credit enhancement, liquidity support, post securitisation asset servicing, etc.	NA

TABLE -8 : MARKET RISK IN TRADING BOOK

Qualitative disclosure	
a) The general qualitative disclosure requirement for market risk including the portfolio covered by securitised approach.	a) The HFT and AFS portfolios are covered by the 'Standardized Duration' approach for calculation of Market Risk: i) Market Risk Management group set under the overall supervision of Market Risk Management Committee of the Board is responsible for identification, assessment, monitoring and reporting of Market risk. Board approved Trading Policies and Investment policies with defined Market Risk Management parameters for each asset class are in place. Risk monitoring is an ongoing process with the position reported to the top management and the ALCO at the stipulated intervals. ii) Risk measurement and reporting is based on parameters such as modified duration, maximum permissible exposures, net open position limit, and Gap limits in line with global best practices.
b) General disclosures for market risk including portfolios covered by the IMA. .A description of the soundness of the banks methodologies in assessing the capital adequacy, stress testing, and back-testing/validating the accuracy and consistency of the internal models and modeling processes.	b) Market risk is calculated on trading portfolio under standardized duration method, as per directives of RBI, which is complimented by stress testing periodically.

Quantitative disclosure		(Rs. in crores)
c) The capital requirement for:	c)	
i) Interest rate risk;	Interest rate risk	65.90
ii) Equity position risk; and	Equity position risk	16.98
iii) Foreign exchange risk	Foreign Exchange risk	2.39
iv) Commodity risk	Commodity risk	Nil
	Total	**85.27**
d) For portfolios under the IMA, i) The high, mean, and low VaR values over the reporting period and period-end. ii) A comparison of VaR estimates with actual gains/losses experienced by the bank, with analysis of important "outliers" in back-test results.	d) Bank is following the standardized duration method as per RBI directives.	

TABLE -9 : OPERATIONAL RISK

Qualitative disclosure	
* In addition to general qualitative disclosure requirement, the approach (es) for operational risk capital assessment for which the bank qualifies.	The purpose of operational risk management is to identify, measure, asses and mitigate the probable losses owing to failure in internal systems and control or due to external unforeseen factors. The Bank has a separate operational risk management desk, which continuously evaluates on possible loopholes of systems and processes and accordingly appraises risk management committee about any adverse future impacts. An operational risk policy is in place to guide in various operational impacts and policy lines on internal functioning. The business continuity plan has also been put in place. Bank has in place a robust investment control mechanism and MIS for mitigation and control of operational risks.

Quantitative disclosure	
	Capital charge for operational risk is computed as per the Basic Indicator Approach prescribed by RBI. Under this approach, capital allocated is ----- Rs. 135.78 Crores

TABLE -10 : INTEREST RATE RISK IN THE BANKING BOOK (IRRBB)

Qualitative disclosure	
a) The general qualitative disclosure requirement. Including the nature of IRRBB and key assumptions, including assumptions regarding loan prepayments and behavior of non-maturity deposits, and frequency IRRBB measurement.	a) The impact of fluctuation in interest rate on liabilities and assets has a direct impact on earnings and hence the market value of Equity. Banks ALCO is assigned the job of periodically monitoring and controlling the risks and returns, funding and deployment, setting Banks lending and deposit rates and directing the investment activities of the Bank. Risk Management Committee of Board reviews various decisions of ALCO for managing Market Risk. The ALM department of the Bank is putting up a periodical exercise/reports for calculation of effects due to interest rate fluctuations through Gap Analysis & Simulations. Bank also carries out duration Gap Analysis to estimate the impact of changes in interest rate on economic value of Banks Assets and Liabilities and thus arrives at changes in market value of equity.

Quantitative disclosure		(Rs. in crores)
b) The increase (decline) in earning and economic value (or relevant measure used by management) for upward and downward rate shocks according to management's method of measuring IRRBB, broken down by currency (where the turnover is more than 5 percent turnover).	b) Changes on account of Interest rate volatility	
	i) Changes in net interest income (with 2% change in interest rates for both assets and liabilities)	(15.88)
	i) Changes in the market value of equity (with 1% change in interest rates for both assets and liabilities)	13.79%

REPORT ON CORPORATE GOVERNANCE

The J&K Bank has been committed to all the basic tenets of good Corporate Governance well before the Securities and Exchange Board of India and the Stock Exchanges pursuant to Clause 49 of the Listing Agreement mandated these. Now, it is our endeavour to go beyond the letter of Corporate Governance codes and apply it innovatively in a more meaningful manner, thereby making it relevant to the organization that is operating in a specific environment, which is different from the generic Anglo-Saxon one.

In line with its vision, the J&K Bank wants to use Corporate Governance innovatively in a transitional economy like Jammu & Kashmir. The Bank wants to use Corporate Governance as an instrument of economic and social transformation. In due course, we would set our self-targets of social and economic reporting as a part of annual disclosures. This will help us conceptualise and contextualise the form and content of Corporate Governance in a developing state. Given the fact that the J&K Bank is and is seen as a great success of 'public-private partnership', our Bank as a business is expected to play a role in social transformation of the economy. This lends urgency to implementation of good governance practices which go beyond the Corporate Governance code.

Operating in an environment that is emerging from a situation of civil strife, the issue of Corporate Governance assumes a different and greater relevance. We, as the prime corporation of Jammu & Kashmir, have a vested interest in making the state a safe place for business. The J&K Bank has a key role to play in providing public and private services, financial infrastructure and employment. As such, the efficiency and accountability of the corporation is a matter of both private and public interest and governance, therefore, comes at the top of the agenda. The fact that the Bank is state owned but professionally managed, having a large size of international investors, governance is critical. For us, Corporate Governance is concerned with the systems of laws, regulations and practices, which will promote enterprise, ensure accountability and trigger performance. The J&K Bank, for one, stands for being more accountable, practice self-policing and make financial transactions transparent and constitutional.

We want to be partners in the economic and social transformation of the nation. In our context there is a need to redefine the role of our directors to make the J&K Bank an engine of social transformation. As an eminent corporate jurist (Chancellor William T. Allen) from US says, "A corporate director has civic responsibility. The people who accept this responsibility, do it conscientiously and well deserve our respect as they are serving a nation. But those who as directors are passive and view their role as mere advisers, are pliable and pleasant but do not insist on a real monitor's role, do small service to anyone and deserve little respect." Our directors belong to the former category.

VISION

"To catalyse economic transformation and capitalise on growth." Our vision is to engender and catalyse economic transformation of Jammu & Kashmir and capitalise from the growth induced financial prosperity thus engineered. The Bank aspires to make Jammu & Kashmir the most prosperous state in the country, by helping create a new financial architecture for the J&K economy, at the center of which will be the J&K Bank.

MISSION

Our mission is two-fold: To provide the people of J&K international quality financial service and solutions and to be a super-specialist bank in the rest of the country. The two together will make us the most profitable Bank in the country.

BOARD OF DIRECTORS

The responsibility for good governance rests on the Corporate Board which has the primary duty of ensuring that principles of Corporate Governance, both as imbibed in law and regulations and those expected by stakeholders, are religiously and voluntarily complied with and the stakeholders' interests are kept at utmost high level.

COMPOSITION

The Bank's Board of Directors comprises a judicious mix of executive, non-executive and independent Directors as per the Corporate Governance requirements. Appreciating the fact that Board Composition is key to Corporate Governance, the Board of Directors of the Bank consists of eminent persons with considerable professional experience and expertise in Banking, Finance, Economics, Industry, Law etc., combining their wide ranging experiences to impart values and provide direction to Bank's development. Your Board is professional and an active Board which meets frequently during the year to chart out policies and practices.

FUNCTIONS OF THE BOARD

The Bank's Board plays a pivotal role in ensuring good governance. Its style of functioning is democratic. The Members of the Board have always had complete freedom to express their opinion and decisions are taken on the basis of a consensus arrived at after detailed discussion. The members are also free to bring up any matter for discussion at Board Meetings with the permission of Chairman.

The day-to-day management of the Company is conducted by the Chairman and CEO, subject to the supervision and control of the Board of Directors. The functions performed by the Board of the Bank for efficient and effective utilisation of resources at their disposal to achieve the goals visualized, inter-alia, include setting Corporate Missions, laying down Corporate Philosophy, formulation of Strategic and other Business Plans, laying down of Control Measures and compliance with Laws and Regulations.

BOARD PROCEDURE

All the major issues included in the agenda for discussion in the Board, are backed by comprehensive background information to enable the Board to take informed decisions. Agenda papers are generally circulated seven working days prior to the meeting of the Board. Also the Board agenda contains the Compliance Report of all the decisions taken at the previous Board Meeting. The members of the Board exercise due diligence in performance of the functions as Directors of the Bank and follow highest degree of business ethics, transparent practices and code of good governance amidst cordial environment.

FREQUENCY OF BOARD MEETINGS

During the year under review, twelve Board meetings were held, in due compliance with statutory provisions, on the following dates:

31-05-2008; 12-06-2008; 19-07-2008; 30-07-2008; 15-09-2008; 30-10-2008; 31-10-2008; 26-11-2008; 28-01-2009; 20-02-2009; 14-3-2009 and 29-03-2009

ATTENDANCE AT BOARD MEETINGS

Following table provides a bird's eye view of participation of Directors in Board meetings and last Annual General Meeting.

Financial Year 2008-09 Attendance at Board Meetings

Name of Director	Category of Director	Meetings during the tenure	Meetings attended	Percentage	Whether attended AGM held on 19-07-2008
Haseeb A. Drabu	Chairman & CEO	12	12	100%	Yes
M. S. Verma	Independent Non-Executive Director	12	7	58.33%	Yes
G. P. Gupta	Independent Non-Executive Director	12	9	75%	Yes
B. B. Vyas, IAS	Non-Executive Director	12	–	0%	Yes
A. K. Mehta	Executive Director	12	11	91.66%	Yes
A. M. Mir	Executive Director	12	12	100%	Yes
B. L. Dogra	Independent Non-Executive Director	12	12	100%	Yes
Umar Khursheed Tramboo (upto 03-06-2008)	Independent Non-Executive Director	1	1	100%	Yes
Narendra Jadhav (From 31-10-2008)	Independent Non-Executive Director	5	–	0%	N.A.
G. M. Dug (From 31-10-2008)	Independent Non-executive Director	5	4	80%	N.A.

BRIEF PROFILE OF DIRECTORS

The J&K Bank's diverse and rich culture is abundantly evident in its Board Members, who provide direction to the Bank in order to achieve its vision. A brief profile of our eminent Board Members is as under:

Haseeb A. Drabu

Dr. Haseeb A. Drabu, Chairman & Chief Executive of the Bank, is a professional economist who has been on the Board of Directors of the Bank since 11th July, 2003.

Possessing a diverse skill set and wide ranging experience, he started his professional career with the Perspective Planning Division of the Planning Commission. Later, he was appointed Consultant to the Economic Advisory Council of the Prime Minister. His final stint with policy making was with the Tenth Finance Commission.

Moving from Government to the field of business journalism, he joined India's premier financial daily, Business Standard, and rose to become the National Editor of the paper. Even as a regular commentator on economic issues, he was associated with various governmental policy making bodies. Notably, in 1997, he was appointed member of the High Powered Committee on Economic Reforms for Jammu & Kashmir.

He was Economic Advisor to the Government of Jammu & Kashmir, a position he has held since January 2003 till January 2009. He is also credited with having conceptualized wide-ranging economic and fiscal reforms of the State Government.

He was inducted by the Planning Commission to its Working Group on Resources for the Eleventh Five-Year Plan. He has also worked as a consultant for the Asian Development Bank.

He was a member of the Prime Minister's task force on the long-term development of J&K, chaired by C. Rangarajan, the former Governor of Reserve Bank of India.

He is a member of the CII's banking panel and member of the Advisory Committee of National Disaster Management Authority, GOI.

He was a member of the Expert Group to recommend an appropriate 'Diversity Index' for the minorities formed under the aegis of Ministry of Minority Affairs.

He was also appointed by the Government of Jammu and Kashmir as the Chairman of the Committee to review Powered Tariff Structure extended to the Industry.

M. S. Verma

M. S. Verma, a career banker has over 45 years of experience in the Indian financial sector. In a career spanning over more than four decades with the State Bank of India, India's largest commercial bank, Mr. Verma's experience has been multi-level and wide ranging on different facets of banking, at national and international levels, encompassing commercial, developmental and investment banking. He was the Managing Director of State Bank of India from December 1996 to April 1997 and then rose to be its Chairman. He ended his career with the Bank as its Chairman in November 1998. After retirement from State Bank of India, Mr. Verma was appointed as honorary adviser to the Reserve Bank of India and also as non-executice Chairman of IDBI Bank. In March 2000, Mr. Verma was appointed by the Government of India as Chairman of Telecom Regulatory Authority of India, a position he held till March, 2003.

Presently, Mr. Verma serves on the Board of a number of public & private sector companies and is associated with several educational and research institutions in advisory capacity. He is Vice-President of the governing body of the National Council of Applied Economic Research and a member of the Board of Governors of the Institute of Economic Growth, University of Delhi.

G. P. Gupta

G. P. Gupta, a Post-Graduate in Commerce, having combined stints in both academia and public sector, is also the Ex-Chairman and Managing Director, IDBI and has served on several distinguished positions such as Chairman, UTI, Chairman, SIDBI, Chairman, National Stock Exchange of India Ltd.; Member, Life Insurance Corporation of India, Member, General Insurance Corporation of India, Director, Export-Import Bank of India, Director, Infrastructure Development Finance Company Ltd., Director, Indian Airlines Ltd., Director, Discount & Finance House of India Ltd., Director, Securities Trading Corporation of India Ltd., Council Member, Indian Institute of Bankers and President, Entrepreneurship Development Institute of India, Ahmedabad.

Sudhanshu Pandey, IAS

Mr. Sudhanshu Pandey, IAS, is Commissioner/Secretary to Government, Finance Department, J&K. A post graduate in Life Science (Botany) with specialization in Environmental Management and Ecology (Gold Medal), University of Allahabad, MBA in Financial Management; Business Management and Financial Management, Institute of Management, Ahmedabad, Reforms in Government, Indian Institute of Management, Bangalore and Decentralised Industrial Development, Japan. Mr. Sudhanshu Pandey began his career with Indian Forest Services in 1985 and thereafter joined the Indian Administrative Services in 1987. Mr. Sudhanshu Pandey has served the IAS in various distinguished capacities, which include Sub-Divisional Magistrate, Bhaderwah (J&K), Additional Secretary Education(GOJK), Addl. Chief Executive, Shri Mata Vaishno Devi Shrine Board, Katra (Udhampur), District Development Commissioner and District Magistrate, Doda, J&K, Special Secretary to Governor, J&K, Managing Director, SIDCO, Director Information, Director Employment and Special Secretary, Labour and Employment, J&K, Director & PS to MoS, Ministry of Commerce and Industry, GOI, Director & PS to Mos, Ministry of External Affairs, GoI, Counsellor and Director, Tagore Centre for Information, Education, Commerce and Culture, Embassy of India, Berlin and Divisional Commissioner, Jammu.

Mr. Sudhanshu Pandey has additionally also held the position of Chairman of the Confederation of Indian Industries (J&K Chapter) for two years, besides serving on the Board of Directors of several reputed Public and Private Sector Companies including RPGF group and Modi group, as Managing Director of SIDCO.

Mr. Sudhanshu Pandey is the recipient of Governor's Medal (1997), a highest recognition awarded in the state and also the State Government Medal (2008), in honour of his exemplary services for the state of J&K.

Narendra Jadhav

Dr. Narendra Jadhav was the Vice Chancellor of the renowned University of Pune, a post held by him until his recent induction as Member, Planning Commission, Government of India. Dr. Jadhav is a renowned economist and policy maker who has served in the Reserve Bank of India for more than 30 years. As Principal Adviser and Chief Economist (in the rank of Executive Director), Dr. Jadhav has steered a team of over 120 Career Economists in the Reserve Bank and played an important role in macroeconomic policy making in India. He has served for nearly four years (1998-2001) as Advisor to Executive Director for India at the International Monetary Fund (IMF). Dr. Jadhav has also worked as Senior Economic Advisor to various governments including in Ethiopia and more recently, was involved in the reconstruction of Afghanistan economy as Chief Economic Counselor. Dr. Narendra Jadhav is a Prolific writer and has written 11 books mainly on economic and social issues, published by reputed publishers in India and abroad. He has over 100 research papers to his credit in national and international journals of repute. His scholarly contributions have received praise from the Hon'ble Prime Minister Dr. Manmohan Singh. He is the recipient of numerous awards and honours for his contribution in the fields of economics, banking, education, literature and social work. Recently he was awarded 'Nyayamurthi M.G. Ranade Puruskar' by Rashtriya Samajik Parishad and the 'Yashwantrao Chavan Puruskar' by Ahmednagar District Central Co-operative Bank.

A. K. Mehta

Mr. Ashok Kumar Mehta, is the Executive Director of our Bank. Mr. Mehta has a longstanding association with the Bank, dating back to 1972 and has served the Bank's hierarchy in various executive capacities as part of the Bank's Corporate Management Team. During the course of his career with the Bank, Mr. Mehta has also been the Chairman of Jammu Rural Bank – a rural bank sponsored by the J&K Bank. Mr. Mehta has been instrumental in setting up of the joint insurance venture with MetLife International, USA and has played a key role in forging ties with Bajaj Allianz General Insurance Co. and MetLife India Insurance Co. Ltd. for distribution of Non-Life and Life Insurance Products. He has performed pioneering work in initiating and implementing the new HR Package under *'Naye subah'* which incorporates new generation organizational setup and procedures. His other areas of specialization include Finance & Financial Services, Planning & Development, Accounts and Estates.

Abdul Majid Mir

Mr. Abdul Majid Mir, Executive Director of our Bank, has more than 36 years of experience in banking. Mr. Mir has held various important and senior positions in the Bank, as part of its Corporate Management Team. He has special knowledge and practical experience in the fields of Finance, Credit, Trade Finance, Foreign Exchange, Treasury, Corporate and Retail Banking, Deposits & Liability Management & Risk Management.

B. L. Dogra

B. L. Dogra, is a Fellow Member of the Institute of Chartered Accountants of India and is also Founder of M/s Dogra Associates, a practicing Firm of Chartered Accountants. Presently linked as Director with our Bank, Mr. Dogra has also served on the Board of Directors of Punjab National Bank and been the Chairman of J&K Chapter of Northern India Regional Council of the Institute of Chartered Accountants of India. Mr. Dogra has also been associated with social and sports associations of the State. He has a rich and varied experience in the field of Banking and Insurance, which has facilitated healthy rejuvenation of the Bank's business.

G. M. Dug

Mr. G. M. Dug is a graduate in Arts-stream and a well-known figure in the Hotel Industry of Kashmir. He joined the hotel business and soon devoted his attention to the promotion of Hotel Industry in the State. He has played an active role in the affairs of Kashmir Hotel & Restaurant Association (KHARA) of which he has acted as Secretary General and President. He has also held prestigious position with the Kashmir Chamber of Commerce & Industry (KCCI) as its president on two occasions. Mr. Dug has made valuable contribution for the promotion of various segments of the states economy such as tourism, exports handicrafts and industries at various meetings. Conferences and seminars organized by J&K Government, Government of India and different organizations active for promotion of Trade, Commerce & Industry. He has also provided representation on the Board of several well-known State Govt. Undertakings.

Disclosures

The Board of your Company has in all its endeavour ensured that true and fair disclosures are made to its constituents through various publications regarding plans, strategies and performance. The Board is pleased to disclose that

1. The Executive Management of Bank regularly places various reviews before the Board on the performance of the Bank so as to enable it to exercise effective control and check over the working of the Bank.
2. Bank has not entered into any materially significant transaction with its Directors, Management or with their relatives, other than in normal course of business of the Bank.
3. All Directors of your Bank except State Govt. nominees are Non-Executive and Independent Directors within the meaning of clause 49 of Listing Agreement.
4. The Bank did not enter into any material related party transaction with its Directors or Management or their Relatives that would potentially conflict with and adversely effect interests of the Bank.
5. The Directors did not incur any disqualification under Section 274(1)(g) or under any other law applicable to the Bank.
6. None of the Directors of the Bank are holding positions as Chairman of more than five and as a Member of more than ten Audit, Remuneration, and Shareholders Grievance Committees.
7. The Bank has complied with Corporate Governance norms as stipulated by SEBI.
8. The Bank has complied with all applicable accounting standards and related RBI guidelines.

DIRECTORSHIP IN OTHER COMPANIES

The Directors of the Bank also hold positions as Directors in other Companies as per details furnished hereunder:

M.S. Verma

Director: International Asset Reconstruction Company Pvt. Ltd., PTC India Ltd., Visa Steel Ltd., Shriram Transport Finance Company Ltd., The Bellwether Microfinance Ltd., Visa Power Ltd., Asian Heart Institute & Research Centre.

G. P. Gupta

Director: Swaraj Engines Ltd., SIDBI Venture Capital Ltd., PTC India Ltd., Su-Raj Diamond & Jewellery Ltd., Idea Cellular Ltd., Baroda Pioneer Asset Management Company Ltd., Spice Communications Ltd., Birla Sun Life Insurance Co. Ltd., Aditya Birla Nuvo Ltd., Emkay Global Financial Services Ltd., Landmark Property Development Co. Ltd., Power Finance Corporation Ltd.

A. K. Mehta

Director: JKB Financial Services Ltd.

Abdul Majid Mir

Director: JKB Financial Services Ltd.

G. M. Dug

Director: J&K Tourism Development Corporation.

Sudhanshu Pandey, IAS

Director: JKPCC, JK Cements, Jammu and Kashmir Industries, JK Handloom Dev. Corporation, JKTDC, J&K SIDCO, J&K SICOP, J&K Handicrafts, J&K State Cable Corporation Ltd.

MEMBERSHIP OF COMMITTEES OF OTHER COMPANIES

M. S. VERMA	
P.T.C India Ltd	Chairman, Audit Committee
	Member, Remuneration Committee
Visa Steel Ltd	Member, Audit Committee
	Member,Share transfer &Investor Grievance Committee
	Chairman, Finance & Banking Committee
Visa Power Ltd	Chairman, Audit Committee
Shriram Transport Finance Co. Ltd.	Chairman, Audit Committee

G. P. GUPTA	
Power Finance Corporation Ltd	Chairman, Audit Committee
Swaraj Engines Ltd.	Chairman, Audit Committee
Birla Sun life Insurance Company Ltd	Member, Audit Committee
Aditya Birla Nuvo Ltd	Member, Audit Committee
PTC India Ltd	Member, Audit Committee
Landmark Property Development Co. Ltd	Member, Audit Committee
Idea Cellular Ltd	Chairman, Audit Committee

COMMITTEES OF THE BOARD

The Board of Directors of the Bank has constituted several Committees of Board to take decisions on matters requiring special focus. The role and functions of the main Committees of the Board is described hereunder:

Audit Committee

ROLE AND FUNCTION

The Bank has constituted an Audit Committee of the Board (ACB) comprising of 3 Non-Executive Independent Directors and 2 Executive Directors. The main functions of the Audit Committee are to assess and review the financial reporting system of the Bank, to ensure that the Financial Statements of the Bank are correct, sufficient and credible. It addresses itself to matters pertaining to adequacy of Internal controls, reliability of financial statements / other management information, adequacy of provisions, whether the audit tests are appropriate and scientifically carried out. It follows up on all issues raised in the Long Form Audit Report and interacts with External Auditors before finalisation of Annual Financial Accounts and Reports focusing primarily on accounting policies and practices, major accounting entries and compliance with the Accounting Standards. The Committee also reviews the adequacy of Internal Control System and holds discussions with Internal Auditors / Inspectors on any significant finding and follow up action there on. It also reviews the financial and risk management policies of the Bank and evaluates the findings of any internal investigation where there is any suspected fraud or irregularity or failure of Internal Control System of material nature and reports to the Board. ACB also focuses on the follow up of inter-branch adjustment accounts and other major areas of Balancing of Books and House keeping.

Composition, Meetings and Attendance

The Audit Committee of the Board consists of:

M. S. Verma (Chairman)
G. P. Gupta (Member)
A. K. Mehta (Member)
A. M. Mir (Member)
B. L. Dogra (Member)

The Audit Committee met eight times during the year in due compliance with RBI and Listing Agreement requirements, on the following dates:

31-05-2008; 30-07-2008; 20-09-2008; 30-10-2008; 17-11-2008; 28-01-2009; 21-02-2009; 28-03-2009.

These meetings were attended by members as detailed below:

Name of the Members	No. of Meetings during the Tenure	No. of Meetings Attended	% of Attendance
G. P. Gupta	8	6	75%
M. S. Verma	8	6	75%
A. M. Mir	8	8	100%
B. L. Dogra	8	8	100%
A. K. Mehta	8	8	100%

Management Committee

ROLE AND FUNCTION

The Management Committee of the Board considers various business matters of material significance like sanctioning of loan proposals, compromise / write-off cases, sanction of capital and revenue expenditures, etc.

Composition, Meetings and Attendance

The Committee consists of:

Haseeb A. Drabu (Chairman)
G. P. Gupta (Member)
A. M. Mir (Member)
B. L. Dogra (Member)

G. M. Dug (Member)
A. K. Mehta (Member)

The Management Committee met twelve times during the year on the following dates:

31-05-2008; 12-06-2008; 20-07-2008; 30-07-2008; 15-09-2008; 31-10-2008; 26-11-2008; 04-12-2008; 29-01-2009; 20-02-2009; 09-03-2009 and 29-03-2009.

These meetings were attended by members as detailed below:

Name of the Members	No. of Meetings during the Tenure	No. of Meetings Attended	% of Attendance
Haseeb A. Drabu	12	12	100%
G. P. Gupta	12	6	50%
A. M. Mir	12	12	100%
B. L. Dogra	12	12	100%
G. M. Dug (From 04-12-2008)	5	4	80%
A. K. Mehta (From 04-12-2008)	5	5	100%
Umar Khursheed Tramboo (Upto 03-06-2008)	1	1	100%

Integrated Risk Management Committee

ROLE AND FUNCTION

The Bank has constituted an Integrated Risk Management Committee to manage market risk, credit risk and operational risk in an integrated and efficient manner and the committee performs the following essential functions:

1. Identify, monitor and measure the risk profile of the Bank.
2. Develop policies and procedures, verify the models that are used for pricing complex products and also identify new risks.
3. Develop policies that clearly spell out the quantitative prudential limits on various segments of Bank's operations.
4. Effectively communicate the risk strategy and policies throughout the organization.

The Integrated Risk Management Committee met two times during the year on 30-07-2008 and 29-01-2009.

These meetings were attended by members as detailed below:

Name of the Members	No. of Meetings during the Tenure	No. of Meetings Attended	% of Attendance
Haseeb A. Drabu	2	2	100%
M. S. Verma	2	1	50%
G. P. Gupta	2	1	50%
A. M. Mir	2	2	100%

Compensation Committee

ROLE AND FUNCTION

The Bank has constituted Compensation Committee to consider and approve the amount of performance linked incentives to be paid to Chairman and Senior Executives of the Bank and framing the guidelines for the introduction and management of Employee Stock Option Scheme.

Shareholders / Investors Grievance Committee

ROLE AND FUNCTION

1. The Bank has constituted a Committee designated as Shareholders / Investors Grievance Committee which looks into redressal of Shareholders and Investors Complaints.
2. All shareholders' / investors' grievances / correspondence were expeditiously attended to and the replies sent generally

within a period of 7 days of receipt. No share transfer beyond 30 days was pending as on 31st March, 2009. All requests for dematerialization of shares are likewise processed and confirmation communicated to Investors and Depository Participants within five working days.

3. During the year 285 service requests / complaints were received and all these service requests / complaints stand redressed.

The status of investors' / shareholders' service requests / grievances received during the year under report is as follows:

Particulars	Received	Disposed	Pending
Change/correction of address	89	89	0
Correction of name on share certificate	4	4	0
Change/correction of bank mandate	18	18	0
Loss of shares and request for duplicate shares	40	40	0
Request for transmission	25	25	0
Correspondence/query related to NSDL operation	2	2	0
Correction of bank mandate/name on dividend warrants	8	8	0
Receipt of dividend warrants for revalidation	21	21	0
Particulars	Received	Disposed	Pending
Receipt of indemnity bond for issue of duplicate Dividend	4	4	0
Registration of Nomination / ECS	25	25	0
Request for deletion of name due to death	9	9	0
Non receipt of Share Certificates	2	2	0
Non receipt of Share Certificates after Transfer	0	0	0
Non receipt of Dividend Warrants	34	34	0
Non receipt of fully paid stickers	3	3	0
Non receipt of Annual Reports	1	1	0
Complaints from SEBI / Stock Exchanges	0	0	0
Legal cases / cases before Consumer Forums	0	0	0
TOTAL	285	285	0

Shareholders / Investors Grievance Committee consists of:

B. L. Dogra (Chairman)
A. K. Mehta (Member)

The Shareholders /Investors Grievance Committee met two times during the year on the following dates:15-09-2008 and 29-01-2009

These Meetings were attended by members as detailed below:-

Name of the Members	No. of Meetings during the Tenure	No. of Meetings Attended	% of Attendance
A. K. Mehta	2	2	100%
B.L. Dogra	2	2	100%

OTHER COMMITTEES

Monitoring of Large Value Frauds Committee

ROLE AND FUNCTION

Committee has been constituted pursuant to RBI directions to monitor the fraud cases involving an amount of Rs 1 Crore and above.

Composition, Meetings and Attendance

The Committee consists of:

Haseeb A. Drabu (Chairman)
G. P. Gupta (Member)
A. K. Mehta (Member)
B. L. Dogra (Member)

The Monitoring of Large Value Frauds Committee met two times during the year on the following dates:

15-09-2008 and 29-01-2009

These Meetings were attended by members as detailed below:-

Name of the Members	No. of Meetings during the Tenure	No. of Meetings Attended	% of Attendance
Haseeb A. Drabu	2	2	100%
G.P. Gupta	2	–	–
A.K. Mehta	2	2	100%
B.L. Dogra	2	2	100%

Share Transfer Committee

ROLE AND FUNCTION

The Committee has been constituted to approve various matters relating to transfer of shares etc. The Committee seeks the confirmation of the Board of Directors in respect of approved transactions in the ensuing Board Meeting.

Nomination Committee

ROLE AND FUNCTION

The Nomination Committee of the Board has been constituted in pursuance to the directions of RBI, for implementation of Ganguly Committee Recommendations with a view to decide the fit and proper person criteria for appointment / continuing to hold office of Director in the Bank.

Customer Service Committee

ROLE AND FUNCTION

The Committee has been constituted with a view to look into matters relating to customer complaints and speedy redressal thereof.

Composition, Meetings and Attendance

The Committee consists of:

Haseeb A. Drabu (Chairman)
A. K. Mehta (Member)
B. L. Dogra (Member)

The Customer Service Committee met two times during the year on the following dates:

30-07-2008 and 29-01-2009

These Meetings were attended by members as detailed below:-

Name of the Members	No. of Meetings during the Tenure	No. of Meetings Attended	% of Attendance
Haseeb A. Drabu	2	2	100%
A.K. Mehta	2	2	100%
B.L. Dogra	2	2	100%

Information Technology Committee

ROLE AND FUNCTION

Bank has constituted IT Committee, with a view to monitor the progress of effective assimulation and speedy implementation of Information Technology in the Bank.

Composition, Meetings and Attendance

The Committee consists of:

Haseeb A. Drabu (Chairman)

A. K. Mehta (Member)

G.M. Dug (Member)

The Information technology Committee met Two times during the year on the following dates:

15-09-2008 and 29-01-2009

These Meetings were attended by members as detailed below:-

Name of the Members	No. of Meetings during the Tenure	No. of Meetings Attended	% of Attendance
Haseeb A. Drabu	2	2	100%
A. K. Mehta	2	2	100%
G. M. Dug (from 29-01-2009)	1	1	100%

REMUNERATION

Policy

Remuneration of the Chief Executive Officer / Whole-time Directors is subject to approval of Reserve Bank of India in terms of Section 35B of the Banking Regulation Act, 1949.

Chairman / Executive Directors

Haseeb A. Drabu is the Chairman & CEO of the Bank effective from 9th June 2005. In terms of Section 35B of the Banking Regulation Act, 1949, the monthly remuneration being paid to him, details of which are given below, has been duly approved by Reserve Bank of India.

Basic Pay	Rs 3,00,000.00
DA	–
Provident Fund	Rs 30,000.00
Total	Rs 3,30,000.00

A. K. Mehta and Abdul Majid Mir, are the Executive Directors of the Bank, effective from 1st May 2008. In terms of Section 35B of the Banking Regulation Act, 1949, the monthly remuneration being paid to them, details of which are given below, has been duly approved by Reserve Bank of India.

Basic Pay	Rs 63,000.00
DA	Rs 12,600.00
Provident Fund	Rs 7,560.00
Total	Rs 83,160.00

Non-Executive Directors

Non-Executive Directors other than the State Govt. nominated Directors are paid only sitting fees for the meetings attended.

The details of the same are given below:

- Rs 10,000/- for every Board meeting or Committee meeting.

Details of number of Shares / Convertible Debentures held by Non-Executive Directors as on 31-03-2009:

Name of the Director	Number of shares held	Number of convertible debentures
M. S. Verma	500	Nil
G. P. Gupta	500	Nil
B. L. Dogra	300	Nil
G. M. Dug	500	Nil

OTHER DISCLOSURES

Code of Conduct for the Board Members and Senior Management Personnel

The Board of Directors has approved a Code of Conduct for Board Members and Senior Management Personnel of the J&K Bank.

This Code is also available on the website of the Bank, www.jammuandkashmirbank.com. In terms of revised Clause 49 of the listing agreement, a confirmation from the Chairman & CEO regarding compliance with the Code by all the Directors and Senior Management is furnished below.

I confirm that all Directors and Senior Management Personnel have affirmed compliance with the J&K Bank Code of Conduct for Board Members and Senior Management Personnel.

Haseeb A. Drabu, Chairman & CEO

CEO / CFO Certification

In terms of revised Clause 49 of the Listing Agreement, the certification by the CEO and CFO on the financial statements and internal controls relating to financial reporting has been obtained.

Insider Trading Code

The Bank has formulated a Code for prevention of Insider Trading pursuant to Securities and Exchange Board of India (Prohibition of Insider Trading) (Amendment) Regulations, 2002 to prevent practices of Insider Trading. Mr. Parvez Ahmed, President and Secretary, has been designated as Compliance Officer for this purpose.

Ethical Corporate Policy For Acceptance of Gifts

Bank has introduced Corporate Ethical Policy for setting forth a code of accountability of J&K Bank's Directors, Officers and Employees in the discharge & performance of their responsibilities.

Ethical Standards Employed by the Bank

The Bank has formulated service manual for its employees. This manual contains comprehensive regulations on ethical standards to be mandatorily observed by all the employees of the Bank.

Legal Compliances

There were no cases of non-compliance by the Bank and no penalties or strictures have been imposed on or proposed against the Bank by the stock exchange (s) and / or SEBI and / or any other statutory authorities on matters relating to capital market. The Bank has complied with the provisions of relevant Acts, Rules & Regulations framed there under during the year 2008-2009.

Economic Value Addition

Economic value added is a fairly reliable measure of an enterprise's efforts in measuring Value Addition. Besides the quantitative earnings, EVA indicates the quality of earnings as it represents the excess an organization is able to generate over its Cost of Capital. A positive EVA indicates that the business has generated wealth in excess of what is expected by the shareholders. EVA calculations of the Bank are given below for the last three years:-

EVA Calculations for last three years

Financial year	Post Tax Profits (Rs. in Cr)	Capital Employed (Rs. in Cr)	Cost of Capital	Post Tax return on Capital Employed	EVA
2006-07	274.48	2,009	1.61%	13.66%	12.06%
2007-08	360.00	2,309	2.41%	15.59%	13.18%
2008-09	409.83	2,623	3.45%	15.62%	12.18%

SHARE HOLDERS INFORMATION

Stock Exchanges where equity shares are listed.

The Addresses of Stock Exchanges where the equity shares of the Bank are listed are furnished hereunder:

a. **National Stock Exchange of India Limited**
Exchange Plaza
Bandra Kurla Complex, Bandra (E)
Mumbai 400 051

b. **The Bombay Stock Exchange Ltd.**
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai 400 001

The annual fees for 2008-09 have been paid to all the Stock Exchanges where the shares are listed.

Stock Code	:	J&K Bank
Demat ISIN Number	:	INE 168A01017
Name of Depositories	:	i. NSDL
		ii. CDSL

Registrar and Transfer Agent (RTA)

Karvy Computershare Private Limited
Plot No. 17-24,
Vittalrao Nagar,
Madhapur, Hyderabad – 500 081
Andhra Pradesh, India
Phone 040-23420838
Fax 040-23420814
Email jkbank@karvy.com

Email ID for redressal of Investor Grievances

Pursuant to Clause 47(c) of the Listing Agreement, Bank has created a separate Email ID for redressal of Investor Complaints and Grievances. The Email ID for redressal of Investor Grievances is sharedeptt_gc@jkbmail.com

Compliance Officer

Name	Parvez Ahmed, President & Secretary
Role	To ensure compliance to all statutory regulations as far as they relate to Company Secretary and redressal of grievance of Shareholders / Investors
Address	The Jammu & Kashmir Bank Ltd. Board Secretariat, Corporate Headquarters M A Road Srinagar 190 001 Phone 0194-2483775 / 0194-2481930-35 (Extn.)1416

Financial Calendar

Approval of quarterly results for the period ending:

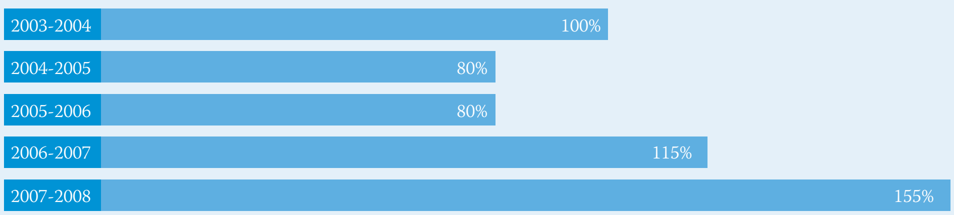
- 30th June, 2008 - 30th July, 2008
- 30th September, 2008 - 30th October, 2008
- 31st December, 2008 - 28th January, 2009
- 31st March, 2009 (Audited) - 31st May, 2009

Information relating to last four general body meetings is furnished below:

Name of Meeting	Day, Date and Time of Meeting	Venue	Special Business Transacted
67th Annual General Meeting	Wednesday, 8th June 2005, at 11:00 AM	Sher-I-Kashmir International Conference Centre (SKICC), Srinagar	□ Alteration of Articles of Association. □ De-listing of Shares □ Re-issue of forfeited shares □ Cancellation of Shares.
68th Annual General Meeting	Saturday, 26th Aug. 2006 at 11:00 AM	Sher-I-Kashmir International Conference Centre (SKICC), Srinagar	□ Alteration of Articles of Association.
69th Annual General Meeting	Saturday, 9th June 2007 at 10.30 AM	Sher-I-Kashmir International Conference Centre (SKICC), Srinagar	□ Alteration of Memorandum and Articles of Association.
70th Annual General Meeting	Saturday, 19th July 2008 at 11:00 AM	Sher-I-Kashmir International Conference Centre (SKICC), Srinagar	NIL

Dividend history of last five years

Financial Year		Rate of Dividend	Date of Declaration	Date of RBI Approval	Date of Payment
2003-2004	Interim	50%	23-02-2004	25-03-2004	15-04-2004
	Final	50%	12-06-2004	N.A	12-06-2004
2004-2005		80%	08-06-2005	N.A	08.06.2005
2005-2006		80%	26-08-2006	N.A.	06-09-2006
2006-2007		115%	09.06.2007	N.A	09.06.2007
2007-2008		155%	19.07.2008	N.A.	25.07.2008



Dematerialised / Physical Shares

The shares of the Bank are in compulsory dematerialised segment and are available for trading in depository systems of both National Securities Depository Limited and Central Depository Services (India) Ltd. As on 31st March, 2009, the position of dematerialized shares as well as physical shares are as follows:

(As on 31.03.2009)

Particulars	No. of Shares	%age
Physical Shares	23,37,236	4.82
Dematerialised Shares	461,40,566	95.18
Total	**48,477,802**	**100**

Distribution of Shareholding as on 31.03.2009

Category	No. of Holders	% age Holders.	Amount (Holding)	% Holding
Upto - 5000	20,796	89.61	25,263,670	5.21
5001 - 10000	1875	8.08	12,058,870	2.49
10001 - 20000	252	1.09	3,659,490	0.75
20001 - 30000	93	0.40	2,274,710	0.47
30001 - 40000	51	0.22	1,772,730	0.37
40001 - 50000	19	0.08	854,850	0.18
50001 - 100000	31	0.13	2,311,030	0.47
100001 and above	90	0.39	436,582,670	90.06
TOTAL	**23,207**	**100**	**484,778,020**	**100**

List of Shareholders holding more than 1% as on 31st March, 2009

Name of Investor	No. of Shares	% Holding
Chief Secretary Jammu and Kashmir Govt.	24,322,598	50.17
Small Cap world fund Inc.	3,149,500	6.50
FID Funds (Mauritius) Limited	2,148,755	4.43
Aberdeen Asset Mngrs. Ltd A/c Aberdeen Int.	1,718,000	3.54
Secretary Finance Dept. Jammu And Kashmir Govt	1,452,668	3.00
CLSA (Mauritius) Limited	1,245,958	2.57
Vontabel Fund Far East Equity	760,596	1.57
Acacia Partners L P	706,955	1.46
Kuroto Fund L P	601,021	1.24
Equinox Partners L P	515,841	1.06

Unclaimed Dividends

Shareholders who have not encashed their past dividend warrants have been intimated individually to do so without any further delay. Under the Investor Education and Protection Fund (Awareness & Protection of Investors) Rules, 2001 unclaimed amount in respect of unpaid/ unclaimed dividend warrants which is more than seven years old shall be transferred by the bank to "Investor Education and Protection fund" established under Sub-Section (i) of Section 205C of the Companies Act, 1956 and thereafter no claim can be preferred by the Shareholders against the Company or the Fund. Shareholders are accordingly advised to claim their unclaimed dividend, if not already claimed.

The detail of unclaimed dividend of last three years is as under: (As on 31.03.2009)

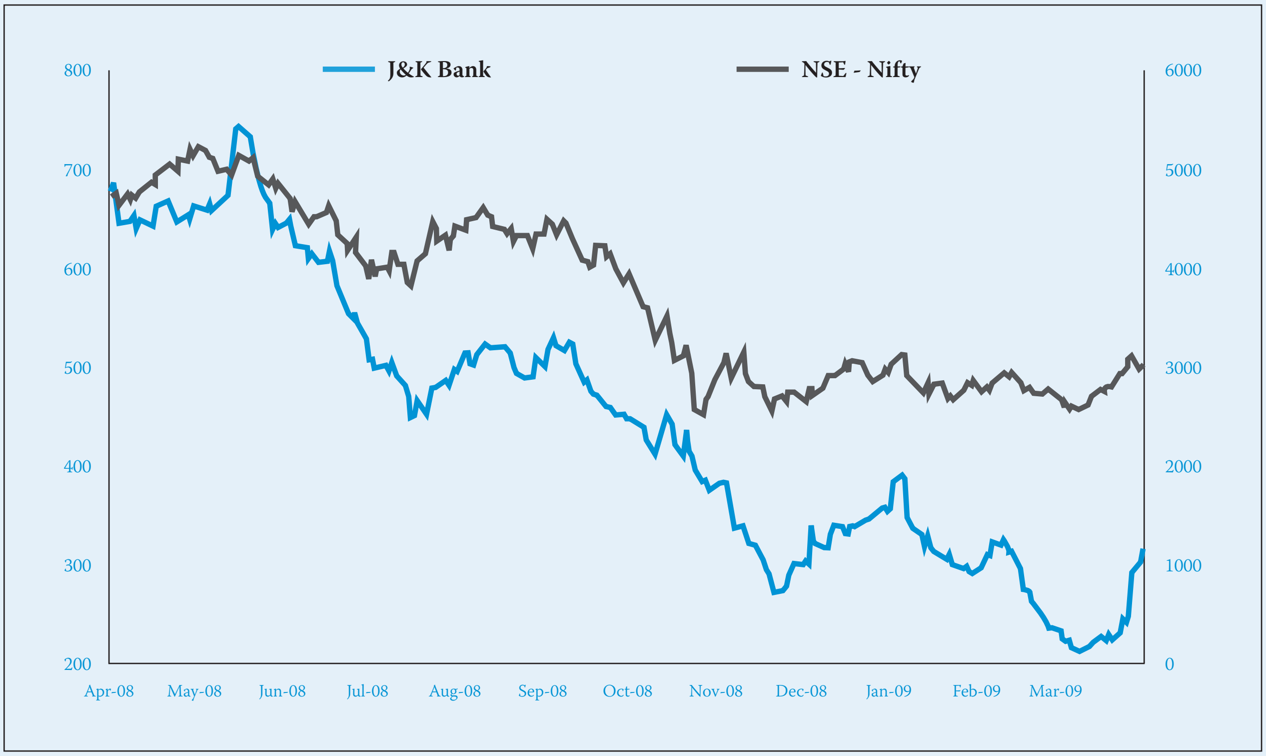
Financial Year	Amount of Unclaimed Dividend
2005-2006	Rs.1,717,141.56
2006-2007	Rs. 2,318,289.00
2007-2008	Rs. 3,507,284.91
Total	**Rs. 7,542,715.47**

Stock Market Data

J&K Bank on NSE NIFTY April 2008 - March 2009

Month	Highest		Lowest		Closing		Volume for the month
	Rate	Date	Rate	Date	Rate	Date	
April 2008	700	30-04-2008	630.25	04-04-2008	662.95	30-04-2008	232,859,878.60
May 2008	779	21-05-2008	610	28-05-2008	642.1	30-05-2008	189,195,356.90
June 2008	656.35	03-06-2008	522	30-06-2008	529.65	30-06-2008	90,507,918.50
July 2008	595	03-07-2008	440	16-07-2008	498.1	31-07-2008	151,139,493.80
August 2008	528	06-08-2008	444	12-08-2008	509.8	29-08-2008	357,775,722.90
September 2008	541	04-09-2008	410	30-09-2008	447.4	30-09-2008	89,285,562.30
October 2008	490	21-10-2008	362	27-10-2008	380.1	31-10-2008	46,156,786.40
November 2008	434.9	05-11-2008	270	25-11-2008	301	28-11-2008	57,057,343.60
December 2008	365.5	31-12-2008	286.4	02-12-2008	354.7	31-12-2008	203,157,141.90
January 2009	410	05-01-2009	284	30-01-2009	291.35	30-01-2009	50,890,320.85
February 2009	345	06-02-2009	226	26-02-2009	236.4	27-02-2009	102,902,680.20
March 2009	324.35	31-03-2009	210.15	09-03-2009	314.8	31-03-2009	162,631,432.20

J&K Bank on the NSE and NSE Nifty

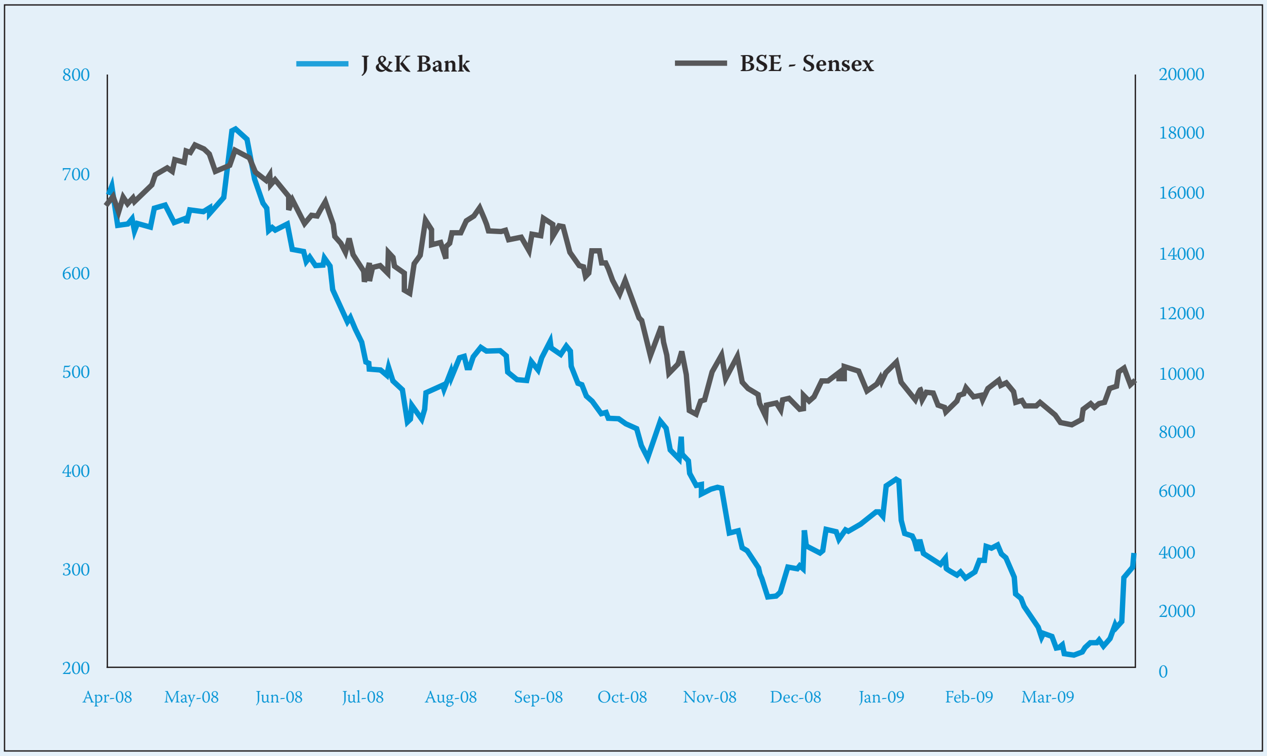


Stock Market Data

J&K Bank on BSE SENSEX April 2008 - March 2009

Month	Highest		Lowest		Closing		Volume for the month
	Rate	Date	Rate	Date	Rate	Date	
April 2008	685.00	2-04-2008	629.20	11-03-2008	659.95	30-04-2008	148,958,884.00
May 2008	754.00	15-05-2008	632.15	30-05-2008	649.20	30-05-2008	56,196,839.00
June 2008	655.90	02-06-2008	450.00	30-06-2008	527.25	30-06-2008	18,270,613.00
July 2008	545.00	1-07-2008	440.00	16-07-2008	495.20	31-07-2008	97,922,756.00
August 2008	527.00	6-08-2008	481.00	26-08-2008	505.40	29-08-2008	432,417,855.00
September 2008	546.00	8-09-2008	416.25	29-09-2008	447.25	30-09-2008	58,316,316.00
October 2008	473.95	13-10-2008	371.00	27-10-2008	380.40	31-10-2008	8,476,106.00
November 2008	400.00	3-11-2008	268.25	25-11-2008	303.75	28-11-2008	25,768,173.00
December 2008	360.00	31-12-2008	285.00	02-12-2008	354.80	31-12-2008	9,623,435.00
January 2009	405.00	05-01-2009	290.00	30-01-2009	293.90	30-01-2009	17,201,236.00
February 2009	345.95	6-02-2009	227.00	26-02-2009	239.15	27-02-2009	22,854,964.00
March 2009	321.00	31-03-2009	210.00	09-03-2009	310.85	31-03-2009	51,301,452.00

J&K Bank on the BSE and BSE Sensex



Important events after the closure of financial year ended 31.03.2009

This report covers the period of financial year of the Bank beginning on 1st of April 2008 to 31st of March 2009. There were no material events from 01-04-2009 to 31-05-2009, the date when the annual accounts were adopted by the Board of Directors of the Bank.

Means of Communication

J&K Bank disseminates information about its operations through various means to shareholders, analysts and the society at large. All official news releases and presentations made to institutional investors and analysts are posted on the Bank's website www. jammuandkashmirbank.com. It also issues press releases and conducts programmes that disseminate information. The quarterly results of the Bank are published in widely circulated national newspapers and are also placed on our website. The Board takes on record the Un-audited Financial Results in the prescribed form of the Stock Exchanges within one month of the closure of the quarter and announces forthwith the results to all the Stock Exchanges where the shares of the company are listed. The highlights of quarterly results are also published in National and Vernacular Newspapers within 48 hours of the conclusion of the Board Meeting in which they are taken on record and information is also placed on the website of the Bank. The Bank regularly organizes Press / Analyst Meets to apprise Fund Managers, Press and Analysts about the financial performance of the Bank and to receive their suggestion for future growth.

Shareholders Rights

A shareholder can enjoy the following rights mentioned in the Companies Act, 1956:

- To transfer shares.
- To receive the share certificates upon transfer within the stipulated period prescribed in the Listing Agreement.
- To receive Notice of general meetings, balance sheet and profit and loss account and auditors' report.
- To appoint proxy to attend and vote at general meetings. In case the member is a body corporate, to appoint a representative

to attend and vote at general meetings of the company on its behalf.

- To attend and speak in person, at general meetings. Proxy cannot vote on show of hands but can vote on poll.
- To vote at the general meeting on show of hands wherein every shareholder has one vote. In case of poll, the number of votes of a shareholder depends on the proportion of equity shares held by him with the total paid up equity capital of the company.
- To demand poll along with other shareholder(s) who collectively hold 5,000 shares or is not less than 1/10th of the total voting power in respect of any resolution.
- To requisition an extraordinary general meeting of any Company by shareholders who collectively hold not less than 1/10th of the total paid up capital of the company.
- To move amendments to resolutions proposed at meetings.
- To receive dividend and other corporate benefits like rights, bonus shares etc. as and when declared / announced.
- To take inspection of the various Registers of the Company.
- To inspect the minute books of general meetings and to receive copies thereof after complying with the procedure prescribed in the Companies Act, 1956.
- To proceed against the Company by way of civil or criminal proceedings.
- To proceed against for the winding up of the Company.
- To receive the residual proceeds upon winding up of a Company.

Investors' Feedback

In our endeavour to serve our shareholders more effectively and in order to improve the quality of our communication with our esteemed members, we request you to spare some of your precious moments and provide us your valuable feedback in the enclosed proforma.

Calendar for shareholders' information	Date
Board meeting for consideration of Accounts and recommendation of Dividend	31st May, 2009
Despatch of Annual Report / Notice of AGM	3rd September, 2009
Book closure Period	19th September to 26th September, 2009
Last date for lodgment of proxy forms	24th September, 2009
Date of AGM	26th September, 2009
Dividend payment date on or after	5th October,2009
Validity of dividend instrument	Six Months

DISCLOSURE ON COMPANY SECRETARY'S RESPONSIBILITY

The Company Secretary confirms that during the year from April 1, 2008 to March 31, 2009, the Bank has:

1. Maintained all the Books of Accounts and Statutory Registers required under the Companies Act, 1956, and the Rules made there under coming under the purview of Company Secretary's responsibility;
   - i. Filed all Forms and Returns and furnished all necessary particulars to the Registrar of Companies and / or authorities as required under the Companies Act, 1956, coming under the preview of Company Secretary's responsibility;
   - ii. Issued all Notices required to be given for Board and General Meetings as per the requirement of the Companies Act, 1956;
   - iii. Complied with the requirements relating to maintenance of Minutes of the proceedings of the Meetings of Directors, Committees of the Board and Shareholders;
   - iv. Complied with the requirements of the Listing Agreement entered into with Stock Exchanges;
   - v. Effected Share Transfers and dispatched Certificates within the statutory time limit;
   - vi. Redressed complaints of Shareholders to the best of efforts of the Company;
   - vii. Complied with the regulations prescribed by the Stock Exchanges, SEBI, and other Statutory and Regulatory Authorities and also the statutory requirements under the Companies Act, 1956, Banking Regulation Act, 1949 and other applicable statutes in force for the Banking Company, as far as they relate to the Company Secretary.
   - viii. Made due disclosure required under the applicable Acts; Obtained all necessary approvals of Directors, Shareholders, Central and State Governments and other regulatory authorities.
2. The Board of Directors of Bank duly met Twelve (12) times during the financial year and in respect of meetings conducted during the period proper notices were given and the proceedings were properly recorded and signed in the minutes book maintained for the purpose. The meetings of various Committees of the Board were duly and properly convened and minutes of such meetings have been properly recorded and signed in the minutes book maintained for the purpose.

3. The Bank closed its Register of members from 12th July 2008 to 19th July 2008 (both days inclusive) in connection with 48th dividend of the Bank and necessary compliance of Section 154 of the Act, has been made.
4. The Annual General Meeting for the financial year 2007-08 was held on 19th of July, 2008 after giving due notice to the members of the Bank and the resolutions passed thereat were duly recorded in minutes book maintained for the purpose.
5. The Bank has not advanced any loans to its Directors or persons or firms or Companies referred to under section 295 of the Companies Act, 1956, during the financial year.
6. The Bank has not entered into any contracts falling within the purview of section 297 of the Act.
7. A Share Transfer Committee of the Board has approved the transfer, Sub-division/Consolidation etc of shares of the bank. The proceedings of the above committee have been properly recorded, signed in the Minutes Book maintained for the purpose.
8. Unclaimed amount, in respect of unpaid / unclaimed dividend warrants, have been transferred to the Investor Education and Protection Fund of the Central Govt. with Punjab National Bank within the prescribed time limit.
9. The Board of Directors of the Company is duly constituted and the appointment of Directors and Additional Directors have been duly made.
10. The appointments of Chairman and other Directors of the Company have been made in accordance with the Articles of Association of the Company read with the relevant provisions of the Act.
11. The Directors disclosed their interest in other firms / companies to the Board of Directors, pursuant to the provisions of the Act and the rules made there under and their disclosures have been noted and recorded by the Board.
12. The Company has not bought back any shares during the financial year.

Place : Srinagar
Dated : 24th August, 2009

Parvez Ahmed
President & Secretary

To
The Members of
The Jammu & Kashmir Bank Limited

We have examined the compliance of the conditions of the Corporate Governance by The Jammu & Kashmir Bank Limited for the year ended 31st March, 2009 as stipulated in Clause 49 of the Listing Agreement of the said Bank with the various Stock Exchanges.

The compliance of the conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to the procedures and implementation thereof, adopted by the Bank for ensuring the compliance of conditions of Corporate Governance. It is neither an audit nor expression of opinion on the financial statements of the Bank.

We certify that in our opinion and to the best of our information and according to explanations given to us, the Bank has complied with the conditions of the Corporate Governance as stipulated in the above-mentioned Listing Agreement.

We state that no investor grievance is pending for a period exceeding one month against the Bank as per the records maintained by the Bank.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the Management has conducted the affairs of the Bank.

	For Gupta Gupta & Associates	For Verma Associates	For Baweja & Kaul
	Chartered Accountants	Chartered Accountants	Chartered Accountants
	Sd/-	Sd/-	Sd/-
	(CA. Rakesh K. Gupta)	(CA. Madan Verma)	(CA. Samvit K. Gurtoo)
Place : Srinagar	Partner	Partner	Partner
Dated : 24th August, 2009	M.No. 093301	M.No. 081631	M.No. 090758

NOTES

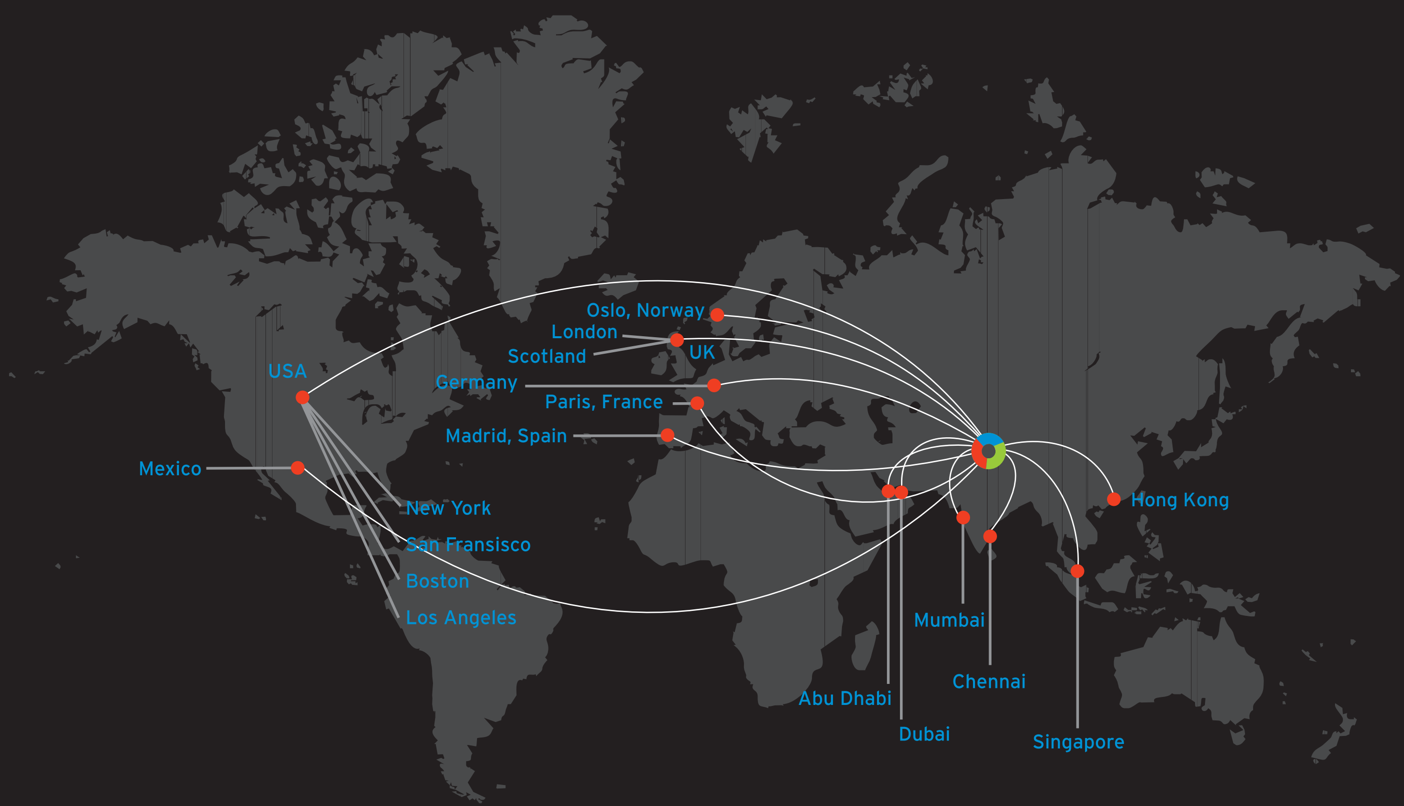
NOTES

Tu Shahin hai
parwaz hai kaam tera
tere samne aasman aur bhi hain.

A falcon you are
Born to soar
Skies galore for you to scale.

—Allama Iqbal

Our global investor base



J&K Bank
Corporate Headquarters
M A Road, Srinagar 190 001
Jammu & Kashmir
www.jkbank.net

This Annual Report is printed on environment friendly paper. No trees have been felled in its production.