THE JAMMU AND KASHMIR BANK LTD.

68th
Annual Report 2005-2006

THE JAMMU & KASHMIR BANK LTD.

Board of Directors

	:	Haseeb A. Drabu- Chairman
	:	M.S. Verma
	:	G.P. Gupta
	:	B.B. Vyas, IAS
	:	Abdul Rauf Fazili
	:	Mohd. Yaseen Mir
	:	B.L. Dogra
	:	Umar Khurshid Tramboo
Company Secretary	:	Parvez Ahmed
Auditors	:	Gupta Gupta & Associates Chartered Accountants
	:	Gupta Sharma & Associates Chartered Accountants
	:	Baweja & Kaul Chartered Accountants
Registered Office	:	Corporate Headquarters M.A. Road, Srinagar-190 001
Registrar & Share Transfer Agent	:	Karvy Computershare Pvt. Ltd. Karvy House, 46, Avenue 4, Street No. 1, Banjara Hills-Hyderabad - 500 034 Andhra Pradesh, India Phone : (040) 23420838 Fax : (040) 23420814

CONTENTS

Regd. Office : Corporate Headquarters, M.A. Road, Srinagar - 190001 (J&K)
Tele No. (0194) 2481930-35, Fax : (0194) 2481928 E-mail: parvezahmad@jkbmail.com

NOTICE

NOTICE is hereby given that the **68th Annual General Meeting** of the Shareholders of **The Jammu & Kashmir Bank Limited** will be held as under:

Day : **Saturday**
Date : **26th August, 2006**
Time : **1030 hours**
Place : **Sher-i-Kashmir International Conference Centre (SKICC), Srinagar, J&K**

to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Audited Balance Sheet as at 31st March, 2006 and the Profit & Loss Account for the Financial Year ended on that date, together with the Reports of the Board of Directors and the Auditors and comments of the Comptroller and Auditor General of India thereon.

2. To declare Dividend on equity shares for the year ended 31st March, 2006.

3. To appoint a Director in place of Mr. Umar Khurshid Tramboo, who retires by rotation and being eligible, offers himself for reappointment.

4. To fix the remuneration of Auditors in terms of provisions of Section 224 (8) (aa) of the Companies Act, 1956.

SPECIAL BUSINESS:

5. **AMENDMENT OF ARTICLES OF ASSOCIATION:**

To consider and if thought fit, to pass with or without modification(s), the following resolution as special resolution:

"**RESOLVED** that pursuant to Section 31 and other applicable provisions, if any, of the Companies Act, 1956, and such approvals, consents, permissions and sanctions, as may be necessary from appropriate authority, approval of the Members of the Bank, be and is hereby accorded for amending the Articles of Association of the Bank as under:-

(a) In Article 69(i) of the Articles of Association, the words "not more than three" appearing in the first line be substituted by the words "not more than four."

For the purpose of clarity, the Article 69(i) after the amendment as proposed above will read as under:

"The number of Directors shall not be more than twelve or less than seven. Not more than four of these shall be appointed by the Jammu and Kashmir Government, who will be called Government Directors; provided that no Director other than a Government Director shall be elected as Chairman of the Board of Directors."

(b) In Article 70(i) of the Articles of Association, the following words appearing in the second proviso be deleted:

"Provided that every Director, other than a Government Director including the Chairman, shall, unless he holds shares in the company registered in his name of the value not below that of Rs. 5000/-, acquire such aforesaid share qualification within two months of his appointment or election, failing which he shall cease to be qualified to act as Director thereafter."

(c) In Article 70(ii) of the Articles of Association, the words and figures "shall be Rs. 4000/- and Rs. 3000/- respectively" be substituted by the words and figures "shall be Rs. 10000/-."

For the purpose of clarity the Article 70(ii) after the amendment as proposed above will read as under:

70 (ii) Sitting fee payable to a Director other than:

(a) Chairman and Chief Executive Officer,

(b) Director nominated by the State Government and who is in the employment of Government, and

(c) Additional Director appointed by Reserve Bank of India and who is in the employment of RBI;

for attending a meeting of Board or Committee irrespective of the number of days for which the meeting may continue, shall be Rs.10,000/-

Besides a fee admissible to a Director for attending the meeting, any Director who comes to attend a Board Meeting or a meeting of a Committee of the Board held at a place other than the place of his usual residence, shall, besides the traveling allowance admissible, be entitled to haltage as shown in the Article 70(A) for the day/s the Director has to stay at such place, in connection with a meeting and also for any extra day or days or onward or return journey connected with the meeting and involving air and/ or rail travel.

(d) "In Article 4 – relating to the interpretation clauses, the following Clause be modified as under:

Executive Director

"Executive Director" means a Whole-time Director (other than the Chairman of the Bank) who is in whole-time employement of the Bank, entrusted with the duty of whole time Director.

(e) In Article 118 – relating to the Management of Business the following clauses numbered 118(e), 118(f) and 118(g) be modified as under:

Article 118(e) Subject to the provisions of Companies Act, 1956 and the Banking Regulation Act, 1949, the Board of Directors may, from time to time, appoint one or more of their body to be Executive Director or Executive Directors of the Bank on such terms and conditions as may be fixed by the Board of Directors.

Article 118(f) The Executive Director(s) shall exercise such powers as may be delegated to him/ them by the Chairman, subject to the superintendence, control and directions of the Chairman

Article 118(g) The remuneration of the Executive Director(s) or any modifications thereof shall be decided by the Board of Directors subject to the approval of the Reserve Bank of India.

By order of the Board of Directors

Place : Srinagar
Dated: 19th May, 2006

(Parvez Ahmed)
Secretary

NOTES

(a) **A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND THE PROXY NEED NOT BE A MEMBER OF THE BANK.**

PROXIES IN ORDER TO BE VALID AND EFFECTIVE MUST BE RECEIVED BY THE BANK AT IT'S REGISTERED OFFICE NOT LESS THAN 48 HOURS BEFORE THE TIME FIXED FOR THE MEETING.

(b) Shareholders who have not encashed their past Dividend Warrants/Refund Orders are requested to do so without any further delay. Unclaimed Amount, in respect of Unpaid/ Unclaimed Dividend Warrants/Refund Orders, which is more than seven years old shall be transferred by the Bank to **"Investor Education and Protection Fund"** established under Sub-Section (1) of Section 205C of the Companies Act, 1956, and thereafter, no claim can be preferred by the shareholders against the Company or the Fund.

(c) The Register of Members and Share Transfer Books of the Company will remain closed from 19th August, 2006 to 26th August, 2006 (both days inclusive).

(d) The payment of Dividend for the Financial Year ended 31st March, 2006, if declared at the Annual General Meeting, will be paid, in case of physical shareholding to those Members whose names appear on the Register of Members of the Company on 26th August, 2006 and in case of dematerialized Shareholding, to those beneficiaries appearing in the records of National Securities Depository Limited and Central Depository Services (India) Limited as at the closing of the working hours on 18th August, 2006 subject to the provisions of Section 206A of the Companies Act, 1956.

(e) Members holding shares in physical form are requested to intimate the change, if any, in their Registered Address to the Share Transfer Agent. If the shares are held in Demat form, intimation regarding the change of address, if any, has to be notified to the concerned Depository Participant where the Shareholder is maintaining the Demat Account.

(f) Requests for transfer of physical shares received during the period of book closure shall be considered only after reopening of the books and accordingly requests for share transfers received during book closure period shall not be considered for dividend declared, if any.

(g) Dividend for the year 2005-06, if declared, will not be taxable in the hands of the Shareholders.

(h) Electronic Clearing Service

i. Members holding shares in electronic form may please note that, in terms of the mandate of Securities and Exchange Board of India (SEBI), dividend will be credited through Electronic Clearing Service to the Bank Account of the shareholder mentioned in the details furnished by the respective Depositories to the Company on the date of book closure, provided that MICR Code has also been furnished and the Bank account pertains to a city where ECS facility is available. The Bank will not entertain any direct request from such Members for change in their Bank account details. The changes must be intimated by the shareholder to the respective Depository Participant.

Disclaimer

The credit of dividend through ECS for shareholders satisfying the above criteria is given bona-fide and in compliance with the mandate of SEBI in this regard. For effecting this requirement, the Bank relies on the Bank account data of shareholders, as provided by the Depositories, and on the clearing system adopted by the Reserve Bank of India. The Bank will not be responsible for credit of dividend to wrong/ in-operative Bank account where it is found that such wrongful credit was due to non-intimation/ error in recording of the correct Bank Account details.

ii. In case of Members holding shares in electronic form and who have furnished Bank Account details pertaining to cities where the ECS facility is not available, the details as furnished by the respective Depositories to the company will be printed on their Dividend Warrants. Bank will not entertain any direct request from such Members for deletion of / change in such Bank Account Details.

iii. For shareholders holding shares in physical form who have opted for ECS and furnished all the relevant/valid information, arrangements have been made to remit the Dividend through such mode of payment. Such shareholders are requested to intimate the change, if any, in the details furnished in this regard to the Bank immediately.

(i) Members desirous of getting any information about the accounts and operations of the Bank are requested to write their queries to the Bank at least seven days before the Meeting.

(j) Only registered Members/ beneficial owners carrying their attendance slips and holders of valid proxy forms registered with the Bank will be permitted to attend the meeting.

(k) Members are requested to avoid being accompanied by non-Members and/or children.

(l) Pursuant to the requirement of Listing Agreement with Stock Exchanges on Corporate Governance, the information about the Director seeking reappointment is furnished in the Corporate Governance Report forming part of the Annual Report.

(m) The relative Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, is annexed hereto.

ANNEXURE TO NOTICE

EXPLANATORY STATEMENT PURSUANT TO SECTION 173(2) OF THE COMPANIES ACT, 1956

ITEM NO.4

Whilst, as per the provisions of the Companies Act, 1956("Act") it is not necessary to annex to the notice of a General Meeting in respect of ordinary business to be transacted at such a meeting, the Explanatory Statement in respect of Item No. 4 of the Notice is given to set-out the material facts concerning the same. Prior to Companies Amendment Act, 2000, remuneration payable to the Auditors in case of Government Companies was decided by the Central Government on the advice of the Comptroller and Auditor General of India ("C&AG"). However, consequent to the introduction of Section 224(8)(aa) of the Act, the remuneration of the Auditors appointed under Section 619 of the Companies Act, 1956 by the C&AG has to be fixed by the Company in General Meeting or in such manner as the Company in the General Meeting may determine. Members may accordingly ratify the payment of remuneration paid to the Auditors for the Financial Year 2005-06 and also for the Limited Review of the Quarterly Financial Results for the periods ended 30th June, 2005, 30th September, 2005 and 31st December, 2005.

The Directors recommend the adoption of the Resolution to be moved at the Meeting in this regard.

No Director of the Bank is in anyway concerned or interested in the Resolution.

ITEM NO.5

AMENDMENT OF ARTICLES OF ASSOCIATON

5 (a) In view of the growing business of the Bank and to broad base the composition of the Board of Directors of the Bank, the Members of the Bank had at the 61st Annual General Meeting held on 10th July, 1999, increased the maximum number of the Directors from 10 to 12 to ensure that the composition and the size of the Board of Directors is commensurate with the size and nature of the business.

However, the proportion of the Government Directors to the then total strength of 10 Directors, which was three at that time, had not been increased. With a view to maintain the earlier ratio of the Government Directors, proportionate to the total number, it is proposed to increase the number of the Directors nominated by the Government of Jammu & Kashmir from three to four.

Except for the interest, if any, of the Government Directors on the Board of the Bank, none of the Directors may be deemed to be interested in the resolution at Item No 5(a) of the Notice.

Your Board recommends the adoption of the Resolution as set out at Item No 5(a) of the Notice.

5 (b) Proviso to Article 70(i) of the Articles of Association of the Bank provides for acquisition of 500 qualification shares by the Directors within a period of two months from the date of their appointment, failing which they cease to continue as the Directors of the Bank. Keeping in view the current market price of the shares of the Bank, acquisition of qualification shares by the Directors, is proving burdensome. Further, the Members may note that pursuant to the provisions of the Companies Act, 1956, there is no legal requirement for holding qualification shares by a Director, unless the Articles provide for the same. Accordingly, it is proposed to delete the proviso relating to requirement of holding share qualification by Directors.

The Directors required to hold qualification shares may be deemed to be interested in the resolution at Item No 5(b) of the Notice to the extent that such Directors will not be required to continue to hold the qualification shares in respect of their Directorships on the Board of the Bank.

Your Board recommends the adoption of the Resolution as set out at Item No 5(b) of the Notice.

5 (c) The sitting fee paid to non-executive and independent Directors of the Bank for attending each meeting of the Board and Committee thereof was fixed by the Shareholders in their meeting dated 2nd June, 2003 at Rs. 4000/- and Rs. 3000/ - respectively. In view of the amendment made in the Companies (Central Government General Rules and Forms) (Amendment) Rules, 2000,

the amount of remuneration by way of sitting fees for each meeting of the Board of Directors or Committee thereof has been increased from Rs. 5000/- to Rs. 20000/-. With a view to bring the sitting fee structure of the Bank in line with the amendment effected in the provisions of the Companies Act, 1956, it is proposed to increase the sitting fee for attending a meeting of the Board or Committee thereof to Rs. 10000/-.

Except to the extent of interest of the Directors in relation to the revision in the sitting fees that may be payable to them, none of the Directors may be deemed to be interested or concerned in the resolution at Item No 5(c) of the Notice.

Your Board recommends the adoption of the Resolution as set out at Item No 5(c) of the Notice.

5 (d)(e) Article 118(e) of the Articles of Association of the Bank, inter-alia, provides that the Directors may, from time to time, appoint one of themselves, to be the Executive Director of the Bank. Keeping in view the size and operations of the Bank, the Board of Directors deems it expedient that the said Article 118(e) be amended appropriately to authorize the Board of Directors to appoint one or more of their body to be Executive Director or Executive Directors of the Bank. Consequent to the proposed alteration of the Article 118(e) certain alterations have also been made in the Articles 118(f) and 118(g) of the Articles of Association of the Bank. Pursuant to the provisions of Section 31 of the Companies Act, 1956, the Articles of Association can be altered by way of a special resolution passed at a General Meeting of the Members. Hence, this special resolution.

The Directors recommend the adoption of the resolution to be moved at the Meeting in this regard.

No Director of the Bank is in any way concerned or interested in the resolution.

Regd. Office:
Corporate Headquarters,
M. A. Road,
Srinagar - 190 001
Dated: 19th May, 2006

By order of the Board of Directors

(Parvez Ahmed)
Secretary

CHAIRMAN'S STATEMENT

1. The Jammu and Kashmir Bank is on the path to discover its uniqueness. The *sui generis* nature of the Bank spans structural distinctiveness – being Banker to the State Government; operational exclusivity – a virtual monopoly in J&K and functional distinctiveness — being a government owned private sector Bank. All these aspects accord unparalleled financial and non-financial advantages to the Bank that need to be garnered.

2. During the last financial year, the management of the Bank has set in motion a multi-pronged process to build an exclusive business model based on these unique features. The operationalisation of the business model will deliver a bottom-line growth that will compare favourably with the best in Banking business — not only in India but also internationally.

3. It is now a well-accepted fact that the next three to five years will be the most challenging phase for the Indian Banking sector. The Banking industry in India is undergoing a major transformation due to changes in economic conditions and continuous deregulation. These continuous and multiple changes have a ripple effect on banks trying to graduate from a completely regulated seller's market to totally deregulated customer's market.

4. With the commercial Banking sector expected to migrate to the Basel II regime in less than six months from now, the Banking sector in India is heading towards consolidation. By 2009, the Banking landscape of the country will change dramatically, giving foreign banks a level playing field. With an estimated capital infusion of Rs. 42,000 crore by March 2010, consolidation will be the preferred alternative for Banks to shore up their capital base. Mergers and acquisitions may also take place in the near future for compliance with minimum net worth requirement or norms on diversified ownership.

5. Also, as the bottom lines of domestic banks comes under increasing pressure and the options for organic growth exhaust themselves, banks will be exploring ways for inorganic expansion. Owing to a greater size and scale, consolidation will help save costs and improve operational efficiency. In the face of continuing strategic shifts in the Indian savings and investment markets; how individual Banks, especially the smaller ones, reincarnate themselves to deliver profitable growth and maintain return ratios will be real challenge.

6. In this the banks that will have an edge over all the others are the ones which have a geographical space to themselves which they dominate. Equally important will be the ownership structure. On both accounts, J&K Bank stands in a category of its own. While the government holding of 53 per cent insulates it from the possible M&A activity, it does not do so from the business compulsion generated by such activity in the Banking space which will put on the Bank the pressure to perform.

7. To anticipate these impending macroeconomic environmental changes and gearing up for the post-2009 challenge requires a recalibration of the existing business model. Moving away from the de-risking model – raising low cost deposits within J&K to lend outside the State — that had been successfully followed by the Bank in the last decade — the first step is to leverage the existing physical network to increase the local lending and create a virtuous cycle of lending and saving within J&K. Undoubtedly, this change is catalysed by positive socio-economic and political developments within the State and the peace process initiatives between India and Pakistan.

8. It needs to be recognised that J&K Bank in J&K operates, almost as if, in a closed economy. The leakages from its network are low and consequently the retention and float factor is high. Given its physical and market dominance, an act of productive lending in the State by the Bank generates factor incomes, which in turn proportionately generate financial savings and thereby low cost deposits for the Bank. In many ways, for J&K Bank, lending in the State acts like high-powered money and triggers off a virtuous cycle of advances and low cost deposits.

9. This understanding has to drive the business model of J&K Bank and be the underpinning for its developmental role in the State. Being a small bank with a large part of its portfolio in consortium lending outside the State, asset re-pricing to improve margins is not an exercisable option. With less than 25 per cent of its total commercial lending within J&K, the only way forward, therefore, is to realign the lending pattern in favour of the under-serviced State where the margins are comparably much higher because of the granular lending.

10. This macro aspect combined with the micro reality of advances yield being much higher in J&K than outside gives the shift in business composition an unassailable and compelling logic. At the macro-level it gives the Bank a self-perpetuating business growth and at the micro-level it is margin-enhancing for the Bank. This play of uniqueness is almost fortuitous during a regime of rising interest rates, falling returns on the investment portfolio and the increasing liability costs, which put severe pressure on the margins of the Bank.

11. The first critical challenge to arrest the decline in the margins was met with a reasonable degree of success. The next step is of dovetailing this immediate compulsion with a long-term growth strategy. The credit appetite and absorption in J&K is limited. And so is the average ticket size of advances. This means that the Bank's business model walks on two legs —

low volume-high margin lending in J&K and a high volume-low margin business in rest of the country. Given the resource fungibility and our existing network outside, it is easy to straddle both the markets in line with the extant business requirements. This is an advantage that no other Bank in the country has.

12. It is difficult to improve the margins without re-pricing of the assets in rest of the country that account for almost 60 per cent of the total advances of the Bank. In addition to the asset re-pricing, a long-term strategy to ensure better pricing outside J&K is to try and become a specialist bank outside J&K. Even though the Bank is doing excellent business outside the State, it lacks an identity outside the State. That identity cannot be built up by emulating other Banks with vanilla or run-of-the-mill products. A retail foray outside J&K is limited because of a limited distribution network. So, in addition to the usual large corporate business, which is low-margin high volume and invariably happens in a consortium, J&K Bank is putting in place a complete strategy to become a sector specialist outside J&K.

13. Accordingly, the Bank is looking at a leather chain in Chennai, Kanpur, Agra and Kolkatta. Similarly, spices branches in South and castor branches in Western India are in the process of being set up. That does not mean that other businesses from these branches are dispensed with. However, since most of such businesses are community businesses, these branches get centered around not just sectors but also communities. Through this route, the Bank is positioning itself as a super-specialist bank. Depending on the way the experiment shapes up, in rest of the country the Bank can become a super-specialty Bank focusing on financing commodities. In addition to creating an identity outside J&K, this strategy will have forward linkages with large corporate business as most large Indian companies are essentially commodity corporates.

14. In a phase of high economic growth, both within the State and nationally, asset growth is not a problem. Indeed, with a credit growth of almost 30 per cent, the real issue is not growth but managing growth. Two aspects stand out – liability management and asset quality. On the liability side, better liability management has become a focus area for the Bank. This stems from the belief that in short to medium run, banking is more about liability management rather than asset planning. Starting from a new liability management division, a conscious decision has been made to move away from high cost to low cost deposits. The strategy of meeting business targets with high-cost corporate term deposits earlier led to a severe problem of high cost of funds and was the significant reason for decline in margins.

15. Also, these deposits were usually garnered at the fag end of the financial year which created deployment problems for at least two quarters thereafter. The Bank has now de-emphasized the role of corporate deposits, even at the cost of slowing down the balance sheet size growth. An improvement in the current account-saving account (CASA) ratio and a reduction in the cost of deposits bears testimony to better liability management. The simple mantra is to increase balance sheet by one per cent only if incremental profits increase by more than one and a half times.

16. To ensure that this simple equation holds during a regime of rising interest rates, requires single minded attention to the investment strategy. There has been a concerted effort to minimise the losses on the investment book. The investment strategy has been one of shrinking the size, reducing the maturities and substituting credit derivatives with credit. The efforts on the investment side have yielded excellent results and the portfolio stands insulated to the extent of a 50 basis point hike in interest rates. The government securities portfolio is now completely out of the woods but the same can't be said of the bond portfolio in which the reduction has been hampered by very poor liquidity conditions in the bond market and drying volumes.

17. The initial results of the all-round new strategy are quite encouraging; profits are up by 54 per cent; net interest margins are up to 3.04 per cent. The cost to income ratio of the Bank has declined from 47 per cent to 43 per cent; the asset quality has seen a further improvement and the gross NPA levels declined to 2.5 as a per cent of the gross advances of the Bank.

18. The greatest achievement of the Bank during the course of last year has been to become a financially stronger Bank. The direct indication of this is that the NPA coverage ratio, which was 48 per cent, has been increased to 64 per cent in the course of one year. To do this, the provisioning levels have been hiked by almost 200 per cent. This increase in the allowance for probable losses and poor quality of assets has made the Bank stronger. As a result of the high level of provisioning, the Bank's net NPA is less than 1 per cent for the first time.

19. An important aspect of the Bank has been its ownership. The foreign institutional investors have now become the largest shareholders of the Bank after the Government of Jammu and Kashmir. Last year, the holding was 20 per cent and by March 31st, 2006, this level rose to 32 per cent. The quality of investment is the best in the breed. This level of FII holding in the Bank, enjoins upon us to manage and conduct our business at international standards. This is so because in the market for foreign institutional investment, J&K Bank is competing with the high quality banks across the globe.

20. Finally, an important landmark with respect to transparency of accounts was achieved in 2005-06. It was for the first time in the long history of the Bank that there is no auditor's qualification in this year's Bank's balance sheet. This is an indication of the management's commitment to adhere to all the regulatory and prudential norms, have complete transparency in doing business and reporting it.

DIRECTORS' REPORT

The Directors take pleasure in presenting the 68th Annual Report on the business and operations of your Bank together with the audited accounts for the year ended 31st March, 2006.

CAPITAL & RESERVES:

The Capital & Reserves of the Bank increased by Rs.134.07 crore to Rs.1799.47 crore during the year from Rs.1665.40 crore of the previous year.

PROFIT:

The Bank posted a net profit of Rs.176.84 crore for the financial year 2005-06 against a figure of Rs.115.07 crore in 2004-05 registering robust increase of 54%.

INCOME:

The total income of the Bank stood at Rs.1839.43 crore for the year under report against the previous year figure of Rs.1645.37 crore. The interest income (core income) and other income (other than trading) showed perceptible increase.

NET INTEREST INCOME (NII):

The Bank maintained consistent growth in Net Interest Income (NII) during each of the quarters of FY 2005-06. NII from core Banking operations increased to Rs.663.72 crore for the period ended 31st March 2006, recording a growth of 11.32% up from Rs.596.24 crore in previous year. The main drivers for the improvement in NII include the business expansion as well as reduction in the cost of deposits.

CAPITAL ADEQUACY RATIO:

The Capital Adequacy Ratio stood at 12.14%, which is comfortably much above the minimum 9% stipulated by Reserve Bank of India. We do not foresee any major impact on our Capital Adequacy as per draft guidelines on implementation of Basel-II norms.

DIVIDEND:

Keeping in view overall performance of the Bank, the Directors are pleased to recommend payment of 80% dividend (free of tax) for the year ended 31st March 2006 subject to approval of shareholders.

BUSINESS PERFORMANCE:

The year saw a paradigm shift in the balance sheet management of the Bank with concerted focus on increasing and broad basing of the credit portfolio during the year under report. The Bank achieved an all time high business turnover of Rs.37967.75 crore up from Rs.33162.11 crore of the previous year recording a growth of 14.49%. The Bank maintained its growth momentum in all the important areas of its business operations.

DEPOSITS:

Bank's aggregate deposits recorded an appreciable increase of Rs.1839.67 crore to Rs.23484.64 crore at the end of financial year 2005-06 from the previous year figure of Rs.21644.97 crore. The deposit mix has also shown favourable improvement thereby reducing the average cost of deposits.

ADVANCES:

The focus on credit growth helped the Bank to record an impressive growth of 25.75% during the year. The total advances of the Bank increased to Rs.14483.11 crore against Rs.11517.14 crore of the previous year. The Bank continued its spotlight on priority sector, reflecting both its social commitment as also growing expertise and confidence with the sector as a viable commercial proposition.

FOREIGN EXCHANGE:

During the year under report, the Foreign Exchange business recorded an impressive growth of 39% to Rs. 8284.22 crore as against Rs.5964.67 crore of the previous year. The contribution of this segment to the Bank's gross income has been to the tune of Rs.42.85 crore against Rs.38.22 crore of the previous year. The export turnover of the Bank increased from Rs.2211.51 crore to Rs.2412.90 crore registering an increase of 9%.

The Forex Dealing Room at Treasury Operations recorded a turnover of Rs.37396.73 crore and generated a net exchange earning of Rs.6.22 crore.

INVESTMENT PORTFOLIO:

The investment portfolio stood at Rs.9002.34 crore at the end of the financial year. The repositioning of the investment portfolio was completely in line with the strategic balance sheet management stance taken by the Bank to shield itself from the interest rate risk shocks in light of the hardening interest rate scenario. The yield on investment was 6.22% as compared to 7.38% for the previous year.

NON-PERFORMING ASSETS:

In line with recovery policy, the Bank continued its focus on keeping the level of non-performing assets at minimal level and maintaining the best asset quality in its books. The net NPA was reduced from 1.41% in 2004-05 to 0.92% in 2005-06. Coverage ratio works out to 63.64% as against 48% of the previous year.