

**Investors/Earnings Conference Call
(May 7, 2007)**

Moderator: Good afternoon Ladies and Gentlemen, I am Rita, the moderator, for this conference. Welcome to the J & K Bank's analyst conference call. For the duration of the presentation, all participants lines will on listen only mode. I will be standing by to the question and answer session. I would like to hand over the floor to Mr. Sejal Doshi, of SinQuest Securities. Thank you and over to you Sir.

Sejal: Thank you Rita. I am Sejal Doshi, from FinQuest Securities. Very good afternoon to all of you. I would like to welcome the management of J & K Bank, Dr. .Drabu and Mr. Parvez Ahmed and all the participants for the J & K Bank annual conference call for the year 2007. Not taking much of your time I would like Dr. .Drabu to take over and discuss with you about the Bank's performance during the year and its Growth Plan for the year. Mr. Drabu.

Dr. Drabu: Yes. Good afternoon everybody. I am sure you got the performance highlights of our Q4 as well as annual results. Now, as an opening statement, what I would like to say is that, as I have indicated at the beginning of the year indeed, at the beginning of when I took over that March 2007 would end our year of consolidation and restructuring of our operations as well as our balance sheet and I think to a large extent we have met that commitment. We went in to a phase of consolidation as well as restructuring of our balance sheet and I am happy to now state that that phase of restructuring as well as consolidation is over. We had started fairly radical shift in our strategy, which so far has given us good dividends, good returns, and we now hope to go on further down that road.

As far as the results for the year go essentially I thought we have lived up to the expectations of our investors as well as the analyst by showing about 55% growth in net profit which I believe is outperforming the banking industry for whatever results we know off and the major highlight of our performance has been liability management which has resulted in our cost of deposits coming down. There has been an improvement in the yield on advances as well. Our return on assets has shown a substantial improvement so has done equity. All profitability ratios are making the upturn and so the efficiency ratios. Cost of income again is coming down to the level of 40 which is what we have said. The CD ratio is up to 70% almost 68%, indicating a very well leverage balance sheet. Indication of the liability management is the fact that the CASA is up to 37% on the annual basis.

Asset quality is one area where there has been a slippage for this year in the nature of a cleanup. I had indicated to all the analysts as well as the investors that by March 2007 I will take some legacy accounts on to my books to be able to start completely on a fresh slate. So we have taken 3 or 4 legacy accounts which will be last remaining once I had done that earlier as well and the intention

has been to not to kind of shock the system in anyway but gradually we have taken over all the thing, legacy accounts and a cleanup operation. So, today same the slippage which is from .9 to 1% in some ways I don't see that as a slippage. But it is more to look it as a rounding off. We are at 1% NPA gross has shown increase, but this is like to repeat nature of legacy no fresh accretions to the NPA and in the course of next six months you should see a substantial improvement then in the management of NPA assets and bring down ratio to common levels. However even after taking the large impair asset on your books NAP assets off the books.

This year, we have maintained - our NPA coverage adds up 60%, which is much much better than what we had done earlier 48%. So, barring that once if I thing all of it is in course and making this margin there is also showed substantial improvement in and we had said -we run the year that three. We have in near 2.97 which are very close to what we had said. We EPS annualized -also is that level we had said earlier at 60 is down to 56. I think was also is the factor in Q4 results as well as the annual results is the additional burden of the region for standard assets which we have to do at Rs43 crores.

Following the new RBI prescription of providing for standard assets at .4 instead of 0.25. So we have provided for that and taken the absorbed profit in this quarter which is why the z 45 because our run rate was in the region of 80. But if you provide for that, when we are down to 45, because of the provisioning on standard assets. which was effective from this quarter. So, by and large I believe we are on course and looking forward we had as I said indicated this two years will be year of consolidation , restructuring and starting from 1st April 07 we will look at the phase of high credit growth.. We are factoring in 35% to 40 % growth in credit this year, which is going to be contra industry. But this is the follow up of what we have done so far in J & K and our credit off take in. J & K is going to be much better than rest of the country., because the credit deposit ratio inn J & K is very low and credit absorption is very very high and we are getting into the mode of the full of weaker section plan of Rs 24000 crores announced by the Government of India , which is now in its second year actually and that should generate a lot of derived demand for us. So, we are hoping to have now expansion in credit growth in the course of this year, which is contra to the rest of the country. However, these both are most likely to come from J & K which has better advances yield is better, margin is the better. We expect to the rest of the country to go at about from 18 to 20 %. And most of it also this year the specialized earning sector will contribute more than contributed this year, which is leather spices greens so and so forth. So, we should see the improved performance this year as well. With that I am happy to receive / answer the questions now. Thank you.

Moderator: Than you very much. Sir. We now begin the interactive session. Participants who wish to ask questions kindly press * 1 on your telephone keypad. On pressing *1, participants will get a chance to present your questions on the first in line basis. Participants are requested to use only hand sets while asking question. To ask a question kindly press * and 1 now. First in line we have Mr. Ajinkya from Motilal oswal. Over to you sir.

Mr. Ajinkya: Good afternoon Sir. Good set of numbers of couple of questions for first on your NPA that is said they have gone up as you have taken up some

legacy accounts. Could you just give some idea? There has not been greater addition in the provision. You have not lowered net NPA ratio. So do you expect some recovery to come out of these accounts going forward or you will be charging like more in the next year.

Dr. Drabu: No. We are expecting huge recoveries seen this is accounts and it is how view that, by the first half we should be raising the level of provisioning coverage. We have seen no provision we will have recoveries in 3 or 4 accounts. In the large accounts these are large
Nearing settlement mode and we should be able to have good recovery in these particular accounts.

Mr. Ajinkya: Okay, That should increase the coverage ratio and bring down net in. Okay.

Dr. Drabu: this actually for that we just to begin for it and provide for it right know

Mr. Ajinkya: One second Sir.

Manish: Sir this is Manish. Because of you have taken these legacy accounts and NPA , on account of this have you written back some income you would have provided in the previous quarter and in this quarter.

Dr. Drabu: No. We have not written back

Manish: Okay. Thank you Sir.

Moderator: Thank you very much Sir. Next in line we have Mr. Sandeep Chopra from BNK Securities. Over to you Sir.

Mr. Chopra: Hello Sir. Just I wanted to understand you said that the business growth luminous very strong for the year , and as you said that the advances growth will be in the range of 30 to 35 % .. I suppose that the investment book has already been depleted. I mean in 2007 you had a very high investment book. How the growth will be funded. I just want to have some view on how the business will move ahead.

Dr. Drabu: This is the biggest area that we are looking at and in terms of when you look at currently numbers, they give you a slightly distorted picture of 7% deposit growth but when you break it down a little you find that we are growing at 16% in demand deposits and 17% in saving deposits. As only in the term that we have now stuck at 3% we had the share of lot of high cost deposits. We are looking at 18 to 20% growth in deposits in the current year. Most of it coming from J & K we have made some organizational changes and we are now going deeper into pockets of J & K we have areas wise Jammu South and Jammu North where CASA is 71 % and growth in savings deposits is 24 %. We have now gone much deeper into the hinterland of J & K ,to do a massive deposit mobilization scheme that are in size which I think should started in good stead. Secondly, that we are operating at a high level of Capital Adequacy of 12 ½ of so and so forth, so we can burn a bit more of capital. But the time since we

write even our understanding of the growth in credit that we may look at raising some capital.

Mr. Chopra: Okay. Thank you. That is all.

Moderator: Thank you very much Sir. Next in line we have Ms. Tabasco from Kodak Securities. Over to you madam.

Tabasco: Hello just one question. . Basically, you know if you are looking at 35 to 40% growth your net interest margin seem to have come down in the 4quarter I guess going forward, while you will , raise more deposits from J & K you will have to also increase focus on term deposits and bulk deposits. Does it mean that your margin, in what we saw in the IV quarter could come off even more from that level because?

Dr. Drabu: Had the net interest come down in the quarter.

Tabassum: Net interest margin in the 4 quarter is. is 3.26%, compared to 3.56% in the earlier quarter and the if you look at your net interest income growth in the 4 quarter , it was just 7% and if I strip out the CRR interest which was received at 3%. So, very clearly it is showing that you know that your growth has come with the cost of margin.

Dr. Drabu: Not really. The issue in Q4 to my mind if you look at the -.From A first I don't see the interest sis I don't see the - net interest margin here up from 3.04 to 3.23 and systemically annual basis from 2.68 to 3% but beyond that what I assume is you are raising the issue now on net interest income going at 7%. CRR has not increased beyond that I think two things are important. One is in the course of that quarter we bore the brunt of the deposit hike 23% into 6 net unmissed by our standard and second is the interest earned. Interest has come down because of the NPA booking in this quarter. So, we had to actually tick of interest earned in the earlier quarters, because of recurring NPA in this quarter. So that has brought down the interest earned component. This is not going to be a trend, as you can see but this is the one time effect of the ticking one book entry for Rs.140 crores.

Tabassum: So, How much interest has been reversed this quarter? Let me know.

Dr. Drabu: I can get you the details of how much reversal took place? On an average this the interest ,my own sense is that earned will be in the region of 26 %,so if you look at that then our average would have been about 18% but in terms of actual right how much we have reversed back I can get back to you that -.

Tabassum: Would you be looking into increasing the PLR now that I mean that the interest income growth remain fairly buoyant.

Dr. Drabu: Given the fact that a large part of my growth will come from NPA, I don't see a need for interest rate hike, because I am lending at PRR + rates and in the rest of the country , it is more likely re-pricing initiating asset going for fresh PLR hikes .because substantial part of our portfolio rest of the county is sub PLR. So we have in the last quarter actually been able to re price a lot of our

assets, which were at sub PLR levels. PLR-3, PLR-4, levels. So the focus will really be on rising re pricing rather raising PLR. I don't see that it will happen in the near future in terms rising of PLR.

Tabassum: Why doesn't get reflected in the average yield on advances, because that is still in 8.5 / 8% for the full year and that is after having shifted to J & K significant portion of your lending plus also raising rates again during the year.

Dr. Drabu: You see what is happening is you are infusing exported driven J & K by Rs. 400/500 crores. Your legacy portfolio is Rs 16000 crores the incremental impact of that is going to be marginal but it is a fact that for the last six quarters the average, you look at the yield, it has gone up consistently. And it cannot be that in terms of one ff that we will see a jump. Because the lending appetite in J & K is small tickets lending we are doing and every time we do an Rs.500/600 crores increase. That, incrementally adds the whole thing, it is a marginal increase in your average yield a rather than an average G.P. To that extent it will be a gradual raise rather than kind of a step ladder raise one would expect.

Tabassum: Okay. Thank you.

Moderator: Thank you very much. Next in line we have Mr. Ajinkya from Motilal Oswal... Over to you Sir.

Ajinkya: Hallo Sir. One more question... For the present quarter how the deposits now in favors of Jammu and Kashmir and how the advances are favored in favors of Jammu & Kashmir.

Dr. Drabu: 62% of the deposits are coming from J & K now. And about 34 % of the advances are getting in to J & K now.

Ajinkya: At what level of target to keep for.

Dr. Drabu: 40 and about 68.

Ajinkya: Okay and Sir in the last quarter we have observed, you have taken a lot of term deposits, so the CASA has come down. So I believe these are the retail term I deposits which you have, could you just elaborate on what has been the funding strategy in the 4 quarter.

Dr. Drabu: We have write down borrowings lot more in to see that if actually our borrowings have gone up -16 crores in Q 4 itself and that has the interest expended on that is about 15 crores and as those telling I think thus - issued on how much we have written back . Rs. 12 Crores of interest earned is looking back because of the NPA provisioning. I think we have moved in some corporate deposits to retail term plus small marginal extent and that is locked in for about 2 years, three years. So I don't see a major hike happening in our cost of deposit in the course of the coming quarter for the next one and in terms of funding this seems that we can go a bit more of capital here at 13 ½ capital adequacy.

Ajinkya: You want to raise some more capital

Dr. Drabu: We will look at that in towards the end of June 1.

Ajinkya: That sort of needs Tier-2. We are talking about Tier-1 again.

Dr. Drabu: We have enormous scope under Tier-2. But given the guide of pricing on that at the moment I don't see we will do to immediately. But we have also to get Tier-1

Ajinkya: Thank you Sir.

Moderator: Thank you very much Sir. Participants who wish to ask questions, kindly press *1 on your telephone keypad. Next in line we have Mr. Mehta from HSBC Asset Management. Over to you Sir.

Mehta: Good afternoon Sir. Sir, just one thing your break up of investment booking in terms of SLR and NON-SLR, and average duration?

Dr. Drabu: Yeah. Investments booked now it is I think it is 56/45 in terms of SS and HCM but to take you to the details are HTM was 54% of our total .46 about AFS, and Mustafa AFS is less than 18 months it is essentially we are paying at the short term of the market where as the maturity for these HFT we have very little now and for the HTM it is about 3½ months.

Mehta: I am sure what should be the percent of NON-SLR in that total limits booked.

Dr. Drabu: NON- SLR is now bare minimum and it is less than 25 % of the total.

Mehta: What kind of yields -which this NON-SLR book could be Sir.

Dr. Drabu: At about 6 quarter.

Mehta: Okay. Okay and duration of this book sir.

Dr. Drabu: This is about 2½ years.

Mehta: So, there is some amount of negative carrier.

Dr. Drabu: There is an amount of negative carrier.

Mehta: Sir, What is the excess SLR we are carrying. We are almost Sir; I do not want to miss this. Just wanted to outlook in terms of credit growth and advances which you are targeting and kind of mix which you are saying extra between J & K business and non J& K business.

Dr. Drabu: We are targeting about 30%-35 % growth in our advances portfolio our emphasis would be contra industry but we have said that first we are to consolidate then we will go to expansion mode. We have to build our infrastructure in terms or our own loan turn around time in the state and we expect to ramp up advance towards 35% to 37 % in J&K and including the your talking about 38%-40%. So we look at a mix up of 60-40.

Mehta: 60 J&K and 40 non J&K.

Dr. Drabu: No. 60 out side J&K, and 40 J&K and this was earlier 70-30. So with in a course of our taking, I think much we have turned about 10 basis points. So that's how you look at.

Mehta: and in terms of deposit base what kind of deposit growth we can see because we have been shedding high cost deposits
So what kind of scope we are next to do the kind of growth....

Dr. Drabu: We have now 18% for our retail and savings for the demand deposits. We hope to book it about 83%.

Mehta: As a balance of will be would be done again bulk deposits.

Dr. Drabu: We have to see how we are how the see retail boys have corporate bulk about it , could be retail bulk or corporate bulk and we have some Government deposits as well which we are looking at -this year because of the funding by the Government of India, that should help us to tide over the next quarter .

Mehta: What is the CASA ratio for this quarter Sir?

Dr. Drabu: 37.

Mehta: And Sir, from the point of capital rising when you said that the Tier-1 is it equity we are looking at or because you mentioned the cost debt being high.

Dr. Drabu: Yes. I would think that would be preferred of.

Mehta: Okay Sir. Thank you very much.

Moderator: Thank you very much Sir. Participants who wish to ask questions can press *1 on your telephone key pad. I repeat, participants who wish to ask questions kindly press *1 on your telephone key pad. Participants who wish to ask questions, kindly press *1 on your telephone key pad. Next is the follow up question from Mr. Mehta HSBC Asset Management. Over to you Sir.

Mehta: Sir, just, one more wanted sense the amount of branches we are looking to open this year, geographical state of it.

Dr. Drabu: About we are looking about 50, out of which 33 will be in the state.

Mehta: we have got the approvals for it.

Dr. Drabu: Yes. We have.

Mehta: Okay Sir. Thank you very much.

Dr. Drabu: Nice.

Moderator: Thank you very much Sir. Participants who wish to ask questions can press *1 on your telephone key pad. Next in line we have Mr. Kaiva from Motilal oswal over to you Sir.

Kaiva: sir fee income going really fast. Can you just give us a view what is actually driving that kind of a growth.

Dr. Drabu: Insurance is driving it. We grew about 69% on insurance. In the course of a year. Our trading income has also increased by 97 %. We make some money on the Treasury as well. Commission comes to about 24%. So it is driven by basically trading income and insurance income...

Kaiva: Okay. What is the out look on the growth of core fee income, i.e. commission insurance we are taking about?

Dr. Drabu: You see we are driven not so much by to be very honest with you we are looking at not so much at growth but I think at the current levels typically the 25% of income would normally tend to come from this but we are operating about the levels of 10 so we going to increase this to through full season as we shared last year also in terms of third party distributions and other activities and we are very positive on this as our bases very small so would see substantial improvement in this.

Kaiva: And this would be primarily from the J&K State only?

Dr. Drabu: Yeah by enlarge yeah giving trading income out insurance 80% of it would come from J&K 20 would come from outside of J&K and commissions and other things would come from J&K itself.

Kaiva: Okay thanks a lot.

Moderator: Thank you very much sir. Participants who wish to ask questions, kindly press * and 1 on you telephone keypad. Next in line we have Mr. An kit Sachet from ING Mutual Fund. Over to you sir.

Annkit: Hello sir just trying to understand how do you see the State Jammu & Kashmir performing in terms of growth demand versus driving force behind the state and are you seeing more competition in terms of other bank trying to coming to this market and to this state and taking away the market share? How do you look at the situation?

Dr. Drabu: Well I think there has been a major turnaround in the economy of J&K which is outside growth. It is mostly driven by economist investments coming into Government of India in the form of the reconstruction package, which is a five year plan and lot of derived demand helps us so it is autonomous investment led growth. We are looking at 10%-13% in SGP happening in the post of next two to three years which is outperforming the national average by 400 basis points. So we are very positive and hopeful about that. We have also done an environmental change in terms of compare to the scenario and peace and so on and so forth. So expect better tourist arrivals and with that the whole new thing of driving ups this infrastructure.

Ankit: Any specific industry which is driving the growth?

Dr. Drabu: Sees are driving it because of the industrial policy package which is the government of India announcement in J&K which is exemption from income tax, corporation tax, sales, and VAT. So, a lot of Sees which are multi-industry growth likely which is some in steel, some insurance, some in pharma, some in paints. They all are coming due respect from J&K the rate of the concession so that is driving a part of this growth. And second I think within the state horticulture is doing very well. Good pricing happening there. So, we are looking at that. We are looking at but have been a major part of our lending again. So it is a mix of Sees plus horticulture per stage.

Ankit: Do you see competition coming in from different banks trying to open?

Dr. Drabu: Yeah I have not seen even so far there have been a couple of branches of ICICI but there has been no landing from them. The closes that comes to us is the cooperative banks and I do not see any competition from the new generation price of a bank into J&K at the moment.

Ankit: Okay and in terms of your book can you throw some light which industry it is basically catering too. Horticulture might be what percentage?

Dr. Drabu: You know but when you look at the total package the 60% of our portfolio still outside J&K and within the corporate and within J&K we are into horticulture for about 15%-17%. We are in Sees who are 20% and we are into retains chair who are just trying to putting pressure but otherwise it is predominantly corporate outside J&K.

Ankit: Okay sir thanks a lot.

Moderator: Thank you very much sir. Next is a followup question from Mr. Ajinkya from Motilal Oswal. Over to you sir.

Ajinkya: Hello sir I was just going through the breakup of provision and contingencies for the fourth quarter. There is some negative amortization of securities of 16 crores in the fourth quarter.

Dr. Drabu: We must have sold securities on of these.

Ajinkya: Amortization of securities?

Dr. Drabu: We must have drawn out one of them where amortization of securities. This must have been using of an exceptional deal with RBI that we have allowed moving with permission of RBI one security out of the SGM for sale on irruption and that must have happened and we must have made the provisions.

Ajinkya: I am wondering whether this is in line with your reversing the first three quarter provision for amortization which were clubbing in provisions and contingencies in view of the new RBI guideline.

Dr. Drabu: Yeah.

Ajinkya: Is that the same thing?

Dr. Drabu: Yes.

Ajinkya: so is that the reversal of first three quarter for amortization and what was the total of figure for the year which you have taken into other income?

Dr. Drabu: In the other income?

Ajinkya: Now I think I believe you must have classified this as a part of the other income.

Dr. Drabu: So our amortization for the full year is trying of close now.

Ajinkya: it remained flat year-on-year.

Dr. Drabu: Yeah.

Ajinkya: Okay. Thank you sir.

Moderator: Thank you very much sir. Next in line we have Mr. Mehta from HSBC Asset Management. Over to you sir.

Mehta: Sir I was just noticing the tax rate this time is a bit higher than the previous quarter. So would you like to just guide what kind of tax rate we could see or any particular reason why it is high for this quarter?

Dr. Drabu: No. it is bit of in terms of not providing in the first two quarters because we have exceptionally high profits. Operating profits are up to 500-565 levels so given of that. We have seen this exceptionally and you know going forward we will actually benefit from our production of menu which is improved substantially and they may come down actually.

Mehta: Sir one more question on these new RBI guidelines on the capital adequacy. What kind of impact does it have for our capital requirements?

Dr. Drabu: It actually improves our capital adequacy.

Ajinkya: Improves our capital. Okay thank you very much.

Moderator: Thank you very much sir. Next in line we have Ms. Himani from City Group. Over to you.

Himani: Hello sir. Just one question on your operating expenses they have increased at about 23% quarter-on-quarter?

Dr. Drabu: Which expenses?

Himani: Operating expenses.

Dr. Drabu: Operating expenses.

Himani: Yeah it is about 109 Crores so sir any particular reason for this?

Dr. Drabu: Operating expenses.

Himani: it is about 109 Crores versus last quarter of 89 Crores.

Dr. Drabu: Well essentially we did hike the payment for employees up 20%. That is the last component. Rest it is not much. We are up 11% from 98 crores to 109 crores I think it is not much of difference is it?

Himani: Yeah it is about 23%.

Dr. Drabu: The numbers I have 98 Crores for Q4. So the year as a whole we are doing 345.

Himani: Sir I am talking about quarter-on-quarter?

Dr. Drabu: Quarter-on-quarter is Q4 2005-2006 is 98 Crores and 2006-2007 109 Crores so the growth of 11%. So this is not what you are saying so I need to check.

Himani: Sir 11% is years-on-year right? 98% is in fourth quarter 2006?

Dr. Drabu: In fact it has come down in compare on the quarter.

Himani: If you look at the December of 2006.

Dr. Drabu: That is the part of expenditure which we booked in the last quarter and the provisions we had done to exceeding our employees things was short by 574 so we had to book it in this quarter but that is the onetime and we recalculated our salary scale.

Himani: 20%.

Dr. Drabu: We have done about 25%.

Himani: Okay fine thank you.

Moderator: Thank you very much Mama. Participants who wish to ask questions, kindly press * and 1 on your telephone keypad. I repeat participants who wish to ask questions, kindly press * and 1 on your telephone keypad. At this moment there is no further question from participants. I would like to handover the floor back to Mr. Dashy for the final remarks. Over to you sir.

Sejal Doshi: I thank you all the participants for attending the conference and at the same time I would like to thank Dr. Drabu Chairman and chief executive of the J&K Bank and the management for giving us the opportunity to host the call along with them and we would look forward fro such opportunities going forward. Thank you sir.

Dr. Drabu: Thank you.

Moderator: Thank you very much sir. Ladies and Gentlemen thank you for choosing WebEx Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.

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