

**Third Quarter Results Conference Call,
Financial Year - 2008 February 01, 2008**

Moderator:

Good afternoon ladies and gentlemen. I am Triveni, the moderator for this conference. Welcome to the J&K Bank's conference call hosted by Finquest Securities and J&K Bank. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. Now, I would like to handover to Mr. Chinmay Desai for the opening remarks. Thank you and over to you sir.

Chinmay Desai:

Yeah. Good afternoon everyone. Congratulations to the J&K Management on a good set of numbers this quarter. I think we can just begin with the brief on the numbers now. Over to you sir.

Haseeb Drabu:

Thanks very much for the complimentary remarks. I am sure you have got the press release and you have got the analyst update as well. Well let me just run you through the basic numbers. Our deposits have grown 30%, advances have grown 23%, and profits have grown at 30%. Essentially, the growth in profit comes from better advances yield and which to some extent negate it by a higher cost of deposits. Our advances yield is up about 120 basis points. Our cost on deposits is up about 103 basis points but still we have managed to actually increase the interest earned, which is growing at about 33%. The fee-based income is looking more and more robust, and we have done about 100% growth there. This has essentially been driven by Insurance and to some extent by trading gains also on the treasury front. In terms of cost-income ratio, we have done better. The highlight in this quarter, I would also think is the management of NPA and assets. NPA, we are down from 1.13 that of NPA in March and down to about 0.8 and consequently also the coverage ratio has improved substantially from 60% in March to 67% in this quarter. That aside, we have maintained our targets on ROA has improved compared to the Q3 of the last year where we had 1.45 compared to 1.40 earlier. The ROE is also looking much better. We have almost achieved the targets. We had said we will do 20%, we are at 19.37 compared to 16.8 corresponding period last year. So, there is a 14% improvement in the ROE as well. The PS has also improved from 17 to 22, so by and large, I think it is an all round performance. The only cause for concern really is on the liability side where we have seen an unexpected increase in the cost of deposits, and this is again something that I have been pointing out that while our share of deposits in J&K is increasing, it is increasing in very small volumes, and we have to take recourse to high-cost deposits off and on and that actually negates some of the performance we have had earlier. Now, my own

sense, going forward is that cost of deposits will come down for us and also for the system will come down and that will give us some leeway in terms of going forward in Q4, particularly Q1 and Q2 next year. I think, this time the operating profits are also looking much better than it was earlier at 21% growth, but frankly the interest earned on advances itself which stopped at 41%, something that was not there earlier, and we have managed to reprice the advances. The advances interest earned actually comes from two sets, one is repricing of our existing assets in rest of the country and also increasing proportion of loans going to J&K. I think, going forward, this will hit the balance sheet more. It will have a larger impact on the balance sheet actually because the volumes have gone up now and are looking at about 40% share in J&K. As it hits 50%, the impact of that repricing will be much higher and the margins will widen. So, I frankly do not see a pressure on margins per se in J&K Bank, though when you look at the numbers you will find that it is down from 3.5 to 2.98 over the corresponding quarters, but when you look at it sequentially, I think, we have improved from about 2.8 to 2.98 in the course of this year over Q1, Q2, and Q3. So, I do not see the kind of pressure that other banks are seeing in terms of margins, but yes, there is scope to improve that and better liability management will be the focus in the course of Q4 that we have. I will be happy to take questions on this. Thank you.

Moderator:

Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press * followed by 1 now. The first question comes from Mr. Srivatsa from Hindu Business Line.

Mr. Srivatsa: Hello, my question is that, there was a reference to the treasury bench made by the bank. Can Mr. Drabu elaborate on what is the amount of gains made and going forward, does he expect to make similar gains in the coming quarter?

Haseeb Drabu:

Yeah, sure. I think the numbers we had in Q3, trading is over about 5 crores, which has gone up to 23 crores. Now, this is a 380% increase in trading income, but frankly 380% is a number here largely because of the very low base of 5 crores of treasury revenue, if you look at the treasury for size, the portfolio and the bank, this is a very small number, and we had actually restructured the treasury quite extensively, and going forward, I think our call now is that we are building a portfolio,

Haseeb Drabu:

We are getting more aggressive on trading. We are not getting overly _____
06:53 on trading, but our sense is that interest rates will come down, and this is the time to build the portfolio essentially on the investment side, so we will do that, and we would not expect 380% increase going forward, but yes, we would see this is a source of growth now where we would look at about 35-40% growth in trading income going forward. Because the treasuries as you can see from the provisioning also, details of which have been providing to you, there is no depreciation, there is no _____
07:23 so on so forth, so we are looking at the income from this side, and given the macroeconomic situation in terms of

softening of rates expected some time in my view in Q1, we would perhaps start building. We have taken some positions in early September-October, and we have benefited from that, and we are again looking at doing so at this point of time. So, going forward in Q1 and Q2, perhaps you would see better contribution from treasury.

Thank you.

Moderator:

Thank you very much sir. We have next on line, Mr. Ashish Verma from Enam.

Good morning sir. This is Ashish Sharma actually from Enam AMC. In the last one year, you had debts on delisting your business model actually where you said that earlier you were raising low cost deposits in J&K and lending outside the J&K. Now, to a more balanced approach, we have low volume, high margin lending in J&K and high volume and low margin business in the rest of the country. How it is evolving sir?

Haseeb Drabu:

Actually, it has evolved very, very well. In fact, that is the core strength, and in fact, that is one thing I am really excited about in our performance is that our total advances growth is 23% which looks low but I am growing at about 54% in J&K and growing at about 18% rest the country. Now, because of the volume and margin which you are referring to is the impact not coming through fully, but we have improved our share of advances in J&K is up to 43-44% now, and we will take it to 50% and that will have an impact going forward, but that is evolving very well. We are doing much better in terms of our lending in J&K on the back of public investments by the government and so on so forth, but even on small advances within J&K priority sector and others, we are doing exceptionally well. When I said, the average growth that I am now seeing is about 50% plus in advances in J&K. Okay, so the lending tide in J&K itself, it is very very strong? Is very strong and where I am now beginning to get concerned about is the old liability side, because that is not evolving as fast as it should have. That is taking time. I mean, again, to emphasize that we are growing in our CASA deposits at about 14, 15, 16% in J&K. We need to ramp that up to 23-24%. So, that is taking time, and I have already emphasized that that gap will affect us for three or four quarters, and I think we have more or less now stabilized, but I will still think this quarter, going forward, we will have to take recourse to some deposits, but otherwise by beginning of next year, we should see far greater stability in our CASA. If you see our CASA, it has dipped this time around, this is largely because earlier we had shared a lot of corporate deposits, so we have taken recourse again. In actual numbers, CASA has improved but proportionally it has come down. We hope to take it back to 40 levels.

Ashish Verma:

Sir, this whole CASA comes from J&K itself or?

Haseeb Drabu:

Not really. You know, the thing is that our average CASA in J&K is 63%. Ashish

Verma: Okay sir.

Haseeb Drabu:

And, it is 18% in the rest of the country.

Ashish Verma:

Fine sir.

Haseeb Drabu:

So, then that brings it to about 38-39 levels.

Ashish Verma:

And sir, second question is on the provisioning. I think, in Q3, and overall 9-month FY08, we saw lower provisioning, this is on account of less slippages and less delinquencies?

Haseeb Drabu:

Yeah, yeah, absolutely. I mean, I have in fact, there is no requirement. You know, I have provided excess on tax now. I have covered 70% of the tax liability already by doing a provisioning there, so I have not under provided in some sense. It is not that profits are emerging out of low provisioning. There is no requirement, to be honest I have over provided.

Ashish Verma:

Okay.

Haseeb Drabu:

I do not want to over provide for my interest rate only and gets to floating position which we cannot use later on, so there is no under provisioning, but yes the level of provisioning has certainly come down.

Ashish Verma:

Fine sir. Thanks a lot.

Haseeb Drabu:

If you see, I have doubled my tax provision from 25 to 50 this time around, you know, to basically ensure that there is no stress on Q4.

Ashish Verma:

Fine sir. Thanks a lot.

Haseeb Drabu:

Thank you.

Moderator:

Thank you very much sir. Participants who wish to ask a question are requested to press *1 on your telephone keypad. The next question comes from Ms. Lakshmi from Capital Markets.

Lakshmi:

Hello, this is regarding your NPAs. The net NPA has gone up slightly, so can you throw some light on that.

Haseeb Drabu:

Actually, our net NPA has not gone up at all because you are comparing Q2 with Q3. You look at March. In March I had taken a hit of about 120 crores, if you recollect and at that time the net NPA was 1.13, so from that I have come down to 0.8, so there is no slippage. In fact, there is an improvement, and it appears

to be a slippage when you compare Q3 with Q2, because in Q2 I had not taken 100% NPA which I took finally in March. This was a clean up operation which I had done in that time. I had told investors as well and I have gone on record to say that we are doing a one shot cleaning up, and I had taken 118 crores hit in March. Now from March level, you see, I am down substantially. It was 1.18 if I remember right, now it is 0.8, and in terms of gross also, it was 2.6 and now it is 2.4, so there is an improvement in NPA, then I think one of the strongest thing that has happened in the last 3-4 quarters is our recoveries grew substantially and by the end of this fiscal by March, I should be hitting about 0.4% NPA.

Lakshmi:

In your net NPA?

Haseeb Drabu:

In my net NPA, yes.

Lakshmi:

Okay, and how much was the recovery this quarter?

Haseeb Drabu:

We have done about 55 crores of recovery this quarter.

Lakshmi:

55 crores. Okay, thank you.

Moderator: Thank you very much sir. The next question comes from Mr. Saday Sinha from Kotak Securities.

Saday Sinha:

Hi sir. I am Saday here.

Haseeb Drabu:

Hi Saday.

Saday Sinha:

Yeah, basically a couple of questions sir, one is can you just give me some kind of break up of advances between J&K and the rest of the country, some tentative numbers or if you have the exact numbers. Haseeb Drabu: Numbers as in absolute numbers?

Saday Sinha: Yeah.

Haseeb Drabu: I would not have the absolute numbers into the breakup but I have.

Saday Sinha: But, how business has grown.

Haseeb Drabu: I am brining about 50% plus in J&K.

Saday Sinha: 50% plus.

Haseeb Drabu: 54% to be precise.

Saday Sinha: Okay, okay, that means, I think, in last quarter it was something like 9100 crores.

Haseeb Drabu: Yeah.

Saday Sinha:

Within J&K, last time, we were somewhere 9000 crores, and now we have grown to 9800, so outside J&K our asset book has reduced?

Haseeb Drabu:

No, it has not reduced. It is going about 18% and.

Saday Sinha:

I am talking about sequentially.

Haseeb Drabu:

Sorry.

Saday Sinha:

Sequentially, that means once again.

Haseeb Drabu:

Sequentially, year on year, yeah. Year on year, Q3 over Q3, we have grown about 18% outside and about 50% in J&K, and if you see totally, I am talking about really 54% and this is high end of our growth. When you do a year-on-year, I think, it is 39% is actually the full J&K state and 18% is the growth outside. This is a part of deliberate strategy that we have said that we will do this, and increasingly I think that is what the gain would be that we would look at 20% growth outside of J&K and about 40% growth inside J&K and the numbers _____ 15:07 accordingly. I think, today we are just under 45% in J&K, and we are about 55% outside. We hope to by March look at 50-50, then it would be that the whole margins, arbitrage _____ 15:22 J&K and outside will kick into the system. It is also the fact that in J&K our retail lending is higher than outside J&K. Outside J&K, focus is really corporate and SMEs, whereas in J&K there are no corporates really, it is only semi-retail and trade, so that also has a compositional impact on margins. It is not yet affected the balance sheet as it should because the volumes are small. Even at 39-40% growth, you are adding not more than 400-500 crores.

Saday Sinha:

Okay.

Haseeb Drabu:

So, to the extent it is not, but once the volumes pick up then the impact of that will be stronger in the balance sheet.

Saday Sinha:

Okay, what are the incremental yields inside J&K and outside just to get an idea.

Haseeb Drabu:

Incremental is about 13.5. Saday Sinha: Inside J&K?

Haseeb Drabu:

Incremental, yes.

Saday Sinha: And, outside.

Haseeb Drabu: Outside, it is about 9.9.

Saday Sinha: Okay, okay.

Haseeb Drabu:
It is under 10.

Saday Sinha: Okay, okay, under 10, and another question sir. I was just looking at the incremental CD ratio, it has grown 32% this quarter, I am just talking about growth from second quarter onwards in this quarter itself. Can you just throw some light, maybe in fourth quarter how we are likely to grow.

Haseeb Drabu:

Well, I mean, you see, the thing is that the signature will be made about 68-69%. The whole issue of Q3 is pure fund management because we want to avoid the mad rush of deposits towards Feb and March, so there has been early recourse in Q3, which is giving you a low incremental CD ratio, so that is not something that _____ 17:03 in these will be lower than what it would have been had we contracted deposits in Feb and March, so to that extend, you know, we are actually reversing _____ 17:15, and _____ 70% of credit _____ ratio. So, we had to take some recourse to additional figure in Q3 itself, but going forward, I think, we will look at the current rates of growth in advances and deposition slowing down because 30% growth in deposits are what is required at the moment.

Saday Sinha:
Okay.

Haseeb Drabu:

So, we will probably trend that down to about 25-26% to maintain our CD ratio, so going forward to Q4, you will see perhaps a 25% growth in advances and 25% growth in deposits.

Saday Sinha:

One question related to this, maybe because you are a banker as well as the economist, so how you think when the banks will start cutting their rates, because you know HDFC Limited has just now yesterday they announced 25 basis point cut in their PLR. So, why other banks, not only as J&K, how other banks will start reacting to the monetary policy.

Haseeb Drabu:

I am not so sure, if there is anything to react at the moment regarding the monetary policy to be honest with you, I mean, I do not see anything that would force a bank to cut rates. As it is, deposits are very sticky and then the entire process on _____ 18:24 deposits by governments through various mechanisms has not yet come down. So, where is the need and where is the pressure to reduce it. Appetite has not yet gone down. There is a kind of more of demand. I think, if the liquidity condition remains what they are, my own sense is that banks will do far greater SLR investments that you have done so far in anticipation of interest rates coming down and they booking profits. So, whatever liquidity will be, will be sucked into that part, so it will be not enough to actually drive down rates. Where I do see rates coming down is sometime towards April, where perhaps RBI would then come in with some directions, thereby they should come down. Even if they do a repo rate cut at that stage, because you know, if you see in high _____ 19:17 conditions, repo rate really does not matter, what matters is reverse repo. They may not cut reverse repo but even if the repo

rate comes, then the banks would react. By then, we will have some clarity on what is government's own preemption in the budget because budget would have been announced by then. There will be indications there. If the taxations and all are, you know, kind of reduced, then I think that will also beef up the economy a bit more and you would want them to further up whole thing without rate cut. So, my own sense is that I would take a call sometime in April. I also do not see a rate cut happening in Feb and March because that is a mad time for deposits anyway. I may show you, you would know the fact that how rates move in Feb and March. At that point, I do not see a rate cut happening and J&K is very specific and we have not extended it to anybody except the old customers who are right now already there with us. It is on already contracted business, which is not having an impact or anything else. So it is perhaps more, you know, of a gesture if not anything else. So, to answer your question, I do not see rates to be cut _____ 20:25 even after the 50 basis point cut yesterday.

Saday Sinha:

Okay, okay. And, sir, because you know when through _____ 20:31 RBI has said why the banks, you know, are not cutting the deposit rate.

Haseeb Drabu:

I have answered their question. I told the governor, how do you expect us to do it. You have created a playing field which is very iniquitous. Mutual funds have all kinds of concessions and exemptions, we get none, so if they offer 12% or 13% minimum, how will I survive in this world. It takes a bank about 60 years to get deposits of 25,000 crores and Reliance can raise money in 10 days of 6000 crores. I mean, look at the anomaly of the situation, I think, it is very unfair about the governor to say that the banks should lend. How are we going to do that? He is preempting through SLR at 25%. He is preempting a 7.5 to CRR. It is a matter of public policy to allow that to happen. You cannot, you know, say this. I think the whole distortion arises because of the policy. There are serious distortions in public policy, not necessarily monetary policy but public policy, macroeconomic policy where it is not allowing banks to cut deposit rates. So, the distortion has to be removed. I mean, globally, we had agreed upon that CRR will be 3% but today it is 7.5%. Do you realize what has happened with Tarapur Committee and now, and that time Tarapur Committee even at 3% you were paying on balances of CRR, today even that has been withdrawn. So, where is the scope? Look at the general banking industry, margins are under pressure, so I do not quite subscribe to the governor moral suggestion on _____ 22:02 reduce. How will you reduce? Saday Sinha: Okay, okay, fair enough.

Haseeb Drabu:

And then you guys will ask us why is the margin down from 3.5 to 2.98?

Saday Sinha:

That is right. Fair enough. One more question sir. Can you just for the data point, what is the break up of you know investment in terms of SLR and non-SLRs.

Haseeb Drabu:

It is almost 90-10.

Saday Sinha: 90-10. And, in terms of _____ 22:22?

Haseeb Drabu:

About 65-35.

Saday Sinha:

Okay sir. Thank you. I am done with my questions.

Haseeb Drabu:

Thanks.

Moderator:

Thank you very much sir. from Fidelity. Mr. Mahesh. We have next on line Mr.

Mahesh Mahesh:

Hello, am I audible?

Haseeb Drabu:

Yes, yes. Hi Mahesh.

Mahesh:

I just wanted to just get some clarification on the excess SLR. You mentioned that your SLR was about 90% of your books?

Haseeb Drabu:

No, it is not the SLR. I was just telling the proportions in terms of our book. There is not excess SLR that we maintain right now.

Mahesh:

Okay.

Haseeb Drabu:

But, I said in terms of a proportion, we are going into non-SLR at the moment because the _____ 23:12 market is not doing too well, there is no quality paper as well.

Mahesh:

Right.

Haseeb Drabu:

So, we are not into building up a book on that front.

Mahesh:

And on your liabilities side, what would be the proportion of your short-term borrowing sir.

Haseeb Drabu:

Short term, meaning what, less than 1 year.

Mahesh:

Yes, yes, yes.

Haseeb Drabu:

Would be about 35-40%.

Mahesh:

Okay, and I do not know whether you had mentioned it earlier, the breakup of deposits which are there in J&K and outside J&K, the proportion?

Haseeb Drabu:

It does vary, but when you look at it as of date, it will be about 55 outside and 45 within J&K.

Mahesh:

Okay.

Haseeb Drabu:

But, typically, it is about 60-40. 60 inside J&K, 40 outside J&K.

Mahesh:

Okay.

Haseeb Drabu:

It moves with time and you know kind of _____ 24:02 actually our deposit positions starts emerging now because we have a heavily, what should I say, not agricultural both horticultural economy and all the incomes come now, between now and March, so that it builds up our deposit _____ 24:22 substantially.

Mahesh: Okay, okay. Sir, also could you give us some idea on the state government balances as far as your assets are concerned. How much is the percentage of state government's contribution.

Haseeb Drabu:

It is under 10%. We run a book of about 18,000 crores or 20,000 crores in advances and state government on a average is about 1800 crores on overdraft. That is about it.

Mahesh:

Okay.

Haseeb Drabu:

We have no other exposure to them. It goes to about 2200 at its peak and it comes down to about 1600 at its lowest, so we have about 500-600 crores of fluctuation volatility and this varies depending on when the finance from Government of India come to J&K, so in any case, the contribution is less than 10% and we are not over exposed to them and the contribution of theirs into the total interest income is about 8%.

Mahesh:

About 8%. with us. Okay, okay and do they also keep some deposits

Haseeb Drabu:

They do, they do. I mean there are deposits all over the place if they have, but again that is like you know very volatile deposits.

Mahesh:

Okay.

Haseeb Drabu:

Or if you would average it out, on fortnightly average it would not be more than 7% to 8% of the total. Mahesh: Alright. Thank you so much.

Haseeb Drabu:

Welcome.

Moderator:

Thank you very much sir. We have _____25:52 from Reliance Mutual Funds. nextonline,Mr. Male

Speaker:

Good afternoon sir.

Haseeb Drabu:

Good afternoon.

Male Speaker:

Just wanted to have a clarification. This recovery of 55 crores, is that the one that has been routed to the P&L for this quarter or that is the total recovery.

Haseeb Drabu:

No, that is not _____ 26:07 . Male

Speaker:

Sorry ?

Haseeb Drabu:

_____26:11 it is the pure recovery.

Male speaker:

Pure recovery, so how much of it was routed through P&L.

Haseeb Drabu:

I think 14 to 15 crores.

Male speaker:

14 to 15 crores, okay, and second question, what will be your average tenure of our deposits ?

Haseeb Drabu:

Average tenure will be in the range of 18 to 24 months.

Male Speaker:

18 to 24 months, and what would be the same for the advances.

Haseeb Drabu:

Advances will be now actually above 3 years _____26:39. We are basically, it would be towards 27 months to 28 months, within 24 to 26.

Male Speaker:
Okay.

Haseeb Drabu:
They are longer than our deposits, but there is no asset liability mismatch per se.

Male Speaker:
Okay, okay. How much of the advances would be of floating based.

Haseeb Drabu:
See we are peculiar. If you were to add _____ 27:03 aggregated rate, then if you take that out which is about 2.5 thousand and say about 16 thousand crores we are talking of, we will be about 60% floating now.

Male Speaker:
60% floating.

Haseeb Drabu:
Yes.

Male Speaker:
Excluding the 1800 crores of the state government.

Haseeb Drabu:
Of the state government... yeah...

Male Speaker:
Why have we reduced that, because that is regulated, is it ?

Haseeb Drabu:
We decided that. You know, it is not like automatic movements of _____ 27:27, and it is gradual. It is like after 1200, we have a certain rate. Above 1200 to 1800, we have a certain rate.

Male Speaker:
Okay.

Haseeb Drabu:
It is more like an administered rate....

Male Speaker:
But that will be to a discount to a normal ending rate.

Haseeb Drabu:
It is _____. 27:36.

Male Speaker:
Okay, okay. And sir if you can just give us a flavor of the J&K state economy, how is it doing and what is the size of the economy?

Haseeb Drabu:
Well, we have been growing at about 9 to 9.5%.

Male Speaker:
Sure, okay.

Haseeb Drabu:
In real terms.

Male Speaker:
In real terms, okay.

Haseeb Drabu:
State domestic product is about 30,000 crores.

Male Speaker:
Alright.

Haseeb Drabu:
Per capita is about 20,000.

Male Speaker:
Alright.

Haseeb Drabu:
Compared to 24 nationally.

Male Speaker:
Alright.

Haseeb Drabu:
It is a split between 20% in agriculture, a very large trade in retail sector.

Male Speaker:
Okay.

Haseeb Drabu:
Almost to about 60% and about 25% to 30% of SMEs.

Male Speaker:
Alright.

Haseeb Drabu:
SMEs are growing very fast and rapidly.

Male Speaker:
Where are these SMEs, which sector would they be sir ?

Haseeb Drabu:
This is geographically in Jammu, but these are in all sectors. This is like because you have an national policy we will give exemption on sales tax, income tax, corporate tax and so on so forth, hello ?

Male Speaker:
Yeah.

Haseeb Drabu:

It is all kinds. It goes from, I do not know, pharmaceuticals to electronics and you have, you know, paints.

Male Speaker:

Okay.

Haseeb Drabu:

All kinds of things and some of them are _____ 29:00 industry.

Male Speaker:

Okay.

Haseeb Drabu:

It is a bit of a mix of _____ 29:06 largely driven by the industrial policy which goes on to 2015, which gives exemptions on almost everything including CAPEX subsidy and so on so forth. Male Speaker: And what would be the GDP right now running, in the J&K state economy.

Haseeb Drabu:

Very, very low.

Male Speaker:

Very low, is it. Yet to be in the order of.....

Haseeb Drabu:

22% exactly.

Male Speaker:

Okay, okay. Great sir. That is about it. Thank you very much.

Haseeb Drabu:

Thanks.

Moderator:

Thank you very much sir. We have next question from Mr. Srivath from Hindu Business Line.

Mr. Srivath:

Sir, I just wanted to ask you, are you planning to raise more capital this quarter to fund your business growth.

Haseeb Drabu:

Well I am raising more capital. I am raising this quarter, but I am not raising to fund business growth.

Mr. Srivath:

Okay.

Haseeb Drabu:

There are three sets of objectives for us for raising capital.

Mr. Srivath:
Yeah.

Haseeb Drabu:
One is statistics, one is inventory....it is not inventory, and one is business area. So, in some ways we are looking at raising capital for not really business, business as in normal business purposes. We have a capital adequacy of 13, so I can actually run it down to substantially. There is no _____30:23, more for strategic purposes.

Mr. Srivath:
Okay, and this would be what upper Tier 2 or would it be perpetual bonds.

Haseeb Drabu:
No, no, this is pure GDR.

Mr. Srivath:
True GDR. It would be only through GDR.

Haseeb Drabu:
Yes, only through GDR.

Mr. Srivath:
And you hope this issue would happen this quarter ?

Haseeb Drabu:
Yes, of course.

Mr. Srivath:
Okay, and can you elaborate when you say it is strategic. Are you looking at some inorganic moves or

Haseeb Drabu:
You see, the issue is right now in actually full swing. We have done all the due diligence. We have got all the permissions. We have submitted to NSE and so and so forth.

Mr. Srivath:
Okay.

Haseeb Drabu:
I am not really not supposed to speak on this. I have to get legally _____31:15.

Mr. Srivath:
Oh, I see. Okay.

Haseeb Drabu:
Give me a few days then I can speak to you.

Mr. Srivath:
After a few days ?
Haseeb Drabu:

Yeah.

Mr. Srivath:

Okay, so I mean can you talk about the issue per seyou are looking

Haseeb Drabu:

It has been all in the papers. It is a 100 million issue.

Mr. Srivath:

Yeah.

Haseeb Drabu:

In GDR.

Mr. Srivath:

Yeah.

Haseeb Drabu:

And we have sent _____ 31:33 this project this month.

Mr. Srivath:

Okay.

Haseeb Drabu:

And state government has already given preferential allotment. They will maintain the 51%.

Mr. Srivath:

Okay.

Haseeb Drabu:

And they have already committed to this putting in their part of the fund.

Mr. Srivath:

Okay.

Haseeb Drabu:

Pretty much, these all I mean, papers of all kinds, including _____ 31:49 guidance.

Mr. Srivath:

Yeah, yeah, that is right yeah. Fine sir. I was just wondering whether is there is any end use of those funds would it be

Haseeb Drabu:

That would be a dicey at the moment, but I should be able to tell you know in a while from now. Mr. Srivath: Okay, fine sir. Okay sir. Thank you sir.

Moderator:

Thank you very much sir. The next question comes from Mr. Piyush from HSBC.

Mr. Piyush:
Sir, good afternoon.

Haseeb Drabu:
Good afternoon.

Mr. Piyush:
Sir, just a couple of questions. You have recently issued warrants to J&K government.

Haseeb Drabu:
Yes.

Mr. Piyush:
So, at what rate those are convertibles ?

Haseeb Drabu:
It ____ 32:25 market rate at the point of time.

Mr. Piyush:
That will be decided upon

Haseeb Drabu:
No, I said this is the market rate.

Mr. Piyush:
Market rate, so do you know what is the market rate means at that point of time, what is the market rate.

Haseeb Drabu:
682.

Mr. Piyush:
682.

Haseeb Drabu:
Yeah.

Mr. Piyush:
Okay. Sir, regarding AS-15, what is our total transitional liability and what the bank is doing regarding that ?

Haseeb Drabu:
I think it complies with it. I cannot tell you the exact number of liability, but we are compliant with it.

Mr. Piyush:
You are compliant with it, that means you have fully provided what ever was required.

Haseeb Drabu:
Absolutely as of last quarter.

Mr. Piyush:
As of last quarter.

Haseeb Drabu:
Yeah.

Mr. Piyush:
That means the total transitional liability you are providing over five years or.....

Haseeb Drabu:
Five years.

Mr. Piyush:
Five years.

Haseeb Drabu:
_____33:06, this is the part of our disclosures on the results as well.....

Mr. Piyush:
Okay.

Haseeb Drabu:
.....that we have done this33:11 three years, I think three year not five years.

Mr. Piyush:
How much you have provided during the quarter ?

Haseeb Drabu:
Sorry, five years, and I think we are providing 6 crores every quarter.

Mr. Piyush:
Six crores every quarter.

Haseeb Drabu:
Yeah.

Mr. Piyush:
Okay. So, that will be provided only for three quarters.

Haseeb Drabu:
Yeah.

Mr. Piyush:
Okay, and sir, regarding your investor on book, we are seeing the 65% is HTM and 35% of AFS, so if you are expecting that the interest rate would not decline until February-March where we can see a little bit of increase as well because of the growth in deposits demand ...

Haseeb Drabu:
Yeah.

Mr. Piyush:
Is not the bank vulnerable to take any mark-to-market losses at that point of time ?

Haseeb Drabu:
No, no, what is that AFS booked in duration

Mr. Piyush: 33%.

Haseeb Drabu:
Yeah, but duration-wise, 91 days

Mr. Piyush:
Okay, that means the average duration is low.

Haseeb Drabu:
Yeah, it is less than one year.

Mr. Piyush:
Less than one year _____ 34:14.

Haseeb Drabu:
Yeah.

Mr. Piyush:
Okay, so that is very good. And sir, what is the NIMS last year.

Haseeb Drabu:
NIMS last year, we ended the year, I think at 3.25. Mr. Piyush: 3.25. Haseeb Drabu: Yeah. Mr. Piyush: And what was the NIMS as of December 31, 2007. Haseeb Drabu: It was 2.98. Mr. Piyush: 2.98. Haseeb Drabu: Yeah. Mr. Piyush: So, do we expect the NIMS to expand going forward for the fourth quarter.

Haseeb Drabu: It will be about 3 to 3.1.

Mr. Piyush:
Okay sir. Thank you very much.

Haseeb Drabu:
Thanks. Bye, bye.

Moderator:
Thank you very much sir. Participants who wish to ask a question, I request them to press *1 on your telephone keypad. The next question comes from Mr. Anil Sharma from ASK Investment Management.

Anil Sharma:

Yeah Sir, hi. Sir, expanding on your strategy of advances on J&K and outside J&K, can you throw some color as to which sectors you are lending which gives rise to this differential yield between.....

Haseeb Drabu:

Differential yield is not sector driven, it is geography.

Anil Sharma:

Okay.

Haseeb Drabu:

In a sense there is no other lenders so we do charge a____35:23 that is one.

Anil Sharma:

Okay.

Haseeb Drabu:

Second, sector-wise, because we are lending retail vis-à-vis corporate, it always tends to be higher.

Anil Sharma:

Okay. But Sir outside J&K it will be mostly specialized segments which will be SME in nature, why is the yield so different as to 9.9 versus 13.5.

Haseeb Drabu:

Actually with 9.9, what I meant was the average we have on our side of J&K. Incremental, I think, we have done 10.25 or 10.5 now.

Anil Sharma:

Okay.

Haseeb Drabu:

But by and large what has happened is, you know, the differentials have reduced, not because of the reduction in the yield in J&K but the incidental yield outside J&K. I think that has happened but not quite as much as we expected. It is 13.5 in J&K, we do expect about 11 outside. I think we will be doing that this quarter because we have _____36:02 lot of our assets now, and the only issue is that _____36:14, so volumes are still very, very small, and that is not having an impact, and so in infact we are lending at it about 12 to 12.5 to 13 incrementally rest of the country, but the volumes are like 100, 200, 300 crores, and that is not having any impact on the book which is like you know 10,000 crores, 20,000 crores.

Anil Sharma:

When do you think Sir this will gain critical mass where in you can have you know yields which are comparable ?

Haseeb Drabu:

Well, that is not comparable, but I would imagine another year. In the course of this year, we should be able to it. If I am talking to you next Jan-Feb, I think that

is when I would be able to say that, that has attained a critical mass, you would have seen the difference.

Anil Sharma:

Okay, and sir, within the horticulture portfolios, how are we expanded, which are the new lines which you are targeting now, outside J&K.

Haseeb Drabu:

Outside J&K, we are looking at biotechnology, it is serious. We are looking at gems and jewelry as something. These two new areas we are looking at, one in Rajasthan and one in Pune, in addition to what we have done earlier. So, these are the two lines we are looking at now.

Anil Sharma:

And sir, within J&K, can you please give us a breakup between retail, SME, and other sector ?

Haseeb Drabu:

Well, it would be about 40 percentage SME, another 35% would be retail, and the rest would be horticulture.

Anil Sharma: Sir, lastly, the branch network, how it is expanding in J&K and outside J&K ?

Haseeb Drabu:

We are expanding faster in J&K, and as I said, that is for every three branches in J&K, I will open one outside J&K.

Anil Sharma: Okay.

Haseeb Drabu:

We are sticking to that. We have a branch in every block of J&K, which was what I had said it by the end of this year, I will have a branch in every block which has been done. We are now penetrating below the block also. We have now crossed 300 in J&K. We have cross 560 as total aggregate, and we are now hoping to slow down the branch network in J&K because this has now reached a situation of adequacy. On the contrary, now we are spending some money on refurbishing our branches and scaling them up, giving an ambiance and environment of new private sector bank.

Anil Sharma:

Okay.

Haseeb Drabu:

So, that is what the process is all now.

Anil Sharma:

Okay.

Haseeb Drabu:

You know it has been designed according modern lines and so and so forth, so that will give a better feel to our branches, but in terms of network, I think we have now reached a stage where we will, you know, rethink the whole expansion

program because we have with, as I said, in every block, and now to go to below block level also, we will impair the viability of each branch, but there are some pockets which are underserved, which is like Western Jammu and Northern Kashmir, and we are building our branches there now.

Anil Sharma:

Okay. Sir, just in terms of number, what is the total branches we would have as of date ?

Haseeb Drabu:

500 to 560.

Anil Sharma:

And J&K would be ?

Haseeb Drabu:

310.

Anil Sharma:

Sorry?

Haseeb Drabu: 310.

Anil Sharma:

310, okay. Thank you Sir. Thank you so much. Bye.

Moderator:

Thank you very much sir. Participants who wish to ask a question are requested to press *1 on your telephone keypad. We have next on line Mr. Shashin from Alchemy Stock.

Mr. Shashin:

Good morning Sir. Just wanted to know one thing. What would be the CD ratio in J&K branches ?

Haseeb Drabu:

About 42, 43.

Mr. Shashin:

And CASA will be at similar proportion ?

Haseeb Drabu: 63%.

Mr. Shashin:

Sorry?

Haseeb Drabu:

63.

Mr. Shashin:

63%, and sir, just wanted to understand in terms of slippages in state of J&K, what would be the percentage out there ?

Haseeb Drabu:

We have actually much better track record there. In terms of gross NPA, we are at under 2% there, advances in J&K, more like 1.8, so but there is no provision done geographically. can't give you a net number, but gross wise it is almost half of what we have outside of J&K.

Mr. Shashin:

Okay, and just to understand the warrants that you have issued to government.

Haseeb Drabu:

Yes.

Mr. Shashin:

Sir, the money has already come into your system?

Haseeb Drabu:

Yes, it has.

Mr. Shashin:

It has, and that would be reflected in this quarterly, Q3 ?

Haseeb Drabu:

No, no.

Mr. Shashin:

So, it has come in current quarter.

Haseeb Drabu:

Yes.

Mr. Shashin:

Okay, and by the end of this quarter, you would have the complete amount.

Haseeb Drabu:

Absolutely yes.

Mr. Shashin:

And sir vesting of the warrants would happen immediately the day you, you know, vest the GDRs.

Haseeb Drabu:

Yes. It will be run parallelly, so that at no stage will the state government go below 51%. It will be done in a transactional real-time basis, so that as the money has come in, these warrants are converted and money is issued _____41:25. At no stage, will the state government go below 51%.

Anil Sharma:

Okay.

Haseeb Drabu:

Even in the process of transaction itself.

Anil Sharma:

Okay. Sir, I just wanted to understand one thing, what would be comfortable, means sir, your CD ratio is somewhere around 70% as of now.

Haseeb Drabu:

65, 66, 67 is what we are looking at.

Anil Sharma:

Okay, going forward also. Okay, so trading as in treasury book will also play active role ?

Haseeb Drabu:

Yes, we will start those getting now.

Anil Sharma:

Okay, okay, right Sir, thank you.

Haseeb Drabu: Thanks.

Moderator:

Thank you very much Sir. Participants who wish to ask a question are requested to press *1 on your telephone keypad. We have next on line Ms. Himani from Citi Group.

Ms. Himani:

Hello Sir.

Haseeb Drabu:

Hi.

Ms. Himani:

Sir, I think, I may have joined late, but Sir what is the split between the AFS and HTM.

Haseeb Drabu:

65 and 35.

Ms. Himani:

65 is AFS.

Haseeb Drabu:

Is HTM.

Ms. Himani:

Is HTM, and sir, duration you said is less than 1.

Haseeb Drabu:

Yes.

Ms. Himani:

Okay, and sir what would be the duration on the entire portfolio.

Haseeb Drabu:
Is about 2 years.

Ms. Himani:
Okay sir, thank you.

Moderator:
Thank you very much ma'am. Now, we have a followup question from Ms. Lakshmi from Capital Market.

Ms. Lakshmi:
Hello, this is regarding your cost of deposit. You said it is going high, so how would you see in future, when will you bring it down or how is it going to be ?
Haseeb Drabu: Well, I have been saying that you know that this is something that is not in your J&K bank. Every where it is going up. Ours strength is that we can _____43:11 in J&K, but the way we are shedding, our recurring deposits comes in bulk and retail comes in trickles, so there is a gap where we are now doing gap filling to high cost deposits. Yes, we will bring it down some levels of about 6 point or 6 to about 5.5. There is no two ways to it except _____43:30, and we are getting into areas in J&K which are virgin and can constitute lot of retail deposits, so that would bring the cost of deposits down, and we do hope that our advances yield outstrips our deposits _____43:47but second level is to bring down in absolute terms _____43:54.

Ms. Lakshmi:
Okay. Are you planning to increase your CASA also?

Haseeb Drabu:
Automatically, 35 to 40%, as I said that we had touched 40, and we will go back to that level. There is also a seasonality on deposits, and Q3 is a bad time, Q4 it improves because a lot of incomes come back to J&K from sale of fruit and so on so forth, and that will start _____44:15.

Ms. Lakshmi:
Okay.

Haseeb Drabu:
So that is how it is.

Ms. Lakshmi:
Thank you.

Haseeb Drabu:

Thanks.

Moderator:

Thank you very much ma'am. Participants who wish to ask a question are requested to press *1 on your telephone keypad. At this moment, there are no further questions from participants. I would like to handover the floor back to Mr.

Chinmay Desai for final remarks. Chinmay Desai: Thank you Dr. Drabu for allowing us to host the call. Thanks.

Haseeb Drabu:

Thank you Chinmay, thanks very much.

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

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