Good evening everyone!

Hearty welcome to all of you for this concall to discuss the audited financial results of City Union Bank for the Fourth Quarter / Financial year ended 31.03.2022. The Board approved the results today and hope you all have the copies of results and the presentation. The Board has recommended for payment of dividend of Re.1 per share i.e 100% on face value of Re.1/- per equity share of the Bank, the payment of which will be subject to the approval by the shareholders of the Bank at the ensuing Annual General Meeting.

As you might have seen from the numbers, the COVID is finally over. Things are back to pre-COVID level almost on all fronts. We hope that the impact of Ukraine war on economy won't extend indefinitely. But for this unknown, everything else seems to be under control.

On the management side, RBI has approved the appointment of Sri. M. Narayanan as the Non-executive part-time Chairman of the bank. Sri. M. Narayanan, a Chartered accountant by profession, had assumed office as part time Chairman of the bank effective from 4th May 2022 in place of Sri. R. Mohan, who had successfully completed his tenor of 3 years on 3rd May 2022 as approved by RBI. Sri. R.Mohan will be retiring from Board on 27.06.2022. Sri. M.Narayanan joined the Board on 03.05.2016 and served many committees including that of Chairman of Audit Committee. He will serve as non-executive part-time Chairman for two years.

Prof. Dr.Veezhinathan Kamakoti, Director of IIT Madras, has been inducted in to our Board as an additional director with effect from today. He had already served in the Board from April 2011 to April 2019 and also served as Chairman of Information Technology Committee in the past. Being a professor in Computer Science he will add more value to the Bank on improvement and development in technology front.

On performance side, we shared with you all the following expectations for FY22 during our earlier concalls;

- We had said that we would be achieving mid to high single digit credit growth for FY22. ***We closed FY22 with a double digit credit growth of 11%.***

- We had said that Gross and Net NPA % for year FY 2022 would be lower than that of FY 21. ***Our Gross and Net NPA % has come down below that of FY 21.***

- We had said that Recovery operations were back on full-swing following the full functioning of Courts and we could even see collections more than the slippages. ***Our Q4 recovery is Rs.277 crs Cr comprising of Rs.211 crs from live accounts and Rs.66 crs from technically written off accounts crossing Q4 slippages of Rs.221 crs. This is the highest recovery happened in any quarter in the history of our Bank.***

- We said that the RoA to reach a level of 1.50% towards the second half of financial year FY 2022-23. ***Current Quarter ROA is at 1.4% and we are on track to achieve ROA of 1.5%.***

The highlights of financial performance for FY 2022 are as follows:

- Deposits recorded a growth of 7% from Rs. 44,537 crs to Rs. 47,690 crs
- Credit grew by 11% from Rs. 37,021 crs to Rs. 41,156 crs
- Business grew by 9% and stood at Rs. 88,846 crs on 31.03.2022
- CASA recorded growth of 20% to Rs.15,529 crs from Rs.12,981 crs and CASA% to deposits improved to 33% in FY 22 against 29% in FY 21.
- Net profit improved by 28% from Rs.593 Crs to Rs.760 Cr. Net profit for Q4'22 is Rs.209 crs which is highest in any quarter
- ROA stands improved to 1.35% in FY 2022 as against 1.15% in FY 2021 and 1.42% for Q4 FY 22
- NIM is 4.01% for Q4 FY 2022 and 3.98% for FY 22 – on daily average basis.
- Gross NPA is at 4.70% & Net NPA stood at 2.95% on 31.3.2022 - both sequentially got reduced by 51 bps and 49 bps respectively in Q4'22.

The progress made so far is even better than what we had expected earlier.

Until Q3 '22, we were growing only through Gold Loans & ECLGS as there was less confidence on General Economy. With the improvement in economic situation, we started to push for growth in a slow and steady manner starting from Q4 '22. During our last concall, we stated that could see improved credit growth and we will look beyond Gold Loans and ECLGS. We will continue to push for credit growth and we should be having low to mid double digit growth for FY 23 as well. Out of Rs.4,135 crs credit growth in FY 22, Rs.2,463 crs is from gold loan. In Q4 '22, out of Rs.2,769 crs credit growth, Rs.834 cr is from Gold loan and Rs.1,935 crs from other advances.

The slippage during Q1, Q2, Q3 FY 22 are Rs.482 crs, Rs.297 crs and Rs.275 crs respectively. As expected, the slippage for Q4 FY 22 was at Rs.221 crs which is much lower than the earlier quarters. We had also stated that we will be reaching to a level where the recoveries will be more than slippages. As explained earlier, Q4 total recoveries surpassed the slippages during the quarter. We hope the recoveries will show improvement for the FY 2023 as a whole, though there could be quarterly aberrations.

As explained earlier, In Q4 '22 we recorded a total recovery of Rs.277 crs Cr comprising of Rs.211 crs from live accounts and Rs.66 crs from technically written off accounts compared to Rs.228 crs comprising of Rs.186 crs from live accounts and Rs.42 crs from TW accounts in Q3 '22. The current quarter recovery is being the highest in history of our bank surpassing the Q3 recovery by Rs.49 crs, and still we expect it to improve from here. For FY 22 the total recovery was Rs. 794 crs consisting of live recovery of 606 crs and collection through TW a/cs at Rs. 188 crs against Rs. 221 crs and 103 crs respectively for FY 21. We expect that this trend will be continued in the coming quarters. This improvement in recovery coupled with reduction in slippage will make significant contribution to our RoA improvement in the coming years.

During our last concall, we had briefed about the status of M/s Spicejet. We wish to provide an update on the same:

The cash credit account of Spicejet was not renewed and should have been classified as NPA on 2nd May 2022, i.e Q1 of current year, even though they are continuing to service the interest amount. Spicejet had filed a case against the bank before the District Magistrate, Gurgaon insisting that their account should not be classified as NPA. In the mean time the District Court had issued an interim stay for classifying the account as NPA. Till Q3 '22, we had earmarked a contingent provision of Rs.40 crs and we made an additional contingent provision of Rs.45 crs in Q4 '22 taking the total provision to Rs.85 crs against their total outstanding of Rs.100 crs.

The overall o/s balance of borrowers who availed ECLGS as at 31.03.2022 is Rs.14,366 crs as against Rs.13,644 cr as on 31.12.2021. The ECLGS portion as on 31.3.2022 is Rs.2,656 crs as against Rs.2,626 crs as on 31.12.2021. The SMA 1 & SMA 2 portion as of 31.03.2022 was Rs.213.95 crs (1.49%) and Rs.68.41 crs (0.48%) respectively. All these accounts are continuing to repay their regular term loan installments and there is no moratorium given for their regular installments.

As at 31.03.2022 about 1913 borrowers amounting to Rs. 2184 crs remain as restructured category. Out of which, the repayment was started for accounts amounting to Rs.1,308 crs (constituting 60% of restructure book) and for the remaining Rs.876 crs, the repayment is yet to commence. Those accounts where the repayment demand has not started (i.e Rs.876 crs which are still in moratorium) accounts with about 59% of outstanding (Rs.517 crs) have already paid their monthly installments in advance before the commencement of due date for more than 3 months and 24% of outstandings (Rs.210 crs) have already paid installments in advance before due date for 1 or 2 months leaving only 17% (Rs.149 crs) which are effectively availing moratorium. The o/s portion of SMA 1 and SMA 2 is Rs.249 crs and Rs.138 crs respectively out of the said restructured advances of Rs.2,184 crs. Overall restructured portfolio currently stands at 5.31% against 5.74% in Q3'22

We have discussed many times about the SMA 2 numbers which used to be in the range of 5% to 7% in the pre-covid days and which was reduced to 3.04% in Q1 '22 , 2.59% in Q2 '22 and 1.98% for Q3 '22. The current SMA 2 number further reduced to 1.36% which includes accounts from ECLGS, Restructured and also regular accounts. As stated earlier, the overall improvement in economy post-COVID as well as our constant follow-up and monitoring efforts which we took in the pandemic period has resulted in reduction of SMA numbers. We have to wait and see if the economic uncertainties caused by Ukraine war will have any impact.

During our Q3 concall, we stated that we do not foresee any significant contribution from domestic treasury profit front due to unfavorable yield movements. For Q4 '22, we had a trading profit of only Rs.11 lakhs and for the full financial year it was Rs. 62 crs as against Rs. 233 crs in FY 21. The treasury profit on the whole declined to Rs. 246 crs for FY 22 against Rs.309 crs in FY 21. The present changes in the monetary policy is leading to yield movements upwards and we may not have favourable income from domestic treasury operations during FY 2023. Till such time, the other income will be compensated to some extent by improved recoveries. At the same time, by proper management of duration, we expect minimum MTM provision for AFS/HFT going forward.

The Cost to Income Ratio for Q4 '22 and FY 22 was respectively at 37.49 % and 40.37 % as against 49.17% & 41.72% in Q4 '21 / FY21. The operating expenses had sustained at the earlier year levels and on the other hand the increase in suit recoveries had improved the other income which had resulted in marginal reduction in CIR. Because of expected poor profit from treasury, the CIR for current year is expected to be slight elevated and may increase to 42% to 45% range.

Capital Adequacy of the Bank stood at 20.85% for FY 22 Vs 19.52% in FY 21. We have not diluted any Capital in the last 7 years and the last time we have raised the funds was during July 2014 through QIP route to the tune of Rs.350 crs. Higher capital adequacy is mainly because of growth from gold loans, which carry zero risk weight.

For FY 22 we have earned an insurance income of Rs.21 crs against Rs.16 crs in FY 21. Apart from Life Insurance Corporation of India, we have identified 6 more partners for doing the bancassurance business. After the tie-up, we could see an increased contribution from insurance income from the current year FY 2022-23.

During the last quarter we had opened 23 branches taking the total number of branches to 727. We are planning to open another 50 to 75 branches across different states in India for the current financial year.

The operating profit for Q4' 22 was at Rs.440 crs compared to Rs.299 crs corresponding period last year. For FY 22 it stood at Rs. 1,595 crs against Rs. 1,468 crs in FY 21.

The Total provision made during Q4 '22 was Rs.231 crs against Rs.188 crs in Q4 '21. For FY 22 it was Rs. 835 crs as against Rs. 875 crs in FY 21.

The net profit for Q4 '22 and FY 22 was at Rs.209 crs and Rs. 760 crs against Rs.111 crs & Rs. 593 crs during Q4 '21 & FY 21. For the first time in our history we crossed Rs.200 crs PAT in a quarter. If Covid had not struck, this should have been the profit we could have made in FY 20.

The Net Interest Margin stood at 4.01% in Q4 '22 compared to 3.72% in Q4 '21. The NIM for FY 22 stood at 3.98% and it should stay around current level plus or minus 10 – 20 basis points.

With the contribution from improved recovery management coupled with reduced slippages, we hope that we will achieve 1.50% of ROA soon as we have been stating in our earlier concalls.

On the SR front, of the outstanding of Rs.143 crs as at 31.03.2021, we have received a payment of Rs.54 crs in FY 21-22 and the outstanding SR for 31.03.2022 stood at Rs.92 crs. We hold a provision of Rs.64 Crs for the same. At peak level, we had SR to the tune of Rs.375 crs on Mar 2015 and we recovered about Rs.205+ crs from it.

During last concall, we had discussed in detail about the latest digital initiatives like Neo Banking/ Open Banking, introduction of contactless payment solutions through wearable by way of CUB Easy Pay - CUB Key Chain Debit Card and CUBFit Watch Debit Card and also offering Application Programming Interface (API) Banking by partnering with IBM.

We have also launched F-Ex retail platform for customers so that they can finalize the buying/selling rates themselves. Apart from that, the submission of Import LC application is enabled through net banking so that the time needed for typing and submitting the LC document to branch is saved for our customers.

'Credit card' is one missing product in our offering. We tied up with SBI cards for giving 'co-branding cards' to our customers. Unsecured credit had not been our core strength in the past. We feel it is time to launch our own credit card. The general consensus is that ratio between debit cards and credit cards issued by the bank is 3:1 or so. We currently have 26 lakhs debit cards meaning that our customers should have around 9 lakh credit cards. You might have observed some of our peer banks have tied up with a company for giving cards.

Meanwhile, we received a proposal from a company called '42CS' lead by Mr G.G. Srinivas and team which had managed credit cards for multiple Banks in India and other markets in the past, mentored by Mr.P.R. Seshadri, former MD, Karur Vysya Bank. They will be the Third party service provider (TSP) for the bank in providing technology and operational services on profit sharing basis. We will start slowly and steadily covering our existing customers. Final nitty gritties are being worked out. Soon we will be linking the wearables with the credit card as well so that the customers will be keen in using it more by availing all the benefits through the credit card.

I want to re-emphasis, there is no change in our risk appetite and we will be extremely careful in building this business.

As suggested in the earlier calls, we are striving our best to be on par with the best in terms of our digital initiatives and you might have seen us being the 'pioneer' in many digital initiatives like Robotics or Wearables. You can be rest assured that we will do everything to be on par with the best. We not making big fuss do not mean that we are outdated in 'Digital'.

To Sum up,

For FY2022-2023,

- ✓ Covid is behind us and hope uncertainties of Ukraine war will not last indefinitely.
- ✓ The credit growth will be at lower to mid double digit.
- ✓ Expected overall slippages in the range of 2% to 2.50%.
- ✓ Slippages should come down and recoveries should improve from current year resulting in Gross and Net NPA significantly reducing by year end.
- ✓ Net Interest Margin to stay around 3.85% to 4%
- ✓ Working towards ROA level to reach 1.50%
- ✓ Cost to Income ratio may hover between 42% to 45% in the absence of Treasury Income