Financial Results for Quarter / Nine Months Ended December 2016

1. **Highlights of performance of the Bank during the period ended December 31, 2016 vis-a-vis the previous year may be reported.**

   Total business of the Bank increased Y-o-Y by 3.90% (Rs.9,145 crore) to Rs. 2,43,717 crore as of 31.12.2016. Total deposits increased by 8.55% (Rs.11,147 crore) to Rs.1,41,500 crore. Bank continued to improve its CASA share through steady growth, which on Y-o-Y basis increased by Rs.14,431 crore (31.53%) to Rs.60,195 crore, thereby improving CASA share 42.54% as on 31.12.2016 (from 35.11% as on 31.12.2015). Consequently, cost of deposits have come down by 74 bps Y-o-Y to 5.99% for Q3 FY17.

   Gross advances stood at Rs.1,02,217 crore as on 31.12.2016. There was marginal decline in gross advances due to reduction in corporate loans and conversion of credit exposure to DISCOMs into investment. Non-corporate advances have grown by more than 8% (Rs.3501 crore) Y-o-Y. During the same period, retail advances have grown by about 5% and advances to MSEs have grown by 11%.

2. **Can some indication be given on an overall loan book growth during the current year?**

   Retail advances have grown by Rs. 2,544 crore from March 2016. However, there was de-growth in corporate exposure, which is yet to pick up. Advances growth in the fourth quarter is generally much higher than other three quarters. We expect gross advances level at end of the year to be more than Rs.1,08,000 crore.

   Asset quality is definitely an area of concern. Pressure continued during the three quarters of the current year also, due to slow pace of recovery. Resultantly, gross NPA ended at Rs.15,418 crore (15.08%). Net NPA stands at Rs.10,359 crore (i.e. 10.67%).

   It is difficult to predict the numbers at this point of time. However, there is declining trend in fresh slippages during the last three quarters. We are hopeful that the situation will further improve in the last quarter, and good recovery performance will restrict Gross NPA at the Q3 level.

3. **Position of 5 / 25 and SDR that Bank has done in this quarter and the outstanding position in the standard book?**

   Advances covered under 5/25 scheme are about Rs.1500 crore. Total standard restructured advances as on 31.12.2016 were Rs.3,262 crore and standard advances under SDR were Rs.996 crore.

4. **What are the expected overall spread? Operating profit has fallen in the period ended Dec 2016 as compared to the previous year. Other PSU banks have reported turn around by showing operating profit growth despite pressure on asset quality?**

   In the first nine months of the year, interest expenses have come down due to fall in deposit rates and borrowing costs. As a result, cost declined by 52 bps. Falling yield on investment, reduction in lending rates (MCLR) at regular intervals as well as increase in NPA has resulted in overall yields reducing by 85 bps. Consequently, overall spread has declined by 63 bps to 2.04% for 9M ended December 2016. Based on current trends, there is unlikely to be any large variance in spreads from the present levels for the current year.

   The Bank was able to meet the provision requirements and report positive bottom line during FY 2015-16. Increase in NPAs and falling yields have impacted the operating profit in the first two quarters of FY 2016-17. However, due to improved treasury earnings operating profit in Q3 increased by Rs.88 crore sequentially. Arresting slippages and improved recovery expected in the fourth quarter, will help in retaining OPM levels, which will be assisted by improved credit offtake. Bank is hopeful that the measures initiated by Government will further support the overall economic growth and thereby improve profitability.

5. What could be the position of net interest income growth for the full year?

Net interest income in December 2016 quarter has witnessed a dip of 16.87% on Y-o-Y basis. We expect credit offtake and recovery efforts to pay off in the fourth quarter, which will help the NII to improve. In the full year NII is expected to be flat, or marginally lower than last year.

6. What is the outlook on the treasury front?

Falling yield has resulted in appreciation of the portfolio. The trend in yield reduction will be assisted with better farm output, lower than expected inflation, lower fiscal deficit etc. The gains in the portfolio will be encashed at an opportune time, while keeping an eye on the overall yield/ income for the period ahead.

7. Staff costs have gone up on Y-o-Y basis. What were factors contributing to the same?

While a portion of increase in staff cost on Y-o-Y basis is due to the effect of wage revision which concluded last year, the provision for retirement benefits (under AS15) has also increased due to falling yields, which is the major factor for the rise.

8. What is the composition of slippages between the segments, basically agri, MSME, retail etc?

Slippages from March 2016 is more or less broad based and has happened in proportion to the composition of loan portfolio. In relative terms higher slippages observed in credit to medium & large industries while relatively lower contribution from retail sector.

9. Slippages so far are around Rs.6950 crore. What could be likely slippages going forward?

Fresh delinquencies have come down sequentially to Rs.1,764 crore in Q3 from Rs.2,265 crore in Q2 and Rs.2,888 crore in Q1. These accounts were primarily from the watch list. Further reduction in fresh slippages is anticipated going forward, with expected good agricultural income. NPA in agriculture credit increased by 57% since March 2016, wherein we expect reduction in the coming quarters in view of normal monsoon after two consecutive drought years.

10. How much from the restructured book has slipped into NPAs?

Upto December 2016 slippages from the restructured book was Rs.1071 crore.

11. What is the position of recovery and upgradation? Is there likely to be an improvement / pick up in the next few quarters?

Economic activities in the second half generally show an overall up-tick. Demonetisation dampened economic activities in Q3, are likely to impact Q4 as well. However, due to good rainfall this year agriculture output is expected post good growth and boost demand. Cascading effect can be felt in other sectors. Service sector will continue to support the growth and we expect recovery and upgradation position to gain traction in the fourth quarter.

12. Would there be any aggressive provisioning so as to increase your PCR?

Bank is making provisions for bad debts as per extant RBI guidelines and higher provisioning can be made only if the regulator stipulates so or there is a change in policy. Further, with a major portion of slippages being of current vintage, whose provision requirement is on the lower side, there is little scope to go for any aggressive provisioning.

13. How much capital does the Bank plan to raise?

Capital of the Bank during the current year is adequate to meet the envisaged business targets. However, we are taking steps to augment our capital base for future business growth. Board has approved raising of Tier I and Tier II capital during the current year, which will be raised depending on the market conditions. Bank has already raised Rs. 1000 crore by issue of Additional Tier 1 bonds (Rs.500 crore) and Tier 2 bonds (Rs.500 crore). Redemption of earlier bonds has been undertaken by exercising call option and fresh issue of bonds will be undertaken at an opportune time. We have also requested the Government of India for capital support, and expect some infusion during the current year.

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