



SPEECH DELIVERED BY SHRI R SUBRAMANIAKUMAR, MD & CEO, AT THE ANNUAL GENERAL MEETING OF THE BANK HELD ON WEDNESDAY, 28.06.2017

Dear Shareholders,

I am pleased to welcome you to the 17TH Annual General Meeting of your Bank and take this opportunity to address the shareholders on the performance of the Bank during the Financial Year 2016-17 and the Bank's Turnaround Strategy which is slated to restore performance and profitability.

Banking Scenario

The Indian banking system is saddled with non-performing assets of over Rs.8 lakh crore, of which Rs.6 lakh crore is with PSBs. The asset quality of banks in India has deteriorated sharply over the past few years, although the pace of this fall has moderated in the past few quarters. In addition, credit demand has fallen to historic lows. PSB's market share in credits declined to 66% in March 2017 from 73% during March 2014. This has contributed to the crisis, with non-performing assets (NPAs) running at 10 per cent of GDP.

Banking Outlook

As the economy is remonetised, bank lending is expected to pick up. More important is the need for a solution to the bad loan burden of banks which is necessary to encourage further lending particularly for nationalized banks. The Reserve Bank of India's (RBI) recent move to resolve 12 borrowers responsible for a quarter of total non-performing assets (NPAs) of Indian banks are credit positive for asset quality challenges.

With a view to facilitate turnaround of listed companies in distress which will benefit their shareholders and lenders, SEBI on 21.06.2017, has approved the extension of the relaxations from preferential issue requirements and open offer obligations available for lenders undertaking restructuring of listed companies in distress through SDR and other restructuring schemes to the new investors acquiring shares in distressed companies pursuant to such restructuring schemes.

SEBI has also now permitted exemption from open offer obligations under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 for acquisitions pursuant to resolution plans approved by NCLT under the Insolvency and Bankruptcy Code, 2016.

This is expected to go a long way in dealing with banks' bad loan problems.

Highlights of Performance

I now share with you some of the highlights of the Bank's performance and the green shoots of revival during the year under review:

- ❖ Total business stood at Rs. 3,68,119 crore as on 31st March 2017 as against Rs. 3,97,241 crore as on 31st March 2016.

- ❖ Total deposits stood at Rs. 2,11,343 crore as on 31st March 2017 as against Rs. 2,24,515 crore as on 31st March 2016. The Bank reduced the concentration of Bulk Deposits and High Cost Deposits to have a stable deposit profile during the year under review.
- ❖ CASA of the Bank is 36.09% marginally reduced from 36.19% as on 31st Dec 2016. However, it has improved from 28.72% as at 31st March 2016 to 36.09% as at 31st March 2017 with y-o-y growth at 7.37% due to net increase in current and savings account by Rs. 955 crore and Rs. 10,828 crore respectively.
- ❖ Gross Advances stood at Rs.1,56,776 crore as on 31st March 2017, as against Rs.1,72,727 crore as on 31st March 2016. The decline in advances is due to the Bank resizing its Balance Sheet, concentrating more on quality lending and muted credit scenario.
- ❖ Operating Profit for the year ended 31st March 2017 is Rs 3650 crore as against Rs 2885 crore for the year ended 31st March 2016 registering y-o-y growth of 26.52% indicative of the substantial improvement in the overall efficiency of the Bank which has been achieved despite the rebalancing of business levels.
Operating profit for the quarter ending March 2017 is Rs. 1041 Cr. as against Rs.714 Cr. for the quarter ending March 2016 and Rs.855 Cr. for the preceding quarter ended 31st December 2016.
- ❖ Net loss for the year ended 31st March 2017 is Rs 3417 Cr. as against Rs.2897 crore for the year ended 31st March 2016. Net loss decreased by 46% in H2 of FY 17 over H1 of FY 17 which is indicative of the significant actions being taken to transform the Bank.
- ❖ Gross NPA as at 31st March 2017 is at Rs. 35098 crore with ratio of 22.39% as against Rs. 30049 crore as on 31st March 2016 with ratio 17.40%. One of the reasons for higher Gross NPA ratio is the contraction of credit by 9.23% y-o-y.

- ❖ Recovery in NPA accounts for the year ended 31st March 2017 is significantly higher at Rs. 8710 crore as against Rs.5872 crores in the previous financial year.
- ❖ Net NPA is contained to Rs.19,749.32 crore at 13.99% on 31.03.2017 against Rs. 19,213 crore at 11.89% as on 31.03.2016.

- ❖ Provision Coverage Ratio is improved to 53.63% as on 31st March 2017 as against the ratio of 47.39% over March 2016.
- ❖ Capital Adequacy Ratio stood at 10.50% as per Basel III norms as on 31.03.2017.
- ❖ Total expenditure declined by 16.05% of which the operating expense declined by 2.25% y-o-y. This is indicative of the improvement in operational efficiency of the Bank.
- ❖ Non interest income increased by 33% over FY '16.
- ❖ Core Retail of the Bank has shown y-o-y growth of 30.62% as against 26.65% for 2015-16.
- ❖ Cost to Income Ratio is 57.37% as on 31.03.2017 for the year reduced from 63.53% as on 31.03.2016. The reduction in cost to income ratio is due to decline in staff cost as well as increase in other income and reduction in interest expended.
- ❖ Interest Paid on Deposits has decreased by Rs. 3224 crore bringing down Average COD to 5.88% as on 31.03.2017.
- ❖ NIM stood at 2.03% as on 31.03.2017 as against 1.94% as on 31.03.2016.

Technology and Digital Banking Initiatives

Technology has changed the way banks are delivering services to customers. I would therefore also like to highlight the Technology and Digital Banking Initiatives taken during the year to enhance the IT system and products in line with Business Goals with an emphasis on improving Customer Service :

- The Bank has migrated to Finacle CBS platform with the latest version of 10.2.17, the CBS platform has been stabilised and branch operation made smooth.
- SWIFT and other platforms stand integrated with CBS bringing in data integrity to a great extent
- Information security team created and Information Security strengthened
- Bank Charges automated arresting the revenue leakage.
- Delivery channel monitoring and operations being strengthened, CDMs & kiosks are made to operate efficiently.

In line with the Government's vision to transform India into a digitally empowered economy, the following digital banking initiatives have been taken by your Bank for promoting cashless transactions and converting India into a less-cash society :

- IOB PAY is a composite online payment platform
- Tailor-made Mobile POS Collections
- OTP implementation as a second factor authentication in our Payment Gateway

- IOB *99# USSD Mobile App has been launched with NPCI to promote USSD based banking across all banks.
- Internet banking - IMPS Post NEFT Cut-off timings
- IOB Rewardz Mobile App for managing Reward points of Debit Cards
- A facebook page has been launched for IOB Rewardz to enable customers to familiarise on the IOB Rewardz program and to increase the spends using IOB Debit Cards
- We have implemented Mobile POS at around 4500 merchant locations. With the recent less-cash thrust, we have launched GPRS POS terminals.
- Online Deposit opening is already available for the RDP, FDR-Domestic/ NRE , SFDQ. Currently opening of tax saver deposit has also been made online.
- USSD(*99#) – IMPS Using Aadhaar has been integrated and made Live.
- Prepaid cards are issued on VISA platform
- UPI has been made live as an Issuer. Our Bank has been included in Common UPI App BHIM also.
- Other bank Rupay cards will be accepted in IOB Payment Gateway.
- TNEB HT (High Tension) customers can register online and make payment through their IOB account. Already our Bank has online payment facilities for Individual TNEB bill payment.

Challenges faced by the Bank :

The challenges before your Bank are legacy issues such as :

- Additional NPA provisions as a result of regulatory requirements. Having recognised substantial NPA in FY15 and FY16, these accounts need Migration provisions in FY18.
- Stressed asset is putting pressure on the balance sheet
- Capital regulation under Basel III needs additional provision and this needs additional capital and more provisioning of the stressed sector.
- Bank credit was not growing in FY15 and FY 16 and there was a de-growth to the extent of 15%. High cost deposit was a bane and it has been brought down considerably.
- Capital is very scarce and a constraint for business growth

Road Ahead :

The Bank has assessed its strengths and weaknesses in relation to the opportunities and threats it faces in the business environment and developed a comprehensive framework for the Turnaround of the Bank.

The Bank is geared up for implementation of its multipronged turnaround strategy which with its emphasised focus on the following areas is slated to help the Bank to successfully re-establish its position in the banking space :

➤ **Technology :**

- Capitalising technological advances and features in Finacle 10 and other applications for business growth
- Capacity planning by way of upgradation of IT infrastructure aligning with business goals leveraging Virtualisation, Cloud Computing and enhancement of end point security, network bandwidth

- Aligning with SIX Sigma standards, implementation of Data Consistency Standard
- Competency building through technical training programs, e-learning for IT team, re-grouping and augmentation of IT teams to strengthen the delivery system
- Upgrading network security to ensure protection of data
- R & D on niche technologies

➤ **NPA Management**

- Focus on NPA recovery through an “Out Reach” program to reach out to NPA borrowers
- vigorous pursuit of security auction proceedings by conducting Mega auctions under SARFAESI
- 15 member Recovery Teams in each Region with Rural Development Officers entrusted with specific recovery targets
- Business Correspondents are also being utilised for recovery
- Mobile App to assist staff in field work
- an additional General Manager has been posted to Recovery Department for focussing on OTS, SARFAESI actions
- multi pronged recovery action on Guarantors
- Intensive action on identification of Wilful Defaulters
- Effecting Recovery and arriving at OTS through
 - Special OTS schemes for Branch / Regional / Zonal Heads
 - Task Force Meetings

- Lok Adalats
- Recovery camps, Recovery drives etc.
- Empowering Branch Managers for OTS
- Targetting NPAs on priority basis for upgradation / resolution in those sectors showing green shoots of revival
- Enhancing data integrity for data analytics at NPA War Room to facilitate decision making and developing recovery strategies

➤ **Business Growth**

The focus of the Bank's Turnaround Strategy is a balanced approach to credit growth viz. Special focus on driving credit growth in the Retail and MSME space in the year 2017-18 balanced with quality lending in Large Corporate and Mid Corporate portfolio.

- Initiatives to drive Retail Lending are :
 - A new model under Retail named "*Retail Mart*" has been initiated in 55 branches which is anticipated to revolutionize the existing Banking practice.
 - Online Retail Processing Model to reduce the Turn Around Time (TAT).
 - Being active and reaching out to customers in a broader way by entering into social media through Facebook, twitter initially and with future plans of getting into You Tube and other social media platforms.
 - Revamp of entire marketing team with a special focus on Retail Credit portfolio and E-Products, new customer acquisition with a target segment of Gen Next customers.

- It has been proposed to assign Retail Development Managers exclusively for bringing in new Retail & SME Business.
- Special Express Counters have been started in all the branches where Jewel Loan (Others) are being handled for quicker disbursement of the loans.
- Interactions with customers who were reached out to under the program "IOB Meet & Greet" with a view to cross sell our products.
- Designing of product wise strategies based on current needs and shifting customer patterns, brand building and promotional activities at selective locations, launching of product wise campaigns.
- Initiatives to drive MSME lending are :
 - Introduction of a New Scoring Model for MSME on a pilot basis for the new MSME proposals ranging from Rs.2.00 lacs to Rs.2.00 crores, to facilitate the branches for selection of good entrepreneurs at the initial stage of processing itself.
 - We have designed a new scheme "IOB SME 300 - DAILY" which facilitates Hassle free loan to the Micro entrepreneurs under MSME. Borrowers can repay the loan in petty amounts on a daily basis through the Business Correspondents of the banks at their door step.
 - Activated all the SME Specialized branches to improve the business under the MSME sector.
 - Designating MSME Nodal Officers at all Regional Offices for quick sanction of MSME loans, follow up of NPA.

- Formation of MSME CELL at all Regional Offices exclusively to look at MSME proposals
- A key aspect of the Turnaround Strategy is **improvement in fee based income** and some of the Initiatives to increase fee based income are :
 - Automation of all card related charges
 - End to End campaign solutions through card holder reward points
 - Thrust on increasing Debit Card base.
 - Arresting leaking of income through automation of all charges
 - Tie up with Educational / Government institutions for fee collections
 - Increasing Non fund based business and bills business
 - Increasing volume of Government business
 - All borrowers tax obligations to be routed through our Bank.
- Rationalisation of branches and administrative offices with a view to reduce the number of loss incurring branches and to reduce expenditure, effective deployment of surplus staff and to ensure more effective monitoring. The rationalization of Branches and Regional offices along with rationalization of ATM Networks would also be major contributing factors for **decrease in administrative expenses**.
- **Human Resources :**
 - Reorganisation of the training system to improve knowledge level and skill sets, training through e-learning platform with an emphasis on cost reduction, to address leadership gap, a succession plan is drawn to

build a Leadership pipe line / talent pool to ensure continuity and develop potential successors

-Mentor Mentee program to improve knowledge / competency level and facilitate mentee to handle various critical situations arising in day to day business operations has also been launched.

-Specialised areas have been identified for capacity building by selecting officers for the specialised areas with requisite knowledge and certifications.

- Staff strength assessment through Time and Motion Study of Branches.

In addition, on the anvil are measures to strengthen mechanisms to positively influence the environment in which the Bank operates through marketing and public relations, motivation of staff for their enthusiastic involvement in the implementation of the Turnaround Strategy and the systematic and time bound implementation of a range of measures in core areas of the Turnaround Plan.

Acknowledgements :

I take this opportunity to thank the Government of India, Reserve Bank of India, the Monetary Authorities of countries where the Bank has overseas operations, other Government and Regulatory Agencies in India and abroad, for their valuable support and guidance.

I also thank our customers in India and abroad for their patronage and confidence reposed in us.

I thank the shareholders for their continued and valuable support.

I thank my colleagues on the Board for their support and guidance in these challenging times.

I also place on record my appreciation for the commitment and hard work put in by the employees of the Bank during the year and take this opportunity to express the appreciation of Management for the untiring efforts put in by the employees during the demonetisation period.

Your Bank is now poised for implementation of its Turnaround Strategy to achieve sustainable performance improvement and we continue to rely on the support and guidance of our stakeholders in this critical phase of Turnaround Management as we migrate to a **BRIGHTER FUTURE**.

With best wishes,

R Subramaniakumar
Managing Director & CEO