



SPEECH DELIVERED BY SHRI R SUBRAMANIAKUMAR, MD & CEO, AT THE ANNUAL GENERAL MEETING OF THE BANK HELD ON WEDNESDAY, JULY 11, 2018

Dear Shareholders,

I am pleased to welcome you to the 18th Annual General Meeting of your Bank.

Highlights of Performance

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

- ❖ Total business stood at Rs. 3,67,831 crore as on 31.03.2018 as against Rs. 3,68,119 crore as on 31.03.2017.
- ❖ Total deposits increased to Rs. 2,16,832 crore as on 31.03.2018 as against Rs. 2,11,343 crore as on 31.03.2017.
- ❖ CASA of the Bank improved to 36.75% as on 31.03.2018 as against 36.09% as on 31.03.2017. Total CASA has increased from Rs. 76269 crores as on 31.03.2017 to Rs.79678 crores as on 31.03.2018.
- ❖ Gross Advances stood at Rs.1,50,999 crore as on 31.03.2018 as against Rs. 1,56,776 crore as on 31.03.2017. RAM's (Retail, Agri and MSME) share of total domestic advances improving from 58.74% to 66.14% YoY (March '18 over March '17).
- ❖ Operating Profit for the year ended 31.03.2018 is Rs.3629.08 crore as against Rs.3650.20 crore for the year ended 31.03.2017. Operating profit for the quarter ended 31.03.2018 is Rs.1129.15 crore as against Rs. 684.77 crore for the preceding quarter ended 31.12.2017 registering a growth of 65.90%.
- ❖ Net loss for the year ended 31.03.2018 is Rs.6299.49 crore as against Rs.3416.74 crore for the year ended 31.03.2017, mainly due to increase in provision by Rs. 2937 crore.

Net Loss for the quarter ended 31.03.2018 is Rs. 3606.73 crore as against Rs. 646.66 crore for the quarter ended 31.03.2017 mainly due to provisioning requirements including higher provisions on account of RBI guidelines on revised framework on Resolution of Stressed Assets, pursuant to which the Bank has made a provision of Rs.799.37 crores during Q4.

- ❖ Gross NPA as at 31.03.2018 is at Rs. 38180 crore with ratio of 25.28% as against Rs. 33267 crore with ratio of 21.95% as on 31.12.2017, with the fresh slippage due to revised framework of stressed asset of Rs. 3629 crore out of the total slippage for quarter ended March '18 which stood at Rs. 9868 crore.
- ❖ Recovery in NPA accounts for the year ended 31.03.2018 is significantly higher at Rs. 15496 crore as against Rs. 8710 crore for the year ended 31.03.2017.
- ❖ Net NPA stood at Rs. 20400 crore with ratio of 15.33% as on 31.03.2018 as against Rs. 17761 crore with ratio of 13.08% as on 31.12.2017.
- ❖ Provision Coverage Ratio is improved to 59.45% as on 31.03.2018 as against 57.83% as on 31.12.2017.
- ❖ Capital Adequacy Ratio stood at 9.25% (without CCB) as against the regulatory requirement of 9% as on 31.03.2018.
- ❖ Total Expenditure declined by 7.24% from Rs. 19441 crore for the year ended 31.03.2017 to Rs. 18033 crore for the year ended 31.03.2018. The Bank has taken several cost cutting measures which has resulted in reduction of expenditure. Staff cost has reduced by 1.66% YoY mainly due to the reduction in number of employees from 29,806 as on 31.03.2017 to 27,936 as on 31.03.2018. The Bank continues to focus on expenditure control. Holding the AGM in the Bank's own premises at Staff Training College is also one such measure and we are confident of the unstinting support of all our shareholders in our endeavours.
- ❖ Non-interest income grew by 11.08% to Rs. 3746 crore for the year ended 31.03.2018 as against Rs.3373 crore for the previous year.
- ❖ Core Retail Advances (Housing Loans, Vehicle Loans, Clean Loans, Education Loans, Mortgage Loans) grew by 26.26% YoY.
- ❖ Retail Segment grew by 17.98% YoY (March '18 over March '17).

- ❖ Cost to Income Ratio is 60.61% for the year ended 31.03.2018.
- ❖ Interest Expenditure declined by 14.33% for FY 2017-18 bringing down Average COD to 5.49% for the year ended 31.03.2018 as against 6.17% for the year ended 31.03.2017.
- ❖ Net Interest Margin is 2.73% for the quarter ended 31.03.2018 and 2.19% for the year ended 31.03.2018, mainly due to increase in other interest income

It is pertinent to point out here that out of the accounts sanctioned by the Bank during 2014-15, 2015-16 and 2016-17 aggregating around Rs. 10000 crore, hardly 3% of such accounts have become NPA and the NPA issues that the Bank is facing are mainly legacy issues. The Bank's operating profit for 2013-14 stood at Rs. 3997 crore with GNPA of 4.98%. I would like to point out that even though more than 20% of the accounts are not generating income as on 31.03.2018, the Bank is able to generate operating profit of Rs. 3629 crore. This is indicative of the efficiency of operations and the current efficiency will ensure sustainability.

Your Bank has initiated its Turnaround Strategy since 2016 and the outcome of such initiatives on some parameters as briefed by our Chairman are very promising in terms of the Bank's position on performance metrics compared with peer banks and PCA banks.

Among the 21 PSBs, 9 banks are considered as Peer Banks on the basis of the business mix ranging between Rs.3 lakh crore to Rs.5 lakh crores. Among the 21 PSBs, 11 PSBs including our Bank are coming under the Prompt Corrective Action imposed by RBI.

I take this opportunity to apprise you of where IOB stands among PCA & PEER Banks.

- Peer banks registered a growth of 0.57% as against the negative growth of -3.10% reported by PCA Banks. Our Bank is able to maintain the stable balance sheet growth in spite of capital constraints. Our Bank is positioned in 5th place among 10 peer banks in terms of balance sheet growth.
- PCA banks reported negative growth of business mix with - 3.71% & Peer banks reported marginal growth of 0.33%. Our Bank's reduction in business mix by -0.08% was meagre on account of increase in deposit growth by 2.60% as against the PSB deposit growth of 2.27%. However, our Bank reported decline in advance growth by -3.68% on account of capital constraints as against the PSBs growth of 4.66%, Peer banks

growth of 2.25% and PCA banks negative growth of - 3.45%.

- Our Bank's decline in advance growth by -3.68% was in line with the decline in advance growth of PCA banks by -3.46%.
- Efforts taken by the Bank to rebalance the advance portfolio have been successful as evidenced by the share of RAM portfolio in domestic advances which stands at 66.14% and this has positioned our Bank as top among the other PCA banks.
- Other income growth of our bank positioned us at top position on this parameter among the peer banks as well as PCA banks. As on 31.3.18, PSBs registered a growth of 0.95% and peer banks of 3.54%. PSBs growth was marginal due to treasury loss by the large PSBs.
- Our Bank was able to maintain the operating profit level due to decline in total expenses ie. both interest expended and staff cost by Rs. 1408 crores.
- Our concentration of top 20 depositors as well as borrowers has reduced considerably from FY 16 to FY18 as compared to other banks indicative of the comparatively low systemic risk under these two heads on account of spreading of portfolio across the customer segment.
- The net increase in GNPA of our Bank was Rs.3082 crores which positions our Bank as 3rd lowest among 13 PCA & Peer banks. However the GNPA ratio of our Bank was higher due to the denominator effect ie. decline in advances growth. Some of the banks showed net increase in NPA ranging between Rs.8000 cr. to Rs.10,000 cr, however their GNPA ratio was comparatively less due to growth in advances.
- Among PCA banks, our Bank has shown maximum reduction in Risk Weighted Assets to the tune of Rs. 34240 crore, with minimum reduction in advances by Rs.5777 crores. Our Bank's ratio of Risk Weighted Assets to Total Advances decreased by 1855 bps from 107.89 for FY 2017 to 89.34 for FY 2017 which was the highest reduction among PCA Banks and enabled to Bank to maintain CRAR.

Some of the Major Initiatives taken by the Bank towards Turnaround are:

- **Information Technology and Digital Banking – initiatives**
 - The implementation of Retail End to End Digitalization also called as REAPS has advanced the retail loan processing for Housing, Vehicle

and Clean loans to a greater extent as it is more TAT driven. For example, Vehicle Loan can be sanctioned at branch level within an hour. We are in the process of bringing other Retail schemes also under REAPS. Under digitilisation processing we have introduced Retail Credit scoring to ensure quality of proposals being sanctioned at various layers. REAPS along with credit scoring, dealers commission was able to bring growth of 27% in overall Retail.

- The Bank has been participating in TReDS platform for financing against receivables to MSME suppliers since May 2018 and so far the amount factored is Rs. 10.81 crores for around 88 transactions.
- Online processing of MSME loans upto Rs. 10 lakhs was launched recently and within less than a month, nearly 100 loans have been processed involving an amount of around Rs. 3 crore.

➤ **Reduction in Loss Incurring Branches:** The number of loss incurring branches has been reduced from 718 branches in March 2016 to 536 branches in March 2017 and was further brought down to 371 branches in March 2018.

➤ **Branch rationalization and merger :** After imposition of Prompt Corrective Action by RBI in September 2015, the Bank had closed/merged 11 Regional Offices, 37 City Back Offices, 41 Retail Loan Processing Centres, 18 MSME Processing Centres and 92 branches till 31.03.2018. During FY 2017-18, the Bank has merged 41 branches of which 21 branches were loss incurring branches.

➤ **Overseas Branch Rationalization:**
To synergise operations, the TST Branch in Hong Kong was closed and its operations merged with the Hong Kong Main Branch in June '18. We have also scaled down operations in the Middle East and Bank is having only 1 Representative office in Dubai presently.

➤ **Business initiatives**

- Strategically exited from various accounts to the tune of Rs. 4000 Crs from stressed sector
- Introduced IOB GST – EASE Scheme to facilitate the borrowers to formalize their business from the issues related to input tax credit etc., during post GST implementation.
- 273 Branches have been identified as MSME Focused Branches and assigned special targets

➤ **Recovery Management**
The Bank's principal focus was on maximizing recovery and minimizing fresh slippages and towards this objective, a multi-pronged strategy was adopted

from April 2017 itself comprising of various proactive measures including the following:

- Skip Tracing of untraceable borrowers has yielded good results resulting in recovery of Rs. 75 crs in retail NPA accounts, Rs. 125 crs in MSME NPA accounts of Small and Micro sector.
- Sale of accounts to ARC was done vigorously and NPA reduction of Rs.3775 cr was effected by sale to ARC.
- Mega e-auction under SARFAESI Act was organized in March 2018 covering 52 accounts with a reserve price of Rs.3121.59 cr.
- Additional steps were taken in Corporate Accounts by issuing notices to erstwhile Directors of the Company who had executed personal guarantee and also against those Directors who had not executed personal guarantee.
- Follow up with the debtors of borrowers by issuing notices to them calling upon them to pay the amount due from them directly to us.

Road Ahead :

- ✓ The Bank would continue to focus closely on the loss incurring branches towards reporting a profitable trend.
- ✓ We will remain a Retail, Agriculture and MSME focused bank in the coming years also.
- ✓ Higher thrust on Retail and MSME lending is laid down to improve the yield level apart from diversification of the risk.
- ✓ With developments such as IBC, we are moving positively from a situation of Secured Debtors control to Secured Creditors control. The insolvency law has bolstered the likelihood of a turnaround for our Bank which now expects to return to black in the last quarter of FY 2018-19. Out of IOB's total exposure of Rs. 7000 crore in the RBI's first list of 12 cases referred to the NCLT, resolution is in sight for as much as Rs. 4000 crore in the first two quarters of this fiscal.
- ✓ Besides riding on an expected boost from debt resolution at the NCLT, the Bank is also implementing several strategies that will help it come out of the RBI's Prompt Corrective Action (PCA) framework.
- ✓ The Bank is taking steps to revamp the business model and right-size operations in the case of its overseas branches. To synergise operations, we have initiated the process of closing one Branch in Colombo and merging its operations with Colombo Main Branch which is expected to be completed by 31.07.2018. The closing of the Seoul Branch is also underway and is expected to be completed by end 2018.

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 thank our customers in India and abroad and our shareholders for their continued and valuable support as we work towards our goal of Turnaround.

I thank my colleagues on the Board for the benefit of their expertise and direction. I also thank all IOBians for their motivation, contribution and commitment.

Your Bank remains strongly committed to creating value for our stakeholders and we are cautiously optimistic about the year ahead as we **Stay Focused** on our goal of Turnaround to **Stay Ahead**.

With best wishes,

R Subramaniakumar
Managing Director & CEO