CITY UNION BANK LIMITED, ADMIN OFFICE, KUMBAKONAM

CONCALL TRANSCRIPT OF OUR EARNIGS CALL – SEPTEMBER 2015

Dear Investors/Analysts,

Thank you for attending the conference call for the Quarter ending 30th September, 2015 of FY 2016. The Board of Directors approved the unaudited financial results today on the 29th October, 2015.

I will discuss overview. Mr. Sundar (Advisor) and Mr. Ramesh CFO & GM will run through the numbers.

Overall, the financial year has been progressing in the way we anticipated and planned in the year beginning without much surprises.

We closed Q2 with `25616 cr of deposits and `18935 cr of advances showing a growth of 11% and 12% respectively as compared to ` 23152 cr and `16908 cr as on 30th September last year.

Our other Figures for Q2 and H1 – FY 2016 are :

Net Interest Income – `240.10 cr (Q2), Rs. 463.73 cr (H1)

Operating Profit –`205.19 cr (Q2), Rs. 402.35 cr (H1)

Net Profit –`108.84 cr. (Q2), Rs. 219.40 cr (H1)

Gross NPA & Net NPA for Q2 / H1 stands at 2.10% and 1.36% respectively

At the year beginning we anticipated and shared with you all the following expectations for the FY 2015-16:

1. Credit growth to be 12% to 15% for FY2016

2. Our NPA slippages which used to be around 1.5% upto 2013, elevated to 2.8% for FY2014 and moderated to 2.35% for FY 2015, will be between 2 to 2.25% for FY 2016. It should moderate to less than 2% for FY 2017.

3. Cost to income ratio will be at elevated levels between 42% - 45%.

4. ROA, NIM will be maintained between 1.4% - 1.5% and 3.4% - 3.5% respectively.

5. Planning to open about 50 branches as was done in the previous year to take the network to 525 branches and to evaluate further expansion.

We are on track so far on almost all these parameters.

For 30th September, 2015 YOY growth of advances portfolio is 12%. We should be closing the year with a 12-15% credit growth as expected.

From the results declared so far, we can conclude the following things.

The YOY credit growth of the Banking Industry as a whole is yet to touch double digits.

On one side, you are seeing a set of banks, few in number, that have shown 20%-30% plus growth rate. Growth mainly coming from retail, consumption and commercial vehicle segments and who have traditionally kept away from infrastructure and corporate consortiums.

On the other side you have banks with substantial exposure to infrastructure and large corporate consortiums with asset quality issues and struggling to grow both on book and profitability.

We are in between these two. As we stayed away from infrastructure and large ticket consortiums we are relatively better off. We should be able to achieve a credit growth of 12-15% for FY 2016 as expected. Opportunities to gain market share from PSU banks are very much there which we will exploit at an appropriate time. As of now, we are growing cautiously.

2. Regarding the slippages, in the first half we had a slippage of `175 cr comprising of `78 cr in Q1 and `97 cr in Q2.

The slippage is more a function of general economic environment. Status quo continues as we discussed during Q1 results. Though very few green sprouts are visible, we have to wait and watch whether they will sustain resulting in growth. You may remember we saw such sprouts a couple of times in the past but have vanished subsequently.

You had two different incidents happening in the market in Q2 as reported in press which are not good signs. One is redemption pressure of liquid mutual fund scheme with impact on short term liquid fund market and the other, a group company of an engineering conglomerate reported to be making payments to vendors with substantial delays. Such defaults / delays are scary and I pray they should be isolated incidents.

Q2 saw a slippage of `97 cr. As said earlier, since we did not participate in many consortium and infrastructure loans, we are relatively better off. We hardly have handful of consortiums. There are 2-3 such accounts with `50-60 cr plus range causing concern over the next 4 quarters. One is a Basmati Rice Exporter in Delhi. He has been with us for almost two decades and other is a steel manufacturer in Hyderabad which is already a restructured account

Another one is a paper unit I was talking about 2-3 quarters back, that got some money infused and is doing okay now. These units are also trying for capital infusion. We are doing everything in our control to save these accounts.

Even with all these, our expectations on the slippage is that we should have 2 to 2.25% slippage for the current year as envisaged at the beginning of the year which will moderate to less that 2% next year, with the expectations that the economic recovery will firm up by the first half of next Financial Year. If recovery gets delayed, it will have impact on slippages.

Now, more than the slippage problem, liquidation of collateral and collecting NPA accounts is taking more time than we anticipated. On one side legal proceedings are delaying progress, the poor economic conditions have drained the liquidity out from the market. When we sold last year a few accounts to ARCs, our plans were that by this time, atleast 50% collection should have happened. It is not so now.

Anyway, we have neither sold any account to ARCs nor restructured any account in this quarter and Half Year.

The balance outstanding in SMA-2 accounts of over `5 cr as submitted to RBI stands at `874 cr which is 4.61% of the total loan book. Out of the above outstanding of `874 cr that includes all facilities extended to the same borrower, an amount of `476 cr are problematic (SMA-2 over `5 cr accounts) and remaining `398 cr are regular and are included as per RBI guidelines. If we add unutilized limit and non-funded exposures, the figure stands at `1011.66 cr.

During the last concall, I couldn't share with you the June exact data on SMA-2 as it was not readily available with me. On June 30th, the balance outstanding was `889 cr and when unutilized portion and non-funded is added the figure was at `959 cr. These accounts see wide churnings within SMA-1 and SMA-2 categories. Out of 65 a/cs aggregating to `959 cr in SMA 2 as on 30.06.2015, 13 a/cs totaling `196 cr got upgraded to regular while 10 a/cs totalling `125 cr moved up into SMA 1. There were some accounts slipping from SMA -1 to SMA 2. Only 2 accounts totalling `17.39 cr turned NPA from SMA 2 category.

3. ROA for Q2 stood at 1.45% and for H1 is 1.51% for Q2 due to seasonal variations. We hope to close the year with an ROA of 1.45% to 1.50%.

NIM for Q2 stands at 3.74% and for H1 is 3.70%. The reduction in cost of deposits happened faster than reduction in yield on advances. Going forward yield will moderate and NIM will stabilize around 3.50% as expected earlier.

All figures are in tune with our expectations at the year beginning.

4. We had consistently maintained cost to income ratio close to 40% in the past.

In few quarters last year, the cost to income ratio had touched 45%. We anticipated at the year beginning that FY 2016 is going to have elevated cost to income ratio of 42-45% due to subdued growth & increased expenses because of branch expansion as new branches will not yield much business.

For Q2 FY 16 the cost income ratio was 38.68%. Though it may slightly increase with the opening of new branches, you can see the cost to income ratio to settle around 40%. The main reason for this is digitization initiatives that we have taken so far has started giving initial results.

You may remember that we upgraded our core banking solution to TCS Bancs in December 2013. It took some time for settling down. After that we started Business Process Reengineering and Digital Banking initiatives.

First agenda was to increase alternate Banking Channel usage.

The internet Banking and Mobile Banking Services were upgraded.

ATM Network expansion was done in full swing.

About 300 Bulk Note Acceptors/recyclers were installed.

Green Channel initiatives were also started. Because of these initiatives alternate channel usage has increased to around 77% in September' 2015. The best in the industry standard by a few New Gen Banks is at 90%. We have got room to increase by another 5-6%. In other words, alternate channel usage may touch 85-86% in the next 2-3 quarters. It has not only helped in reducing cost to income ratio by 200 basis points, but has other benefits such as reduced crowd and lower operational pressure at the branches. There is more than just Man Power rationalization. It has created surplus capacity in branches which could be utilized for business development initiatives over time. Quantification of opportunity is difficult now, but opportunity is tremendous.

To face the competition from the payment banks, technology products like wallets are getting ready with us also. Further, we feel the proposed small finance banks may create a new layer of customers with small facility upto Rs 25 lakhs beyond which the borrowers may again align with banks like us to avail of other related facilities.

To sum up, the general economic environment has not shown perceptible improvement, thus resulting in uncertainties in growth and asset quality. We are hopeful of maintaining the figures as planned and discussed with you earlier. When the growth cycle starts we feel sure that we are much better placed with better technology, Capital and branch network to ride on the growth momentum.

Thank you all and

Now Mr. S. Sundar, Advisor will explain numbers. Over to Mr. S. Sundar.

Thank you Mr MD sir. I am Sundar, Advisor.

Good evening everybody and thank you for attending the City Union Bank's earnings call of Q2 / H1 FY16.

Let us get into the details of the second quarter & first half results:

In a nutshell, the Bank has shown a growth of 19% in Operating profit in Q2 FY 2016 over the corresponding period and for the first half year FY16 the growth was 16%. In absolute terms the Operating profit increased from `173 cr to `205 cr during the Q2FY16. Similarly for half year in the FY16 the operating profit increased to `402 cr from `346 cr. The Net Profit for Q2 FY 2016 has enhanced by 15% when compared to Q2 FY 2015. In absolute term the Net Profit for Q2 FY16 was Rs. 108 cr as compared to Rs. 94 cr in Q2 FY15. Net Profit increased to `219 cr in H1FY16 as compared to `193 cr in H1FY15. The Net NPA has marginally increased to 1.36% in Q2 FY2016 from 1.32% in Q1 FY2016 (sequential quarter).

Coming to the Business growth, our Deposits have increased by `2464 cr from `23152 cr to `25616 cr, registering a growth of 11% on y-o-y basis.

Similarly, our Advances enlarged by `2027 cr from `16908 cr to `18935 cr translating into a 12% growth.

Thus the total business grew by 11% over the one year period.

CASA has recorded a growth of 17%, in absolute terms by `714 cr from `4281 cr to `4995 cr. The share of CASA in total deposits was 19%, CA portion increased by 14% and SA portion by 18%.

The Cost of Deposits for Q2 FY16 decreased by 53 bps to 7.69% from 8.22% compared with Q2 FY15 due to reduction in the interest rate offered on deposits. Cost of Deposits for the whole of FY 2015 was 8.15% and that for H1FY16 was at 7.78%.

The yield on advances for Q2 FY16 stood at 13% as compared to 13.57% for Q2FY15. The yield on advances stood at 12.97% for H1 FY16. We expect the marginal decline in the yield in the coming quarters due to decreasing interest rate cycle and stiff competition in the market.

The net interest income for Q2 FY16 stood at `240 cr as against `206 cr in the corresponding period thereby registering a growth of 16%. The Net Interest Margin for Q2 FY16 stood at 3.74% when compared to 3.54% in Q2 FY15. For H1 FY16, NIM stood at 3.70% vs 3.43% in the corresponding period last year. We are expecting some shrinkage in NIM as we enter decreasing interest rate cycle towards which markets are headed. We have consistently maintained the 8 quarter average NIM of around 3.50%.

The non interest income of the bank in Q2 FY16 was `95 cr as compared to `90 cr in the corresponding quarter reflecting an increase of 5%. However, the non-interest income for the

H1 FY16 marginally decreased to `199 cr from `201 cr in H1 FY15. There was reduced collection from written off accounts which were largely off-set by the income received as locker rent and other charges. Further, the treasury profits comprising both domestic and forex segments increased by 27% from `47.20 cr in H1 FY15 to `60.05 cr in H1 FY16.

Operating expenditure has increased marginally by 5% in Q2 FY16 to `129 cr from `124 cr incurred in the corresponding quarter last year. While employee cost increased from Rs 46.74 cr to 48.94 cr, other operating expenses increased from Rs 76.78 cr to ` 80.49 cr.

The operating profit for Q2 FY16 has thus increased by 19% from `173 cr to `205 cr in the corresponding quarter. Similarly operating profit for the H1 FY16 increased by 16% to `402 cr from `346 cr for the corresponding period last year.

For Q2 FY16, the total provisions made was `97 cr, an increase of 23% compared to `79 cr in Q2 FY15. Provision for Bad and Doubtful debts decreased from `51.80 cr to `45 cr for Q2 FY16. Provision for tax increased from `24.50 cr in Q2 FY15 to `47.50 in Q2 FY16. For the half year ended 2016, the total provisions increased by 20% from `152.30 cr last half to `182.95 cr now.

PAT for the second quarter thus has increased by 15% from `94 cr in Q2 FY15 to `108 cr in Q2 FY16. For H1 FY16, PAT shows a growth of 14% from `193.24 cr last half year to `219.40 cr.

Return on Assets stood at 1.45% for Q2 FY16 as against 1.42% for the corresponding quarter last year. ROA for H1 FY16 stood at 1.51% vs 1.50% last corresponding period. The Return on equity stood at 15.07% for Q2 FY16 against 16.19% for Q2 FY 15. Similarly for H1 FY16, ROE stands at 15.73% Vs 17.70% last year corresponding period.

Cost to income ratio decreased to 38.68% for Q2 FY16 from 41.68% in Q2 FY15. For the half year ended H1 FY16 the ratio is 39.33% as against 41.81% for H1 FY15.

For Q2 FY16, the gross additions to NPA is `97.60 cr compared to `83.49 cr in Q2 FY 15 and `77.62 cr in Q1 FY16. We have recovered a sum of `31 cr in NPA accounts during the quarter. For H1 FY16, the total slippages has come down to `175.22 cr from `250.99 cr last corresponding period. Accordingly, the Gross NPA for Q2 FY16 stood at `398 cr equivalent to 2.10% of Gross Advances Vs 2.00 % at the close of corresponding quarter last year Q2 FY15. The Net NPA stood at `255.94 cr which is 1.36% of Net Advances Vs 1.30% in the corresponding quarter last year Q2 FY15.

We have not sold any assets to ARCs during this quarter. We have not restructured any accounts in the quarter and the outstanding restructured assets to Gross advances stood at 1.30% Vs 1.48% in the corresponding period last year. We have collected a sum of `8.14 cr towards repayments in the restructured standard accounts during the quarter. During this quarter no borrowal accounts slipped into NPA from restructured standard assets.

With this I conclude and over to you all for questions.

Thank you all!

Mr. Roshan Chutki - Investment Book size has increased by 4 to 5% whereas yield has fallen by 15bps.

Dr. N. Kamakodi, MD & CEO: Consequent upon reduction in policy rate by RBI the yield on government bonds has fallen by over 75 bps. Further the bank had invested surplus funds in treasury bills where the yields are lower to meet funds requirement at short notice. Hence the churning as well as new purchases have resulted in the overall lower yield on investments.

Mr. Roshan Chutki - What is the effect of the proposed small finance banks on the working of the Bank?

Dr. N. Kamakodi, MD & CEO: The small finance bank will finance upto Rs.25 lakhs for 75% of their loan book. Hence borrowers requiring higher limits will graduate to banks like us.

Mr. Roshan Chutki - What is the number of branches to be opened ?

Dr. N. Kamakodi, MD & CEO: We have closed last year with 475 branches. We have planned to open 50 branches this year. So far we have opened 11 branches in this year of which 6 in Q2. We will complete the opening of all the branches as planned during this year and close year with 525 branches.

Mr. Roshan Chutki - What is the guidance on cost income ratio?

Dr. N. Kamakodi, MD & CEO: We originally envisage a cost income ratio in the range of 42% to 45% on the expectations of opening new branches. Considering the benefit arising from the digitisation/alternate channels we now estimate cost to income ratio in the range of 40 to 43%.

Mr. Abhishek Kothari - Please provide the details of provisions.

Dr. N. Kamakodi, MD & CEO: The provision break up for the NPA is 45 Crores, provision for taxation is 47.50 Crores, provision for standard assets 5.15 Crores and others -0.30. The total provision comes to 97.35 Crores.

Mr. Abhishek Kothari - Please provide gross npa and restructured accounts industry wise.

Dr. N. Kamakodi, MD & CEO: we don't have industry wise break up. However the NPA /restructured amounts are in the same proportion of industry wise advance exposure.

Mr. Abhishek Kothari - What would be the total amount of NPA from restructured accounts?

Dr. N. Kamakodi, MD & CEO: Originally we had a restructure book upto a maximum of Rs.650 Crores. Out of which the restructure to direct NPA could be about Rs.100 Crores.

Mr. Abhishek Kothari - Any pipeline under 5/25 scheme.

Dr. N. Kamakodi, MD & CEO: we don't have any such account.

Mr. Abhishek Kothari - Total Risk Weighted Assets and Number of Employees?

Dr. N. Kamakodi, MD & CEO: Total Risk Weighted Assets under Basel III is Rs.15269 Crores and total number of employee is about 4350.

Ranish Patel – The reasons for increase in yield on advance.

Dr. N. Kamakodi, MD & CEO: Improvement in the CD ratio and secondly shifting of low yielding gold loans to high yielding SME advances. However as the agriculture season in Tamil Nadu starts now and as we have to achieve the agricultural advance target some rebalancing in the yield will take place.

Mr. Ranish Patel – Are the three large stressed accounts mentioned in the opening remark in your watch list?

Dr. N. Kamakodi, MD & CEO: The Basmati rice account is a standard one. The paper mill account was restructured but capital infusion has taken place and will not have problem for the next three or four quarters . The iron and steel account is under restructured category. We are constantly monitoring these accounts which are susceptible to slippage depending upon economic conditions.

Mr. Ranish Patel – The cost of deposits has fallen by 60 basis points. Your comments on margin expansion.

Dr. N. Kamakodi, MD & CEO: Though cost of deposits has fallen we cannot directly equate it to rise in the margin as advances and investments earn different yields. However some margin expansion has already taken place.

Mr. Vikash Shardha – What is the effect of base rate based on new marginal costing?

Dr. N. Kamakodi, MD & CEO: Our present base rate is in alignment with the new formula.

Mr. Vikash Shardha – What is the steps taken by the bank to meet the competition from small and payment banks?

Dr. N. Kamakodi, MD & CEO: We have taken necessary technology initiatives. We have already upgraded our CBS and BPR initiatives have been taken. Alternate channel usage increased to 78% and we have scope to increase to another 5-6%. We have installed cash acceptors. All these contributed to 200 basis point reduction in cost to income ratio. Even when new generation banks started operations we geared to face their competition. To face challenges from payment banks we have already initiated steps for creation of wallets. Similarly whenever changes take place we will also upgrade and face the competition. Coming to small finance banks, they have to finance 75% for accounts less than 25 lakhs exposure who will graduate to become our customer when their requirements go up.

Mr. Vikash Shardha – There is a headroom of 3.80% in FII limit. Will you increase it further?

Dr. N. Kamakodi, MD & CEO: We have been increasing the FII limit which is now 40%. We have been discussing the issue. As and when needed subject to Board, Shareholders and Regulatory approval decision will be taken at the appropriate time as we are not averse to increasing the limit.

Mr. Mithun Soni – Brief about the SMA 2 Numbers?

Dr. N. Kamakodi, MD & CEO: SMA2 over 5 Crores aggregate to Rs.874 Crore of which the problematic portion is Rs.476 Crores and the regular portion is Rs.398 Crores. If you add unutilised and non funded exposures for all these accounts the total amount will be Rs.1011 Crores. These accounts see wide churnings within SMA-1 and SMA-2 categories. Out of 65 accounts aggregating to 959 Crores in SMA2 as on 30.06.2015, 13 accounts totalling Rs.196 Crores got upgraded to regular while 10 accounts totalling crores moved up into SMA1. Overall the expected slippage into NPA could be 2 to 2.25%. The 3 large stressed accounts have an exposure of 50 to 60 crores each. In the additions to NPA account in this quarter none of the a/cs exceeds an exposure of 10 to 12 crores.

Mr. Deepak Agrawal - What will be the SMA2 amount for the industry?

Dr. N. Kamakodi, MD & CEO: Though we don't have the exact numbers for the industry, the top 100 stalled projects are about 8 to 9 lakh crores which is 12-13% of the system which includes SMA2, Restructred and NPA accounts. We have not restructured any account or sold any account to ARCs. Overall the expected slippage for this year shall be 2-2.25% in as is where is economic condition.

Mr. Deepak Agrawal - your guidance on ROA?

Dr. N. Kamakodi, MD & CEO: Our present ROA is about 1.5%. Some of the banks have higher ROAs. We have initiated the technology measures that should save cost . Depending upon the economic conditions and our growth, the ROA may improve which should not be taken as guidance but it is our desire.

Mrs. Prerna Lotlikar - Your views on the gold loan book as the gold prices have stabilised.

Dr. N. Kamakodi, MD & CEO: Since agricultural advances target have to be met we will increase agri gold loan portfolio. Regarding Non Agri gold loans we are yet to take a call. We have taken note of the price stabilization.

Mr. Sunil Jain - Your comments about the present loan growth as compared to others?

Dr. N. Kamakodi, MD & CEO: We are estimating the loan growth of 12 to 15% for the current year and upto 17% next year. Taking it beyond 20% depends upon the macro economic conditions. Unless we get a firm signal from the macro economy we will not increase our growth rate aggressively.