i-CAN-IDEATE

IDEAS THAT HELP US GROW TOGETHER

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FROM THE DESK OF GS

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Dear Canpals

Non-performing assets directly affect the Profit and Loss statement of a financial institution. Public sector banks, however, have managed to bring NPA under manageable levels. Non performing assets not just affect Bank's financials, but also put the Bank under reputational and capital risk. While credit off-take has an inherent default risk, quality lending is a definite starting point. Bad assets attract more provisioning and capital cushioning which in turn affect profits and capital ratios. Hence, Asset quality is a key concern along with Slippage management. In the current issue of newsletter, the editorial team has brought forward industry landscape in terms of asset quality. It further discusses about our Bank's financial performance esp. in the asset quality domain. The team has further illustrated on few strategies under Slippage management and Recovery. The idea is how our mother bank can reap maximum benefit under the call given by our Top management, i.e. C**SR** (CASA, **Slippages and Recovery**) while on course towards claiming the second largest PSB position in the country. We believe that this issue shall initiate an informed discussion in this area. **Happy Reading and Happy Learning!**

CANARA BANK OFFICERS ASSOCIATION'S MONTHLY NEWSLETTER

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WHERE INDUSTRY STANDS?

As per RBI's Financial Stability Report June 2022:

➢SCB's gross NPA dropped below 6% and Net NPA below 1.7% in March 2022, lowest in six years.

➢SCB's gross non-performing asset (GNPA) ratio fell to six-year low to 5.9 % through strategies employed under recovery, write-offs and reduction in slippages.

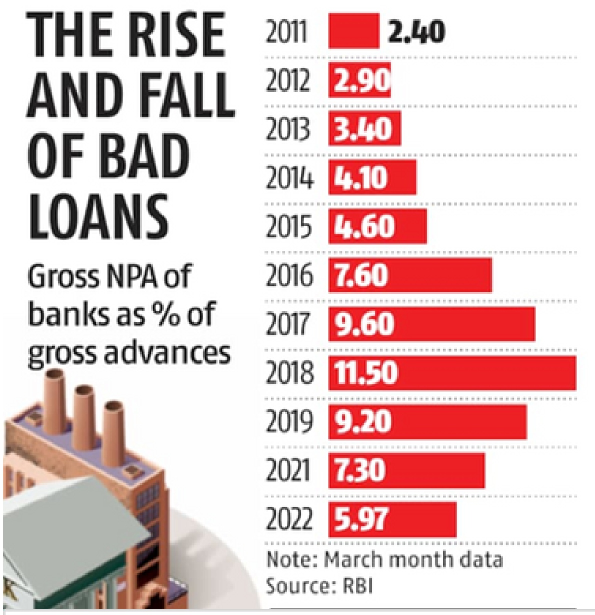
Primary factors behind reduction in Gross NPAs:
Automated Early Warning Systems (EWS) in banks, with EWS triggers, using third-party data and workflow for time-bound remedial actions have reduced slippages into NPAs. Incentivizing regular repayment through linking of eligibility for the next cycle of working capital loan or early repayment of existing loan under various govt. schemes. Repayment behavior of borrowers in their loan accounts is reported to credit information companies (CICs), and banks include this information to track and sanction further loans .

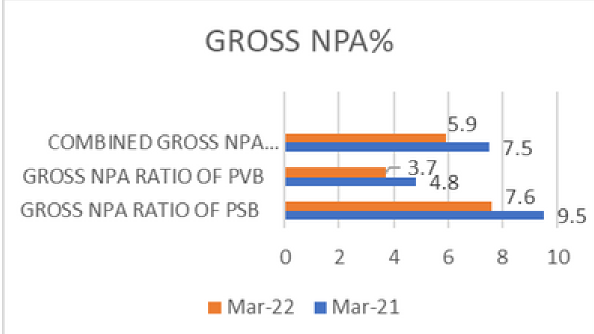
Asset quality outlook:

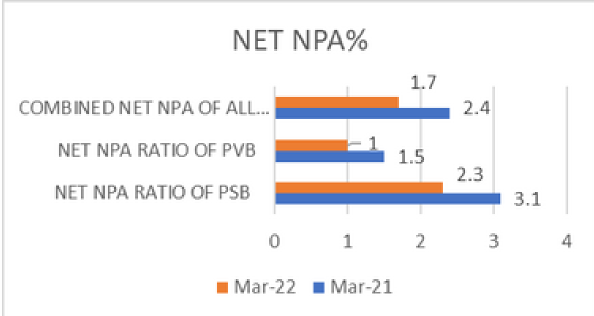
Ballooning non-performing assets (NPAs) have stalked the banking sector for much of the past decade. Due to a slew of initiatives has been taken by RBI and the government, net **NPAs fell to nearly a third of their FY18 peak to 6% in Q2FY22**. And as gross and net non-performing assets moved south, and the provision coverage ratio (PCR) and capital buffers improved, banks' profitability indicators have got back to their pre-pandemic levels.

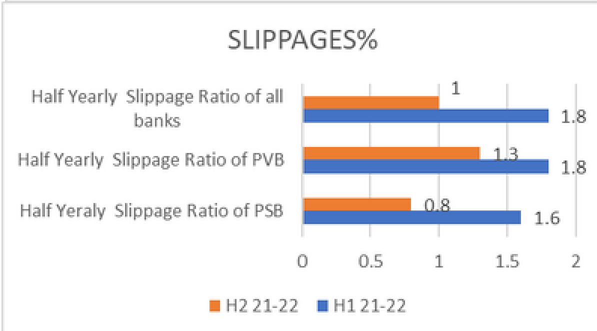
The same is evident from the substantial net profits recorded by Banks during March 2022 results.

The improving health trend that began in FY20 is likely to continue into FY23. Introduction of enforced, time-bound recovery and market-linked resolution mechanisms like the Insolvency and Bankruptcy Code (IBC), One-time Settlement (OTS), Debt Recovery Tribunals (DRT), Corporate Debt Restructuring (CDR) and SARFAESI Act, have helped banks in addressing the bad-loan situation.









Our say:
As per ICRA ratings, the GNPAs of SCBs are expected to decline to 5.6-5.7% by March 2023 while the NNPAs decline to 1.7-1.8% by March 2023. However, risks to asset quality remain from rising interest rates and increased cost of living.

BUSINESS & ASSET QUALITY

Canara Bank is market's one of the most trusted candidates among public sector banks when it comes to corporate governance, compliance, quality asset growth and customer centricity.

Our beloved MD&CEO's mantra, 'Compliance first and Business next', has further strengthened the fundamentals of our mother bank in the last couple of years. Truly, the Balance Sheet is getting future ready everyday! The share price of our mother Bank has been on a rise since the last one month with the biggest fillip coming from the Q1 FY23 figures of the Bank which has exceeded market expectations.

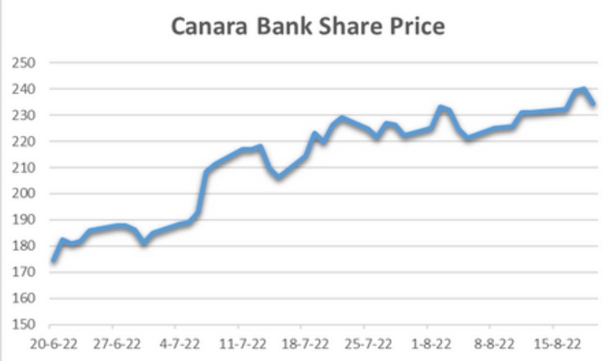
In June 2022 (Q1 FY23) **our mother Bank has outperformed its peers in the market with a record 20.53% in operating profit growth to Rs. 6,606 Crores.** Other large PSBs, except Union Bank of India, recorded negative y-o-y growth recorded in operating profit. This is an exemplary performance by our mother Bank under the able leadership of our beloved MD&CEO and guidance of top management!

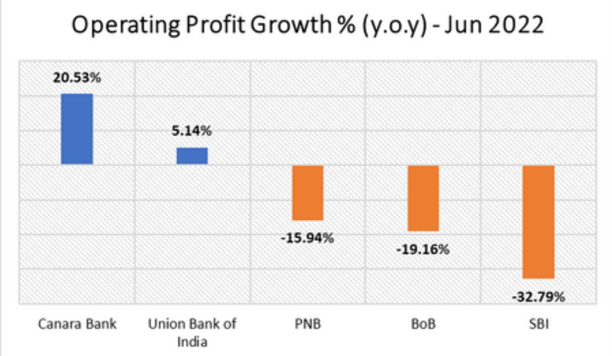
Our Bank has made major strides in Asset Quality front, especially in the post-Covid scenario which was expected to be challenging in terms of rising delinquencies and rising NPAs. Our mother Bank recorded the **second lowest fresh slippages among the major PSBs in Q1 FY23** with Rs. 3606 Crores. Besides that, our Bank has also shown **second highest quarterly reduction of 0.52 percentage points in Gross NPA%** among major PSBs, i.e. from 7.51% in March 2022 to 6.98% in June 2022. This speaks of our commitment towards asset quality augmentation and preparing our Balance Sheet for future expansion!

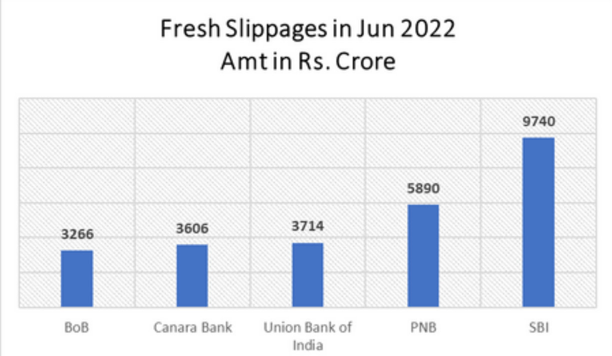
The above achievements couldn't have been possible but for the combined efforts of each Canpal under the strategic guidance of our management. Besides various ongoing existing processes for enhancing recovery, a few initiatives are:

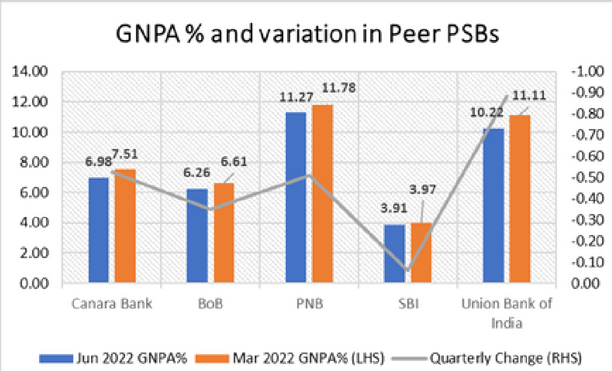
- Over the last couple of quarters, the Bank has enhanced its use of technology for Monitoring and recovery of borrowal accounts. The Recovery App has been provided with Geo tagging facility for recovery of NPA accounts.
- Our mother Bank has adopted channels like Call Centre Services to enhance the recovery process which is being utilized successfully to ensure collection efficiency.
- The SMA Call Centre service has been functioning well while IVR Blasts, SMS and Soft Calling, emails are being utilized extensively to contact customers and improve the collections.
- The new SAFAL (Stressed Asset Follow-up & Litigation) System launched recently is a right step in the direction towards streamlining the post-NPA litigation system.

We are very well on course of becoming the second largest PSB in the country. Our business strength and Asset quality is also building in with the same strength.









Ace Investor Late Sri. Rakesh Jhunjhunwala, who maintained his 1.96% stake in our mother Bank as on June 2022, stated on the PSB stocks:

"When there is demand for money, banks will get bargaining power and then lenders that can garner deposits will get that power so I'm bullish on the banking sector as a whole and especially on the old public sector banks because they have the cheapest valuations and are going to see the biggest upside in earnings" - June 2021

STRATEGIES SUGGESTED

Pre-emptive Strategies – Strengthening the Credit appraisal and Credit Review system

- Stressed assets find their origin through cracks in the credit appraisal systems of banks. A well carried out credit appraisal may not be a panacea in itself but surely can be a strong deterrent. Our beloved MD&CEO has time and again emphasized on the same, wherein he exhorted ameliorating the credit appraisal skills of employees along with increased digital end-to-end lending to automate repetitive tasks. **Incentivizing self-up gradation and continuous evaluation through training/courses is the key.**
- **Credit Review, post-sanction compliance**, holds extreme importance with regards to leakages in the Credit appraisal domain. A good and timely review can save us from unwarranted stress and thereby unanticipated losses. Paperless review in LAPS at Regional Offices need to be strengthened with an eye towards potential errors in sanctioning and disbursements.

The SMA strategy – Customers follow up

- It is a well established fact that "*Early and more Regular the calls, Lesser NPA inscribed on the walls*". Follow-up holds indispensable place in the slippage management. Hence, effective telephonic follow-up in SMA-0 accounts while personal meetings in SMA-1 accounts may prove beneficial. Broadcast messages and customer care calls to be continuously made.
- A stitch in time saves nine": The ready availability of defaulters' details to all the employees in the branch is extremely important. Managers/Officers at the branch can be sensitized to make all employees aware of customers who are defaulters. A separate application may be developed which can be made available as an icon on all desktops, providing details of SPECIAL WATCH, NPA, D4, LOST, WRITTEN OFF accounts.

Changing attitude towards Bad debt – For both customers and Employees

- *Alienation breeds detachment while empathetic conversations breed trust.* Relationship/ Recovery Officer in the branches can help create an understanding between Bank and its customers and can initiate a dialog with the customers describing the ill-effects of defaults and thereby driving a positive change in customers to practice financial discipline is the key to deter NPAs.
- Time and again, **all the employees may be instilled with a sense of belongingness to every rupee lent and every penny gone Bad.** Different forums like review meets, branch visits, training sessions etc. can be leveraged by competent authorities to make each employee understand the mathematics behind defaults, provisioning, a dent on profitability and eventually its effects on their professional growth.

Utilizing Technology – the Enabler

Technology as an Enabler can redefine the traditional process of recovery. Increased features in the recovery app, automated calls and messages to NPA borrowers and wider use of tech. will bring in much needed efficiency and effectiveness in the processes.

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