



बैंक ऑफ महाराष्ट्र
Bank of Maharashtra
ONE FAMILY ONE BANK

Speech delivered by Shri. A. S. Bhattacharya, Chairman and Managing Director, Bank of Maharashtra, at the Eighth Annual General Meeting of the Bank on 27th June 2011 held in Pune

I have great pleasure in welcoming you to the Eighth Annual General Meeting of your Bank and placing before you the Annual Report of your Bank for the financial year 2010-11. The Annual Financial Statements, Balance Sheet and Directors' Report for the year ended 31st March 2011 are already with you. Before I touch upon the performance of the Bank, I would like to place on record that your consistent and encouraging support, has enabled the bank to progress through challenging situations emerging from the economic developments affecting financial markets from time to time.

Now, I briefly analyze the Indian economic and banking environment, in which your Bank is operating.

Economic and Banking Scenario

The Indian economy has been on the growth path though in the last quarter of F.Y. 2010-11 witnessed a marginal slow down. The overall growth in GDP clocked 8.5% in 2010-11 as against 8% in F.Y. 2009-10. With some of the core sectors continue to show encouraging signs of growth, the GDP is expected to be in the range of 8 to 8.5 per cent in current year also.

Broad money supply (M3) growth was at 15.9% during 2010-11. The Aggregate Deposits of all Scheduled commercial Banks in 2010-11 grew by 15.8% and non-food credit by 21.40%. The exports showed a growth of 37% and imports 21.9% during this period. The Foreign Exchange Reserves of the country were at USD 301 billion as at 31st March 2011 as against USD 278 billion on 31st March 2010, reflecting a positive perception of the Indian economy overseas.

Domestic inflation remains a cause of concern. Inflation, fueled by rise in prices of primary articles is expected to drag down overall economic growth. In view of the high rate of inflation, monetary policy stance of the Reserve Bank of India has also been mainly to maintain an interest rate environment that moderates inflation and anchors inflationary expectations which lead to successive rise of Repo rate from 5% to 7.50% indicating increasing interest rates scenario.

Performance of the Bank

In this environment of rising inflation, tightening monetary policy and the consequent hardening interest rates, your Bank has been focusing on enhancing the business quality and operating efficiency to bring about improvement in costs and margins.

Now I place before you an analysis of the performance of your Bank during the year 2010-11 on various parameters.

Business

The total business of the Bank reached a level of Rs 114332 crore as on 31.03.2011 from Rs. 104230 crore as on 31.03.2010, recording a growth of 9.69%. The Bank did not encourage high



cost bulk deposits and low yielding corporate advances and focused on the better yielding retail, MSME and mid corporate business.

The total deposits increased to Rs. 66845 crore as on 31.03.2011 from Rs. 63304 crore as on 31.03.2010, showing a growth of 5.59%. The low cost deposits, i.e current and savings deposits grew by 15.70% over the previous year, while the high cost bulk deposits have declined by 10.54%. The share of low cost deposits to total deposits was 40.44% as on 31.03.2011, as against 36.91% as on 31.03.2010 and this is one of the highest in the Banking Industry.

The Gross Advances increased to Rs. 47487 crore as on 31.03.2011 from Rs. 40926 crore as on 31.03.2010, registering a growth of 16.03%. The credit to Micro Small and Medium Enterprises (MSME) sector, which is one of the thrust areas of the economy, reached a level of Rs 7037.31 crore as on 31.03.2011 from Rs. 3699.64 crore as on 31.03.2010, registering a growth of 90.22%

The Credit Deposit Ratio of the Bank as on 31.03.2011 stood at 71.04% as against 64.65% as on 31.03.2010.

Business per Employee grew to Rs. 8.25 crore as on 31.03.2011 from Rs. 7.62 crore as on 31.03.2010 and the business per branch to Rs. 74.43 crore from Rs. 71.73 crore during the same period.

Income and Earnings

The total income increased to Rs 6093.94 crore during the year ended 31.03.2011, from Rs. 5326.80 crore for the year ended 31.03.2010, showing a growth of 14.40%. During this period, the interest income on advances increased to Rs 4006.14 crore from Rs. 3369.63 crore, registering a growth of 18.89%.

The non-interest income of the Bank (excluding treasury trading profits) increased to Rs. 468.23 crore for the year ended 31.03.2011 from Rs. 386.96 crore for the previous year, showing a growth of 21%. To improve the fee based income, the Bank focused on the distribution of third party products like, depository services, insurance/mutual fund products, ASBA, e-collection of taxes and e-trading of equity etc. The profit from the treasury operations declined due to the hardening of Interest rates and also resultant depreciation on securities.

The Operating profit increased from Rs. 815 crore for the year ended 31.03.2010 to Rs. 855 crore for the year ended 31.03.2011, registering a growth of 4.97% on Y-o-Y basis. The Net Profit for the year ended 31.03.2011 was Rs. 330.39 crore, as against Rs. 440.00 crore for the previous year. The Net Profit was affected mainly due to the additional provision made for pension and gratuity, consequent upon the wage revision, as per AS 15 (Revised). Proactively, an additional provision of 5% was also made for Sub-standard Assets over and above the prudential requirement of 10%, besides further higher provision made to improve the NPA Provision Coverage Ratio. These Balance Sheet strengthening measures impacted the net earnings.

The cost to income ratio was 65.79% as on 31.03.2011 as against 56.85% of 31.03.2010. An amount of Rs.475.69 crore for the year ended 31.03.2011, was provided towards the employees' post retirement benefits, on account of wage revision, as against Rs.52.53 crores in



the previous year. Consequently, the staff expenses grew by 76.52%, which impacted this ratio. But for this provision, the ratio would have been 48.86%

Investment Reserve A/c of Rs. 26.77 crore balance, held under the head "Revenue and Other Reserves" as on 31st March 2010, is transferred to "Revenue Reserve" under the head "Revenue and Other Reserves" on March 31, 2011, as it was no more required as per the RBI guidelines. As both items were under "Revenue and Other Reserves", it is not shown separately in Profit & Loss Appropriation A/c and Balance sheet.

Cost, Yield & Margin

The year witnessed a consistent hardening of the interest rates and it was a challenge for the banks to control cost of funds. In spite of this, the cost of deposit of your Bank decreased by 52 bps to 5.38% for the year ended 31.03.2011 from 5.90% for the previous year. The cost of deposits came down due to shedding of high cost deposits and increase in low cost deposit (CASA).

The yield on advances increased by 14 bps to 9.69 % for the year ended 31.03.2011 from 9.55% for the previous year. The Bank introduced Base Rate system, as per RBI guidelines, w.e.f 1st July 2010. The increase in BPLR/Base Rate, consciously increased mark-ups, and substantial reduction in NPAs contributed to the improvement in yield on advances.

The Net Interest Margin (NIM) improved to 2.80 % for the year ended 31.03.2011 as against 2.05% for the previous year, showing rise by 75 bps.

Other Profitability Ratios

Though there was a marked improvement in NIM and non-interest income, the net profit was impacted by additional provisions. The profitability ratios related to the net profit, therefore were lower. Return on Assets for the year ended 31.03.2011 stood at 0.47% as against 0.70% for the year ended 31.03.2010. Earnings Per Share (EPS) and Profit per Employee showed a decline. The Book value per Share improved marginally to Rs. 49.11 as on 31.03.2011.

Non- Performing Assets

During the year, it was a challenge for the banking sector to maintain the asset quality. I am happy to inform you that your Bank has done well in recovering the NPAs and in containing the slippages in asset quality to a large extent. The gross non-performing assets of your Bank decreased from 2.96% of gross bank credit as on 31.03.2010 to 2.47% as on 31.03.2011. The net non-performing assets decreased from 1.64% of the net bank credit as on 31.03.2010 to 1.32% as on 31.03.2011. The Provision Coverage Ratio stood at 65.56% as on 31.03.2011, as against 58.38% as of 31.03.2010, on an ongoing basis.

Capital Adequacy Ratio

The Bank has allotted around 5.12 crore equity shares of Rs. 10 each at a premium of Rs. 58.76 per share amounting to Rs. 352 crore to Government of India on preferential allotment basis. The bank has also received capital support of Rs. 588 crore from the Government of India in the form of Perpetual Non-cumulative Preference Shares. With this capital infusion and



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retention of profit, the capital adequacy ratio stood at 13.35% as on 31.03.2011, as against minimum 9% prescribed by RBI in terms of Basel II.

Dividend

The Board of Directors have recommended a dividend of 20% i.e. Rs. 2.00 per share for the year 2010-11. I request the shareholders to approve the same.

Risk Management

Your Bank has put in place systems for identifying and managing risks, as per the laid down regulatory norms. The Bank is Basel II compliant in terms of the New Capital Adequacy Framework guidelines issued by RBI. Time lines are drawn to ensure implementation of Advanced Approach under Basel II.

Branch Network & Delivery Channels

During the year, your Bank has added 83 new branches to have a net work of 1536 branches as on 31.03.2011. These branches are spread over 24 states and 2 union territories, to give your Bank a Pan-India presence. During the year, 72 new ATMs were added, making the total 417.

Technology

The Bank has been leveraging technology for enhancing the efficiency and productivity and thereby improving the standards of customer service. All the delivery channels are stabilized under the core banking net work. The Bank has also completed the implementation of CBS in its sponsored RRB, i.e. Maharashtra Gramin Bank by bringing all its 327 branches under Core Banking Network. The technology enabled IT products like Internet banking, SMS/Phone Banking, Centralized Cheque Processing system, Cheque Truncation System, Insta Debit Cards, straight-through-processing for RTGS / NEFT, Online Tax collection, e-FD and e-Lounge in select branches, have added significant value to the customer service standards.

Human Resource Management

The Bank has put in place a comprehensive HRM policy for recruitment, skill enhancement, career progression and welfare of human capital. During the year, the Bank recruited 807 clerks, and 152 officers. The promotional process across the scales has been completed. A total of 8748 employees participated in different in-house and external training programmes, in an ongoing process of enhancing their working skills. Mahachetna was a unique HR initiative personally undertaken by me to interact and motivate every employee to respond positively to the concerns of the Bank. In a short period of 100 days, all the 32 Regions were visited and more than 10,000 employees were addressed. This evoked a good response.

The Business per Employee grew from Rs 7.62 crore to 8.25 crore during the year 2010-11

Financial Inclusion

The Bank is assigned 1215 unbanked villages under the Financial Inclusion Project to provide banking services at their doorsteps by 31.03.2012. As on 31.03.2011, the Bank has covered



484 villages, as against the target of 463 villages for the year, through Business Correspondent model and opened two branches in financial inclusion villages.

Social Banking and Corporate Social Responsibility

The Bank has catered to the needs of the rural and priority sector. The outstanding advances under priority sector as of 31.03.2011, constituted 40.66% of the Adjusted Net Bank Credit of the previous year, as against the target of 40%. The Bank is Convener of the State Level Bankers' Committee for Maharashtra and has the Lead Bank responsibility for 6 districts in Maharashtra, viz. Aurangabad, Jalna, Nasik, Pune, Satara and Thane. As part of its corporate social responsibility, the Bank has put in place various welfare projects. The Bank's Rural Development Centers at Hadapsar and Bhigwan in Pune District of Maharashtra and Mahabank Agricultural Research and Rural Development Foundation, a Trust established by the Bank, undertake various developmental activities for benefit of the farmers and the rural sector. Mahabank Self Employment Training Institute provides vocational training to the rural youth and women. The Gramin Mahila Va Balak Vikas Mandal, is an NGO formed by the Bank which is actively involved in development of the Self Help Groups. The Bank has also opened three Financial Literacy & Credit Counseling Centers in Pune, Nasik and Aurangabad.

The Bank has also undertaken projects for the welfare of the physically, visually, and mentally challenged by providing check-up camps, equipments etc. and sanitation projects in rural areas.

Subsidiaries

The Maharashtra Executor & Trustee Co.Pvt. Ltd. is the only subsidiary of the Bank and it is engaged in providing services in the area of trusteeship business management, execution of wills, guardianship of minor's properties etc. The company has earned a net profit of Rs. 13.80 lakh for the year ending 31.03.2011.

New Initiatives

During the year, the Bank has taken several business initiatives.

- 15 Retail Asset Branches and 18 Retail Asset Centers were opened for effective administration of retail loans
- Micro Asset Recovery Cells were opened in 10 critical Regions to focus on recovery in small borrower accounts.
- 2 SHG branches were opened to exclusively deal with the micro financing and take care of Self Help Groups.
- Mahabank Gold Loan scheme, and Mahabank Top-up Loan Scheme for housing loan borrowers were added to the retail credit products
- A new current deposit product, "Diamond Current Account" was introduced.
- The Bank has started the services as Registrar for the issue of Unique Identification Number to its customers as well as general public.

Future Outlook

In the Corporate Plan for the year 2011-12, your Bank has targeted a business growth of 21% to achieve a business level of Rs.1,38,000 crore in the current year. The focus will be on :



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- Accelerated growth of low cost deposits and retail term deposits
- Qualitative and diversified growth in credit including Micro, retail, SME and mid corporate credit
- Expansion of customer base by leveraging technology to enhance customer delight.
- Strong credit monitoring measures to enhance the asset quality.
- Robust cash recovery and reduction in NPA level
- Quantum increase in fee based income

Awards and Achievements:

The Bank has received Bilingual House Magazine Award for the year 2009-10, in 'Reserve Bank Rajbhasha Shield Competition' and the prize was received by your Chairman and Managing Director from Dr D. Subbarao, Hon'ble Governor, Reserve Bank of India. Your Bank is conferred with the "Best Employer Brand Award" for 2010-11, for HR initiatives, from Indira Group of Institutes, Pune

Acknowledgement

I take this opportunity to express my deep sense of gratitude to the shareholders, customers and other stakeholders for their support and patronage. I am thankful to the Government of India and Reserve Bank of India for their valuable guidance and support. I also thank SEBI and other Regulatory Authorities, stock exchanges for their co-operation. I acknowledge contributions made by auditors, legal advisors, consultants and correspondents and valuable support of various state governments, banks, financial institutions and media. I would like to place on record the valuable contribution of my colleagues on the Board in steering the course of the Bank. I also acknowledge the deep sense of commitment on the part my officers and workmen colleagues in the Bank.

Conclusion

Before I conclude, I would like to assure you, that your Bank has put in place appropriate strategies for sustained qualitative growth. I seek your continued support and patronage to take your Bank to new heights.

Thank you very much.

A. S. Bhattacharya
Chairman & Managing Director
Pune
27th June 2011

This does not purport to be record of the proceedings of the Annual General Meeting