

north-eastern India. By September, 2009, the bank completed implementation of CBS in all its branches.

#### **Management**

UBI is, currently, managed by a seven member Board of Directors. The day-to-day affairs of the bank are managed by Shri S. C. Gupta, CMD, who is assisted by Mr. T. M. Bhasin, ED, and 14 General Managers. Most of the senior executives of the bank are professionals with over three decades of experience in banking.

#### **Corporate Governance**

As on Jan.1, 2010, UBI's Board of Directors was broad based comprising CMD, ED and eight other directors, out of which, six were independent directors (GoI & RBI nominee). The bank has, by and large, been in compliance with the applicable provisions of the listing agreement and clause 49 pertaining to corporate governance and has formed different committees of Board (like Audit Committee, Remuneration Committee, Share Transfer Committee, Investor Grievance Redressal Committee, IPO Committee and Selection Committee). However, four of the GoI nominee directors have retired by rotation in January, 2010 and only one new (non-executive non independent) director has been appointed. GoI is in the process of appointing the remaining number of required independent directors.

#### **Litigation History:**

UBI as well as four RRBs sponsored by it are party to various legal cases which are pending at different levels of adjudication before various courts, tribunals, statutory and regulatory authorities / other judicial authorities. As at Dec.18, 2009, there were approximately 10 civil cases filed against the Bank in respect of amounts aggregating approximately Rs. 2.6 crore. As on Dec.18, 2009, bank was also involved in one case in relation to income tax claim amounting to Rs.94.1 crore. Further, there were 158 labour and employment related claims against the bank and 15 complaints against the bank pending before the Banking Ombudsman. Another 52 consumer related cases and a complaint to SEBI were also pending, as on that date.

#### **Operations of the bank**

Corporate Banking business continued to be the major source of UBI's revenue. Increased focus on the segment helped bank to acquire new customers and earn high income. Retail and international banking also witnessed growth during the year.

A handwritten signature in black ink, appearing to be the initials 'G' followed by a flourish.A handwritten signature in black ink, appearing to be the initials 'TMB' followed by a flourish.

### **Asset Profile**

Despite turbulence witnessed in the economy and more predominantly in financial sector, total asset base of UBI grew by 14.3% in FY09 over FY08 primarily led by relatively higher (by 27.1%) growth in advances (which constituted 52% of the total assets). The jump in advances was the result of high demand for term loans and cash credit to finance the corporate business activities in the face of drying up of other sources of funds. During the year, UBI added good number of new accounts in its portfolio owing to its aggressive marketing effort.

Advances portfolio of bank is quite diversified and there is no apparent concentration in any given industry or firm. UBI made notable improvement in its asset quality over the last few years. However, asset quality as on Mar.31, 2009 deteriorated vis-à-vis the previous account closing date (with gross NPA and net NPA percentages sliding to 2.85% and 1.48% respectively, as on Mar.31, 2009 from 2.7% and 1.1% respectively, as on Mar.31, 2008). This was on account of high slippages in the face of adverse economic condition and general slowdown. Owing to aberration witnessed in the market in FY09, UBI had to restructure substantial number of accounts. Upto Sept.30, 2009, UBI restructured 31,268 standard advances with aggregate outstanding of Rs.2317.2 crore (sacrifice – Rs.39.7 crore) and another 50 NPA accounts with aggregate outstanding of Rs.146.3 crore (sacrifice – Rs.2.8 crore). Any slippage in the restructured standard assets could adversely affect the level of NPAs. Provision coverage stood at 48.52% as on Mar.31, 2009, as against 59.77%, as on Mar.31, 2008.

Investment in Government & other approved securities increased by about 10% & constituted about 79% of investment portfolio as on Mar.31, 2009 (as against 70% as on Mar.31, 2008). The yield on investment portfolio declined substantially during FY09 as UBI sold substantial amount of high yielding bonds in FY08 and FY09 to book profit. During FY09, UBI transferred investments in government securities worth Rs.866.7 crore from Available-For-Sale (AFS) to Held-To-Maturity category and provided depreciation of Rs.46.6 crore. However, bank reduced exposure to high risk investments and consequently, investment portfolio declined by 3.2%, in aggregate.

### **Liability Profile**

Like other banks, UBI's major resources come through deposits which accounted for 89% of total liabilities as on Mar.31, 2009 and grew by 16.1% in FY09 over FY08. Further, the

A handwritten signature in black ink, appearing to be a stylized 'G' or similar character.A handwritten signature in black ink, appearing to be a stylized 'A' or similar character.

proportion of CASA (current and savings account) deposits stood at 38% as on Mar.31, 2009, being marginally higher than the industry median. Term deposits, which formed 62% of the aggregate deposit base, grew by about 17.6% mainly due to increased interest rates offered on term deposits by the bank. However, its cost of deposits declined to 5.86% in FY09 from 5.96% in FY08 with UBI discouraging high cost bulk deposits.

### **Risk Management**

The risk management policy of UBI aims to minimise risk and embrace the challenges of Basel II accord in respect of measuring, managing and mitigating credit, market and operational risks by adopting an integrated approach. Accordingly, UBI has taken various steps in this direction.

#### ***(i) Credit Risk***

UBI's loan policy provides guidelines for risk rating of borrowal accounts and exposure ceiling. UBI also reviews, at regular intervals, the pricing of credit & deposit products and realigns them in tune with prevalent market trend. UBI uses a rating model named IMACS for internal credit rating of borrowers.

#### ***(ii) Liquidity & Interest Rate Risk***

The bank has an active and integrated treasury covering both money and forex markets. UBI does maturity gap analysis on a daily basis to review the liquidity position. In order to manage the risk on account of trading book, it has policies, in place, with regard to volume, maximum maturity, holding period, duration, stop loss, default period and rating standards. Further, the bank does stress testing analysis in order to ascertain the impact on the value of asset portfolio of the bank upon change in interest rates by 100 to 200 basis points.

The maturity profile of assets and liabilities, as on Mar.31, 2009 was favourable with no negative gaps on cumulative basis. Besides, the excess SLR portfolio, the stable deposit base of the bank with significant growth and a reasonable rollover rate (40%) for term deposits provide sufficient cushion against any liquidity mismatch in such eventuality.

For interest rate risk, UBI follows simple maturity and repricing gaps after taking into account interest rate scenario. Its cumulative asset liability ratio tends to one in over five year time bucket suggesting the bank being more prone to interest rate risk within five years time period.

#### ***(iii) Market Risk***

About 79% of UBI's investment portfolio as on Mar.31, 2009 was in Government and other approved securities. Non-SLR investments were well diversified comprising mostly

A handwritten signature in black ink, appearing to be a stylized 'Q' or similar character.A handwritten signature in black ink, appearing to be a stylized 'V' or similar character.

highly rated NCDs and bonds. With AFS portfolio as on Mar.31, 2009 (constituting about 29% of the aggregate investment portfolio) having an average duration of 4.11 years, fluctuation in the interest rate of every basis point will affect the investment valuation by Rs.2.2 crore. As the bank does not have any Investment Fluctuation Reserve, the cushion available to UBI to absorb such shock, if any, is likely to be minimal.

### Financial Analysis

UBI's income from core lending activities maintained its up-trend even in FY09 (growing by 33.7% over FY08). Non-interest income also rose by 5.5% on the back of increased profit from sale of investment as well as rise in fee based income. Operating profit increased by 38.3% with relatively lower increase in interest expenses (by 18.8%) and operating expenses (by 8.8%). Provisions increased sharply in FY09 over FY08 owing to significant increase in depreciation on investment (due to poor economic conditions worldwide and resultant high volatility in debt & equity market) and ad-hoc provision of Rs.70 crore for wage revision. Despite this, PAT (before defd. tax) & PAT (after defd. tax) during FY09 were substantially up from FY08 in view of lower base. Profit in FY08 was down substantially owing to flare-up in interest expenses as a consequence of hardening of interest rates and high provision for NPAs. Interest spread improved during this period as the bank did away with bulk deposits carrying higher interest rates. ROTA, though improved to 0.32% in FY09 from 0.12% in FY08, remained low in view of relatively low level of profits. Interest coverage was also on the lower side. RONW improved to 7.89% during FY09 from 2.90 % in FY08. Net NPAs to net worth as on Mar.31, 2009 deteriorated from that on Mar.31, 2008 owing to high slippages during the year. Credit/Deposit ratio improved with better management of funds.

UBI's CAR, as on the last three account closing dates, was as under as against RBI's stipulated minimum CAR of 9%:

As on Mar.31,	2007	2008	2009
Tier I CAR (%)	7.77	6.74	7.56
Overall CAR (%)	12.02	11.88	13.28

CAR of UBI has comfortably been higher than the regulatory requirement over the last three years. Further, the Tier I CAR being comfortable provides sufficient opportunity to the bank to improve overall CAR by raising Tier II capital.

## Financial Results

(Rs. crore)

For the year ended /As on March 31,	2007	2008	2009
<b>Financials</b>			
Interest Income	2,811	3,557	4,312
Profit on sale of investments	42	179	216
Total Income	3,172	4,023	4,803
Operating expenses (excl. provn. & contingencies)	777	820	892
Interest expenses	1,675	2,653	3,150
Provisions for NPAs - advances	232	245	199
PAT (after defd. tax)	267	58	185
Reported PAT	267	319	185
<b>Balance Sheet</b>			
Deposits	37,167	46,971	54,536
Advances	22,156	27,858	35,394
Equity share capital	1,532	1,532	1,532
Networth	1,885	2,144	2,538
Total assets	41,779	53,794	61,500
<b>Key Ratios</b>			
Int. income/ Avg. int. earning assets (%)	7.70	7.68	7.76
Cost of deposits (%)	4.83	5.96	5.86
Interest spread (%)	2.80	1.63	1.81
ROTA (%)	0.71	0.12	0.32
Net interest margin (%)	2.77	2.12	2.17
RONW (%)	14.83	2.90	7.89
Operating expenses (excl. provn. & write-offs) / Avg. total assets (%)	2.08	1.72	1.55
Interest coverage – before provisions (times)	1.43	1.21	1.24
Interest coverage – after provisions (times)	1.18	1.06	1.09
Capital adequacy ratio (%)	12.02	11.88	13.28
Tier I Capital adequacy ratio (%)	7.77	6.74	7.56
Gross NPAs	3.6	2.70	2.85
Net NPAs	1.5	1.10	1.48
Provision coverage	59.24	59.77	48.52
Net NPA/Networth	17.44	14.07	20.69
Credit/ deposit ratio	0.60	0.59	0.65

### Adjustment

- UBI had written back income tax provision of Rs.260.5 crore in FY08, based on legal judgement received in respect of matters pertaining to Rs.86.7 crore and favourable




*judgement obtained in similar matters earlier for the balance amount. This amount of Rs.260.5 crore has been considered after PAT (after defd tax) for this analysis.*

**DISCLAIMER**

CARE's IPO grading is a one time assessment and the analysis draws heavily from the information provided by the issuer as well as information obtained from sources believed by CARE to be accurate and reliable. However, CARE, does not guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. CARE's IPO grading does not take cognizance of the price of the security and it is not a recommendation to buy, sell or hold shares/securities. It is also not a comment on the offer price or the listed price of the scrip. It does not imply that CARE performs an audit function or forensic exercise to detect fraud. It is also not a forecast of the future market performance and the earnings prospects of the issuer; also it does not indicate compliance/violation of various statutory requirements. CARE shall not be liable for any losses incurred by users from any use of the IPO grading.

