UNITED BANK OF INDIA

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Board Sec/NSE/Press Release/ /2014 February 18, 2014

Sri. Hari K., Vice President
Listing Department
National Stock Exchange of India Ltd.
Exchange Plaza, Plot – C/1, Block – G
Bandra Kurla Complex, Bandra (E)
Mumbai – 400051

Scrip Code: UNITEDBNK

Dear Sir,

Sub: Press Release

The Exchange is hereby informed that earlier today, the Bank has issued the attached email in reply to the email queries received from the press reporter mentioned therein.

This is furnished under Clause 36 of the Listing Agreement.

Thanking you,

Bikramjit Shom
Company Secretary &
Compliance Officer

From: GM Planning & Development/Executives/Head Office/UTBI
To: "manish.b@livemint.com" <manish.b@livemint.com>
Cc: "ed@unitedbank.co.in" <ed@unitedbank.co.in>, "edubi@unitedbank.co.in" <edubi@unitedbank.co.in>
Date: 02/18/2014 04:04 PM
Subject: Re: Questions

Dear Manish

This has reference to your trailing mail with certain queries.

We are giving our response to your queries and hope it serve your purpose.

with regards

अंबरीष नंद / Ambarisha Nanda
महाप्रबंधक / General Manager
योजना एवं विकास / Planning & Development
युनाइटेड बैंक ऑफ इंडिया / United Bank of India
प्रधान कार्यालय/Head Office,
कोलकाता/ Kolkata-700001

REPLY to Questions of manish.b@livemint.com
addressed to: ed@unitedbank.co.in, edubi@unitedbank.co.in, gmpd@unitedbank.co.in
02/17/2014 07:06 PM

United Bank has been under-reporting NPAs for at least three years till March 2013. We understand that most of the Rs4,500 crore increase in NPA in the past two quarters is on account of correct reporting of stressed loans less than Rs10 lakh each. It was easy to conceal these because RBI didn't normally touch this segment during its annual financial inspection. For at least three years, the bank's management used to arbitrarily calculate NPA, and at least Rs2,500 crore of the Rs4,500 crore fresh NPA reported in the past two quarters are sub-Rs10 lakh loans, which till now were reported as standard assets. The rest are mid-corporate and SME loans—the management delayed reporting them as long as possible. PLEASE COMMENT.

Reply

The above observation is based on improper understanding of the issues involved in identification of NPA by the system. The CBS system of the Bank is based on Finacle used by many other banks. The Finacle system has inherent deficiencies to correctly identify NPA in certain categories of borrowers like KCC, Restructured Accounts, CC/OD continuously overdrawn for more than 90 days, ECGC covered accounts etc. The deficiencies still continue in the software. The generation of NPA through system in Sept 13/ Dec 13 has given rise to a large number of standard accounts shown as NPA and NPA accounts shown as performing assets. The weakness of the tools used by the Bank previously and also in the tool used in Sept/ December 2013 largely explain variation in NPA figures. Manual Checking of asset classification done through system pose a challenge for the Bank particularly in case of small accounts in view of the magnitude.

We, therefore, clarify that wrong NPA classifications is a result of the deficiencies in the software used by the Bank and the challenge of checking each asset classification manually particularly in small accounts rather than any intentional intervention at any level to hide NPA.

People who defend this practice have variously said: Finacle was deficient; for prudent banking one should not be guided entirely by software and standard operating procedures alone; future writebacks will prove if they were correct. WHAT IS YOUR VIEW ON THIS? WAS THIS SITUATION—CRAR FALLING TO 9%, GROSS NPA TOPPING 10% AND SO ON—AVOIDABLE?

Reply

Because of the reason stated above one should not be guided entirely by software but by a combination of system based asset classification and manual checking about their correctness. Considering the large number of small accounts such as Agricultural Loans, Govt. sponsored Loans, Small Business Loans etc. proper checking of the asset classification done by the system and the data (based on which this classification is made) pose a major challenge for all banks including our Bank. Bank has been pursuing with Infosys for a long time to rectify these deficiencies in the Finacle system and the solution to some of which will be made available to the Bank very shortly. With the implementation of the solution and with the various measures undertaken by the Bank, the NPA position and the CRAR will improve substantially in March 2014 quarter.

It appears that United Bank's exposure to social sector lending (agriculture, entrepreneurship development) is disproportionately high measured against its overall loan book, and most of the current trouble stems from these loans. PLEASE COMMENT.

Reply

Partly correct. Owing to its dominant presence in East and North East corridor of the country and more than 60% of its branch network being concentrated in rural and semi-urban centres, Bank has financed a large number of agricultural, MSE, transport operators and small businesses operating in these areas. These business units operate at a very small scale and their loss absorption capacity is typically low. However, Bank has launched a massive recovery drive involving all the resources at its disposal to recover the outstanding dues. After a meeting of regional heads held at the Bank's Head Quarters on 16.02.2014, the Executive Directors and the Top Management of the Bank are confident of upgrading and reducing NPA by at least Rs.2000 crores which will substantially improve the operating results of the Bank in March 2014 quarter.