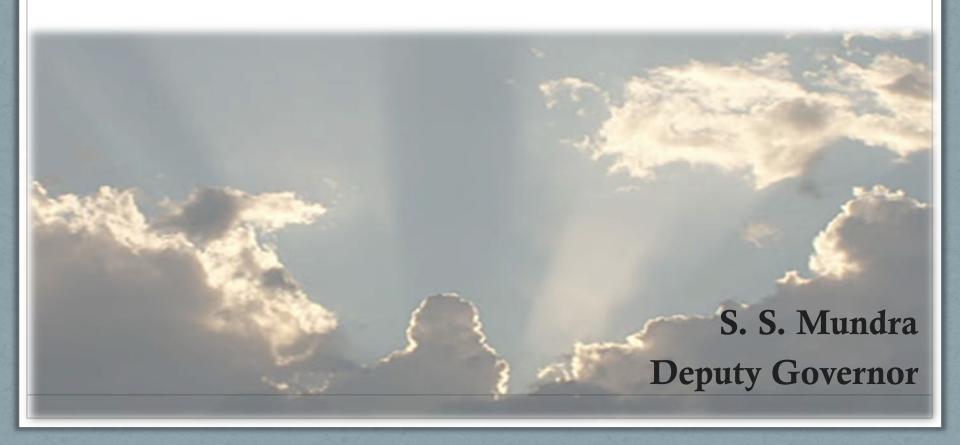
FIBAC 2016



BANKING HORIZON: CLOUDS & SILVER LININGS



GLOBAL SKYLINE EVER-CHANGING CONTOURS

- Brexit (End or beginning?)
- US Rate Action
- Volatile Chinese Growth
- Euro Zone Banking System
- Hesitant Economic Recovery
- Ultra Accommodative Monetary Policies
- Negative Rate Of Interest

Will these bring rains or storm?

REGULATION

• Regulation – More intrusive

- A daunting New Vocabulary (TLAC, CCB, LCR/ NSFR, SIFIs, Volcker Rule/ Living will & so on)
- Risk weight for Sovereign Assets?
- New standardized approach for Credit risk?
- Penalties
- Stress test Capital
- Nearer Home IFRS

Impact on Banks profitability

Do regulators need to worry about that?

TLAC: Total Loss Absorbency Capacity, CCB: Capital Conservation Buffer, LCR: Liquidity Coverage Ratio, NSFR: Net Stable Funding Ratio, SIFIs: Systemically Important Financial Intermediaries, IFRS: International Financial Reporting Standards

ASSET QUALITY REVIEW STILL A WORK-IN-PROGRESS

- Stressed Assets
- Agenda for remaining 3Q of 2016-17
 - Provisioning need Fresh & incremental profitability impact
 - Crystallization of Non-Funded Exposures
 - Sitting stunned is no solution Use tools judiciously –
 Overblown fears Resolution can't be delegated
 - "Small Tickets" don't translate into "Small Attention"
 - Credit Migration Cherry Picking

CREDIT

Churn in Credit Market

- Corporates Reality check
- Corporate Leverage

Of a sample of 3,700 listed non-financial companies*

- 37% had interest coverage (IC) < 1
- 32% were chronically stressed (having IC < 1 for four or more of the past eight quarters)
- Many of them face refinancing risk in coming years**

At the same time – Review of Exposure limit – Move to market Opportunity to rebalance portfolio

- Estimated 78% MSME source credit self/informal channels. Riskier standalone – However, more diversified at portfolio level than large corporates
- Rising middle class/ Urbanization Retail opportunities –

However, caution against – adverse selection/over lending – Need for accredited Credit Counselors

 Agriculture – Risk without enhanced credit absorption capacity – Land reforms – Investment – Technology – Insurance

^{*} Source: Credit Suisse

COMPETITION

- New Institutions: Banks SFB, PB
- New Competitors: Non-bank actors P2P, Crowd-funding, PPI,TReDS
- Joint origination Banks/NBFCs/MFIs Merits a look
- New Customer & New Channels Fintech
 - How are you preparing for the future and it is not too distant
- Customer Service No more lip service
 - Mis-selling Establish suitability
 - Institutional might v/s individual fragility
 - Account No. Portability- No longer a remote possibility UPI a game changer
 - Account opening Pleasure or Pain

SFB: Small Finance Banks, PB: Payment Banks, P2P: Peer to Peer, PPI: Prepaid Payment Instruments, TReDS: Trade Receivables Discounting System, UPI: Unified Payments Interface

OPERATIONAL

- Cyber Security- Bane of technology
 - Hits and near-misses
- Frauds- History continues to repeat itself
 - Import Remittance Scam, Fixed Deposit Frauds, LCs, Billdiscounting, BGs
- KYC/AML
 - Decline in Correspondent Banking arrangements
 - Life after PMJDY Too many ring masters
 - Return on efforts & resources (Business model still evolving)
 - Promoting usage, Preventing misusage (Money Muling)
 - Ecosystem (Branch BC balance)
- Strong Central processing and surveillance 3 lines of defense ignore at your peril

BEYOND THE CURB

- Technology a big enabler a potent risk
- Digital payments Digital currency Distributed Ledger Cloud Computing – and so on
- Journey Big Data Analytics AI Robotics (Level of understanding and preparedness)
- Regulatory stance still evolving However as MAS puts it "Materiality & Proportionality" "Regulatory Sandbox"
- Back office technology sharing (HSBC | Morgan Stanley) represents significant % of operating cost

THE LAST WORD

- "Finance exists to serve the real economy & society too.
 It is means to an end & not an end itself"
 Reasons to become concerned if it overtakes Real Economy or
 Trading & fee generation becomes more important than lending
- G-30 Report "The Board & the senior management need to make sure that the voices of the middle management & the echo from the bottom can be heard"

SILVER LININGS ARE NOT ELSEWHERE...THEY ARE AT THE EDGE OF CLOUDS ONLY

THANK YOU