

Treasury gains boost PSBs' earnings

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Public-sector banks' profitability during the third quarter of the current financial year largely supported healthy treasury income, which helped offset muted net interest income (NII) growth.

Despite hardening of yields on government bonds, banks were able to book treasury gains by participating in IPOs, earning commission on buy/sell currency swaps and open-market operation (OMO) purchase auctions, among other things.

While credit growth expanded this quarter, slower growth in deposits capped the NII growth. Net Interest Margins (NIMs) also remained under pressure owing to a cumulative 125 basis points repo rate cut by the Reserve Bank of India (RBI).

"While Q2FY26-Q3FY26 saw limited trading opportunities or mark to market gains — given the rise in bond yields — trading gains were seen for some PSBs, which have come from different factors.

Taking stock



For instance, in Canara Bank's case, higher trading income was led by the stake sale during the IPO of Canara Robeco and Canara HSBC Life Insurance," said Sachin Sachdeva, vice president, sector head – financial sector ratings, Icra.

Canara Bank's treasury income rose by almost 150 per cent on a yearly basis to ₹3,056 crore, of which profit on sale of investment jumped by 174 per cent year-on-

	Treasury income	Net profit	Treasury income as %	
	Q3FY26 (in ₹ cr)	Q3FY26 (in ₹ cr)	of net profit	
Bank of Baroda	1,080	5,055	21.3	■
Punjab National Bank	1,337	5,100	26.2	■
Union Bank of India	901	5,017	17.9	■
Central Bank of India	302	1,263	23.9	■
Canara Bank	3,056	5,155	59.2	■
Indian Bank	1,676	3,061	54.75	■

Source: Analysts presentation

year (Y-o-Y) to ₹2,590 crore.

"Some banks also booked modest gains by selling securities held in their Held-To-Maturity (HTM) portfolio, under RBI's Open Market Operation purchase auctions," he added.

Government bond yields hardened in December, despite the RBI's 25 basis points policy repo rate cut and announcement of large OMOs aimed at easing

liquidity. The yield on the benchmark 10-year government bond rose marginally by about 2 basis points during the quarter.

The supply of Central and State government securities has risen sharply in the current financial year, with net issuance of government securities and state government securities surpassing last year's levels, while the demand from key long-term investors, insurance companies and pension funds has weakened.

Hardeep Singh Ahluwalia, executive director at Canara Bank, said the traction in treasury income for the bank came on the back of the initial public offering (IPO) of its insurance subsidiary, coupled with the arbitrage or premium on currency swap.

"The premium in the buy/sell currency swap has gone up due to reduction in repo rate. So, the exchange commission has also gone up. Going forward, with increased liquidity infusion measures by the Reserve Bank of India, yields are expected to soften, helping to gain treasury income in the coming

quarter," said Ahluwalia, who is also serving as the interim managing director (MD) and chief executive officer (CEO) at the bank.

Mumbai-based Central Bank of India reported a 35 per cent jump in treasury income to ₹302 crore, against ₹224 crore in the corresponding quarter of the previous financial year.

Vasti Venkatesh, general manager (treasury) of Central Bank of India, said the bank's treasury income was driven by its participation in IPOs and the Tri-Party Repo (TREPs) market.

During the quarter, banks borrowed heavily from the TREPs market and deployed those funds into the Standing Deposit Facility (SDF) of the RBI, which offered a higher interest rate than the former.

Among other state-owned lenders, Chennai-based Indian Bank's treasury income contributed 54.75 per cent to the net profit of the bank during the reported quarter, whereas, Punjab National Bank's treasury income was 26.20 per cent of the net profit during the period.