

Chairman's Speech at the 90th Annual General Meeting

A very good morning to all of you.

I deem it as a privilege welcome you all to the 90th Annual General Meeting of "The South Indian Bank Limited". On behalf of the Board of Directors, I thank you all for joining us today. Your august presence is testimony to your passionate involvement, continued trust and support for the Bank over the years. The Annual Report, including the Audited Financial Statements for the year ended March 31, 2018 are already with you and with your kind permission, I take them as read. Before scanning through your Bank's performance during the financial year 2017-18, I would like to share with you all briefly the present macroeconomic and banking scenarios.

Economic and Banking Scenarios:

Globally, the economic activity is gaining strength, with the expansion of global trade, triggered by gradual improvement in global demand. Conditions for investment have generally improved, amid low financial volatility, reduced banking sector fragilities, recovery in some commodity sectors and a more solid global macroeconomic outlook. Financing costs generally remained low, and spreads have narrowed in many emerging markets, reflecting a decline in risk perception. This has supported rising capital flows to emerging markets, including a rise in cross-border lending, and stronger credit growth in both developed and developing economies. World GDP growth, as estimated by the IMF (International Monetary Fund, April 2018), touched 3.80% in 2017, the fastest since 2011. Global growth outlook for 2018 remains positive despite some softness. With the financial conditions continue to be supportive, global growth is expected to tick up to 3.9% both in 2018 and 2019. Emerging and developing Asia is expected to grow at around 6.5% over 2018-19 broadly the same pace as in 2017.

However, spill over risk from advanced financial markets has increased in the recent past. Tightening of liquidity conditions in the advanced markets, and the expansionary US fiscal policy and a strong US Dollar have been impacting the emerging market currencies, bonds and capital flows. Firming commodity prices, particularly of crude oil, geopolitical developments and trade war pose added risks. The tightening of global financial conditions would have implications for global asset prices and capital flows, leaving economies with high gross debt refinancing need and unhedged US dollar liabilities are exposed to financial distress.

After lagging for five consecutive quarters, economic growth in India is turning around. India has emerged as the fastest growing major economy in the world as per the Central Statistics Organization (CSO) and International Monetary Fund (IMF) and it is expected to be one of the top three economic powers of the world over the next 10-15 years. India's GDP is estimated to have increased 6.7 per cent in 2017-18 and is expected to grow by 7.4 per cent in 2018-19.

The Indian banking industry, which supports the world's fastest growing large economy, has been grappling with challenges that test its strength and resilience. During the year under review, the Reserve Bank of India has initiated various measures to ensure that the system, operational processes, cyber security and risk management for the banking sector are sound, safe and healthy. Though these challenges are real, it is very important to admit the fact that at this stage of development of our country, the banking sector in India continues to remain at the centre of fast pacing our inclusive growth agenda forward. Credit growth of scheduled commercial banks (SCBs) showed an improvement, while the same of public sector banks (PSBs) continued to lag behind their private sector peers. The stress in the banking sector continues as gross non-performing advances (GNPA) ratio of SCBs increased from 9.6 in March 2017 to 11.6 in March 2018. Even though the restructured advances ratio declined significantly, the stressed advances ratio increased from 12.0 to 12.5 in the same period. It may also be noted that Capital to risk weighted asset ratio (CRAR) of SCB's has increased from 13.6 to 13.8, basically on account of improvements in the CRAR of Private sector banks.

The Key Developments

- Government of India has unveiled a two-year plan to strengthen the public sector banks through reforms and capital infusion of Rs.2.11 lakh crore (US\$ 32.5 billion). That will enable these banks to play a much larger role in the financial system and give a boost to the MSME sector. In this regard, the Lok Sabha has already approved recapitalisation bonds worth Rs.80,000 crore (US\$ 12.62 billion) for public sector banks, which will be accompanied by a string of structural reforms.
- The Insolvency and Bankruptcy Code, 2016 has been emerged as the lynchpin for resolving stressed assets in a time-bound manner.

- A new portal named 'UdyamiMitra' has been launched by the Small Industries Development Bank of India (SIDBI) with the aim of improving credit availability to Micro, Small and Medium Enterprises' (MSMEs) in the country.
- The Companies which were identified by the RBI as the major defaulters has been referred to NCLT to resolve the NPA menace.

Performance of the Bank

Despite the challenges and stress faced by the banking industry during the year under review, your Bank had achieved a net profit of Rs 334.89 crore for FY 2017-18. The net profit for the previous financial year was Rs. 392.50 crore.

The Key financial highlights for FY 2017-18 can be summed up as under:

- The operating profit has gone up from Rs.1214.60 crore in 2016-17 to Rs.1480.79 crore, registering a growth of 21.92%.
- The Earnings per share and Book value per share for the year ended March 31,2018 stood at Rs.1.86 and Rs.28.98,respectively.
- The capital plus reserves of the Bank moved up from Rs.4,845.47 crore to Rs.5,241.22 crore on account of exercise of options and plough back of profits during the year.
- The non-corporate advances (62.91 % of total advances)grew by 18.80% during FY 2017-18, in line with your Bank's focus on retail business.
- During the year, credit flows to the Priority and Agriculture sectors were over the regulatory prescriptions. The total Priority Sector advances (net of PSLC) as at the end of the financial year stood at Rs.21,757.12 crore, constituting 46.89% of the Adjusted Net Bank Credit (ANBC) as against the mandated40%.

- The Bank has successfully widened its network across India with 854 branches, 55 extension counters and 1331 ATMs and 51 CDMs /CRMs. The Bank has opened 10 new outlets (4 Branches and 6 Extension Counters), 60 ATMs and 4 CRMs across the country during the financial year 2017-18.

The Bank accords utmost importance to skill enhancement of staff members. Training Programme is conducted at SIB Staff Training College (SIBSTC), Thrissur and at 7 Regional Training Centres (RTCs) for development of professional skills. Training programmes are designed to develop competency of while imbibing the SIBIANS' spirit and culture through an effective learning process. During the financial year 2017-18, the Bank has imparted training to 4,240 officers, 1,689 clerical and 279 sub staff in various aspects of banking operations. A total of 6,405 personnel were trained during the FY 2017-18, which is about 81% of total staff strength of 7,946 as on March 31, 2018. This is in consonance with the Bank's priority of continuous up-gradation of skills to ensure that the staff members meet the rising expectations of customers and discharge services professionally covering the entire gamut of banking operations. In addition to six RTCs located at Delhi, Mumbai, Kolkata, Hyderabad, Chennai & Bangalore, one more RTC at Coimbatore has started functioning during the year.

Your Bank is a front-runner in innovations in technology with a view to providing safe, secure and convenient banking facilities to its customers. The Digital/Technology initiatives/solutions embarked during the year are:

- Full-fledged implementation of GST in the CBS. GST collection and flow of invoices from the Bank to the GSTN network is done in a seamless manner.
- e-Academia allows parents to remit fees online using Debit Card/Credit Card/Net Banking without waiting in a long queue to remit the fees of their children.
- FEEBOOK - online event based fund management/collection portal, with a tagline 'You Decide You Collect' allows organizations/ institutions/ associations conducting any number of events with fees involved in it to create their own payment portals, do any modifications on their payment portal, and view the payment reports as and when required. Payments can be made through Payment Gateway solution offered by the Bank.

- Under the Supply Chain Finance Scheme, the Bank has introduced(1) Vendor Finance Scheme to address financing the vendors/suppliers of raw-materials, components, etc. to manufacturing companies (referred to as corporate) and (2)Dealer Finance Scheme to finance dealers of the products manufactured by corporate.
- Migrated on premise e-mail solution to the cloud based email solution.
- Optimizing infrastructure using Virtual Machines. The Bank has implemented second factor authentication in CBS for branch user login. This is to strengthen the user level login security with efforts to curb the practice of credential sharing among employees.
- Implementation of Straight Through Processing (STP)between CBS and SWIFT. All types of SWIFT messages are automated and inward processing of SWIFT messages has also been brought into the purview of STP.
- Implementation of automated DR management solution-Ensures that applications can be resumed from DR site during any disaster as per the defined RTO (Recovery Time Objective).
- LOS (Loan Origination System) was introduced in the Bank in a phased manner for Retail & SME loans, for scaling up loan volumes and quick processing of loan applications from centralized hubs with reduced TAT.
- Implementation of Process Automation Solution –Automation solution for converting Non STP processes to STP to ensure secure, seamless and automated Data Transfer across different nodes.
- Aadhaar linking/seeding enabled across all customer touch points.
- Implemented NACH H2H automation mechanism by which mandate management & ACH processing is happening via STP process.

- SIB is the first Bank to be certified as EMV enablement as Issuer on ATMs.
- Anti-skimming solution in ATMs to safeguard ATMs and especially ATM customers from loss and fraud.
- Introduced MasterCard Business Debit Cards.
- Dynamic Currency Conversion Support for MasterCard International Transactions- Foreign MasterCard card holders will be able to withdraw money from Bank's ATMs by knowing the transaction value in their home currency
- Introduction of Payment Gateway Service in tie-up with M/s Worldline has become an important tool for acquiring float funds and new business relationships.
- Bharat Bill Payment Systems – BBPS which will offer integrated and interoperable bill payment services to customers across geographies with certainty, reliability and safety of transactions.
- NETC – National Electronic Toll Collection – which helps the vehicles with a RFID tag to pass through the toll plazas across the country, seamlessly.
- Bharat QR issuing and acquiring- QR based transactions by making use of debit cards and UPI.
- Enabled GST Payment, Online Loan against deposit opening, IT Returns – e-filing, Online Mutual Fund Service, Funds Transfer to Virtual Accounts through Internet Banking.
- Block Chain Based Cross Border Remittance Solution, an important technology set to completely improve the remittance system and potentially assist and improvise the existing bank settlement system, and active participation on other block chain consortiums focusing on different implementation projects.

- Digital On boarding – CASA and Insurance. In addition to tab banking and quick opening in branches based on Aadhaar, the Bank has also introduced end to end digital on boarding for insurance products of Bank’s partners.
- The Bank has started operations of Representative office at Dubai in UAE from 25.04.2018.
- The Bank has started TAB Based Account opening by instant KYC verification.
- The Bank has started instant account opening by biometric verification at branches.
- The Bank has started issuing "FASTAG" to vehicles enabling Toll payments digitally without waiting at Toll Booths.
- The Bank has rolled out a centralised monitoring mechanism for continuous monitoring of accounts above Rs.5.00 crore.
- Yet another milestone was the setting up of a centralised “collection hub”, which ensures continuous follow up of potential loan impairments, follow up through SMS, tele-calls ,etc.

CORPORATE SOCIAL RESPONSIBILITY (CSR):

South Indian Bank is grateful to the society that has supported and encouraged your Bank during its long journey of growth and development. Your Bank believes that no organization can make sustainable development without the patronage of the society. In line with the CSR Policy and in accordance with Schedule VII, section 135 of Companies Act, Bank undertook various activities during FY 2017-18.

The Bank had spent Rs.7.28 crore during 2017-18 towards CSR activities against Rs.4.03 crore in the Year 2016-17. Further, an outlay of Rs.9.50 crore has been sanctioned in various socially relevant projects, pending disbursements as on March 31, 2018. The Bank expects that this outlay will be positively spent during the following years. The Bank stays committed to its Corporate Social Responsibility and intends to increase the spending under CSR in future.

RISK MANAGEMENT

The perception of risk management has been radically changing within the industry. The Bank has in place a robust risk management structure, which proactively identifies the risks faced by your Bank and helps in mitigating the same, while maintaining proper trade-off between risk and return, thereby maximizing the shareholder value. The Bank has put in place sound risk management architecture and best practices that is overseen by Risk Management Committee of the Board (RMCB). Bank is in the process of implementing Enterprise Wide Risk Management Solution (EWIRMS), as a part of moving over to advanced approaches of Basel II, which will facilitate suitable alignment of risk and capital to the overall business strategy.

The Bank has been calibrating the system of comprehensive risk profiling of the Bank in line with regulatory guidelines that will facilitate integrated risk management through effective assessment of the level and direction of key risks.

Internal Control Systems and Compliance

Your Bank recognises the importance of strengthening the internal control systems and the quality of compliance. The internal audit system has recently been revamped by benchmarking the best practices in the industry. The effectiveness of the three lines of defence has been fine-tuned to deal with the changing product lines and technology, and dynamic operating environment. A separate Compliance Department is ensuring that all regulatory norms are followed, both in letter and spirit.

Awards and Accolades

The Bank has received following awards during the Financial Year 2017-18:

- Dun & Bradstreet Award – Best Private Sector Bank Priority Sector (Agri)

- IDRBT Best Bank Awards – Best Bank Award for Digital Banking among Small Banks’ and Best Bank Award for High Performance IT Ecosystem among Small Banks.
- Banking Excellence Award 2017 for Private Sector Bank by State Forum of Bankers Club (Kerala).
- Digital India Excellence Award for innovation in mobile app ‘Digi e-lock’.
- FIEO Export Award 2015-16- Best Financial Services & Foreign Exchange Earner in Southern Region (Gold).
- ASSOCHAM Award – Social Banking Excellence Award 2017 (Priority Sector Lending).
- IBA Technology Awards 2018 –
 - a. Winner – Best Technology Bank of the Year
 - b. Winner – Best payment initiatives
 - c. Winner – Best use of Digital and Channel technologies
 - d. Runner up – Best Financial Inclusion initiatives
 - e. Runner Up – Best IT risk and Cyber Security initiatives

Looking Ahead

The management team, led by the Managing Director & CEO has charted a clear and sustained growth plan. The path is based on well-defined risk appetite and risk management policies and practices, optimal capital allocation framework, and sound internal control systems and compliance. Retail banking continues to be the core focus of the Bank to fulfil its 2020 Vision of becoming a ‘Retail Banking Power House’. Our quality of leadership talent is nurtured and well-placed to execute the Bank’s new business strategies. I am confident that the coming years will help the Bank to maintain and enhance its strengths and optimally tap the diverse growth opportunities that our country presents.

I solicit continued support from the valued shareholders such as yourself and all other stakeholders for our long journey forward.

Acknowledgement

I take this opportunity to express my deep sense of gratitude to the Government of India, the Government of Kerala, the Reserve Bank of India, the Securities and Exchange Board of India, and all other State Governments where the Bank operates, other Government and Regulatory Authorities, including stock exchanges, where the Bank's shares are listed and correspondent Banks for their strong support and guidance, during the year. The Board also places on record its gratitude to the Bank's shareholders and customers for their continued support, patronage and goodwill. The Board further places on record its appreciation for the valuable services rendered by M/s S. R. Batliboi & Co. LLP, Chartered Accountants, Statutory auditors, during their tenure. The single most important pillar of any institution is its personnel, more so in the case of a service entity like a bank. Your Bank gladly acknowledges and recognises this fact and thanks all of them for their diligence and loyalty towards the Bank. The Board expresses its sincere appreciation for the dedicated services rendered by the employees of the Bank at all levels.

Conclusion

We eagerly look forward to your valuable suggestions, as it helps us serve you better. Our capital base, robust growth aspects, wider network, new business strategy and leadership in technology, position us very well to leverage the growth opportunities across the economy. I look forward to your continued support in this journey. With the continued support and patronage of all, I am confident that your Bank will reach greater heights during the coming years.

Thank you, Ladies and Gentlemen for your valuable time and attention.

SALIM GANGADHARAN
CHAIRMAN

July 11, 2018

Note: This does not purport to be a record of the proceedings of the Annual General Meeting.