

Chairman's Speech at the 92nd Annual General Meeting

A very good morning to all of you,

I am delighted to welcome you all on behalf of the Board of Directors to the 92nd Annual General Meeting of "The South Indian Bank Limited" for the Financial Year 2019-20, being held today through Video Conference. It is in a different setting that we normally meet; the COVID-19 pandemic has disrupted all that conventional ambience, and that we are now exposed to a new normal. It is wonderful to see many of you joining in from different parts of India and overseas. A special thanks to all of you for joining us virtually. I gratefully acknowledge your continued trust and support extended to the Bank, that have bolstered us to progress ahead over the years.

The Directors Report and the Audited Financial Statements for the Year ended March 31, 2020 are already with you and with your permission, I take them as read.

Before I present the performance of the Bank, I would like to briefly share with you the present macroeconomic and banking scenarios.

Economic and Banking Scenarios

The COVID-19 pandemic has spread at an alarming pace and has emerged as a socio-economic and humanitarian crisis worldwide, infecting millions and bringing economic activity to a near standstill, as countries imposed tight restrictions on physical movement to flatten the spread of the virus. As the health concerns and mortality grows, substantial economic damage is clear and represents the sharpest contraction in economic growth in the living memory.

The pandemic is expected to push most countries into recession in 2020, with per capita income contracting sharply in the largest fraction of countries globally, since 1870. As per IMF's global economic outlook of June 2020, advanced economies are projected to contract by 8% in 2020. That weakness will spill over to the outlook for emerging market and developing economies, which are estimated to contract by 3%, as they cope with their own domestic outbreaks of the virus and prolonged lockdowns. This would represent the weakest showing by this group of economies in at least sixty years.

The COVID-19 pandemic has significantly altered the economic outlook of the nation. The sharp reduction in international crude oil prices, if sustained, could improve the country's balance of trade; but the gains from this channel is not expected to offset the drag from the lockdown in economic activity and loss of external demand. By all indications, the recovery is likely to be gradual, as efforts towards unlocking of the economy are challenged by rising infections. However, the financial conditions have improved in response to fiscal, monetary and regulatory measures.

The last year of the decade is ending with dramatic changes in the banking sector - from the amalgamation of banks to the liquidity crisis, and low credit demand to the big-ticket defaults. It has been a year of many changes and challenges. The Non-Performing Assets of commercial banks have moderated from 9.3% in March 2019 to 8.5% in March 2020. Still, the position continued to remain at an elevated and unsustainable level. The asset quality is expected to deteriorate further in wake of the lockdown. There has been secular decline in credit growth, mainly imputed to the risk aversion of banks by virtue of continued build-up of NPAs and the pandemic situation.

Performance of the Bank

The Key financial highlights for FY 2019-20 are summed up, as under:

- Despite the challenges in the operating environment, the Bank achieved a total business of Rs.148,557.91 crore, consisting of deposits of Rs.83,033.89 crore and gross advances of Rs.65,524.02 crore as on March 31, 2020.
- With focus laid on low-cost deposits, the CASA improved from 24.21% as on March 31, 2019 to 25% as on March 31, 2020.
- During the year 2019-20, the gross advances of the Bank registered a growth of 2.97%, to touch Rs.65,524.02 crore.
- During FY2019-20, the Gross NPAs moved fractionally from 4.92% in March 2019 to 4.98% in March 2020. However, net NPA has come down to 3.34% as against 3.45% for the previous year.
- With the focus on strengthening the financials, the Provision Coverage Ratio has improved from 42.46 in March 2019 to 54.22 in March 2020.
- The operating profit increased substantially by Rs 406.67 crore from Rs 1238.97 crore in 2018-19 to Rs 1645.64 crore in 2019-20. However, the net profit declined from Rs 247.53 crore in 2018-19 to Rs 104.59 crore in 2019-20, due to high credit risk costs and COVID-19 related provisions.

- The capital adequacy ratio improved to 13.41, as compared to 12.61 in the previous year.
- The book value per share increased from Rs.29.68 to Rs.30.25 as on March 31,2020.
- The Bank has been successful in widening its network across India with 875 Branches; 54 Extension Counters; 1325 ATMs; and 99 CRMs.
- During the year, the Bank was honoured with significant Institutional recognitions, awards and accolades for various initiatives undertaken.

The Bank accords utmost importance to constantly enhancing skillsets of its staff members. Training Programmes are conducted regularly at SIB Staff Training College (SIBSTC), Thrissur and at 7 Regional Training Centres (RTCs) for development of professional skills. These training programmes are designed to develop competency of operating personnel while imbibing the SIBIAN's spirit and culture through an effective learning process. SIBSTC and the RTCs identify skill gaps in the personnel and provide support for qualitative improvement. Staff members are also nominated to external training centers for being trained in specialized areas as well as to have higher exposure. During the financial year 2019-20, the Bank has imparted training to 3,725 officers, 2,060 clerks and 162 sub staff in various aspects of banking operations. A total of 5,947 staff members were retrained during the FY 19-20, which is about 70% of total staff strength of 8,570 as on March 31, 2020. This is also 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 this, trainings have also been imparted to 14 Financial Literacy Centres/Business Correspondents for better rural banking services and as a measure of expanding financial inclusion initiatives of the Bank. The success of these training programmes are reflected in the enhanced organizational productivity of the staff.

The Bank is a market leader in adopting innovations in technology with a view to providing safe, secure and convenient banking facilities to its customers. The Bank has introduced a host of services and facilities for enhancing customer satisfaction, which *inter alia* includes the following:

- Implemented Robotic Process Automation in various back office processes in centralized centres of the Bank.
- DIYA (Do It Yourself using Aadhaar) Account Process Flow has been launched by which customers can open accounts from branches without the intervention of CPC, using Aadhaar based authentication.
- Implementation of Early Warning System to detect the slippages of accounts into NPAs, well in advance.
- Pre-approved personal loans through digital modes for small ticket loans by applying data analytics.
- Facility to link Fast Tags with the Bank account and to set standing instruction to recharge the same.
- Implementation of Work from Home facility for the staff on the outbreak of COVID-19.
- Integration of School/College ERP systems for fee collection.

- Spot credit through digital modes for Current A/c customers based on transactions in their accounts.
- Implemented the facility to enable or disable international transaction facility of debit cards using Mobile Banking or Internet Banking channel.
- Facilitated creation and reset of debit card PIN using Mobile Banking or Internet banking channel as well.
- Dynamic Currency conversion facility at POS machines.
- Enhanced the unique feature in Mobile Banking application, e-Lock, to facilitate customers to set a threshold limit for cumulative debit transactions in a day through all channels. E-Lock enables customers to block/unblock debit transactions through all channels with a single click.

Corporate Social Responsibility (CSR)

The Bank is grateful to the society that has supported and encouraged the Bank during its long journey of growth and development. The Bank believes that no organization can make sustainable development without the patronage of the society. The Bank is committed to integrate social and environmental concerns in its business operations. In line with the CSR Policy and in accordance with the Companies Act, the Bank undertook various activities.

During 2019-20, the Bank spent Rs 12.01 crore (96.08% of the budget of Rs 12.50 crore) towards CSR activities against Rs 12.22 crore in 2018-19. The Bank had also embarked on some major projects last year in the field of education, healthcare, etc. By choosing long-term sustainable projects, the Bank has taken an approach, which brings steady and lasting impacts on the society. Given the COVID -19

pandemic situation and challenges faced by the health sector, the Bank proposes to focus on health infrastructure projects in 2020-21.

Risk Management:

The risk management strategy of the Bank is based on a clear understanding of various risks, disciplined risk assessment, risk measurement procedures and continuous monitoring for mitigation. The policies and procedures established for this purpose are continuously evaluated and benchmarked against the best practices followed in the industry. Through continuous refinement/improvement of the risk measurement/management systems, including automation of feasible processes, the Bank aims to ensure regulatory compliance as well as better return on and utilization of capital in line with the business objectives.

Internal Control Systems and Compliance

The Bank has put in place extensive internal controls and processes to mitigate operational risks, which includes maker–checker authentication of CBS transactions, centralized processing of opening and modifications of CASA accounts, centralized sanctioning of loan facilities, day end checks to monitor critical issues involving timely renewal of credit reports, closure of the bank guarantees, timely obtaining of loan documents, EM creation and CERSAI registration, etc.

As per the requirement of Companies Act, 2013, the Bank has formulated Internal Financial Controls framework. Risk and controls

associated with each process in the Bank are documented under the Internal Financial Controls Framework.

Awards and Accolades:

The Bank has received the following awards during the Financial Year 2019-20:

- Best MSME Bank (Private Sector) Award by ASSOCHAM in connection with 7th MSME National Excellence Awards-2019.
- Corporate Social Responsibility (CSR) Excellence Award,2019 instituted by Rotary District 3201 for carrying out CSR projects in the area of education for the marginalised.
- Infosys Finacle Client Innovation Awards for Customer Journey Re-imagination and Ecosystem led Innovations.
- IBA Awards in six categories:
 - 1) Best Technology Bank of the Year (Winner – Small Banks)
 - 2) Best Use of Data & Analytics for Business Outcome(Winner – Small Banks)
 - 3) Best IT Risk Management & Cyber Security Initiatives(Joint Winner – Small Banks)
 - 4) Best Payment Initiative (Joint Runner Up – Private Sector Banks).
 - 5) Most Customer Centric Bank using Technology (Small Banks)
 - 6) Best CIO – Runner Up

Looking ahead

The Bank has undertaken a comprehensive transformation journey centered around processes, products, technology, people capabilities, business strategy, risk management and compliance. Given the initiatives already undertaken, the Bank has repositioned itself in the market. The process of de-risking the balance sheet continues and the efforts towards building a strong retail book have been successful. Even in the Covid pandemic situation, maintaining a sustainable asset quality is the major challenge faced by the Bank. Recognizing the critical importance of controlling NPAs to a sustainable level, the credit risk management tools and strategies are being strengthened. The credit underwriting and administration processes and collection are being tightened. Appropriate product pricing, on a risk-return perspective and strict control on portfolio quality would improve asset quality and profitability. Now that a new MD & CEO is scheduled to assume the position on October 1, 2020, the efforts to optimize resources and exploit market opportunities, with focus on quality and profitability would be further boosted.

Amidst the outbreak of Covid-19 during the last six months, we see optimism emerging across the industry. Governments, financial institutions, businesses, economic- health and human development agencies are showing us the light by formulating and delivering the much-needed policy support, innovations and guidance. Because of the experience and wisdom of the Board and management, I am sure that the Bank is in a cusp of safe journey ahead through these unpredictable and unprecedented times.

Acknowledgement

I take this opportunity to express my deep sense of gratitude to the Reserve Bank of India, the Securities and Exchange Board of India, Government of India, Government of Kerala 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 Varma & Varma, 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. The Bank gladly acknowledges this fact and thanks all of them for their diligence, devotion and loyalty towards the Bank. The Board expresses its sincere appreciation for the dedicated services rendered by officers and employees of the Bank at all levels.

Dr. Joseph Alapatt and Mr. Anchal Gupta, Directors are retiring after serving the Bank creditably for a longer period. They had contributed significantly in the transformation process and in formulating appropriate strategies. The Board appreciates the services rendered by the retiring Directors. Mr. V. G Mathew, MD & CEO is completing his second term on September 30, 2020. During his term, the Bank has accelerated the process of de-risking the balance sheet, centralization of processes, innovations in technology and transformation. The Board appreciates his efforts and wish him all the best.

Conclusion

Before I conclude, I would like to assure you, that the Bank has put in place appropriate plans and strategies to bring about the most desirable quality business growth. I seek your continued support and patronage to take our Bank to new heights. We look forward to continuing this journey along with you to take the Bank to new horizons.

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

September 29, 2020

SALIM GANGADHARAN
CHAIRMAN

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