

Chairman's Speech at the 89th Annual General Meeting

Dear Shareholders,

This is a moment of great felicity for me in warmly welcoming all of you to the 89th Annual General Meeting of "The South Indian Bank Limited" for the Financial Year 2016-17 being held today. This, being my first Annual General Meeting as the Chairman of the Bank, I am very much privileged to be honoured by the confidence which the Board and the Shareholders have reposed in me. The Annual Report, including the Audited Financial Statements for the year ended March 31, 2017 are already with you and with your permission, I take them as read. I thank you for your esteemed presence, continued trust and support extended to the Bank all these years. Before coming to your Bank's performance, I would like to share with, in short, a flavour of the present macroeconomic and banking scenarios.

Macroeconomic and Banking Scenarios:

It was a challenging year for the global economy. Stagnant global trade, subdued investments and policy uncertainties were the key challenges. Emerging markets and developing economies (EMDEs), on the other hand, witnessed a steady improvement and are expected to show pick-up in growth in 2017. This indicates a positive change in favour of commodity exporters and domestic demand of commodity importers. However, the weak investment scenario and low productivity have been weighing down medium-term prospects for growth across many EMDEs. On the positive side, fiscal stimulus and other growth enhancing policies that are being pursued by key economies - especially the US - can pose a stronger-than-expected activity. The global growth, estimated at 3.1 percent in 2016, is projected to increase to 3.5 percent in 2017 and further to 3.6 percent in 2018. The growth in global trade was exceptionally weak in 2016 at around 2%; recent data indicates some improvement, particularly in Asia. However, this year, the growth in trade is likely to remain below the pre-crisis rates.

India is amongst the leading emerging economies globally and the fastest growing large economy from Asia. India retained its position as the third largest start-up destination in the world. With over 4,750 technology start-ups; about 1,400 new start-ups were founded in 2016 (NASSCOM Report). The improvement in India's economic fundamentals can be credited to the policy initiatives undertaken by the Government. The combined impact of strong and continuing Government reforms, the Reserve Bank of India's (RBI) inflation focus, further supported by benign global commodity prices have boosted the growth prospects.

The past year witnessed the Government continuing to deliver on its reformist agenda. While the passage of the Goods and Services Tax Act, eliminating the cascading levels of tax and the crackdown on the parallel economy by demonetising high denomination currency notes of Rs. 500 and Rs. 1,000 have top of the mind recall, FY2016-17 also witnessed several other key developments, such as the passage of the Insolvency and Bankruptcy Code, a vital reform which overhauled the tedious bankruptcy regulations in India; implementing the UDAY scheme, which aims to resolve financial and operational predicaments of power distribution companies; liberalization of FDI; establishment of Bank Board Bureau to improve the governance and performance of public sector banks, and a number of other measures.

On the economic front, India recorded a GDP growth of 7.1% for FY2016-17; lower than the 7.9% recorded during the previous year. The deceleration in GDP growth was reflective of the general slowdown in global trade, and in services, and was further impacted by transient slump in overall consumption and economic activity, especially in the unorganised sector. However, with economic activity now beginning to gain momentum, it is expected that the effects of demonetisation would wear off in the coming quarters. From a macroeconomic point, India presents a pleasing picture - Inflation remains well within the RBI's comfort zone; expected favourable monsoon; fiscal and current account deficits remains within budgeted limits; and after an initial slump, the Indian Rupee has largely stabilised. Also, the capital markets – often seen as a barometer of investor confidence and overall business sentiment – have been scaling new heights, spurring a surge in the number of capital market issuances in the country, as emerging markets once again gained favour with global investors.

The year ahead looks uncertain for many banks. A host of factors can be put in play for this: with insinuations of Brexit being unclear for the UK and the European Union (EU) and the election of a new President in the United States have raised questions about the future direction of banking regulation in these regions. A pushback on so-called "Basel IV" regulations is further driving delay in finalizing the rules. The Banking Stability Indicator (BSI) shows that the risks to the banking sector remained elevated. This was due to continuous deterioration in asset quality, and profitability. Public Sector Banks (PSBs) continued to record the lowest capital to risk-weighted assets ratio (CRAR) amongst the banking groups with negative returns on their assets. The large borrowers registered significant deterioration in their asset quality. Asset quality of scheduled urban co-operative banks (SUCBs) deteriorated while that of the non-banking financial companies (NBFCs) worsened.

Monetary policy transmission strengthened in the second half of 2016-17. On the other hand, the weighted average domestic term deposit rate (WADTDR) fell by 32 basis points (bps) during the same period. Combined with sharp increase in CASA

deposits, the overall cost of borrowings declined, creating adequate headroom for banks to cut their marginal cost of funds-based lending rates (MCLR). Post-demonetization (up to March 2017), 27 PSBs reduced their one-year median MCLR in the range of 50 to 105 bps, while 19 private sector banks did the same in the range of 25 to 148 bps.

Some key developments in India's banking industry include:

- RBI's grant of in-principle licenses to 10 applicants to open small finance banks. This is expected to help expand access to financial services in rural and semi-urban areas.
- RBI's in-principle approval to 11 applicants to establish payment banks. These banks can transform the domestic remittance business.
- RBI's permission to third-party white label automated teller machines (ATM) to accept international cards including international prepaid cards. These white label ATMs can now tie up with any commercial bank for cash supply.
- RBI's permission to Indian alternative investment funds (AIFs) to invest abroad in order to increase the investment opportunities for these funds.
- RBI's release of Vision 2018 document, aimed at encouraging greater use of electronic payments by all sections of society by bringing down paper-based transactions, increasing the usage of digital channels and boosting the customer base for mobile banking.

Banks can take advantage of higher growth of Indian economy, increase in income of people, new channels and financial inclusions, among others, for improving its business.

Performance of the Bank

Despite the challenges the banking industry faced during the year under review, your Bank had achieved a net profit of Rs 392.50 crore for FY2016-17, against the net profit of Rs 333.27 crore posted during the previous year.

The Key financial highlights for FY2016-17 can be summed up as under:

- The total gross business of the Bank grew from Rs. 97,191.52 crore to Rs. 1,12,963 crore, registering a growth of Rs. 15,771.48 Crore (or 16.22%) over the previous year.
- Total deposits grew from Rs. 55,720.73 crore to Rs.66,117.49 crore, recording a growth of Rs. 10,396.75(or 18.65%) over the previous year.

- The gross advances increased from Rs.41,470.79 crore to Rs.46,845.69 crore, registering a growth of Rs. 5,374.9(or 12.96%) over the previous year. Food credit decreased from Rs.589.93 crore to Rs.325.21 crore and non-food credit stood at Rs.46,520.48 crore vis-à-vis Rs.40,880.86 crore in the last year, posting an increase of Rs.5,639.62 crore.
- The total Priority Sector Advances, net of Priority Sector Lending Certificates (PSLC) as at the end of the financial year stood at Rs.18,602.96 crore, constituting 42.06% of the Adjusted Net Bank Credit (ANBC). Exposure to agriculture sector (net of PSLC) amounted to Rs.8,155.03 Crore, forming 18.44% of ANBC as at the end of the financial year.
- The Board of Directors has recommended a dividend of 40% i. e. @ Re.0.40 per equity share of Re.1/- each.
- The capital plus reserves of the Bank has improved up from Rs.3,841.93 crore to Rs.4,845.47 crore on account of Rights issue, exercise of options and the plough back of profits during the year.
- The Capital Adequacy Ratio under Basel III norms stood at 12.37%, which is well above the RBI mandated level of 10.25%, indicating a healthy capital position of your Bank.
- Book value per share has declined from Rs. 28.45 to Rs. 26.88 due to the dilution of capital by issue of 45.07 crore Equity Shares of face value of Re.1/- each on Rights basis. The Market Capitalization is above Rs. 3,849.05 Crore as on March 31, 2017.
- The earnings per share (EPS), on a fully diluted basis is Rs. 2.61 per Equity share of Re.1/- each as on March 31, 2017.
- The business per employee stood Rs.13.80 crore as on March 31, 2017 vis-à-vis Rs.12.01 crore as at March 31, 2016.
- As on March 31, 2017 the ratio of gross non-performing assets (GNPA) to gross advances decreased from 3.77 to 2.45. The net NPA ratio stood at 1.45 as on March 31, 2017 vis-à-vis 2.98 as on March 31, 2016.
- The Bank had been successful in widening its network across India with 850 branches, 50 extension counters and 1320 ATMs. The Bank has opened 26 new offices (16 branches and 10 extension counters) and 51 ATMs and 14 CRMs across the country during the financial year 2016-17. The branch network now covers 30 States/Union Territories. The Bank plans to open a maximum of 35 new offices (with a mix of Branches and Extension Counters) and 87 ATMs/CRMs during the financial year 2017-18.

Human Resource policies and practices of the Bank focus on attracting, motivating and retaining qualified and skilled manpower. Concurrent with these objectives, steps have been taken to improve staff productivity. Given the market challenges,

there has been considerable focus on optimising the existing human resources - through internal job postings, transfers and skill development initiatives.

The Bank accords utmost importance to skill enhancement of staff members. Regular Training Programmes are conducted at SIB Staff Training College (SIBSTC), Thrissur and at 6 Regional Training Centers (RTCs) throughout the year. The Bank's Staff Training College identifies the gaps in resource capability of the personnel and trains them for skill development. During the financial year 2016-17, the Bank has imparted training to 3,114 officers, 1,067 clerks and 108 sub staff in different domains of Bank's operations.

Your Bank is a 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* include the following:

- All the branches/offices of the Bank are inter-connected and are capable of providing online, real-time transactions to its customers. As information is centralized and updates are available simultaneously at all places, single-window service has been possible, leading to effective and efficient service-delivery to customers.
- Your Bank is offering Visa, Master and RuPay debit cards to its customers. Using SIB debit cards, Bank's customers can withdraw cash through ATMs of any Bank in India and international use is allowed through EMV chip cards. The Bank had launched prepaid cards using the RuPay platform. These cards can be used similar to Debit cards for Online/POS transactions, but need to be loaded with money prior to the transactions. These cards can be gifted to third parties and can be used for multiple purchases for as long as value remains on the card and before the card expires. Your Bank launched the Reloadable Prepaid Cards which can be used for POS, Online as well as for ATM transactions. These cards can be reloaded any number of times as per the choice and convenience of its customers.
- Your Bank had launched the credit cards in association with one of the major players in Indian Credit Card industry, SBI co-branded credit cards. Bank can offer the SIB-SBI Co-branded Credit cards to our customers who come under the selected/designated branches across India. The SIB-SBI Co-branded Credit Cards are available in two variants - Simply SAVE Credit Card and Platinum Credit Card.

- Your Bank had launched premium variant of Visa Card i.e. Visa Platinum NFC Card, which is enabled with NFC technology which permits contactless transactions at NFC enabled POS terminals. Co-branded Foreign Currency Travel Cards launched in association with Axis Bank are specifically designed for customers who travel overseas. Our customers can now carry multiple currencies (USD, EUR, GBP, SGD, AUD, CAD, JPY, CHF, SEK, THB, AED, SAR, HKD, NZD, ZAR, DKK) on a single card, thereby making it a convenient way to carry forex and make payments while travelling to multiple countries.
- The internet banking service under the brand name "SIBerNet" has helped to position the Bank as a technology-driven Bank offering superior banking services to both retail and corporate customers. In addition to NEFT/RTGS and within-the-bank fund transfer facility, the Bank has implemented IMPS (Immediate Payment Service) fund transfer facility 24x7. Your Bank has also facilitated online opening of Fixed deposits and Recurring deposits for which digital receipts are issued. The Bank has introduced Bill Pay & Recharge service to help its customers to make payment towards their various utility bills from a single platform. SIBerNet is also enabled with Tax payments and e-Filing of income tax and thereby enables customers to conduct their tax payments and filing of returns at the comfort and convenience of their homes/offices.
- Your Bank had introduced its new mobile banking application SIB Mirror+ to provide a next generation digital banking experience. The new app, which is available to both Domestic and NRI customers, is packed with features such as Self Registration facility, E-statement, Bill Payment module, within bank, NEFT & IMPS 24X7 fund transfer, e-lock, Mobile/DTH Recharge, Social Money, etc.
- E-Lock is an innovative feature introduced by your Bank in mobile banking apps which secures your account from any kind of fraudulent or unauthorized transaction. Your Bank is the first Bank in the country to introduce such a facility and many in the industry have been bringing out similar products since then.
- "Future of payments" is transforming the digital payment space. The Bank has introduced Unified Payment Interface (UPI) features in our SIB M-Pay (UPI Pay) application. Your Bank is the first Bank to upload UPI app in Google Playstore. The UPI module is having features such as send money to virtual address, collect money, mobile banking registration, Aadhaar fund transfer, scan and pay, etc.
- Your Bank is offering three types of POS terminals - PSTN (wired terminal), GPRS (wireless) and M-Pos (Mobile Pos) in association with M/s Atos Worldline India Pvt. Ltd., the market leader in India in this segment. During

demonetisation, we could reach out to our valuable customers by providing ample number of terminals and thereby mitigating the shortage of cash.

- Your Bank has been enrolled as a Channel Partner for the distribution of bonds issued by different companies, through Bank's tie up with IFIN - a subsidiary of IFCI (Industrial Financial Corporation of India) Financial Services Limited. Through this tie up the Bank has been enrolled as a channel partner of IFCI for the distribution of capital gain and tax free bonds.
- Your Bank has entered into tie-up with leading aggregator M/s.Billdesk Services for Centralized Direct Debit arrangement. Through this tie up Bank's customers will be able to make regular payments like monthly/quarterly/half yearly payments of Mutual Fund SIP investments/Loan EMIs (Vehicle/Equipment Loans)/Insurance premiums, etc.
- Your Bank acts as a corporate agent for the distribution of insurance products of both M/s Life Insurance Corporation of India ,Kotak Mahindra Old Mutual Life Insurance Ltd. and SBI Life Insurance Co. Ltd for life insurance, M/s Bajaj Allianz General Insurance Company and M/s The New India Assurance Co. Ltd.for general insurance and M/s Max Bupa Health Insurance Co. Ltd. for health insurance.

CORPORATE SOCIAL RESPONSIBILITY (CSR):

In line with the CSR objectives and in accordance with Schedule VII of the Companies Act 2013, your Bank undertook various activities during the FY 2016-17 which had significant impact on the society.

In FY2016-17, the Bank had spent Rs.4.03 crore towards various CSR activities, which is 35% of the CSR budget of the year. Apart from the above, an outlay of Rs.7.12 Crore has been sanctioned in various projects/ initiatives under CSR as on March 31, 2017.This outlay will be positively spent inthe coming years. Your Bank stays committed to its corporate social responsibility and intends to continually increase the impact of its CSR initiatives.

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 the 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 risk management architecture and

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.

Awards and Accolades

In FY 2016-17, the Bank has received significant institutional recognitions, awards and accolades from different agencies and I am glad to mention the following:

- The prestigious Finnoviti Award for the 'The Best Innovation in Banking Technology 2017" organized by Banking Frontiers in association with Deloitte.
- The National Payments Excellence Award 2016 (Rupay-small bank category), constituted by National Payment Corporation of India.
- The best Technology Banks award among small banks, Instituted by Indian Banks Association.
- The Best Bank award for Electronic Payment among small banks from IDRBT, technology arm of the Reserve Bank of India.
- Awarded with ISO 27001:2013 certification for Information Security Management System (ISMS) by BSI (British Standards Institution) is our IT Department, Data Centre (DC) and Disaster Recovery (DR) Centre.
- The Export Excellence Award in the best Financial Institution category (Southern Region) from Federation of Indian Export Organizations set up by Ministry of Commerce, Government of India.

Looking Ahead

I assumed the office of the Chairman on November 2, 2016. In FY 2016-17, your Bank took several initiatives aimed at preparing itself for accelerated growth with a focus on achieving our vision to be the most preferred Bank in the areas of customer service, stakeholder value, stability in earnings and corporate

governance. Your Bank has been fairly successful in identifying business opportunities and in responding promptly to provide our customers a different banking experience. By effectively leveraging technology, your Bank continues to connect and serve its customers seamlessly, while creating growth opportunities for ourselves along the way. I am quite positive that your Bank will emerge as resilient in the coming years.

I solicit continued support from the valued shareholders such as yourself and all other stakeholders for our 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 Deloitte Haskins & Sells, 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 officers and employees of the Bank at all levels.

Conclusion

Before I conclude, I would like to assure you again that your Bank has put appropriate plan, policies and strategies to achieve growth with quality, stability and profitability. Your support, encouragement and faith have instilled in us the confidence required to pursue excellence in our journey forward.

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

SALIM GANGADHARAN

July 11, 2017

CHAIRMAN

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