

Chairman's Speech at the 91st Annual General Meeting

A very good morning to all of you,

This is a moment of great felicity for me in welcoming you all on behalf of the Board of Directors to the 91st Annual General Meeting of "The South Indian Bank Limited" for the Financial Year 2018-19 being held today. The Directors' Report and the Audited Financial Statements for the Year ended 31st March 2019 are already with you and with your permission, I take them as read. At the outset, I thank all of you for your esteemed presence, continued trust and unwavering patronage extended to the Bank in all these years, which enable the Bank to systematically progress over the years.

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

Economic and Banking Scenarios:

Global economic activity continued to face significant headwinds since the second half of 2018, with trade and manufacturing sectors showing signs of marked weakness. Heightened policy uncertainty, including re-escalation of trade tension between major economies and geopolitical risks, has been compounded by deceleration in global investment and a marked decline in business confidence. Economic activities in major economies, particularly in the Euro area as well as in some large emerging market and developing economies (EMDEs) have been weaker than previously expected. Recent high frequency indicators suggest that this period of weakness may be receding; however global activity remains subdued. Amid low global inflation and a deterioration of the growth outlook, the prospects for the U S Federal Reserve and other major central banks tightening monetary policies in the near term have faded, leading to easing of global financing conditions and a recovery of capital flows to EMDEs. However, weakening external demand has weighed on export growth across EMDE regions. Although demand for industrial commodities has generally softened, prices have partially recovered in the wake of tightening supply conditions. EMDE growth momentum continues to be generally subdued, as global trade and persistent policy uncertainty in key economies are only partially offset by recent

improvements in external financing conditions. The IMF has since projected the global growth in 2019 at 3.3%.

Domestic economy hit a soft patch in the last quarter of 2018-19, with Q4 GDP decelerating to 5.8%, leading to the annual growth in 2018-19 declining to 6.8%, as compared to 7.2% in 2017-18. The key drivers of growth, both consumption and investment had turned weak. The subdued new investment pipeline and the widening current account have been exerting pressure on the fiscal front. However, the business confidence is showing an upswing on the expectation of improvement in overall financial conditions in the economy. As per the Reserve Bank of India's Second Bi-monthly Monetary Policy Statement for 2019-20, GDP growth is expected to improve from 6.4-6.7% in the first half of 2019-20 to 7.2-7.5% for second half of 2019-20.

The Indian banking system is in a state of flux and 2019 will be a critical year. The banking system has struggled since late 2015, when the Reserve Bank of India revised the asset quality review framework. This has led to full recognition of non-performing loans (NPLs). The deteriorating asset quality had significant implications for loan loss provisioning, profitability and capital position of banks. However, significant improvement in impairment ratios and credit growth pick up is evident now. The gross non-performing assets declined to 9.3% in March 2019. There were a host of changes in the retail banking and FinTech spaces, from the Supreme Court's restrictions on the use of Aadhaar for e-KYC, to the exit of high profile execs from leading private banks plagued with governance and performance issues to the RBI ban on cryptocurrency.

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 247.53 crore for FY 2018-19. The net profit for the previous financial year was Rs. 334.89 crore.

The Key financial highlights for FY 2018-19 can be summed up as under:

- The Bank has achieved a total Business of Rs.1,44,056.04 crore, consisting of deposits of Rs.80,420.12 crore and gross advances of Rs.63,635.92 crore as on March 31, 2019.

- With focus given on low-cost deposit sources, CASA has grown from Rs.17,141.74 crore as on March 31, 2018 to Rs.19,467.15 crore as on March 31, 2019, recording a growth rate of 13.57%.
- During the year 2018-19, the gross advances of the Bank registered a growth of 15.47%, to touch Rs.63,635.92 crore.
- The capital plus reserves of the Bank has moved up from Rs.5,241.22 crore to Rs.5,335.33 crore.
- During the year 2018-19, Bank could recover NPAs to the extent of Rs.506.10 crore (recovery including up-gradation of Rs.265.16 crore), as against the target of Rs.500.00 crore.
- The book value per share has been increased from Rs.28.98 to Rs.29.48 as on March 31,2019.
- The bank has been successful in widening its network across India with 870 Branches; 53 Extension counters; 1322 ATMs; and 84 CRMs/CDMs.
- There has been a growth of 131% in Mobile Banking activation, 35% growth in Internet Banking Corporate activation and 25% growth in Internet Banking Retail activation.
- During the year Bank was honoured with significant Institutional recognitions, awards and accolades for various initiatives undertaken.
- The Bank has implemented an advanced LOS software as one of the major projects, to equip its Central Processing centres to handle large volumes of proposals, to bring more transparency and control and to reduce the turnaround time (TAT) in processing the loan applications.

The Bank accords utmost importance to enhancement of skills of staff members. Training Programmes are conducted at SIB Staff Training College (SIBSTC), Thrissur and at seven Regional Training Centres (RTCs) for development of professional skills. Training programmes are designed to develop competency of operating personnel while imbibing the SIBIAN's spirit and culture through an effective learning process. The success of these programmes reflects on the enhanced organizational productivity. 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 2018-19, the Bank has imparted training to 4,014 officers, 1,802 clerks and 54 sub staff in various aspects of banking operations. A total of 5,870 staff members were trained during the FY 2018-19, which is about 70% of total staff strength of 8440 as on March 31, 2019. 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.

Your Bank is an early adopter of technology with a view to providing safe, secure and convenient banking facilities to its customers. The Bank has introduced host of services and facilities for enhancing customer satisfaction, which inter alia includes the following:

- Data Centre and DR Enhancement/ initiatives [DR Management, Disk based Backup solution at DC, Solaris OS Migration at DC &DR and Data Center certification].
- 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.

- 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.
- Bank also offers Host to Host Integration facility (“Hi-Hi Banking”) which handles fund transfer in a seamless fashion by real time interface with ERP solutions of corporates. This facility is available for 365*24*7 and the clients can securely access the system from anywhere.
- 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 to strengthen the user level login security.
- 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 phased manner for Retail & SME loans, for scaling up of loan volumes and quick processing of loan application 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 important customer touch points.
- Implemented NACH H2H automation mechanism by which mandate management & ACH processing is happening via STP process.
- Implemented Fraud Risk Management (FRM) Solution for CBS & channel transactions.
- Your Bank is the first bank to be certified as EMV enablement as Issuer on ATMs.
- Implemented Anti skimming solution in ATMs to safeguard ATMs and especially ATM customers from loss and fraud.
- Dynamic Currency Conversion Support for MasterCard International Transactions- Foreign MasterCard card holders will be able to withdraw money from our 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 offers 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.
- The Bank has 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 Banks partners.

Corporate Social Responsibility (CSR)

South Indian 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 Schedule VII, section 135 of Companies Act, Bank undertook various activities during FY 2018-19.

In the Financial Year 2018-19, the Bank spent Rs.12.22 crore (92.01% of the budget) towards CSR activities against Rs.7.28 crore in the Year 2017-18. Through various projects which are already sanctioned, the Bank will be thoughtfully spending the CSR funds earmarked for the purpose. The Bank had also embarked on some major projects last year in the field of education, youth engagement, healthcare, infrastructure development, etc.

Risk Management

Risk is an integral part of banking business. Risk Management underscores the fact that the survival of an organization depends heavily on its capabilities to anticipate and prepare for the change rather than just waiting for the change and reacting. The objective of risk management is

not to prohibit or prevent risk taking activity, but to ensure that the risks are consciously taken with full knowledge, purpose and clear understanding so that it can be measured and effectively mitigated. The essential functions of risk management are to identify, measure and more importantly monitor the profile of the Bank. Given the criticality of cyber risk, your Bank has initiated several steps to reinforce the security architecture.

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. While Non-Performing Assets are the legacy of the past in the present, Risk Management System is the pro-active action in the present for the future.

Internal Control Systems and Compliance

The Bank has put in place adequate internal control measures and processes with respect to its financial record keeping procedure to provide reasonable assurance regarding the reliability of financial reporting and the preparation and presentation of financial statements. The processes and controls are reviewed periodically and strengthened wherever considered necessary. The Bank also ensures that internal controls are operating effectively, through the robust internal inspection and vigilance system. 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 2018-19:

- Best Performing Primary Lending Institution of HUDCO under Credit Linked Subsidy Scheme from HUDCO.

- National Payments Excellence Award for RuPay instituted by NPCI.
- Best MSME Bank-Runner Up award instituted by Chamber of Indian Micro, Small & Medium Enterprises.
- Banking Technology 2019 awards instituted by IBA – The Bank emerged winner in the ‘Most Customer Centric Bank Using Technology’ category and runner up in the ‘Best Payments Initiative’ category amongst small Banks’.
- Corporate Social Responsibility (CSR) Award instituted by Kerala Management Association (KMA) for Banks & NBFCs under Education Sector.

Looking ahead

During 2018-19, your Bank took multiple initiatives aimed at preparing itself for accelerated growth with a focus on achieving the vision i.e 'to be the most preferred bank in the areas of customer service, stakeholder value and corporate governance'. Your Bank has been fairly successful in visualising business opportunities and in responding promptly to provide our customers a different banking experience. Your Bank continues to connect our 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. Your Bank has been effectively leveraging technology to serve its clients better. Emerging technologies have changed the banking industry radically through digitization and networked banking platform.

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

Acknowledgement

I take this opportunity to express my deep sense of gratitude to the Reserve Bank of India, 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 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 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.

Conclusion

Before I conclude, I would like to assure you again that your Bank has put in place appropriate plans, policies and strategies to achieve consistent growth with stability, quality and profitability, with social commitment. Your continued support will help the Bank to realize the goals. I wish to take this opportunity to thank all our stakeholders, past and present, for supporting us and for being a part of our endeavour to build and nurture a high quality and vibrant banking institution.

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

SALIM GANGADHARAN
CHAIRMAN

July 17, 2019

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