

Chairman's Speech at the 87th Annual General Meeting

Dear Shareholders,

I deem it a privilege to welcome you all to the 87th Annual General Meeting of The South Indian Bank Ltd for the Financial Year 2014-15 being held here today. The Directors' Report and the Audited Financial Statements for the Year ended 31st March 2015 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 all these years which enable the Bank to progress over the years.

Before I profile the performance of the Bank, I would like to touch upon the macro environment in which your Bank performed during the fiscal year 2014-15.

Economic and Banking Scenario:

Global economic recovery still seems to be far from being self sustaining even as spill over from the large scale monetary accommodations in the advanced economies. Uncertainties over the developments over Greek crisis and timing of rate increase by the US Federal Reserve will hold key to the market volatility.

Global markets have experienced risk on, risk-off shifts induced by changing perceptions of monetary policies in the advanced economies. Global currency markets continue to be dominated by the strength of the US dollar, with the G3 currencies reflecting the divergences of their policy stances. The Central Statistics Office has revised downwards its estimate of India's gross value added (GVA) at basic prices for 2014-15 by 30 basis points from the advance estimates. Domestic economic activity remains moderate in Q1 of 2015-16. Agricultural activity was adversely affected by unseasonal rains and hailstorms in north India during March 2015, scaling down the estimated 94 lakh hectares of area sown under the rabi crop. Merchandise export growth has weakened steadily since July 2014 and entered into contraction from January 2015 through April with a recent contraction of even volumes exported. The deterioration in export performance affected economies across Asia as global demand fell and the fall in commodity

prices impacted terms of trade for commodity exporters. From December 2014 onwards, merchandise import growth also exhibited negative trend led by a sharp decline in the volume of oil imports as inventory build-up by refineries subsided. Gold imports spiked in the month of March and remained elevated in April owing to festival demand and regulatory relaxations.

In April, retail inflation measured by the consumer price index (CPI) decelerated for the second month in a row, supported by favourable base effects (of about (-) 0.8 per cent) that moderated the rise in the price index for the fourth successive month. Food inflation softened to a contra-seasonal four-month low, with the impact of unseasonal rain yet to be manifested. Vegetables inflation continued to ease, along with that of other sub-groups such as cereals, oil, sugar and spices. On the other hand, protein items, especially milk and pulses continued to exhibit upward inflationary pressures.

Liquidity conditions eased in April 2015 after the tightness in the second half of March 2015 on account of advance tax outflows and financial year-end trends of the Banks. The liquidity operations management by Reserve Bank of India were reversed in view of the improvement in liquidity conditions through April. During May, however, rapid increases in currency in circulation and a build-up of government balances resulted in liquidity conditions tightening again. Accordingly calibrations in operations of varying tenors were conducted, besides the regular overnight repo at fixed rate and 14-day variable rate repo auction. These measures helped meet the frictional liquidity requirements. In May, the average daily net liquidity injected through LAF fixed rate repos, besides regular 14-day variable rate repos, additional variable rate repos and MSF, was Rs.1031 billion as compared with Rs.819 billion in April. As a result, weighted average money market rates shadowed the policy rate. Longer term interest rates, particularly gilts, hardened in early May on international cues but eased in the second half of the month, particularly after the issuance of the new benchmark bond.

Economic expansion picked up in 2014, inflation markedly declined, and the external position being comfortable, helped by positive policy initiatives. The government set a fiscal deficit equal to 3.9% of GDP for FY2015, pushing back the medium-term fiscal deficit target of 3.0% by a year to FY2017. The adjustment allows additional spending that will fund larger infrastructure investment. At the same time, the limited decline in the revenue deficit from 2.9% in FY2014 to 2.8% in FY2015 continues to be a matter of concern. Tax revenue is projected to

grow at 15.8%, helped by hikes in rates for customs and excise duties and service taxes. However, a larger outgo to the states will mean only marginal growth in tax revenue for the center. The disinvestment target of 0.5% of GDP could be on the ambitious , given the fact of non-achievement of FY2014 target despite a bullish stock market.

India's relatively stronger macroeconomic fundamentals in terms of growth, inflation, current account and fiscal deficits provide a reasonable degree of resilience to Indian financial system in the event of spill-over effects from external factors. With control on gas and diesel prices lifted, domestic fuel inflation will be largely determined by global oil price movements. The expectation that the price will be about \$65 per barrel in 2015 bodes well for fuel inflation. After rising by double-digits for nearly 5 years, inflation expectations of households dropped to around 9% in December 2014.

The Indian economy is now on the threshold of a major transformation, with expectations of policy initiatives being implemented. Positive business sentiments, improved consumer confidence and more controlled inflation should help boost the economic growth. Higher spending on infrastructure, speedy implementation of projects and continuation of reforms will provide further trigger to growth. All this should translates into a healthy growth potential for the banking sector also.

Performance of the Bank:

During the year, your Bank had to operate in a challenging economic environment, marked by higher inflation, tighter monetary policy and hardening interest rates. Against this back drop I am happy to report that your Bank has recorded reasonably healthy performance. The Key financial highlights for the year 2014-15 can be summarized as under:

1. The total gross business of your Bank grew from Rs. 83, 894 crore to Rs. 89,638 crore recording a growth rate of 6.85% over the previous year.

2. Total deposits grew from Rs. 47,491 crore to Rs. 51,912 crore registering a growth rate of 9.31% over the previous year. The low-cost deposits (CASA) grew at the healthy pace of 19.34%. (y-o-y).
3. The gross advances including food credit grew from Rs. 36,403 crore to Rs. 37,726 crore registering a growth rate of 3.63 % over the previous year.
4. Total Priority sector exposure as at the end of the financial year stands at Rs. 15,597.02 crore, constituting 41.02% of the Adjusted Net Bank Credit (ANBC).
5. Your Bank had achieved a net profit of Rs 307.20 crore during the year against the net profit of Rs 507.50 crore posted during the previous year.
6. The Board of Directors has recommended a dividend of 60% i. e. @ Re.0.60 per equity share of Re.1/- each.
7. The Capital & Reserves has improved from Rs. 3,368.05 crore to Rs. 3,589.40 crore owing to plough back of profits during the year.
8. The Capital Adequacy Ratio under Basel III norms is as high as 12.01%, which is well above the RBI mandated level of 9%, indicating a strong capital position of your Bank.
9. The Book value per share has improved from Rs. 25.06 to Rs. 26.59 and the market capitalization is above Rs. 3402.38 crores as on March 31st 2015.
10. The earnings per share (EPS) on fully diluted basis is Rs. 2.27 per Equity share of Re.1/- each as on March 31, 2015.
11. The business per employee stood Rs.10.79 crore as on March 31, 2015.

12. As on March 31, 2015 the ratio of gross non-performing assets (NPA) to gross advances had increased from 1.19% to 1.71% against an industry average of 4.60% . The net NPA ratio stood at 0.96% vis-à-vis 0.78% as on 31.03.2014. However it was better than the industry average of 2.1%.

During the year, your Bank has opened 53 new branches and 200 ATMs across the country. The branch network now covers 30 states/union territories and has a network of 822 branches and 1200 ATMs. Your Bank further plans to open a maximum of 50 new offices (with a mix of Branches & Extension Counters) and 150 ATMs during the current financial year.

Human Resources policies and practices of your Bank focus on attracting, motivating and retaining qualified and skilled manpower. Concurrent with these objectives, steps are taken to improve manpower efficiency. Given the market challenges, there has been considerable focus on optimizing the existing resources through internal Job postings, transfers and skill development initiatives. Training and development has assumed significant importance. The Bank's Staff Training College identifies the gaps in resource capability of the personnel and train them for qualitative improvement.

Your Bank has been effectively leveraging technology and introduced several variants of traditional products and new e-based services, tailor made to the diversified needs of customers. Technology services like ATM cards, internet banking, mobile banking etc., have transformed the customer's banking experience from branch banking to anytime, anywhere banking.

1. All the branches of your Bank are inter-connected and are capable of providing online, real-time transactions to its customers. Single window service has led to effective delivery to the customers.
2. Your Bank is offering both Visa, Master and RuPay debit cards to its customers. Your Bank has enabled its Visa cards and Maestro cards for online transactions. Co-branded Foreign Currency Travel Card launched in association with Axis Bank is specifically designed for customers who travel overseas. Such card is available in eight foreign currencies. Your Bank launched international EMV Chip and PIN based cards in Visa platform for facilitating highly secure international card transactions. RuPay cards are also available to customers for use at domestic ATMs and POS terminals. Bank will be launching its high end variant cards in RuPay and Master card platform in near future.

3. The internet banking service under the brand name “SIBerNet” has helped to position your Bank as a technology-driven Bank offering superior services to both retail and corporate customers. Your Bank has also introduced Direct and Indirect Tax Payment facility for its retail and corporate Customers.

4. Mobile banking services help customers maintain a virtual connection with the Bank at all times. SMS, SIB M-Pay and SIB M-Passbook are the mobile banking based services currently offered by the Bank. SIB Mobile Service (SMS) enables customers receive instant intimation on their account activities via SMS alerts and also enquire important information over SMS.

The enhanced Mobile Banking service of the Bank “M-Pay”, offers 24x7 inter/intra Bank fund transfers, with immediate credit of the beneficiary account. The fund transfer facility is facilitated through the IMPS (Immediate Payment Service) platform of NPCI. Your Bank was a pioneer in introducing SIB M-Passbook application that allows customers to access account transaction details on their smart phones. SIB Missed call service was launched during November 2014, helping the customers to know the balance with just a missed call.

5. Your Bank, in association with M/s. Atos Worldline India Pvt. Ltd. is offering two types of POS Terminals PSTN (Wired Terminal) and GPRS (Wireless). Atos is the market leader in India in this segment and the primary service provider for POS acquiring services to a number of leading public sector and private sector Banks in the country.

6. Your Bank acts as a corporate agent for the distribution of insurance products of both Life Insurance Corporation of India and M/s. Bajaj Allianz General Insurance Company for life insurance and general insurance respectively.

7. Your Bank has enrolled as a Channel Partner for the distribution of bonds issued by different companies, through Banks Tie up with IFIN- A subsidiary of IFCI Financial

services Limited. Through this tie-up the Bank has been enrolled as a channel partner of IFCI for the distribution of capital gain bonds and tax free bonds.

8. Your Bank is offering Cash Management Service (Premium Collection) to customers in association with Tata AIG, Exide Life Insurance Co. Ltd. (formerly known as ING Vysya) and ICICI Prudential Life Insurance Co Ltd. Under this arrangement customers can remit life insurance premium through branch counters.
9. Your Bank acts as a Point of Presence to provide services to subscribers of New Pension System introduced by Pension Fund Regulatory and Development Authority (PFRDA). Your Bank has been appointed as an Aggregator for NPS Lite.
10. Your Bank has initiated steps for starting a Centralized Processing Centre (CPC) for liability side customer creation with the objective of full KYC compliance and to use KYC as a fraud prevention tool. The Bank aims to bring all branches under the CPC model during the Financial Year 2015-16.

CORPORATE SOCIAL RESPONSIBILITY (CSR):

The Bank's CSR policy strictly conforms to the guidelines of RBI and Ministry of Corporate Affairs. In line with the CSR policy and in accordance with Schedule VII of the Companies Act 2013, South Indian Bank undertook various activities during the FY 2014-15 which had significant impact on the society

Your Bank spent a sum of Rs. 1,45,54,845.50 under CSR for the FY 2014-15. Through these CSR spent, the Bank was able to touch the lives of many. During the FY 2014-15; additional activities like Swachh Bharat, Clean Ganga, and Financial Inclusion were also included in the ambit of CSR.

Awards and Accolades

During the period under review, your Bank has received the following awards for its achievements from different agencies and I am glad to mention the following:

1. Banking Technology Excellence Award-(tenth edition-2014) for 'Best IT TEAM'-(Small Bank category) from IDRBT, the technical arm of Reserve Bank of India.
2. Special Recognition among private sector banks “Banking Frontiers - Inspiring Work Places Award” during the year 2014-15.
3. Best Bank (Private Sector) in the BFSI (Banking, Financial Services and Insurance) Awards 2015 instituted by ABP News.

Your Bank’s long standing commitment to financial soundness, long-term customer relationships and proactive management is as important today as ever before. Going forward, your Bank would continue with its thrust on growth with quality. The Bank would try to protect and further improve the current levels of its key financials like net interest margin, return on assets, earnings per share, asset quality etc. through dedicated focus on low-cost deposit mobilization, improvement in non-interest income, efficient pricing of deposits and loans, reduction in high cost or low yielding bulk business and through improved credit selection and effective credit monitoring.

It is imperative to have a robust and effective risk management practices not only to manage risks inherent in the banking business but also the risks emanating from financial markets as a whole. The Bank has put in place risk management architecture and practices that is overseen by a Committee of Directors. Your Bank has in place a robust risk management structure which proactively identifies the risk faced by the Bank and helps in mitigating it, while maintaining proper trade-off between risk and return thereby maximizing shareholders’ value.

Looking Ahead

I assumed the office of the Chairman on November 2nd 2010. Soon I will be completing an association of five years with this esteemed organization. Every professional engagement is challenging. Mine is no exception. But last two years have been more challenging because of macro economic environment impacting the quality of the loan book of the bank. But I am quite positive that your Bank will emerge as resilient in the coming years. Your Bank is looking at profitable growth.

Your Bank proposes to introduce a number of initiatives such as up gradation of core Banking Software to version 10, Automation of customer relation management, state of the art call centre etc to augment the customer satisfaction during the coming years.

I am confident that your Bank will successfully address the challenges and touch a higher summit. I solicit your continued patronage and support enabling the Bank to steer its destiny and to maximize the value for all its stakeholders.

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 & Associates LLP, 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 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 and profitability. Your continued support will help the Bank to realize the goal.

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

July 15, 2015

AMITABHA GUHA
CHAIRMAN

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