

CITY UNION BANK LIMITED

ANNUAL GENERAL MEETING - 01-09-2018

CHAIRMAN SPEECH

Esteemed shareholders of City Union Bank, my colleagues on the Board of the Bank and the Cubians assembled here, Namaskarr!

On behalf of the Board of Directors and my personal behalf, let me extend to each one of you a very warm welcome to your Bank's Annual General Meeting. The Annual Report containing the Director's Report and Audited Financial Statements for the year ended 31st March 2018 has been provided to all the shareholders of the Bank. With your kind permission, I shall consider it as read.

At the outset, let me thank you all for your continued support and the faith you have shown in the Bank and its Management.

Before I dwell upon the financial results of the bank, it is pertinent to present the economic environment both global and national that prevailed during the year 2017-18 as it has got a direct bearing on the performance of the Banking industry on the whole.

Global Economy

The Global economic scenario witnessed improvements in economic growth and the economic activity in major market economies continued to show improvement. The global financial markets have been mainly driven by monetary policy measures of their respective Central Bank and geo-political developments. The outlook for advanced economies notably for the Euro area improved. Equity markets performance varied across regions with modest gains in Asian economies. The global growth for FY 2019 is projected at 3.9% while emerging and developing Asia is expected to maintain its robust performance,

growing at 6.5% in 2018-19 while India's growth rate is expected to rise to 7.5% in 2019, as drags from the demonetisation initiative and the initial hiccups of GST fade.

Indian Economy

Indian economy during FY 2017-18 saw a moderate growth of 6.7%, a notch above the government's estimate of 6.6% but lower than 7.1% of 2016-17. The economy registered a growth of 7.7% for the 4th quarter of FY 2017-18. The uptrend in the quarterly GDP signals the positive outcome of the structural reforms undertaken by the Govt. The GDP growth averaged 7.3% for the period from 2014-15 to 2017-18, the highest among the major economies.

The USD INR increased an all time high to 70.08 during August 2018 which indicates widening of India's current account deficit. During the current year RBI has raised interest rates twice. But the currency can expect more fluctuations until the price of oil and economic conditions in emerging markets stabilise.

BANKING SECTOR

Private Sector Banks fared relatively well during FY 2018 when compared to Public Sector Banks. Asset-quality woes have affected a number of Banks over the last two years. As per the data released by RBI, as of March-end 2018 Private Sector Banks (PvSBs) recorded robust annual average growth in deposit and credit to record 17.4% and 20.9% respectively against an annual average deposit and credit growth of 3.1% and 4.7% respectively in public sector Banks. The Private Sector Banks recorded highest credit growth both on sequential as well as on annual basis in FY 2018. As of March 2018, all Scheduled Commercial Banks (SCBs) put together clocked an annual average deposit and credit growth of 6.8% and 9.5% respectively.

In the area of policy reforms by Govt., the Insolvency and Bankruptcy Code (IBC) has yielded good results in terms of reining in bad loans and increasing

recovery. As per recent statement made by the Financial Services Secretary, Shri. Rajiv Kumar, NPAs are by and large recognised, provisioning substantially made and recoveries are on its course. When the Banking industry is slowly able to resolve the problem of NPAs it is confronted with a more serious threat in the form of cyber attacks. Globally speaking hundreds of crore of rupees have been siphoned off by the hackers from the system and the defrauded banks are nonplussed at these audacious attacks. Today this is a mammoth challenge for the Banks where the strong firewalls that they have put up not only to protect their data centres but also the devices like ATMs and branches are themselves getting breached by these cyber attacks.

PERFORMANCE OF YOUR BANK

I am proud to announce that, your bank has won the Best Bank award in the category "Top Old Private Sector Bank" by Financial Express for the third consecutive year. Your Bank crossed yet another milestone in total business by reaching Rs.61,000 crore mark during the financial year 2017-18. Your Bank performed well on all core areas like Deposits mobilisation, growth in Advances, Branch network expansion, improving CASA, satisfactory Net Interest Margin, reasonable slippage ratios, provision cover for NPAs, Gross and Net NPA percentages, cost to income ratios, return on assets and capital adequacy.

PROFITABILITY

Net Interest Margin or NIM as it is called is an important efficiency measure for a Bank. NIM for your Bank in FY 2018 was 4.42%, which is among the highest in the Indian banking sector. Another important measure is CASA which stood at 24% of Deposits compared to 23% in the previous year. Credit Deposit Ratio stood at 84% at the end of the year. As a result, the Net Interest Income rose from Rs.1,199 Crs to Rs.1,430 Crs. Your Bank's operating profit rose from Rs.994 Crs to Rs.1,208 Crs. Net Profit rose from Rs.503 Crs to Rs.592 Crs. The return on assets was at 1.60%.

DEPOSITS

During the year, deposits have increased to Rs.32,853 Crs as on 31st March 2018 from Rs.30,116 Crs in previous year recording a growth rate of 9%. The cost of deposits of the Bank stood at 6.29% as of 31st March 2018 against 6.82% in FY 2017.

ADVANCES

The Advances have increased from Rs.24,112 Crs as on 31st March 2017 to Rs.28,239 Crs as on 31st March 2018 registering a growth rate of 17%. Given the reduced interest rate scenario, the yield on advances decreased from 12.10% to 11.46%. The priority sector advances aggregated to 58.59% of the Bank's adjusted net credit which is well above the regulatory prescription.

NON PERFORMING ASSETS

During the year the Banking industry witnessed turmoil on asset quality and the NPAs were on the rise in the Indian banking sector. However, your Bank had resorted to constant monitoring of advances to reduce slippages and speeded up its recovery process to reduce the NPA level. The bank maintained the slippage level at 2% of advances and even so, the Gross NPAs increased from 2.83% to 3.03%, showing the increased stress in the economy. The recovery stands improved in FY 2018 to Rs.206 Cr as against Rs.146 Cr in FY 2017. Provision cover was increased from 61% in the previous year to 64%. The Net NPA has marginally reduced to 1.70% from 1.71%. Management of the Bank deserves credit for effectively controlling the extent of NPAs by taking early and appropriate actions. Further, you will be glad to note in this context that in respect of recent notifications from SEBI and RBI on reporting of divergence with respect to provisioning requirements / gross NPAs in Annual Financial Statements, the requirement of reporting any such divergence did not arise in your Bank, based on recently concluded RBI inspection for the position dated 31st March 2017.

INVESTMENTS/TREASURY OPERATIONS

During the year under review gross investments have increased from Rs.7,082 Cr to Rs.8,015 Cr. The total Yield on investments worked out to 6.95%. It is noteworthy to mention that during the times of hardening of the bond yield the Bank had earned Rs.94 crore by timely booking of profit in Government securities as compared to Rs.108 crore in the last year.

NET OWNED FUNDS / CAPITAL ADEQUACY RATIO

The Bank's paid-up capital stood at Rs.66.47 Crs as on 31st March, 2018. The Bank's net worth increased from Rs.3,556 Cr as on 31st March 2017 to Rs.4,149 Cr as on 31st March 2018. The Capital Adequacy Ratio under BASEL III as at 31st March, 2018 improved from 15.83% in the previous year to 16.22% which is well above the stipulated regulatory norm and is among the highest even among Private Sector Banks in India. Profitability of the Bank and its retention has resulted in this improvement.

REWARDING SHAREHOLDERS

Your Directors are pleased to recommend a dividend of 30% on the equity shares for the financial year 2017-18 in pursuance of the constant philosophy of rewarding shareholders. Further, the Bank has continued the trend of rewarding the shareholders by issue of bonus shares during FY 2019 in the ratio 1 : 10 (one equity share for every ten share).

FINANCIAL INCLUSION AND FINANCIAL LITERACY

The Bank continued its efforts in bringing financial inclusion as one of its important social and business goals. Your Bank has never viewed financial inclusion as only a regulatory requirement but as an opportunity to reach the rural folks for their development. Your Bank is actively involved in promotion of various financial inclusion programs viz., Pradhan Mantri Jan Dhan Yojana (PMJDY), Pradhan Mantri Jeevan Jyothi Bima Yojana (PMJJBY), Pradhan

Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY). The Bank has continued to undertake financial literacy programs in and around Tamil Nadu for imparting financial education among rural people and school children.

BRANCH EXPANSION

Another milestone was reached when your Bank opened its 600th Branch at Udaipur on 26th March 2018. During the year under review, the branch expansion programme was consciously kept moderate and your bank added only 50 more branches to reach 600 which include banking outlets also. Your Bank proposes to add more branches in the current financial year to tap potential market areas.

TECHNOLOGY INITIATIVES

Your bank has always given top priority in initiating new technology and upgrading existing ones for customers' convenience and integration of banking operations. To name a few initiatives, Cash Recycling Machines , Mobile Wallet, Online application for Credit card and fixing the card limit by customer himself/herself, Social media banking, Robot, Chat-bot, Spend Analyser and Fast-Tag are implemented to enhance the customer convenience. Data warehouse and Customer Relationship Management is under implementation through which each customer's preferences and requirements will be identified and service will be extended. Through self service channels available at 24 x 7 basis, 88.68% of transactions are handled by your Bank through these alternate channels as of 31.07.2018.

As I had said earlier, cyber attacks are on an increasing trend in present day banking scenario. The Bank was subjected to two cyber attacks during the reporting year. The first case, involving fake authorisations for dispensing cash through invalid cards in foreign locations, took place on a weekend. The bank was alerted early and it quickly took appropriate action to limit the damages. In the second case involving spurious SWIFT transactions, quick detection and

remedial action was taken. Your Bank has thoroughly examined the cause for these breaches into its environment and taken appropriate action. Subsequent to this unfortunate and unexpected incident, our IT network has been further strengthened both in terms of hardware and software. A cyber insurance claim has also been lodged in this regard. Details are furnished in the Annual Report.

RISK MANAGEMENT

Risk Management Architecture of your Bank is quite robust and I am sure you will all draw a sense of satisfaction if I mention a few points on how well the Bank manoeuvres the various risks associated with the banking industry.

The Risk Management Committee, a sub-committee of the Board, oversees and ensures the compliance aspect with regard to various policy guidelines set out by the Board in tune with the directions from RBI.

More than the regulatory compliance, understanding the criticality involved in the concept of Risk Management, the Bank in true spirit has devised rigorous systems and procedures to meet the prescribed requirements in this regard. To cite an example, in case of Credit Risk, which is obviously the primary one, the Bank employs a stringent entry level rating exercise and the credit appraisal is also integrated with risk management. Again, on the post sanction side, the Credit Monitoring Department of the Bank ensures due compliance by the branches concerned with regard to documentation and the Loan Review Department monitors the credit portfolio, particularly the large advances on a daily basis.

You will agree that with these proactive measures, the Bank is able to contain the level of its NPA and show better results compared to those of its peers or the industry.

HUMAN RESOURCE DEVELOPMENT

The growth of the Bank indicates the level of employee performance and

involvement. As aforesaid, the Bank has performed well during the reporting period and the Bank as in the past has taken care of employees by rewarding them with various monetary and non-monetary benefits viz., Performance linked pay, exgratia payments, medi-claim policy, on-going staff training/ learning and development processes, etc. It needs to be mentioned here that the Bank has not even lost a single man day due to industrial unrest, for it has maintained healthy work environment since its inception. The Bank offers ESOPs to employees to create a sense of ownership among employees and in this regard the Bank has obtained the approval of shareholders in its previous AGM held on 23rd August, 2017, for grant of additional 3 crore stock options to the employees of the Bank.

CORPORATE GOVERNANCE

Your Bank has put in place the best practices of Corporate Governance. The Board is comprised of highly experienced professionals and administrators who bring a variety of perspectives in dealing with strategic and operational issues. Committees of the Board provide rigorous oversight into operations and also look into continuous strengthening of the performance of the Bank and in making it future ready. We met 13 times in Board meetings during the year, besides participating in committee meetings. The Bank is committed to an effective system of governance which is well devised to translate the core values into actions and achieve the objectives of the corporate philosophy through its Board of Directors and their Committees.

CORPORATE SOCIAL RESPONSIBILITY

As you are aware the concept of Corporate Social Responsibility is not new to your Bank and it has always accorded top priority for socio-developmental activities. The Bank during FY 2018 has made an exemplary contribution in water conservation and solid waste management activities. The details are available in the Annual Report. Further, you will find the first few pages of this year's Annual Report have been exclusively devoted to CSR where we have highlighted some of the important contributions made by us under the theme. I

hope you all would have gone through the same. The Bank shall continue to endeavour best of its effort in such developmental activities in years to come with the grace of the Almighty and stakeholders.

ACKNOWLEDGEMENT

Finally, on behalf of the board, I express my profound gratitude to all our shareholders and customers for their unanimous support, steadfast faith and confidence reposed in our Bank and Team City Union Bank Limited.

I sincerely thank all my colleagues on the Board for their support and immense encouragement and my hearty appreciation to all my colleagues at City Union Bank Limited for their dedication and commitment.

I would also like to take this opportunity to place on record the board's appreciation for all the help and guidance we have received from the Reserve Bank of India. I am also thankful to the Securities Exchange Board of India, the Insurance Regulatory Authority, the Stock Exchanges and numerous banks and financial institutions for their valuable support during the year.

I am confident that with your unflinching support, FY 2019 will be yet another year of productivity and high growth.

Thank you

(S MAHALINGAM)

CHAIRMAN