

ANNUAL GENERAL MEETING:: 23.08.2017

CHAIRMAN'S SPEECH

Dear Shareholders,

On behalf of the Board of Directors and all my colleagues in City Union Bank, I extend a hearty welcome to all of you assembled here. The Bank, which traces its origins to the year 1904, has had an eventful journey for over a century and it has made significant contribution to the economic well being and social upliftment of this region. Your Bank now has presence across India. In recent years, the continued growth and profitability of your Bank has led to its recognition as being among the best Private Sector Banks. It is my proud privilege to speak to you today at this Annual General Meeting as the Chairman of the Bank and present to you the Annual Report of your Bank for the financial year 2016-17.

The Annual Report containing the Director's Report and Audited Financial Statements for the year ended 31st March 2017 has been provided to all the shareholders of the Bank. With your kind permission, I shall consider it as read.

I am happy to see a large gathering of our shareholders here today. I thankfully acknowledge the abundant patronage, support and goodwill we always enjoy with our shareholders. As you would have doubtless noted, we have delivered a good performance in the financial year 2017 despite various economic challenges faced by the Banking sector. Before moving further to explain the

business highlights, I wish to touch on the macroeconomic scenario and its impact on the performance of the Banking sector.

Macroeconomic Environment and Banking Scenario

During the year 2016-17, we witnessed major developments across the world, affecting both politics as well as economics. Britain decided to exit from the European Union and their Government is finding that the actual process of decoupling from the Union is costly and disruptive. Donald Trump became the President of the United States, belying the forecast of many pundits. His election rhetoric was directed towards making USA inward oriented and his slogan was "America First". There were concerns as to whether this signified an anti globalization wave in the US, very much similar to the sentiments that led to Brexit in the UK. Election of Emmanuel Macron in France seemed to show that the anti globalization mood was not all pervading in the advanced countries. Europe in fact is exhibiting signs of growth this year. Chinese economy, although it has slowed down, is stabilizing especially in the manufacturing sector. Indian Rupee witnessed wild swings during the period touching a high of Rs 68.86 and a low of Rs 63.59 in August 2017 against the US Dollar .In short, one can only say that the situation is volatile , providing enough data points for both optimists and gloom predictors. In the Domestic front, we have had major events in the political and economic front. Shri. Narendra Mody has consolidated his party's grip over most of Indian States, is providing effective leadership and has taken bold decisions. In December 2016, Tamil Nadu lost its charismatic Chief Minister, Selvi

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Jayalalitha, who had only the year before received a mandate for a second term in Government. Demonetisation in November 2016 took everyone by surprise and the decision was taken to hit at Black Money, Fake Currency and Terrorist Funding. Your Bank saw a significant increase in Current account deposits (CA), Savings account deposits (SA) during demonetization period. The move also gave a big boost to the Government's efforts in moving towards a cashless or less cash economy. However, the credit growth declined on account of cash dependent sectors and poor utilization of credit during the period. A new Bankruptcy and Insolvency code was enacted. Along with this, an ordinance was promulgated which empowers RBI to intervene in resolving NPA, with the intention that their directions will lead to swifter recovery measures by the Banks. RBI has already asked Banks to initiate action against 12 large defaulters. The enactment of the Bankruptcy and Insolvency Code and the priority placed on attacking the "twin balance sheet" problem by the RBI indicates that the bank's ability to speed up the recovery process of NPAs will get better, which is a positive development for the Banking sector. GST, introduced in July 2017, is expected to provide impetus to the economy by creating a single market and removing the cascading effect of indirect taxes; however some time will be taken by the Small and Medium Manufacturers and Traders to settle down to the new regime. A new Governor has taken over at the Reserve Bank of India and the newly constituted Monetary Policy Committee has started functioning. RBI, while reducing rates, has signaled that inflation target will continue to guide its policy towards interest rate

changes. In the real economy, there was some good news. The foodgrains achieved a record level output of 273 million tonnes. However, the failure of monsoon in Tamil Nadu has resulted in water shortage. While the agricultural production in the aggregate has gone up, there have been number of reports on the economic distress in the farming community and it has resulted in the phenomena of Loan Waivers, which also impacts the working of the Banks. Inflation is low, but the economic activity has not picked up. The second Economic Survey presented by the Chief Economic Advisor Shri. Arvind Subramanian, has raised doubts as to whether India will achieve the projected 7% GDP growth in 2017-18. Amidst all these uncertainties, the Stock Markets are doing very well , as shown by the sustained growth of indices in the US and India. This shows that there are funds available and the market finds investment opportunities in a large number of good companies who continue to perform well even in these volatile times. Your Bank is one where the investors have placed their faith.

Interest Rate scenario and Regulatory Environment

RBI's stance as well as the changes it makes in interest rates have, of course, a major impact on the working of Banks. RBI has been quite active in the recent past in effecting interest rate changes. During April 2016, the Reserve Bank cut its benchmark repo rate by 25 bps to 6.5%, being the lowest since January 2011. The policymakers expected the monetary policy will remain accommodative and continue to emphasize adequate provision for liquidity. During the first half of FY 2016-17, the yield on 10 year

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benchmark moved from 7.41% to 6.69% on account of rate cut and accommodative stance by RBI. The RBI further cut the Repo rate to a 6 year low of 6.25% during its meet in October 2016 with a motive to bring back the inflation rate to a target of 4% in the medium term. Demonitisation was announced by RBI during November 2016 and while assessing the effects of demonitisation on inflation and growth, the policy makers decided to change the stance from accommodative to neutral. The RBI further lowered its benchmark interest rate by 25 bps to 6% during first week of August 2017, lowest since year 2010 amid a sharp slowdown in inflation. The reverse repo rate was also lowered to 5.75%.

On the statutory front , there have been some guidelines/ notifications issued by the Ministry of Corporate Affairs and SEBI. There were two significant new notifications. First one related to transfer of shares to IEPF Account wherever the shareholders cannot be traced, in order to protect the interest of shareholders. The second one pertained to detailed guidelines on evaluation of performance of Directors, in the process improving the Corporate Governance standards. The new accounting and reporting standards, called Ind AS, is being implemented by all companies gradually. Your Bank will have to start reporting its accounts in Ind AS from the next financial year. Your Bank is well geared for implementation and has prepared and submitted the Ind AS proforma report as advised by RBI for the period ended 30.09.2016. Your Bank's systems are ready and geared to meet the requirements of the recently introduced GST.

Performance of your Bank

Even in these tumultuous times, your Bank has scaled new heights. Its total business crossed Rs.50,000 crore and its profit after tax crossed Rs.500 crore. The total business , which is the aggregate of deposits and advances as on 31st March 2017, stood at Rs. 54,228 crore, registering a growth of 12% over the previous year. The Deposits stood at Rs.30,116 crore registering a growth of 11% over the previous financial year. The total advances stood at Rs.24,112 crore registering a growth of 13% over the previous financial year. Five years back, that is in 2011-12, our total business was Rs.28,562 crore and we are now nearly double that figure. Net profit of the Bank stood at Rs.503 crore registering an increase of 13% over the previous year.

Effort put in during Demonetisation

I would like to draw your attention at this time to the dedication shown by the Bank Staff during the period from 10th November 2016 when your Bank's branches opened after the announcement by the Prime Minister on demonetization, upto 31st December 2016. They worked on extended timings to process the sharply increased cash deposits and withdrawals and interact with customers of not only our Bank but also that of other Banks. Besides branch operations, ATMs were recalibrated in record time. During this period, your Bank encouraged digital payments through our e Wallet and encouraged the use of QR code payments and acceptance through mobile banking and wallets. At the same time, we deployed POS machines at the customers' locations on a mass

scale and encouraged their use by waiving Merchant Discount Rate and rent for the new POS machines purchased by merchants from 8th November, 2016 to 31st March, 2017. Kudos to our staff and management for meeting the needs of customers during this period.

Advances

I have already referred to the increase in advances of 13% over the previous year. We have also kept a strict watch over the asset quality while growing advances. The high level of computerization at your Bank has resulted in an effective system for monitoring slippages and escalating, as warranted, to higher levels of leadership in the Bank. The Bank had a NPA slippage ratio to advances hovering around 1.5% till 2013. The slippage ratio almost doubled to 2.81% for FY 2014 and moderated to 2.02% for FY 2016 and further moved down to 1.99% in the financial year 2016-17. The downward direction of the slippage ratio in these economically volatile times indicates the extent of Bank's effort in bringing this under control. The Gross Non Performing Assets was Rs. 681.98 crore, making up 2.83% of our advances against 2.41% at the end of March, 2016. Iron & Steel and Textile Industry made up the bulk of our NPA. The Net NPA was 1.71%. During Q1 FY 2017, there was a moderate recovery of outstanding dues from NPA accounts to the tune of Rs.24.40 crore followed by considerable recovery in Q2 of Rs.45.37 crore. The recovery in Q3 declined to Rs.20.21 crore due to the impact of demonitisation and thereafter in Q4, the recovery improved to Rs.56.17 crore. The total

recovery for FY 2017 stood at Rs.146 crore when compared to Rs.128 crore of FY 2016. Your Bank has a prudent provisioning policy and the provision coverage at 61% is healthy. Until the growth momentum in the economy improves, the level of NPAs will continue to be at this level, while your Bank will continue to take every effort to curtail NPAs and to accelerate the recovery process.

Operating Profit

A critical ratio to manage in the Banking Sector is the Net Interest Margin, or NIM as it is called, which is the difference between Interest earned on Advances and the Interest paid on Deposits. NIM for your Bank for the year 2016-17 was 4.17% which is among the highest for banks in India. Integrated Treasury operations of our Bank also helped in increasing the Other Income of the Bank. The volatile movement on 10 year benchmark yield provided an opportunity to our Bank to earn profit on sale of securities to the tune of Rs.107.78 crore , an increase of Rs.62.44 crore over the previous year. We could deploy the excess cash in overseas markets to get increased return and therefore the Profit on exchange transactions also increased by Rs.17.26 crore. On account of contribution from these sources, the operating profit stood at Rs.994 crore with a growth of 19% over previous year position of Rs.833 crore. Another key ratio for Banks is Cost to Income Ratio and at 40.94%, your Bank's ratio is among the lowest in the Indian Banking Sector, indicating the effective cost control that it exercises.

Net Profit

The net profit recorded Rs.503 crore with a growth of 13% over the March 2016 position of Rs.445 crore after higher provisions including provision for tax and bad and doubtful debts. Another critical ratio for the Banks is the Return on Assets, which we have maintained at 1.50% , same as previous year.

Net Worth & Capital Adequacy Ratio

The Net worth of the Bank improved to Rs.3,556 crore from Rs.3,033 crore over the previous financial year.

The Capital Adequacy Ratio as at 31st March 2017 stood at 15.83% as per Basel – III norms well above the prescribed regulatory norm of 10.25%. The Bank is at present well capitalized; however the growth in future years may call for additional capital.

Information and Communication Technology

Your Bank could achieve the growth by meeting the customer's expectations through customer centric approach built on a sound platform of our human resources and technology, supported by our ever expanding national footprint. In today's banking scenario. Technology plays a pivotal role in managing and fulfilling the growing customer demand. Your Bank has been at the forefront of the digital revolution among banks in India. You would have either experienced personally or seen through news items the pioneering step that your Bank took in installing "CUB Lakshmi", which was the first banking robot in India. This was installed at the T.Nagar

branch at Chennai. This robot has been answering questions from customers in English, but we are shortly introducing robots in more branches which will answer questions in Tamil. Your Bank has been quick to introduce new features and products. Your Bank was one of the first to provide the customers the facility of instant credit cards that can be obtained through Net Banking sitting at home and also to set their own dynamic spending limits for both the debit and credit cards, enable Aadhaar Linking through Net banking etc. Also there is the spending tracker that can track the pay outs made through Net Banking. All these are a few of the facilities enabled by Technology towards ease of operations. A detailed report on technological initiatives undertaken by the Bank so far is provided in the Annual Report and I would urge you to read it. You will see how comprehensively we have enlarged the technology capabilities of the Bank and how it is impacting customer touch points and management efficiency.

I would also like to point that technology will play a far greater role in the Banking sector in the next few years. Big Data, especially a combination of data accumulated through client interaction by the Bank as well as accessing external data with proven integrity, and the advances in the computer field in the Analytical capabilities will result in enhanced services to customers and increase the ability of the Bank in crafting effective strategies and in monitoring its operations. Security will pose a big threat in this digital environment. Technology will help us in “personalization” of services and will be tailored to individual life patterns. Your Bank is

already working on the emerging areas, such as Big Data, Analytics and Cyber Security. Investments which we will continue to make in these emerging areas will help in better decision making and in providing appropriate products to each of our customers. We will continue in our efforts to be among the most advanced technology oriented Banks in India. You will be pleased to note that your Bank has won the IDBRT Banking Technology Excellence Award for the year 2016-17. This award will be presented on 1st September, 2017 at Hyderabad.

Distribution Network

Your Bank continues to expand its footprint across the country. While the Bank had plans for major expansion of branches, the economic conditions required us to be cautious, especially in the second half of the financial year. Your Bank opened 25 branches to reach a total of 550 branches and added 161 ATMs totaling 1,486 at the end of the financial year 2016-17. Your Bank has proposed to add more branches and ATMs to garner a higher percentage of growth in the current financial year. Your bank has extended its reach to most of the States of India, and in particular, our foot print covers India's major commercial centers.

Financial Inclusion and Financial Literacy

The Bank has continued its efforts in bringing financial inclusion as one of its important social and business goals. With its extensive experience of working in rural areas, your Bank has never viewed financial inclusion as only a regulatory requirement. Your Bank is

actively involved in promotion of various financial inclusion programs since the recent past 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 also undertaken financial literacy programs in and around Tamil Nadu for imparting financial education among rural people and school children.

Your bank has achieved all the targets as per RBI directions for providing Banking services in the un-banked and remote villages of the country paving way for inclusive growth.

Human Resource Development Initiatives

Your Bank has continued its efforts in building an effective talent management system by way of entering into new settlement with the employee unions consisting of attractive salary, incentive, Performance Linked Pay 'PLP' and more. The Bank periodically motivates its employees through training, performance linked bonus, ex-gratia etc. Your Bank recognizes the need for technology savvy employees at all levels. The employees are also deputed in various external training institutions viz. SIBSTC, NIBM, CAB, CAFRAL etc., for widening their knowledge base & Industry awareness. The Bank also offers ESOPs to its employees so as to create a sense of ownership among them.

The human resource policies are tailored towards the development of the employee, both as a person and as a professional.

Achievements

I have already referred to the recognition that your Bank has been getting on account of its performance. I take great pride in informing the shareholders that your Bank has been adjudged as "Best small sized Bank" for the financial year 2016 by Business world – PWC Best Banks survey 2016 and "Top Old private Sector Bank" by Financial Express. These awards are based on recommendations of eminent persons in the Jury and are arrived at after extensive comparison of performance of all Banks. For the management of the Bank and its leadership, these awards are a reflection of the appropriateness of the strategy formulated by the Bank, the rigour with which the operations are conducted and most importantly its ability to compete in the marketplace.

Reward to Shareholders

Your Bank has been continuously rewarding the shareholders by paying cash dividends out of the profit earned, keeping sufficient reserves for future growth through retained earnings. The Board of Directors recommended a dividend of Re.0.30 paise per equity share of Re.1/- each for the year ended 31st March 2017 which is subject to approval by the shareholders at this Meeting.

In addition to rewarding the shareholders through dividend, the Bank has this time issued bonus shares in the proportion 1:10 (one share for every ten) after considering the reserve base and market trend. The last bonus issue was made by the Bank during the year 1998.

Corporate Social Responsibility

Corporate Social Responsibility has always been an integral part of the Bank's Business. Long before CSR became a mandatory requirement, your Bank has been promoting Art, Music, Sports, Culture and Heritage. Your bank has continued its efforts during the year in implementing CSR activities. As you are aware that our Bank has always been an initiator in carrying out socio-developmental activities in and around Kumabkonam, apart from its regular contributions towards same in other places. The Bank has taken yet another unique step during the year by underlining the importance of conservation of water resources and carried out a novel project for cleaning, desilting and deepening of a network of lakes including Kizapattu, Edannavasal and Paruthikottai lakes and their input – output canals in Thiruvarur District, Needamangalam Taluk, in association with the Cauvery Delta Formers association, thereby facilitating free flow of surplus water into the Bamini River Bed in Mannargudi District in the presence of waterman Shri.Rajendra Singh, Rajasthan. The Bank also took initiative towards cleaning and deepening of Edannavasal and Paruthikottai Lakes. The Project has reaped the full benefits even before its full completion when the bountiful rains that followed not only filled up the lakes but also drained the surplus water into the Bamini river enabling the celebration of Adi Perukku in these areas after decades. The project has enabled better water management by full harnessing of the rain water, improving the water table all around, providing own water for irrigation and avoidance of flooding. It has

benefitted many villages and towns nearby, thereby winning all around appreciation.

As per the Central Govt. initiative, the Bank has continued to carry out every possible activity under Swatchh Bharat for cleaner and greener environment. To reiterate, the Bank has so far undertaken various activities under CSR viz., construction of bio toilets, cleaning & maintaining of water tanks, conservation of flora/ maintenance of parks, construction of Air Conditioned bus stops at Kumbakonam for the public comfort, donation of Ambulance(s), removal of Garbage in and around Kumbakonam by using Bio mining technology etc. The Bank believes in upliftment of community through development of the weaker sections. In this regard, the Bank has delivered financial services to tribal people under financial inclusion.

A detailed report on CSR activities carried out in FY 2017 has been set out in the Annual Report.

Acknowledgements

Before concluding, I would like to place on record my sincere gratitude to all the stakeholders, the Reserve Bank of India, other Financial Institutions, LIC, General Insurance Companies, SEBI, Stock Exchanges and Correspondent Banks. I would like to thank Shri. R.G. Chandramogan and Shri. T. K. Ramkumar who retired as an Independent Directors from the Board of the Bank for their valuable guidance, support and contribution to the Bank's growth. The Board has recently brought in Shri. N. Subramaniam, with his

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wide experience in the financial services area, as an Additional Director and the resolution to appoint him as an Independent Director is before the shareholders.

I would like to extend my sincere appreciation to all employees of the Bank for their dedication and hard work in serving the stakeholders to their satisfaction and ensuring cordial environment. I am confident that this century old institution will touch greater heights of glory in the years to come with the unflinching support and patronage from all its stakeholders.

My thanks to all of you once again.

Date: 23rd August 2017

Place: Kumbakonam