

CITY UNION BANK LIMITED
ANNUAL GENERAL MEETING - 29-08-2019

CHAIRMAN SPEECH

Esteemed Shareholders of City Union Bank, my Colleagues on the Board of the Bank and all CUBians assembled here for your Bank's Annual General Meeting this day, the 29th August, 2019, Hearty Welcome to all of you!

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

The Annual Report together with the Notice of the Annual General Meeting for the year ended 31st March, 2019 has been provided to all the shareholders of the Bank. With your kind permission, I shall consider it as read.

Before I touch upon the financial results of the Bank, I would like to quickly brief you on the Economic outlook both Global and Indian Economy.

GLOBAL ECONOMY

The global growth remains subdued as per the report of the World Economic Outlook. Against this backdrop, global growth was forecast at 3.2% in 2019, picking up to 3.5% in 2020. The projected growth pickup in 2020 hinges on several factors including stabilization in currently stressed emerging markets as also developing economies and progress toward resolving trade policy differences. Consistent with subdued growth in final demand, core inflation across advanced economies like US has softened below

target and has remained well below it in Japan and Euro areas. The supply influences continue to dominate commodity price movements, notably oil prices. Emerging and Developing Asia is expected to grow at 6.2% in 2019-20. In China the negative effects of escalating tariffs and weakening external demand have added pressure to the economy already in midst of structural slowdown needing regulatory strengthening to rein in high dependence on debt.

Global financial markets have been wrestling with two key issues in the recent times. 1) Investors concern on the impact of the intensification of trade tensions and weakening economic outlook. 2) The consequent implications of such trade tensions on monetary policy outlook. Since mid June, a number of Central Banks have signalled a dovish shift in their monetary policy stance, citing muted inflation and increased downside risks to growth. This has led to further market reassessment of expected path of monetary policy. The investors now anticipate more significant policy easing from Central Banks including in the US, recovery in share prices, decline in market interest rates etc. We need to watch these trends closely.

INDIAN ECONOMY

The IMF projected a slower growth rate for India in FY 2019 and in 2020, and made downward revision of 0.3% for both the years with GDP growth at 7% and 7.2% respectively, reflecting a weaker than expected outlook for domestic demand. However, Monetary Policy Committee (MPC) of RBI, in its August meet, projected India's GDP growth at 6.9% for FY 2020. The baseline inflation movement for 2019-20 is shaped by several factors viz. Inflation in food and fuel prices, volatility in crude prices, inflation expectation of households etc. The RBI in its bi-monthly monetary policy resolution of June 2019, projected CPI inflation at 3% to 3.1% for the first half of FY 2020 and to 3.7%

for the second half of the year with risks broadly balanced taking into consideration policy rate cuts and normal monsoon in 2019. The domestic economic activity decelerated sharply to 5.8% in Q4 FY 2019. The growth in certain core industries decelerated sharply in April 2019, pulled down largely by crude oil, coal, fertilizers, automobiles and cement. Credit flows from Banks to large industries strengthened except for Micro, Small and Medium industries. The imbalance in Export and Import growth led to the trade deficit both sequentially and on y-o-y basis. Weak global demand due to escalation in trade wars may further impact India's export and investment activity. The net foreign direct investments were stronger in Q4 FY 2019 but were relatively modest in Q1 FY 2020. On the basis of the then prevailing macro economic situation, during June 2019 the MPC cut the policy repo rate to 5.75% and reverse repo rate to 5.50%. Further, with an eye on addressing the concerns in economic growth and kick starting private investments, during its August meet, the RBI announced an unconventional 35 basis points rate cut in repo rate to 5.40% taking a balanced call. However, it has retained its inflationary stance as per its June meet. Also, in order to encourage Bank's credit to NBFC sector and to meet its liquidity requirements, the ceiling limit of exposure to single NBFC has been raised from 15% to 20% of the Bank's Tier I capital.

BANKING SECTOR

As per Moody's, the overall strength of the Banking sector is improving. During February 2019, the Govt., provided further capital infusion to public sector Banks. These measures combined with measures like resolution of bad loans through Insolvency and Bankruptcy Code are helping to address solvency and asset quality changes. The financial flows to the economy remained constrained because of the decline in the amount of equity finance raised from capital markets and stress in NBFC sector. The

gross NPA ratio of Scheduled Commercial Banks decreased from 11.5% to 10.1% between March and December 2018 and further expected to decline to 8% by this fiscal end due to lower accretion and increased recoveries. The aggregate deposits in Banking system increased by 9.99% y-o-y in FY 2019 and the total advances grew by 13.23%. The lending to industry picked up after remaining muted for the past five years.

PERFORMANCE OF YOUR BANK

Amidst the challenging Industry environment, I am happy to announce that, your Bank crossed yet another milestone in total business by reaching Rs.71,500 crore mark during the financial year 2018-19. Your Bank performed well on all core areas like Deposits mobilisation, growth in Advances, Branch network expansion, CASA and recorded a satisfactory Net Interest Margin, reasonable slippage ratio, provision cover for NPAs, Gross and Net NPA percentages, cost to income ratio, return on assets and capital adequacy.

PROFITABILITY

The Net Interest Margin or NIM of your Bank in FY 2019 was 4.32%, which is among the highest across banks. CASA stood at 25% of Deposits compared to 24% in the previous year. Credit Deposit Ratio has gone up to 86% at the end of the year. As a result, the Net Interest Income rose from Rs.1,430 crore to Rs.1,611 crore. Your Bank's operating profit rose from Rs.1,208 crore to Rs.1,240 crore. Net Profit rose from Rs.592 crore to Rs.683 crore. The incremental effect in Net Profit is mainly due to decrease in provisioning requirement for NPAs on account of better recovery management and also, decrease in provision for investment depreciation. The return on assets stood at 1.64%.

DEPOSITS

During the year, deposits have increased to Rs.38,448 crore as on 31st March 2019 from Rs.32,853 crore in previous year recording a growth rate of 17%. The cost of deposits of the Bank stood at 6.17% as of 31st March 2019 against 6.29% in FY 2018.

ADVANCES

The Advances have increased from Rs.28,239 crore as on 31st March 2018 to Rs.33,065 crore as on 31st March 2019 registering a growth rate of 17%. The yield on advances decreased from 11.46% to 10.95%, the primary reason being competition and market trends. The priority sector advances stood at Rs.16,413 crore as at 31st March 2019 as compared to previous year amount of Rs.14,796 crore and aggregated to 63.35% of the Bank's adjusted net credit which is well above the regulatory prescription.

NON PERFORMING ASSETS

During the year your Bank's constant monitoring of advances to reduce slippages and speed up its recovery process helped to reduce the NPA level. The Bank recorded slippage level at 1.91% of advances and the Gross NPAs decreased from 3.03% to 2.95% due to improved recovery and effective Credit management process. The recovery stands improved in FY 2019 to Rs.248 crore as against Rs.206 crore in FY 2018. The recovery department of the Bank deserves credit for effective NPA recovery process by taking appropriate and timely actions. Provision cover stood at 63%. Further, you will draw a sense of comfort from the fact that divergence as pointed by RBI in its Annual Financial Inspection (FY 2018) was well within the norms stipulated by SEBI/ RBI

and did not warrant any reporting in the Annual Financial Statements.

INVESTMENTS/TREASURY OPERATIONS

During the year under review gross investments has decreased from Rs.8,015 crore to Rs.7,863 crore. The total Yield on investments worked out to 7.36%. During the reporting year the Bank has booked treasury profit to the tune of Rs.32.56 crore despite unfavourable market conditions as against Rs.93.83 crore during the previous year. Further, the Non-interest income of the Bank registered a 3% decline from Rs.532 crore to Rs.514 crore, mainly because opportunities were not available in treasury operations to book higher profit.

NET OWNED FUNDS / CAPITAL ADEQUACY RATIO

The Bank's paid-up capital stood at Rs.73.45 crore as on 31st March, 2019. The Bank's net worth increased from Rs.4,149 crore as on 31st March 2018 to Rs.4,808 crore as on 31st March 2019. The Capital Adequacy Ratio under BASEL III as at 31st March, 2019 stood at 15.55% which is well above the stipulated regulatory norm.

REWARDING SHAREHOLDERS

Your Directors are pleased to recommend a dividend of 50% on the equity shares for the financial year 2018-19 in pursuance of its constant philosophy of rewarding shareholders.

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 just a regulatory requirement but as an opportunity to reach the rural people 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 BC outlets are established with the help of technology “e-lounge”, which caters to the need of the rural poor by facilitating easy financial access. The Bank also facilitates Aadhar enabled payment system (AePS) which helps to reach the rural people for easy cash acceptance, transfer and withdrawal system.

The Bank has already established 21 of such BC outlets and planning to increase further in the current financial year.

BRANCH EXPANSION

Another milestone was reached when your Bank opened its 650th Branch at Keelakorukkai. During the year under review, the branch expansion programme was consciously kept moderate and your Bank added only 50 more branches to reach 650 which include Banking outlets manned by Business Correspondents also. Your Bank proposes to add more branches in the current financial year to tap potential market areas.

TECHNOLOGY INITIATIVES

In today's Banking scenario Technology plays a vital role in meeting the growing demands of the customers. Your Bank has always given top priority in initiating new

technology measures and upgrading existing ones for the benefit of our customers. The various developments have been set out in detail in the Annual Report. Further, in the wake of digital transformation of Banking industry, utmost priority is given for enhancing the security aspects in digital transactions. Today, almost 93.15% of the Bank's transactions takes place through alternate channels like ATMs, Net Banking etc.

RISK MANAGEMENT

Your Bank has in place a sound Risk Management Architecture established by the active involvement and supervision of Board of Directors. 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.

The Bank has designed various systems and procedures to Identify, Measure and Monitor various types of Risks viz. Credit, Operational and Market Risk. The overall risk of the Bank is being managed through three committees viz., Credit Risk Management Committee (CRMC), Asset Liability Management Committee (ALCO) and Operational Risk Management Committee (ORMC). The Bank has a Risk Management team headed by Chief Risk Officer.

With this kind of risk management practices followed by the Bank, we are able to take informed decisions in mitigating various risks proactively.

HUMAN RESOURCE DEVELOPMENT

The human resource policy of the Bank is very flexible and aims to motivate employees through various monetary and non-monetary benefits. As in the past, the Bank has continued to offer various benefits to its employees viz., Performance linked pay, Ex-gratia payments, Medi-claim policy, on-going staff training/ learning and development processes, etc.

As on 31st March, 2019, the Bank had on its roll 5,518 employees including 53 Executives.

The Bank has maintained a healthy work environment right from its inception and it needs to be mentioned here that there are no instances of industrial unrest till now.

CORPORATE GOVERNANCE

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. The Board is comprised of highly experienced professionals and administrators who bring a variety of perspectives in dealing with strategic and operational issues.

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 to socio-developmental activities. The Bank during FY 2019 has made an exemplary contribution in socio-developmental activities under CSR. The elaborate details are set out in the Annual Report. The Bank shall continue to endeavour and make the best effort in such developmental activities in

years to come with the grace of the Almighty and Stakeholders.

ACKNOWLEDGEMENT

Before concluding I would like to place on record my sincere gratitude to the members on the Board, shareholders, customers of the Bank for the unstinted support, guidance and the patronage extended to the Bank in its growth process. My sincere appreciation to both the Employees union and Officers association for their role in ensuring harmonious Industrial relationships.

I thank our Executives and the entire workforce of the Bank for their dedication and hard work in serving the customers. Further, I am confident that we will traverse the path set by the founding fathers of the Bank to take this great institution to greater heights of glory in the years to come with continued support of all the stakeholders and patronage of the customers.

Thank you

(R MOHAN)

CHAIRMAN