

CITY UNION BANK LIMITED
ANNUAL GENERAL MEETING – 14-08-2020
CHAIRMAN SPEECH

Esteemed Shareholders of City Union Bank, my Colleagues on the Board of the Bank, Statutory Central Auditors and all the shareholders participating in this e-AGM today, through Video Conferencing.

Namaskaar and Hearty Welcome to all of you ! I hope all of you and your family members are keeping fine !!

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

As always, this is an important event for the Bank allowing us to engage directly with you all, as well as for you to vote on our resolutions set out in Notice calling this meeting. But, with the current restrictions on the public movement, we are holding a virtual shareholder meet. Also, due to the extant circulars issued by the Securities and Exchange Board of India and Ministry of Corporate Affairs in the wake of COVID Pandemic, the Annual Report together with the Notice of the Annual General Meeting for the year ended 31st March, 2020 has been provided only in electronic mode to shareholders. With your kind permission, I shall consider it as read.

Since this being a virtual event, considering technical factors / restrictions on participation, I thought it fit to keep my speech as precise as possible with more focus on the financial performance of the Bank for FY 2020 and our Banks efforts in overcoming the impact of the pandemic.

GLOBAL ECONOMY

The global growth remained subdued in the first half of the year 2019 with rising trade and geopolitical tensions taking a toll on investor confidence, investment decisions and global trade. In the third quarter of year 2019, growth across Emerging Market Economies (EMEs) was weaker than expected and advanced economies slowed broadly. Moving to first quarter of the year 2020, global growth reached a pathetic nadir due to COVID 19 pandemic and the whole financial landscape witnessed a huge turmoil which was something unprecedented since 2008 financial crisis. The growth in advanced and developing economies is projected to contract by 6.1% and 1% respectively in 2020. The Euro area is projected to contract sharply by 7.5% in FY 2020-21 as per World Economic Outlook.

The Global financial markets witnessed modest recovery in April 2020 after a crash in bench mark equity indices and bond market during March 2020. Government and Central Banks have deployed various measures to stimulate the economy through liquidity support and regulatory changes. Lowering of key policy rates and reserve requirements, quantitative easing measures, loan guarantees and stimulus packages are among the initiatives by Governments globally. Looking ahead, the outlook of the global economy has become very uncertain and the world is likely to experience a deep rooted recession next year.

INDIAN ECONOMY

The Indian economy prior to the pandemic scenario till Q3 FY 2020 showed signs of uptick in consumption and investments. The core index representing the eight core industries witnessed highest growth at 5.6% in February 2020 after March 2019. On the external front, merchandise exports showed robust positive growth in February 2020 at 2.9% after a gap of six months. Exports of services also registered a positive growth of 6.9% in February 2020 while imports grew by 12.8%.

COVID 19 impact started unfolding in India in March 2020 and the business sentiment started to plummet. India witnessed sharp contractions in March 2020 both on the production and consumption side with a seven day lockdown enforced in the last week of

the month. Industrial production steeply contracted by 16.7% YoY in March 2020 with manufacturing shrinking sharply by 20.6% YoY. The exports growth turned sharply negative at minus 34.6% YoY in March 2020. All commodity groups registered negative export growth except for iron ore it grew by 58.4%.

During May 2020, the Hon'ble Prime Minister of India announced a consolidated stimulus package of Rs.20 lakh crore pivoting on "Atma Nirbhar Bharat Abhyan" with a view to making the nation self-reliant with more focus on local manufacturers and service providers. The package aims to benefit the Migrant workers, salaried workers, small farmers, agriculture and allied activities, MSMEs, NBFCs, real estate and certain core sectors viz. Coal, minerals, defence production, air space management, social infrastructure projects and power distribution companies. In particular under this programme, additional funding facility by Banks upto Rs.3 lakh crore for all MSME borrowers including business enterprises is guaranteed by the Govt., subject to specified conditions, at a concessional rate of 9.25%. Additionally, "Pradhan Mantri Garib Kalyan Rojgar Abhyan" was launched for the benefit of returnee migrants.

BANKING SCENARIO

Fiscal year 2019-20 posed a serious challenge to the Banking sector especially in Q4 in view of the COVID 19 pandemic which engulfed the globe. The pandemic is impacting the financial service sector in multiple ways – from business continuity issues and operational considerations to the overall financial outlook. Though, Banks are managing themselves to minimise the damage caused, they will continue to face short & long term implications on profitability as well on its assets and liability position.

The RBI also announced a slew of measures to overcome the disruptions brought about by COVID 19 which included reduction in repo rate to 4%, reverse repo to 3.35%, reduction in Cash Reserve Ratio to 3%, moratorium on term loans and working capital interest, ease of working capital financing, deferment of Net Stable Funding Ratio, injection of fresh liquidity

to the tune of 3.2% of GDP etc.

OUR BANK'S RESPONSE

While the long term implications of the pandemic for the Indian financial services sector is unknown, our Bank has been constantly working in redesigning the working models with alternative work arrangements, servicing customers through remote set-up etc.

Measures like creating awareness among employees, process & systems modifications, business continuity measures, fully sanitizing the environment, providing health camps for employees, reducing in-person interactions, downsizing working hours etc., were employed to ensure that spread of the disease is kept under check both among our employees and customers.

The operational business continuity measures as advised by RBI have been duly implemented by the Bank. A monitoring mechanism was put in place to take control over the spread of the virus among the employees, quarantine requirements etc. A high level committee by name "Quick Response Team" was also formed as directed by RBI to oversee the entire developments in the context of the spread of COVID 19. "Work from Home" is also practised wherever found feasible and some of our officers and executives are carrying out their assignments in this fashion. Further, in order to expand our customer base and geographical reach amidst the pandemic, the Bank has introduced "CUB EASY" a video KYC based account opening App., which has been receiving a good public response so far. On the whole the Bank has put in the effective measures of all sorts to ensure that service to our customer remains seamless and the disruption caused is almost nil.

Coming to the credit side, our Bank in line with the Government and Regulator's initiatives, has provided loans to MSME sector under Emergency Credit Line Guarantee Scheme

(ECLGS) at a concessional rate to help them tide over the economic distress. The relief provided to borrowers on repayment of their loan-dues particularly interest burden, pursuant to regulatory directions, is a timely help to them to cope with the pressure on their strained cash flows.

In this context I would like to reiterate that customer service has always remained uppermost in our mind and the MSMEs / small business enterprises have been our priority. Without compromising on the tradition well established by the founders of the institution, we endeavour to extend our support and services to all our customers improvising our products and operational efficiency using the updated technology. We ensure that there is no dilution in our focus or approach even in difficult times we face now.

MOVING TO PERFORMANCE OF YOUR BANK

Let me first recall our Bank's 116th Foundation Day celebrations which took place in November 2019 at Chennai. We were fortunate to have in our midst our Hon'ble Minister of Finance and Corporate Affairs, Smt. Nirmala Sitharaman as our Chief Guest on that momentous event. She was all praise of our Bank for its unblemished track record over a long period of 115 years. I thank her on this occasion on behalf of all members and my personal behalf for having graced the function with her august presence. It was a well attended function in which distinguished personalities from the Banking fraternity, Government bodies and various Ministries took part.

Well, during the reporting year, your Bank has recorded a total business of Rs.75,409 crore, an increase of 5% over the previous year figure of Rs.71,513 crore.

PROFITABILITY

The Net Interest Margin or NIM of your Bank in FY 2020 was 3.98%. CASA stood at 25% of Deposits which was the same in the previous year as well. Credit Deposit Ratio has recorded 85% at the end of the year. As a result, the Net Interest Income rose from Rs.1,611 to Rs.1,676 crore. Your Bank's operating profit rose from Rs.1,240 crore to Rs.1,341 crore.

Net Profit declined to Rs.476 crore from Rs.683 crore. The main reason being, during Q4 FY 2020, the Bank had registered a net loss of Rs.95 crore because of the precautionary additional provision of Rs.102 crore made over and above what is prescribed by RBI on account of possible slippage in the loans likely to be impacted by the COVID 19. The return on assets stood at 1%.

DEPOSITS

During the year, deposits have increased to Rs.40,832 crore as on 31st March 2020 from Rs.38,448 crore in previous year recording a growth rate of 6%. The cost of deposit of the Bank marginally increased from 6.17% to 6.20% in FY 2020.

ADVANCES

The Advances have increased from Rs. 33,065 crore as on 31st March 2019 to Rs.34,576 crore as on 31st March 2020 registering a growth rate of 5%. The yield on advances decreased from 10.95% to 10.76% during the reporting year on account of the transmission of the cut in the key rates to the borrowers. The priority sector advances stood at Rs.17,507 crore as at 31st March 2020 as compared to previous year amount of Rs. 16,413 crore and aggregated to 56% of the Bank's adjusted net credit which is well above the regulatory prescription.

NON PERFORMING ASSETS

The Bank recorded slippage level at 3.21% of advances and the Gross NPAs increased from 2.95% to 4.09%. The first 9 months recovery was Rs.254 crore and in Q4, the Bank could recover only Rs.46 crore because of the lockdown which impacted the overall asset quality.

INVESTMENTS/TREASURY OPERATIONS

During the year under review gross investments has increased from Rs.7,863 crore to Rs.9,236 crore. The total Yield on investments worked out to 8.44%. During the reporting year the Bank has booked treasury profit to the tune of Rs.159.60 crore as against Rs.32.56 crore last year, by utilising the volatile yield movements and timely sale of securities.

Further, the Non-interest income of the Bank registered a 32% growth from Rs.514 crore to Rs.680 crore mainly on account of increase in treasury income.

NET OWNED FUNDS / CAPITAL ADEQUACY RATIO

The Bank's paid-up capital stood at Rs.73.73 crore as on 31st March, 2020. The Bank's net worth increased from Rs.4,808 crore as on 31st March 2019 to Rs.5,253 crore as on 31st March 2020. The Capital Adequacy Ratio under BASEL III as at 31st March, 2020 stood at 16.76% which is well above the stipulated regulatory norm.

REWARDING SHAREHOLDERS

Your Directors declared an interim dividend of 50% on the equity shares for the financial year 2019-20 during the month of March 2020 itself, in pursuance of its constant philosophy of rewarding shareholders.

But subsequently, RBI issued a circular during the month of April 2020 which directed all scheduled commercial banks not to make any dividend payouts for FY 2020 in order to conserve capital and retain profits in the wake of heightened uncertain economic conditions on account of COVID 19. Accordingly, the Bank could not recommend any final dividend for FY 2020.

BRANCHES

During the financial year, the Bank expanded its branch network by adding 50 more branches and 108 ATM's across the country totalling 700 branches and 1,793 ATM's as on 31st March, 2020.

TECHNOLOGY

Indian banking system is seeing a transformation never witnessed paving way for next-generation banking with a primary emphasis on modernization and digitization. Amidst pandemic, the importance of Technology in Banking is very much felt which poses a big

challenge in serving the customers by offering wide range of financial products at reduced cost while at the same time keeping an eye on the bottom-line. On the digital front, the Bank continued to upgrade and strengthen its Information Technology framework to ensure smooth and secure customer friendly Banking. In India, the total digital retail financial transactions via NPCI platform increased sharply from Rs.6.71 lakh crore in April 2020 to Rs.9.65 lakh crore in May 2020.

RISK MANAGEMENT

Your Bank has put in place a sound Risk Management Architecture established by the active involvement and supervision of Board of Directors. The Bank has a Risk Management team headed by Chief Risk Officer. As in the past, the Bank has conducted stress test and scenario analysis on a periodical basis to gauge the level of risk in the assumed crisis situation and, remedial/preventive steps have been taken to mitigate risks in all areas.

Further, during the year, the Bank has formulated a Risk & Control Self assessment RCSA standard (RCSA) to measure, monitor and control enterprise-wide risks with the object of integrating all risks of the Bank. As laid down in the RCSA standard, a workshop and questionnaire session with respect to Operational Risks covering one of the products has already been conducted. More such workshops have been planned to be conducted during the current year on various identified risk areas.

During June 2020, RBI advised Banks to carry out the Impact of COVID 19 under severe but plausible scenarios on their Balance Sheet, Asset Quality, Liquidity, Profitability and Capital Adequacy for FY 2021. Though the Bank is adequately capitalised right now and the Capital Adequacy Ratio is well above the prescribed norms, our Risk Management Department carried out the exercise as advised by RBI to examine our position under various scenarios which depicted a manageable asset quality and steady balance sheet to withstand shocks.

Under Basel III capital regulations, the CRAR required to be maintained for the period ended is 10.875% against which our Bank has maintained a total CRAR of 16.76% well above the prescribed norms by RBI.

CORPORATE SOCIAL RESPONSIBILITY

As you all know the concept of social responsibility is deeply entrenched in the culture of our Bank. The Bank's CSR wing "Cub Foundation" is continuing to play a vital role in supporting the community in the vital areas like Swatch Bharat, Health care, Literacy, Rural sports, Community Development & Environment sustainability particularly water resource management etc. In the year under report, we have spent a total sum of Rs.17.06 crore towards these activities. This amount also includes a sum of Rs.68 lakhs to Prime Minister Relief fund on account of COVID relief.

HUMAN RESOURCE

As in the past, the Bank continues to upgrade the knowledge base of its employees by offering them internal and external trainings. As on 31st March, 2020, the Bank had on its roll 5,741 employees including 54 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.

I take pride in expressing the fact that our employees always stand committed to win the trust and confidence of our customers by their courteous service. The tireless efforts of our CUBians under the challenging conditions are truly laudable.

ACKNOWLEDGEMENT

Before I conclude, I hereby extend my sincere gratitude to the Reserve Bank of India, all Govt. bodies, Regulatory authorities, Shareholders, Customers, business associates, my colleagues on the Board of the Bank, Executives and Employees of the Bank for their continued support, guidance and patronage extended to the Bank in its growth process. My

sincere appreciations to both Employees union and Officers association for their role in ensuring a harmonious Industrial relationship.

With the grace of Almighty and with all your support, I am confident that our 116 years old organisation will continue its journey with majesty, putting up a performance par excellence in the years to come.

My best wishes to you all once again.

Thank you

(R MOHAN)

CHAIRMAN