SPEECH OF CHAIRMAN, MD&CEO AT THE 97TH ANNUAL GENERAL MEETING

My Dear Shareholders,

On behalf of the Board of Directors of the Bank, I take immense pleasure in welcoming you all to the 97th Annual General Meeting of our Bank. Not every institution can claim conducting 97th Annual General Meeting and it shows the resilience and trust bestowed on us by our patrons through the decades. I have been part of CSB for about two years now and it has been an eventful experience.

The Annual Report of the Bank for the year 2017-18 is already in your hands and with your kind permission, I take it as read.

Before I present the performance highlights of our Bank, I would like to brief you on the general external environment facing the bank.

- **External Environment**

On the macroeconomic side, India is continuing to be the world's largest growing economy with Q1 GDP numbers bolstering this trend. But financial markets are showing a lot of volatility because of global factors like US-China trade war, withdrawal of quantitative easing by Federal Reserve and expected rate hikes, crude price volatility etc. Rupee (and for that matter other Asian currencies also) has fallen to record levels against the dollar. Interest rates are showing an upward bias across money, deposit and loan markets.

- **Our Performance**

Credit Growth Coming to CSB Specifics, despite multifaceted challenges faced by the Banking Sector, the Bank's business increased by Rs. 1,000 crore to above Rs. 24,000 crore as on 31st March 2018. The increase was mainly driven by growth in advances by 15 % taking the gross advances to above Rs. 10,000 crore. The Credit Deposit Ratio improved to 63.6 % as on 31st March 2018 from 54.5 % as on 31st March 2017. Increase has been mainly in less risky advances (high rated corporate and gold loans), given the bank's low risk appetite in the current market scenario. This is reflected in the fact that the effective risk weight of advances of the bank has actually decreased from 53% as on 31.03.2017 to 49% as on 31.03.2018. Bank could effectively redeploy Rs 1,200 crore of Treasury Assets to loans, increasing returns but not increasing commensurately the risks.

CASA growth Bank's deposits slightly de-grew on account of decrease in term deposits which was due to the conscious call taken by the Bank, to reduce high cost term deposits & improve low cost CASA accounts. Cost of deposits has been brought down from 6.90% in March, 2017 to 6.15 % in March 2018. CASA of the Bank improved by Rs. 276 crore to Rs. 3971 crores as on 31st March 2018 from Rs. 3695 crore in March 2017. Bank has improved its CASA ratio to 27.03 %, showing an increase of 225 bps from 24.78 %. Bank has reduced wholesale deposits by about Rs 500 crore and wholesale deposits as a proportion of total deposits is only 4.5% now indicating very low concentration risk as far as liquidity is concerned. We have a very stable retail term deposit base which leaves us enough headroom to play a more active role in money market.

NIM Growth Thanks to the tail winds provided by these measures, our Net Interest Income increased by 22.71% (From Rs 313.60 crore to Rs 384.81 crore) and Net Interest Margin by 41 bps (From 1.91% to 2.32%).

Non Treasury Income Growth Other commendable achievement was growth in Non Treasury Other Income. This stream increased by Rs. 37.40 crore or 44% in FY 18 (Rs. 85.30 crore in FY 17 to Rs. 122.70 crore in FY 18), contributed by spurt in PSLC premium, Commission income, Recovery from Bad debts written off etc.

Lid on Cost Escalations We were watchful on expenditures and many of the payments have been centralised for better control. Total opex was lower than previous year by Rs 7 crore.

Operating Profit Bank's Operating Profit stood at Rs.74.3 crore as on 31.03.2018 as against Rs. 151.7 Crores as on 31.03.2017. Operating profit excluding the treasury profit was Rs. 71.6 crores as against operating loss of Rs. 44.2 crores in the previous period. Treasury profit was Rs.195.9 crore in FY 17 on account of favourable yield movement, however in FY 18 the same decreased to Rs. 2.72 crores due to un-favourable yield movement.

Asset Quality The fiscal year saw spiralling non-performing assets (NPAs) across the banking industry (Increase from 9.6% to 11.6% or by **200 bps**). In this backdrop, our Bank's Gross NPA has only increased to 7.89% from 7.25% or by **64 bps**. Major portion of this increase has been caused by slippage of education loans and stressed sectors like Cashew. Provision Coverage Ratio improved from 53.1 % as on 31.03.2017 to 61.9 % as on 31.03.2018. Net NPA has decreased to 4.5% from 5.5% and we are one of the very few banks in the industry whose Net NPA has come down both in absolute numbers and as a percentage. P&L debit on account of Provision for NPA & write off was Rs 191.1 crore and this together with depreciation in investment book (including Security Receipt) of Rs 33.6 crore has resulted in the bank posting a Net Loss of Rs. 97.5 crore.

Capital Adequacy CRAR of the Bank stood at 9.91% as against 12.15% as on 31.03.2017. While this is short of the RBI minimum requirement, the proposed new capital infusion will take the ratio well above the regulatory minimum apart from giving ample space for business growth.

- **Capital Augmentation Plan**

Your Bank has taken all the initiatives to remain fairly capitalized throughout the period. The Reserve Bank of India has already accorded its approval to FIH Mauritius Investments Ltd (FIH-M), part of the Fairfax group to acquire up to 51 % of the post issued paid up capital of the Bank through primary issue of shares. As the Bank had already obtained the approval of shareholders for the said offer of shares to FIH-M, Bank will be able to complete the offer to FIH-M, once the approval of Department of Financial Services (DFS) is obtained, increasing foreign direct investment limit in the Bank to 74 % of the paid-up capital as the same is essential to complete the process of issue of shares to them.

- **CSR Initiatives of the Bank**

Your Bank was not statutorily obliged to spend money for CSR during the Financial Year 2017-18, the Bank however has implemented a slew of measures through the external implementing agencies as part of its commitment and continued focus towards sustainable development.

Corporate Governance

The Corporate Governance philosophy of the Bank is to promote corporate fairness, transparency and accountability so as to maximise long-term value for all stakeholders. Your Bank continues to maintain high standards of Corporate Governance and upholds fairness, integrity and trust in all its dealings.

Way Forward

We can't control the economy, interest rates, crude oil prices, the markets, or world events. We focus on what we can control and what we can sustain long term: our core performance, our revenue growth, our move towards a lower cost structure, our digitisation drives, our emphasis on high standards of corporate governance & social responsibility. We're focused on providing you, our shareholders, with sustainable, long-term success and this calls for a large scale change.

Any large scale change brings with it challenges of design and implementation – and we have made progress on both fronts in varying degrees in our endeavours.

- **Product** Product lines are being refurbished to plug gaps in our offerings. Upgradation of our technology platform with appropriate Add-ins tops the agenda to ensure that technology is not a constraint for product/channel development. Progressive launch of applications that will materially improve our customers 'digital experience, enhance their online security and bring greater personalisation of product offerings are high on our agenda.

- **Process** We are working on many fronts on Process. We have adopted and implemented recommendations of CRISIL's consulting arm for strengthening our rating design and improving our credit processes. More and more non-core activities have been shifted from branches to central processing locations and branches are on the way to becoming sales and service hubs. Clearly demarcated Verticals for business will be set up by the end of this fiscal. These verticals will be Strategic Business Units rather than profit or cost centres. We plan to leverage data science to understand the customers across segments better in addition to primary research that helps identify the right financial need of the customer.

- **Place** We are conscious that inadequate quality of branch infrastructure will lead to negative perceptions amongst clientele. We are rectifying this by upgrading functional infrastructure at branches in a phased manner. We have also plans to convert a few branches at key centres to signature branches. Globally the share of alternative channels in the business transactions is on the rise and we are committed to develop such capabilities. We are committed to the principle that **customers should be able to bank when and where it suits them.**

- **Perception** Above efforts on process, products and places is being supplemented by a well-orchestrated re-branding exercise. This effort should activate the brand and improve the visibility of our bank in a very big way.

- **People** '*Hire for Attitude, Train for Skill*' will be our watchword. We are committed to reward performers and enhance overall motivation and morale. 'Thinking like a Customer' will be our motto so that we can always raise the bars for customer service and engagement. We have to do a lot of catch up as far as productivity is concerned and this is one of the top most strategic priorities.

- **Partners** We will be entering into a string of strategic alliances (like Fintech tie ups) for better customer experience, innovation and service delivery.

Strategic Intervention is a multi-step process – sometimes consisting of many small steps, not a few big ones. Along the whole journey interactions with various stakeholders are essential and we are committed to that. We are fully aware that what we need now is not just execution, but fanatical execution.

While we anticipate earnings challenges to continue in FY 19 also due to ageing of legacy NPAs and drying up of treasury profit avenue due to rising interest rates, we are confident of coming out clean with a sustainable business model with your support.

Acknowledgements

I take this opportunity to express my sincere thanks to our valued shareholders for their continued support and for their confidence reposed on the Bank.

On behalf of my colleagues on the Board, I place on record our gratitude for the support and guidance extended by the Ministry of Finance and Ministry of Corporate Affairs, Government of India, Reserve Bank of India, SEBI, and other regulatory authorities.

I would also like to place on record my appreciation to all our employees for their dedication and support.

My grateful thanks are also due to our other stakeholders in the society.

Thank you for your support.