

CITY UNION BANK LIMITED



ANNUAL REPORT 2005 - 2006

BOARD OF DIRECTORS



S. BALASUBRAMANIAN, M.Sc., CAIIB., PGDFM.
Chairman



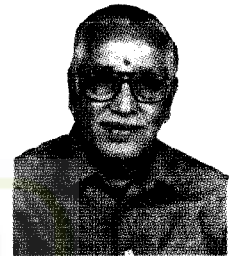
S. M. MISKEEN
B.Com., F.C.A.



R.G. CHANDRAMOGAN



VR. ARUNACHALAM
B.Sc., F.C.A.



Dr. S. KASINATHAN
Ph.D., D.Sc.



K.V. RAMAN
B.Sc., F.C.A., A.I.C.W.A.



M. MAHALINGAM
B.A., B.Com., F.C.A.



S. RAJARATNAM
M.A., LL.M., F.I.C.W.A.



T.S. VENKATASUBBAN
B.Com., F.C.A.



V. JAYARAMAN, I.R.S. (Retd.)



P. VAIDYANATHAN
B.Com., F.C.A., A.I.C.W.A., A.C.S.



K.S. RAMAN
M.Sc.



S. BERNARD
B.Com., F.C.A.



Contents	Page No.
Notice	4
Directors' Report	7
Corporate Governance Report	12
Management Discussion & Analysis Report	18
Auditor's Report	21
Balance Sheet	22
Profit & Loss Account	23
Schedules to Accounts	24
Balance Sheet Abstract	39
Cash Flow Statement	40
List of Branches	41
Performance Highlights	42
Decade of Progress	43

Statutory Central Auditors

Abarna & Ananthan
Chartered Accountants
Bangalore

Share Transfer Agents

Integrated Enterprises (India) Ltd.,
II Floor, " Kences Towers",
No.1, Ramakrishna Street,
Off-North Usman Road, T.Nagar,
Chennai - 600 017.
Phone : 28140801 to 28140803
Fax : 28142479
Website : www.iepindia.com

Registered Office

149, T.S.R. (Big) Street, Kumbakonam - 612 001.
Phone : 0435 - 2432322, 2431622, 2431412 Fax : 0435 - 2431746
Telegram : "SERVICE" E-mail : cubco_kmb@sancharnet.in
Website : http://www.cityunionbank.com



SENIOR EXECUTIVES



S. SRIDHARAN
General Manager



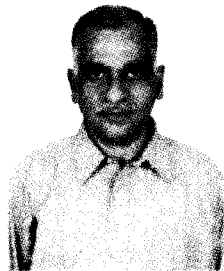
G.K. BALASUBRAMANIAN
General Manager



N. KAMAKODI
General Manager



S. BALASUBRAMANIAN
Deputy General Manager



S. SRIDHARAN
Deputy General Manager



R. MOHAN
Deputy General Manager



R. KUPPUSWAMY
Deputy General Manager



S. SEKAR
Deputy General Manager



S. SUNDAR
Deputy General Manager



T.S. RAMANUJAM
Deputy General Manager



V. SUNDAR
Deputy General Manager



J. MOHAN
Deputy General Manager

ASSISTANT GENERAL MANAGERS

K. GANESAN
S. RAMAN
J. KUMAR
S. RAJAGOPALAN

J. RAJAGOPALAN
R.K. VISWANATHAN
D. KANNAPPAN

R. CHANDRASEKARAN
N. VIJAYANARASIMHAN
S. VISWESAN

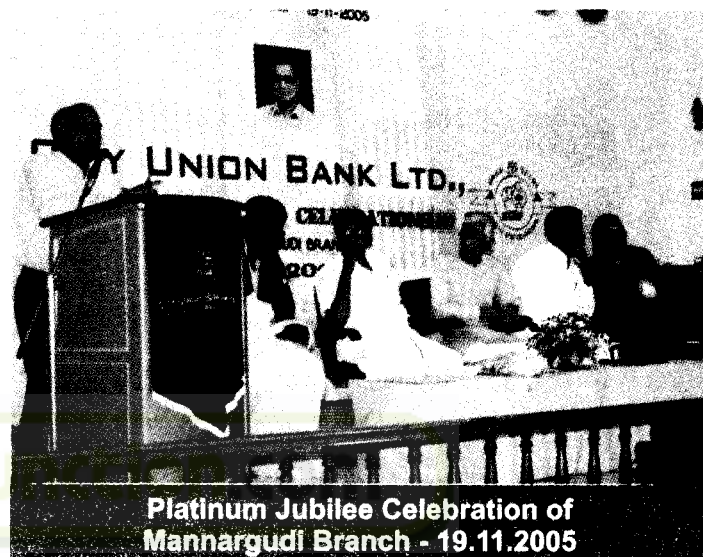
B. SEKAR
B. RAJAGOPAL
S. BALASUBRAMANIAN

COMPANY SECRETARY

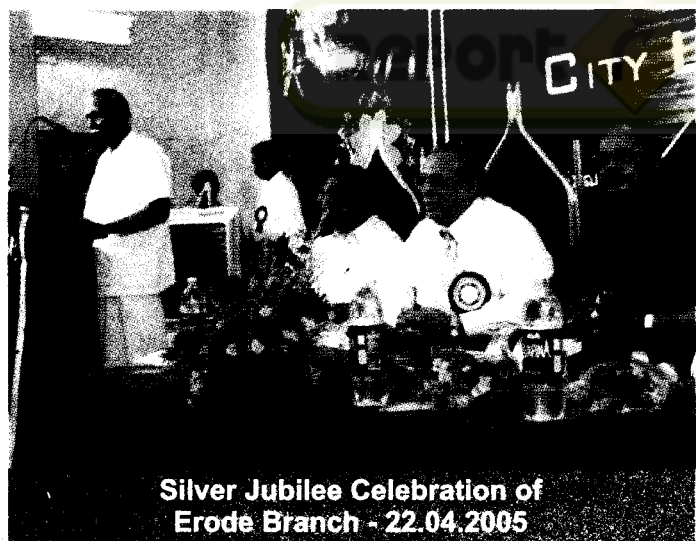
V. RAMESH



**Launching of New product " Multiple Benefit Plan"
and Inauguration of Depository
Participant Service through NSDL. - 28.12.2005**



**Platinum Jubilee Celebration of
Mannargudi Branch - 19.11.2005**



**Silver Jubilee Celebration of
Erode Branch - 22.04.2005**



**Exchange of CAA with ED of ECGC
(Shri. S. Prabakaran)**



NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of the members of CITY UNION BANK LTD., will be held on Friday, the 18th August, 2006 at 10.00 a.m. at "Raya Mahal", 45-46, Gandhi Adigal Salai, Kumbakonam-612001 to transact the following business.

AS ORDINARY BUSINESS:

1. To receive, consider and adopt the audited Balance Sheet as at and Profit and Loss Account for the year ended 31st March, 2006 and the Directors' Report and the Auditor's Report thereon.
2. To declare dividend for the year 2005-2006.
3. To appoint a Director in the place of Shri.VR. Arunachalam, who retires by rotation and being eligible, seeks re-election
4. To appoint a Director in the place of Dr. S. Kasinathan, who retires by rotation and being eligible, seeks re-election.
5. To appoint a Director in the place of Shri. M. Mahalingam, who retires by rotation and being eligible, seeks re-election
6. To appoint a Director in the place of Shri.P. Vaidyanathan, who retires by rotation and being eligible, seeks re-election
7. To appoint Auditors for the year 2006-2007 and fix their remuneration.

The retiring Auditors, M/s. Abarna & Ananthan, Chartered Accountants, Bangalore are eligible for reappointment. The bank is awaiting the approval of Reserve Bank of India.

AS SPECIAL BUSINESS:

8. To consider and, if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution.

"Resolved that in terms of Section 228 of the Companies Act, 1956, the Board of Directors be and is hereby authorised,

- i) To make application to the Central Government for exemption from Branch Audit.
- ii) To arrange for audit of such branches as are not exempted and
- iii) To appoint the Branch Auditors for audit of such of the branches for the year 2006-07 in consultation with Bank's Statutory Central Auditors and fix their remuneration."

9. To Consider and, if thought fit, to pass with or without modification the following resolution as an Ordinary Resolution.

"Resolved that Shri. S. Bernard be and is hereby appointed as a Director of the Bank, liable to retire by rotation."

By Order of the Board
For CITY UNION BANK LIMITED

Kumbakonam
12th July, 2006

V. RAMESH
Company Secretary

NOTES:

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his behalf only on a poll and such proxy need not be a member. The proxy forms, duly stamped and completed should reach the Registered Office of the Bank atleast 48 hours before the time fixed for the commencement of the meeting.
2. The Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956 relating to item nos. 8 & 9 is annexed hereto.
3. The dividend on the Equity Shares as recommended by the Board will be paid on the approval of the members of the bank to the eligible Equity Shareholders whose names appear in the Bank's Register of Members as on 18th August, 2006 and to the eligible beneficial owners whose names appear in the list provided by the Depositories, National Securities Depository Limited and Central Depository Services (India) Limited as on 8th August, 2006.
4. The Register of Members and Share Transfer Books will remain closed from 09.08.2006 to 18.08.2006 (both days inclusive).
5. **Bank account details**

The Shareholders of the Company holding shares in physical form are hereby informed that it is mandatory to incorporate the bank account particulars of the shareholders in the dividend warrant. The shareholders who have not furnished the bank account details are requested to inform the Company's Registrars and Share Transfer Agents their respective bank account no. with full name of the bank and branch, nature of the account, which would enable the Registrars and Share Transfer Agents to print the Bank Mandate particulars on the dividend warrants. These details may be sent to the Company's Registrars and Share Transfer Agents so as to reach them by 8th August, 2006.

Shareholders holding shares in electronic form should note that the bank particulars furnished by them to their Depository Participant will be used while printing the dividend warrant. Hence, the shareholders who have not furnished the bank account details are requested to contact their Depository Participant for updating the particulars.

6. Members are requested to notify changes, if any, in their addresses immediately to our Share Transfer Agents, Integrated Enterprises (India) Limited, Kences Towers, Second Floor, No.1, Ramakrishna Street, Off-North Usman Road, T. Nagar, Chennai - 600 017 giving full addresses in block letters with PINCODE.
7. Members are requested to quote the folio of the Register of Members/Client ID & DPID number in all their correspondences.
8. Members are requested to bring with them the enclosed attendance slip and hand it over duly signed by them at the entrance of the Meeting Hall.
9. Shareholders who happen to hold shares in identical orders of names in different folios of the Register of Members are requested to write to the Bank, enclosing their share certificates, to enable the Bank to consolidate their holdings.
10. The Bank had already transferred Unclaimed dividend for the financial year 1994-95 to the General Revenue Account of the Central Government as required by the Companies Unpaid Dividend (Transfer to the General Revenue Account of the Central Government) Rules, 1978. Those members who have not so far claimed or collected their dividend may claim their dividend from the Registrar of Companies, Shastri Bhavan, II Floor, 26, Haddows Road, Chennai - 600 006.

Similarly, the Bank had already transferred Unclaimed Dividend for the financial years 1995-96, 1996-97 and 1997-98 to the Investor Education & Protection Fund established by the Central Government, in terms of Section 205C of the Companies Act, 1956, and the members/beneficial owners cannot make any claim for the dividend.



The dividend amounts which have remained unclaimed for a period of seven years, will be transferred to "Investor Education and Protection Fund" in terms of Section 205C of the Companies Act, 1956 and members/beneficial owners cannot make any claim for the dividend once amounts in the unclaimed dividend account are transferred to such Fund. **Accordingly, the amount of Dividend Warrants issued to the members in 1999 (pertaining to the year 1998-99), which has remained unclaimed will be transferred to "Investor Education and Protection Fund" established by the Central Government and members/beneficial owners cannot make any claim for the dividend.**

Members who have not yet encashed the amount of Dividend Warrants issued to them in 2000, 2001, 2002, 2003, 2004 and 2005 (pertaining to the years 1999-00, 2000-01, 2001-02, 2002-03, 2003-04 and 2004-05) are requested to send the same to the Registered Office for revalidation and encashment at any of our branches.

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956.

Item No. 8

The passing of this resolution is necessary to meet the requirement of Section 228 of the Companies Act, 1956, in terms of which the accounts of every branch of the bank is required to be audited either by the Bank's Auditors or by a person qualified for appointment as Auditor under Section 226 of the said Act. With regard to those branches of the Bank which are not audited either by the Bank's Auditors or by persons qualified to act as Auditors, the Bank has made satisfactory arrangement for their inspection by responsible and competent officers of the Bank.

In view of this, it is proposed to apply to the Central Government for exemption of such branches from the audit of accounts for the year ending 31st March, 2007 and in the event of such exemption not being granted, to empower the Board of Directors to make necessary arrangement in respect of the audit of such branches of the Bank.

None of the Directors is interested in the resolution.

Item No.9

The Board, in its meeting held on 01.07.2006, co-opted Shri. S. Bernard as an Additional Director of the Bank. As per Section 260 of the Companies Act, 1956, he will hold office upto the date of the ensuing Annual General Meeting. Notice under Section 257 of the Companies Act, 1956 has been received from a member of the Bank along with the prescribed deposit for appointment of the co-opted Director as a Director of the Bank.

Shri. S. Bernard, B.Com, FCA, is a practising Chartered Accountant. He is having wide experience in Accountancy. The Board considers it desirable that the Bank should continue to avail itself of the services of the above said co-opted Director.

None of the Directors of the Bank except the co-opted Director is interested in the resolution.

By Order of the Board
for CITY UNION BANK LTD

Kumbakonam
12th July, 2006

V. RAMESH
Company Secretary

DIRECTORS' REPORT FOR THE YEAR 2005-2006

Your directors have immense pleasure in presenting their report on the financial results of the Bank along with audited Balance Sheet as on 31st March, 2006 and Profit & Loss Account for the year ended 31st March, 2006.

ECONOMY AND BANKING SCENARIO

The Indian economy exhibited a strong performance during 2005-06, led by sustained growth in the industry and the services sectors. According to the advance estimates of the Central Statistical Organisation (CSO), real GDP growth accelerated from 7.50% in 2004-05 to 8.10% in 2005-06.

The annual inflation rate, on an average basis, eased to 4.50% during 2005-06 from 6.40% in the previous year. Fiscal and monetary measures undertaken since mid-2004 to reduce the impact of imported price pressures on domestic inflation and to stabilise inflationary expectations were successful in containing inflation towards the desired trajectory during 2005-06.

The yield on government securities increased considerably with the yield on the benchmark 10-year Govt. securities increasing by 87 basis points from 6.65% to 7.52% in FY 2006. The weighted average call money rates had ranged between 4.50 % and 5.90%.

On the forex front, the rising trend continued and India's foreign exchange reserves were US \$ 151.6 billion as on March 31, 2006, higher by US \$ 10.1 billion over end-March 2005, despite an outgo of US \$ 7.1 billion on account of redemption of India Millennium Deposits (IMDs). During 2005-06, India's exports continued to maintain the momentum of high growth for the fourth year in succession in an environment of favourable global demand conditions and growing competitiveness among the domestic industrial sector.

The Indian software and services continued to perform well. Monetary and liquidity conditions remained largely comfortable during 2005-06. The International crude oil prices reached a record high and remained at elevated levels. Non-fuel commodity prices were led by higher metal prices which reached record/multi-year highs. Gold prices recorded sharp increases during 2005-06. The International gold prices have risen sharply since mid-2005 and domestic gold prices remained firm in line with the International trends.

The stock markets witnessed bullish conditions during 2005-06 with the benchmark indices touching all time high levels, driven mainly by support from the FIIs on the back of strong macroeconomic fundamentals of the Indian economy, congenial investment climate, sound business outlook and robust corporate earnings. India's balance of payments position remained comfortable during 2005-06, despite record high international crude oil prices.

The scheduled commercial banks' time deposits grew at 16.10 % for the FY 2005-06 as compared to 14.60 % for the FY 2004-05. Credit growth remained strong for the second successive year registering a growth of 30.80 % for the FY 2005-06 on top of 28.80 % growth during the previous year 2004-05.

As for globalization in the context of banking, Basel II recommendations are being implemented from this year. This is expected to increase the capital efficiency and to pave the way for optimum utilisation of capital thereby ensuring higher return on equity and consequently an enhancement in the shareholders value.

Many challenges await today for a modern bank in the financial scenario replete with uncertainty and volatility. The system needs to be equipped with requisite technology, consistent performance, prudential supervisory framework on par with international best practices.



PERFORMANCE OF YOUR BANK

The Performance Highlights for the financial year in the key financial areas are as under :

(Rs. in Crore)

Particulars	2005-06	2004-05
Deposits	3518	3095
Advances	2550	2013
Investments	1057	1102
Total Income	371	324
Operating Profit	109	82
Net Profit	56	46

Your Bank crossed yet another milestone in aggregate business by reaching Rs.6000 crore mark during the Financial Year 2005-06. Your bank has maintained sustained growth level and performed creditably in respect of profitability.

The Bank achieved an operating profit of Rs.109.15 crore against Rs.81.67 crore recorded in the previous year. The Net Interest Income rose from Rs.110.83 crore in FY 2004-05 to Rs.139.78 crore in the FY 2005-06, thereby registering a growth of 26.13%

DEPOSITS

During the year, deposits have increased to Rs. 3518 Cr as on 31-03-2006 from Rs. 3095 Cr as on 31-03-2005 recording a growth rate of 13.65%. The cost of deposits fell to 5.75% from 6.08 %.

ADVANCES

The net Advances have increased from Rs.2013 Cr as on 31-03-2005 to Rs.2550 Cr as on 31-03-2006 resulting in an impressive growth rate of 26.66 %. The yield on advances stood at 10.85 %. Gross non-performing assets accounted for 4.32 % of gross advances. The priority sector advances and export credit reached a level of 40 % and 5.98 % of Bank's net credit respectively.

NON PERFORMING ASSETS

Your Bank has remained very focused on containing the quantum of non-performing assets by exercising effective credit monitoring and intensifying the efforts for recovery of impaired assets. As a result of sustained efforts the level of Gross Non-Performing Assets have been brought down to 4.32% from 6.30% and the Net Non-Performing Assets have been reduced to 1.95% from 3.37%.

INVESTMENTS/TREASURY OPERATIONS

During year under review gross investments have decreased to Rs.1057 Cr from Rs.1102 Cr. The Yield on investments worked out to 7.59 %. On account of upward movement of interest rate the secondary market for Government securities remained subdued almost throughout the year thereby resulting in a considerable shrinkage in trading volume. The same trend is also reflected in our domestic operations.

RISK MANAGEMENT

Risk is an integral part of the banking business and your bank aims to achieve an appropriate trade off between risk and return and thereby maximises shareholders value. In your bank, a high level Risk Management Committee comprising of Directors oversee the functioning of three key bodies - Asset Liability Management Committee, Credit Risk Management Department and Task Force for Risk Based Internal Audit which act in coordination with the large branches of the bank to mitigate the overall risk faced by the bank. Your bank is on the verge of finalising the road map for BASEL II implementation and has initiated the necessary steps to streamline the systems, for smooth transition to BASEL II framework within the time frame as stipulated by the regulator.