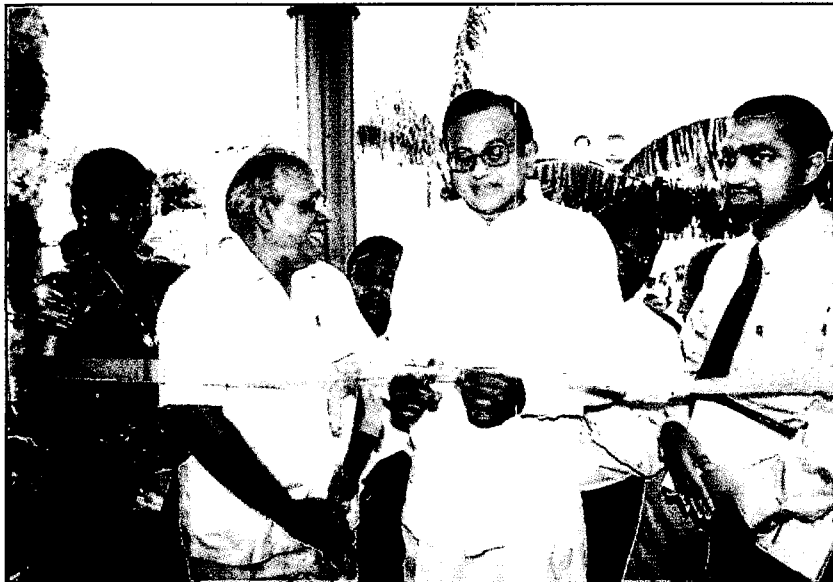


# ANNUAL REPORT 2007 - 2008



## CITY UNION BANK LIMITED



Inauguration of Sivaganga Branch  
by Shri. P. Chidambaram,  
Hon'ble Union Minister of Finance on 28.07.2007



Inauguration of Nashik Branch  
by Shri. V.M. Deosthalee, Chief Financial Officer,  
Larsen & Toubro Limited, Mumbai on 26.09.2007



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### Statutory Central Auditors

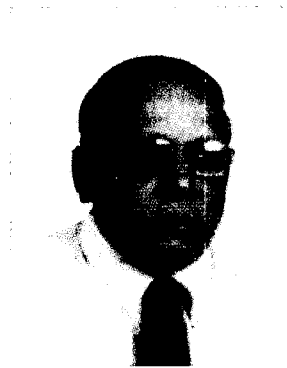
Abarna & Ananthan  
Chartered Accountants  
Bangalore

### 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

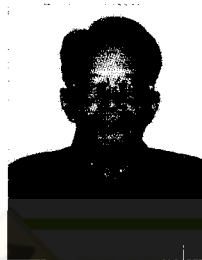
149, T.S.R. (Big) Street, Kumbakonam - 612 001.  
Phone : 0435 - 2432322, 2431622, 2431412 Fax : 0435 - 2431746  
Telegram : "SERVICE" E-mail : co@cityunionbank.com  
Website : http://www.cityunionbank.com

**BOARD OF DIRECTORS**

**S. BALASUBRAMANIAN, M.Sc., CAIB., PGDFM.**  
Chairman



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



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



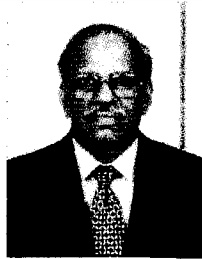
**P. VAIDYANATHAN**  
B.Com., F.C.A., A.I.C.W.A., A.C.S.



**K.S. RAMAN**  
M.Sc.



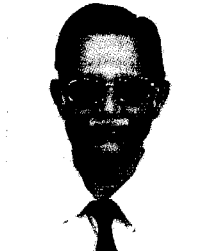
**S. BERNARD**  
B.Com., F.C.A.



**N. KANTHA KUMAR**  
B.Com., L.L.B., CAIB



**N. SANKARAN**  
B.E., M.I.E.



**M. NAGANATHAN**  
B.Com., F.C.A.

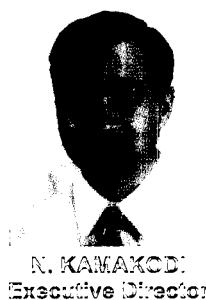


**R.G. CHANDRAMOGAN**

## SENIOR EXECUTIVES



G.K. BALASUBRAMANIAN  
Senior General Manager



N. KAMAKODI  
Executive Director



S. SRIDHARAN  
Senior General Manager



R. MOHAN  
General Manager



S. SUNDAR  
General Manager



S. SEKAR  
General Manager



S. SRIDHARAN  
General Manager

## DEPUTY GENERAL MANAGERS



T.S. RAMANUJAM



V. SUNDAR



J. RAJAGOPALAN



J. KUMAR



N. VIJAYANARASHIMAN



B. SEKAR



N. PARAMESWARIYER

## ASSISTANT GENERAL MANAGERS

R. CHANDRASEKARAN  
S. RAMAN  
R.K. VISWANATHAN  
B. RAJAGOPALAN

S. BALASUBRAMANIAN  
D. KANNAPPAN  
S. RAJAGOPALAN  
K. KAMARAJAN

RAMESH SUBRAMANIAN  
K. DEVARAYAN  
R. KRISHNAN  
N. SANKARARAMAN

V.S. SANKARANARAYAN  
K. PANCHANABHAN

## ASSISTANT GENERAL MANAGER &amp; COMPANY SECRETARY

V. RAMESH

## DIRECTORS' REPORT FOR THE YEAR 2007-2008

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, 2008 and Profit & Loss Account for the year ended 31st March, 2008.

### ECONOMY AND BANKING SCENARIO

The Indian Economy witnessed slackening of momentum in 2007-08 while Global economic scene has been characterised by rising inflation, slower growth and tightening monetary conditions. The Central Statistical Organisation (CSO) in its advance estimates released in February 2008 placed our GDP growth at 8.7 %. The real GDP growth in Agriculture and Allied activities, Industry and Services sector was 2.6%, 8.6% and 10.6% in 2007-08 respectively as against 3.8%, 10.6% and 11.2% in 2006-07 respectively.

Scheduled Commercial Banks' demand and time deposits grew at 20.2% and 22.6% respectively in 2007-08 compared to 17.9% and 25.1% respectively in 2006-07. Further, the banking sector's lendable resources were augmented substantially by capital raised through public issues and innovative capital instruments during 2007-08. Bank credit to the commercial sector increased by 20.3 % in 2007-08 compared to 25.8% in 2006-07.

The weighted average yield on Government Securities increased by 23 basis points from 7.89% in 2006-07 to 8.12 % in 2007-08. The weighted average call money rates ranged between 7.37% and 8.33%. Interest rates in various segments decreased during the year. The Scheduled Commercial Banks increased the deposit rates for long term deposits and reduced the interest rates for short term deposits. The lending rates of the Scheduled Commercial Banks increased during FY 2007-08 due to higher cost of funds. The Call money rates edged down during the year in tandem with movements in policy rates. Interest rates in the CBLO and market repo segments moved in sympathy with call rates and declined.

In the fixed income segment, Government bond yields in the major economies, which had firmed up in the first half of 2007, have softened thereafter since demand for government debt has increased as investors shifted their funds to the treasuries acknowledging the likelihood that the economy is already in a recession and seeking safety. Since the beginning of the turbulence in August 2007, central banks of advanced economies have responded with both conventional and unconventional measures to ease liquidity stress in financial markets and solvency issues among large financial institutions.

During the fourth quarter of 2007-08, financial markets were impacted by unusual swings and high volatility in foreign exchange flows as well as in cash balances of the Government with the Reserve Bank with consequent shifts in liquidity conditions. These variations were smoothened by active liquidity management through a combination of instruments such as the MSS, the LAF and the CRR so that volatility in overnight interest rates was broadly contained within the informal LAF corridor.

The accelerated process of globalisation of financial markets and integration of Indian financial sector with rest of the world has enhanced both opportunities and challenges.

With strong fundamentals and resilience of banks, the banking sector continues to occupy a strategic position in the Indian Economy with more than 70% of funds routed through banks. Bank credit as a proportion to GDP is over 50%. Extensive support by banks to SMEs, agriculture and other productive segments and inclusion of finance in growth strategy makes banks to play an important role in India's growth and development. Further, banks in India have shown remarkable progress in operational efficiency, profitability and productivity due to the well sequenced and calibrated moves of RBI. Banks in India are poised to shift to the next frontier of growth with significant global scale of operations.





## PERFORMANCE OF YOUR BANK

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

(Rs. in Crs)

Particulars	2007-08	2006-07
Deposits	6425	4699
Advances	4537	3329
Investments	1718	1307

Your Bank crossed another flag post of Rs.11,000 crore mark in total business during the Financial Year 2007-08. Your Bank continues to perform creditably to maintain its growth level above the industry benchmarks.

The Bank achieved an operating profit of Rs.181.30 crs as against Rs.131.48 crs recorded in the previous year. The net profit increased by 41.67% from Rs 71.81 crs to Rs 101.73 crs. The Net Interest Income rose from Rs.167.50 crs to Rs. 204.97 crs thereby registering a growth of 22.37%. The return on average assets was higher at 1.60% when compared to 1.57% last year.

### DEPOSITS

During the year, deposits have increased to Rs. 6425 crs as on 31-03-2008 from Rs. 4699 crs as on 31-03-2007 recording a growth rate of 36.73%. The cost of deposits increased to 7.23% from 5.95%.

### ADVANCES

The Advances have increased from Rs.3329 crs as on 31-03-2007 to Rs.4537 crs as on 31-03-2008 translating into an impressive growth rate of 36.29 %. The yield on advances increased from 11.32% to 12.82%. The priority sector advances aggregated to 45.80% of Bank's adjusted net credit.

### NON PERFORMING ASSETS

Your Bank has given greater thrust on minimizing the quantum of non-performing assets and as a result of persistent efforts on recovery, the level of Gross Non-Performing Assets has been brought down to 1.81% from 2.58% and the Net Non-Performing Assets have been reduced to 0.98% from 1.09%. The Bank is taking continuous efforts to reduce the level of non-performing assets.

### INVESTMENTS/TREASURY OPERATIONS

During year under review gross investments have increased from Rs.1313 crs to Rs.1728 crs to maintain reserve requirements on the back of higher resources mobilised. Yield on investments worked out to 7.70%. On account of upward movement in interest rate with no softening anticipated in the near future, the bank has trodden cautiously in the security trading operations. The movements in interest rates vastly enabled the bank to profitably leverage its integrated treasury operations.

### RISK MANAGEMENT

Risk management enables banks to identify, assess and manage their Credit, Market and Operational risks proactively. In light of the fast changing, dynamic and competitive Banking scenario, it is important that banks develop robust risk management policies and procedures which are very clear and responsive to these changes.

In your bank, a high level Risk Management Committee comprising of Directors oversees 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 risks faced by the bank. The bank is gearing itself to move over to Basel II requirements within the time frame set by Reserve Bank of India.



## FINANCIAL RESULTS

Your Directors are pleased to furnish below the financial results for the year ended 31st March 2008.

(Rs. in Lakhs)

Particulars	For the Current Year ended 31st March, 2008	For the Previous Year ended 31st March, 2007
Gross Income	68624.63	45413.60
Total Expenses	50494.52	32265.31
Profit before Provisions & Contingencies	18130.11	13148.29
Provisions & Contingencies	7957.04	5967.32
Net Profit	10173.07	7180.97

## APPROPRIATIONS:

The summary of appropriations is given hereunder:

(Rs. in Lakhs)

Particulars	For the Current Year ended 31st March, 2008	For the Previous Year ended 31st March, 2007
Net Profit	10173.07	7180.97
Balance of Profit brought forward	6.54	4.10
Amount available for appropriations	10179.61	7185.07
Transfer to Statutory Reserve	2601.09	2000.00
Capital Reserve	271.19	99.22
General Reserve	4948.07	3900.00
Proposed Dividend	1600.00	1008.00
Proposed Corporate Dividend Tax and Surcharge	271.92	171.31
Balance of profit carried forward	487.34	6.54

## NETWORTH & CRAR

Pursuant to the approval of our Shareholders at the Extra Ordinary General Meeting held on 02-06-2007 and in terms of the approval of the Reserve Bank of India (RBI) dated 26th September, 2007, the Board of Directors at its meeting held on 8th October, 2007 have allotted by way of preferential allotment, 68,00,000 equity shares of Rs.10/- each aggregating to Rs. 125,44,70,000 (including share premium of Rs.118,64,70,000) to the following entities.

No. of Equity Shares	Name of the Investors	Amount per Share (Inclusive of premium ) Rs. P.
3,00,000	Larsen & Toubro Limited	169.15
15,00,000	Life Insurance Corporation of India	169.15
15,00,000	Nederlandse Financierings Maatschappij Voor Ontwikkelingslande N.V. (FMO)	190.00
12,50,000	Ares Investments	190.00
12,50,000	Argonaut Ventures	190.00
10,00,000	Yatish Trading Company Private Limited	190.00

The Bank's paid-up capital stood at Rs.32.00 Crs as on 31st March, 2008. The Bank's networth increased from Rs.365.71 Cr as on 31-03-2007 to Rs.566.86 Cr as on 31-03-2008. The Capital Adequacy Ratio as at 31st March, 2008 stood at 12.48 % well above the stipulated norm.





## DIVIDEND

Your Directors are pleased to recommend a final dividend of 20% on the equity shares for the financial year 2007-2008 in addition to the 30% interim dividend paid during the financial year in pursuance of the constant philosophy of rewarding shareholders.

## BRANCH EXPANSION

During the year under review, your Bank has expanded its network by opening branches at Belgaum, Hubli, Mangalore, Davengere (Karnataka) Prodattur, Warrangal (Andhra Pradesh), Gandhi Nagar, Kumbakonam (Tamil Nadu), Tiruvannamalai (Tamil Nadu), Sivaganga (Tamil Nadu), Nandyal (Andhra Pradesh), Ramanathapuram (Tamil Nadu), Thane (Maharashtra), Ichalkaranji & Nagpur (Maharashtra), Anantapur (Andhra Pradesh), Dharmavaram (Andhra Pradesh), Rajkot (Gujarat), Nashik (Maharashtra) and Devakottai (Tamil Nadu). In the current financial year, three branches K.K.Nagar, Chennai, Maraimalai Nagar, and Uthukkuli have been opened so far taking our network to 185 branches. Your Bank has proposed to open more branches during the current financial year.

## EMPLOYEES STOCK OPTION SCHEME

The Shareholders of the Bank had approved the Employees Stock Option Scheme at the Extraordinary General Meeting held on 26.04.2008 and it will be implemented during the current financial year, subject to the regulatory norms.

## HUMAN RESOURCE DEVELOPMENT

Being alive to the need of attracting, motivating and retaining talented work force, your Bank has been recruiting qualified and skilled personnel in different cadres and continues to focus on imparting training to its employees to sharpen their functional and behavioural skills. As on 31st March, 2008, your Bank has 2171 employees comprising of 28 executives, 605 officers, 1204 clerks and 334 sub-ordinate staff.

The information required under the provisions of Section 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended is not furnished since no employee employed throughout/part of the year, was in receipt of remuneration of Rs. 24,00,000/- or more per annum or Rs. 2,00,000/- or more per mensem, as the case may be.

## AUTOMATION

During the year under review, 24 more ATMs have been installed in various branches. Your Bank has plans to install more ATMs both onsite & off site at different centres. The integration of bank branches has led to enhanced customer service and has paved the way for enlarging the customer base.

## INTERNATIONAL BANKING

As at 31st March, 2008, your Bank's turnover in Foreign Exchange Business was Rs.1805.67 Crs thereby registering an increase of 31.05 % over the corresponding period last year. The non-resident deposits as on 31st March, 2008 stood at Rs. 129.38 Crs.

## BOARD OF DIRECTORS

Shri. S. Balasubramanian, Chairman and Chief Executive Officer, has been reappointed for a further period of one year from 31.01.2008 at its Board meeting held on 30th January, 2008.

Shri. M. Mahalingam and Shri S. Rajaratnam have submitted their resignation owing to personal reasons. The Board places on record their valuable services rendered / contribution made in the conduct of the affairs of the bank during their tenure as Directors of the Bank.

Shri. N. Sankaran and Shri M. Naganathan have been co-opted as Additional Directors in the meeting of the Board of Directors held on 22.02.2008 and Shri. R.G. Chandramogan has been co-opted as Additional Director in the meeting of the Board of Directors held on 30.07.2008 respectively pursuant to Sec.260 of the Companies Act. They will hold office upto the date of ensuing Annual General Meeting. Your Bank has received notices from some of the members pursuant to Section 257 of the Companies Act, 1956 signifying their intention to propose the candidature of Shri. N. Sankaran, Shri. M. Naganathan and Shri. R.G. Chandramogan as Directors.



Shri VR. Arunachalam, Dr. S Kasinathan and Shri K.V. Raman have vacated their offices on 25.02.2008 in terms of Sec. 10A(2A)(i) of the Banking Regulation Act, 1949. The Board places on record its sincere appreciation for the valuable services rendered by them during their tenure as Directors of the Bank.

Shri. P. Vaidyanathan, Shri. S. Bernard and Shri. N. Kantha Kumar will retire by rotation at the ensuing Annual General Meeting and are eligible for reappointment.

## AUDITORS

M/s. Abarna & Ananthan, Chartered Accountants, Statutory Central Auditors, retire at the conclusion of this Annual General Meeting and they, being eligible, offer themselves for re-appointment. The Bank has received a certificate from the Statutory Central Auditors to the effect that the re-appointment, if made, will be in accordance with the limits prescribed under Section 224(1B) of the Companies Act, 1956.

## CONSERVATION OF ENERGY, ABSORPTION OF TECHNOLOGY, FOREIGN EXCHANGE EARNINGS AND OUTGO

Your Bank, being a Banking Company and an authorised dealer in foreign exchange, has been taking all steps to improve forex earnings.

## CORPORATE GOVERNANCE

The Bank complies with the requirements of Clause 49 of the listing agreement entered into with Madras, National and Bombay Stock Exchanges where its shares are listed. The reports on Corporate Governance & Management Discussion and Analysis are attached.

## DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with Section 217(2AA) of the Companies Act, 1956,

- (i) the Directors of the Bank hereby state that in the preparation of the annual accounts for the financial year ended 31st March, 2008, the applicable Accounting Standards have been followed along with proper explanation relating to material departures.
- (ii) the Directors had selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 2007-08 and of the profit of the company for that period.
- (iii) the Directors had taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- (iv) the Directors had prepared the annual accounts for the financial year ended 31st March, 2008 on a going concern basis.

## ACKNOWLEDGEMENT

The Board expresses its sincere appreciation to all the shareholders, customers and well wishers of the Bank for their excellent co-operation and support extended to the Bank and looks forward to their continued patronage in the years to come.

The Board also takes on record its sincere appreciation and gratitude to RBI, NABARD, NHB, IDBI, SIDBI, EXIMBANK, ECGC, DICGC, SEBI, Stock Exchanges, Depositories, the Share Transfer Agents, Life Insurance Corporation of India, National Insurance Company Limited, M/s. Weizmann Forex Limited, Tata Consultancy Services, CCIL, CIBIL, Correspondent Banks and various Government Agencies for their patronage and support.

The Board also places on record the significant contribution made by the employees at all levels and conveys its appreciation for their dedication, devotion to duty and their exemplary involvement in all the developmental activities.

**FOR AND ON BEHALF OF THE BOARD**

**Kumbakonam**  
30<sup>th</sup> July, 2008

**S. Balasubramanian**  
Chairman