Wrapper-FRONT

Opening of currency chest at Kumbakonam on 06-07-2009
by Shri. K.R. Ananda, Regional Director,
Reserve Bank of India, Chennai.

Launching of CUB Excel & CUB Apoorva -
Insurance linked Deposit Schemes

Contents

Contents	Page No.

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
E-mail : co@cityunionbank.com
www.cityunionbank.com

BOARD OF DIRECTORS

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

S. BALASUBRAMANIAN
M.Sc., CAIIB., PGDFM.
M.D & C.E.O

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

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

K.S. RAMAN
M.Sc.

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

N. KANTHA KUMAR
B.Com., L.L.B., CAIIB

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

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

R.G. CHANDRAMOGAN

T.K. RAMKUMAR, B.Com.,. B.L.,

SENIOR EXECUTIVES

N. KAMAKODI
Executive Director

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. VIJAYANARASIMHAN

B. SEKAR

ASSISTANT GENERAL MANAGERS

S. RAMAN
B. RAJAGOPAL
P. VISAKAN
R. RENGARAJAN
RAMESH SUBRAMANIAN
K. PANCHAPAKESAN

R.K. VISWANATHAN
D. KANNAPPAN
S. VENKATESAN
S. RAJAGOPALAN
V. SUGUNA
R. SUBRAMANIAN

V.S. SRINIVASAN
S. BALASUBRAMANIAN
V. KRISHNAMURTHY
R. SUBRAMANIAN
K. DEIVARAYAN

N. SANKARARAMAN
A. RAGOTHAMAN
M. MOUNISSAMY
K. MAHARAJAN
R. KRISHNAN

ASSISTANT GENERAL MANAGER & COMPANY SECRETARY

V. RAMESH

DIRECTORS' REPORT FOR THE YEAR 2008-2009

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, 2009 and Profit & Loss Account for the year ended 31st March, 2009.

ECONOMY AND BANKING SCENARIO

The Indian economy which was on a robust growth path up to 2007-08 averaging at 8.9% witnessed moderation in 2008-09. The growth deceleration was primarily driven by knock on effects of the global economic crisis. Industrial growth experienced a significant downturn and the loss of growth momentum was evident in all categories. i.e. basic, capital, intermediate and consumer goods. The services sector witnessed some moderation and the agriculture recorded a deceleration in growth.

Monetary growth witnessed moderation during 2008-09 reflecting deceleration in bank credit on the back of the slow down in economic activity emanating from the deepening of the international financial turmoil.

Aggregate deposits of all Scheduled Commercial Banks grew by Rs. 633,382 crores during the year to reach Rs.3830322 crores as at the last Friday of March, 2009 registering a growth rate of 19.80%. The Gross Advances registered a growth of 17.30% during the year and rose to Rs.2770012 crores. Food credit increased by 4.08% to Rs.46211 crores. Non-Food credit increased by 17.53% and reached the level of Rs.2723801 crores as at the end of March 2009. The investment portfolio of banks also moved up in tandem with resource growth, recording a growth of 19.97% (compared to the growth of 22.90% during last year) to reach Rs.1165746 crore.

Inflationary pressure in the economy strongly reflected on domestic interest rates during the first half of the year. The hikes in the CRR and the repo rates necessitated Public Sector Banks (PSBs) to increase their BPLR several times in the first half of the year. Call money rates also moved up mainly on account of higher pre-emption and credit off-take. However, the financial turmoil reported in advanced economies and its likely effect on Indian Economy necessitated initiation of a slew of monetary easing measures coupled with fiscal stimulus in the second half leading to improved liquidity and lowering of lending and Call rates.

Due to adverse international developments in conjunction with domestic factors, capital flow reversals took place which impacted the equity markets and foreign exchange markets. The Equity markets which remained subdued throughout 2008-09 began to pick up only in the last week of March, 2009 and staged further advances following announcement of the results to the general election. Monetary management during 2008-09 was dominated by the response to the spill over effects of global financial crisis and the need to address slackening of domestic demand conditions. RBI had to provide foreign exchange liquidity to meet the demand from importers and contain volatility in the foreign exchange market arising out of capital outflows by foreign institutional investors (FIIs) which had an overall contractionary effect on rupee liquidity. The Reserve Bank addressed this issue by providing rupee liquidity through expansion of net domestic assets (NDA) by (i) conventional open market operations; (ii) special 14-day term repo facility for banks; (iii) buy-back of securities held under the market stabilisation scheme; (iv) special market operations, including the purchase of oil bonds; (v) enlargement of export credit refinance window; (vi) special refinance facility for banks for addressing the liquidity concerns of NBFCs, mutual funds and housing finance companies; (vii) special refinance facility for financial institutions (SIDBI, NHB and EXIM Bank); and (viii) funding to NBFCs through a special purpose vehicle (SPV).

The Indian financial sector is healthy despite adverse development in global markets. The Indian banking system is well capitalised and well placed to manage any asset quality concerns. The financial sector in India is well placed to capitalise on growth opportunities in our domestic markets. The Real GDP growth was 6.9% during April 2008 to December, 2008 and according to the estimates released by Central Statistical Organisation(CSO) in February,2009, real GDP growth for 2008-09 was 7.10.

In our country, there are several immediate challenges facing the economy which would need to be addressed going forward. First, after five years of high growth, the Indian economy was headed for a moderation in the first half of 2008-09 and the growth slowdown was accentuated in the third quarter of 2008-09 on account of spill over effects of international developments. While the moderation in growth seems to have continued through the fourth quarter of 2008-09 also, it has been cushioned by quick and aggressive policy responses both by the Reserve Bank and the Government. Notwithstanding the contraction of global demand, growth prospects in India continue to remain favourable compared to most other countries.

RBI has been focusing on improving credit delivery, developing financial markets and promoting financial inclusion. Internationally, the financial intermediation process has been significantly affected by the ongoing financial crisis. Consequently, various international bodies and financial intermediaries have been contemplating changes in the financial regulatory architecture to restore normalcy in the functioning of global financial markets and strengthen financial stability. Domestically, although there has been some slowdown in credit growth, particularly in the second half of 2008-09, the banking system remains inherently sound and the financial markets including inter-bank markets are functioning normally. Nevertheless, the unfolding of the global financial crisis underscores the need for further strengthening of regulation and supervision even as our country remains outside the epicentre of the global crisis.

Since October 2008, interest rates have declined across the term structure in the money and government securities markets. The call rates have remained near or below the lower bound of the LAF corridor from November 2008. While the secondary market yield on the 10-year government security touched an intra-year low of 5.11 per cent on December 30, 2008, it then generally increased in the wake of the large market borrowing programme of the Government, reaching 7.08 per cent on March 30, 2009. The yield has subsequently declined on account of substantial easing of liquidity and reduction in inflation.

PERFORMANCE OF YOUR BANK

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

(Rs. in Crs)

Particulars	2008-09	2007-08
Deposits	8207	6425
Advances (Net)	5645	4537
Investments (Net)	2397	1718

Your Bank crossed another flag post of Rs.13,800 crores mark in total business during the Financial Year 2008-09. Your Bank continues to perform creditably to maintain its growth level above the industry benchmarks.

The Bank achieved an operating profit of Rs.226.72 crs against Rs.180.15 crs recorded in the previous year. The net profit increased by 20.06 % from Rs 101.73 crs to Rs 122.13 crs. The Net Interest Income rose from Rs.199.78 crs to Rs. 242.57 crs registering a growth of 21.42%. The return on average assets worked out at 1.50 % when compared to 1.60% last year.

DEPOSITS

During the year, deposits have increased to Rs. 8207 crs as on 31-03-2009 from Rs.6425 crs as on 31-03-2008 recording a growth rate of 27.74%. The cost of deposits increased to 7.98% from 7.23%.

ADVANCES

The Advances have increased from Rs.4537 crs as on 31-03-2008 to Rs.5645 crs as on 31-03-2009 translating into an impressive growth rate of 24.42%. The yield on advances increased from 12.82 % to 13.46%. The priority sector advances aggregated to 40.06 % 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 1.80% from 1.81% but the Net Non-Performing Assets increased to 1.08% from 0.98%. The Bank is taking continuous efforts to reduce the level of non-performing assets.

INVESTMENTS/TREASURY OPERATIONS

During the year under review gross investments have increased from Rs.1718 crs to Rs.2397 crs to maintain reserve requirements on the back of higher resources mobilised. Total yield on investments worked out to 8.58%. In the first half of FY 2008-09, the interest rates moved northwards on the back of high inflation and dear money policy pursued by RBI. However in the second half particularly in the third quarter yields have softened thanks to successive reduction in policy rates by RBI and abundant liquidity made available in the system. The foreign exchange market was characterised by steep fall of Indian Rupee against US dollar coupled with non availability of dollar liquidity in the third quarter. However the bank has seized all favourable movements in the yields/ currency to substantially improve the profits from 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. The global economic turmoil that emerged last year and still continues to affect recovery process has called for stringent risk management practices in place.

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 to mitigate the overall risks faced by the bank. As required by the Reserve Bank of India the bank has as on 31.03.2009, moved over to Basel II requirements under Standardised approach for credit and market risks and Basic Indicator method for operational risks. The Bank is fully preparing to move on to Advanced approaches in all three areas of risk management.

FINANCIAL RESULTS

Your Directors are pleased to furnish below the financial results for the year ended 31st March 2009.

(Rs. in Lakhs)

Particulars	For the Current Year ended 31st March, 2009	For the Previous Year ended 31st March, 2008
Gross Income	**92808.35**	68624.63
Total Expenses	**70136.20**	50609.55
Profit before Provisions & Contingencies	**22672.15**	18015.08
Provisions & Contingencies	**10458.66**	7842.01
Net Profit	**12213.49**	10173.07

APPROPRIATIONS:

The summary of appropriations is given hereunder:

(Rs. in Lakhs)

Particulars	For the Current Year ended 31st March, 2009	For the Previous Year ended 31st March, 2008
Net Profit	12213.49	10173.07
Balance of Profit brought forward	487.34	6.54
Amount available for appropriations	12700.83	10179.61
Transfer to Statutory Reserve	3125.00	2601.09
Capital Reserve	2135.92	271.19
Investment Reserve Account	131.25	0.00
Special Reserve under IT Act,1961	300.00	0.00
General Reserve	3700.00	4948.07
Proposed Dividend	2400.00	1600.00
Corporate Dividend Tax	407.88	271.92
Balance of profit carried forward	500.78	487.34

NETWORTH & CRAR

The Bank's paid-up capital stood at Rs.32.00 Crs as on 31st March, 2009. The Bank's net worth improved from Rs.566.86 Crs as on 31-03-2008 to Rs.660.92 Crs as on 31-03-2009. The Capital Adequacy Ratio as at 31st March, 2009 stood at 12.49 %(BASEL-I) and 12.69%(BASEL-II) well above the stipulated regulatory norms.

DIVIDEND

Your Directors are pleased to recommend a higher dividend of 75% on the equity shares for the financial year 2008-2009 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 the following centres, so far taking our network to 208 branches. Your Bank has proposal to open few more branches before the end of the current financial year.

Sl. No.	Name of the Branch	State	Date of Opening
1	K K NAGAR - CHENNAI	TAMIL NADU	13/06/2008
2	MARAIMALAI NAGAR	TAMIL NADU	13/06/2008
3	UTHUKULI	TAMIL NADU	13/06/2008
4	CHENGALPET	TAMIL NADU	04/09/2008
5	FAIR LANDS - SALEM	TAMIL NADU	04/09/2008
6	ELLAMPILLAI	TAMIL NADU	04/09/2008
7	NADUKKADAI	TAMIL NADU	04/09/2008
8	PALLIPALAYAM	TAMIL NADU	04/09/2008
9	R.S.PURAM - COIMBATORE	TAMIL NADU	04/09/2008
10	KELAMBAKKAM - CHENNAI	TAMIL NADU	20/10/2008
11	KOLKATTA - RASH BEHARI AVENUE	WEST BENGAL	20/10/2008
12	ANNA NAGAR - MADURAI	TAMIL NADU	20/10/2008
13	NACHIAR KOIL	TAMIL NADU	20/10/2008
14	PERAMBALUR	TAMIL NADU	20/10/2008
15	RAMANAGARA	KARNATAKA	20/10/2008

Sl. No.	Name of the Branch	State	Date of Opening
16	RAJAJI NAGAR - BANGALORE	KARNATAKA	24/11/2008
17	KOLLAM	KERALA	24/11/2008
18	MATHURAPURI	TAMIL NADU	24/11/2008
19	SIRKAZHI	TAMIL NADU	24/11/2008
20	BANASHANKARI - BANGALORE	KARNATAKA	21/01/2009
21	HINDUPUR	ANDHRA PRADESH	23/01/2009
22	THINDAL	TAMIL NADU	23/01/2009
23	DILSUKHNAGAR - HYDERABAD	ANDHRA PRADESH	09/03/2009
24	KUKATPALLY	ANDHRA PRADESH	09/03/2009
25	JANAKPURI - NEW DELHI	NEW DELHI	22/03/2009
26	ALLAHABAD	UTTAR PRADESH	25/03/2009
27	THUVAKUDI	TAMIL NADU	25/03/2009
28	SAIBABA COLONY - COIMBATORE	TAMIL NADU	08/04/2009

EMPLOYEES STOCK OPTION SCHEME

The Shareholders of the Bank had approved the Employees Stock Options Scheme at the Extraordinary General Meeting held on 26.04.2008.The Bank has implemented the City Union Bank Employees Stock Option Scheme 2008(ESOS 2008) as per The Securities and Exchange Board of India(Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines 1999 during the current financial year. As per the Scheme a total of 5,00,00,000 stock options are available for grant to the eligible present and future employees of the Bank and a total of 2,02,50,000 options have been granted to the eligible employees. These Stock Options would vest in a graded manner i.e.15%, 15%, 15%, 25% and 30% between 07.12.2009 to 02.12.2016. The vested options are exercisable over a period of 5 years from the respective dates of vesting.

Statutory disclosures regarding ESOS under Clause 12 of the SEBI guidelines are provided in Annexure-I attached to this Report.

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, 2009, your Bank has 2452 employees comprising of 28 executives, 659 officers, 1405 clerks and 360 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 attached to this report as Annexure-II

AUTOMATION

During the year under review, 40 more ATMs have been installed in various branches taking the total to 121. 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, 2009, your Bank's turnover in Foreign Exchange Business was Rs. 2672.24 Crs thereby registering an increase of 48% over the corresponding period last year. The non-resident deposits as on 31st March, 2009 stood at Rs.137.42 Crs.

BOARD OF DIRECTORS

In response to the recommendations of Dr. Ganguly Committee with regard to splitting of post of Chairman and Chief Executive Officer in private sector banks, the Board of Directors at the meeting held on 24.09.2008, has resolved to split the post of Chairman and Chief Executive Officer of the Bank. Accordingly the Board has proposed the name of Shri P Vaidyanathan, Director of the Bank for the post of Part Time Non Executive Chairman and Shri S Balasubramanian, then Chairman of the Bank for the post of Managing Director and Chief Executive Officer of the Bank. Reserve Bank of India has since approved the proposals.