

ANNUAL REPORT 2010 - 2011



CUB
Trust and Excellence
SINCE 1904

CITY UNION BANK LIMITED

**Mr. S. Balasubramanian, Chairman
of City Union Bank Ltd., receiving the Award from
His Excellency Mr. Surjit Singh Barnala, Governor of Tamilnadu,
on 16-08-2010 at Raj Bhavan, Chennai.**



**Annual General Meeting
11-08-2010**



Contents

Page No.

Directors' Report	04
Corporate Governance Report	13
Management Discussion & Analysis Report	25
Auditor's Report	31
Balance Sheet	33
Profit & Loss Account	34
Schedules to Accounts	35
Cash Flow Statement	59
List of Branches	61
Decade of Progress	63
BASEL II Disclosures	64

Statutory Central Auditors

Jagannathan & Sarabeswaran
Chartered Accountants
Chennai

Share Transfer Agents

Karvy Computershare Private Limited
Plot No : 17-24 Vithal Rao Nagar,
Madhapur,
Hyderabad - 500 081
Phone: 040-44655000
Fax: 040-23420814
E-Mail: einward.ris@karvy.com

Registered Office

149, T.S.R. (Big) Street, Kumbakonam - 612 001.
Phone : 0435 - 2402322, 2401622, 2402412 Fax : 0435 - 2431746
www.cityunionbank.com

BOARD OF DIRECTORS

CHAIRMAN



P. VAIDYANATHAN
B.Com., F.C.A., A.I.C.W.A., A.C.S.
Till 26.04.2011



S. BALASUBRAMANIAN
M.Sc., CAIIB., PGDFM.
From 06.05.2011



M.D & C.E.O

Dr. N. KAMAKODI
B.Tech., MBA, CAIIB, Ph.D.
From 01.05.2011

DIRECTORS



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.
Till 26.04.2011



R.G. CHANDRAMOGAN



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



Justice S.R. SINGHARAVELU
B.Sc., B.L.



C.R. MURALIDHARAN
B.Sc., CAIIB



Prof. V. KAMAKOTI
B.E., M.S., Ph.D

SENIOR EXECUTIVES



R. MOHAN
B.Sc., MBA, CAIIB
Chief General Manager



S. SEKAR
B.Sc., JAIIB
Senior General Manager



S. SUNDAR
B.Com., ACA, CAIIB
Senior General Manager & CFO



T.S. RAMANUJAM
B.Com., JAIIB
General Manager



J. KUMAR
B.Sc.,
General Manager



R. VENKATASUBRAMANIAN
M.Com., CAIIB
General Manager

DEPUTY GENERAL MANAGERS



B. RAJAGOPAL



D. KANNAPPAN



R.K. VISWANATHAN



K. DEIVARAYAN



K.P. SRIDHAR



S. SWAMINATHAN



S. RAJAGOPALAN



S. BALASUBRAMANIAN



K. MAHARAJAN

ASSISTANT GENERAL MANAGERS

R. KRISHNAN
A. RAGOTHAMAN
R. RENGARAJAN
R. SAIRAM
R. RAJARAMAN
S. ARUMUGAM
S.T. CHANDRASEKARAN
S. RAJAM

V.S. SRINIVASAN
S. VENKATESAN
R. SUBRAMANIAN
B. SUNDARARAMAN
S. RAMESH
DB.VN SARATH CHANDRA KUMAR
P. THIAGARAJAN
V.V. KANNAN

N. SANKARARAMAN
V. KRISHNAMOORTHY
V. SUGUNA
R. SANKARAN
J. RAJASEKARAN
C. GANESAN
J. CHANDRASEKAR

K. PANCHAPAKESAN
M. MOUNISAMY
R. SUBRAMANIAN
S. MOHAN
R. LAKSHMINARAYANAN
P. VARADARAJAN
V. GANESAN

ASSISTANT GENERAL MANAGER & COMPANY SECRETARY
V. RAMESH

DIRECTORS' REPORT FOR THE YEAR 2010-2011

Your Directors take immense pleasure in presenting their report on the financial results of the Bank along with the Audited Balance Sheet as on 31st March, 2011 and Profit and Loss account for the year ended 31st March, 2011.

PERFORMANCE HIGHLIGHTS

The performance of the Bank in key financial areas during the year under review in comparison with those of the last year is as under:

(Rs. in Crore)

Particulars	2010-11	2009-10
Deposits	12914	10285
Advances	9255	6833
Investments	3616	3210
Net Interest Income	420	278
Operating Profit	361	256
Net Profit	215	153

You would be happy to observe that the performance on all areas has improved during the year and that the Bank has crossed yet another milestone of Rs.22000 crores of total business during the Financial Year 2010-11 as compared to Rs.17000 crores for the last year. The growth rate is healthy at 30%, as reflected by the enlarged Balance Sheet size of Rs.14592 crores.

DEPOSITS

The total deposits of the Bank stood impressively at Rs.12914 crores as on 31-03-2011 having grown by Rs.2629 crores or 26% over the last year. A welcome feature of the growth is the concurrent increase of the low cost deposits comprising Current Account & Savings Account (CASA) by 12% to Rs.2528 crores. The cost of total deposits was also contained at 6.94% during the year when compared to 7.73% that prevailed in the last year. Considering the beneficial saving in costs and other cross selling revenues arising from CASA, the Bank has initiated a series of measures to reach a significant share of CASA in total deposits in the next year.

ADVANCES

The robust GDP growth and the sustained drive of the Bank to tap business opportunities resulted in an impressive growth of 35% over the last year and the aggregate outstanding Gross Advance stood at Rs.9329 crores as on 31.03.2011. Despite the pressures of a stiff and competitive market as well as a lower interest rates scenario-particularly during the first half of the last year, the Bank could maintain the yield on advances at 12.47% though at a slightly lower level than the rate of 13.04% in the year before.

The quality of loan portfolio was always accorded prime focus, despite the fast growth witnessed in credit expansion. This coupled with the vigorous efforts to monitor the recovery of bad loans, yielded favourable results and the Bank maintained a healthy credit portfolio with a lower level of bad loans. As a result of relentless steps taken in recovery, the level of Gross Non-Performing Assets has been brought down to 1.21% from 1.36% of the Gross advances and the Net Non-Performing Assets got reduced to 0.52% from 0.58% to the Net advances. The Bank has also achieved a Provision Coverage Ratio of 76.69% well above the regulatory prescription of minimum 70%.

The Bank could comfortably cross the priority sector loan target of 40% by achieving 49%. Lending to agriculture sector constituted 17% of its adjusted net credit.

INVESTMENTS/TREASURY OPERATIONS

During the year under review, the gross investments increased from Rs.3218 crores to Rs.3625 crores. The investment in Government Bonds moved higher from Rs.2577.49 crores to Rs.2892.27 crores to maintain statutory reserve requirements on enlarged resources. While the yield on Govt. Bonds softened in the first half of the year, it moved up subsequently mainly driven by excess supply resulting from enhanced borrowings of the Government on one hand and on the other by the tight liquidity conditions witnessed in the second half of the year. The bearish market conditions were not conducive to earn higher trading profits either from fixed income securities or equity shares.

FOREX OPERATIONS

In comparison with the steep fall against US dollar witnessed last year, the Rupee staged some recovery in the year and the bank could convert the narrow currency movements both in spot and forwards into reasonable profits. For the year ended 31st March, 2011, your Bank's turnover in Foreign Exchange Business stood at Rs.2413.85 Cr.

FINANCIAL RESULTS

Your Directors are pleased to give hereunder the highlights of the working results for the year ended 31st March 2011 vis-a-vis those of 2009-10.

(Rs. in crore)

Particulars	For the Current Year ended 31st March, 2011	For the Previous Year ended 31st March, 2010
Total Income	1375.81	1100.11
Total Expenses	1014.78	844.32
Operating Profit before Provisions & Contingencies	361.03	255.79
Provisions & Contingencies	145.98	103.03
Net Profit	215.05	152.76

Despite a fall of 57 basis points in the yield on advances, the bank's total income was higher by 25% at Rs.1375.81 crores thanks to a good quantum of growth in business. The escalating cost emanating from rise in wages and other operating expenses led to a 20% increase in total expenditure which to some extent was mitigated by 79 basis points reduction in the interest cost on deposits.

The Net Interest Income being the contribution arising directly from efficiency of core banking operations recorded a smart growth of 51% over the last year to reach Rs.420.03 crores. The cost to income ratio of the Bank lowered to 37% from 39% last year on the back of higher net interest income.

The fee based income of the Bank increased by 44% from Rs 69.04 crores to Rs.99.22 crores. The Bank continues to maintain its top position in the Southern Zone in its bancassurance partnership with the Life Insurance Corporation of India.

The Bank achieved an operating profit of Rs.361.03 crores against Rs.255.79 crores recorded in the previous year translating into a rise of 41%. The net profit too increased by 41% from Rs.152.76 crores to Rs 215.05 crores. The return on average assets for the year was also higher at 1.67% when compared to 1.52% last year reflecting better utilization of assets.

APPROPRIATIONS:

The summary of net profit appropriations is as follows:

(Rs. in crore)

Particulars	For the Current Year ended 31st March, 2011	For the Previous Year ended 31st March, 2010
Net Profit	215.05	152.76
Balance of Profit brought forward	5.56	5.01
Amount available for appropriations	220.61	157.77
Transfers to		
- Statutory Reserve	56.00	39.00
- Capital Reserve	0.00	5.73
- General Reserve	98.40	67.00
- Special Reserve under IT Act, 1961	20.50	5.50
- Proposed Dividend	34.43	30.00
- Corporate Dividend Tax and Surcharge	5.72	4.98
- Balance of profit carried forward	5.56	5.56
Total	220.61	157.77

NETWORTH & CRAR

The Bank's paid-up Capital was Rs.40.50 Cr as on 31st March, 2011 and the Net worth improved from Rs.825.64 Cr as on 31.03.2010 to cross a significant milestone and reach Rs.1006.62 Cr as on 31.03.2011. The Capital Adequacy Ratio as at 31st March, 2011 stood at 12.75% as per BASEL-II norms well above the regulatory norms of 9%.

DIVIDEND

The Bank has been pursuing a constant philosophy of rewarding shareholders through rich dividend payments. At the same time it becomes absolutely imperative to retain a reasonable portion of profit in order to have a comfortable Capital Adequacy Ratio when higher volume of business is expected in the current growth phase of the Bank. Striking a proper balance between these two factors, your Directors have immense pleasure to recommend a dividend of 85% on the equity shares for the financial year 2010-2011 as against 75% paid out last year.

BRANCH EXPANSION

During the year under review, your Bank has expanded its network by opening new branches at the various centres, thus taking our network to 246 branches as on 31.03.2011. During the current year 24 branches have been opened so far and 38 more new branches are proposed to be opened before the end of 2011.

FINANCIAL INCLUSION PROGRAMME

Financial inclusion programme is a Government of India's Mission to provide banking services in the un-banked regions of the country. Towards this mission, RBI directed banks to provide banking services to 73000 villages having more than 2000 population by March 2012 and simultaneously to cover villages having 1000 plus population.

As for 42 villages allotted to our bank in Tamil Nadu, we have completed coverage of 22 villages by March 2011 in the first phase and efforts are on to cover the remaining villages by December 2011 well before the deadline of March 2012. The Scheme has been successfully implemented in our Bank with technology support from Tata Consultancy Services and the NGOs, who act as BCs.

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 to grant upto 5,00,00,000 stock options to the eligible employees both present and future. Of this, 2,02,50,000 options were granted to 1275 eligible employees at an exercise price of Rs.13 per share on 06.12.2008. Out of the above, 50,31,003 shares were exercised by the employees during this year.

Further during the FY 2010-11, the bank had granted 3,46,000 options at Rs.32/- per option on 26.05.2010 and 28,00,000 options at Rs.47/- per option on 05.10.2010.

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

HUMAN RESOURCE DEVELOPMENT

The human resource agenda of the Bank aims at employees empowerment and orienting them towards the realization of the Bank's vision. During the year, some of the key HR issues that were in focus related to learning & skill development, management of performance, ensuring a good working environment in the organization. The employee engagement initiatives focused on providing opportunities to staff to meet their aspirations through internal job postings and periodic job rotations. The more competitive compensation structure would help in streamlining the performance linked rewards and incentives thus sending a clear message of meritocracy.

Creation of a work force with a pool of best talent is a challenging task and more so maintaining the standard over a period of time. In tune with the future expansion, your bank is constantly upgrading and revisiting its manpower planning policy. In this endeavor we have recruited personnel taking into account the new business needs. The new recruits were given orientation programme which not only aimed at imparting knowledge to them but ensured their harmonious integration into the organization.

The bank has also built a good training infrastructure which seeks to upgrade the operational efficiency (functional/behavioral skill levels) across all grades through a combination of both in house and external programmes.

As on 31st March, 2011, your Bank has 2836 employees comprising of 38 executives, 847 officers, 1544 clerks and 407 sub-ordinate staff.

AUTOMATION

As one of the key plans for business growth and customer acquisition, the bank continued to enlarge its distribution network. Widening geographical reach is critical for extending service delivery and for tapping growth opportunities in newer markets, especially in the areas of low cost CASA deposits, lending to borrowers in the retail segment, agriculture and cross selling of financial related products. The distribution network now covers 246 branches as on 31st March 2011. Of these 119 branches are in semi-urban and rural areas and 127 branches are in Metropolitan and Urban areas covering a total of 13 states in India. To enhance reach of customers and to ensure availability of banking services to customers at all times, the bank has been aggressively pursuing a policy of installing more off-site ATMs. As on 31.03.2011, the ATM network of bank is 231 of which, 183 are Onsite while the balance of 47 are Offsite ATMs. The Bank is determined to install more number of ATMs during the current financial year for operational convenience of the customer and to ensure availability of alternative channels for delivery of products.

BOARD OF DIRECTORS

Shri. S. Balasubramanian has demitted his office of Managing Director & CEO of the Bank on 30.04.2011. Reserve Bank of India, on the recommendation of the Board of Directors conveyed its approval for the appointment of Shri. S. Balasubramanian as the Non Executive Part-time Chairman of the Bank for a period of three years effective from the date of assuming his office. He has assumed office of Non Executive Part-time Chairman of the Bank on 06.05.2011.

Further Reserve Bank of India, on the recommendation of the Board of Directors conveyed its approval for the appointment of Dr. N. Kamakodi as Managing Director and Chief Executive Officer of the Bank for a period of three years effective from 01.05.2011. He has assumed office of Managing Director and Chief Executive Officer of the Bank on 01.05.2011.

Prof. V. Kamakoti has been co-opted as additional director at the meeting of the Board of Directors held on 27.04.2011 pursuant to section 260 of the Companies Act, 1956. Your Bank has received notice from a member pursuant to section 257 of the Companies Act, 1956 signifying his intention to propose the candidature of Prof. V. Kamakoti as Director.

Shri. P. Vaidyanathan demitted his office of Non Executive Chairman of the Bank on 26.04.2011 and also tendered his resignation from the directorship of the Bank.

Shri. V. Jayaraman & Shri. M. Naganathan and Shri. N. Sankaran has tendered their resignation from the directorship of the Bank on 03.09.2010 and 26.04.2011 respectively on attaining the age ceiling in terms of Ganguly Committee recommendation.

The Board wishes to place on record its deep sense of appreciation for their invaluable and immeasurable contribution to the growth and development of the Bank during their association with the Bank.

Justice S.R. Singaravelu, Shri. C.R. Muralidharan and Shri. R.G. Chandramogan, directors retiring by rotation at the ensuing Annual General Meeting are eligible and offer themselves for re-appointment.

AUDITORS

M/s. Jagannathan & Sarabeswaran, Chartered Accountants, Chennai, the present 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. The Board of Directors place on record their appreciation of the professional services rendered by M/s. Jagannathan & Sarabeswaran as the Statutory Auditors of the Bank.

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

All efforts are being made to reduce energy consumption to the maximum extent possible.

Being a Banking Company, the required technology is deployed keeping in view the nature of activities.

Your Bank, being a Banking company and an Authorised Dealer in foreign exchange, has been taking all steps to improve forex earnings by active consideration of need based credit limits of exporters and extending all facilities and services to NRIs and remitters of foreign exchange to our country. The bank has operationalised number of arrangements for remittances from abroad with Exchange Houses and Banks.

CORPORATE GOVERNANCE

The Bank is committed to achieving the highest standards of corporate governance. The corporate governance practices followed by the Bank are enclosed as an annexure to this report.

DIRECTORS' RESPONSIBILITY STATEMENT

In accordance with Section 217(2AA) of the Companies Act, 1956, the Board of Directors hereby declares and confirms that :-

- (i) The applicable accounting standards have been followed in the preparation of the annual accounts and proper explanations have been furnished, relating to material departures.