

ANNUAL REPORT 2011 - 2012



CUB
Trust and Excellence
SINCE 1904

CITY UNION BANK LIMITED

CROSSING MILESTONE IN BRANCH EXPANSION



Opening of 300th Branch & 500th ATM by Nonagenarians from CUB family
Shri. R. Ramabadra Iyengar and Shri. C. Govindan Chettiar

Contents

Page No.

Directors' Report	04
Corporate Governance Report	12
Management Discussion & Analysis Report	26
Auditor's Report	34
Balance Sheet	36
Profit & Loss Account	37
Schedules to Accounts	38
Cash Flow Statement	62
List of Branches	64
Decade of Progress	66
BASEL II Disclosures	67

Statutory Central Auditors

Jagannathan & Sarabeswaran
Chartered Accountants
Chennai

Share Transfer Agents

Karvy Computershare Private Limited
Plot No : 17-24 Vittal 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



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

M.D & C.E.O



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

DIRECTORS



K.S. RAMAN
M.Sc.



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



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



R.G. CHANDRAMOGAN



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



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



C.R. MURALIDHARAN
B.Sc., CAIIB



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

SENIOR EXECUTIVES



R. MOHAN
Chief General Manager



S. SEKAR
Senior General Manager CFO & Senior General Manager



S. SUNDAR



T.S. RAMANUJAM
General Manager



J. KUMAR
General Manager



R. VENKATASUBRAMANIAN
General Manager

DEPUTY GENERAL MANAGERS



R.K. VISWANATHAN



S. BALASUBRAMANIAN



S. RAJAGOPALAN



K. MAHARAJAN



S. SWAMINATHAN



K.P. SRIDHAR



R. SAIRAM

ASSISTANT GENERAL MANAGERS

R. KRISHNAN
S. VENKATESAN
R. SUBRAMANIAN
S. MOHAN
R. LAKSHMINARAYANAN
P. VARADARAJAN
V. GANESAN
K.R.S. VARADHAN

V.S. SRINIVASAN
V. KRISHNAMOORTHY
V. SUGUNA
R. RAJARAMAN
S. ARUMUGAM
S.T. CHANDRASEKARAN
S. RAJAM
S. RAJA

K. PANCHAPAKESAN
M. MOUNISAMY
R. SUBRAMANIAN
S. RAMESH
D.B.V.N. SARATH CHANDRA KUMAR
P. THIAGARAJAN
V.V. KANNAN
P. RAVI

A. RAGOTHAMAN
R. RENGARAJAN
R. SANKARAN
J. RAJASEKARAN
C. GANESAN
J. CHANDRASEKAR
V.S.S. KRISHNA PRASAD

ASSISTANT GENERAL MANAGER & COMPANY SECRETARY
V. RAMESH

DIRECTORS' REPORT FOR THE YEAR 2011-2012

Your Directors take great pleasure in presenting their report and the audited financial statements for the year ended March 31, 2012

Financial Results : 2011-12

(₹ in crore)			
Particulars	2011-2012	2010-2011	Growth
Deposits	16341	12914	26.53%
Advances (Net)	12137	9255	31.14%
Investments (Net)	4586	3616	26.83%
Total Assets / Liabilities	18351	14592	25.76%
Net Interest Income	500	420	19.05%
Operating profit	427	361	18.28%
Net Profit	280	215	30.23%

It is gratifying to report that the Bank's high growth pattern was sustained in succession for the year ended 2011-2012 also. The net profit increased to ₹ 280 crore from ₹ 215 crore in the previous year registering a growth of 30.23% during the financial year 2011-12.

DEPOSITS

The total deposits of the Bank increased by ₹ 3,427 crore to reach ₹ 16,341 crore as on 31-03-2012 which is 27% higher than the previous year. The low cost Current Accounts & Savings Bank (CASA) deposits increased by 18% to ₹ 2,972 crore on account of sustained efforts and measures initiated by the bank. The year witnessed an increasing interest rate scenario in which our cost of deposits too rose higher to 8.11% when compared to 6.94% prevailed in the previous year.

ADVANCES

The advances portfolio of the Bank increased by 31% from ₹ 9,329 crore to ₹ 12,222 crore. Corresponding with the increase in the cost of deposits, the Bank could enhance the yield on advances by 1.09% to 13.56% from 12.47%.

The prime focus of the bank remained towards growth in advances without compromising on the quality. The strict monitoring of advances portfolio coupled towards with early identification of potential slippages and aggressive recovery of bad loans helped the bank achieve a remarkable improvement in its quality of advances portfolio by bringing down the Gross NPA by 20 basis points to 1.01% from 1.21%. The percentage of Net NPA at 0.44% and the provision coverage ratio of 76.81% at the end of March, 2012 may be regarded as very good performance by the bank.

The Bank's priority sector advances stood at 47% and its agricultural finance reached 17% of the adjusted net bank credit.

TREASURY OPERATIONS

Domestic Treasury

The gross investments increased from ₹ 3,625 crore at the end of last year to ₹ 4,594 crore. Out of these, the investments in Government Bonds alone amounted to ₹ 3,853 crore to maintain statutory reserve requirements

on enlarged resources. The bond market was bearish during most part of the year with steady rise in market interest rates offering limited opportunities to trade and earn profits. The Yield to Maturity (YTM) on the 10 year Government of India bond stood higher at 8.57% as on 31.03.2012 as against 7.98% as on 31.03.2011. The equity market also reflected similar sentiments. Despite such difficult trading conditions, the treasury desk handled the trading functions efficiently and earned a profit of ₹ 7.77 crore, which is 17.55% higher over the previous year.

Forex Treasury

During the year there were two way movements of appreciation and depreciation for the rupee against major currencies. The rupee opened at 44.53 against US dollar to touch a high/low of 43.85/54.30 during the year and closed at 50.87 to a US dollar on. The currency market was volatile for most part of the year. The forex treasury made full use of the two way movements and market volatility in its proprietary trading deals and the profit from forex treasury operations touched ₹15.22 crore registering a steep growth of 44% compared to the previous year.

FINANCIAL RESULTS

A snap shot of the working results for the current year and previous year is appended below :-

(₹ in crore)

Particulars	For the Current Year ended 31st March, 2012	For the Previous Year ended 31st March, 2011
Total Income	1904	1376
Total Expenses	1477	1015
Operating Profit	427	361
Provisions & Contingencies	147	146
Net Profit	280	215

The higher yield on advances coupled with a growth in advances and investments has resulted in bank's total income rising by 38% to ₹ 1,904 crore. Similarly the total expenses increased to ₹ 1,477 crore on higher deposit interest and other operating expenses.

The expansion in the balance sheet size and improved efficiency of core banking operations culminated in the Net Interest Income (NII) attaining a mile stone of ₹ 500 crore, a significant mile stone for the Bank translating into a growth of 19% over the previous year.

The non interest income of the Bank increased by 32% from ₹ 157 crore to ₹ 207 crore. 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 ₹ 427 crore against ₹ 361 crore recorded in the previous year recording a growth of 18%. The net profit too increased by 30% from ₹ 215 crore to ₹ 280 crore. The return on average assets for the year was also higher at 1.71% when compared to 1.67% last year reflecting better utilization of assets.

APPROPRIATIONS:

The summary of net profit appropriations is as follows:

(₹ in crore)

Particulars	For the Current Year ended 31st March, 2012	For the Previous Year ended 31st March, 2011
Net Profit	280.25	215.05
Balance of Profit brought forward	5.56	5.56
Amount available for appropriations	285.81	220.61
Transfers to		
- Statutory Reserve	71.00	56.00
- Capital Reserve	0.00	0.00
- General Reserve	140.00	98.40
- Investment Reserve	0.73	0.00
- Special Reserve under IT Act, 1961	20.00	20.50
- Proposed Dividend	40.82	34.43
- Corporate Dividend Tax and Surcharge	6.66	5.72
- Balance of profit carried forward	6.60	5.56
Total	285.81	220.61

NETWORTH & CRAR

The Bank's paid-up capital was ₹ 40.82 crore as on 31st March, 2012 and the Net worth improved from ₹ 1,006.62 crore as on 31st March, 2011 to ₹ 1,243.09 crore as on 31st March, 2012. During the year the bank allotted 31,81,646 shares to employees who have exercised their options under the Employees' Stock Option Scheme, 2008. The Capital Adequacy Ratio as at 31st March, 2012 stood at 12.57% as per BASEL-II norms well above the regulatory norm of 9%.

DIVIDEND

The Bank has been pursuing a constant philosophy of rewarding shareholders through regular and higher dividend payments. The diluted earning per share (EPS) for 2011-2012 has risen to ₹ 6.82 from ₹ 5.30 last year. In view of the overall good performance of the Bank and with the objective of rewarding shareholders with higher cash dividends while retaining profits to maintain a healthy Capital Adequacy Ratio to support future growth, the Board of Directors has recommended a higher dividend of 100% i.e. ₹ 1.00 per equity share compared to ₹ 0.85 per equity share paid last year. This dividend shall be subject to tax on dividend to be paid by the Bank.

BRANCH EXPANSION

As one of the key planks 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. This year the Bank has added 54 branches to its network by opening new branches at various centers and the distribution network now covers 300 branches as on 31st March 2012. Of these 149 branches are in semi-urban and rural areas and 151 branches are in Metropolitan and Urban areas covering a total of 15 states in India.

FINANCIAL INCLUSION PROGRAMME

Your Bank has complied with RBI direction of financial inclusion of covering all the 42 villages having population of over 2000 by introducing ICT (Information, Communication & Technology) based services within the stipulated time frame.

Your Bank has also covered 26 villages having population over 1000 and below 2000 by introducing ICT based services during the financial year 2011-12.

During the financial year ended 31.03.2012, 19189 "no frills" accounts were opened and 8120 biometric smart cards were issued to the beneficiaries. SB linked overdraft facility has also been permitted to all such account holders.

EMPLOYEES STOCK OPTION SCHEME

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

HUMAN RESOURCE DEVELOPMENT

The bank aims to create and develop human capital to realize its vision of nurturing a mutually beneficial relationship with its employees. The bank's human resources policy is very flexible and aims to motivate the employees through training, rewards and performance linked bonus. As the bank is in the high growth path the opportunities for career growth prospects are very bright. HR objective during the year occupied centre stage by employee engagement and learning, effective leadership development, productivity enhancement and building communication platforms.

A strong work force with a pool of best talent is a dream of any organization. It is a challenging task for any organization to attain the dream and more so for the service industry like banking. Your bank is constantly upgrading and revisiting its human resources policy. Your bank has embarked on a massive pan India campus recruitment to suit its needs. The induction of freshers into system throws up challenges. The new recruits are given orientation programme for knowledge and soft skill development, followed by on job training to further their domain knowledge.

The bank has a full fledged training college with a good training infrastructure and experienced faculty supported by external specialists to impart and train employees at various levels. Employees are also deputed to external training centres for up-dating and up-grading their knowledge skills

As on 31st March, 2012, your Bank has 3347 employees comprising of 47 executives, 1006 officers, 1906 clerks and 388 sub-ordinate staff.

AUTOMATION

Technology is used to create better delivery systems for the old products and introduce new products to meet the demands of the customers. The bank has been consistently upgrading its technological platforms to offer services on par with the industry standards. 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 ATMs. As on 31.03.2012 the ATM network of bank is 500 of which, 234 are onsite while the balance of 266 are offsite ATMs. The bank has been offering a host of technology aided services like internet banking, mobile banking including on line funds transfer and fixed deposit operations.

BOARD OF DIRECTORS

Shri. P. Vaidyanathan demitted his office of Non Executive Chairman of the Bank on 26th April 2011 and also tendered his resignation from the directorship of the Bank. Shri. S. Balasubramanian took over as the Non-Executive Chairman of the Bank on 6th May 2011. Shri. S. Balasubramanian demitted office of MD & CEO on 30th April 2011 consequent to the expiry of his term of office. Dr. N. Kamakodi took over as MD & CEO on 1st May 2011. Prof. V. Kamakoti has been appointed as Director of the Bank on 27th April 2011. It may be noted that the above terms of appointment were already approved by the share holders in the AGM held on 27th August 2011.

Shri N. Sankaran has resigned as Director of the Bank on 26th April 2011.

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.

Shri. T K Ramkumar, Shri. S Bernard and Shri. N Kantha Kumar are the 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 places on record their appreciation of the professional services rendered by M/s. Jagannathan & Sarabeswaran as the Statutory Central Auditors of the Bank.

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

Considering the nature of the activities of the Bank the provision of Sec. 217 (1)(e) of the Companies Act 1956 relating to conservation of energy and technology observation do not apply to the Bank. However every effort is made to conserve energy. The Bank is constantly pursuing its goal of technological up gradation in a cost effective manner for delivering quality customer service and offer innovative products.

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 Sec. 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.
- (ii) Accounting policies have been selected, and applied consistently and reasonably, and prudent judgements and estimates have been made so as to give a true and fair view of the state of affairs of the Bank and of the Profit and Loss of the Bank for the financial year ended 31st March 2012.
- (iii) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies (Amendment) Act, 2000 for safeguarding the assets of the bank and for preventing and detecting fraud and other irregularities.
- (iv) The annual accounts have been prepared on a going concern basis.
- (v) The Bank has in place a system to ensure compliance of all laws applicable to the Bank.

ACKNOWLEDGEMENT

The Board of Directors places on record its sincere appreciation and gratitude to RBI, NABARD, SIDBI, ECGC, DICGC, SEBI, Stock Exchanges, Depositories, the Share Transfer Agents, Life Insurance Corporation of India, National Insurance Company Limited, Tata Consultancy Services, CCIL, CIBIL, Correspondent Banks, Exchange Houses, other Government and Regulatory Authorities for their continued support, guidance and co-operation.

The Board recognizes the support of the shareholders and sincerely thanks all its valued clients and customers for their continued support. The Board greatly appreciates all its employees for their strong work ethic, excellent performance, professionalism, team work, commitment and initiative which has enabled the Bank to achieve commendable progress during 2011-12 amidst stiff competition and challenges in the banking environment.

FOR AND ON BEHALF OF THE BOARD

Place : Chennai
Date : 22.06.2012

S. Balasubramanian
Chairman