

ANNUAL REPORT 2012 - 2013



CUB
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SINCE 1904

CITY UNION BANK LIMITED



Shri. S. Balasubramanian, Chairman receiving the "Best Bank" Award from Shri. Anand Sharma, Hon'ble Union Minister for Commerce & Industry for efficiency and profitability adjudged by "The Sunday Standard".



Shri. S. Balasubramanian, Chairman receiving the "Banking Excellence Award - 2012" adjudged by the State Forum of Banker's Clubs, Kerala, under Private Sector Banks' category.

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Statutory Central Auditors

Jagannathan & Sarabeswaran
Chartered Accountants
Chennai

Share Transfer Agents

Karvy Computershare Private Limited
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Madhapur,
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E-Mail: einward.ris@karvy.com

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BOARD OF DIRECTORS

CHAIRMAN



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

MD & CEO



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

DIRECTORS



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. SINGHARAVELU
B.Sc., B.L.



C.R. MURALIDHARAN
B.Sc., CAIIB



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



S. MAHALINGAM
B.Com., A.C.A.

SENIOR EXECUTIVES



R. MOHAN
Chief General Manager



S. SEKAR
Senior General Manager CFO & Senior General Manager



S. SUNDAR



J. KUMAR
General Manager



R. VENKATASUBRAMANIAN
General Manager

DEPUTY GENERAL MANAGER



S. BALASUBRAMANIAN



S. RAJAGOPALAN



K. MAHARAJAN



K.P. SRIDHAR



R. SAIRAM



V.S. SRINIVASAN



V. RAMESH



V. SUGUNA



DBVN. SARATH CHANDRA KUMAR



K.R.S. VARADHAN



R. KRISHNAN

ASSISTANT GENERAL MANAGER

S. VENKATESAN
S. MOHAN
R. LAKSHMINARAYANAN
P. VARADARAJAN
V. GANESAN
V. KRISHNAMOORTHY
R. RAJARAMAN
S. ARUMUGAM
S. T. CHANDRASEKARAN

S. RAJAM
S. RAJA
K. PANCHAPAKESAN
M. MOUNISAMY
R. SUBRAMANIAN
S. RAMESH
P. THIAGARAJAN
V. V. KANNAN
P. RAVI

A. RAGOTHAMAN
R. RENGARAJAN
J. RAJASEKARAN
C. GANESAN
J. CHANDRASEKAR
V. S. S. KRISHNA PRASAD
K. JAYARAMAN
V. GOPALAKRISHNAN
G. SANKARAN

J. RAMASWAMY
R. UMA
R. BALAJI
J. SRIDHARAN
T. ETHIRAJULU
R. SUBRAMANIAN
A. JAFFER ALI
P. RAJARAMAN
S. KRISHNAN
V. RAMAKRISHNAN

COMPANY SECRETARY & DEPUTY GENERAL MANAGER

V. RAMESH

DIRECTORS' REPORT FOR THE YEAR 2012-2013

Your Directors take great pleasure in presenting their report and the audited financial statements of your bank for the year ended March 31, 2013

Performance Highlights in key business areas :

(₹ in crore)

Particulars	2012-2013	2011-2012	Growth
Own Funds	1641	1243	32.02%
Deposits	20305	16341	24.26%
Advances (Net)	15246	12137	25.62%
Investments (Net)	5267	4586	14.85%
Total Assets / Liabilities	22977	18351	25.21%
Net Interest Income	624	500	24.80%
Operating profit	523	427	22.48%
Net Profit	322	280	15.00%

During the year the bank had crossed a new mile stone of ₹ 20,000 crore in deposits and ₹ 15,000 crore in advances. The pace of growth in the business achieved by the bank in the last few years has been maintained in the year under reporting also.

DEPOSITS

The total deposit increased by ₹ 3,964 crore to cross the 20,000 mark to end up at ₹ 20,305 crore which is higher by 24.26% over the last year. CASA, the low cost component of the deposit increased by 15%. In the year of rising interest rate scenario the bank was able to contain the cost of deposit to a marginally higher level at 8.44% compared to 8.11% in the previous year. Steps are being taken on an ongoing basis to ensure that there is steady growth in deposits with an eye on the cost factor also.

ADVANCES

The gross advances of the bank increased by 25.54% from ₹12,222 crore to ₹15,343 crore while the yield on advances fell marginally from 13.56% to 13.49%. The banking industry has been witnessing difficulty in lending as the growth of economy slowed down considerably to touch a record low of 5% in the decade.

Thus when the credit off-take was sluggish in the banking industry your bank has managed to achieve a growth of 25.54%. The gross NPA of the bank increased marginally from 1.01% to 1.13%. The net NPA was at 0.63% as against 0.44% in the previous year. The provision coverage ratio stood at 71% and is above the prescribed level of 70%. The priority sector advances stood at 46.93% as against the regulatory prescription of 40% and the sub-targets set for agriculture & weaker sections have also been met.

The bank has continued its policy of lending to retail segments to achieve a better return with minimum credit risk. The bank has also issued Inter Bank Participation Certificate of ₹ 85 crore to other banks for the first time from out of its surplus in priority sector and agricultural lending.

TREASURY OPERATIONS

Forex Treasury

The rupee which was at ₹ 50.68 against US dollar at the beginning of the year depreciated due to the twin effects of slower growth of the domestic economy and the signs of positive growth of the US economy. The rupee reached a

peak of ₹ 57.32 to an all time low but recouped later to reach the level of ₹ 54.30 at the end of the year still being 8% lower than which was at the beginning of the year. The two way movement facilitated active trading and the forex treasury took full advantage of the movements in its proprietary as well as in merchant trading to increase the profit to ₹ 18.37 crore which is 20.70% higher than as compared with last year.

Domestic Treasury

The gross investments increased from ₹ 4,594 crore as reported at the end of last year to ₹ 5,268 crore. Out of these, the investments in Government Bonds alone amounted to ₹ 4,564 crore which were made to maintain the statutory reserve requirements on enlarged resources. The G-Sec yields started declining gradually from December 2012 onwards. The Yield to Maturity (YTM) on the 10 year Government of India bond stood at 7.95% as on 31.03.2013 as against 8.57% a year ago. Stock market indices, Sensex and Nifty gained 8.20% and 7.30% respectively. During the year, the treasury department handled the trading/investment functions efficiently and earned a profit of ₹ 17.05 crore as against ₹ 7.77 crore in the previous year.

Operating results :

The highlights of operating results of your Bank for the current and previous financial year are at a glance as mentioned below:-

(₹ in crore)

Particulars	Current Year ended 31st March, 2013	Previous Year ended 31st March, 2012
Total Income	2462	1904
Total Expenses	1939	1477
Operating Profit	523	427
Provisions & Contingencies	201	147
Net Profit	322	280
Net Interest Income	624	500

The total income of the bank increased to ₹ 2,462 crore from ₹ 1,904 crore registering an increase of 29.31%. This increase was achieved on the back of higher advances and investments coupled with increase in other income. The total expenditure also increased by 31.29% due to higher cost of deposit and increase in other operational expenditure resulting from large expansion in the number of branches.

The operating profit increased by a healthy 22.48%. The Net Interest Income recorded an impressive growth of 24.80%. The non-interest income of the bank increased by 32.11% to reach ₹ 274 crore. After provisioning for NPAs and taxation the net profit grew by 15% from ₹ 280 crore to ₹ 322 crore.

APPROPRIATIONS:

The summary of net profit appropriations is as follows:

(₹ in crore)

Particulars	Current Year ended 31st March, 2013	Previous Year ended 31st March, 2012
Net Profit	322.02	280.25
Balance of Profit brought forward	6.60	5.56
Amount available for appropriations	328.62	285.81
Transfers to		
- Statutory Reserve	82.00	71.00
- Capital Reserve	1.90	0.00
- General Reserve	142.00	140.00
- Investment Reserve	0.34	0.73
- Special Reserve under IT Act, 1961	40.00	20.00
- Proposed Dividend	0.00	40.82
- Interim Dividend	47.45	0.00
- Corporate Dividend Tax and Surcharge	8.06	6.66
- Balance of profit carried forward	6.87	6.60
Total	328.62	285.81

OWNED FUNDS & CAPITAL ADEQUACY RATIO

Owned funds of the Bank has increased from ₹ 1,243.10 crore as on 31.03.2012 to ₹ 1,640.67 crore as on 31.03.2013 due to Issue of Shares under Rights basis and plough back of profit. The paid up capital of the bank increased to ₹ 47.44 crore from ₹ 40.82 crore as a result of the Rights Issue of 12,89,87,972 Equity Shares (partly paid) in the ratio of one share for every four shares held at a face value of ₹ 1 each at a price of ₹ 20 per share (including a premium of ₹ 19 per share) of which ₹ 10 was received as application money during the year and the balance of ₹ 10 is to be received in the next fiscal. During the year, the bank allotted 17,39,237 shares to employees who have exercised their options under the Employee's Stock Option Scheme, 2008.

The Capital Adequacy Ratio as at 31st March 2013 stood at 13.98 % as per BASEL - II norms well above the prescribed regulatory norm of 9%.

DIVIDEND

The bank continued its policy of rewarding the shareholders with high dividend payments by declaring an interim dividend @ 100% i.e ₹ 1 per equity share with a face value of ₹ 1 per share and ₹ 0.50 paise per partly paid equity share with a face value of ₹ 1 each on which ₹ 0.50 paise is paid up and the same was paid on 06.06.2013. The dividend is subject to payment of dividend tax. No final dividend is recommended by the Board in order to conserve capital for future growth and in view of the higher interim dividend declared and paid.

BRANCH EXPANSION

The bank has opened 75 more branches during the year to reach a total of 375 branches. In the last three years 153 new branches were added. The bank continued its focus on semi urban and rural areas which are the core business contributors to the bank by opening 80% of the new branches in these areas while not losing sight on metro and urban areas where 15 branches were opened. The policy of increased presence through more number of branches has resulted in continuous growth in business.

FINANCIAL INCLUSION

As informed in our last year report, your Bank has complied with RBI directive on financial inclusion by covering all the 42 villages having population of over 2000 by introducing ICT (Information, Communication & Technology) based services within the stipulated time.

Your Bank has also covered 58 villages out of 96 villages allotted having population of over 1000 and below 2000 by introducing ICT based services as on 31/03/2013 and the remaining 38 villages will be covered in the FY 2013-14.

During the financial year ended 31.03.2013, Basic Savings Bank Deposits Accounts numbering 54,197 were opened and 39,748 Biometric Smart Cards were issued to the beneficiaries. SB linked overdraft facility, micro insurance products, Electronic Benefit Fund Transfer (EBT) payments have been extended to such account holders.

EMPLOYEES STOCK OPTION SCHEME

Statutory disclosures regarding ESOS under Clause 12 of the SEBI guidelines are provided in Annexure - 1 attached to this report.

HUMAN RESOURCE DEVELOPMENT

Human resource occupies the centre stage in any organization and more so in a service industry like banking. The bank has been following a well defined accommodative and innovative HR policy. The innovative approach includes performance appraisal on an on going basis, identification of skill gap and imparting the required training and optimize the ability of the staff.

As on 31st March 2013, your Bank has 3785 employees comprising of 54 Executives, 1236 Officers, 2124 Clerks and 371 Subordinate staff.

The bank adopted the unique way of rewarding all the permanent employees on uniform basis by granting rights issue with consent of the share holders to increase the stake of employees in the bank and to make them proudly realize that the ownership rest with them also.

The bank has a regular training college which trains all cadres and the freshers. In addition employees are also deputed to other training colleges, seminars, and workshop conducted by reputed organization to sharpen their skills.

AUTOMATION

Technology plays a key role in banking industry today, Realising the importance of leveraging technology for improving customer service, upgradation is done constantly in tune with the requirements.

To satisfy the basic banking needs of customers on 24/7 basis, more number of ATMs are added with new features, we have with us such ATMs also to offer enhanced more banking services. From mere cash delivery machines the ATMs of the day are giving more value added services like money transfer, payment of bills etc. As on 31/03/2013 there were 788 ATMs compared to 500 ATMs as on 31/03/2012 an increase of 57.60% as compared to previous year.

As a part of the efforts to deliver the most convenient way of banking for its customers, the facilities like opening of fixed deposit for individual customer through net banking, availing loan on these deposit, facility for pre closing of deposit and a host of other facilities have been made available through net banking.

"Any Counter Any transaction" was introduced in 161 branches where all needs of customers" are met at a single point interaction. Xpress desks are provided in 50 branches in which customers can deposit cash, with draw cash and make funds transfer without waiting in queues. Kiosks have been introduced in 5 branches where customers can transfer funds within CUB branches, make RTGS/NEFT payments, obtain mini statements, make requests for cheque book, etc.

BOARD OF DIRECTORS

Shri. S. Mahalingam has been co-opted as additional director at the meeting of the Board of Directors held on 22/07/2013 pursuant to Sec. 260 of the Companies Act, 1956. Your bank has received a notice from a member pursuant to Sec. 257 of the Companies Act, 1956 signifying his intention to propose the candidature of Shri. S. Mahalingam as Director.

Shri. K. S. Raman retired from the Directorship of the Bank on 07/12/2012. The Board wishes to place on record its deep sense of appreciation for his invaluable contribution to the growth and development of the Bank during his association with the Bank.

Prof. V Kamakoti, Shri. S R Singharavelu & Shri. C R Muralidharan are the directors retiring by rotation at the ensuing Annual General Meeting and are eligible and offer themselves for re-appointment.

AUDITORS

In accordance with the policy of rotation and resting the present Statutory Central Auditor (SCA) M/s Jagannathan & Sarabeswaran, Chartered Accountants, Chennai, retires at the conclusion of this Annual General Meeting. It is proposed to appoint a new Statutory Central Auditor (SCA) fully complying with the eligibility norms issued by the Reserve Bank of India.

In this regard, your Bank has received a special notice from the members under Sec 225 of the Companies Act, 1956 to appoint M/s. P Chandrasekaran, Chartered Accountants, Bangalore as the Statutory Central Auditor of the Bank at the ensuing Annual General Meeting in place of the above retiring auditor.

STATUTORY DISCLOSURES

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 upgradation in a cost effective manner for delivering quality customer service and offer innovative products.

The Bank supports and encourages the Country's export efforts through its export financing operations.

As required under the provisions of Sec. 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975, as amended, your Directors report that during the fiscal 2012-13, none of the employees were in receipt of remuneration requiring disclosure.

It is hereby confirmed that the bank has proper systems in place to ensure compliance of all laws applicable to the Bank.

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 them consistently and reasonably, and prudent judgements and reasonable 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 & Loss of the Bank for the financial year ended 31st March 2013.
- 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 take this opportunity to express their deep and sincere gratitude to RBI, NABARD, NHB, IDBI, SIDBI, EXIM BANK, 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 records its deep sense of appreciation to the shareholders and all the customers in supporting the Bank in its endeavour to achieve a good progress during the year 2012-13 in a challenging environment that prevailed in the year.

The Board appreciates all its employees for their stellar performance with full commitment, strong work ethics, and professionalism, which have been making the Bank progress year after year and to reward the shareholders, stakeholders and the employees also.

FOR AND ON BEHALF OF THE BOARD

Place : Chennai
Date : 22.07.2013

S. Balasubramanian
Chairman