

OVER
73
YEARS OF
TOTAL BANKING

A winning performance



74th ANNUAL REPORT - 2001 - 2002

 **The South Indian Bank Ltd**
Regd. Office: Thrissur, Kerala.
A Bank For All Seasons

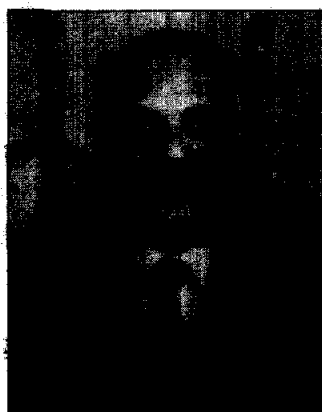


Chairman addressing the shareholders at the 73rd Annual General Meeting

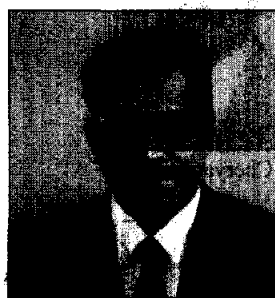


Chairman interacting with the shareholders at the Extra-Ordinary General Meeting

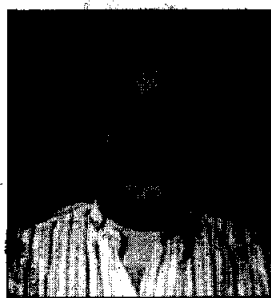
BOARD OF DIRECTORS



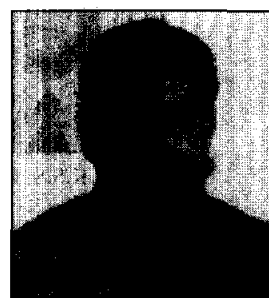
Mr. A. Sethumadhavan
(Chairman)



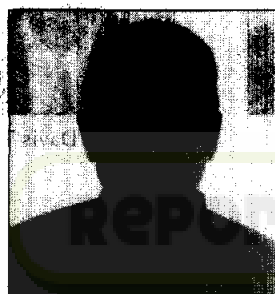
Mr. Jose Pottokaran



Mr. Thommy P. Chakola



Dr. C. Mathew John



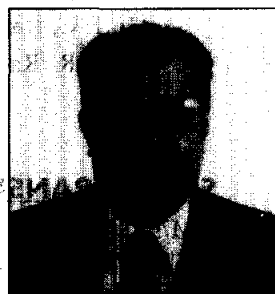
Mr. Paul Chalisery



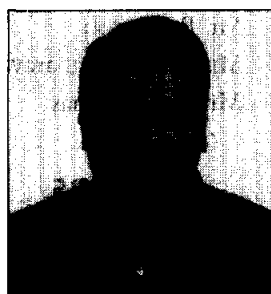
Mr. Babu Alapatt



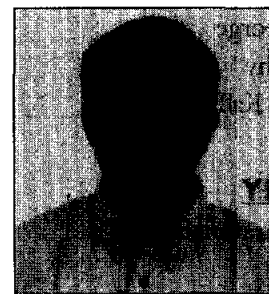
Mr. Mohan Alapatt



Mr. G.A. Shenai



Mr. P.M. Udhuppu



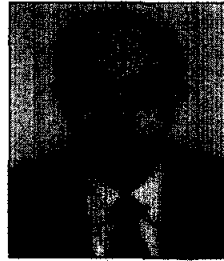
Dr. John Joseph



**The
South
Indian
Bank Ltd**

EXECUTIVES

GENERAL MANAGERS

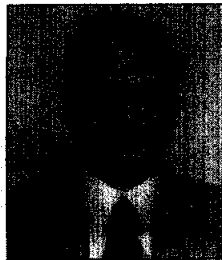


Mr. M. Valsan



Mr. V.P. Joseph

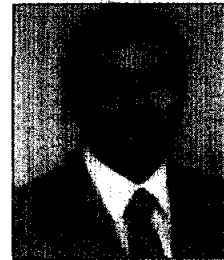
DEPUTY GENERAL MANAGERS



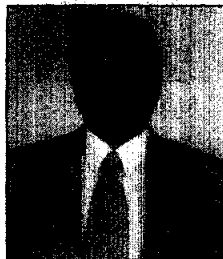
Mr. K.S.S. Rau



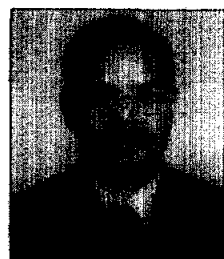
Mr. A.F. George



Mr. Cheryan Varkey



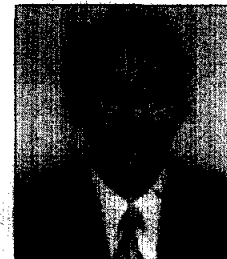
Mr. Alex Mathew



Mr. A.G. Varughese



Mr. T.M. Sunny



Mr. George Davis Thottan

ASST. GENERAL MANAGERS

Mr. R. Ayyaswamy
Mr. T. D. Devassia
Mr. N. V. Ignatius
Mr. K. S. George
Mr. P. J. Johnny
Mr. Anto C. Kalliath

Mr. K. S. Krishnan
Mr. Joy John Vaidya
Mr. Varghese John
Mr. P. J. Jacob
Mr. V. Ananthanarayanan
Mr. V. J. Thomas

Mr. Joseph George Kavalam
Mr. K. C. Francis
Mr. V. J. Baby
Mr. P. C. Jose
Mr. P. R. Radhakrishnan

SECRETARY

Mr. A. S. Narayanan

AUDITORS

M/s. Fraser & Ross.
Chartered Accountants,
No XL/7040, Chittoor Road,
Kochi - 682 035.

SHARE TRANSFER AGENTS

M/s. Tata Consultancy Services
Sonex Towers,
223, II Avenue, Anna Nagar,
Chennai - 600 040.



DIRECTORS' REPORT

The Board of Directors of the Bank have great pleasure in presenting to you the 74th Annual Report together with the audited Balance Sheet as at 31st March, 2002 and the Profit and Loss account for the financial year ended on that date.

ECONOMIC AND BANKING ENVIRONMENT

The world economy experienced one of the worst shocks in the aftermath of the terrorist attacks in the US in last September. World economic growth is estimated to slow down to 2.8% in 2002 after seven consecutive years of higher growth. Despite the hostile economic and security environment, the Indian economy has performed relatively well this year. The growth in real GDP in 2001-02 is expected to be 5.4%, as compared to the low growth of 4% in 2000-01. After irregular monsoons in the previous two years an agricultural recovery was enabled by a relatively well distributed monsoon this year. Consequent to the terrorist attacks in the US, export growth has suffered and industrial profitability has also been affected by the prevailing low commodity and product prices globally. According to the quick estimates released by the CSO, the country's industrial growth for the year 2001-02 plummeted to a nine year low of 2.7% as against 5% recorded during the previous year. Further, performance of certain service sectors like transport (other than railways), tourism, business and social services have been affected by slowdown in both domestic and external demand. Nevertheless, the basic fundamentals of the economy remain strong; inflation has fallen to a record low of 1.4%, foreign exchange reserves have crossed US\$ 50 billion and food stocks have risen to almost 60 million tonnes. Marginal reduction in petroleum prices in the country has provided some relief to the economy as a whole. The current account deficit is expected to be well within 1% of GDP. The fiscal deficit of the Central Government which was budgeted at 4.7% of GDP for 2001-02 was revised upward to 5.7%. For the year 2002-03, the fiscal deficit was placed at 5.3% of GDP. The annual growth in money supply (M3) was 14% as against 16.8% a year ago.

During 2001-02, non-food credit registered a lower growth of 12.8% as against an increase of 14.3% in the previous year reflecting deceleration in industrial production.

The growth in aggregate deposits of scheduled commercial banks at 14.3% was lower than that of 18.4% in the previous year during which deposits were augmented by India Millennium Deposit inflows. The interest rate remained soft throughout the year with a bias towards further softening of the rates.

The overall stance of monetary policy for 2002-03 as announced by Reserve Bank of India will be to provide adequate liquidity to meet credit growth and support investment demand in the economy, to continue the present stance on interest rates including preference for soft interest rates and to impart greater flexibility to interest rate structure. The RBI announced a series of measures like cut in Cash Reserve Ratio by 0.5% from 15th June 2002, lowering of risk weightage for home loans/mortgage-backed securities, reduction of the ceiling rate on foreign currency export credit, introduction of flexible rates for deposits, reduction of maximum spreads over Prime Lending Rate etc. Banks have also been asked to observe transparency in lending rates by announcing their minimum and maximum lending rates.

Consistent with the recommendations of Narasimham Committee II and with a view to moving closer to international

best practices it is proposed that w.e.f. 31.3.2005, an asset would be classified as doubtful if it remained in the sub-standard category for 12 months.

In order to build up adequate reserves to guard against any possible reversal of interest rate environment in future due to unexpected developments, RBI advised Banks in January 2002 to build up an Investment Fluctuation Reserve of a minimum 5% of the investment portfolio within a period of 5 years.

In order to preserve the integrity of the financial system and to link borrowings and lending by banks in the call/notice money market to the size of the balance sheet, it has been decided that lendings of scheduled commercial banks on a daily basis should not exceed 25% of their owned funds as at the end of March of the previous financial year. So also, borrowings in the call/notice money market, on a daily basis, should not exceed 100% of their owned funds or 2% of aggregate deposits as at the end of March of the previous financial year, whichever is higher.

PERFORMANCE HIGHLIGHTS OF THE BANK

	(Rs.in crores)		% of
<u>Key Parameters :</u>	<u>2001-02</u>	<u>2000-01</u>	<u>growth</u>
Deposits	5920	4669	26.8
Advances	3231	2468	30.9
TOTAL BUSINESS	9151	7137	28.2
Gross Profit	172.90	106.97	61.6
Net Profit	62.41	41.50	50.4
Net worth	274.60	218.52	
Capital Adequacy (%)	11.20	11.17	
EPS (in Rs.)	17.49	11.66	
Return on Average Assets (%)	1.07	0.89	
Book value per share (in Rs.)	76.70	61.04	
Net NPA as % of Net advances	6.64	7.13	
Return on Net Worth (%)	22.73	18.99	

FINANCIAL PERFORMANCE

The Profit & Loss Account shows a Gross Profit of Rs.177.32 crores before depreciation, taxes and provisions and a net profit of Rs.62.41 crores as per details given below:

	(Rs.in crores)
Profit before depreciation, taxes & provisions	177.32
Less Depreciation	4.42
	172.90
<u>Less:</u>	
Provision for NPA	51.74
Provision for Income-tax/Wealth Tax	50.85
Provision for standard assets	7.90
	110.49
Net profit	62.41
Brought forward from last year	1.14
Total	63.55



DIRECTORS' REPORT

APPROPRIATIONS

	Rs. in Crores
Transfer to Statutory Reserve	15.60
Transfer to Investment Fluctuation Reserve	18.16
Transfer to Capital Reserve	0.93
Transfer to General Reserve	19.75
Proposed dividend	8.93
Carried over to Balance Sheet	0.18
Total :	63.55

DIVIDEND

The Board of Directors have recommended a dividend of 25% per annum, same as last year.

DEPOSITS

The total deposits of the Bank recorded a growth of 26.79% during the year reaching a level of 5920 crores as on 31.3.2002 as against Rs.4669 crores as on 31.3.2001. The growth is well above the industry level average and the Bank's share among the All Scheduled Commercial Banks (ASCB), increased from 0.47 % to 0.53 %. Efforts are being made to increase the share of low cost deposits in our portfolio.

The Break-up of deposits as on 31.3.2002 is as under :

	Amount (Rs.in crores)	% to total deposits
Current Deposits	291.27	4.92
Savings Deposits	831.34	14.04
Term Deposits	4797.09	81.04
Total:	5919.70	100.00
Of which, NRI deposits	2189.11	36.98

ADVANCES

The total advances of the Bank stood at Rs.3231 crores as on 31.3.2002 as against Rs.2468 crores as on 31.3.2001, thereby achieving a growth of 30.92%, well above the industry level averages. Significantly the Bank's share among ASCB also went up from 0.47 % to 0.53% during the year. Priority Sector advances constituted 53.68% of the net bank credit as against the mandatory level of 40%. The share of various segments of priority sector is as follows :

	(Rs.in crores)
Agriculture & allied activities	115.60
S.S.I.	467.65
Other areas in the Priority Sector	335.32
Total	918.57

With a view to changing the business mix, spreading the risk and widening the client base, the bank has been endeavouring to enlarge its retail loan portfolio. Since the "Gold Rush" scheme introduced in the previous year was found to be quite popular among the retail trading community, it was extended to cover more branches. The share of the Bank's retail credit portfolio was around 32.48% and attempts are being made to enlarge the client base and improve further during the current fiscal.

INVESTMENTS

The total investments of the Bank increased by Rs.183 crores

from Rs.1998 crores to reach Rs.2181 crores as on 31.3.2002. While the interest income on investments increased from Rs.218 crores as on 31.3.2001 to Rs.236 crores as on 31.3.2002, the profit on sale of investments amounted to Rs.86.46 crores, as against Rs.25.27 crores recorded during the previous year. Although the increase in income from treasury operations due to favourable market conditions was high, as was the general trend in the banking industry during the year, it is significant that in the case of the SIB the average yield on investments came down only marginally from 11.38% recorded last year to 11.10% and the overall return on securities transactions increased from 12.69% to 15.16%. The percentage of treasury income to total income showed only a modest rise from 39.6% to 42.7%.

QUALITY OF LOAN ASSETS

Maintenance of the overall quality of loan portfolio, management of impaired assets and avoidance of slippages continued to be the major thrust areas for the Bank. The Recovery Department under the direct control of a Dy. General Manager has taken effective steps for strengthening the credit monitoring system and streamlining the recovery procedures. A series of recovery camps were conducted at important centres and a large number of one-time settlements were concluded. A recovery campaign was also launched with the involvement of all members of staff and prizes were awarded to the outstanding performers. As a result of the overall efforts made by the Bank, cash recoveries to the extent of Rs. 33.25 crores could be made during the year. Nevertheless, factors like slow down in the industrial production, particularly in the key sectors, and a variety of problems faced by the industry at large and the recession in the economy affecting the market sensitive trading sector etc., did contribute to the rise in gross NPAs. However, the percentage of Net NPAs to net credit could be brought down to 6.64% as on 31.3.2002 as against 7.13% as on 31.3.2001.

RISK MANAGEMENT

In the current liberalised environment, risk management is one of the most critical areas that impact bank's performance and profitability. The aim is to provide reasonable returns to the shareholders consistently. The Bank already has a Credit Risk Management Committee and is in the process of setting up a Comprehensive Risk Management Committee comprising of a team of senior executives that will continuously evaluate and monitor overall risks and strive towards minimising the adverse elements that affect the Bank's performance and profitability. The committee will review on an on-going basis the various policies and procedures and verify models for the pricing of complex products.

The Bank has an Asset Liability Management Committee (ALCO) in place that, inter-alia, establishes risk limits by assessing present and future risks on account of asset-liability mismatch. In addition, ALCO also identifies, monitors and measures the risk profile of your Bank in respect of interest rate, liquidity, investment and foreign exchange risks. To effectively supervise the functioning of ALCO, a Management Committee of the Board consisting of Chairman and four non-executive directors has been constituted. The Committee meets once in a quarter and reviews the asset-liability management.



DIRECTORS' REPORT

INTERNATIONAL BANKING

During the year ended 31st March 2002, the Bank's total forex business has crossed Rs.10,000 crores mark to reach Rs.10,900 crores. The merchant turnover rose to Rs.2,484 crores, recording a growth of Rs.667 crores. The exchange profit also reached a milestone figure of Rs.10.46 crores as against the previous year's achievement of Rs.8.18 crores, registering a growth of 27.89%. The Bank has enlarged its drawing arrangements through 9 Exchange Houses and 3 Banks covering the Gulf and Far East countries to facilitate the NRIs to transfer funds to their motherland. It is proposed to provide the SWIFT facility at our Foreign Exchange Department and the key forex branches during the current year, with a view to improving the overall quality and efficiency of our overseas communications.

THE NRI PORTFOLIO

SIB has the premier position of being the first bank to open an exclusive NRI Branch in Kerala and with 14 such branches the bank still occupies the top position in terms of the maximum number of exclusive NRI Branches in Kerala. The NRI deposits as on 31.3.2002 at these specialised branches aggregating Rs.744 crores accounts for 34% of the bank's total NRI deposits. Our Thiruvananthapuram NRI branch continues to enjoy the prestigious ISO 9002 Certification.

With a view to improving and monitoring the services extended to the NRIs, a centralized NRI Cell has been set up at the Head Office, supported by separate Cells at the Regional Offices. Bank has also introduced a NRI News Letter to keep the NRIs all over the world apprised of the various developments in the segment, on an on-going basis. The share of NRI segment in the total growth of deposits of the Bank in Kerala worked out to 71% and the overall ratio of NRI deposit to total deposit in Kerala also improved from 51.7% to over 55.4% during the year. Similarly the ratio of total NRI deposit to total deposits of the Bank also improved from 35.8% to 37%.

The Bank conducted a few "NRI Family Meets" at certain important centres in Kerala, with a view to reinforcing the relationship with the expatriates and also to get an effective feed back from them on their expectations from the Bank on many areas of vital significance.

SHARE CAPITAL

There was no issue of share capital during the year. With some more of the call money arrears being collected the paid up capital has gone up from Rs.35.67 crores to Rs.35.74 crores as on 31.3.2002.

CAPITAL ADEQUACY

Bank's Capital Adequacy Ratio as on 31.3.2002 stood at 11.20% as against 11.17% as on 31.3.2001 which is well above the bench mark of 9% prescribed by the Reserve Bank of India.

BRANCH NETWORK

The Bank opened 5 new branches during the year. 3 Extension Counters were upgraded into full fledged branches. With these additions, the total number of branches (including satellite branches) has risen to 380 from 372. The Bank also opened one new Extension Counter whereas two extension counters were

closed during the year. With this, the total number of Extension Counters stands at 50. The Bank has received permission from RBI for opening 3 new branches and one Extension Counter in Kerala and a branch each at New Delhi and Mumbai.

INNOVATIVE PRODUCTS

The Bank has launched two innovative schemes during the year, viz. "NRI Flexi Loan" and "SIB Rental Scheme". The "NRI Flexi Loan" was designed as an 'any purpose loan' exclusively to the NRIs and their close relatives in India. "SIB Rental Scheme" is a novel scheme to finance the future rental receivables from corporate clients.

An overdraft facility in NRE SB account was also introduced exclusively for enabling the NRIs to meet occasional contingencies while their inward remittances are in the pipe line. True to the promise given at the last Annual General Meeting, the Bank has launched a scheme of overdraft against the security of gold ornaments called "SIB Gold Power Scheme". Besides entrusting the surplus gold ornaments with the Bank for safe custody, the customers can avail of a convenient overdraft facility on easy terms.

For the benefit of the customers including NRIs, the Bank is also now offering the "SIB Home Loan Scheme" at competitive rates.

The Bank has tied up with the Centurion Bank Ltd., for sharing their ATM network all over the country. An arrangement has also been concluded with M/s. Billjunction Payments Ltd., for handling the utility bill payments of our customers.

A new Product Development & Marketing Cell has been set up at the Head Office for designing new products and services.

PERSONNEL

As on 31.3.2002 the Bank had 3697 personnel on its rolls as against 3739 as on 31.3.2001. Cadre-wise break up is as under :

Officers	:	1356
Clerks	:	1633
Subordinate staff	:	708
		<u>3697</u>

Besides, there are 333 part-time employees in subordinate cadre. The industrial relations remained cordial throughout the year.

TRAINING

During 2001-02, our Staff Training College (STC) at Thrissur conducted 31 training programmes covering 649 Sibians consisting of 356 officers, 213 clerks and 80 sub-staff. The STC also conducted novel organization building programmes such as 'Meeting Ground' targeting Asst.Managers and 'Wide Reach' for clerks.

Under the visiting faculty scheme known as 'Outreach' the training faculty conducted programmes at a few branches. STC also conducted an off-site training programme at a metro centre for the clerical staff.

As the bank is now embarking upon a massive technological upgradation programme, it was considered necessary for the executives at the different levels of the organization to acquire basic working knowledge in computer operations. With this in view, computer training programmes for the senior executives

DIRECTORS' REPORT

in the cadre of Chief Managers and above were conducted with the faculty support from the NIIT Ltd., at various centres all over the country. This training programme is proposed to be continued to cover other centres as well.

During the year, officers were given training at various outside Training Institutes such as BTC, Mumbai, SIBSTC, Bangalore, NIBM, Pune., FEDAI, etc. covering areas such as Banks in Insurance Business, FEMA 1999, Credit Appraisal & Monitoring, Financing of Foreign Trade, Corporate Finance, Personnel Management & Industrial Relations, Customer Satisfaction and Hi-Tech Banking in Metro and Urban Branches, etc.

INFORMATION TECHNOLOGY

The implementation of the prestigious *Sibertech* project, using 'Finacle', the Centralised Banking Solution of Infosys Technologies Ltd., is in progress in the Bank. The state-of-the-art Data Centre set up at Ernakulam has become fully operational and 25 branches in Kerala and Tamil Nadu connected to the centralized database have gone 'On line' under the new system. The work is in full swing and the major branches at Mumbai and Bangalore will also be linked up shortly. About 100 branches spread all over the country are thus expected to be connected to the Data Centre by the end of the current financial year.

The Bank also proposes to install about 100 'on line' ATMs over a period of two years. The first batch of 5 ATMs will be commissioned shortly. The preliminary work for providing internet banking facility is already on. By introducing "anywhere/anytime banking" and such other technology driven products/services, the Bank will be in a position to add substantial value to its services in future. However, the Bank's motto is to "blend technology with traditional values" and the emphasis on extending personalised service at the branches will continue.

COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

The operations of the Bank are not energy intensive. However, the Bank has taken all possible measures to control and reduce consumption of energy. The Bank continues to undertake sufficient measures for innovation, adaptation and absorption of technology in banking business.

The Company, being a banking company and an authorised dealer in foreign exchange, has been taking all possible steps to encourage export credit.

PARTICULARS OF EMPLOYEES

There were no employees who were in receipt of remuneration for which particulars of employees have to be disclosed pursuant to Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and hence they are not applicable.

SOCIAL CONCERNS

THE SIB STUDENTS' ECONOMIC FORUM

Under the auspices of the Forum, the Bank published discussion papers on a series of important themes like Bio-technology,

Universal Banking, U.S.GAAP, Corruption and Black Money, Money Laundering, Central Vigilance Commission etc. taking the total number of releases to date to 122. Copies of the papers are avidly read by academicians and professionals, in addition to the target group of students all over the country.

ESSAY COMPETITION FOR SCHOOL AND COLLEGE STUDENTS

The Essay Competition of 2001 was a great success, wherein the Bank received 2460 entries from students of various categories.

As many as 1538 students from schools/plus two, 414 students from colleges and 508 NRI students participated in the essay writing contest on "*Influence of the visual media on the present generation*". A large number of students from Middle East Countries, France, Ireland, Libya and Indonesia took part in the competition.

DIRECTORS

Shri.P.M. Manuel and Shri.Babu Alapatt who retired at the 73rd Annual General Meeting were re-elected as Directors of the Bank.

Shri. Mohan Alapatt vacated the office at the 73rd Annual General Meeting by virtue of the application of Section 262 of the Companies Act, 1956 and was elected as a director by following the provisions of Section 257 of the Act.

Shri.P.M. Manuel resigned from the Board with effect from 22.01.2002 and in the resultant vacancy Shri.P.M. Udhuppu was appointed as a director by the Board on 12.02.2002.

Shri.Tony John Alapatt resigned from the Board with effect from 22.01.2002 and in the resultant vacancy Dr.John Joseph was appointed as a director by the Board on 12.02.2002.

The Board places on record its deep appreciation of the valuable services rendered by Shri. P.M. Manuel and Shri. Tony John Alapatt during their tenure.

In accordance with the provisions of Section 256 of the Companies Act, 1956, Shri.Paul Chalissery retires by rotation at the 74th Annual General Meeting but is eligible for re-appointment. Shri.G.A. Shenai and Dr.John Joseph retire at the meeting under Section 256 read with Section 262 of the Companies Act, 1956. Sarvashri.G.A. Shenai and Dr.John Joseph have complied with the provisions of Section 257 of the Act for their election to the office of director.

The information about the Directors who seek appointment at the ensuing Annual General Meeting is given below:

Shri.Paul Chalissery holds a post-graduate diploma in Business Administration and is engaged in trading business. He represents Minority Sector on the Board of the Bank. He is aged 38 years. He was elected by the General Body at the 68th Annual General Meeting held on 16.9.1996.

He is a partner in the following firms:

1. C.P. Maney & Son
2. C.P. Maney & Bros.

He is a member of the following Committees of the Board of the Bank.

1. Committee to Review Irregular Advances
2. Shareholders/Investors Grievance Committee

DIRECTORS' REPORT

Shri.G.A. Shenai representing ICICI Ltd. was appointed as a director on 24.10.2000 in the vacancy caused by the resignation of Shri.R. Viswanathan, Director. Shri.Shenai is aged 62 years and was the General Manager in Canara Bank at the time of his retirement. He has been in the banking industry for a very long time and represents Majority Sector-Banking on the Board. Shri. Shenai does not hold directorship in any other companies.

He is a member of the following Committees of the Board of the Bank:

1. Audit Committee of the Board
2. Committee on IT Policy
3. Management Committee of the Board
4. Committee to Review Irregular Advances

Dr.John Joseph is a doctor by profession and takes active part in the management of Hindustan Foundry Products which is a registered small-scale unit, manufacturing cast iron pipes, fittings and castings. He is aged 48 years and was co-opted as a director on 12.02.2002.

He is a director in Janakshemam Kuries (P) Ltd.and partner in Hindustan Foundry Products.

He is a member of the following Committees of the Board of the Bank.

1. Audit Committee of the Board
2. Committee to Review Irregular Advances

AUDITORS

The statutory central auditors M/s.Fraser & Ross, Chartered Accountants, Ernakulam, vacate office at the end of the Annual General Meeting but are eligible for re-appointment subject to approval by Reserve Bank of India.

EXPLANATION FOR AUDITORS' COMMENTS IN THE REPORT

1. Elimination of pending items in inter-branch accounts, sundries and non-tallying of schedules - This is being attended to on an on-going basis and substantial progress has been made.
2. Non-provision of past liability towards pension fund - This is being provided over a period of 10 years since 1998.
3. Non-provision for leave encashment benefits - Payment is made on pay as you go basis, as done hitherto.

CORPORATE GOVERNANCE

The Bank continues its endeavour to adopt the best prevailing Corporate Governance practices. During the year 2000-01, pursuant to the recommendations of Securities and Exchange Board of India (SEBI), the Stock Exchanges inserted a new clause 49 in their Listing Agreement on Corporate Governance. Compliance of this clause is applicable to the Bank from the financial year 2001-02 onwards. A separate report on the status of implementation of the Corporate Governance as required under clause 49 of the Listing Agreement along with a certificate from M/s.Fraser & Ross, Statutory Auditors of the Bank, is annexed to this report.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

a) Industry Structure & Development :

The Company is registered as a Banking Company and has been classified as a Scheduled Bank by the Reserve Bank of India.

The Banking Industry in India comprises of nationalized banks, scheduled commercial banks, banks in the co-operative sector, regional rural banks and branches of foreign banks. The Indian financial services sector has been undergoing significant transformation as a result of the economic reforms process, which began a decade ago. Banks which are capable of changing with times, converging technology with traditional personalised service and design innovative products are expected to thrive in the highly competitive environment.

The Bank is endeavouring to move fast in providing financial solutions which maximise customer choice and convenience, using multiple delivery channels encompassing the branch net work, ATMs and electronic banking channels, round the clock availability, lower service cost and delivery time and increased efficiency. This is expected to improve the business volumes in course of time for the Bank.

b) Opportunities & Threats :

Banks have been permitted to enter insurance business which has opened up a new avenue for increasing their fee based income. The detailed guidelines in this regard for taking up corporate agency under the 'Bancassurance' scheme is yet to be finalised by the IRDA. As such, the Bank has planned to tie up with a major company for distributing their life insurance products. This service will be launched shortly. With the adoption of the latest technology, Banks can now offer anywhere banking facility and other related services such as payment of utility charges through internet banking. Banks are also in a position to set up 'on line' ATMs throughout the country even without opening a full-fledged branch.

As the economy is yet to come out of the recessionary phase and the impact of globalisation may affect the domestic industries in certain areas, the pressure on acquiring and sustaining quality loan assets may continue for some more time. Increasing loan delinquency remains to be the key area of concern to the banking industry. Adoption of 90 days' norm for recognition of loan impairment and the recent stipulation that a sub-standard asset will slip into the 'doubtful' category after 12 months, may add to the burden of NPAs in banks. Charging of interest at monthly rests on borrowal accounts will also add to the cost of borrowing of the customers.

c) Segment wise or product-wise performance :

The total deposits of the Bank reached a level of Rs.5920 crores, the break up of which is given below :

(Rs.in crores)			
	Amount 2001-02	Amount 2000-01	% of growth
Current Deposits	292	227	28.63
Savings Deposits	831	718	15.74
Term Deposits	4797	3724	28.81
Total	5920	4669	26.79



DIRECTORS' REPORT

The total advances stood at Rs.3231 crores as against Rs. 2468 crores last year. Priority sector advances constituted 53.68% of Bank credit as against 58.91% last year.

d) Outlook :

The challenge now, recognising all that has been accomplished, is to look ahead and realise the immense potential that remains to be converted as opportunities. We have to extract value from the technological advancement under way and increase our market share in fee based business. We have to strengthen the relationships and enlarge the customer base. Obviously, this is a difficult task; but we have the confidence and ability, given our strengths derived from the past, resources and other commitments, to measure up to the emerging customer needs and create shareholder value.

e) Risks & Concerns :

The risks associated with the counter-party exposures cause great concern to the banks in the wake of the developments in the co-operative banking sector.

f) Internal Control Systems & their adequacy :

Though the internal control systems presently in vogue are considered adequate, they are constantly being reviewed and improvement in systems and procedures are effected as and when found necessary.

g) Discussion on financial performance with respect to operational performance :

The operating profit has gone up from Rs.106.97 crores to Rs.172.90 crores showing an increase of 61.63%. The net profit has also shown an impressive growth of 50.40% from Rs.41.50 crores to Rs.62.41 crores.

The Board of Directors has recommended a dividend of 25% for the year 2001-02, same as last year.

h) Human Resources Development/Industrial Relations :

The Industrial Relations remained cordial throughout the year. The number of permanent employees on the rolls of the Bank as on 31st March, 2002 is 3697 besides 333 part-time employees.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements of Sec.217 (2AA) of the Companies Act, 1956, the Board of Directors hereby declare that:

1. in the preparation of the annual accounts for the financial year ended 31st March, 2002, the applicable accounting standards have been followed along with proper explanation relating to material departures as given below:

- a) Non-compliance with accounting standards (AS 15) in respect of leave encashment benefits to employees:

The liability, if any, that may arise at the time of retirement of employees towards leave encashment salary is difficult to be ascertained with reasonable accuracy. Hence the same has been accounted on "pay as you go" basis, as done hitherto.

- b) Elimination of pending items in inter-branch reconciliation including extension counters, inter bank clearing accounts,

adjustment of sundries account and balancing of books in certain branches:

This is being attended to on an on-going basis and considerable progress has been made besides complying with the instructions issued by Reserve Bank of India in the matter.

- c) Non-provision of liabilities towards contribution to pension fund :

Para 6(a) of schedule 17 in this regard is self-explanatory.

- 2) The directors have selected such accounting policies and applied them consistently and made judgements 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 2001-02 and of the profit of the company for that period.
- 3) The directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- 4) The directors have prepared the annual accounts for the financial year ended on 31st March, 2002, on a going concern basis.
- 5) Reg. compliance with Accounting Standard (AS 17) on segmental reporting:

The company, is engaged mainly in the business of banking. Since all activities are related to the main activity, there are no reportable segments as per the Accounting Standard on Segment Reporting (AS 17).

ACKNOWLEDGEMENTS

The Directors express their sincere thanks to the Reserve Bank of India for the valuable guidance received in the conduct of the business of the Bank. The Board also expresses its gratitude to National Bank for Agriculture and Rural Development, ICICI Ltd., Industrial Development Bank of India, Industrial Finance Corporation of India Ltd., Export-Import Bank of India, National Housing Bank, Small Industries Development Bank of India, Discount and Finance House of India, Export Credit Guarantee Corporation of India, FEDAI, ICICI Securities and Finance Company Ltd., and other financial institutions and statutory authorities like the Registrar of Companies, Company Law Board, Securities & Exchange Board of India and Stock Exchanges. The Directors place on record their deep appreciation of the valuable patronage extended by the customers and shareholders of the Bank and for the co-operation and dedicated work done by the members of staff in all cadres.

Thrissur
13.05.2002

By Order of the Board,
Sd/-
(A. SETHUMADHAVAN)
CHAIRMAN