

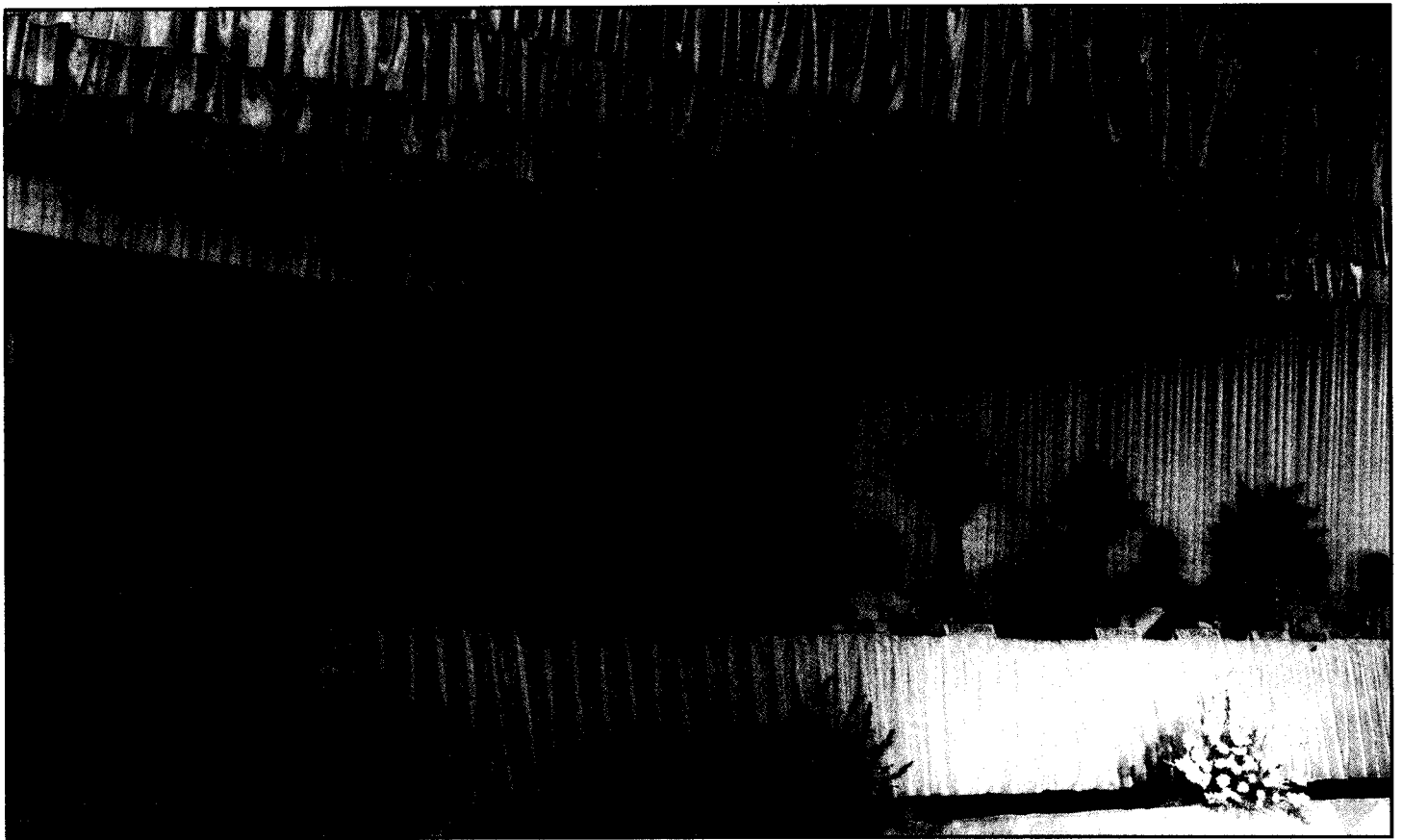


## Annual Report 2002 - 2003

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**The  
South  
Indian  
Bank L**



Chairman addressing the shareholders at the 74th Annual General Meeting



Press meet at Kochi announcing the annual results 2002 - 03, on 25th April 2003



Administrative Office : 'SIB House',  
Mission Quarters,  
P.B. No. 28, Thrissur - 680 001,  
Kerala, India.

## NOTICE

**NOTICE** is hereby given that the 75<sup>th</sup> Annual General Meeting of the shareholders of The South Indian Bank Ltd., will be held at Casino Cultural Auditorium Ltd., T.B. Road, Thrissur – 680 021, on Monday, the 14<sup>th</sup> day of July, 2003 at 10 a.m. to transact the following business :

### ORDINARY BUSINESS:

1. To receive, consider and adopt the Bank's Audited Balance Sheet as at 31<sup>st</sup> March, 2003 and the Profit & Loss Account for the year ended on that date together with the reports of the Board of Directors and Auditors' thereon.
2. To declare a Dividend.
3. To appoint Statutory Central Auditors for the year 2003-04 with the approval of Reserve Bank of India and to authorise the Board to fix their remuneration.

The present Statutory Central Auditors, M/s. Fraser & Ross, Ernakulam retire at the Annual General Meeting.

**SPECIAL NOTICE** has been received from a shareholder signifying his intention to propose the following name as Statutory Central Auditors for the year 2003-04:-

M/s. Varma & Varma, Chartered Accountants, Nettipadam Road, Ernakulam, Kochi-682 016.

4. To appoint a Director in the place of Dr. C Mathew John (Director in the Majority Sector), who retires by rotation under Section 256 of the Companies Act, 1956, and being eligible, offers himself for re-appointment.

### SPECIAL BUSINESS:

5. To consider and if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution;

**"RESOLVED THAT** Shri John P Chakola be and is hereby appointed a director in the Minority Sector whose period of office is liable for determination by retirement of directors by rotation".

6. To consider and if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution;

**"RESOLVED THAT** Shri A S Narayanamoorthy be and is hereby appointed a director in the Majority Sector whose period of office is liable for determination by retirement of directors by rotation".

7. To consider and if thought fit, to pass, with or without modification, the following resolution as an ordinary resolution:

**“RESOLVED THAT** in terms of Sec.228 of the Companies Act, 1956, the Board of Directors be and is hereby authorised to appoint from time to time in consultation with the Bank's statutory central auditors, one or more persons qualified for appointment as branch auditors to audit the accounts for the year ending on 31<sup>st</sup> March, 2004, of such of the branch offices of the Bank as are not proposed to be audited by the Bank's statutory central auditors on such remuneration and subject to such terms and conditions as may be fixed by the Board of Directors.”

### **NOTES:**

1. As provided under Sec.176 of the Companies Act, 1956 a member entitled to attend the meeting and vote thereat is entitled to appoint a proxy to attend and vote instead of himself. A proxy need not be a member. Proxy forms should be deposited at the Registered Office of the Bank atleast 48 hours before the time fixed for commencement of the meeting. A form of proxy is appended for the convenience of members.
2. The Register of Members and share transfer books of the Bank will remain closed from 5<sup>th</sup> of July, 2003 to 14<sup>th</sup> of July, 2003 (both days inclusive). Dividend will be paid to those members/beneficial owners whose names appear in the Register of Members/Register of Beneficial Owners on 14<sup>th</sup> day of July, 2003 for shareholders in physical segment and 4<sup>th</sup> day of July, 2003 for shareholders in demat segment.
3. All dividends remaining unclaimed or unpaid including the balance in the Dividend Account upto and including financial year 1993-94 have been transferred to the General Revenue Account of the Central Government. Any claim in respect of the transferred amounts shall be made to the Registrar of Companies, Kerala, M.G. Road, Kochi – 682 011. In respect of dividend remaining unclaimed/unpaid for the financial year 1994-95, the same has been transferred to Investors' Education and Protection Fund as provided under Section 205 A (5) of the Companies Act, 1956. Shareholders are informed that no claim can be made against dividend for the year 1994-95, in future.
4. In respect of dividend remaining unclaimed or unpaid for the financial year commencing from 1995-96, the said amounts are still held in the books of the Bank. Any shareholder who has not received the dividend so far may get in touch with the Bank at its Registered Office or with the Share Transfer Agents, M/s.Tata Consultancy Services, Sonex Towers, 223, II Avenue, Anna Nagar, Chennai – 600 040. Members may please note that the unclaimed dividend balance of financial year 1995-96 will be transferred to the Investors' Education and Protection Fund within 7 years from the date of transfer to Unclaimed Dividend Account i.e. in October 2003 and thereafter no claim can be made by any shareholder against the Bank or the Fund for the dividend amount of that year.
5. Polling, if needed, in respect of any resolution coming before the meeting will take place within 48 hours of the commencement of the meeting at such place and time as will be announced by the Chairman during the meeting.
6. Dividend Warrants will be despatched to all eligible shareholders not later than 1<sup>st</sup> day of August, 2003. Dividend is now tax free in the hands of shareholders.
7. Members may please note that there is a facility for nomination, in the prescribed form, of any person to whom shares in, or bonds of, the Bank held by such member shall vest in the event of his/her death.



8. Shares of the Bank are traded in dematerialised form. Members may opt for availing the benefits of electronic holding/transfer of shares held by them.
9. Members may feel free to contact A.S. Narayanan, Company Secretary and Compliance Officer at the Head Office of the bank for any clarification or assistance.
10. **TO ENSURE PROMPT SERVICE** please write your folio number or your Client and DP ID No. (printed at the beginning of your address) in all communications relating to shares.

Place : Thrissur  
Date : 31.05.2003

For and on behalf of the Board of Directors  
Sd/-  
(A.S. NARAYANAN)  
COMPANY SECRETARY

## **EXPLANATORY STATEMENT AS REQUIRED BY SECTION 173 (2) OF THE COMPANIES ACT, 1956**

### **Item No.5**

The Board inducted Shri John P Chakola as a Director on 18-7-2002 in the vacancy caused by the resignation of Shri Thommy P Chakola on 3-7-2002. He has duly filed his nomination for being elected by the General Meeting as a Director liable to retire by rotation. His nomination is in accordance with Section 257 of the Act.

No director other than Sri John P Chakola is interested or concerned in the passing of the said resolution.

### **Item No.6**

The Board inducted Shri A S Narayanamoorthy as a Director on 18-7-2002 in the vacancy caused by the resignation of Sri Jose Pottokaran on 4-7-2002. He has duly filed his nomination for being elected by the General Meeting as a Director liable to retire by rotation. His nomination is in accordance with Section 257 of the Act.

No director other than Sri A S Narayanamoorthy is interested or concerned in the passing of the said resolution.

### **Item No.7**

The adoption of this resolution will enable the Bank to continue the existing arrangement of Statutory Central Auditors working in tandem with branch auditors, introduced in 1990-91 on the advice of the Reserve Bank of India. The scheme has helped to speed up the audit work without sacrificing thorough verification at branch level.

None of the directors is interested in the above resolution.

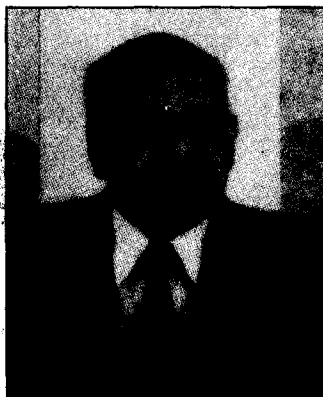
## **MEMORANDUM OF INTEREST**

The Directors who seek re-appointment/appointment may be deemed to be interested in the respective resolutions.

Place : Thrissur  
Date : 31.05.2003

For and on behalf of the Board of Directors  
Sd/-  
(A.S. NARAYANAN)  
COMPANY SECRETARY

## BOARD OF DIRECTORS



Mr. A. Sethumadhavan  
(Chairman)



Dr. C. Mathew John



Mr. Paul Chalisery



Mr. Babu Alapatt



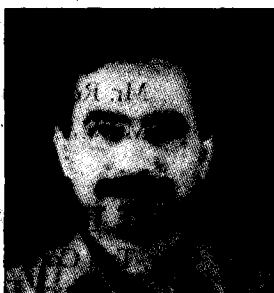
Mr. Mohan Alapatt



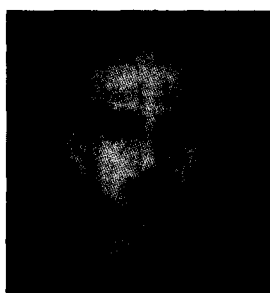
Mr. G.A. Shenai



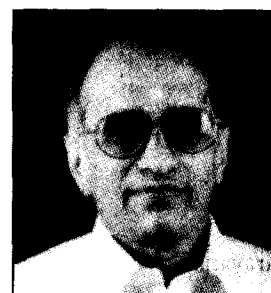
Mr. P.M. Udhuppu



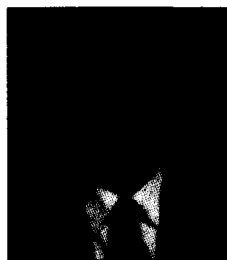
Dr. John Joseph



Mr. John P. Chakola



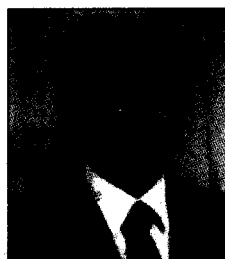
Mr. A.S. Narayanamoorthy

**CHIEF GENERAL MANAGER**

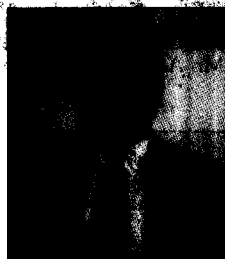
Mr. M. Valsan

**GENERAL MANAGER**

Mr. V.P. Joseph

**DEPUTY GENERAL MANAGERS**

Mr. Cheryan Varkey



Mr. Alex Mathew



Mr. A.G. Varughese



Mr. T.M. Sunny



Mr. George Davis Thottan



Mr. N.V. Ignatius



Mr. K.S. Krishnan

**ASST. GENERAL MANAGERS**

Mr. R. Ayyaswamy  
Mr. T. D. Devassia  
Mr. K. S. George  
Mr. P. J. Johnny  
Mr. Anto C. Kalliath  
Mr. Varghese John  
Mr. P. J. Jacob

Mr. V. J. Thomas  
Mr. Joseph George Kavalam  
Mr. K. C. Francis  
Mr. P. C. Jose  
Mr. P. R. Radhakrishnan  
Mr. C.J. Jose Mohan  
Mr. P.E. Mathai

Mr. V.A. James  
Mr. C.T. Devis  
Mr. P.K. Kochanthony  
Mr. Balbir Singh  
Mr. K.L. Baby  
Mr. Roy Alex. V.  
Mr. V.A. Paul

**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 TO THE SHARE HOLDERS

Your Board of Directors are pleased to place before you the Bank's 75th Annual Report along with the audited accounts for the year ended on 31st March, 2003.

### PLATINUM JUBILEE

Your Bank crossed yet another milestone when it completed 74 years of its existence on the 29th January, 2003. From a mere 42 shareholders and Rs.22, 000/- as share capital in the beginning, your Bank has now grown into a professionally managed private sector bank with an issued capital of Rs.35.80 crores, a shareholder base of over 90000, a network of 391 branches and 50 extension counters, a customer base of over 3 million and an overall business level of over Rs.10, 000 crores.

The Platinum Jubilee Year is being observed from 29th January 2003 to 29th January 2004. During the year it is proposed to introduce a range of new products and services to suit the various segments of our clientele. Customer meets will also be held at the branches and important centres where top officials of the Bank will also participate with a view to spreading the Platinum Jubilee message to the clients, highlighting the achievements in the past and detailing the road-map for the future, so as to elicit effective feed-back from the customers, both existing and prospective, about their expectations from the Bank. To commemorate the Platinum Jubilee and rededicate ourselves in the service of the community, it is also proposed to introduce some community development programmes in select villages in co-ordination with well-established Self Help Groups. A series of conferences and seminars of relevance to the banking and economic scenario, cultural programmes etc. will also be hosted by the Bank at different centres aiming at improving the overall image of the Bank. As far as the shareholders are concerned, our intention is to ensure a sustained addition to the shareholders' value by improving the working results and the basic fundamentals of the Bank on an on-going basis.

### PERFORMANCE OF THE BANK

We are happy to inform that your Bank has posted encouraging results during the year 2002-03, against many odds faced by the banks especially in the context of continued macro economic stresses.

The Bank has performed reasonably well, both in terms of qualitative improvements in business levels, including improved credit recovery process and better internal controls and systems and quantitative growth in the network and customer base. Further a number of initiatives aimed at facilitating customer convenience have also been undertaken. To meet the growing demands from the customers and increasing challenges in the market, the technological capability was improved substantially by the implementation of the prestigious Sibertech project, using Finacle, a core banking solution developed by the Infosys Technologies Ltd. The progress made in implementation of this project is discussed elsewhere in this Report.

The highlights of the Bank's performance for the year ended 31st March, 2003 are as follows:

	(Rs.in crores)	
Key Parameters:	2002-03	2001-02
Deposits	6,861	5,920
Advances	3,613	3,231

Total business	10,474	9,151
Gross Profit	216.47	172.90
Net profit	72.33	62.41
Net worth	320.98	274.60
Capital Adequacy (%)	10.75	11.20
EPS (in Rs.)	20.23	17.49
Return on Average Assets (%)	1.25	1.07
Book value per share (in Rs.)	89.66	76.70
Return on Net Worth (%)	22.53	22.73
Net NPA as % of Net advances	5.98	6.89

### FINANCIAL PERFORMANCE

The Profit & Loss Account shows a Gross Profit of Rs. 223.43 crores before depreciation, taxes and provisions and a Net Profit of Rs. 72.33 crores as per details given below:

	(Rs.in crores)
Profit before depreciation, taxes & provisions	223.43
Less: Depreciation	6.96
Provision for NPA	93.86
Provision for depreciation on investments	0.73
Provision for Income-tax/Wealth Tax	47.05
Provision for standard assets	2.50
	151.10
Net profit	72.33
Brought forward from last year	0.18
Total	72.51

### APPROPRIATIONS

Transfer to Statutory Reserve	18.09
Transfer to Investment Fluctuation Reserve	10.25
Transfer to Capital Reserve	0.02
Transfer to General Reserve	33.75
Proposed dividend (including dividend tax)	10.09
Carried over to Balance Sheet	0.31
Total	72.51

### DIVIDEND

The Board of Directors have recommended a dividend of 25% per annum, (tax free in the hands of shareholders), which is subject to your approval in the General Meeting.

### DEPOSITS

The total deposits of the Bank recorded a growth of 16% during the year reaching a level of Rs.6861 crores as on 31.3.2003 as against Rs.5920 crores as on 31.3.2002.

The Break-up of deposits as on 31.3.2003 is as under :

	Amount (Rs.in crores)	% to total deposits
Current Deposits	328.02	4.78
Savings Deposits	988.35	14.40
Term Deposits	5544.90	80.82
Total:	6861.27	100.00

Out of the above, NRI deposits amount to Rs.2,597.68 crores constituting 37.86 % of the total deposits.





## DIRECTORS' REPORT

### ADVANCES

The total advances of the Bank rose to Rs.3613 Crores, as on 31.3.2003 from Rs.3231 crores as on 31.3.2002. Priority Sector advances constituted 38.65% of the net bank credit. The share of various segments of priority sector is as follows:

	(Rs.in crores)
Agriculture & allied activities	156.37
S.S.I.	491.04
Other areas in the Priority Sector	356.54
<b>TOTAL</b>	<b>1003.95</b>

### INVESTMENTS

The investment portfolio of the Bank grew by over Rs.818 crores from Rs.2181 crores to Rs.2999 crores. While income by way of interest/dividend on investments rose from Rs.236 crores to Rs.262 crores, profit on sale of investments rose from Rs.86 crores to Rs.133 crores. The average yield on investments was lower at 10% as against 11.10% during the previous financial year on account of the overall declining interest rate scenario.

### QUALITY OF LOAN ASSETS

The Bank continued the two pronged strategy of making all out efforts for recovery of NPAs as well as close and effective monitoring of the advance portfolio to prevent further slippages. The above strategy has yielded results and cash recoveries to the tune of Rs.51.36 crores was effected during the financial year. Further NPAs to the tune of Rs.16.49 crores could also be upgraded. The proportion of gross and net NPAs as on 31-3-2003 were lower at 9.27% and 5.98% respectively as against 10.08% and 6.89% as on the corresponding date in the previous financial year.

### RISK MANAGEMENT

In compliance with the Reserve Bank guidelines, the Bank has put in place a sound Risk Management structure. A Risk Management Committee of the Board (RMCB) consisting of five directors (including a Chartered Accountant) has already been set up. A Risk Management Committee of Executives (RMCE) is also in place. A Credit Policy Committee (CPC) and Asset Liability Committee (ALCO) are functioning to address credit and market risks respectively. The Bank is in the process of setting up a full-fledged Integrated Risk Management Department under the charge of a Dy. General Manager to manage credit, market and operational risks. The Bank has documented appropriate credit, market and operational risk management policy.

The Bank has an effective ALM system, which addresses the liquidity and interest rate risk. The Bank has formulated a comprehensive ALM policy, which inter alia includes limits for tolerance level for mismatches, Earnings at Risk etc. The Value at Risk (VaR) and the impact of price risk on Central Government securities and the open forex positions are monitored on an ongoing basis. The Bank uses the NSE model for Central Government securities and the FEDAI model for forex open positions. VaR based limits are in place both in respect of forex open positions as well as for central government securities.

The Bank is also gearing itself towards RBI's Risk Based Supervision approach.

### INTERNATIONAL BANKING

During the year ended 31st March, 2003, the Bank's total forex business has crossed Rs.15,000 crores mark to reach Rs.15,600 crores. The merchant turnover rose to Rs.3410 crores recording a growth of Rs.926 crores inspite of the tough market conditions. The Bank has drawing arrangements with 12 major Exchange Houses/Banks for facilitating the transfer of funds for the NRIs. The Bank has also become a member of the Society for Worldwide International Financial Telecommunication Network (SWIFT). With the introduction of the SWIFT facility at our Foreign Exchange Department (FEDCO) our international communication facilities have improved substantially. Incidentally, we are the first Bank in India using the new version of IP based SWIFT net work. Seven key forex branches are in the process of getting connected to the SWIFT network so as to improve the overall quality and efficiency of our overseas communications.

### THE NRI PORTFOLIO

The Bank continues to occupy the top position of having the maximum number of NRI branches in the state of Kerala. Our Thiruvananthapuram NRI branch continues to enjoy the prestigious ISO 9002 certification. NRI deposits recorded a growth of 19.81% and constituted 37.86% of the total deposits of the Bank. During the year the Bank opened a few more branches in Pathanamthitta and Malappuram districts with a view to enlarging the coverage of the NRI clientele. The Chairman along with two senior officials visited the Middle East countries during December, 2002, and convened meetings with NRIs in different countries with a view to interacting with a wide cross section of NRIs and improving the Bank's overall image in the area.

Rupee drawing arrangements have been concluded recently with M/s Al-Ahalia Money Exchange Bureau, Abudhabi and Hadi Express Exchange, Dubai which are expected to further improve the inflow of NRI funds into the Bank.

NRI cell at HO is constantly endeavouring to upgrade the quality of services provided to NRIs.

### 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.35.74 crores to Rs.35.77 Crores as on 31.3.2003.

### CAPITAL ADEQUACY

Bank's Capital Adequacy Ratio as on 31.3.2003 was comfortable at 10.75% as against the RBI stipulated benchmark of 9%.

### BRANCH NETWORK

With a view to exploring new business opportunities and to reach new markets, the Bank has been opening new branches selectively at centres offering better business potential. In keeping with this objective the Bank opened 11 new branches and 4 extension counters 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 391 and extension counters to 50. The Bank has received permission from RBI for opening 8 new branches and 3 extension counters

## DIRECTORS' REPORT

and for upgrading 2 extension counters into full-fledged branches. A few more potential centres are also being identified. As on 31.3.2003 the Bank has set up 39 ATMs, consisting of 32 on-site and 7 off-site ATMs. We propose to expand the Bank's network of branches, extension counters and ATMs to extend its reach across the country.

### **MARKET RESEARCH AND ADVERTISING**

Reaching existing and potential customers through various value added products and services is vital for business growth in a competitive environment. Keeping this in view a separate Marketing Department under the control of a Deputy General Manager has been set up in the Head office. This Department has been entrusted with the task of marketing the Bank's products/services as also to come out with new products and initiatives to suit customer expectations and requirements. The department will also conduct market research to identify the needs and expectations of the customers and shape the products and services accordingly.

Under the Sibertech project, 120 Branches and 5 Extension Counters have been connected to the Data centre at Kochi through a centralised software solution - Finacle. With this facility in place, a customer can now bank with any of the networked branches anywhere in the country. The Bank has introduced "Privilege Cards", in line with the concept of on-line anywhere banking. The privilege card is a Gold Card which can be operated as an ATM card combined with multiple facilities including transaction at any of the connected branches. Similarly, "SIB Premium" is another anywhere banking product launched by the Bank for the benefit of high value current account holders by offering a convenient option for transfer of funds between networked branches, drawing of demand drafts, cash withdrawals, remittance facilities etc.

A flexible deposit scheme named the "SIB FLEXI DEPOSIT" with the features of a Savings Bank account and that of a Fixed Deposit was launched recently. The coverage of "SIB COLLECT" a collection and payments product introduced at select centres in Kerala a few months back, is being enlarged to cover other centres.

### **NEW BUSINESS ACTIVITIES**

Your Bank has joined hands with the ICICI Prudential Ltd. to market their life insurance products through the Bank's branch network, under a referral arrangement. Similarly, Bank also entered into an alliance with United India Insurance Co. Ltd as a corporate agent to distribute their non-life general insurance products. An MOU has also been signed with the Prudential ICICI Asset Management Company Ltd. to distribute their various Mutual Fund products. Your Bank has also set up a Demat centre at Thrissur where shareholders/ customers can get their securities dematerialised through the Central Depository Services (India) Ltd., Mumbai.

With a view to expanding the card base and ATM reach, the Bank has a plan to have Master Card Inc. certification both for ATMs as well as POS (Point of Sales). It is proposed to introduce the above certification and launch a Global Debit Card and also provide internet banking facility within a few months as part of the Platinum Jubilee celebrations of the Bank.

The main intention behind initiating the above steps, is that the Bank should be in a position to extend a variety of financial services all under one roof, ranging from different kinds of deposit schemes and loan schemes, to ancillary services like marketing of life, general insurance and mutual fund products, issuance of credit cards, debit cards, ATM cards, provision of internet banking facility, demat services, safe deposit locker facility etc. With a well established network of branches and skilled personnel at our command, these services are expected to increase the float funds, low cost deposits and fee-based income of the Bank substantially in the years to come. This assumes considerable significance in the current scenario where the margins under the traditional resources mobilisation and lending operations are under tremendous pressure and the focus in future has to be on augmenting the fee-based income.

### **PERSONNEL**

During the year the Bank introduced a "Voluntary Retirement Scheme", under which 137 employees opted for voluntary retirement. As on 31.3.2003 the Bank had 3550 personnel on its rolls as against 3697 as on 31.3.2002. Cadre-wise break up is as under:

Officers	1278
Clerks	1583
Subordinate staff	689
<b>TOTAL</b>	<b>3550</b>

Besides, there are 318 part-time employees in subordinate cadre. The industrial relations remained cordial throughout the year.

### **TRAINING**

During the year 2002-03, 975 staff members were trained at our Staff Training College, Thrissur, apart from training 167 officers at other Training Institutes of repute like the Bankers Training College, RBI, Mumbai, National Institute of Bank Management, Pune, etc. During the year 2002-03, in line with the computerisation efforts of the Bank, staff members were trained on Finacle package - the core banking solution implemented by your Bank. Altogether, 47 programmes were conducted by our Staff Training College on various functional areas and these include Branch Management, Credit Management, Recovery Management, Marketing, Foreign Exchange, Behavioural Science, Information Technology etc. 167 officers were given training at various outside Training Institutes on subjects like Bancassurance, Credit Management, Foreign Exchange, Personnel Management, Customer Satisfaction etc. The percentage of staff trained, both at our Staff Training College and outside Training Institutes constitute 31.38% of the total staff strength.

Organisation Building events viz. "Meeting Ground" and "Wide Reach" were conducted at Thiruvananthapuram and Coimbatore centres respectively during the year.

### **INFORMATION TECHNOLOGY**

Shareholders may be aware about the Bank embarking upon a major technology project named Sibertech. As on the 31st March, 2003, the Bank has implemented the "Finacle", a Centralised Core Banking Solution of Infosys Technologies Ltd., Bangalore,