


OVER  
**76**  
YEARS OF  
TOTAL BANKING

# Annual Report 2004-2005



 **The South Indian Bank Ltd**  
Head Office: Chennai, Kerala  
*A Bank For All Seasons*

Blending tradition with technology

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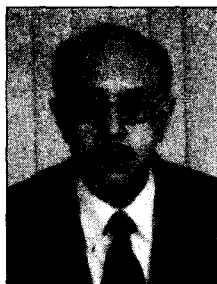




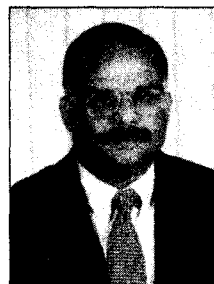
Chairman addressing the shareholders at the 76th Annual General Meeting



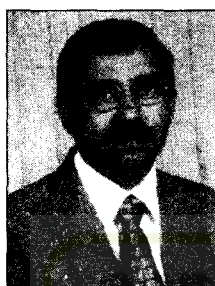
Opening of Bank's Regional Office at Bangalore

**CHIEF GENERAL MANAGER**

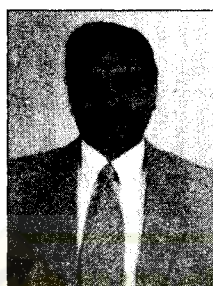
Mr. M. Valsan

**GENERAL MANAGER**

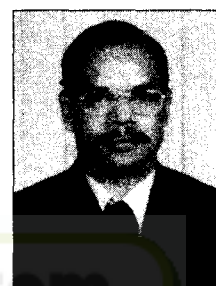
Mr. V.P. Joseph

**DEPUTY GENERAL MANAGERS**

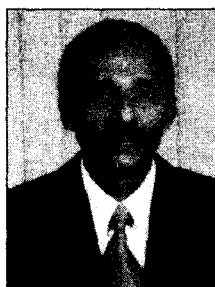
Mr. Cheryan Varkey



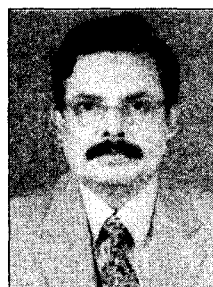
Mr. Alex Mathew



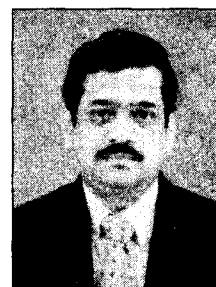
Mr. A.G. Varughese



Mr. 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

**COMPANY SECRETARY**

Mr. A. S. Narayanan

**AUDITORS**

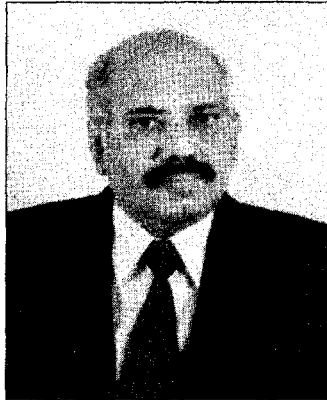
M/s. Varma & Varma  
Chartered Accountants,  
Nettipadam Road,  
Kochi - 682 016.

**SHARE TRANSFER AGENTS**

M/s. Karvy Computershare (P) Ltd,  
"Karvy House"  
46, Avenue 4, Street No. 1,  
Banjara Hills, Hyderabad - 500 034.



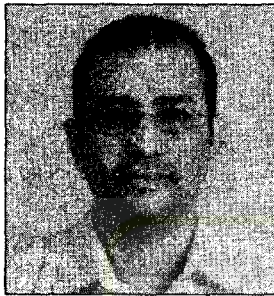
## BOARD OF DIRECTORS



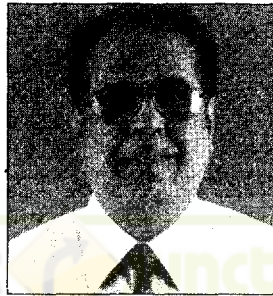
Mr. A. Sethumadhavan  
(Former Chairman)



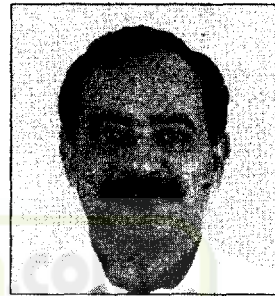
Dr. V.A. Joseph  
Chairman



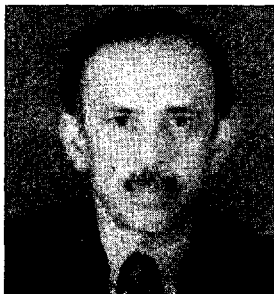
Mr. Mohan Alapatt



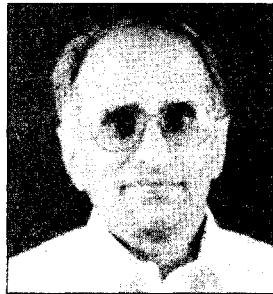
Mr. G.A. Shenai



Dr. John Joseph



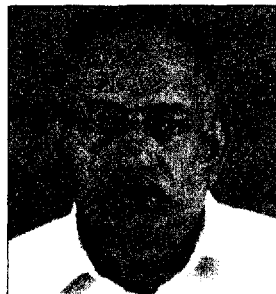
Mr. John P. Chakola



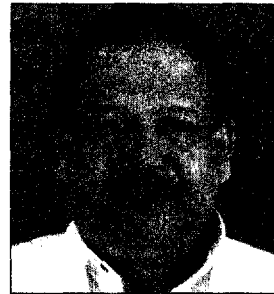
Mr. A.S. Narayanamoorthy



Mr. Davy K. Manavalan



Dr. C.J. Jose



Mr. Jose Alapatt





## DIRECTORS' REPORT TO THE SHARE HOLDERS

The Board of Directors is pleased to place before you the 77th Annual Report of the Bank along with the Audited Balance Sheet as on 31st March 2005 and the Profit and Loss Account Statement for the year ended 31st March 2005.

### PERFORMANCE OF THE BANK

The performance highlights of the Bank for the financial year ended on 31st March, 2005 are as follows:-

| Key Parameters                | Rs. in Crores |         |
|-------------------------------|---------------|---------|
|                               | 2004-05       | 2003-04 |
| Deposits                      | 8492          | 8280    |
| Advances                      | 5365          | 4197    |
| Total Business                | 13857         | 12477   |
| Gross Profit                  | 184.64        | 252.25  |
| Net Profit                    | 8.7           | 84.33   |
| Net Worth                     | 455.25        | 394.89  |
| Capital Adequacy (%)          | 9.89          | 11.32   |
| EPS (in Rs.)                  | 2.1           | 23.58   |
| Book Value per Share (in Rs.) | 95.44         | 110.43  |
| Net NPA as % of Net Advances  | 3.81          | 4.55    |

The Bank has registered a net profit of Rs.8.70 crores as against Rs.84.33 crores for the previous year. Despite the increased interest income flow and reduction in the operating expenses, the net profit has been at a lower level than last year mainly due to reduction in treasury profit. The reduction in the treasury profit as compared to that in the previous financial year works out to Rs.150.23 crores.

This reduction in profit from the treasury operations is due to unfavourable market conditions in Government Securities market that prevailed for most part of the year. The Bank had to provide for depreciation in market value of Government Securities to the extent of Rs.116.05 crores from the gross profits as actual provisioning to the extent of the fall in market value. It is expected that provisioning requirements towards depreciation in Govt. securities will be within the manageable levels in the current year on account of strategic initiatives taken by the Bank at the appropriate time.

### FINANCIAL PERFORMANCE

#### Profit

The Profit & Loss Account shows a Gross Profit of Rs.184.64 crores before depreciation, taxes and provisions and a Net Profit of Rs.8.70 crores as per the details given below:

|  | (Rs. in crores) |
|--|-----------------|
| Profit before depreciation, taxes & provisions : | 184.64          |
| Less: Depreciation :                             | 12.41           |
| Provision for NPA :                              | 39.54           |
| Provision for depreciation on investments :      | 116.05          |
| Provision for Income Tax/Wealth Tax :            | 5.14            |
| Provision for standard assets :                  | 2.80            |
|  | <u>175.94</u>   |
| Net Profit :                                     | 8.70            |
| Brought forward from last year :                 | 0.02            |
| Total :  | <u>8.72</u>     |

### Appropriations

|                               |             |
|-------------------------------|-------------|
| Transfer to Statutory Reserve | 2.18        |
| Transfer to Capital Reserve   | 6.50        |
| Carried over to Balance Sheet | 0.04        |
| Total                         | <u>8.72</u> |

The Board of Directors has not recommended any dividend for the current year, in view of lower profits. However, owing to certain strategic efforts already taken in streamlining the banking operations, overall cost cutting, reduction in the average cost of borrowing, automation, measured treasury movements, introduction of innovative products and other general administrative and motivating factors, the Bank is bound to show a better performance in the current financial year.

### EXPANSION

The Bank has taken long strides in changing its regional character into a national one in the banking industry. During the financial year 2004-05, 20 new branches were opened, 9 extension counters were upgraded into full-fledged branches and 11 new extension counters were also opened. As such the total number of branches and extension counters increased to 430 and 49 respectively as compared to 410 branches and 47 extension counters at the end of the previous year. The ATM network increased to 125 centres with a card base of 1,57,000.

### CAPITAL & RESERVES

During the year under review, the Bank issued shares on a Rights basis in the ratio of 1:3 at a price of Rs.40/- per share (Rs.30/- towards premium) and with the Record date on July 23, 2004. The issue opened on August 12, 2004 and closed for subscription on September 11, 2004. There was subscription to the extent of 1.87 times of the total issue. 1,19,19,480 shares were allotted on October 12, 2004, for an amount aggregating Rs.47.68 crores. The Bank's capital adequacy ratio (CAR) as on 31.03.2005 is 9.89%. Of this, Tier I CAR constituted 5.68%, while Tier II CAR constituted 4.21%. A sum of Rs.6.50 crores has been transferred to capital reserves as against Rs.0.04 crores last year.

### Augmentation of Capital

One of the proposals to be moved for your approval at the ensuing Annual General Meeting pertains to a motion for effecting an increase to the Authorized Capital of the Bank to pave way for further issue of shares. The nature of issue, whether Rights Issue or Public Issue or an issue in the form of ADRs/GDRs or a combination of issue and size of issues, kinds of securities to be issued and terms of such issue will have to be discussed at length and decided upon. Suffice it to say at this juncture that it is important for the Bank to augment its Tier I Capital as a long term and permanent measure. The Board of Directors of the Bank takes this opportunity to solicit your support as ever before so as to be not only in compliance with the prudential norms with regard to capital adequacy but also to be of a relevant size to operate comfortably in highly competitive and tech-savvy banking environment.

### LISTING AGREEMENT WITH STOCK EXCHANGES

Bank's shares have been listed on the Cochin Stock Exchange Ltd., The Stock Exchange, Mumbai and National Stock Exchange



## DIRECTORS' REPORT

of India Ltd. The Bank confirms that it has paid the listing fees to all the Stock Exchanges for the year 2005-06. At this annual general meeting, the Board of Directors of the Bank has placed for your approval a proposal for delisting the shares of the Bank from The Cochin Stock Exchange Ltd. The Board of Directors recommends the passing of the resolution in that respect as a special resolution. As you are aware, the shares of the Bank are listed in India's leading two stock exchanges, the delisting from The Cochin Stock Exchange Ltd., while reducing the cost of listing will not prejudice investors' interests.

### **BUSINESS ACHIEVEMENTS**

**Deposits:** Inspite of various challenges in the form of lower interest regime, alternate investment opportunities and deceleration in the flow of funds from NRIs, the Bank could increase the deposit position to Rs.8492.31 crores from Rs.8280 crores during the last year.

The Break-up of deposits as on 31.03.2005 is as under:-

|                  | Amount<br>(Rs. in Crores) | % to total<br>deposits |
|------------------|---------------------------|------------------------|
| Current Deposits | 478.71                    | 5.64                   |
| Savings Deposits | 1626.30                   | 19.15                  |
| Term Deposits    | 6387.30                   | 75.21                  |
| Total            | <u>8492.31</u>            | <u>100.00</u>          |

**Advances:** This year the Bank made a noticeable growth in advances. It registered an increase of Rs.1168.44 crores from Rs.4196.82 crores last year to Rs.5365.26 crores showing a growth of 27.84%. Consequently the Credit-Deposit Ratio jumped up from 55.60% to 67.19% as on 31.03.2005.

Priority Sector advances constituted 41.96% of the net bank credit as against the mandatory level of 40%. The contribution to various segments of the priority sector is as under:-

|                                    | Amount (Rs. in Crores) |
|------------------------------------|------------------------|
| Agriculture & Allied Activities    | 437                    |
| SSI                                | 542                    |
| Other areas in the Priority Sector | <u>731</u>             |
| Total                              | <u>1710</u>            |

### **INVESTMENTS**

On account of the upward movement of interest rates, the Bank has taken a cautious approach on domestic treasury operations. During the year under review, Gross Investments have decreased to Rs. 3195 Crores from Rs. 3977 Crores, last year. The average yield on investments worked out to 7.96%.

### **NON PERFORMING ASSETS (NPA) MANAGEMENT**

The NPA norms of the RBI have made the NPA management of banks a very strategic activity, as it will have a telling effect on the profits of banks. The crux of the policy is to identify financial assets as performing and non-performing assets and make necessary provisions for non-performing assets at the earliest.

During the year 2004-05 the Bank had taken various steps to contain the growth of NPA and for speeding up recovery,

65 recovery camps were conducted at various centres. 2209 accounts involving Rs.98.85 crores were decided at those camps and 60% of such accounts were settled before the year-end. Recovery campaigns were conducted, with the participation of all the staff members. Quality circles have helped to create awareness among staff members and a team spirit in recovery process, which yielded good results. One Time Settlement (OTS) has evolved into one of the most effective methods of recovery of NPA accounts. At Head office level alone the Bank had sanctioned OTS in 626 accounts involving Rs.51.19 crores during the year 2004-05. Three accounts having an aggregate consideration of Rs.8.71 crores were sold to ARCIL during the year.

Due to effective recovery measures and the additional provisions made during the current year, the ratio of Net NPA to Net Advances got reduced to 3.81% as on 31.03.2005 as against 4.55% last year. Thus the Bank could present a healthier asset (credit) portfolio for the current fiscal.

### **AUTOMATION AND COMPUTERISATION**

The Bank has implemented a host of IT initiatives to effectively compete in the market. First of such initiatives was the introduction of Core Banking Solution [CBS] with a Data Centre. The application deployed is FINACLE of INFOSYS, one of the globally recognized core banking applications. The Bank streamlined its computerization of operations uniformly and efficiently. As of 31st March 2005, Bank had 238 branches and 13 extension counters under CBS and 190 branches under ALPM, which is a totally in-house software and is well accepted. In terms of business volume, the CBS covers 83.70% out of the 99.98% total computerised operations.

Leveraging on the CBS, Bank has established an ATM network with a card base of 1,57,000 with a Transaction switch installed in the Data Centre. As of 31st March 2005, Bank had 125 on-line ATMs, of which, 33 are off site. To spread out the ATM reach, Bank has tied up with Master Card Inc. for Global debit and ATM card operations. Besides Bank has also taken membership in National Financial Switch (NFS) of IDRBT whereby the Bank's ATM cards can be used at other member banks' ATMs at lower transaction costs.

The Bank has also launched net banking as well as SMS based mobile banking enabling its customers to conduct cheaper and quicker mode of banking transactions. Inter bank dealings to the extent possible are being carried out by Real Time Gross Settlement (RTGS), currently through 240 Finacle Branches. The Board has approved a comprehensive Disaster Recovery (DR) Policy and DR solution. A DR Site has been identified in Bangalore.

The Bank has developed in-house, various departmental packages such as CPRAS [Centralized Payroll Accounting System], ICDMS [Integrated Corporate Data Management System], CIS, NPA Consolidation and Follow up of Inspection reports etc. to assist the internal users. A well-knit back up policy approved by the Board is in place.

The Bank has a system of regular computer audit being carried out by the Inspection department. It covers wide spectrum of operational issues pertaining to computerized environment such as software deficiency, security procedures, procedural defects,



## DIRECTORS' REPORT

non compliance of instructions, operational areas related to hardware, its maintenance, insurance etc. The irregularities/deficiencies are monitored and followed up for rectification.

### **RISK MANAGEMENT**

The Bank has a well defined Risk Management System which includes an independent and integrated Department for Risk Management and is headed by an officer of a sufficiently senior rank who reports directly to the Chairman in respect of these functions.

The broad functions of the Department and the Board/Executive Committees are to identify, measure and monitor the overall credit, market and operational risks assumed by the Bank in an integrated manner.

An overall risk management policy, which determines the broad contours for the functioning of the Department and of the Committees, is in place. This policy addresses the operational risk management aspects and risks associated with computerisation and automation also.

The Bank periodically quantifies its risks on account of changes in market factors. The impact of price risk on securities is estimated periodically. In fact, it was because of the system in place the Bank could anticipate, assess and control the risk and help strategize the Bank's policy on the treasury side.

### **INTERNATIONAL BANKING**

During the year ended 31st March 2005, the Bank's total forex business crossed Rs.23,000 crores mark to reach Rs.23,548 crores. The merchant turnover rose to Rs.4457 crores recording a growth of Rs.898 crores, inspite of tough market conditions. Forex business, both trading and merchant, improved considerably during the last financial year and exchange profit also increased from Rs.9.32 crores to Rs. 10.74 crores as on 31st March 2005.

The Bank has drawing arrangements with 17 major Exchange Houses and 4 banks for facilitating the transfer of funds for the NRIs. The Bank has also concluded additional arrangements with more exchange houses and has started SIB EXPRESS facility with 3 exchange houses to have quick credit to customers' accounts. Further it has started the TT remittance facility from Saudi Arabia through Al Rajhi Banking & Investment Corporation. In addition to this the Bank is having Nostro accounts in all major currencies with International banks enabling quick remittance. The Bank has also become a member of the Society for Worldwide International Financial Telecommunication network (SWIFT). With the introduction of the Swift facility, the Bank's international communication facilities have improved substantially. Incidentally, it is the first Bank in India using the new version of the IP based SWIFT network. FOREX Central Office, Ernakulam and 12 key forex branches are connected to the Swift network. The Bank has introduced more convenient SIB Cash Passport towards travel purpose instead of using traveller's cheques. This novel scheme has been widely accepted by the customers

### **NRI PORTFOLIO**

The Bank continues to occupy the premier position of having the maximum number of exclusive NRI Branches (13 Nos.) in

the state of Kerala. NRI deposits constitute 34% of the total deposits of the Bank. A new centralized NRI Cell headed by an Assistant General Manager has been formed to exclusively cater to the needs of the NRI Customers.

The Bank has opened many branches in the northern states as well as in the highly potential areas of Kerala State to expand the NRI clientele base at these centres. An advertising campaign in association with Asianet FM Radio has been flagged off in the Middle East Countries with a view to promoting Bank's products and services among the NRI Customers. A special campaign called 'NRI Bonanza' has been launched to attract potential NRI customers and thus expand Bank's low cost deposit portfolio. Arrangements have been made to send a team of marketing officers to the Middle East Centres to have direct interaction with the NRIs and thereby to market Bank's Hi-tech products like Global Debit Card, SMS and Internet Banking etc. The NRI cell has initiated steps to establish contacts with various NRI Associations around the world to popularise the Bank amongst the international customers.

### **TRAINING**

During the year 2004-05, 752 staff members were trained at in-house Staff Training College, Thrissur in 32 programmes on various functional areas such as General banking, Credit Management, Marketing, Foreign Exchange, Retail Banking, Finacle etc. including a programme on Credit Risk Management. Apart from this, 148 officers were sent for training to outside Training Institutes of repute such as BTC Mumbai, NIBM Pune, SIBSTC Bangalore, FEDAI etc. covering subjects like Credit Management, Foreign Exchange, HRD, Corporate lending, Risk based supervision, Asset Liability Management etc. The percentage of staff trained, both at our Staff Training College and outside Training Institutes, constitute 25.1% of the total staff strength.

### **MARKETING**

The efforts of the Marketing Department of the Bank during the year were mainly focused on marketing of the various products and training of the field staff. Skilled officers were identified at Regional Offices/ Branches in order to stimulate marketing activities.

### **NEW INITIATIVES**

The Bank has been striving hard to offer the best of products to its customers enabling them to enjoy the latest and hassle-free banking. Keeping this in view, the Bank has taken initiatives to introduce the following products during the current year: -

**SIB - Mobile Service (SMS)** - a mobile banking service based on 'Short Messaging Service (SMS) technology. This state-of-the-art service offers the convenience of receiving information about the accounts with the Bank, in the form of text messages on the mobile phone screen.

**SIB - Utsav** - a family specific loan product, intended to finance any kind of religious or family functions like wedding, birthday, wedding anniversary, baptism, holy communion, naming ceremony, shastiabdapoorthy, upanayanam, shatabhishekam, etc.

**SIB - Cash Passport** - a service product, which is a cash card that is pre-loaded with funds before the customer goes travelling abroad. It can be used to withdraw cash from Visa ATMs in over 140 countries, in the local currency.





## DIRECTORS' REPORT

**SIB - Express Transfer** - a method for instant online credit to the beneficiary's account at the desired branch through 'Finacle', immediately on remittance of cash/effect of transfer.

### **OTHER BUSINESS ACTIVITIES**

#### **Life Insurance business with ICICI Prudential Life Insurance Co. Ltd.**

With effect from 1st January 2005, the Bank has migrated from the referral arrangement with ICICI Prudential Life Insurance Co. Ltd. to Corporate Agency model, for doing life insurance business, thereby increasing the commission income.

#### **Demat Centre**

The Bank is a Depository Participant of Central Depository Services (India) Ltd.(CDSL), Mumbai. Initially the operations of Demat Centre were restricted to branches of Thrissur District. However, with the setting up of an automated on-line back office, the demat facility has been extended to 50 centres throughout the country, during the current year.

### **CUSTOMER SERVICE**

A bank has to retain and enhance its market share by understanding and accepting the benefits of advanced technology. Coping with ever increasing customer expectations and development of newer products and services are the twin objectives of the management of the Bank. Anywhere banking has been spread to more and more branches and many customer-centric products have been developed as well. Nevertheless, the Bank has not compromised on the high level of personalized customer service and has even constituted a Customer Service Committee of Board to address to the needs and expectations of the customers keeping in mind the Bank's motto 'blending tradition with technology'. Needless to state that the advent of highly technological products have not been allowed to remove the human interface between the Bank and its customers and therefore such products have been introduced only to enable the valuable customers enjoy the convenience they offer.

### **PERSONNEL**

As on 31st March, 2005 the Bank had 3896 personnel on its rolls as against 3534 as on 31st March, 2004. Cadre-wise break-up is as under: -

|          |   |      |
|----------|---|------|
| Officers | : | 1585 |
| Clerks   | : | 1340 |
| Peons    | : | 663  |
|          |   | 3588 |

Besides, there were 308 part-time employees in subordinate cadre.

### **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 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 in receipt of remuneration covered by Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975.

### **SOCIAL COMMITMENTS**

#### **The SIB Students' Economic Forum**

The Bank has always been endeavoring to intimate the latest developments in the banking industry to the student community of the country through a monthly publication, viz. 'SIB Students Economic Forum'. During the current year the topics covered were Banking Risks, Money Market Instruments, Board for Industrial and Financial Reconstruction (BIFR), Indian Financial System, Gold Card Scheme for Exporters, Bankassurance, Trading in Government Securities, Indian Accounting Standards I, Indian Accounting Standards II, Call Money Market, Society for Worldwide International Financial Telecommunication Network (SWIFT) and Real Time Gross Settlement (RTGS). The mailing list for 'SIB Students Economic Forum' includes corporates, educational institutions and eminent personalities from all walks of life.

#### **The Tsunami' Relief Fund**

In December 2004 the 'Tsunami' disaster struck at South-East Asia, including India. Thousands lost their lives while millions were rendered homeless. In a bid to offer all possible help to the 'Tsunami' victims, the Bank and its staff members mustered an amount of Rs.36.36 lacs and contributed towards Prime Minister's National Relief Fund and Chief Minister's Relief Fund.

### **DIRECTORS**

Shri.Babu Alapatt and Shri.Mohan Alapatt who retired at the 76th Annual General Meeting were re-appointed as Directors of the Bank. At the said Annual General Meeting, Shri.Davy K.Manavalan was appointed as Director of the Bank liable to retire by rotation.

Dr. C. Mathew John, Sri. Paul Chalissery and Sri. Babu Alapatt, Directors, resigned from the Board w.e.f. 22nd July 2004, 10th September 2004 and 23rd February 2005 respectively. The Board places on record its appreciation for the services rendered by them during their tenure.

Dr.C.J.Jose was appointed as an Additional Director by the Board of Directors at its Meeting held on 1st October 2004.

Shri.Jose Alapatt was appointed as an Additional Director by the Board of Directors at its meeting held on 11th May 2005.

Shri A.Sethumadhavan relinquished his office as Director and Chairman and Chief Executive Officer of the Bank at the close of office hours on 4th June 2005 on completion of his extended tenure of three years in office. The Board places on record its appreciation for the valuable services rendered by Sri. A.Sethumadhavan during his term of office as the Chairman of the Bank.



## DIRECTORS' REPORT

Dr. V.A. Joseph, formerly Executive Director of the Bank, co-opted as a Director, took charge as Chairman & Chief Executive Officer w.e.f. 5th June 2005. He has been appointed to this office by the Board for a period of 3 years with the approval of Reserve Bank of India.

Pursuant to the provisions of Sec.260 of the Companies Act, 1956, Dr. C.J. Jose and Shri. Jose Alapatt vacate their offices at the ensuing Annual General Meeting. Two members of the Bank have expressed their intentions to propose Dr.C.J.Jose and Shri. Jose Alapatt as candidates for the office of Directorship and have given notices in writing along with deposit of Rs.500/- each, in terms of Sec.257 of the Companies Act, 1956. Shri.G.A. Shenai and Dr. John Joseph retire by rotation at the 77th Annual General Meeting and are eligible for re-appointment.

### **AUDITORS**

M/s.Varma & Varma, Chartered Accountants, Kochi, vacate their office at the Annual General Meeting to be held this year but are eligible for re-appointment for the financial year 2005-06, subject to approval by Reserve Bank of India.

### **EXPLANATION FOR AUDITORS' COMMENTS IN THE REPORT**

Elimination of the pending items in inter-branch accounts, sundries and non-tallying of schedules - The elimination takes place on an ongoing basis and the impact of the same on the Accounts is not material.

### **CORPORATE GOVERNANCE**

A separate report on the status of implementation of Corporate Governance as required under Clause 49 of the Listing Agreement with the Stock Exchanges, along with a certificate from M/s.Varma & Varma, Statutory Auditors of the Bank, is annexed to the Report.

### **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

This has been dealt with in a separate section in the Annual Report.

### **DIRECTORS' RESPONSIBILITY STATEMENT**

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

1. In the preparation of the annual accounts for the financial year ended 31st March, 2005, the applicable accounting standards have been followed and proper explanation has been furnished to the extent of departures from those standards.
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 2004-05 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, 2005, on a going concern basis.

### **ACKNOWLEDGEMENTS**

The Board of Directors places on record its gratitude to the Reserve Bank of India, other Government and Regulatory Authorities, financial institutions and correspondent banks for their strong support and guidance. The Board also places on record its gratitude to the Bank's shareholders and customers for their continued support, patronage and goodwill. Further, the Board expresses its appreciation for the dedicated service rendered by employees of the Bank at all levels.

Thrissur  
26.07.2005

By Order of the Board  
Sd/-  
(V.A. JOSEPH)  
CHAIRMAN

## DIRECTORS' REPORT

### **MANAGEMENT DISCUSSION AND ANALYSIS REPORT**

#### **Economic Scenario**

The Indian economy maintained a reasonable growth, inspite of deficient monsoon. The growth in GDP for the year 2004-2005 was 6.9% as compared to 8.5% in the previous year. The agricultural and allied sector recorded a growth of 1.1% as against 9.6% in the year before. The decrease in growth was mainly on account of deficient southwest monsoon. The service sector has shown a growth of 8.6% during the year 2004-05 as compared to 8.9% last year. The growth of industrial sector is estimated to be 8.3% as against 6.5% in 2003-04. The year 2004-05 was eventful on account of the following factors: -

- 1) Liquidity overhang
- 2) Hardening international prices of steel and oil
- 3) First recorded experience of Tsunami, causing extensive damage to life and property in coastal areas.

Capital markets passed through various peaks and troughs during the year, from a low during mid May 2004 to an all-time high in March 2005. Strong fundamentals and continued support by FIIs drove the market sentiments during the year under review. The annual rate of inflation as measured by variation in the wholesale price index (WPI), on a point-to-point basis, stood at 5% by March 2005 as compared to 4.6% the year before. Although the inflation rate peaked to 8.7% in August 2004, the Government and Reserve Bank of India took various fiscal and monetary measures such as hike in Reverse Repo Rate, increase in Cash Reserve Ratio, etc., as a result of which the inflation rate came down by the year-end. The average annual rate of inflation was higher at 6.4% compared to 5.4% in the previous year. The annual growth in Broad Money (M3) was 12.8% during the year 2004-05.

India's foreign exchange reserves went up to US \$ 141.5 billion by end of March 2005, as against US \$ 113.0 billion at the end of the year 2003-04. The Rupee depreciated against major currencies like US dollar, Pound Sterling and Euro but appreciated against Japanese Yen.

The total exports during the year were valued at US \$ 79.59 billion while imports were of the order of US \$ 106.12 billion. The trade deficit increased to US \$ 26.53 billion as against US \$ 14.27 billion during the previous year.

#### **Banking Scenario**

There was a decline in the growth rate of aggregate Deposits of Scheduled Commercial Banks, during the year under review. The growth was only 14.1% (Rs.211963 crores) as against 17.5% (Rs.223563 crores) in the earlier year. The lower deposit growth was partly attributed to reduction in non-resident Indian (NRI) deposits with the banking system. However, the bank credit registered a strong increase of over 26% (Rs.218623 crores) as compared to 15.3% (Rs.111570 crores) in the earlier year. Food Credit increased by Rs.5159 crores as against a decline

of Rs.13518 crores in the previous year. Non-food credit increased by 26.5% (Rs.213464 crores) as compared with 18.4% (Rs.125088 crores) in the previous year.

RBI has been fine-tuning its regulatory and supervisory mechanism to match international standards. Draft Prudential Guidelines on Capital Adequacy were issued by RBI in February 2005 with an objective to ensure Bank's migration to Basel II norms in a non-disruptive manner. All Banks are required to adopt standardised approach for credit risk and Basic Indicator Approach for operational risk w.e.f 31/03/2007. A roadmap for presence of foreign banks in India and guidelines for ownership and governance of private banks in India have also been issued by RBI. Government of India announced a new autonomy package for PSU Banks so as to provide them a level playing field for competing with private sector Banks.

#### **Economic and Banking Outlook**

On the whole there is a positive outlook for industrial growth owing to improved capacity utilisation, recovery in business investments, expanding external and domestic demand and easy availability of credit.

With the economic growth picking up pace, the Banking sector is poised to benefit immensely in its role as key financial intermediary. Retail lending is likely to witness faster growth. Relaxation of investments abroad may see Indian Corporates venturing overseas market.

#### **Opportunities and Threats**

With the Core Banking Solution (CBS) in place, the Bank is now offering 'Any time, Any where' banking to its customers in 238 branches and 13 extension counters. It is poised to make further progress in this regard by bringing more branches under the "CBS" and at the same time offer new products and services and further improve operational efficiency by taking advantage of technological support. The bank is also planning to expand its branch network by opening branches in hitherto uncovered areas. It is also committed to fulfill the varying requirements of customers and to establish continued and mutually satisfying banking relationship with all segments of customers.

In terms of the scheme of Prompt Corrective Action (PCA) announced by RBI, the Regulator would initiate certain structured action in respect of banks, which have hit the trigger points relating to Capital to Risk Weighted Assets Ratio (CRAR), Net Non-Performing Assets (NPA) and Return on Assets (ROA). In view of the fact that corporates are directly accessing the market for their fund requirements, it is likely that credit offtake from corporate sector may get reduced until a large number of new projects are set up.

Technology driven service and new players in the market are penetrating rural and semi-urban areas providing new products. Also, the competition from other banks is continuously getting stiffer.