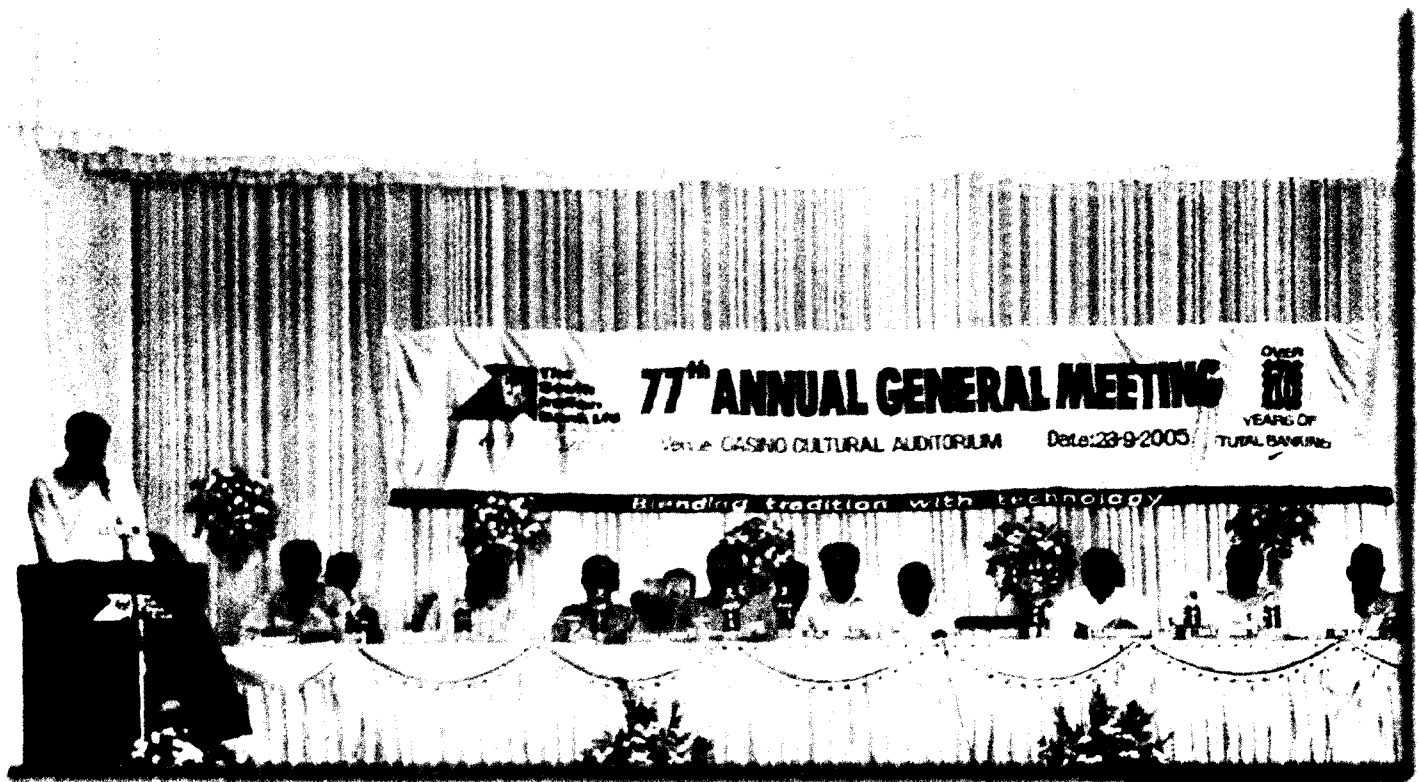


# Annual Report 2005-2006



Blending tradition with technology



Chairman addressing the shareholders at the 77th Annual General Meeting.

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Press Meet at Kochi announcing the Annual Results 2005 - 06 on 2nd May 2006



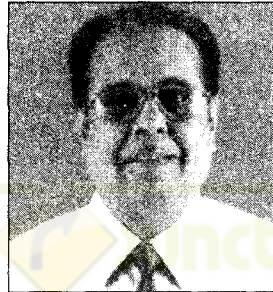
## BOARD OF DIRECTORS



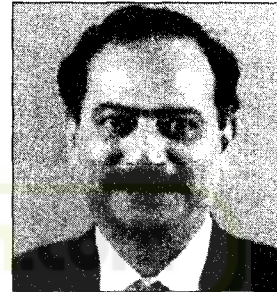
Dr. V.A. Joseph  
Chairman



Mr. Mohan Alapatt



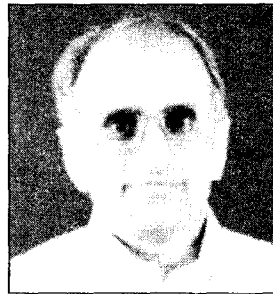
Mr. G.A. Shenai



Dr. John Joseph



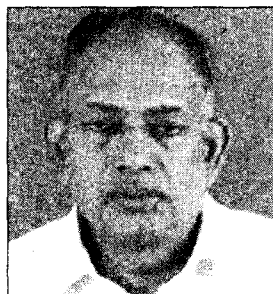
Mr. John P. Chakola



Mr. A.S. Narayanamoorthy



Mr. Davy K. Manavalan



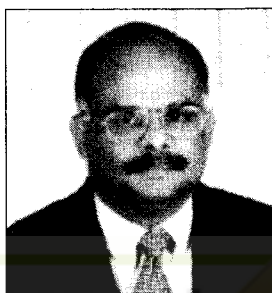
Dr. C.J. Jose



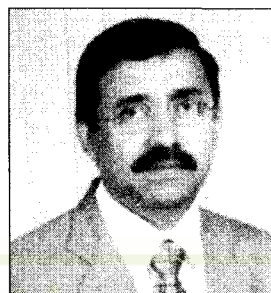
Mr. Jose Alapatt

**CHIEF GENERAL MANAGER**

Mr. M. Valsan

**GENERAL MANAGERS**

Mr. V.P. Joseph



Mr. Cheryan Varkey

**DEPUTY GENERAL MANAGERS**

Mr. Alex Mathew  
Mr. A.G. Varughese  
Mr. George Davis Thottan  
Mr. N.V. Ignatius  
Mr. K.S. Krishnan  
Mr. M.S. Mani  
Mr. K.S. George

Mr. P.E. Mathai  
Mr. Anto C. Kalliath  
Mr. Joseph George Kavalam  
Mr. P.J. Jacob  
Mr. P.J. Johny  
Mr. K.C. Francis  
Mr. Roy Alex Vilangupara

**ASST. GENERAL MANAGERS**

Mr. T. D. Devassia  
Mr. Varghese John  
Mr. V.J. Thomas  
Mr. P.C. Jose  
Mr. C.J. Jose Mohan  
Mr. C.T. Devis  
Mr. P.K. Kochanthony

Mr. Balbir Singh  
Mr. K.L. Baby  
Mr. V.A. Paul  
Mr. K.V. Bhasi  
Mr. P. J. Ouseph  
Mr. P. Muraleedharan  
Mr. Abraham K. George

Mr. Thomas Joseph K.  
Mr. John Thomas  
Mr. Shibu K. Thomas  
Mr. R. Krishna Prasad  
Mr. C.S. Francis Lal

**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.



## DIRECTORS' REPORT TO THE SHARE HOLDERS

The Board of Directors is pleased to place before you, the 78th Annual Report of the Bank along with the Audited Balance Sheet as at 31st March 2006 and the Profit and Loss Account for the year ended 31st March 2006.

### PERFORMANCE OF THE BANK

The Performance highlights of the Bank for the financial year ended 31st March 2006 are as follows: -

Key Parameters	Rs. in crores	
	2005-06	2004-05
Deposits	9579.00	8492.00
Advances	6745.00	5712.00
Total Business	16324.00	14204.00
Net Profit	50.90	8.70
Net Worth	640.85	455.25
Capital Adequacy (%)	13.02	9.89
EPS (Weighted Average) (in Rs.)	10.25	2.10
Book Value per Share (in Rs.)	91.03	95.44
Net NPA as % of Net Advances	1.86	3.81

The Bank registered commendable increase in net profit to Rs.50.90 crores as against Rs.8.70 crores in the previous year. This performance was on account of the thrust given to NPA recovery and also by effectively bringing down the cost of deposits.

### FINANCIAL PERFORMANCE

#### Profit

The Profit and Loss Account shows an Operating Profit of Rs.168.62 crores before depreciation, taxes and provisions as per details given below:

	(Rs. in crores)
Profit before depreciation, taxes & provisions	168.62
Less: Depreciation	: 12.23
Provision for NPA	: 71.87
Provision for depreciation on investments	: 5.86
Provision for Income Tax/Wealth Tax	: 18.06
Provision for standard assets	: 9.70
	<u>117.72</u>
Net Profit	: 50.90
Brought forward from last year	: 0.04
Profit available for appropriation	: <u>50.94</u>

### Appropriations

Transfer to Statutory Reserve	12.73
Transfer to Capital Reserve	13.46
Transfer to Revenue & other reserves	3.82
Proposed Dividend	12.67
Dividend Tax on Proposed Dividend	1.78
Carried over to Balance Sheet	6.48
Total	<u>50.94</u>

### Dividend

The Board of Directors has recommended a dividend of 18% p.a. (tax-free in the hands of shareholders), which is subject to approval of shareholders at the General Meeting.

### EXPANSION PROGRAMME/POLICY OF THE BANK

The Bank has been successful in changing its regional character into a national one by opening new branches in three more States. The branch network now covers 19 States and Union Territories. During the current fiscal the Bank has opened 21 new branches (including up gradation of 15 extension counters) and 11 new extension counters. At the end of the financial year, the Bank had 450 branches and 45 extension counters. The Bank has an ATM network of 145 centres with a card base of around 2,50,000.

The Bank has since obtained RBI permission to open one more Regional Office at Pathanamthitta, 18 new branches, and 20 ATM centres, which are expected to be opened in the current year.

### CAPITAL & RESERVES

During the year under review, the Bank came out with a Follow - on Public Offer of 2,27,27,272 equity shares of Rs. 10/- each at a premium of Rs.56/- per share aggregating to Rs.150 crores through Book-Building route taking the issued capital of the Bank to Rs.70.41 crores. The issue opened on 10th February and closed for subscription on 15th February 2006. The issue received a very good response. The Board wishes to thank the investors comprising old and new shareholders for the confidence reposed in the Bank and making the Public issue a grand success. The expenditure of Rs.9.11 crores incurred for the issue has been charged off to the revenue of the current financial year.

ICICI Bank Ltd., a strategic investor in the Bank, who was holding 4722786 shares representing 6.71 % of the paid up capital in the Bank in the beginning of March 2006, made an exit from the Bank by divesting its entire shareholding in March 2006.

Consequent to the Public issue and the plough back of profit, the Bank's Capital Adequacy Ratio (CAR) has increased to 13.02% from 9.89% of the previous year. Tier I CAR constituted 8.38%, while Tier II CAR constituted 4.64%. A sum of Rs.13.46 crores has been transferred to capital reserves as against Rs.6.50 crores last year.

## DIRECTORS' REPORT

### LISTING AGREEMENT WITH STOCK EXCHANGES

The Bank's shares have been listed on The Cochin Stock Exchange Ltd., The Bombay Stock Exchange Ltd., and The National Stock Exchange of India Ltd. The Bank confirms that it has paid the listing fees to all the Stock Exchanges for the year 2006-07.

In the 77th Annual General Meeting held on 23rd September 2005, a Resolution was passed approving de-listing of Bank's shares from The Cochin Stock Exchange Ltd. and authorizing the Board of Directors to take necessary action and make necessary compliances for the purpose of the said de-listing. Subsequently on a representation from the Governing Board of the Cochin Stock Exchange Ltd., requesting not to de-list Bank's shares to maintain the regional status, the Board of Directors decided to continue with the listing on the Cochin Stock Exchange Ltd.

### BUSINESS ACHIEVEMENTS

**Deposits:** Inspite of the prevailing stiff competition in the market and decreased flow of NRI funds, the Bank could increase the deposit position to Rs.9578.66 crores from Rs. 8492.31 crores during last year.

The break-up of the deposits as on 31.03.2006 was as under: -

	Amount (Rs. in crores)	% to total deposits
Current Deposits	563.57	5.88
Savings Deposits	1966.31	20.53
Term Deposits	7048.78	73.59
Total	<u>9578.66</u>	<u>100.00</u>

**Advances:** The Bank made significant growth in advances by registering an increase of 18.09% from Rs.5711.93 crores to Rs. 6745.33 crores.

Total Priority Sector Advances constituted 41.47% of the net bank credit as against the mandatory level of 40%. Split up of advances to Priority Sector is furnished below:

	<u>Amount (Rs. in crores)</u>
Agriculture & Allied Activities	693.94 *
SSI	529.40
Other areas in the Priority Sector	1043.51
Total	<u>2266.85</u>

\*Excluding deposit under RIDF Scheme Rs. 101.92 crores.

### INVESTMENTS

In view of the expectation of further hardening of interest rate, the Bank continued a cautious approach on domestic treasury operations. During the year under review, gross investments decreased further to Rs. 2780 crores from Rs. 3195 crores. The average yield on investments worked out to 7.61%.

### DISCLOSURE IN RESPECT OF VOLUNTARY RETIREMENT SCHEME (VRS) EXPENDITURE

The expenditure incurred on Voluntary Retirement Scheme (VRS) is amortized over a period of 5 years from the year of payment and the unamortised amount is carried forward as deferred revenue expenditure.

The Bank had accepted VRS applications from 151 staff members subsequent to the closure of the accounting year. The likely financial impact on the above VRS is estimated at Rs. 7.25 crores.

### NON-PERFORMING ASSETS (NPA) MANAGEMENT

During the year 2005-06 the Bank had taken various steps to contain the growth of NPA and for speeding up recovery. Bank has conducted a number of recovery camps at various centres with the participation of all the staff members. The recovery target set for the year 2005-06 was Rs 175 crores and the Bank has collected Rs.160.45 crores through recovery during the year 2005-06.

On account of the effective measures taken during the year 2005-06 the ratios of Gross NPA to Gross Advances and Net NPA to Net Advances have been reduced compared to the previous year. Even though the total advances increased by Rs. 1033.40 crores, the Bank has managed to reduce the Gross NPA from Rs.366.13 crores to Rs. 327.82 crores and Net NPA from Rs.204.22 crores to Rs.118.21 crores. Hence the ratio of Gross NPA to Gross Advances got reduced to 4.99% compared to 6.63% last year and ratio of Net NPA to Net Advances got reduced to 1.86% compared to 3.81% last year. Thus the Bank could present a healthier asset portfolio for the current fiscal.

### AUTOMATION AND COMPUTERIZATION

The Bank has been implementing a host of IT initiatives to effectively compete and to mark its own niche in the banking horizon. First such initiative was the introduction of Core Banking Solution [CBS] with a centralized Data Centre (DC). The application deployed is FINACLE of INFOSYS, one of the globally recognized core banking solutions. The Bank has taken a conscious decision to network all the branches and implement CBS subject to the feasibility of required infrastructure. As on 31st March 2006, the Bank has 332 branches and 26 extension counters, functioning on CBS.

Leveraging on the CBS, the Bank has established ATM network. As of review date, the Bank has 145 on-line ATMs of which 38 are off-site. To spread out the ATM reach, the Bank has tied up with Master Card Inc for Global debit and ATM card operations. Besides the Bank has taken membership in National Financial Switch (NFS) of Institute for Development and Research in Banking Technology (IDRBT) whereby the use of domestic ATMs increases due to availability of other member bank's ATMs also.



## DIRECTORS' REPORT

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 activities. A Real Time Gross Settlement System (RTGS) cell is set up at Fort branch, Mumbai that facilitates the RTGS transactions of all networked/FINACLE CBS implemented branches. All the networked branches are RTGS enabled.

The Bank has a robust Information System (IS) Security set up built up pursuant to the IS Security policy adopted and approved by the Bank. System Audit and Security Audit are being done by external agencies.

The Bank has a comprehensive Disaster Recovery (DR) Policy and DR solution. The DR infrastructure has been set up in Bangalore.

The Bank has developed inhouse, various departmental packages such as CPRAS [Centralized Payroll Accounting System], ICDMS [Integrated Corporate Data Management System], Credit Information System (CIS), NPA Consolidation, follow up of inspection reports etc. to assist the internal users.

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

To conclude, the Bank's IT infrastructure is comparable to the best in the industry.

### RISK MANAGEMENT

The Bank has put in place a Risk Management System which is intended to address various risks involved in the day to day operations like credit risk, market risk, operational risk etc. It has been our endeavor to fine tune the system based on the business growth, market developments and regulatory guidelines. The risk management system is being reviewed quarterly.

The Risk Management Department (RMD) functions independently of operational departments and reports directly to Chairman. At the apex level we have a Risk Management Committee of the Board and Risk Management Committee of Executives to oversee the functions relating to risk management.

The Bank has a credit risk management policy, which addresses credit risk in lending. The Bank has developed internal credit rating models incorporating inter alia financial analysis, industry risk, management competency, etc. Separate rating frameworks for industries, trading concerns, non banking financial companies, and housing finance companies have been formed. The Bank is also in the process of building a rating model for the retail loan portfolio. The credit risk in trading and settlement is addressed through Investment and Forex Policy.

Market risk is addressed through Asset Liability Management Policy and Investment Policy. Interest rate risk in banking book is assessed by Earnings at Risk analysis and trading book by VaR and Duration analysis. The overall risk management policy deals with operational risk. The Bank has also put in place detailed operating guidelines in the day-to-day transactions including compliance with Know Your Customer (KYC) norms to manage operational risk. The Bank is taking steps to strengthen the RMD by providing infrastructure and required training to the officials for skill upgradation.

### INTERNATIONAL BANKING

During the year ended 31st March 2006, the Bank's total forex business crossed Rs. 30,000 crores mark to reach Rs. 30,813 crores. The merchant turnover rose to Rs. 5936 crores recording a growth of Rs. 1479 crores, despite tough market conditions. Forex business, both trading and merchant transactions improved considerably during the last financial year and earned exchange profit of Rs. 9.92 crores as on 31st March 2006.

The Bank has drawing arrangements with 19 major Exchange Houses and 4 banks for facilitating the transfer of funds for the NRIs. The Bank has also concluded SIB EXPRESS facility with 5 exchange houses to have quick credit to customers' accounts. Further it has TT remittance facility from Saudi Arabia through Al Rajhi Bank. In addition to this the Bank is maintaining Nostro accounts in all major currencies with international banks to enable quick remittance and other trade transactions. The Bank is a member of the Society for Worldwide International Financial Telecommunication network (SWIFT). FOREX Central Office, Ernakulam and 12 key forex branches are connected to the SWIFT network.

The Bank proposes to take over the management of an Exchange House viz. Hadi Express Exchange, Abu Dhabi, UAE for managerial support and business expansion.

### NRI PORTFOLIO

Being the first bank to open an exclusive NRI branch in Kerala and with 13 such branches in its network the Bank still occupies the prime position in terms of the maximum number of specialized NRI branches in the state. The total NRI deposits as on 31st March 2006 were at Rs.2905 crores which is 30% of the total deposits of the Bank. Percentage of NRI deposit of the Bank to its total deposit in Kerala state is 48.40%. The percentage is 40% for all banks put together in Kerala state as on 31.12.2005. The NRI customer base of the Bank has increased by 13.63% during the year.

The Bank has concentrated in expanding the branch network to Northern states and to potential NRI centres in Kerala with a view to attract more domestic and NRI customers respectively. The Chairman and three senior officials visited UAE during the month of December 2005, which has resulted in improving the

## DIRECTORS' REPORT

Bank's image further in the Middle East. Sri. M. Valsan, Chief General Manager of the Bank also visited Dubai and Abu Dhabi to address investors' meet organized by the Bank in connection with the Public issue.

An advertising campaign in Asianet FM radio was conducted in the Middle East to improve the image of the Bank among the NRIs. The 'NRI Bonanza Campaign' initiated by the Bank with an aim to attract potential NRI customers to our fold was a huge success. During the year the Bank has deputed a few officers to different Middle East countries for promoting the Bank's products and services at these centres with special focus on marketing high-tech products like Global ATM Card, Mobile Banking, Internet Banking, Any Where Banking facilities etc.

NRI Cell at Head Office is continuing its efforts to improve the services extended to NRIs. The proactive steps initiated have helped in reducing the customer complaints to a great extent. The quarterly NRI News Letter published by the Bank provides vital information regarding the important economic and NRI related areas. This is widely appreciated by the NRIs. The cell offers pivotal support to all the branches in their NRI related matters by continuously monitoring the growth in the NRI business.

### TRAINING

During the year 2005-06, 808 members of staff were trained at our Staff Training College, Thrissur in 41 programmes on various functional areas such as General Banking, Branch Management, Corporate Communication, Finacle etc. Further 199 persons were trained at our various Regional Offices located at Mumbai, Bangalore, New Delhi, Coimbatore and Chennai and the programmes included Motivation and Marketing, Branch Management, Programme on Credit, NPA recovery etc. Apart from this, 115 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, Basel-II, Corporate debt restructuring, Financing of Exports and FEMA, ORFS familiarisation, Financing Energy Efficiency Projects etc. The percentage of staff trained, both at our Staff Training College and outside training institutes constitutes 28 % 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 of the Bank and training of the field staff. About 60 Marketing Executives were recruited at Regional Offices level to stimulate the 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.

#### **A. REAL TIME GROSS SETTLEMENT SYSTEM (RTGS) -**

Through this scheme initiated by Reserve Bank of India, a customer of the Bank can send to and receive from accounts with any other Banks in India, who are also members of this scheme, amount not less than Rs.10,000/- on-line.

#### **B. SIB FAST MONEY**

This scheme enables on-line transfer of amounts upto Rs.50, 000/- per day to accounts in any of the networked branches of the Bank.

#### **C. SARAL SAVINGS BANK ACCOUNTS**

This is a new type of Savings Bank Account, which can be opened with a minimum balance of Rs.10/- and observing simplified Know Your Customer (KYC) norms.

#### **D. OTHER BUSINESS ACTIVITIES**

##### Insurance Business

The Bank continued the Corporate Agency with ICICI Prudential Life Insurance Co Ltd for life insurance business and United India Insurance Co Ltd for general insurance business.

##### Demat Centre

The Bank is a Depository Participant of the Central Depository Services (India) Ltd (CDSL), Mumbai and provides Demat facility at 67 centres, throughout the country.

### CUSTOMER SERVICE

It is with the intention of retaining the existing customer base and enhancing the market share that the Bank has embarked on technological upgradation. Anywhere banking has been spread to more and more branches and many technology-based products have been developed. ATM cards, Internet Banking, Mobile Banking etc have reduced the need for the customers to visit the branches for transactions. Nevertheless, the Bank has not compromised on the high level of personalized customer service and has even constituted a Customer Service Committee of the Board to address the needs and expectations of the customers, keeping in mind the Bank's motto 'blending tradition with





## DIRECTORS' REPORT

technology'. The introduction of highly technological products has not resulted in replacing the human interface between the Bank and its customers and they are only used for providing better convenience to our valuable customers.

### PERSONNEL

As on 31st March, 2006 the Bank had 4011 personnel on its rolls as against 3896 as on 31st March, 2005. Cadre-wise break-up is as under: -

Officers	:	1651
Clerks	:	1424
Peons	:	634
Total		<u>3709</u>

Besides, there were 302 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 authorized 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

#### SIB Students' Economic Forum

SIB Students Economic Forum is a unique knowledge promotion venture of the Bank started in the year 1991 and continuing uninterrupted for the last 15 years. The theme for each month is carefully chosen giving due thrust to economic, banking and financial areas. Though it is mainly targeted towards younger generation, feed backs reveal that it is highly popular among others also including corporates, educational institutions and eminent personalities from various walks of life. The subjects covered during the year 2005-06 include Banking Risks, Credit Risk, Market Risk, Operational Risk, Banking Cash Transaction Tax, Fringe Benefit Tax, The Right to Information Act, Revised Clause 49 of the Listing Agreement, South Asian Free Trade Area Agreement, etc.

### DIRECTORS

Shri. G. A. Shenai and Dr. John Joseph who retired at the 77th Annual General Meeting were re-appointed as Directors of the Bank. At the said Annual General Meeting, Dr. C. J. Jose and Shri. Jose Alapatt were appointed as Directors of the Bank, liable to retire by rotation.

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. His appointment and remuneration were approved by the shareholders at the 77th Annual General Meeting.

Pursuant to the provisions of Sec. 256 of the Companies Act, 1956, Shri. John P. Chakola and Shri. A. S. Narayanamoorthy vacate their offices at the ensuing 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 2006-07, 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 in 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, are 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 declare that:

1. In the preparation of the annual accounts for the financial year ended 31st March, 2006, the applicable accounting standards have been followed and proper explanation has

## DIRECTORS' REPORT

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 2005-06 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, 2006, 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  
26.05.2006

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

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