

ANNUAL REPORT 2006-07

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Chairman addressing the shareholders at the 78th Annual General Meeting

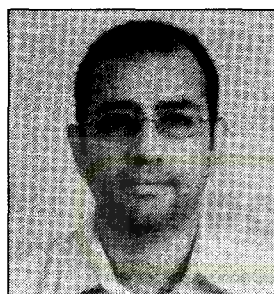


Press meet at Kochi - announcing the Annual Results for 2006-07 on 23rd April 2007

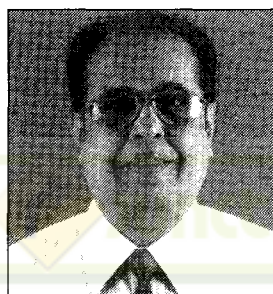
BOARD OF DIRECTORS (As on 31.03.2007)



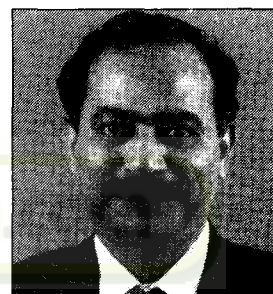
Dr. V.A. Joseph
Chairman



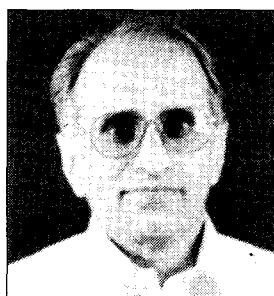
Mr. Mohan Alapatt



Mr. G.A. Shenai



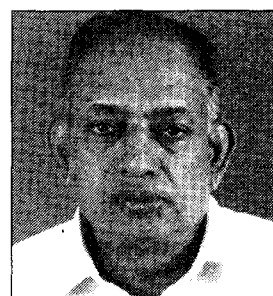
Dr. John Joseph



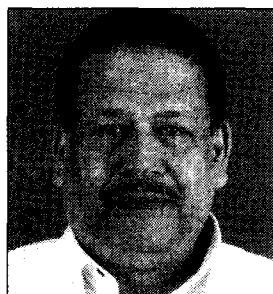
Mr. A.S. Narayanamoorthy



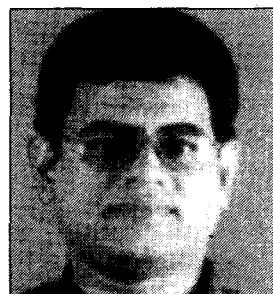
Mr. Davy K. Manavalan



Dr. C.J. Jose



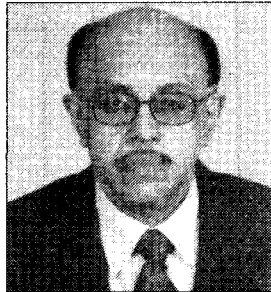
Mr. Jose Alapatt



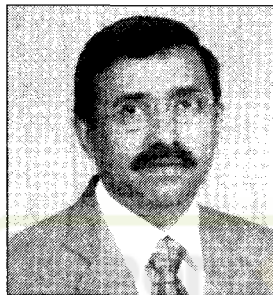
Mr. Paul Chalissery



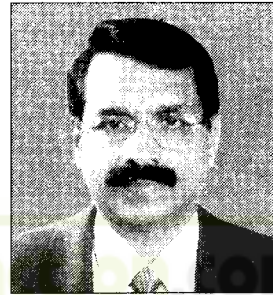
Mathew I. Chakola

CHIEF GENERAL MANAGER

Mr. M. Valsan

GENERAL MANAGERS

Mr. Cheryan Varkey



Mr. Alex Mathew

DEPUTY GENERAL MANAGERS

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 79th Annual Report of the Bank along with the Audited Balance Sheet as at 31st March 2007 and the Profit and Loss Account for the year ended 31st March 2007.

PERFORMANCE OF THE BANK

The performance highlights of the Bank for the financial year ended 31st March 2007 are as follows :-

Key Parameters	Rs. in Crores	
	2006-07	2005-06
Deposits	12239.00	9579.00
Advances	8308.00	6745.00
Total Business	20547.00	16324.00
Net Profit	104.12	50.90
Net Worth	723.96	640.85
Capital Adequacy (%)	11.08	13.02
EPS (Weighted Average) (in Rs.)	14.79	10.25
Book Value per Share (in Rs.)	102.84	91.03
Net NPA as % of Net Advances	0.98	1.86

The Bank has registered an all time record net profit of Rs 104.12 crores. The Bank could achieve this high net profit mainly on account of higher scale of operations, increased NPA recoveries and selling off the Equity stake in Bharath Overseas Bank Ltd.

FINANCIAL PERFORMANCE

Profit

The Profit and Loss Account shows an Operating Profit of Rs 263.60 crores before depreciation, tax and provision as per details given below :

	(Rs in crores)
Profit before depreciation, taxes & provisions	263.60
Less : Depreciation	11.78
Provision for NPA	83.29
Provision for depreciation on investments	8.20
Provision for Income Tax/Wealth Tax	42.31
Provision for standard assets	13.90
	<u>159.48</u>
Net Profit	104.12
Brought forward from last year	6.47
Profit available for appropriation	<u>110.59</u>
Appropriations	
Transfer to Statutory Reserve	26.81
Transfer to Capital Reserve	14.17
Transfer from Investment Fluctuation Reserve	-82.06
Transfer to Revenue & other reserves	122.89
Proposed Dividend	17.60
Dividend Tax on proposed dividend	2.99
Carried over to Balance Sheet	8.19
Total	<u>110.59</u>

Dividend

The Board of Directors has recommended a dividend of 25% (tax-free in the hands of shareholders), i.e., @ Rs.2.50/- per Equity share of face value of Rs.10/- per share, which is subject to the approval of shareholders at the annual general meeting.

EXPANSION PROGRAMME / POLICY OF THE BANK

The Bank has been successful in spreading its coverage across the country from South to North and West to East. The branch network now covers 23 states and union territories. During the current fiscal, the Bank has opened 25 new branches (including up-gradation of 11 extension counters). At the end of the financial year, the Bank had 475 branches and 34 extension counters. The Bank has an ATM network of 175 centres with a card base of 2,87,597.

The Bank is now holding licence to open 4 new branches and 5 ATMs. The Bank has also applied for permission to open 25 new branches and 27 ATMs, which are expected to be opened in the current year.

CAPITAL & RESERVES

The Bank has an issued capital of Rs 70.41 crores with 7,04,05,192 equity shares of Rs 10/- each, of which 5,79,93,605 shares are held in dematerialized form and 1,24,11,587 shares in physical form forming 82.37% and 17.63% respectively of the total number of equity shares.

The Bank's Capital to Risk Weighted Assets Ratio (CRAR) as on 31st March 2007 was 11.08% as against the statutory requirement of 9%. Tier I CRAR constituted 8.84% while Tier II CRAR constituted 2.24%.

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 2007-08.

BUSINESS ACHIEVEMENTS

Deposits: The Bank could increase its total deposits to Rs. 12239.00 crores from Rs. 9578.66 crores last year, registering an increase of 27.77%.

The break up of the deposits as on 31.03.2007 is as under: -

	Amount (Rs. in crores)	% to total Deposits
Current Deposits	619.20	5.06
Savings Deposits	2310.51	18.88
Term Deposits	9309.51	76.06
Total	<u>12239.22</u>	<u>100.00</u>

Advances: Total advances of the Bank registered a growth of 24.31% from Rs. 6745.33 crores in the previous year to Rs.8307.91 crores at the end of this year. Total priority sector Advances constituting 41.56% of the net bank credit as against the mandatory level of 40%. The split up of advances to Priority

DIRECTORS' REPORT

Sector is furnished below:

	<u>Amount (Rs. in crores)</u>
Agriculture & Allied Activities including approved investments under Rural Infrastructure Development Fund (RIDF)	1333.73
SSI	602.89
Other areas in Priority Sector	1280.66
Total	<u><u>3217.28</u></u>

INVESTMENTS:

The Monetary Policy stance of RBI focused more towards tightening of liquidity and the interest rates to combat the rising inflation and keeping the same in mind, the Bank continued a cautious approach on domestic treasury operations. During the year under review, gross investments increased from Rs. 2780 crores to Rs. 3457 crores. The incremental investments mainly were in the low duration papers. The overall modified duration of the portfolio stood reduced to 3.8 years of which the duration of securities under available for sale is 0.71 years. The average yield on investments stood at 6.85%

DISCLOSURE IN RESPECT OF VOLUNTARY RETIREMENT SCHEME (VRS) EXPENDITURE

The expenditure incurred on Voluntary Retirement Scheme (VRS) during the financial year 2002-03 stands fully amortised over a period of 5 years. The VRS expenditure incurred during the current financial year amounting to Rs.7.18 crores is amortised over a period of 4 years from the current year and the unamortised amount is carried forward as deferred revenue expenditure. The unamortised amount of VRS expenditure carried forward amounts to Rs. 5.41crores.

NON-PERFORMING ASSETS (NPA) MANAGEMENT

During the year 2006-07, the Bank had taken various steps for recovery of Non Performing Assets and thereby contain the growth of NPAs. Conduct of recovery camps, issue of notice under Securities and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI), one-time settlements, etc., were the major tools used by the Bank for NPA recovery. The Bank could make recovery from 93.25% of the borrowers to whom notices under SARFAESI Act were issued.

As a result of the various steps taken, the Bank could recover NPA to the tune of Rs.137.90 crores during the year. The Gross NPA of the Bank as on 31.03.2007 was Rs. 321.21 crores as against Rs. 327.82 crores as on 31.03.2006. The percentage of Gross NPA to Gross Advances came down from 4.99% as on 31.03.2006 to 3.94% as on 31.03.2007. The most notable achievement in NPA management was that the Bank could reduce the percentage of net NPA to net advances from 1.86% as on 31.03.2006 to 0.98% as on 31.03.2007

AUTOMATION AND COMPUTERIZATION

The Bank has taken a conscious decision to network all its branches and implement Core Banking Solution (CBS) through the application of a software called 'Finacle' of Messrs Infosys Technologies Ltd. The Bank has achieved the target of migrating

all its 475 branches to CBS as on 31st March 2007, covering 100% of its business.

Leveraging on the CBS, the Bank has established an Automated Teller Machine (ATM) network. As of review date, the Bank has 175 on-line ATMs of which 38 are off-site. To spread out the ATM reach, the Bank has tied up with Master Card International for Global debit and ATM card operations. Besides, the Bank has also taken membership of National Financial Switch (NFS) of Institute for Development and Research in Banking Technology (IDRBT), the technical arm of RBI, through which customers could access their accounts by the ATMs of other banks located within the country.

The Bank has also launched net banking as well as Short Messaging Service (SMS) based mobile banking, enabling its customers to conduct cheaper and quicker banking transactions. The Bank is in the process of introducing payment gateway as well as enhanced net banking modules to facilitate utility payments, e- ticketing etc. A Real Time Gross Settlement System (RTGS) cell is set up at the Bank's Fort branch in Mumbai that facilitates the RTGS transaction of all networked branches. The Bank has also joined the National Electronic Fund Transfer (NEFT) system, an initiative of RBI for national level fund transfer, supplementing the existing RTGS scheme.

The Bank has a robust Information System (IS) Security set up pursuant to a Board approved IS Security policy. The Bank has received the Banking Technology award from IDRBT for Information Security Policies and Practices, in September 2006. System Audit and Security Audit are being done by external agencies. The apex body known as IS Security Forum conducts periodic review of the IS security related matters.

A well knit back up policy approved by the Board is in place. Both off-site and on-site back ups as per the frequency and periodicity are being scrupulously followed as per policy guidelines.

The Bank has introduced corporate mailing solution in July 2006. The Bank's web site has been re-designed in tune with the latest developments in banking and new products being offered to its customers.

The Bank has already initiated steps for implementation of the following packages/application and it expects them to be operational during the current financial year.

- ◆ Integrated Treasury Management System
- ◆ Asset Liability Management System
- ◆ Credit Department Computerization Package
- ◆ Cheque Truncation System in the National Capital Region
- ◆ Anti Money Laundering Solution

RISK MANAGEMENT AND BASEL II

Risk is an integral part of banking business in an ever-dynamic environment, which is undergoing radical changes both on technological front and product offerings. The Bank aims to achieve an appropriate trade off between risk and return and thereby maximise shareholder value. The Bank has a comprehensive risk management set up to take care of various risks and has set up an Integrated Risk Management Department (IRMD), which is independent of operational departments. The Bank has a Risk Management Committee of the Board (R M C B) and an Asset Liability Management

DIRECTORS' REPORT

Committee (ALCO) of top executives, which are functioning at apex level for formulating, implementing, and reviewing the risk management measures in the Bank pertaining to credit, market and operational risks. The Bank has developed rating models for all major types of advances, which are tested before adoption and all major exposures are being rated by IRMD as a prudential risk management measure for mitigation of risks.

The Bank has Credit Risk Management Policy to manage Credit Risk, Asset Liability Management Policy, Forex Policy and Investment Policy for managing Market Risk. The Bank is in the process of putting in place a comprehensive Operational Risk Management Policy for managing operational risk and associated losses. For enabling a prudent and sophisticated asset liability management the Bank has started implementation of Bank Asset Liability Management Software (BALM).

The Bank has commenced running a parallel operation of new capital adequacy framework popularly called as Basel II and started calculation of CRAR under the new accord from June 2006. The Bank has initiated appropriate measures for smooth and seamless migration to Basel II accord at an earlier date even though the time stipulated by the regulator for compliance is March 2009.

INTERNATIONAL BANKING.

During the year ended 31st March 2007, the Bank's total forex business reached a level of Rs.35473 crores as against Rs.30813 crores last year. The merchant turnover for the year was Rs.12562 crores (Rs.5936 crores, last year). The exchange profit for the year rose to Rs.14.62 crores from Rs. 9.92 crores in the previous year.

NRI PORTFOLIO

The Bank with the unique distinction of opening the first exclusive NRI branch in Kerala still occupies the prime position with 13 exclusive NRI Branches in the State. The total NRI deposits grew by Rs. 253.46 crores from 31.03.2006 to reach a total of Rs. 3158.46 crores as on 31.03.2007. NRI deposits contribute 25.68 % of the total deposits of the Bank. NRI deposits from Kerala form 44% of the total deposits of the Bank in the state.

The Bank has given more thrust on improving the low cost deposit as well as enhancing the customer base. With these objectives, NRI ALLURE 2006 campaign was launched from October 2006 to March 2007. Through this campaign, the Bank was able to add a number of new customers and there has been a growth of over 12% in the NRI customer base within a year.

During the year under review, the Bank has signed a Secondment Agreement with Hadi Express Exchange, Dubai, for providing managerial support to this exchange house, thereby opening a new chapter in the area of international banking business. The opening of a second branch office of this exchange house at Sharjah on 6th May 2007, is an important step in expanding Bank's services in the oil rich state of United Arab Emirates (UAE). This will help the Bank to improve its liaisoning with the NRI fraternity in UAE. SIB EXPRESS, the on-line instant money transfer facility is made available by the Bank to all the NRIs, not only through the branches of Hadi Express Exchange, but also through a number of other exchange houses throughout the Gulf countries in the Middle East. Funds transferred through this facility will be credited to the beneficiary's account in all the networked branches on the same day with facility to confirm the credit through SMS to the remitter.

The Bank already has drawing arrangements with many exchange companies to provide better remittance facilities to the NRIs. The Bank is in the process of making arrangements with some more major exchange companies, which will help speedy and faster remittances from various Middle East countries with a view to provide best of service to customers.

The NRI cell at Head Office is dedicated to the full service of NRIs. The quarterly Newsletter published by the NRI cell, with an attraction of being the only one from a Bank, cited in the world famous search engine Google, stands out for its quality contents and relevant information for NRIs. The cell also offers best support to branches in their NRI related matters and closely monitors the growth of NRI business.

TRAINING

During the year 2006-07, the Staff Training College of the Bank at Thrissur conducted 56 training programmes on various functional areas such as Credit Risk Management, Depository Participant, Mutual Funds, Finance etc. and altogether 1278 of its staff members were imparted training at the College. Further 204 staff members were sent for training to outside training institutes of repute such as Bankers Training College Mumbai, Administrative Staff College of India, Hyderabad, Southern India Bank Staff Training College, Bangalore, National Institute of Bank Management, Pune, Foreign Exchange Dealers Association of India, etc covering subjects like Credit Management, Foreign Exchange, Competitive Strategies for Retail Banking, Market Focused Management, Integrated Risk Management, Basel II, MCA -21 regarding e-filing of charges with the Registrar of Companies, HRD, UCP 600, KYC norms and Anti Money Laundering etc. Apart from this, 57 staff members were trained at its Regional Offices located at Bangalore, Delhi and Mumbai on areas such as Credit Management, Forex Business, KYC norms etc. The percentage of staff trained, both at its Staff Training College and outside training institutes constitutes 39% of the total staff strength in 2006-07.

BRAND IMAGE

In order to reflect our growing stature in the banking industry as well as the operational strengths that we have achieved by the introduction of state-of-the-art technology, it was considered necessary to give a new orientation to the Bank's image. On the basis of the suggestions from various quarters, the Board of Directors decided to change the logo of the Bank to make it more contemporary and in tune with the changing times. The new logo emphasizes the soundness and the strength of the Bank in a symbolic 'S' in an artistic way. It is also a symbol of two hands strongly clasping on to the pillar that is the South Indian Bank.

MARKETING

1. New Initiatives:

(A) During the year under report, more thrust was given for Mutual Fund Marketing. The Bank had tie up with Prudential ICICI AMC alone. In order to offer choice for investment, the Bank entered into MOU with the following 5 more Asset Management Companies of repute :-

- a. TATA Mutual Fund
- b. SUNDARAM BNP Paribas Mutual Fund

DIRECTORS' REPORT

- c. RELIANCE Mutual Fund
d. FRANKLIN TEMPLETON Mutual Fund
e. UTI Mutual Fund

(B) Our customers have been asking for a more versatile, less expensive and a customer oriented credit card so as to enhance its utility to its users. With this requirement in mind, we have tied up with Citibank, a multinational bank to issue International VISA affiliated credit card. These credit cards are issued free for life without any recurring cost to our customers. We have started issuing the cards during the current year and they are expected to be in full swing in the next fiscal.

(C) Hitherto, the third party products like Mutual Fund, General Insurance, Life Insurance, and Credit Card etc. were distributed directly by our staff members through branch offices. We have opened a new channel for marketing the above products by appointing Marketing Executives. With the opening of this channel, we are able to service our customers in a much better way. The number of such marketing officers will be increased in the next fiscal so as to have more penetration and concentration at urban and rural centres. More customised co-branded insurance products will be sold in the market with lesser premium and at attractive terms in the next year.

II. Other Business Activities:

The Bank is offering Depository services to its customers by acting as a DP of Central Depository Services (India) Ltd (CDSL). Our customers could safely keep their securities in electronic form. However, our customers have been demanding for a trading tie up with a broking firm. We are under discussions with a few reputed brokers who can help our customers to sell and purchase securities directly from the market. We hope to complete such an arrangement in the current fiscal.

III. Customer Service:

Our mobile alerts are activated even before the customer leaves the branch or the ATM centre. "Any branch banking" cheque books are personalised and delivered to the customer in record time. Since 100% of our branches are connected under core banking solution, our "Any Branch Banking" (ABB) cheques are payable at par at all our branch locations.

Disclosure of Customer Complaints / Unimplemented awards of Banking Ombudsman as per Reserve Bank of India Circular DBOD.No.Leg.BC.60/09.07.005/2006-07 dated February 22, 2007.

A. Customer Complaints:

(a)	No. of complaints pending at the beginning of the year	13
(b)	No. of complaints received during the year	63
(c)	No. of complaints redressed during the year	64
(d)	No. of complaints pending at the end of the year	12

B. Awards passed by Banking Ombudsman:

(a)	No. of Unimplemented awards at the beginning of the year	NIL
(b)	No. of awards passed by the Banking Ombudsman during the year	04
(c)	No. of awards implemented during the year	03
(d)	No. of unimplemented awards at the end of the year	01

PERSONNEL

As on 31st March 2007, the Bank had 3868 personnel on its rolls as against 3709 as on 31st March 2006. Cadre - wise break up is as under:

Officers	:	1767
Clerks	:	1475
Peons	:	626
Total	:	<u>3868</u>

Besides, there were 283 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 taken 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, during the year.

SOCIAL COMMITMENTS - SIB Students' Economic Forum (SIBSEF)

Students' Economic Forum, which was launched in December 1991 is a monthly publication-discussing one theme in an issue covering a whole range of economic activities. The objective of this venture is to kindle interest in economic affairs in the minds of our younger generation and also to empower the student community through dissemination of knowledge in this vital area of general interest. Although it is a publication aimed at the younger generation and student community, letters of appreciation received at our end show that, the booklet is being well referred by academicians, administrators, diplomats and captains of industry. Comments and requests from banking personnel preparing for promotion tests and interviews indicate that "SIBSEF" is a popular reference manual, not only for them, but also for the members of interview boards. In response to the requests from our readers and well-wishers, we had compiled the first volume covering the themes 1 to 50 and the second volume with those from 51 to 100. In December 2006, we released the third volume of "SIBSEF" which is the collection of the topics 101 to 150. The topics discussed during the year 2006-2007 include Cheque Truncation, Core Banking System,

DIRECTORS' REPORT

Corporate Governance, BCSBI, EVA Framework and Union Budget. As per the suggestions received from the readers, open access is also made available to this publication through the bank's website.

DIRECTORS

Sri John P Chakola, one of the Directors of the Bank expired on 22nd August 2006. The Board of Directors of the Bank takes this opportunity to express on behalf of the Bank and all of you, deep condolences to the bereaved family. The Board of the Bank would like to place on record its sincere appreciation for the advisory support he gave during his tenure as a Director.

On 30th September 2006, the Board of Directors appointed Sri. Mathew L Chakola as a Director of the Bank, filling up the casual vacancy caused by the sudden demise of Sri. John P Chakola. Even though in terms of Section 262 of the Companies Act, 1956, Sri. Mathew L Chakola need not seek election to the office of a Director at the ensuing Annual General Meeting, he would like to get his appointment regularized by opting to get elected as a Director at the ensuing Annual General Meeting itself. For this purpose, he has, in accordance with the provisions of Section 257 of the Companies Act, 1956, already submitted his candidature for being elected as a Director of the Bank.

Further during the year under review, apart from re-appointment of directors who retired by rotation at the 78th Annual General Meeting, Sri. Paul Chaliserry was appointed an Additional Director on 30th September 2006. Sri. Mohan Alapatt resigned from the Board w.e.f. 23rd April 2007. The Board places on record its appreciation for the invaluable services rendered by him during his tenure as Director.

Dr. N.J. Kurian was appointed an Additional Director on 23.05.2007.

As per Section 260 of the Companies Act, 1956, both Sri. Paul Chaliserry and Dr. N.J. Kurian vacate their offices at the ensuing Annual General Meeting. Sri. Paul Chaliserry has, in accordance with the provisions of Section 257 of the Companies Act, 1956, already submitted his candidature for being elected as Director of the Bank. A member of the Bank has expressed his intention to propose Dr. N.J. Kurian as a candidate for being elected as a Director and has given a notice in writing along with a deposit of Rs.500/- in terms of Section 257 of the Companies Act 1956.

Sri. Davy K Manavalan and Sri. G A Shenai are the Directors who retire by rotation at the ensuing Annual General Meeting and they are eligible for re-appointment.

Thus Sri. Davy K Manavalan, Sri. G A Shenai, Sri. Paul Chaliserry, Sri. Mathew L Chakola and Dr. N.J. Kurian are the five Directors who are seeking re-appointment / appointment at the ensuing Annual General Meeting. The Board recommends their re-appointment / appointment as Directors of the Bank.

AUDITORS

The Statutory Central Auditors M/s Varma & Varma, Chartered Accountants, Kochi will retire at the ensuing Annual General Meeting. Having completed four years of continuous audit, the said firm is not eligible for re-appointment. Therefore, the shareholders will have to appoint a new firm as Statutory Central Auditors for the audit of the Bank's accounts for the year 2007-08. RBI has approved the appointment of M/s. Deloitte Haskins and Sells, Chartered Accountants, Chennai. A resolution will be placed before you at the ensuing Annual General Meeting seeking your approval for appointing them as the Statutory

Auditors of the Bank. The Board recommends the appointment of the said firm as the Auditors of the Bank for the year 2007-08.

EXPLANATION FOR AUDITORS' COMMENTS IN THE REPORT

The Board of Directors of the Bank is pleased to inform you that the report of auditors of the Bank does not contain any qualification or adverse remarks which shows the extent of care the management of the Bank has taken to create systems so as to ensure compliances.

CORPORATE GOVERNANCE

A separate report on the status of implementation of Corporate Governance as required under Clause 49 of the Listing Agreement with Stock Exchanges, and 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 Section 217 (2AA) of the Companies Act, 1956, the Board of Directors hereby declare that :-

1. In the preparation of annual accounts for the financial year ended 31st March 2007, 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 2006-07 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 2007, on a going concern basis.

ACKNOWLEDGEMENTS

The Board of Directors places on record its gratitude to the Reserve Bank of India, Securities and Exchange Board of India, other Government and Regulatory Authorities including stock exchanges where the Bank's shares are listed, financial institutions and correspondent banks for their strong support and guidance, during the year. 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
23.05.2007

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

DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Economic Scenario

The overall performance of the Indian Economy has shown an upward trend and a steady growth during the year under review. The real gross domestic product (GDP) growth for 2006-07 was placed at 9.2 per cent as compared to 9% in the previous year. The index of industrial production (IIP) recorded an increase of 11.3 per cent during the financial year 2006-07 as against 8.1 per cent during last year. The manufacturing sector, which recorded a growth of 12.1% compared to 9.1% in the last year, the expansion in the industrial sector, with its real GDP increasing from 8% in the previous year to 10.2%, the agricultural and allied activities, which registered a growth of 2.7% and the GDP originating in the services sector, which showed an increase of 11% as compared to 10.3% last year have contributed to the upward trend in the Indian Economy. The performance of the corporate sector was also on the rise with a favourable domestic and export demand conditions during the year under review. However, the construction sector registered a lower growth of 9.4% as compared to 14.2% in the previous year.

The equity markets witnessed major swings during the year, with the sensx reaching an all time high of 14,652 points in February 2007. The sensx stood at 13,072 points at the end of March 2007. Foreign Institutional buying, high macroeconomic activity and high corporate profitability are considered to be the factors responsible for the steady increase in the price of the securities. The inflation, measured by variations in the Wholesale Price Index (WPI) on a year-to-year basis reached a peak of 6.7% at the end of January 2007, before moderating to 5.7% on 31st March, 2007. The money supply (M3) grew from 17% (Rs.3,96,881 crores) in the previous year to 20.8% (Rs.5,67,372 crores). The balance of payments data released at the end of March has also reflected a strong macroeconomic activity.

The net accretion to India's foreign exchange reserves, excluding valuation changes, amounted to US \$ 16.2 billion during April - December 2006 as against US \$ 1.8 billion in April - December 2005. As a corollary to the increasing inflow of foreign investments in India and the burgeoning foreign exchange reserves, the Indian Rupee has been appreciating against the US Dollar throughout the year, affecting exporters to a large extent but benefitting the importers and helping the authorities to bring down the inflation.

Banking Scenario

The constant rise in the industrial and commercial activities have led to a reasonable expansion in monetary and banking aggregates in 2006-07 for the fourth year in succession. Financial markets experienced generally stable conditions during the greater part of 2006-07, with some volatility in the second half amidst heightened activity as volumes increased steadily and interest rates firmed up in all segments. The aggregate deposits of Scheduled Commercial Banks (SCBs) increased by 23.0 per cent (Rs.4,85,210 crores) during 2006-07 as against 18.1 per cent

(Rs.3,23,913 crores) in the previous year. Favourable interest rate differentials, tax incentives, which was extended to long-term bank deposits, growth in the non-resident deposits, increase in deposits from the private sector, etc are the major factors leading to deposit growth during the year under review.

On account of continuous growth in the economic activity in the country, the demand for bank credit is also moving up. Bank credit to the commercial sector increased by 25.4 per cent (Rs.4,30,287 crores) as compared with the increase of 27.2 per cent (Rs.3,61,746 crores) a year ago. The food credit extended by the SCBs increased by Rs.5,830 crores as compared to an increase of Rs.675 crore in the previous year, and non-food credit increased by 28.0 per cent (Rs.4,10,285 crore) on top of 31.8 per cent (Rs.3,54,193 crores). Personal loan has continued to record the highest growth among major sectors, with an increase of 34.9 per cent. Housing loans increased by 30.3 per cent while real estate loans rose by 66.7 per cent. The industrial sector showed a progress in respect of infrastructure (21.7 per cent), basic metals and metal products (35.5 per cent), textiles (35.8 per cent), food processing (25.6 per cent) etc. Agricultural credit recorded a growth of 31.2 per cent. Commercial banks' investments in public sector undertakings, private corporate sector etc has risen to Rs.4,002 crores during 2006-07, as compared to a decline of Rs.13,237 crores in the previous year. As a result, the total flow of funds from SCBs to the commercial sector, has increased by 26.8 per cent (Rs.4,14,287 crores) in 2006-07 as against 28.3 per cent (Rs.3,40,956 crores) in 2005-06.

The Annual Policy Statement for the year 2006-07 indicated that amendment to the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949 were being considered. The Reserve Bank of India Act, 1934 was amended in June 2006 with a view to enhancing the Reserve Bank's operational flexibility and providing it with greater manoeuvrability in monetary management. Consequent to the amendment, no interest will be paid on CRR balances so as to enhance the efficacy of the CRR, as payment of interest attenuates its effectiveness as an instrument of monetary policy. The RBI now has the discretion to decide the percentage of CRR to be maintained by the SCBs without any ceiling or floor rate. The amendment made to the Banking Regulation Act, 1949 has removed the floor rate of 25 per cent for statutory liquidity ratio (SLR) to be prescribed by the Reserve Bank thereby giving it more flexibility in its monetary management operations. The liquidity conditions are experiencing changes on account of the volatility in the call market.

Keeping in view the above, the monetary policy would be concerned with global and domestic developments. More emphasis is being placed on price stability and anchoring inflation expectations, along with its contribution to growth. The Reserve Bank of India will make sure that appropriate liquidity is maintained so as to meet the genuine credit requirements, particularly for productive purposes. In a nutshell, the overall