SOUTH INDIAN Bank

Experience Next Generation Banking

85th ANNUAL REPORT 2012 - 2013

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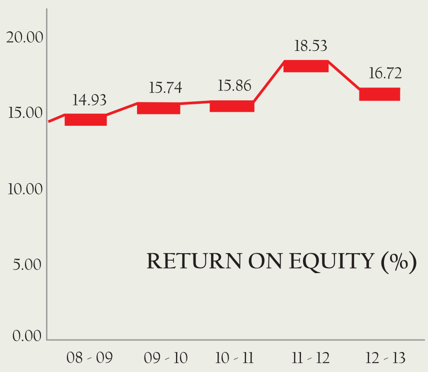

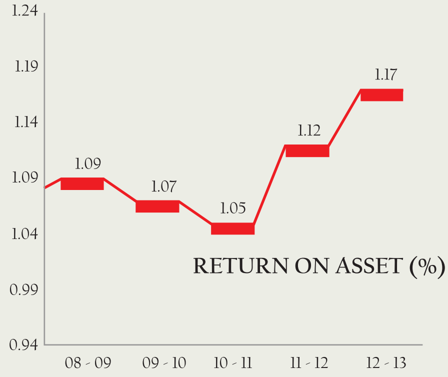

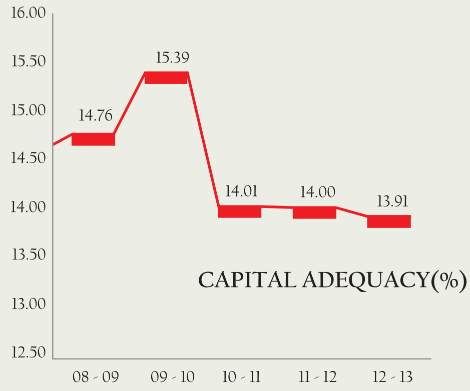

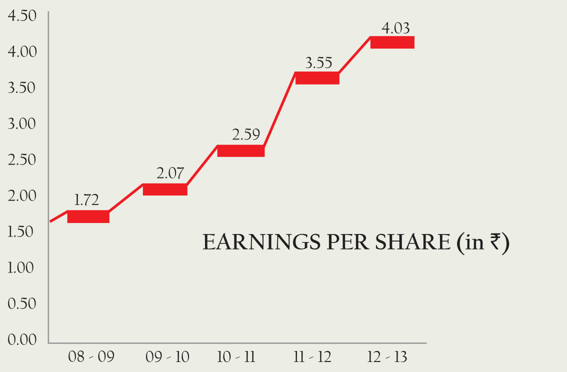

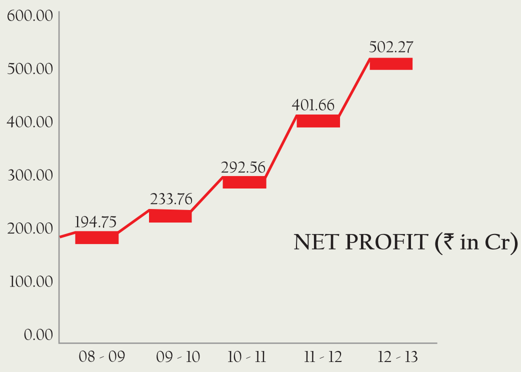

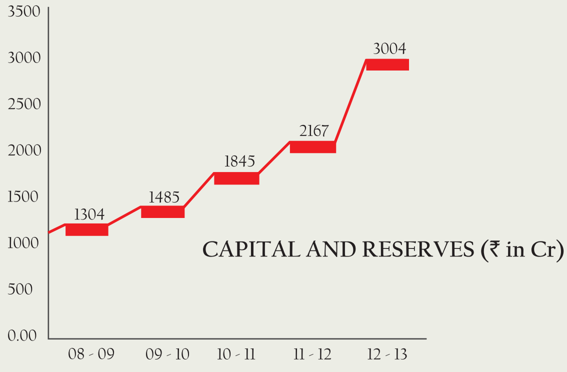

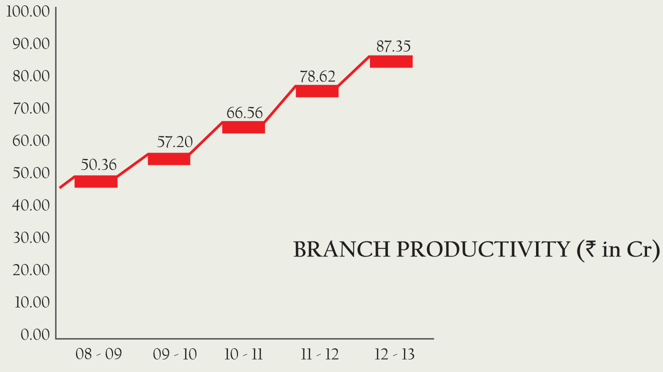

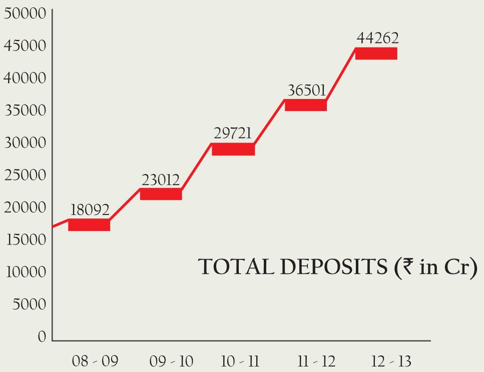

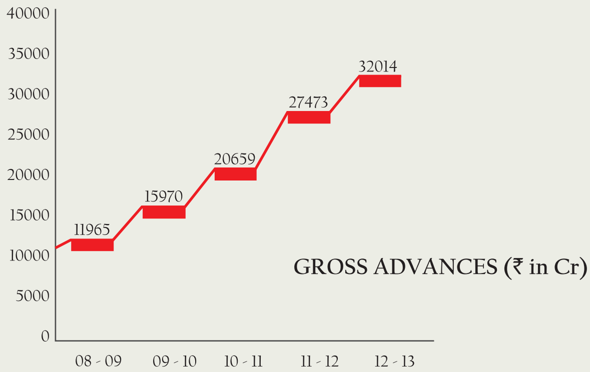

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BOARD OF DIRECTORS

Front row left to right
Dr. V. A. Joseph, Managing Director & CEO
Mr. Amitabha Guha, Chairman
Back row left to right
Mr. Mathew L. Chakola, Independent Director
Mr. K. Thomas Jacob, Independent Director
Mr. Jose Alapatt, Independent Director
Mr. Mohan E. Alapatt, Independent Director
Dr. N.J. Kurian, Independent Director
Mr. Paul Chalissery, Independent Director
Dr. John Joseph Alapatt, Independent Director
Mr. H. Suresh Prabhu, Non Executive Director

EXECUTIVE DIRECTORS


Mr. Abraham Thariyan


Mr. Cheryan Varkey

GENERAL MANAGERS*


Mr. Joseph George Kavalam


Mr. A. G. Varughese


Mr. Thomas Joseph K.


Mr. C.J. Jose Mohan


Mr. John Thomas


Mr. N. A. Murali


Mr. T. J. Raphael

DEPUTY GENERAL MANAGERS*

Mr. P. J. Jacob
Mr. K. C. Francis
Mr. Abraham K. George

Mr. Francis Antony P.
Mr. Benoy Varghese
Mr. Francis Chacko

Mr. Vijayakumar N.
Mr. Krishna Prasad R.
Mr. V. J. Thomas

Mr. Anto George T.
Mr. N.J. Reddy
Mr. V. L. Paul

Mr. C. P. Gireesh
Mr. E. A. Jacob
Mr. Jose P. Varghese

Mr. Bobby James
Mr. K. N. Balakrishnan
Mr. Narendran A.
Mr. S. K. Manjiyil

STATUTORY AUDITORS

M/s. S.R. Batliboi & Associates LLP
Chartered Accountants, 6th & 7th Floor-"A" Block, Tidel Park,
(Module 601, 701 & 702) No. 4, Rajiv Gandhi Salai,
Taramani, Chennai-600 113

REGISTERED OFFICE

The South Indian Bank Ltd., SIB House, T. B. Road, Mission Quarters,
Thrissur-680 001, Kerala, India. Tel: +91 487 2420020.
www.southindianbank.com | Email: head@sib.co.in

REGISTRAR & SHARE TRANSFER AGENT

M/s BTS Consultancy Services Pvt. Ltd.
MS Complex, 1st Floor, No. 8, Sastri Nagar,
Near 200 Feet Road/ RTO Kolathur, Kolathur,
Chennai-600 099. Tel: 044 - 25565121, Fax: 044-25565131
Email: ramesh@btsindia.co.in | helpdesk@btsindia.co.in

COMPANY SECRETARY

Mr. Jimmy Mathew, A.C.S.

*As on 31. 03. 2013

SOUTH INDIAN Bank
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CONTENTS

DIRECTORS' REPORT TO THE SHAREHOLDERS

To the Members,

The Board of Directors are pleased to place before you, the 85th Annual Report of the Bank along with the Audited Balance Sheet as at March 31, 2013 and the Profit and Loss Account for the year ended March 31, 2013.

PERFORMANCE OF THE BANK

The performance highlights of the Bank for the financial year ended March 31, 2013 are as follows:

Key Parameters	₹ in Crore	
	2012-13	2011-12
Deposits	**44262.00**	36501.00
Gross Advances	**32014.00**	27473.00
Total Gross Business	**76276.00**	63974.00
Net Profit	**502.27**	401.66
Capital & Reserves	**3003.61**	2167.48
Capital Adequacy (%) - Basel-I	**11.46**	11.64
Basel-II	**13.91**	14.00
Earnings Per Share (EPS) :		
(a) Basic EPS (in ₹) [face value ₹ 1/-]	**4.03**	3.55
(b) Diluted EPS (in ₹) [face value ₹ 1/-]	**3.99**	3.50
Book Value per Share (in ₹) [face value ₹ 1/-]	**22.44**	19.12
Gross NPA as % of Gross Advances	**1.36**	0.97
Net NPA as % of Net Advances	**0.78**	0.28
Return on Average Assets (%)	**1.17**	1.12

FINANCIAL PERFORMANCE

Profit

The Bank had achieved a record net profit of ₹ 502.27 crore during the year registering a growth of 25.05% over the previous year. The Bank could achieve this healthy growth in net profit essentially on account of higher scale of operations, better management of assets and liabilities and focus on enhancement of non-interest revenue of the Bank.

The Operating Profit for the year under review was ₹888.48 crore before depreciation, taxes and provisions. Net profit was ₹502.27 crore and the profit available for appropriation was ₹525.45 crore as per details given below:

		(₹ in crore)
Profit before depreciation, taxes & provisions		888.48
Less : Depreciation	39.89	
Provision for NPA/NPIs	131.90	
Provision for depreciation on investments	11.24	
Provision for Income Tax/Wealth Tax	153.59	
Provision for standard advances	32.49	
Provision for restructured advances	18.63	
Provision for Impaired Assets	-1.53	386.21
Net Profit		502.27
Brought forward from last year		23.18
Profit available for appropriate on		525.45

Appropriations

	(₹ in crore)
Transfer to Statutory Reserve	125.57
Transfer to Capital Reserve	6.21
Transfer to Revenue & Other Reserves	240.00
Transfer to Special Reserve u/s 36(1) (viii) of The Income Tax Act, 1961	13.00
Transfer to/(from) Investment Reserve	(5.69)
Transfer to/(from) present value provision for ADWDRS	0.00
Proposed Dividend	93.82
Dividend Tax on Proposed Dividend	15.58
Carried over to Balance Sheet	36.96
Total	525.45

Dividend

The Board of Directors recommended a dividend of 70% (tax-free in the hands of shareholders), i.e., @ ₹0.70 per Equity Share of face value of ₹1/- per share vis-à-vis 60%, i.e.₹0.60 per share declared last year.

EXPANSION PROGRAMME / POLICY OF THE BANK

During the year, the Bank opened 50 new branches and 137 ATMs across the country. The Bank has been successful in widening its coverage across the country with 750 branches transforming it into a pan India institution. The branch network now covers 29 states/union territories and has a network of 800 ATMs.

The Bank plans to open more new branches and ATMs in the current financial year so as to reach the corporate goal of 800 Branches and 1000 ATMs by March 31, 2014.

CAPITAL & RESERVES

The Bank's issued and paid up capital stood at ₹ 133.85 crore as on March 31, 2013. In September, 2012, the Bank successfully completed issue of 20 crore Equity Shares of face value of ₹1/- each @ ₹22.13 per share inclusive of premium ₹21.13 per share to Qualified Institutional Investors under the guidelines issued by Securities and Exchange Board of India. Further, during the year, 47,88,959 stock options granted under Employee Stock Option Scheme were exercised by eligible employees.

The capital plus reserves of the Bank has therefore gone up from ₹ 2,167.48 crore to a healthy level of ₹3,003.61 crore owing to fresh capital infusion with premium and plough back of profits during the year.

THE CAPITAL TO RISK WEIGHTED ASSETS RATIO (CRAR)-Basel I & Basel II

The Capital to Risk Weighted Assets Ratio (CRAR) of the Bank as on March 31, 2013 in terms of Basel I guideline was 11.46% as against the statutory requirement of 9%. Tier I constituted 9.94% while the share of Tier II was 1.52%.

DIRECTORS' REPORT

The Capital to Risk Weighted Assets Ratio (CRAR) of the Bank as on March 31, 2013 in terms of Basel II guideline stood at 13.91%, as against the statutory requirement of 9%. Tier I CRAR constituted 12.05% while Tier II CRAR worked out to 1.86%.

Pursuant to Reserve Bank of India guidelines, the Bank migrated to new Capital Adequacy framework w.e.f. March 31, 2009.The Bank has adopted Standardized Approach for Credit Risk,

Standardised Duration Approach for Market Risk and Basic Indicator Approach for Operational Risk while computing the Capital requirement under Basel II guidelines.

LISTING AGREEMENT WITH STOCK EXCHANGES

The Bank's shares continue to be listed on The Cochin Stock Exchange Ltd., BSE 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 2013-14.

BUSINESS ACHIEVEMENTS

The Bank achieved a total gross business of ₹76,276 crore, consisting of total deposit of ₹44,262 crore and gross advances of ₹32,014 crore as on March 31, 2013 registering a growth of 19.23% over the previous year.

In CASA segment, the Bank has achieved a year on year growth of 14.67%. During the year, 2012-13, 7.01 lacs new SB A/cs were opened. The Bank accorded priority to meaningful financial inclusion exercise during the period under reporting.

Deposits

The Bank could increase its total deposits to ₹44,262 crore from ₹36,501 crore as on March 31, 2012, registering a growth of 21.26%.

The break up of the deposits as on March 31, 2013 is as under:-

	Amount (₹ in crore)	% to total Deposits
Current Deposits	1,547.35	3.50
Savings Deposits	6,685.47	15.10
Term Deposits	36,029.47	81.40
Total	44,262.29	100.00

Advances

Gross advances of the Bank registered an increase of 16.53%, to touch a gross figure of ₹32,014 crore. Total Priority sector exposure as at the end of the financial year stood at ₹8,591.76 crore, constituting 31.24% of the Adjusted Net Bank Credit (ANBC). Exposure to agricultural sector amounted to ₹2,259.37 crore, forming 8.21% of ANBC as at the end of the financial year. Break-up of exposure under Priority sector is furnished below:

	Amount (₹ in crore)
Agriculture & Allied activities	2,259.37
Small Enterprises	4,551.48
Other Priority Sector	1,780.91
Total Priority Sector	**8,591.76**

INVESTMENTS

Gross Domestic Product (GDP) for April- December 2012, declined to 5% from 6.60% a year ago. Inflation, as per latest WPI data, was about 5.96% during March, 2013. Even as headline inflation eased, there were upside pressures on food inflation throughout the year essentially because of unusual spike in vegetable and cereal prices. With falling Global commodity prices, normal monsoon forecast and domestic demand supply balance, WPI inflation is expected to be moderated and to be range bound around 5.50 % during 2013 -14. Latest data on Industrial production (IIP) reflects signs of revival with latest IIP index showing 2.5% growth over last year. Current Account Deficit (CAD) surged to 6.7% of GDP, rising sharply from the 5.3% of GDP in the previous quarter. This was largely attributable to a sharp increase in the trade deficit from US$48.3 billion (11.5% of GDP) in 3rd Quarter to $59.6 billion (12.3% of GDP) in 4th Quarter. As per the growth estimates of Reserve Bank of India, moderation in inflation, further gradual monetary easing and continued policy measures from the government etc. are expected to boost GDP growth to 5.7% during the FY 2013-14.

Bank's gross investment portfolio increased from ₹9,399.87 crore (March 31, 2012) to ₹12,523.47 crore (March 31, 2013), registering a growth of 33.23%. Investment deposit ratio increased from 25.75% as on March 31, 2012 to 28.29% as on March 31, 2013. Yield on Investments improved from 6.92% as on March 31, 2012 to 7.22 % as on March 31,2013. Profit on sale of investments attained as on March 31, 2013 stood at ₹57.72 Crore as against ₹40.78 Crore as on March 31,2012, which shows a growth of 41.54%.

NON-PERFORMING ASSETS (NPA) MANAGEMENT

During the year 2012-13, as a result of the focused approach by the Bank through early recovery of NPAs, by initiating prompt and effective measures under the SARFAESI Act, follow up of recovery cases pending before DRTs and civil courts, one time compromise settlements of accounts, conduct of recovery camps, etc., Bank could recover NPAs to the extent of ₹270.73 crore, (recovery including up-gradation) as against the target of ₹203.00 crore, which was up from ₹176.86 crore as on March 31, 2012. Recovery figure reported above, includes the amount of ₹25.50 Crore realized through sale of 19 NPA accounts with a Net Book Value (NBV) of ₹7.74 Crore to ARCIL (Asset Reconstruction Company India Ltd).

Despite recovery made during the year, the Gross NPA of the Bank increased from ₹267.16 crore as on March 31,2012 to

₹433.87 crore as on March 31,2013 and consequently net NPA increased from ₹76.51 Crore as on March 31,2012 to ₹249.53 Crore as on March 31,2013. In terms of percentage, GNPA increased from 0.97 % as on March 31, 2012 to 1.36 % as on March 31, 2013 and net NPA increased from 0.28 % as on March 31, 2012 to 0.78 % as on March 31, 2013. Despite the hike in GNPA and NNPA compared to previous years figures, the level in percentage terms was better than the industry average. Above increase in NPA was mainly due to the slippage of 3 large value accounts in the Corporate sector with an aggregate outstanding of ₹248.77 crore.

INFORMATION TECHNOLOGY (IT) AND IT ENABLED SERVICES

Information Technology and its potential to offer innovative solutions have paramount importance for growth and sustenance of the Banks. The turnaround time for rolling out a technology product in banks has been visibly diminishing, which essentially calls for a robust, adaptable system in place to execute projects right from conception to completion.

The Bank, an early adopter of technology with a view to providing safe and convenient banking facilities to its customers, has introduced host of services and facilities for enhancing the customer satisfaction. The Bank has been successfully functional with Finacle Core Banking Solution (CBS) from Infosys for several years. CBS has been the key component in introducing the following technology services by the Bank for the benefit of its customers.

- Real time on line ATMs having affinity with NFS (National Financial Switch), Master and VISA payment and settlement agencies.
- Global Debit Card operations with VISA and MAESTRO.
- Straight Through Processing (STP) for RTGS and NEFT payment systems
- Internet Banking & E –Commerce including NEFT support for other bank remittances
- Mobile Banking & M-Commerce (with support for other bank money transfer through IMPS)
- ASBA (Application Supported by Blocked Amount)
- Foreign Inward Instantaneous remittance with own Payment Hub system
- Demat & On-line Trading Facility
- Point of Sales (POS)
- Bullion Sales
- Portfolio Investment Scheme for NRI community

IT initiatives/Solutions embarked during the year

The following list showcases a few of the IT enabled services / solutions that the Bank launched during the year to serve its customers in a better and efficient way.

- Implementation of APBS (Aadhar Payment Bridge System) in the bank for direct credit of government subsidies to customer's accounts based on the Aadhar number.
- Pilot launch of 2nd Factor Authentication for Net banking Customers which will provide additional security over and above User ID & Password with One Time Password facility
- National Pension Scheme for Corporate customers
- Bulk Note Acceptor Machine provided to select branches to accept currency notes from customers with direct credit to beneficiary's account number
- Enabling debit cards for 'Card Not Present Transactions' category on Internet (e-commerce transactions)

Information Security and Risk Management

As banks adopt technology as part of their ongoing strategic agenda to face challenges in the emerging realities of banking, they are increasingly exposed to technology risks. It is therefore imperative for each bank to work out appropriate IT risk management strategies to secure its most vital information asset and ensure that related risk management systems and processes are strengthened on continual basis to secure both present and future banking activities. SIB's IS audit policies and systems has already taken these aspects into consideration and it includes the new supervisory initiatives in the form of Risk Based Supervision (RBS) and Risk Based Internal Audit (RBIA) under Basel II.

Bank has been providing awareness on e-threats to its customers and staff on a continued basis so that both proactive and reactive measures can be initiated , as deemed appropriate to mitigate potential risks associated with e-threats.

Bank is in the process of implementing the stipulations and guidelines articulated and issued by RBI based on the working group recommendations on Electronic Banking, Technology Risk, Information Security and Cyber Frauds as part of the IT governance programme.

Upcoming Initiatives

The Bank proposes to introduce the following initiatives to augment the customer satisfaction during the year.

- ✓ Major Upgrade of Core Banking Software to version 10 with a host of value additions
- ✓ Automation of Customer Relationship Management
- ✓ Workflow and Document Management Solutions for movement towards paperless office
- ✓ State of Art Call Center
- ✓ Major Upgrade of Internet banking Software with enhanced facilities

IT Training

During the year, many training programmes were attended by the Bank's officers in premier institutions such as IDRBT and in international universities/institutions in various countries to keep themselves abreast with the advancements in IT, Information Security, CRM etc.

Awards and Accolades

During the year, the Bank bagged the Technology Excellence award, instituted by IDRBT for Managing IT Risk and we are receiving this prestigious award from IDRBT for the third time.

Gopalakrishna Committee Recommendations Management Philosophy & Measures

Gopalakrishna Committee Recommendations on Information Security, Electronic Banking, Technology Risk and Cyber Frauds as applicable to the Bank has been taken up for enforcement and implementation. Effective measures have been taken to address the identified gaps in each area such as IT Governance, Information Security, IT Service out sourcing, IS Audit, IT Operations, Cyber Frauds, Business Continuity Plan (BCP), Customer Education and Legal issues. The IT Organization set up has been redrawn to suit the functions/roles specified in the recommendations with segregation of duties. Technology, Development, IT Operations and IT Assurance functions have been clearly divided and now independently headed. IT Strategy Committee of Board, IT Steering Committee, Information Security Committee and Chief Information Officer (CISO) reporting independently to Head Risk Management is in place. Existing Information Security Policy has been subject to a massive review to incorporate the necessary changes as required and covered by the Gopalakrishna Committee recommendations and other associated policies such as customer education policy, IT service out sourcing policy, IT strategy policy etc, are also drawn up which prescribes defined process and procedure for implementation of various aspects in the specified areas. BCP policy and plan have been reviewed to effectuate the necessary changes as per the recommendations. All other remaining areas are also focused to negate the gaps identified.

RISK MANAGEMENT

Risk is an integral part of the banking business and the Bank aims at delivering superior value to shareholders by achieving an appropriate trade-off between risk and return. Sound risk management and balancing risk-return trade-off are critical to a Bank's success. Business and revenue growth have therefore to be weighed in the context of the risks embedded in the Bank's business strategy. Of the various types of risks the Bank is exposed to, the most important are credit risk, market risk (which includes liquidity risk and price risk) and operational risk. The identification, measurement, monitoring and mitigation of risks, continued to be a key focus area for the Bank. The risk management function attempts to anticipate vulnerabilities at the transaction level or at the portfolio level, as appropriate, through quantitative examinations of embedded risks. The risk management strategy of the Bank is based on a clear understanding of various risks, disciplined risk assessment, risk measurement procedures and continuous monitoring for mitigation. The policies and procedures established for this purpose are continuously bench marked with the best practices followed in the Industry.

The Bank's risk management structure is overseen by a Committee of the Board. Appropriate policies to manage various types of risks are approved by Risk Management Committee (RMC), which provides strategic guidance while reviewing portfolio behaviour. The senior level management committees like Credit Risk Management Committee (CRMC), Market Risk Management Committee (MRMC) and Operational Risk Management Committee (ORMC) develop the risk management policies and vet the risk limits. The Asset Liability Management Committee and Investment Committee ensure adherence to the implementation of the above risk management policies, develop Asset Liability Management Policy and Investment Policy within the above risk framework.

Compliance with Basel II framework

In compliance with regulatory guidelines on Pillar I of Basel II norms, Bank has computed capital charge for credit risk as per the Standardized Approach, for market risk as per the Standardized Duration Method and for operational risk as per the Basic Indicator Approach. To address the issues of Pillar II, the Bank has implemented ICAAP (Internal Capital Adequacy Assessment Process), integrating capital planning with budgetary planning and to capture residual risks which are not addressed in Pillar I like credit concentration risk, interest rate risk in the banking book, liquidity risk, earnings risk, strategic risk, reputation risk etc. Bank has adopted a common framework for additional disclosures under Pillar III for adhering to market discipline of Basel II guidelines. This requires the Bank to disclose its risk exposures, risk assessment processes and its capital adequacy to the market in a more consistent and comprehensive manner.

INTERNATIONAL BANKING

The total forex business turnover for the year ended March 31, 2013 was ₹92,765.37 crore (comprising Merchant Turnover ₹16,565.48 crore and Interbank Turnover ₹ 76,199.89 cr) recording an increase of 76.15% as compared to the previous financial year. The Bank earned an exchange profit of ₹27.42 crore showing a year on year increase of 7.07%.

At present the Bank is having rupee inward remittance arrangement with 5 Banks and 32 Exchange Houses (EHs) and turnover for the year ended March 31, 2013 was ₹4,729.47 crore registering an increase of 18.59% as compared to the previous financial year. During the FY 2012-13, Bank concluded two new Rupee remittance tie ups, viz. Arab National Bank, KSA and Asia Express Exchange, Oman. The Bank continued providing managerial support to M/s. Hadi Express Exchange, UAE. The Bank has presently deputed 14 officers to manage the operations of Hadi Express Exchange.

Considering the scope in improving Bank's remittance business through arrangements with EHs, Bank has decided to depute its officers to various Middle East countries. Presently the Bank has deputed three officers to UAE with UAE Exchange Centre and Al Ansari Exchange.