

THE VYSYA BANK LIMITED

70th ANNUAL REPORT 2000-2001

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THE VYSYA BANK LIMITED

Board of Directors

CHAIRMAN	Sri K.R. Ramamoorthy
MANAGING DIRECTOR	Sri K. Balasubramanian
DEPUTY MANAGING DIRECTOR	Sri Bart Hellemans
DIRECTORS	Sri G. Mallikarjuna Rao Sri M.K. Ramachandra Sri Kiran K. Grandhi Sri R.C. Kapoor Sri K.R.V. Subrahmanian Sri H.N. Tarachandani Sri Joseph J. Kestemont Sri Yadalam A. Subramanyam Sri S.K. Newlay (RBI Nominee) Sri A.P. Rao

VICE PRESIDENT &
COMPANY SECRETARY

Sri M.V.S. Appa Rao

STATUTORY AUDITORS

M/s I.S. Prasad & Setty Associates
Chartered Accountants, Bangalore

M/s Lovelock & Lewes
Chartered Accountants, Kolkata

REGISTERED &
CORPORATE OFFICE

No.72, St. Marks Road,
Bangalore - 560 001.

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DIRECTORS' REPORT

Dear Members,

Your Directors are pleased to present the 70th Annual Report of the Bank consisting of the audited Profit & Loss Account for the year ended 31st March, 2001, the Balance Sheet and the Cash Flow Statement as at 31st March, 2001.

1. OPERATIONS OF THE BANK

The total business, comprising Deposits and Advances, increased to Rs.12457 crore from Rs.11362 crore during the year ended 31st March, 2001 registering an increase of 9.64%.

1.1. DEPOSITS

The deposits of the Bank recorded a growth of 9.66% and were at Rs. 8141 crore. The focus on increasing the low cost deposits continued to yield favourable results with increase in savings bank deposits from Rs. 777 crore to Rs. 918 crore, while the current deposits increased from Rs. 756 crore to Rs. 834 crore thereby enhancing the percentage of low cost deposits from 20.64% to 21.51% of the total deposits. As on 31st March, 2001, the overall cost of deposits declined by 87 basis points from 10.07% to 9.20%.

1.2. ADVANCES

The Bank's advances increased from Rs. 3938 crore to Rs. 4316 crore as on 31st March, 2001, recording a growth of 9.6%. The average advances during the year increased from Rs. 3103 crore to Rs. 3759 crore registering a significant growth of 21.1%. The priority sector advances constituted 39.36% of the Net Bank Credit as against the 40% stipulated by Reserve Bank of India (RBI). The advances to agriculture and export credit were at Rs. 516 crore and Rs. 296 crore forming 13.6% and 7.8% of Net Bank Credit respectively. The strategy of the

Bank in extending short term loans to rated corporate clients and public sector enterprises for expanding the credit base and improving asset quality was continued during the year. This will stand the Bank in good stead, as the commercial banks have recently started lending at Sub-Prime Lending Rate to reputed corporates in terms of the guidelines announced by RBI. Lending to sensitive sectors comprising capital markets, real estate and commodities segment accounted for only 5.73% of gross advances portfolio on account of which the Bank was well insulated from the market volatilities, especially in the capital market.

As a result of the Bank's focused and concerted efforts for containing incremental Non-Performing Assets (NPAs) and effecting maximum recoveries in existing NPAs, the Bank was successful in achieving a reduction in net NPAs from 9.11% to 4.77% of net advances as on 31st March, 2001. A separate Special Loans Division has been set up for monitoring the NPAs.

The ongoing restructuring and reorganization of the Bank's business by setting up Strategic Business Units lays considerable emphasis on enhancing the assets portfolio. In keeping with this, the sales and marketing functions have been organized under five Strategic Business Units viz., Corporate, Commercial, Retail, Rural Credit and Treasury. A separate Department looks after credit risk functions while Loan Review Department undertakes post sanction review and monitoring.

1.3. TREASURY OPERATIONS

The total investment was at Rs. 2695 crore marginally lower than the level of

the previous year. Investments are classified as per the RBI's directives into three groups viz., 'held for trading', 'available for sale' and 'held to maturity' and the investment portfolio has been 'marked to market' to the extent of 87.63% as against the minimum 75% stipulated. The turnover in treasury operations increased from Rs. 12884 crore to Rs. 17099 crore during 2000-01. A profit of Rs. 15.13 crore was earned on trading / sale of securities despite adverse market conditions for major part of the year as against Rs. 66.73 crore during 1999-2000 which was an all-time high. The average yield on investment portfolio was at 11.33% as compared to 11.85% for the previous year. The equity book size was brought down to minimize the exposure to capital market.

The Bank complied with the regulatory requirements of maintenance of Cash Reserve and Statutory Liquidity Ratios during the year under review.

1.4 FEE BASED SERVICES

The fee based income of the Bank comprising Commission, Exchange and Brokerage (CEB) during the year was Rs. 79 crore as compared to Rs. 67 crore during the previous year.

Despite sluggish stock market conditions, the Bank was able to generate business in the depository participant services segment. This is reflected by the increase in the number of investor demat accounts from 22506 as on 31st March, 2000 to 31909 at the end of the year under review and in the Gross Income from Rs. 1.62 crore to Rs. 2.11 crore.

The Bank posted a turnover of around Rs. 19000 crore and earned a significant

gross income of Rs. 14.30 crore from Cash Management Services during the year 2000-01.

The strategy of leveraging its customer base and brand image to distribute third party financial products yielded favourable results which was evidenced by sales of mutual fund units to the extent of Rs. 150 crore during the year.

To summarise, the Bank had improved its overall performance during the year 2000-01.

2. WORKING RESULTS

The net profit for the year 2000-01 before tax was at Rs. 48.64 crore as against Rs. 44.56 crore during the previous year. The Bank had made provision for tax at Rs. 10.10 crore during the current year as against Rs. 0.25 crore only during the previous year. Thus, the post-tax net profit, for the year 2000-01 amounted to Rs. 38.54 crore against Rs. 44.31 crore for the previous year.

As regards the 'Other Income', it had fallen by Rs. 62.89 crore. This was mainly due to reduction to the extent of Rs. 51.59 crore, Rs. 16.17 crore and Rs. 12.24 crore in domestic treasury, forex operations and leasing operations respectively. The decline in 'Other Income', however, was partially off-set by increase in CEB income to the extent of Rs. 11.96 crore and other miscellaneous income by Rs. 5.79 crore. Though there was a decline in non-interest income, the Bank recorded an improvement in the Net Interest Income from Rs. 110.67 crore to Rs. 173.31 crore. Thus, the Bank could neutralise the effect of lesser profits in treasury operations due to adverse market conditions through higher Net Interest Income and CEB Income, thereby reflecting the strength of the Bank in its core area of operations.

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The Bank had reviewed its depreciation policy during the year and switched over to straight line method from written down value method. On account of this, the excess depreciation amounting to Rs.28.24 crore relating to earlier years was written back. Further, the Bank on a review of disputed tax liabilities pending in various stages before the Income Tax authorities and Settlement Commission, made a provision of Rs. 29.59 crore during the year.

3. DIVIDEND

Your Directors are pleased to recommend dividend of 35% for the year ended 31st March, 2001 as approved by RBI and the total outgo on account of this would amount to Rs. 6.92 crore excluding Corporate Dividend Tax of Rs. 0.71 crore on the paid-up capital of Rs. 22.62 crore as on 31st March, 2001.

4. NETWORTH

The Networth of the Bank, including Revaluation Reserve, increased from Rs. 590.24 crore as on 31st March, 2000 to Rs. 652.74 crore as on 31st March, 2001.

5. CAPITAL ADEQUACY

The Capital Adequacy Ratio (CAR) was 12.05% as on 31st March, 2001, well above the RBI stipulated norm of 9%.

6. EQUITY PARTICIPATION BY IFC / BBL

Pursuant to the approval of the members at the 69th AGM of the Bank, International Finance Corporation (IFC), an affiliate of the World Bank, subscribed for 22,65,945 shares forming 10% of the post-issue capital. Consequently, Bank Brussels Lambert (BBL), the strategic alliance partner of the Bank, by virtue of its being entitled to maintain its holdings at 20% of the post-issue capital, additionally subscribed for 5,66,485 equity shares. On 31st March, 2001, the shares were allotted to IFC and BBL at a price of Rs. 150/- per share including a premium of Rs. 140/-.

7. ASSET LIABILITY MANAGEMENT

Presently, the Bank has an Asset Liability Management Committee (ALCO) at executive level, entrusted with the critical task of implementing the Asset Liability Management (ALM) under the overall supervision of the Executive Management Committee. The Executive Management Committee consisting of Managing Director, Deputy Managing Director, President and three Senior Executives, was constituted on 12th February, 2001 mainly to ensure effective day-to-day management of the Bank by the Management Team in all the areas including ALM. At the Board level, initially the Credit & Risk Management Committee and later the Risk Management & Review Committee has been vested with the responsibility of reviewing ALM and evaluating the progress made in operationalisation of ALM Systems and Processes at periodical intervals.

8. HUMAN RESOURCES DEVELOPMENT

The industrial relations were cordial and peaceful throughout the year. Core competence development programmes in areas like Credit and Marketing apart from Modular Training Programmes for the staff at various Branches/Regions were conducted.

The All India Vysya Bank Employees' Union came forward and announced a 'Deposit Mobilisation Campaign' from 1st January, 2001 to 31st March, 2001 with the objective of mopping up the resources for the Bank with focus on 'Low cost' and 'No Cost' Deposits. The campaign resulted in collection of deposits of Rs. 67.40 crore by the Bank.

While the Bank donated a sum of Rs. 20¹⁵ lac to the Prime Minister's Relief Fund for the benefit of the victims of the Gujarat earthquake, the employees of the Bank voluntarily contributed a sum of Rs. 15¹⁰ lac.

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The Board of Directors places on record its appreciation of the efforts and gesture of the employees.

9. HOUSEKEEPING

Inter-branch Reconciliation was completed upto 31st March, 2001 and entries were eliminated within the period stipulated by RBI. The balancing of books was not in arrears for more than six months as on 31st March, 2001 at any Branch.

10. STATUTORY DISCLOSURE

As required by the provisions of Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employees) Rules, 1975, as amended, the names and other particulars of employees are set out in the Annexure to Directors' Report. However, as per the provisions of Section 219 (1)(b)(iv) of the Companies Act, 1956, the Report and the Accounts are being sent to all the Shareholders of the Bank excluding the aforesaid Annexure which can be obtained by any shareholder from the Company Secretary of the Bank.

11. IT INITIATIVES**11.1. 'Self Bank'**

The Bank has integrated its 'Self Bank' ATMs at Bangalore, Hyderabad and Chennai through a centralised ATM switch network established at Bangalore. This enables the Bank to offer inter-city/intra-city ATM services to the customers. The number of ATMs increased from 5 to 8 during the year under review. More ATMs across the country would be hooked on to this scalable network.

11.2. Branch Computerisation

As on 31st March, 2001, the number of Totally Computerised Branches and

Partially Computerised Branches went upto 79 and 251 from 76 and 215 respectively.

11.3. VysyAMulya Project

During the year 2000-01, the Bank launched 'VysyAMulya' Project, envisaging an investment of about Rs. 60 crore spread over two years and involving setting up of a Data Centre and networking of branches for an on line real-time Centralised Processing through Sanchez's Core Banking solution - 'PROFILE Anywhere to offer AAA (Anytime, Anywhere and Anyhow) Banking.'

The Data Center of VysyAMulya Project at ITPL, Bangalore, is fully operational. Eight branches spread across Bangalore, Hyderabad, Chennai and Mumbai are hooked till date to the new Centralised Core Banking Solution platform. The Bank expects to roll out 16 branches per month shortly and achieve the set target of 225 outlets comprising 131 Branches, 74 Extension Counters, 8 Regional Collection Centres, 11 Regional Offices and Corporate Office.

12. CHANGE MANAGEMENT

The Bank, realising the need to provide an architecture for gradual change, with the customer as the focus and improved operational efficiency as the objective, has identified the key areas which require further toning up viz., Policies, Practices and Systems apart from Human Resources that exist within the organisation. As a part of the on going process of restructuring including establishment of Strategic Business Units, an Integrated Change Management approach has been adopted as a means to reach the customer with greater care and attention.

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Towards this direction, a competency profiling process was undertaken with the help of M/s. Eicher Consultancy Services and initially, 699 Officers of the Bank were subjected to this process.

Further, systematic and structured training programmes are being offered for the staff for assimilating the new technology and work culture in moving towards centralised on-line processing system.

13. BRANCH NETWORK

The number of branches, including extension counters, increased from 481 to 484.

14. SUBSIDIARIES

The accounts of the subsidiaries of the Bank viz., The Vysya Bank Leasing Limited and Vysya Bank Housing Finance Limited for the year ended 31st March, 2001 along with a Statement showing the extent of interest of holding company in these subsidiaries under the provisions of Section 212 of the Companies Act, 1956 are appended to.

15. JOINT VENTURE FOR INSURANCE

The Bank along with ING Group, a world renowned conglomerate in banking and insurance and second largest in the world in insurance business, promoted a joint venture company called 'ING Vysya Life Insurance Company Private Limited' for undertaking life insurance business throughout India. In July, 2001, the Bank contributed 49% towards its share capital; while ING Insurance International B.V. has contributed 26%; the balance 25% has been contributed by a third partner, viz., GMR Technologies and Industries Limited. Necessary approvals of the regulatory authorities have been received by the Company for commencing business.

16. BOARD OF DIRECTORS

16.1. Changes at CEO level

16.1.1 Chairman & Chief Executive Officer

Sri K.R. Ramamoorthy, relinquished office as the Chairman & Chief Executive Officer on 12th February, 2001. The Board places on record its appreciation of the valuable services rendered by Sri K.R. Ramamoorthy in his capacity as Chairman & CEO. The Board appointed Sri K.R. Ramamoorthy as a Part-time Chairman (non-Executive) for a period of two years with effect from 12th February, 2001.

16.1.2 Managing Director

Sri K. Balasubramanian, Director on the Board since 18th August, 1999, was appointed as Managing Director to act as Chief Executive Officer with effect from 12th February, 2001 for a period of two years. Sri Balasubramanian, an experienced banker, was with American Express Bank for more than 25 years in various positions including Executive Director and Chief Credit Officer, Asian Pacific & Sub-Continent, Singapore prior to joining the Board.

16.2. Changes in the Board of Directors

16.2.1 Retirement of Directors

Sri M.K. Ramachandra is retiring by rotation and being eligible, offers himself for reappointment as Director.

Sri Kiran K. Grandhi, appointed on 18th August, 1999 in the casual vacancy caused due to the resignation of Sri G.B.S. Raju, Director, is due for retirement at the 70th AGM.

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Sri K. Balasubramanian appointed on 18th August, 1999 in the casual vacancy caused due to the demise of Sri T.B. Dhananjaya Rao, Director is also due for retirement at the 70th AGM.

Sri Richard J. Pfeiffer, nominee of BBL, appointed at the 69th AGM held on 29th May, 2000 as Director to retire by rotation at the 72nd AGM, ceased to be on the Board with effect from 10th October, 2000 consequent upon his resignation.

Sri Srinivas Bommidala and Sri Tallam N. Umesh resigned on 25th December, 2000 and 20th June, 2001 respectively. Further, Sri Dayanand Soma and Sri B.V. Nageswara Rao resigned on 23rd July, 2001.

The Board places on record its appreciation of the valuable services rendered by the above Directors during the tenure of their Directorship.

16.2.2 Nomination/Appointment of Directors

Sri S.K. Newlay, the then Principal, RBI College of Agricultural Banking, Pune, was nominated on the Board by RBI with effect from 2nd August, 2000 vice Sri H.N. Tarachandani who ceased to be the nominee of RBI.

Sri R.C. Kapoor was appointed as Additional Director on 29th May, 2000 and Sri H.N. Tarachandani on 4th August, 2000. These Directors would hold office until the conclusion of the 70th AGM.

The Board at its meeting held on 25th August, 2001 treated Sri K.R.V. Subrahmanian, Sri Joseph Kestemont, Sri Yadalam A. Subramanyam and

Sri A.P. Rao, who were initially appointed as Additional Directors on 29th May, 2000, 30th October, 2000, 15th March, 2001 and 9th July, 2001 respectively as Directors appointed in the casual vacancies caused by the resignation of Sri B.V. Nageswara Rao, Sri Richard J. Pfeiffer, Sri Tallam N. Umesh and Sri Dayanand Soma. These Directors will hold office till the conclusion of the 72nd AGM in 2003.

17. CORPORATE GOVERNANCE

The Bank's basic approach towards Corporate Governance is to enhance shareholder value keeping in view the needs and interests of other stakeholders. The Bank has already initiated necessary action for complying with the provisions of Clause 49 of the Listing Agreement dealing with Corporate Governance and would ensure total compliance by 31st March, 2002 in terms of the Schedule of Implementation applicable to the Bank. A report showing the current status of compliance with Clause 49 of the Listing Agreement which is being submitted to the Stock Exchanges on quarterly basis during the current year, is appended.

The Management Discussion & Analysis and Report on Corporate Governance are mandatory for inclusion only in the Annual Reports from the year 2001-02 onwards.

18. DIRECTORS' RESPONSIBILITY STATEMENT

As required by Section 217 (2AA) of the Companies Act, 1956, the Board of Directors confirm that

- a) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures.
- b) accounting policies have been selected and applied consistently and reasonable and

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prudent judgements and estimates have been made so as to give a true and fair view of the state of affairs of the Bank at the end of the financial year and of the profit or loss of the Company for that period.

- c) proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities and
- d) the annual accounts have been prepared on a going concern basis.

19. PRESIDENT

Sri V. Raghunathan has joined as President of the Bank on 1st February, 2001 as part of the succession plan of the Bank for the post of Chief Executive Officer. Sri Raghunathan has rich experience in academics and industry. Prior to his assignment in the Bank, Sri Raghunathan was the Professor of Finance & Accounting and Chairman, Post Graduate Programme at the Indian Institute of Management, Ahmedabad and Member of various Corporate Boards and National Committees.

20. AUDITORS

The joint Statutory Auditors viz., M/s. I.S. Prasad & Setty Associates, Chartered Accountants, Bangalore and M/s. Lovelock & Lewes, Chartered Accountants, Kolkata, are retiring at this AGM. M/s. I.S. Prasad & Setty Associates, Chartered Accountants were associated with the Bank for the last four consecutive years, and hence as per the guidelines of Reserve Bank of India, they are not eligible for re-appointment for the year 2001-02. The Board of Directors places on record its appreciation of the valuable services rendered by M/s. I.S. Prasad & Setty Associates, Chartered Accountants, Bangalore. M/s.

Lovelock & Lewes, Chartered Accountants, Kolkata, were associated with the Bank for the last two years and being eligible, offer themselves for re-appointment for the year 2001-02.

In terms of the approval of RBI, it is proposed to appoint M/s. Lovelock & Lewes, Chartered Accountants, Kolkata, as the single Statutory Auditors of the Bank for the financial year 2001-02. Shareholders are requested to appoint the said auditors and authorise the Board of Directors to fix their remuneration.

21. ACKNOWLEDGEMENTS

The Board of Directors sincerely thanks the Reserve Bank of India for its advice, counsel and guidance from time to time.

The Board also expresses its gratitude to IFC, BBL, ING Group, Registrar of Companies, Insurance Regulatory & Development Authority, Securities and Exchange Board of India, Stock Exchanges, Financial Institutions, Indian Banks' Association, Indian Institute of Bankers, Foreign Institutional Investors, National Securities Depositories Limited, Central Depository Services (India) Limited, Correspondent Banks, apart from various Governmental agencies / Departments for their continued support.

The Board of Directors also conveys their grateful acknowledgements to the Legal Advisors and Consultants for their valuable services to the Bank.

The Board also thanks the Shareholders and Customers for the unstinted support given and the confidence reposed. Last but not the least, the Board places on record its appreciation for the dedicated and committed services rendered by the Executives and Staff at all levels.

For and on behalf of the Board

Place : Bangalore
Date : 25.08.2001

K.R. RAMAMOORTHY
CHAIRMAN

**REPORT ON CURRENT STATUS OF COMPLIANCE
WITH CLAUSE 49 OF THE LISTING AGREEMENT
CORPORATE GOVERNANCE**

[Mandatory for implementation only during the year 2001-02 and thereafter]

The provisions of Clause 49 of the Listing Agreement (in italics) and the clause-wise status of compliance thereof by the Bank as on 25th August, 2001 are as under.

1. Clause 49-I : Board of Directors

One-third of the Board of Directors, in case of non-executive Chairman, should comprise independent Directors.

A non-executive Chairman heads the Board. More than one-third of the Board comprises independent directors.

2. Clause 49-II : Audit Committee

Setting up of qualified and independent Audit Committee.

In terms of RBI's Guidelines, the Bank's Audit Committee was constituted on 20th May, 1994. Its powers and functions are revised to keep it in conformity with the provisions of the Companies (Amendment) Act, 2000.

The Audit Committee of the Bank consists of five members viz., Sri R.C. Kapoor - Chairman, Sri S.K.Newlay - RBI Nominee, Sri A.P. Rao - Chartered Accountant, Sri H.N. Tarachandani and Sri Yadalam A. Subramanyam. Majority of the members of the Committee are independent directors.

3. Clause 49-IV (C) : Shareholders and Investors Grievance Committee

Setting up of a Board Committee with independent Director as Chairman to look into redressal of complaints of shareholders and investors.

A Committee named as 'Corporate Governance Committee' with Independent Director as Chairman (presently non-executive Chairman of the Bank) has been constituted to oversee the matters relating to Corporate Governance, including review and redressal of complaints of shareholders and investors. Thus, it is also functioning as 'Shareholders Committee' for the purpose of this provision.

4. Clause 49-III

A. Remuneration of Non-Executive Directors to be decided by the Board.

This, including sitting fee, is decided by the Board of Directors from time to time, subject to the provisions of the Companies Act, 1956.

B. Disclosure of details of remuneration of Directors including details of stock options.

In respect of whole-time Directors viz., Managing Director and Deputy Managing Director, the details of remuneration have been sent to all the shareholders in compliance with Section 302 of the Companies Act, 1956.

5. Clause 49-IV : Board Procedures

Holding of Board Meeting at least 4 times in a year and Director not to be member of more than 10 Committees or Chairman of more than 5 Committees.

During the year 2000-01, the Board held its meeting 11 times.

None of the members of the Board is a member of more than 10 Committees or Chairman of more than 5 Committees.

6. Clause 49-V : Management

Management Discussion and Analysis Report to form part of Annual Report.

This will be included in the Annual Report for the year 2001-02 and thereafter.

7. Clause 49-VI : Shareholders

(a) Information to shareholders on (each and every) appointment and re-appointment of directors

This will be implemented on or before 31st March, 2002.

(b) Information regarding quarterly results etc., to be posted on website.

This has been implemented with effect from 1st April 2001 onwards. The shareholders may access the same on www.vysbank.com.

8. Clause 49-VII - Report of Corporate Governance

A separate Section on the Corporate Governance is to be given in Annual Report.

The relevant section will be incorporated in the Annual Reports from the year 2001-02 onwards.

N.B. As required, the above information is being furnished on a quarterly basis during the current year to the Stock Exchanges where the Bank's shares are listed.