



2004-05 | 74th Annual Report

ING  Vysya
BANK



In the changing scenario of Banking, our feet are firmly placed to climb the steps of progress. For it is the only way to move up and going, in our pursuit of success.



BOARD OF DIRECTORS

G M Rao
Chairman

Bart Hellemans
Managing Director and CEO

K R Ramamoorthy

K R V Subrahmanian

Joseph J Kestemont

Peter Alexander Smyth

Anand S Bhatt

Ryan Andrew Padgett

Arun Thiagarajan

Dr. Prakash G Apte

Lars Kramer

Cees Ovelgonne

Peter Staal

B Ramani Raj

Luc Vandewalle

CORPORATE SECRETARY

M V S Appa Rao

STATUTORY AUDITORS

M/s BSR & Co.,
Chartered Accountants,
Bangalore

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ING VYSYA BANK LIMITED

Registered and Corporate Office
ING Vysya House, No 22, M.G.Road,
Bangalore- 560 001

SHARE TRANSFER AGENT

Bigshare Services Private Limited
Mumbai
(upto 16th May, 2004)

Karvy Computershare Private Limited

(from 17th May, 2004)
No.51/2, TKN Complex,
Opposite National College,
Vanivilas Road,
Basvanagudi,
Bangalore 560 004
Phone-080-57687611
Fax-080-26621169
Email: bangalore@karvy.com

DIRECTORS' REPORT

Your Directors take pleasure in presenting the 74th Annual Report of your Bank, together with the Audited Balance Sheet as on 31st March, 2005, the Profit and Loss Account for the year ended on that date and other statements as are required to be circulated therewith.

Profile of the Bank

Your Bank, a prominent Bank in India with its origin as Vysya Bank going back to 1930 and recently with the addition of ING to its name has set out to make its prominent mark in the Indian Banking Sector.

With its core Banking solution, IT oriented products and focused Retail Banking and Wholesale Banking Services, the Bank aims for sustainable growth to benefit all the stakeholders, clients, employees and society at large.

Fitch Rating India Limited and CRISIL have assigned a rating of AA+ (ind)/Stable and AA+/Stable, respectively, for the Rs. 200 crore subordinated debt programme (Tier II bonds) raised in September, 2003. Also, CRISIL has assigned ratings of AA+/Stable for the Rs. 150 crore subordinated debt programme (Tier I bonds) raised in December, 1999, P1+ for Certificate of Deposit Programme and FAAA Stable for fixed deposits. CRISIL states that the ratings on the Bank reflects the significant comfort derived from the fact that ING Groep N. V. Of Netherlands is the single largest shareholder, who has a rating 'A+/Positive/A1+' by Standard and Poor's.

Financial Performance

For the year ended March 2005, the Bank posted a post tax loss of Rs.38.2 crore compared to a profit of Rs.59.0 crore recorded in 2003-04. Due to market developments, the treasury operations posted a loss of Rs.127 crore resulting from loss on sale of investments amounting to Rs.48.2 crore, provisions for MTM (marked to market) securities amounting to Rs.55.9 crore and MTM on interest rate swaps amounting to Rs.22.9 crore.

Adopting a more prudential approach, the Bank, during the year, has changed the accounting policy by charging off the premium/discount on loan portfolios purchased in the same year, as against the earlier practice of amortising the same over the life of the assets. Due to this change, the Bank has taken an additional charge of Rs.15.32 crore being the unamortised premium on such loans.

Net Interest Income (NII): The Bank maintained consistent growth in Net Interest Income during each of the quarters of FY 2004-05. NII from core banking operations increased to Rs.362 crore for the period ended 31st March 2005, recording a growth of 51% up from Rs.241 crore in the previous year. The main drivers for the improvement in NII include the business expansion, as well as a reduction in the cost of deposits, which led to a 67 basis point improvement in Net Interest Margin (NIM) to 3.10% in FY 2004-05 from 2.43% in FY 2003-04.

Non-interest Income: Total Non-interest income of the Bank declined by 67% from Rs.363.26 crore in 2003-04 to Rs.120.50 crore in 2004-05, due to losses booked under treasury operations. The income from Commission, Exchange and Brokerage (CEB Income) increased to Rs. 115.31 crore from Rs.109.49 crore during the same period, registering a growth of 5.82%.

Return on Assets: Return on assets of the Bank for the year under review is negative at (-) 0.30% on account of net losses of Rs.38.2 crore compared to 0.52% in 2003-04.

Net worth: The Net Worth of the Bank, including Revaluation Reserve of Rs. 117.46 crore, decreased from Rs. 747.32 crore as on 31st March, 2004 to Rs. 709.40 crore as on 31st March, 2005. Capital of the Bank has increased to Rs.22.71 crore as on 31st March 2005 from Rs.22.65 crore as at the end of the previous year due to issue of shares to employees under Employee Stock Option Scheme. Reserves and Surplus declined from Rs. 724.67 crore in 2003-04 to Rs. 686.69 crore in 2004-05 due to net loss recorded by the Bank.

The Bank had come out with a 3 : 1 Rights Issue of Rs. 307 crore on 15th March 2005 at a price of Rs.45/- per share, which was open till 13th April 2005. As on 31st March 2005, the Bank received Share Application Money to the extent of Rs. 132.39 crore, which is disclosed separately in the Balance Sheet. Subsequent to the annual closure of accounts, the rights issue formalities were completed and the Bank raised Rs. 305 crore of Capital, which has improved the Tier I Capital.

The Investment Fluctuation Reserve (IFR) of Rs.55.10 crore constituted 5.55% of the total investments held under Held For Trading (HFT) and Available For Sale (AFS) categories as against the requirement of 5% to be achieved by 31st March, 2006.

Capital Adequacy: The Capital Adequacy Ratio of the Bank stood at 9.09% in 2004-05 as compared to 11.05% in 2003-04. The Bank has come out with a rights issue of Rs.307.08 crore during the period 15th March, 2005 to 13th April, 2005. Considering the rights issue share application money, the Capital Adequacy Ratio of the Bank as of 31st March, 2005 works out to 12.34%.

Appropriation of Profits towards Reserves

In view of the net loss incurred during the year, there is no additional transfer made to the Statutory Reserves during the current year. Hence, there is no change in the position of the Statutory Reserves of the Bank.

Dividend

In the absence of profits for the Financial year 2004-05, your Directors do not recommend any dividend.

Business Performance

The total assets of the Bank, increased to Rs. 15,357.05 crore as on 31st March 2005 from Rs. 13,222.95 crore as on 31st March 2004 recording a growth of 16.14%.

Deposits

The total deposits of the Bank stood at Rs.12,569.31 crore, an increase of Rs. 2091.24 crore (19.96%) over the previous year's deposits level of Rs. 10,478.07 crore. The overall cost of deposits declined by 128 basis points from 6.29% to 5.01% during 2004-05 due to revision effected in interest rates on term deposits of various maturities at periodic intervals and repricing of matured deposits at lower rates.

The low cost deposits of the Bank (demand and savings), due to encouraging response for the Orange Savings and Current account schemes increased from Rs. 2,610 crore as on 31st March 2004 to Rs. 3,046 crore as on 31st March 2005, recording a growth rate of 16.7%. During the year the Bank also mobilised Rs. 1,642 crore under Certificate of Deposits.

Advances

The net advances of the Bank has shown significant growth of 30.9%, increasing from Rs. 6,936.73 crore as on 31st March, 2004 to Rs. 9,080.59 crore as on 31st March 2005.

Export credit increased by 39% from Rs. 710 crore as on 31st March 2004 to Rs. 985 crore as on 31st March 2005. Export credit as percentage of Net Bank credit stood at 10.85%.

Priority Sector Advances

The priority sector advances stood at Rs. 3,380 crore, and constituted 40.28% of the Net Bank Credit as on 18th March 2005 (last reporting Friday) as against the norm of 40% stipulated by Reserve Bank of India (RBI). The advances to agriculture sector amounted to Rs. 700 crore as on 18th March, 2005 forming 10.40% of Net Bank Credit. Advances to weaker sections amounted to Rs. 265 crore forming 3.16% of net bank credit, while Differential Rate of Interest (DRI) advances amounted to Rs. 33.41 crore forming 0.4% of the Net Bank Credit.

Investments

Total Investments of the Bank stood at Rs. 4,085 crore, same level as that of the previous year. Treasury reduced the duration of Held to Maturity (HTM) portfolio to 4.53 years, 1.54 years for the Available for Sale (AFS) portfolio and nil holdings under Held for Trading (HFT) as on 31st March, 2005 from 5.47 years for HTM, 4.50 years for AFS and 4.48 years for HFT as on 31st March 2004. Treasury has achieved this reduction in duration by increasing investments in T-Bills (short duration papers) to Rs. 677 crore as on 31st March 2005 from Rs. 377 crore as on 31st March 2004 and at the same time bringing down the portfolio of long dated securities. Central Government Securities constituted 96.99% of total investments as on 31st March 2005.

Taking into account RBI guidelines and market developments, the Bank shifted investments from Available for Sale (AFS) Category to Held to Maturity (HTM) category. As a result, Investments under HTM category increased considerably to Rs. 3,092 crore as on 31st March 2005, the AFS category declined from Rs. 3,808 crore to Rs. 993 crore.

Non Performing Assets

Net NPA ratio declined to 2.13% as on 31st March 2005 from 2.60% as on 31st March, 2004 due to effective recovery strategy and measures.

Branch Network

The number of Branches as of 31st March 2005 stood at 370 (including 8 RCCs) apart from 56 Extension Counters.

Compliance Issue

The Reserve Bank of India vide its letter dated 24th June 2005 imposed a penalty of Rs. 5 lakhs, under section 47 (1)(b) of the Banking Regulation Act, 1949 pursuant to its observations emanating from its Annual Inspection for the year ended 31st March 2004.

The observations relate, inter alia, to the treatment of unamortised Voluntary Retirement Scheme (VRS) expenses in the computation of the Capital Adequacy Ratio, accounting for certain pending items in the inter branch reconciliation, for financing a borrower for equity investment, for offering interest concessions on loan products linked with life insurance cover and for classification of certain advances under priority sector. These matters have already been appropriately addressed in the current financial year 2004-05.

The financial statements of the Bank for the year ended 31st March 2005 were approved in the meeting of the Directors held on 18th May 2005. As the imposition of penalty was required to be disclosed in the financial statements of the Bank as per letter of RBI dated 24th June 2005, the approved financial statements were reopened and revised to include an amended note in the notes on accounts relating to the imposition of penalty.

Rights Issue

Your Bank has successfully completed the rights issue of 6,82,40,214 equity shares of Rs.10/- each at a premium of Rs. 35/- per share aggregating Rs. 307.08 crore to the equity shareholders on rights basis in the ratio of three shares for every one share held as on 28th February, 2005 (i.e. record date). The issue was opened on 15th March 2005 and closed on 13th April 2005. By 31st March 2005, the Bank collected application money of Rs. 132.39 crore. The equity shares under rights issue were duly allotted on 7th May 2005. Consequently, the letters of allotment and refund orders were despatched to the concerned shareholders. The paid up share capital of the Bank stood increased to Rs.90.49 crore as of 30th June 2005.

Particulars of Employees u/s 217(2A)

The information required under Section 217(2A) of the Companies Act, 1956 read with the rules made thereunder, is given in the annexure hereto and forms part of this report. However, as per the proviso (b)(iv) to Section 219(1) of the Companies Act, 1956, the Annual Report and Accounts are being sent to all the Shareholders of the Bank excluding the aforesaid Annexure, which can be obtained by any shareholder from the Corporate Secretary of the Bank.

Subsidiaries

During the year, ING Vysya Financial Services Limited, a wholly owned subsidiary of the Bank, earned a profit (before tax) of Rs.5.09 crore and net profit (after tax) of Rs. 3.95 crore for 2004-05, as against Rs. 3.80 crore (before tax) and net profit (after tax) of Rs.3.55 crore earned during the previous year.

The accounts of the subsidiary of the Bank for the year ended 31st March 2005, along with a statement showing the extent of interest of holding company in the subsidiary under Section 212 of the Companies Act, 1956 are appended to the Annual Report.

Associates / Joint Venture**Divestment of equity stake of the Bank in ING Vysya Life Insurance Company Private Limited (IVL)**

The Bank did not subscribe to the capital calls made by the Company during the year keeping in view the need to conserve capital for the Bank's requirements and to avoid further strain on the Capital to Risk Weighted Assets Ratio (CRAR) of the Bank and consequently the equity stake of the Bank in ING Vysya Life Insurance Company Private Limited (IVL) reduced to 14.87%. The Bank at its Board meeting held on 28th May, 2005 decided to divest its entire stake of 14.87% in IVL to Gujarat Ambuja Cements Limited (subject to the approval of regulatory authorities).

ING Investment Management (India) Private Limited

The Bank did not participate in the capital calls made by the Company during the year mainly to conserve capital for the Bank's requirements resulting in subsequent reduction of shareholding of the Bank from 26% to 17.6%.

Consolidated Financial Statements

The Consolidated Financial Statement showing accounts of the Bank, the subsidiary and the associates as consolidated in accordance with the requirements of Accounting Standard (AS) 21 & 23, issued by the Institute of Chartered Accountants of India, along with the Auditors' Report thereon is appended in terms of Clause 32 of the Listing Agreement.

Delisting

As approved by the members at their 72nd Annual General Meeting held on 15th September 2003, the shares of the Bank have been delisted from Hyderabad Stock Exchange effective 31st March 2004 and from Madras Stock Exchange effective 23rd August, 2004.

Directors

Mr. B Ramani Raj was appointed as RBI Nominee effective 25th August 2004 in place of Mr. S K Newlay who ceased to be nominee of RBI effective 1st August, 2004(AN).

At the last Annual General Meeting of the Bank held on 16th September 2004, you had approved appointment of Mr. Peter Alexander Smyth, Mr. Lars Kramer, Mr. K R V Subrahmanian, Mr. Anand S Bhatt and Dr. Prakash G Apte, as Directors retiring by rotation. Mr. Luc Vandewalle was appointed as Director in casual vacancy, effective 27th October 2004, in place of Mr. David Wood Hudson who had since resigned on 5th October 2004.

The Board placed on record its appreciation for the invaluable services rendered by the outgoing Directors.

Directors liable to retire by rotation

Three Directors namely Mr. K R Ramamoorthy, Mr. Joseph J Kestemont & Mr. Arun Thiagarajan are retiring by rotation and being eligible, offer themselves for re-appointment.

Registrar & Share Transfer Agents

Karvy Computershare Pvt. Limited, Hyderabad continues to be the Registrar and Share Transfer Agents of the Bank.

Auditors

The Statutory Auditors viz. M/s. BSR & Co., (formerly Bharat S Raut & Co.) Chartered Accountants who were first appointed at the 72nd Annual General Meeting held on 15th September 2003 for the year 2003-04 and continued for the second year i.e. 2004-05 are retiring at this AGM and being eligible for re-appointment under the guidelines of RBI, offer themselves for re-appointment.

Subject to approval of RBI, it is proposed to re-appoint M/s. BSR & Co., Chartered Accountants as Statutory Auditors of the Bank for the financial year 2005-06. Shareholders are requested to approve the appointment of said auditors and authorize the Board of Directors to fix their remuneration and also to appoint Branch Auditors and fix their remuneration.

Employee Stock Option Scheme

The shareholders at the 70th Annual General Meeting held on 29th September 2001 approved earmarking of 5,00,000 equity shares of the Bank for granting to eligible employees of the Bank and its subsidiary under an Employee Stock Option Scheme (ESOS 2002). The shares earmarked under the ESOS 2002 are being granted in three tranches. The grant price is calculated as 75% of the average closing share price of the Bank's share for the last six months on the Stock Exchange where the highest number of shares have been traded.

As required under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, further tranche-wise details of the ESOS 2002 are annexed.

Other Reports

As required by Clause 49 of the Listing Agreement entered into with the Stock Exchanges, a detailed report on Corporate Governance and Management Discussion and Analysis Report form part of this Annual Report.

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, where relevant,
- (b) accounting policies have been selected and applied consistently and reasonable and 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 Bank 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.

Acknowledgements

The Board expresses its gratitude to the Reserve Bank of India for its continued advice, counsel and guidance in the functioning of the Bank.

The Board expresses its sincere thanks to IFC, 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 Central and State Government Departments/agencies and CRISIL & FITCH, rating agencies, for their continued support.

The Board of Directors acknowledge its gratitude to the Legal Advisors and Consultants for their valuable services to the Bank.

The Board extends its cordial thanks to the Shareholders and Customers for their unstinted support and the confidence reposed in the Bank. The Board of Directors also wish to place on record its sincere appreciation to all the employees, without whose dedication, commitment and hard work, the progress of the Bank reported above would not have been possible.

For and on behalf of the Board

Place : Bangalore
Date : 27th July 2005

G M Rao
Chairman

ANNEXURE TO DIRECTORS' REPORT**TRANCHE WISE DETAILS OF ESOS 2002 SCHEME**

Details	Tranche 1 (for the year 2001-02)	Tranche 2 (for the year 2002-03)
Options Granted	1,66,800	1,60,490
Grant Date	1 st October, 2002	1 st October, 2003
Grant Price	Rs.203/- per option/share	Rs.255/- per option/share
Grant period	One year	One year
Vesting schedule	1.10.2003 - 20% 1.10.2004 - 20% 1.10.2005 - 20% 1.10.2006 - 20% 1.10.2007 - 20%	1.10.2004 - 20% 1.10.2005 - 20% 1.10.2006 - 20% 1.10.2007 - 20% 1.10.2008 - 20%
Options vested till 31 st March 2005	60,450	28,868
Options exercised	59,740	27,568
Shares arising out of exercise	59,740	27,568
Options lapsed till 31 st March 2005	20,745	19,945
Variation of terms of options	Nil	Nil
Money realised by exercise of options	Rs.1,21,27,220	Rs. 70,29,840
Total number of options in force (i.e. remaining unexercised and not lapsed) along with employee wise details of options granted to senior managerial personnel.	86,315 Mr. Shantanu Ghosh, Country Head - Retail Banking - 5,000 Mr.Muralidhar S, Chief Administrative Officer - 2,000 Mr. Narayan K B V, Chief Finance Officer-3,025 Mr. Ravi Kumar V, Country Head - Financial Markets - 5,000 (since resigned)	1,12,977 Mr. Shantanu Ghosh, Country Head - Retail Banking - 3,500 Mr.Muralidhar S, Chief Administrative Officer - 3,500 Mr. Narayan K B V, Chief Finance Officer-3,500 Mr. Ravi Kumar V, Country Head - Financial Markets - 3,500 (since resigned) Mr. Suresh Chandra Nanda Regional CEO - North & East - 3,500 Mr. Ashok Rao B Chief - Corporate Audit Group - 3,500
Any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year.	NIL	NIL
Identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;	NIL	NIL

No options have been granted for the year 2003-04

The Bank follows the intrinsic method for valuing the stock options. The difference between Employee Compensation Cost computed based on such intrinsic value and Employee Compensation Cost that shall have been recognised if fair value of options had been used is explained below:

a) Employee Compensation Cost

	(Amount in Rs.)
i) Intrinsic Value	1,03,85,354
ii) Black - Scholes*	1,27,34,692
Excess to be Charged	23,49,338

b) Impact on Losses

	(Amount in Rs.)
i) Declared Losses	38,17,79,142
ii) Add: Adjustment for additional charge due to Black Scholes	23,49,338
Adjusted Losses	38,41,28,480

c) Impact on EPS

	Basic (Rs.)	Diluted (Rs.)
i) Declared in the financial Statements	(16.84)	(16.84)
ii) Revised EPS	(16.94)	(16.94)

d) Weighted Average details for both the Tranches

i) Exercise Price	Rs.228.50
ii) Fair Value	Rs.155.82

e) Significant assumptions: Weighted average information to estimate the fair value of options

	Tranche I	Tranche II
i) Risk Free Interest Rate (5 year Gilt Rate)	5.89%	4.78%
ii) Expected Life (excluding grant period of one year)	5 Yrs	5Yrs
iii) Expected Volatility	2.8%	2.4%
iv) Expected Dividends	40%	40%
v) The price of the underlying share in market at the time of option grant (as per NSE)	Rs.255.30	Rs. 451.30

* The Black-Scholes Model is used to calculate a theoretical call price (ignoring dividends paid during the life of the option) using the five key determinants of an option's price: stock price, strike price, volatility, time to expiration, and short-term (risk free) interest rate.

The Black - Scholes Model for Option Valuation (Tranche - I)

Call option value calculated based on:

The current market value of the share is Rs.255.30 (as on 1st Oct, 2002)

The exercise price is Rs.203.00

The risk free rate of interest is the yield of 5-year gilt rate (5.89%)

The Standard deviation of the continuously compounded annual return on the share is 0.028. (ie. Volatility is 2.8%)

The call option value for:

- 1st Year - Rs. 63.91
- 2nd Year - Rs. 74.85
- 3rd Year - Rs. 85.17
- 4th Year - Rs. 94.91
- 5th Year - Rs.104.08

The Black-Scholes Model for Option Valuation (Tranche - II)

Call option value calculated based on:

The current market value of the share is Rs.451.30 (as on 1st Oct, 2003)

The exercise price is Rs.255.00

The risk free rate of interest is the yield of 5-year gilt rate (4.78%)

The Standard deviation of the continuously compounded annual return on the share is 0.024. (ie. Volatility is 2.4%)

The call option value for:

- 1st Year - Rs 208.20
- 2nd Year - Rs 219.54
- 3rd Year - Rs. 230.36
- 4th Year - Rs. 240.67
- 5th Year - Rs. 250.50

As required under Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999, a certificate issued by Auditors of the Bank indicating that the Scheme has been implemented in accordance with these guidelines and in accordance with the resolution of the Bank in General Meeting will be placed at the Annual General Meeting of the shareholders.