


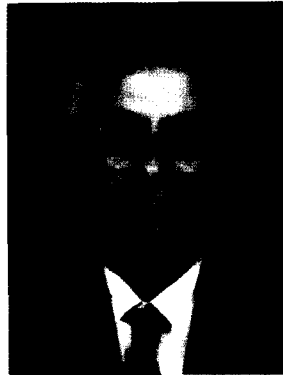
Annual Report 2003 - 2004

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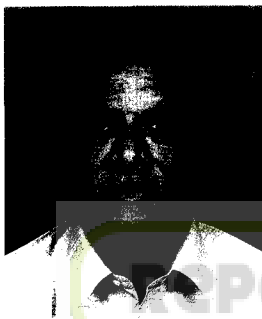


The Karur Vysya Bank Limited

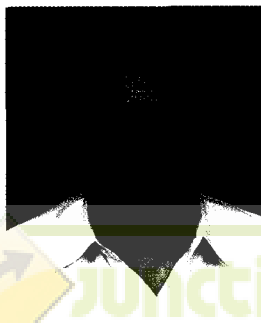
BOARD OF DIRECTORS



Shri P.T. Kuppuswamy
B.Com, A.C.A., A.C.S.
Chairman



Shri Athi S. Janarthanan M.A.



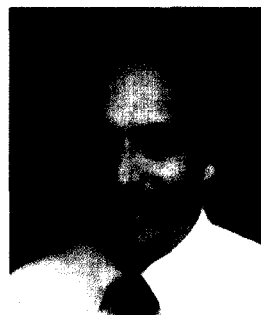
Shri M.G. Sankkaranarayanan



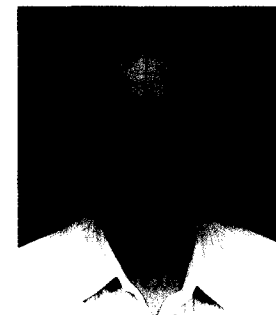
Shri G. Rajasekaran



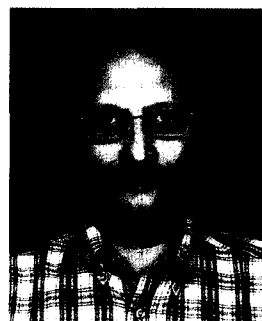
Shri K. Ramadurai
B.Com., F.C.A., Grad. C.W.A.



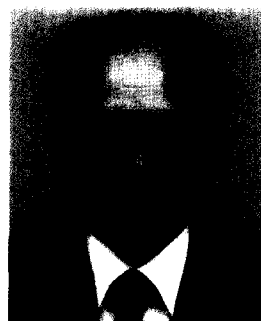
Dr V.G. Mohan Prasad
M.D., D.M., F.C.C.P., M.I.A.S.L.



Shri K.S. Ramabadran
B.A. (Hons), LLB.



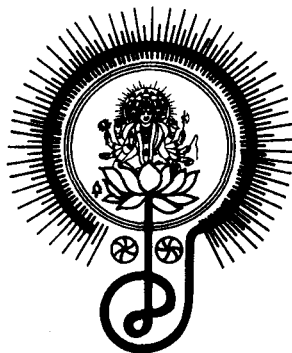
Shri M.K. Venkatesan, B.A.



Shri K.P. Kumar, B.A., LLB













Shri Ramesan Ramanathan
B.E., M.S.



SRI GAYATHRI DEVI

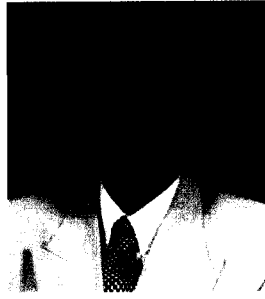
PERFORMANCE HIGHLIGHTS - 2003 - 04

-  Gross Business of the Bank (Gross Deposits and Gross Advances) crossed Rs.10,000 crore mark as on 31.3.2004.
-  Net Profit improved from Rs.124.97 crore to Rs.161.05 crore, up by 28.87%.
-  Net owned funds rose to Rs.712.03 crore from Rs.558.68 crore, up by 27.45%.
-  Dividend proposed at 100% for 2003-04 as against 70% for previous year.
-  Compliance with the prudential norms of the RBI for declaration of dividend without seeking prior approval.
-  Capital Adequacy Ratio stood at 17.11% as on 31.03.2004 well above the RBI stipulation of 9%.
-  Return on average assets improved from 2.25% to 2.43%, one of the highest in the banking industry.
-  Net NPA to Net Advances stood at 2.32% on 31.03.2004 as against 4.20%, a year ago.
-  Number of ATMs increased from 51 to 111.
-  Implementation of Core Banking Solution to offer Anywhere Banking to customers through multiple delivery channels.



The Karur Vysya Bank Limited

Regd. & Central Office :
Erode Road, Karur - 639 002
Website : www.kvb.co.in



Shri. N.S. Venkatarama Gupta,
B.A., C.A.I.I.B.
Executive Director



Shri. S. Nagarajan
B.Sc., C.A.I.I.B.
Senior General Manager

GENERAL MANAGER

Shri R. Sukumar, M.Sc.

DEPUTY GENERAL MANAGERS

Shri. V.K. Ragavan, B.Sc., B.L.

Shri S. Ramalingam, B.Sc., B.G.L., C.A.I.I.B.

Shri. A. Ananda Nadarajan, B.Com., C.A.I.I.B.

Shri. R. Sakthivelu, B.Sc., B.G.L., C.A.I.I.B.

Shri K. Venkateswara Rao, B.Sc., M.A.

Shri R. Jagadeesan, B.Sc., C.A.I.I.B.

ASSISTANT GENERAL MANAGERS

Shri P.L.A. Jeyaraman, B.Com., F.C.A.

Shri T. Ramachandra Shastri, M.Sc., C.A.I.I.B., F.C.I.B (LON).

Shri V. Palanisamy, B.Sc.

Shri K. Raghavan, B.A., C.A.I.I.B.

Shri A.S. Vasudevan, B.Com., A.C.A.

Shri Ramesh Prabhu M.Com.

Shri C. Anbazhagan, B.Sc., M.B.A.

Shri J. Hariharan, M.Com., C.A.I.I.B., D.P.M & I.R.

Shri A.R. Ramachandran, B.Com., C.A.I.I.B.

Shri R. Ramalingam, B.Com.

Shri T. Sivarama Prasad, B.Tech.

Shri J. Natarajan, M.A., C.A.I.I.B.

Shri R. Vijayaraghavan, M.Sc., C.A.I.I.B.

Shri S. Balaji, M.A., LL.B., C.A.I.I.B.

Shri G.S. Ananthakumar, M.Com.

Shri V. Srinivasan, B.Sc., M.B.A., C.A.I.I.B.

COMPANY SECRETARY

Shri R. Venkataramana, M.Com., LL.B., A.C.S., C.A.I.I.B.

LEGAL ADVISER

Shri K.N. Shrinivasan, B.A., B.L.

AUDITORS

M/s. Balu and Swamy Associates, Chennai



Central Office, Erode Road, Karur 639 002



P T Kuppuswamy
Chairman

My Dear Shareholder,

I am pleased to enclose the Annual Report of the Bank for the year 2003-04. I hope it would be of great interest to you to go through the same to know about the bank's performance in all parameters in the just concluded fiscal 2003-04.

The highlights of your bank's performance are laid down here below for your ready reference: -

(Rs. in crore)

Deposits	5911.48	EPS (Rs)	89.58
Advances	4101.15	Book Value (Rs)	396.05
Net Profit	161.05	Capital Adequacy Ratio	17.11%
Capital Funds	712.03		

The net profit of the bank is at Rs.161.05 crores as on 31st March 2004 against the level of Rs. 124.97 crores as on the 31st March 2003, a growth rate of 28.87 per cent. Thus, the bank has proven beyond any shadow of doubt the ability to perform steadily and consistently over the years.

It is matter of immense satisfaction that the total business of the bank crossed the historic milestone of Rs.10000 crores during the just concluded fiscal. To be precise, the total business of the bank stood at Rs. 10,013 crores as on the 31st March 2004. The bank has registered 15.42 per cent growth in deposits against the industry growth of 15 per cent during 2003-04. In the area of Advances, the bank has exhibited a robust growth of 19.81 per cent over the previous fiscal and reached the level of Rs. 4101.15 crores as on the 31st March 2004.

As a proud shareholder, you are sure to appreciate that there has been a steady growth in capital funds. The total shareholders' funds have reached the level of Rs.712.03 crores as on 31st March 2004. The Capital Adequacy Ratio of the bank is at 17.11 percent as on 31st March 2004 as against the regulatory minimum requirement of 9 per cent.

It has always been a pleasure for the management to reward the shareholders with high dividends. RBI has fixed certain parameters for declaring dividends without seeking prior permission from them. As your Bank has fulfilled all the stipulated parameters, our Board is pleased to declare a handsome dividend of 100 per cent tax free in the hands of shareholders.

It is a great pride to one and all in the KVB family to note that Your Bank has been ranked **SECOND BEST** among the 21 Old Private Sector Banks as per the Survey conducted by Financial Express – Ernst & Young for 2003. You would also be glad to note that Business Standard in its Oct. 2003 issue, has assigned seventh position for Your Bank for the year 2003 out of 50 banks taken for the study.

I am very much pleased to break another happy tidings that **your Bank is the ONLY BANK among the 21 fastest growing companies selected among the 483 listed companies in the country as per the study conducted by Business Today in its issue dated 29th Feb. 2004. This is an unique achievement by any standard.** I have little hesitation in admitting that this rare feat would not have been made possible but for the unshakable confidence reposed by our clientele.

Propelled by the constant proactive efforts taken by the management, your bank is poised to post further growth in the current fiscal, ably backed by strong fundamentals. I would like to list below various strategies for implementation during the current fiscal to stay on line in the market.

- Plans to install more than 60 ATMs during the current fiscal in addition to existing 111 ATMs,
- Plans to bring all metro, urban and semi-urban branches into the fold of Core Banking Solution,
- Plans are in place to open 15 new branches in the current fiscal,
- Plan to foray into retail banking in an aggressive way,
- Evolving measures and putting in place proper infrastructure for embracing RTGS for enabling Real Time Settlement of high-value, inter-bank, and intra-bank transactions.

Your bank is fully alive to the technological changes that sweep through the banking industry and has already initiated measures to put in place timely technological solutions to stay on line in the market. Your unstinted and unflinching support has indeed been a source of strength and inspiration to the Management all along and we count upon the same for the years to come.

I earnestly look forward to meet you at the Annual General Body Meeting on the 22nd July 2004 at Karur.

With Best Wishes,

Yours sincerely,



(P T KUPPUSWAMY)
CHAIRMAN

Annual Report 2003-04

Directors' Report

Your Board of Directors are glad in presenting the Bank's 85th Annual Report along with audited accounts for the year ended 31st March 2004. You would be happy to note from the financial statements that the bank has posted satisfactory results for the fiscal ended 31st March 2004.

Your bank embarked upon a new strategy with clear thrusts - (i) bringing more branches under Core Banking Solution (CBS) network, (ii) computerising the entire branch/offices of the bank and (iii) increasing geographical spread by opening new branches and installation of ATMs. Thus bank's operations are leaning increasingly towards customer centric by providing efficient and technology oriented services.

Your Directors are pleased to inform that your bank has been adjudged as one of the best banks in the country by leading financial dailies/Business magazines based on the performance of the bank as on 31.03.2003. Business Standard, a financial daily in its Banking Annual survey accredited your bank **as 7th bank** among the 84 banks covered, in terms of overall rating comprising five indicators viz: profitability, safety, productivity, efficiency and growth. Another financial daily, Financial Express has awarded **second rank** to your bank among old private sector banks, based on various parameters.

Business To-day in its 29th February 2004 issue rated your bank **as one of the fastest growing companies** among the 483 listed companies. KVB is the only bank to secure a place among the 21 companies rated as per the survey. The rating matrix as per the study was based on revenue, operating profit and net profit growth.

1. ECONOMIC OVERVIEW:

Indian economy recorded strong growth during the fiscal 2003-04 with the GDP accelerated to 10.4% in the 3rd quarter of the fiscal. After having faced drought situation for a year in many parts of the country, the agriculture sector has shown recovery thanks to the normal monsoon leading to increase in agricultural production. Industries in the manufacturing sector have shown improved performance and sustained growth was witnessed in production of consumer, basic and capital goods. There has been a surge in the inflow of foreign exchange due to the revival of FII investments resulting comfortable liquidity.

Revival of the capital markets was the most striking feature during the fiscal. Softer interest rate regime continued to dominate the financial markets.

The results of the Commercial banks for the fiscal 2003-2004 indicate increasing trend in profits because of improved credit off-take despite the fact the treasury market remained passive in the last two quarters of 2003-2004.

2. FINANCIAL PERFORMANCE:

During the year under review total business of the bank both deposits and gross advances has crossed 10000cr mark for the first time and reached the level of Rs.10012.62 crs as on 31.03.2004 as against Rs.8545.00 crs as on 31.03.2003 registering a growth rate of 17.18%. The credit off take was slow in the early part of the fiscal 2003-04, but gained momentum in 3rd and 4th quarters. The interest spread increased to 3.36% from 2.97%.

The bank posted total income of Rs.721.87 crs and a net profit of Rs.161.05 crs at the end of the fiscal 2003-04 as against total income of Rs.648.07 crs and net profit of Rs.124.97 crs during 2002-2003.

The highlights of the bank's performance during the fiscal 2003-2004 are given below:

	Rs. in crs
a. Deposits	5911.47
b. Gross Advances	4101.15
c. Total Income	721.87
d. Operating Profit	214.55
e. Net Profit	161.05

Appropriations:

Transfer to

1. Statutory Reserve	48.50
2. Capital Reserve	NIL
3. Investment Fluctuation Reserve	40.00
4. Contingency Reserve	11.00
5. General Reserve	41.50
6. a) Proposed Dividend	17.98
b) Dividend Tax (including surcharge)	2.30

Other Performance Highlights

1. Net worth	Rs.712.03 crs
2. Book Value per share	Rs.396.05
3. Earnings per share	Rs.89.58
4. Capital Adequacy Ratio	17.11 %

3. DEPOSITS:

Mobilisation of deposits was afflicted due to the falling interest rate regime on deposits coupled with the



Directors' Report

buoyancy in the capital market and high interest rates offered by the Central Government on Small Savings Schemes as also on Post Office Savings Schemes during the fiscal 2003-2004. The total deposits of your bank reached Rs.5911.47 crs as on 31st March 2004 posting a growth of 15.42% as against Rs.5121.92 crs as on 31st March 2003. Because of the continued thrust given by the bank, low cost deposits have recorded an increase of Rs.252.22 crs over the previous fiscal showing a growth of 22.93%.

4. CREDIT PORTFOLIO:

The bank's Credit (gross) portfolio clocked at Rs.4101.15 crs as at the end of the fiscal 2003-2004 up by 19.81% over the previous fiscal which was at Rs.3423.08 crs. The bank has comfortably attained the priority sector lending target of 40% stipulated by the regulator, the RBI.

Retail credit segment has been booming in the country over the last few years mainly due to changing demographic profile and falling interest rates. Your bank has always given necessary focus in this segment with innovative products to cater the needs of the emerging segment.

5. DIVIDEND:

Your bank is aware that large body of shareholders have been associated with the bank for many decades expressing their loyalty and patronising the bank for generations.

Bank on its part has been rewarding the shareholders with high rate of return by way of dividend and Bonus and Rights issues of equity shares. Distribution of handsome dividend has become the hallmark of your bank. It is a known fact that KVB has been one of the very few banks in the country rewarding its shareholders with high dividends.

Recently RBI has permitted the banks to declare dividend by themselves subject to the achievement of certain minimum prudential requirements.

As your bank has complied with all the stipulations and in tune with the avowed policy of rewarding shareholders with best dividend, your Directors have recommended 100 % dividend for the year 2003-2004 for the approval of the shareholders. The partly paid shares will be entitled for payment of Dividend on pro-rata to the extent of amount paid.

6. PERFORMANCE UNDER RECOVERY FRONT:

As per the regulatory norms your bank switched over from 180 days to 90 days overdue norm for classification of NPAs. In view of the greater thrust given to the asset quality, despite the adoption of new stringent norm for NPA classification your bank's gross and net NPAs have declined.

The recovery drive launched by the bank during the fiscal 2003-2004 has paid dividends resulting in substantial reduction in NPA levels. The gross and net NPAs stood at Rs.239.23 crs and Rs. 91.60 crs as on 31.03.2004 as against Rs.255.46 crs and Rs.139.07 crs at the previous year ended 31.03.2003 and the Gross and net NPAs percentage has also come down from 7.46% and 4.2% to 5.83% and 2.32% respectively as at the end of fiscal under report.

7. CAPITAL ADEQUACY:

Your bank has been continuing the policy of strengthening the reserves by ploughing back major portion of the profits. The building up of reserves would provide greater impetus for its future growth.

Your bank achieved capital to risk-weighted assets ratio (CRAR) of 17.11% at end of March 2004, which is well above the minimum bench mark level of 9% stipulated by RBI.

The share capital of the bank as on 31.03.2004 was at Rs.17.98 crs. The EPS and the Book value were Rs.89.58 and Rs. 396.05 respectively as on 31.03.2004 as against Rs.156.28 and Rs.310.38 respectively at the end of March 2003.

8. INVESTMENTS:

As in yester years your bank has seized the opportunities for optimising the returns through judicious management of funds and liquidity management on the one hand and deployment of funds in suitable investment avenues on the other while conforming to the ALM needs of the bank.

The net investments of the Bank stood at Rs.2173.01 crs as on 31st March 2004 as against Rs. 1845.08 crs at the end of the previous fiscal 2002-2003, registering a growth rate of 17.77%.

Continuous falling interest rates and exercise of call options by some issuers of non- SLR bonds, the average yield on investments declined to 9.04% during the year under review as against 10.16% in the previous year. This was in line with the trend in treasury market.

Annual Report 2003-04

Directors' Report

9. FOREX OPERATIONS:

The forex turnover of the bank was Rs.3231.53 crs at the end of fiscal 2004 as against Rs.2340.48 crs in 2002-2003, registering a growth of 38.07%. Export Credit accounted for Rs.211.30 crs out of the total advances.

Your bank has signed agency agreements with UAE Exchange and Financial Services Limited and Times Online Money Limited during the fiscal 2003-04 for easy and quick inward remittances. These arrangements will also help the bank in identifying the potential non-resident depositors and facilitate in the mobilisation of non-resident deposits.

10. BRANCH NET WORK:

Your bank has been expanding the net work of branches across the country having regard to the business potential and opportunities for growth. This has helped the bank in broad basing the clientele and widening of geographical spread. During the year under review the bank opened 13 branches taking the total number of branches of the bank to 223 as on 31.03.2004.

11. RISK MANAGEMENT:

Your bank has put in place the Risk Management Architecture to measure, monitor and control the various risks associated with the bank's area of operations viz: Credit risk, Market risk, operational risk, liquidity risk, interest rate risk, exchange risk etc.,

Risk management is an in-built mechanism emphasising specific authorisation levels and limits which get modified in tune with the changing environments.

12. NEW BUSINESS PRODUCTS:

Banking in the country has been undergoing a sea-change. The revenue being generated out of non-core banking business is getting narrower with the adoption of Core Banking Solution. Added to this the revenues are further crippled due to falling of lending rates affecting the margins. Further the generation of income from treasury operations is getting limited. In order to enhance the income levels, banks have been looking for various avenues under fee based income. The bank's strategic alliance with Bajaj Allianz General Insurance Co, for distribution of their non-life insurance products through the bank's branch net work as also the tie up with Birla Sun Life Mutual Fund for selling

their mutual fund products, have started yielding results.

During the year under review your bank has entered into a tie-up arrangement with the Birla Sun Life Insurance Company Ltd. for hawking their Life insurance products through the network of branches of the bank. Your bank has also entered into Corporate Agency Agreement with Export Credit Guarantee Corporation of India (ECGC) to market their insurance policies. These new bancassurances would result in generation of better revenues in the years to come.

13. TECHNOLOGY INITIATIVES:

Banking Industry has been witnessing technology revolution in its operations. Your bank has also been taking technology initiatives to match the best in the industry. Almost 99% of the total business of the bank has been computerised and 227 branches/offices have been automated out of 249 as on 31.03.2004. Plans are afoot to achieve 100% computerisation during 2004-2005.

During the fiscal 2003-04, the bank strengthened its ATM net work with addition of 60 ATMs to its existing 51 ATMs, taking the tally of ATMs to 111 at the end of the fiscal. As per the tie up arrangement with UTI bank, additional 1250 of their ATMs are also at the service of your bank's clientele.

Your bank has converted 56 branches/offices into Core Banking Solutions (CBS) at the end of the fiscal 2003-2004 and plans are on, to move faster to convert another 100 branches during the current fiscal.

Your bank has launched VISA Electron Debit Card during the fiscal under report. This is an international debit card which will facilitate the customers to have access to their accounts across the Globe through over 6 million ATMs and more than one million Point of sale terminals.

14. AUDITORS:

M/s Balu and Swamy Associates, Chartered Accountants, Chennai have conducted the audit of the accounts for the year ended 31.03.2004. They have expressed their willingness to continue to associate with the Bank as Statutory Auditors for the current fiscal also if re-appointed.

15. STATUTORY DISCLOSURES:

None of the employees of the bank has received the emoluments for which particulars of employees have



Directors' Report

to be disclosed as per Sec 217 (2A) of the Companies Act, 1956 and the Rules framed thereunder. Hence the information required under the said Section has not been furnished. The remuneration drawn by Shri.P.T.Kuppuswamy, the Chairman and Chief Executive Officer is furnished elsewhere in this document.

Information relating to Conservation of Energy and Technology Absorption as per the provisions of Sec 217 (1) (e) do not apply to the bank.

16. BOARD OF DIRECTORS:

Shri. G.Sarangan, the Director of the Bank relinquished office of the Director with effect from 27.06.2003 consequent upon the expiry of his term of office. Shri.A.K.Praburaj, has resigned as a director of the bank with effect from 08.03.2004. Shri.G.Venkatesam has also resigned as director of the bank with effect from 01.04.2004. Your Directors place on record their deep sense of appreciation for the invaluable contribution made by all the three directors during their tenure as Directors of the bank.

Dr.V.G.Mohan Prasad was inducted into the Board as an Additional Director on 28.07.2003. The Board at its meeting held on 26.11.2003 co-opted Shri.K.S.Ramabadran and Shri.M.K.Venkatesan as Additional Directors. Shri.K.P.Kumar was co-opted as an Additional Director on the Board of the Bank on 29.12.2003. Shri.Ramesan Ramanathan was inducted as an Additional Director by the Board of Directors on 29.03.2004.

The Additional Directors who were appointed will be holding the office of the Director until the date of ensuing Annual General Meeting. Bank has received notices from all the five Directors under Section 257 of the Companies Act 1956 signifying their candidature for the office of the Director for appointment in the ensuing Annual General Meeting. Accordingly their appointments as directors of the bank have been covered in the notice convening the ensuing Annual General Meeting. Board commends their appointments. Shri.K.Ramadurai who is retiring by rotation is seeking re-appointment under Section 256 of the Companies Act, 1956. The Board commends his re-appointment.

17. DIRECTORS RESPONSIBILITY STATEMENT:

Pursuant to Sec 217 (2AA) of the Companies Act, 1956, the Directors of the bank confirm that:

- (a) in the preparation of the annual accounts, the applicable accounting standards as modified and advised by RBI have been followed together with proper explanations for the departures where relevant.
- (b) generally accepted accounting policies and the guidelines issued by the Reserve Bank of India had been followed consistently.
- (c) reasonable and prudent judgments and estimates had been made so as to give a true and fair view of the state of affairs of the bank as at 31.03.2004 and profit of the bank for the year ended on that date.
- (d) proper and sufficient care was taken for the maintenance of adequate accounting records as per the applicable provisions of laws governing banks in India.
- (e) the accounts had been prepared on a going concern basis.

18. DELISTING:

A proposal is being placed before the shareholders at the ensuing Annual General Meeting seeking delisting of the equity shares from the Madras Stock Exchange Limited and Coimbatore Stock Exchange Limited. The proposal comes in the wake of the fact there has been no trading of the bank's equity shares in these two Stock Exchanges for the last three years. However the equity shares of the bank would continue to be on listing on the National Stock Exchange Limited, where alone the trading has been taking place, which has trading terminals all over India.

19. ACKNOWLEDGEMENTS:

The Board of Directors take this opportunity to place on record their gratitude and sincere thanks for the continued patronage extended by the shareholders, customers and other well wishers. The Board of Directors record their grateful thanks to the Government of India, State Governments, the Reserve Bank of India and other Regulatory bodies for continued co-operation, support and advice and valuable counsel. The Board of Directors express their deep sense of appreciation for the dedication and efforts put in by all the employees of the bank for the all round performance recorded by the bank during the fiscal 2003-2004.

For and on behalf of the Board of Directors
P.T. KUPPUSWAMY
 Chairman

Karur 639 002
 21st May, 2004