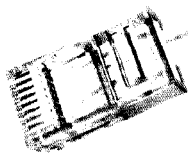


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ANNUAL REPORT 2005-2006



BOARD OF DIRECTORS



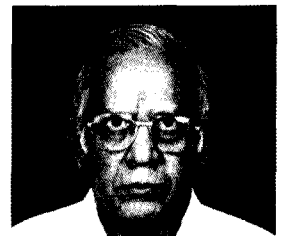
Shri. P.T. Kuppuswamy
B.Com., A.C.A., A.C.S.,
Chairman



Shri. Athi S. Janarthanan
M.A.



Shri. G. Rajasekaran



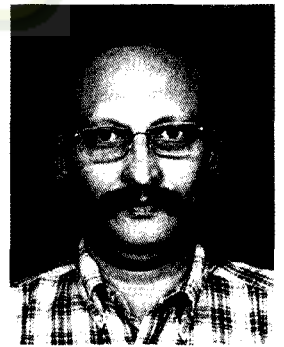
Shri. K. Ramadurai
B.Com., F.C.A., Grad.C.W.A



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



Shri. K.S. Ramabadrn
B.A., (Hons), L.L.B.,



Shri. M.K. Venkatesan
B.A.,



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



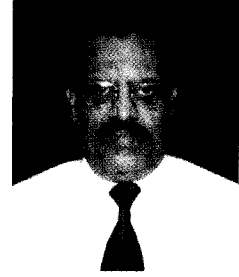
Dr. T.R. Ramanathan
M.A., B.L., Ph.D.



Shri. R. Sukumar
M.Sc.
GENERAL MANAGER



Shri. S. Nagarajan
B.Sc., C.A.I.I.B.
CHIEF GENERAL MANAGER



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

DEPUTY GENERAL MANAGERS

Shri.S.Ramalingam, B.Sc.,BGL.,C.A.I.I.B.
Shri.A.Ananda Nadarajan, B.Com.,C.A.I.I.B.
Shri.K.Venkateswara Rao, B.Sc.,M.A.
Shri.R.Jagadeesan, B.Sc., C.A.I.I.B
Shri.A.S.Vasudevan, B.Com,A.C.A.
Shri.J.Hariharan, M.Com,C.A.I.I.B,D.P.M&I.R.,Dip in Trg & Development
Shri.J.Natarajan, M.A, C.A.I.I.B.

ASSISTANT GENERAL MANAGERS

Shri.V.Palanisamy, B.Sc.
Shri.Ramesh Prabhu, M.Com.,J.A.I.I.B.
Shri.R.Venkataramana, M.Com,A.C.S.,L.L.B,C.A.I.I.B.
Shri.A.R.Ramachandran, B.Com,C.A.I.I.B.
Shri.R.Ramalingam, B.Com.,J.A.I.I.B.
Shri.T.Sivarama Prasad, B.Tech, J.A.I.I.B.
Shri.S.Balaji, M.A.,L.L.B.,C.A.I.I.B.
Shri.G.S.Anantha Kumar, M.Com.
Shri.V.Srinivasan, B.Sc.,M.B.A,J.A.I.I.B.
Shri.V.Subramanyam, B.Com,J.A.I.I.B.
Shri.K.M.Thimmiah, B.Sc.
Shri.M.Balachandran, B.A.,M.B.M.,C.A.I.I.B,PG Dip in Fin Management
Shri.V.Srinivasan, B.Com,A.C.A.,A.C.S.,C.A.I.I.B.
Shri.S.Babuji, B.Sc,BGL.,C.A.I.I.B.
Shri.S.Balasubramanian, B.A.,B.L.,M.L.S.,PG Dip in Per Mgt,
IR & Lab Welfare,D.L.A.L., J.A.I.I.B.
Shri.T.K.Sankara Vadivel, M.A.
Shri.K.P.Swaminathan, M.A.,C.A.I.I.B.
Shri.R.Sekar, B.Sc.
Shri.K.Mohan, B.Com(Hon),LLB.,A.C.S(inter),C.A.I.I.B.
Shri.R.Vijayaraghavan, M.Sc.,C.A.I.I.B.

COMPANY SECRETARY

Shri.R.Kannan, B.Com.,BGL.,A.C.S.,C.A.I.I.B.,M.B.A.

LEGAL ADVISER

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

AUDITORS

M/s. A.Thirumalaiappan & Co, Karur.



P.T. KUPPUSWAMY
CHAIRMAN

My Dear Shareholder,

It is with immense happiness that I present to you the excellent results of your Bank for yet another financial year, 2005-06. The year witnessed a vibrant economy riding on the crest of monsoon-aided bountiful agricultural yield and the revival of industrial activity after a long lull. Inflation continued to be under control, while the comfortable foreign exchange position of the country was sustained. The improved economic conditions meant that bank funds were once again in demand.

Against this background, your bank has turned in a good business performance, as is evident from the following financial highlights:

- The total business of the bank crossed Rs. 13,000 crores with the deposits figure crossing Rs. 7576.84 crores and advances, Rs. 5700.89 crores;
- Net owned funds reached Rs. 871.63 crores;
- Net profit for the year grew by 28.49% at Rs. 135.35 crores;
- Net NPA was brought down to 0.81%;
- The Capital Adequacy ratio was at a comfortable 14.79% on the increased asset base as against the RBI requirement of 9%;
- One new Divisional Office at Hyderabad and seven new branches were added to the bank's network.

Your bank has taken further strides on the technological front, including

- Achievement of 100% networking of branches under Core Banking Solution;
- Launch of Mobile Banking;
- Launch of Net Banking for non-financial transactions;
- Extension of RTGS facility to all the branches;
- Increase in the number of owned ATMs to 180;
- Tie-up with NFS, enabling our customers to access over 7000 ATMs of other banks across the country.

In our efforts to extend the benefits of technology to all our customers, your bank is now providing the operational facility by which all our Savings Bank Account holders can deposit up to Rs. 50000/- p.m. into and withdraw up to Rs. 25000/- p.m. from their account, at any of our branches, free of charge.



Enhancement of shareholders' value has constantly engaged the attention of your Bank since inception. In line with this hallowed principle, the Board of Directors has declared a dividend of 100% to all the shareholders for the financial year. This dividend is for a record third year in succession. In addition to this, as a special anniversary gift to the shareholders on the eve of the 90th year celebrations of the Bank, the Board is pleased to declare an additional 20% dividend to all the shareholders. This takes the total dividend declared for the financial year to an unprecedented 120%, tax free in the hands of the shareholders.

I am pleased to inform you that the Board of Directors in the meeting held on 25th May, 2006 has decided to issue bonus equity shares in the ratio of one equity share for every share held.

The bonus shares will be eligible for dividend from the financial year 2006-07 onwards.

In addition to the above, the Board has also decided to issue rights equity shares in the ratio of one equity share for every two equity shares held (including the proposed bonus shares), at a premium of Rs. 60/- per share.

I cannot think of a better way to thank our stakeholders, for the continued support extended and confidence reposed.

Your Bank is continuing with its aggressive business strategies to remain ahead in the race for supremacy. Some of the proposed business plans for the fiscal 2006-07 are:

- Opening 30 new branches across the country;
- Achieving a minimum business level of Rs. 15750 crores;
- Improving the Net Owned Funds of the Bank to Rs. 1000 crores;
- Reaching "near zero" percentage position in net NPA;
- Increasing the Debit card population of the Bank to one million;
- Permitting financial transactions under Net Banking;
- Introducing new products and services, including demat;
- Emerging as a "Tech savvy Bank with Pan India coverage;
- Bringing more benefits of technology at affordable price to our customers.

Your Bank will be completing 90 glorious years in the service of its customers, shareholders and the nation in July, 2006. In the era of growing competition and thinning margins, I look forward to your unstinted support, as always, in all our endeavours to sustain the business growth trajectory of the bank in the years to come.

It shall be my pleasure to receive you at the Annual General Body Meeting to be held at Karur on 27th July, 2006.

With warm wishes,

Yours sincerely,

P.T. KUPPUSWAMY
CHAIRMAN



◀ CELEBRATION OF
FOUNDERS' DAY

CELEBRATION OF
FOUNDERS' DAY ▶



◀ CELEBRATION OF
FOUNDERS' DAY



Directors' Report

Your Directors take pleasure in presenting the 87th Annual Report of the Bank together with the audited financial statements for the year ended 31st March 2006. It could be seen that the bank has achieved robust business growth and posted good results in 2005-06 notwithstanding the competitive environment and thin spreads.

1. MACRO ECONOMIC OVERVIEW

The Indian economy witnessed strong performance during the fiscal 2005-06 thanks to the sustained growth recorded by the industrial and services sectors. The real GDP growth would touch 8.1% in 2005-06 as against 7.5% during the previous fiscal. The manufacturing sector has more or less recorded the same growth of around 9% in 2005-06, but there was deceleration in the growth of mining sector. Almost all sub-sectors of the services sector viz: finance, insurance, real estate, trade, hotels, transport, communication, construction etc have registered robust growth during the fiscal under report. The services sector which recorded a growth of 9.9% till December 2005, was the propeller of economic activity. Agricultural production exhibited good performance due to satisfactory rainfall during the year. Total foodgrain production increased by 2.5% over the previous year.

The economy has been flourishing. The buoyancy in the industrial and service sectors and the level of confidence for further growth fuelled the expectations in the current fiscal too.

Except during the last quarter of the fiscal 2005-06, the monetary and liquidity conditions were comfortable during the year. Banking system was able to meet the sustained pick up in credit demand from the commercial sector, thanks to RBI's intervention in injecting liquidity through the repo operations under liquidity adjustment facility (LAF) and unwinding of the Market Stabilisation Scheme.

Banks were able to meet the commercial credit by restricting their incremental investments in Government securities coupled with the growth in deposits. Commercial Banks' non-food credit recorded a growth rate of 30.8% over the previous fiscal figure of 28.8%.

In India year on year wholesale price inflation was 3.5% on 1st April 2006 as against 5.7% in the previous year.

Money market was comfortable till October 2005 and became tight thereafter. In the credit market, deposit and lending rates hardened as credit demand gained further momentum.

On the external side, exports recorded a sustained growth for the fourth year in succession and registered a growth rate of 24.7%. The cost of oil imports increased by 46.8% in 2005-06 mainly due to the surge in the international crude oil prices. Non-oil imports posted a growth of 25.6% as against 33.3% in the previous fiscal. In view of the continued capital inflows, balance of payments position was comfortable on account of growth in equity market investments despite the huge current account deficit. Forex reserves as on 31st March 2006 were US \$ 151.6 bn.

2. PERFORMANCE OF THE BANK

Your bank achieved a total business of Rs.13277.73 crs during the fiscal 2005-06, a 16.34% growth over the previous year.

Gross deposits of the bank stood at Rs.7576.84 crs registering an increase of Rs.904.65 crs over the previous year's deposit level of Rs.6672.19 crs.

Credit portfolio of the bank grew by Rs.959.88 crs from Rs.4741.01 crs as on 31st March 2005 to Rs.5700.89 crs as on 31st March 2006, registering a growth rate of 20.25% during the fiscal under review.

The total income of the Bank was Rs. 793.96 crs in 2005-06 as against the previous fiscal income of Rs. 703.92 crs. Operating profit for the year grew to Rs. 228.64 crs. The interest spread was 3.24 % in 2005-06 as against 3.32% in 2004-05, despite competitive conditions witnessed amongst banks to bring quality assets to their fold.

The highlights of the performance of your bank during the fiscal under report are given under:

	Rs. in crs
1. Deposits	7576.84
2. Gross Advances	5700.89
3. Total Income	793.96
4. Operating Profit	228.64
5. Net Profit	135.35

Appropriations

Transfer to	
1. Statutory Reserve	41.00
2. General Reserve	69.00
3. (a) Proposed Dividend (100%+ 20%)	21.57
(b) Dividend Tax	3.03
(inclusive of surcharge & education cess)	

Other performance highlights:

1. Net worth	Rs. 871.63 crs
2. Book value per share	Rs. 484.80
3. Earnings per share	Rs. 75.28
4. Capital Adequacy Ratio	14.79%

3. DEPOSITS

The aggregate deposits of the bank recorded a growth of 13.56% during the year reaching a level of Rs.7576.84 crs as on 31.03.2006 as against Rs.6672.19 crs as on 31.03.2005. Of the total deposits, low cost deposits (savings and demand deposits) constitute 26.91% while the term deposits account for 73.09%.

The low cost deposits increased by Rs. 408.40 crs from Rs.1630.48 crs as at the end of fiscal 2004-05 to Rs.2038.88 crs. In the low cost segment, savings deposit surged by Rs.242.60 crs up 28.70% from Rs.845.25 crs as on 31.03.2005 to Rs.1087.85 crs as at the end of fiscal 2005-06.

4. CREDIT PORTFOLIO

Total advances of the bank registered an increase of Rs. 959.88 crs from Rs.4741.01 crs to Rs.5700.89 crs showing a growth of 20.25% during the fiscal 05-06. In tune with its policy of expanding credit growth of quality assets, the bank focussed its attention to retail and other segments during the year under report.

The priority credit stood at Rs.2269.64 crs constituting 40.11% of the net bank credit as at the end of the last reporting Friday i.e 31.03.2006 and thus complied with the norm of 40% stipulated by the Reserve Bank of India.



Directors' Report

5. RECOVERY

Your bank has been maintaining high standard in the asset quality which is evident in the low NPA levels. Maintenance of asset quality is ensured by selection of borrowers, constant monitoring of the borrowal accounts and initiation of needy action at the appropriate time to avoid slippage of the account to NPA category.

Recovery drive in respect of impaired assets was in full swing during the year in accordance with the action plan drawn at the beginning of the year. With an aggressive recovery programme, gross NPA level was brought down from Rs.241.91 crs to Rs.223.15 crs resulting in a reduction of Rs.18.76 crs. Net NPAs dipped from Rs.75.75 crs to Rs.44.83 crs.

The Gross and net NPAs were at 3.91% and 0.81% respectively as at the end of the fiscal 2005-06 as compared to 5.10% and 1.66% respectively during the previous fiscal 2004-05. Your bank is taking earnest steps to bring down net NPA level to near "0" % in the current fiscal 2006-07.

6. DIVIDEND

Your bank has been consistent in rewarding its shareholders. Distribution of handsome dividends is the hall mark of the bank since its inception. In tune with its philosophy of increasing shareholder value and considering the overall performance as also the positive out look for the future growth, your directors are pleased to recommend a dividend of 100 % for the fiscal 2005-06.

Apart from the regular dividend, your directors have pleasure in recommending a special dividend of 20% in view of the 90th Year celebrations of the Bank. Thus the total dividend recommended for the year 2005-06 works out to 120%.

The total amount of dividend proposed to be distributed works out to Rs. 24.60 crores (including dividend tax, surcharge and Education cess there on). Bank has complied with the guidelines of the Reserve Bank of India for declaration of dividend. The dividend is tax free in the hands of the shareholders.

7. CAPITAL ADEQUACY

The paid up capital of the bank is at Rs.17.98 crs. The net owned funds of your bank increased from Rs. 760.88 crs to Rs. 871.63 crs, recording a growth of 14.56 %.

Earnings per share and the Book value were Rs. 75.28 and Rs.484.80 respectively as on 31.03.2006 compared to Rs.58.59 and Rs.423.22 respectively as at 31.03.2005.

The Capital to Risk Adjusted Assets Ratio (CRAR) stood at 14.79 % as on 31.03.2006 as against 16.07% as on 31.03.2005 which is much above the norm of 9% prescribed by the Reserve Bank of India. Your bank has been consistently maintaining high Capital Adequacy ratio over the years.

8. INVESTMENTS

The yield curve continued its northward journey during 2005-06 with the 10-year benchmark government security yield touching a 4 year high of 7.55% by the end of the fiscal, a rise of almost 90 basis points from the level witnessed a year ago. To de-risk the

investment portfolio from future interest rate risk, the Bank followed a twin-pronged strategy of whittling down excess SLR securities coupled with shifting of securities from AFS category to HTM category. As a proactive measure, the Bank had shifted securities from AFS category to HTM category during April 2005, recognizing depreciation to the tune of Rs.2.78 crore arising out of such shifting.

The net investments of the Bank stood at Rs.2,298.13 crore as on 31st March 2006 as against Rs.2219.03 crore as at the end of previous fiscal. Despite exercise of call option and redemption of high coupon bonds by corporates/PSUs, the Bank was able to post an average interest yield of 8.44% on its investment portfolio. The Bank has in place a very dynamic interest rate risk tracking system with Value at Risk and Modified Duration approaches.

During the year under review, the Bank has forayed into derivatives trading on a calibrated basis and gained valuable experience. The outstanding notional principal amount on account of derivatives stood at Rs.175.00 crore as on 31st March 2006. The Bank has also planned to use derivatives for effectively managing the interest rate risk embedded in the Balance Sheet. The Bank has already initiated steps for delivering structured swap products to its clients so as to enable them to manage their exchange and interest rate risks.

9. FOREX OPERATIONS

Your bank's forex turnover was Rs.4097 crs during the fiscal 2005-06. Export credit amounted to Rs.372.68 crs out of the total credit of Rs.5700.89 crs constituting 6.54%.

10. BRANCH NETWORK AND EXPANSION

In its pursuit to further its foothold in potential markets and to expand its business opportunities, your bank has been opening new branches at various select centers. The branches opened during the year under report were Ludhiana, Chandigarh, Trichy- Srirangam, Nerul- Mumbai, Krishnagiri, Noida and Amritsar. Besides the new branches, bank has also shifted 5 of its existing branches to new and spacious premises for customer convenience. As on 31st March 2006, the bank has 238 branches, 8 satellite offices, 5 Extension Counters, 12 service centers and 13 Administrative offices.

11. RISK MANAGEMENT

Risk Management Architecture which is already in place in the bank is being modified and finetuned taking into account the regulatory guidelines as also the dynamic business environment.

Bank has put in place necessary steps which would conform to Reserve Bank of India norms governing Risk based supervision.

12. TECHNOLOGY INITIATIVES

As already informed last year, all the branches and offices of the bank have migrated to the core banking solution covering 100% on line business coverage. The bank has added 24 Automated Teller Machines to its existing ATM population taking the total to 180 ATMs as on 31st March, 2006.

In tune with our avowed policy of offering latest technology-driven/value added services to our esteemed customers, your bank had introduced the following services during the year under report.



Directors' Report

- (a) Mobile Top up facility
- (b) Visa acquiring business through ATMs
- (c) Internet Banking (Non financial)
- (d) RTGS in all our branches
- (e) Mobile banking
- (f) Tie up with National Financial Switch (NFS) to enable the clientele to operate their account at around 7000 ATMs in the country.

Leveraging on the core banking solution, the Bank has extended Real Time Gross Settlement Facility to its customers through all the branches.

Your bank is proud in announcing that it is a fore-runner among the old private sector banks in case of technological edge.

13. AUDITORS

M/s A. Thirumalaiappan & Co. Chartered Accountants, Karur have conducted the audit of the accounts for the year ended 31st March 2006. They have expressed their willingness to continue to be associated with the bank as Statutory Auditors for the current fiscal also, if re-appointed.

14. STATUTORY DISCLOSURES

The information required under the provisions of Sec 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended is not furnished since no employee employed throughout/part of the year, was in receipt of the remuneration as specified in the said Rules.

The remuneration drawn by Shri P T Kuppuswamy, Chairman & Chief Executive Officer is furnished elsewhere in this document.

The provisions of Sec 217 (1e) of the Companies Act, 1956 relating to conservation of energy and technology absorption do not apply to your bank.

15. BOARD OF DIRECTORS

Sri M G Sankaranarayanan, director of the bank relinquished office of the director with effect from 11.05.2006. The Board places on record its deep sense of appreciation of the valuable services rendered by him during his tenure as a director of the bank. Directors Dr. V G Mohan Prasad, Shri M K Venkatesan and Shri K S Ramabadrhan are retiring by rotation and being eligible, offer themselves for re-appointment. In terms of Clause 49 of the Listing Agreement, brief resume of the said three directors is furnished elsewhere in this report.

16. CODE OF CONDUCT

In terms of the revised Clause 49 of the Listing Agreement entered

into by the Bank with the Stock Exchange, the Board has laid down Code of Conduct for the members of the Board and senior management personnel of the bank. The Code of Conduct was also put on the web site of the bank www.kvb.co.in.

All the Board members and senior management personnel have affirmed compliance with the Code as on 31.03.2006.

17. DIRECTORS RESPONSIBILITY STATEMENT

Pursuant to Sec 217 (2AA) of the Companies Act, 1956, the Directors of the Bank state 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 deviations 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 judgements and estimates had been made so as to give a true and fair view of the state of affairs of the bank as at 31.03.2006 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 governing banks in India.
- e. the annual accounts had been prepared on a going-concern basis.

18. ACKNOWLEDGEMENTS

The Board of Directors thank the valued customers, shareholders, other clients and well wishers for their goodwill, patronage and support and look forward the same in the years to come.

The Board expresses its gratitude to the Reserve Bank of India and other Government and regulatory authorities for their continued support, guidance and counsel.

The Board desires to place on record its appreciation for the support and cooperation the bank received from Export Credit and Guarantee Corporation of India and others associated with the bank in its business endeavours.

Your directors also wish to place on record their appreciation for the hard work, dedication and commitment of the employees at all levels, which have enabled the bank to remain in the forefront of the industry despite increased competition from several existing and new players.

For and on behalf of the Board of Directors

Place: Karur,
Date : 25.05.2006.

P T Kuppuswamy,
Chairman



Corporate Governance

Good Corporate Governance entails making a corporate a responsible citizen that not only will augment shareholder wealth but also contribute towards social good. Adoption of best management practices, adherence to ethical standards, transparency in all dealings without compromising in any way, integrity and regulatory compliances have been the basic objectives of corporate governance in the bank.

2. BOARD OF DIRECTORS

Shri P. T. Kuppaswamy is the Chairman and Chief Executive Officer (CEO) of the Bank. Apart from the Chairman and CEO, the

Board consists of 9 directors as on 31.03.2006. The Directors represent various sectors as mandated under the Banking Regulation Act, 1949. All the directors other than the Chairman are non-executive Directors.

None of the directors of the bank is a member of more than 10 committees or Chairman of more than 5 committees across all companies in which he is a director.

Other than the normal banking business transactions, neither the directors nor the relatives of the directors had any transactions which are materially significant to report for.

- I. The name, category and the sectoral representation of each of the directors together with their attendance in the Board and the Committee Meetings during the fiscal 2005-06 are furnished below. The details as to Audit Committee and the Customer Service and Shareholders/Investors Grievance Committee are given elsewhere in the report.

Sl No	Name	Category of Director	Sectoral Representation	No. of Meetings attended during the year 2005-2006					
				Board (25 Meetings held)	Advances (4 Meetings held) *	S&D (33 Meetings held) **	ALM (6 Meetings held) ***	NPAM (3 Meetings held) ****	NC (2 Meetings held) *****
01	Shri P T Kuppaswamy	Chairman	Banking	25	4	30	6	3	2
02	Shri A S Janarthanan	Promoter Family Non-Executive	Business & Finance	25	4	29	6	3	1
03	Shri M G Sankaranarayanan	Promoter Family Non-Executive	SSI & Finance	20	3	22	5	2	1
04	Shri G Rajasekaran	Promoter Family Non-Executive	Business & Finance	25	4	29	6	3	1
05	Shri K Ramadurai	Independent Non-Executive	Accountancy	21	-	-	-	-	1
06	Shri M K Venkatesan	Promoter Family Non-Executive	SSI	23	4	30	5	3	1
07	Dr.V.G.Mohan Prasad	Independent Non-Executive	Agriculture	12	-	-	-	-	-
08	Shri K S Ramabadrnan	Independent Non-Executive	Law	17	-	-	-	2	1
09	Shri K P Kumar	Independent Non-Executive	Law	20	-	-	-	-	-
10	Shri T R Ramanathan	Independent Non-Executive	Agriculture & Rural Economy	21	-	-	-	-	-

*	Advances	-	Advances Committee
**	S & D	-	Staff & Development Committee
***	ALM	-	Asset and Liability Management Committee
****	NPAM	-	NPA Management & Fraud Monitoring Committee
*****	NC	-	Nomination Committee