

ANNUAL REPORT 2008 - 2009



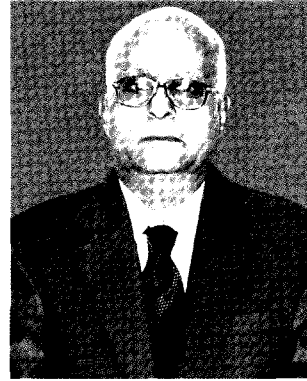
Karur Vysya Bank

Smart way to bank

RS. 25,000 CRORES. GO BEYOND.



SHRI ATHI S. JANARTHANAN
Chairman



SHRI P.T. KUPPUSWAMY
M.D. & C.E.O



SHRI K. RAMADURAI
Director



SHRI Dr V.G. MOHAN PRASAD
Director



SHRI M.K. VENKATESAN
Director



SHRI K.P. KUMAR
Director



SHRI T.R. RAMANATHAN
Director



SHRI M.G.S. RAMESH BABU
Director



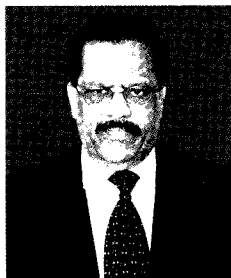
SHRI Dr. S. KRISHNA KUMAR
Director



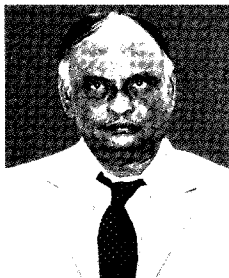
Shri. T.M. Lakshmikanthan
B.Sc.
EXECUTIVE DIRECTOR



Shri. R. Sukumar
M.Sc.
CHIEF GENERAL MANAGER



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



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



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

DEPUTY GENERAL MANAGERS

Shri. S. Ramalingam, B.Sc., BGL., C.A.I.I.B.
Shri. A. S. Vasudevan, B.Com., A.C.A.
Shri. J. Natarajan, M.A., C.A.I.I.B.
Shri. R. Venkataramana, L.L.B., M.Com., C.A.I.I.B., A.C.S.,
Shri. A. R. Ramachandran, B.Com., C.A.I.I.B. Cert. in Fin. Mktg & AMFI
Shri. T. Sivarama Prasad, B.Tech, J.A.I.I.B.
Shri. G. S. Anantha Kumar, M.Com.
Shri. S. Balaji, L.L.B., M.A., C.A.I.I.B.
Shri. V. Srinivasan, B.Sc., M.B.A., J.A.I.I.B.
Shri. M. Balachandran, B.A., M.B.M., C.A.I.I.B., PG Dip. in Fin. Management
Shri. R. Jagadeesan, B.Sc., C.A.I.I.B.,

ASSISTANT GENERAL MANAGERS

Shri. Ramesh Prabhu, M.Com., J.A.I.I.B.
Shri. V. Subramanyam, B.Com., J.A.I.I.B.
Shri. V. Srinivasan, B.Com., C.A.I.I.B., A.C.A., A.C.S.,
Shri. S. Babuji, B.Sc., BGL., C.A.I.I.B.,
Shri. S. Balasubramanian, B.A., B.L., M.L.S., J.A.I.I.B., PG Dip in Per Mgt, IR & Labour Welfare, L.D.L.A.L.,
Shri. T. K. Sankara Vadivel, M.A.
Shri. K. P. Swaminathan, M.A., C.A.I.I.B.
Shri. S. Sekar, B.Sc.
Shri. K. Mohan, B.Com(Hon), LLB., C.A.I.I.B., A.C.S(inter), NCFM (Dep. Operation)
Shri. A. Vijayakumar, M.Sc., C.A.I.I.B., C.I.S.A.
Shri. M. Balasubramanian, M.Com., J.A.I.I.B., Cert. in Fin. Mktg & AMFI
Shri. G. P. Asok Kumar, B.Com., C.A.I.I.B., C.I.S.A., D.C.M.P
Shri. L. Muthukrishnan, B.Sc, B.G.L., C.A.I.I.B.
Shri. Ashok Vennelakanthi, B.L., M.Com., C.A.I.I.B.
Shri. K. Sathyamoorthy, B.A.
Shri. C. Saravanun, B.G.L. M.Com. C.A.I.I.B. DIP. IN Comp. Application, NCFM (Dep. Operation)
Shri. S. Raghunathan, B.A.
Shri. G. Sampath, B.Sc
Shri. S. Ravi, M.A., J.A.I.I.B.

COMPANY SECRETARY

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

LEGAL ADVISER

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

AUDITORS

M/s. J. L. Sengupta & Co, Chennai



SRI GAYATHRI DEVI

FOUNDERS DAY CELEBRATION AT ANSAR GROUP





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FROM DR. SUBBA RAO, GOVERNOR, RBI FOR BEST USE OF IT FOR CUSTOMER SERVICE IN SEMI URBAN & RURAL AREA BY IDBRT, HYDERABAD





The Karur Vysya Bank Limited

89th ANNUAL GENERAL MEETING





DIRECTORS' REPORT

Your Directors have pleasure in presenting the 90th Annual Report of the bank along with the audited financial statements for the year ended 31st March 2009.

Economic Overview:

The global economy entered its critical phase during September 2008 following the growing distress among the international financial institutions, the collapse or bought out of the large financial institutions and the fall of the stock markets around the world. When the credit markets froze, the central banks across the globe resorted to conventional and unconventional measures to address the situation. The Indian Economy which was on a robust growth path for the five years till the fiscal 2007-08 with an average of 8.9%, experienced moderation. There was a downturn in industrial growth and the deceleration was noticeable in all categories viz: basic, capital and consumer goods. The services sector too witnessed the moderation along with agricultural sector.

The slowdown of the country's economy was due to the result of the low investment demand and decrease in exports owing to contraction of external demand. The domestic demand levels also declined. Both the Government and the RBI resorted to various measures to tide over the situation and the economy witnessed moderation in growth path. The current account deficit has widened. However in the context of the comfortable foreign exchange reserves and the external debt position, the balance of payments would remain sustainable. While there was a steep decline in the headline whole sale price index inflation, the consumer price index remained high due to the high cost of food prices. The GDP growth stood estimated around 7.1% during the fiscal 2008-09.

Indian economy is likely to remain relatively weak during the first half of the fiscal 2009-10 and thereafter it is expected to pick up strong growth momentum. The forecast is based on multiple factors viz: the expected growth in agriculture with the busy rabi season, impact of monetary easing, fiscal stimulus and other administrative measures including the accelerated implementation of infrastructure projects and other public expenditure programs, comfortable external payments situation, domestic savings position being looked at for financing investments, healthy bank balance sheets, strong domestic consumption levels etc.

Financial Review

Against the back drop of the slow economic growth the bank has performed reasonably well. The financial performance of your bank during the year 2009-10 is given below:

Rs. (in cr.)

1.	Deposits	15101.39
2.	Gross Advances	10562.90
3.	Total Income	1711.30
4.	Operating Profit	418.02
5.	Net Profit	235.84

Appropriations

Transfer to

1.	Statutory Reserve	71.00
2.	General Reserve	49.00
3.	(a) Proposed Dividend	64.74
	(b) Dividend Tax	11.00
	(inclusive of surcharge and Education cess)	

Other highlights:

1.	Net worth	1350.16
2.	Book value per share (Rs.)	250.26
3.	Earnings per share (Rs.)	43.71
4.	Capital Adequacy Ratio (under Basel II)	14.92%

Award and Recognition:

Your bank has won the Banking Technology Excellence Award 2008 for best use of IT for customer service in Semi-urban and Rural areas given by the Institute for Development and Research in Banking Technology (IDRBT). The award was presented by Governor of RBI at Hyderabad on 18.05.2009 to the MD&CEO of the bank.

Deposits

Your bank's deposits increased by 20.33% to Rs.15101.39 cr at the end of March 2009 which include Rs. 1496.77 cr of Demand Deposits, Rs.1808.82 cr of Savings Deposits and Rs.11795.80 cr of Term Deposits.

Term Deposits increased by 26.32% in FY2008-09 from Rs.9337.90 cr as at the end of FY 2007-08. Savings Deposits was at Rs. 1808.82 cr as at the end of March 2009 against Rs.1672.83 cr as at the end of March 2008. Average deposits of the bank stood at Rs.13246.74 cr as against Rs. 10566.56 cr during the earlier fiscal recording a growth of 25.36%.

Your bank took many initiatives to increase the savings deposits by conducting Savings Deposit campaign.

Credit Portfolio

The total advances of the bank registered a growth of 10.39 % from Rs. 9568.84 cr in the previous fiscal to Rs. 10562.90 cr at the end of March 2009. The total priority sector advances constituted 40.10% of the net bank credit as on 31.03.2009.

The bank has entered into tie-up arrangements during the fiscal 2008-09 with the following external credit rating agencies for rating of our Corporate /SME borrowal accounts:

(1) ICRA Limited (2) ONICRA (3) SME Rating Agency of India (SMERA) and (4) The Credit Analysis & Research Limited (CARE).

Recovery

Despite the economic slowdown, your bank was able to control and contain the NPAs. This was made possible due to the continued thrust given to prevent assets slipping into NPA category by timely initiation of recovery measures. The year also witnessed migration of system based Asset Classification and income recognition to ensure transparency and data integrity which help the bank in identifying warning signal accounts and take steps to arrest accounts slipping to non-performing.

Gross NPAs of the bank has decreased from 2.03% in FY 07- 08 to 1.95% in FY 08-09 with the quantum having risen marginally from Rs.194.26 cr as on 31.03.2008 to Rs.205.86 cr in 31.03.2009. The net NPA was up to Rs.25.82 cr from Rs.17.29 cr and recorded a marginal increase from 0.18% in 2007-08 to 0.25% in the fiscal under report.

- 5 - While Advances have grown by 85% over the past three years, the



DIRECTORS' REPORT

Gross NPA has declined by 7%. Gross NPA has come down to 1.95% as on 31.3.2009 compared to 3.91% as on 31.3.2006. Net NPAs have come down from 0.81% as of 31.3.06 to 0.25% as on 31.3.2009. Average incremental NPA to incremental advances for the past three years has been on the negative side, indicating effective asset recovery / monitoring efforts.

Share Capital

As at the end of the fiscal, the paid up capital stood at Rs. 53.95 cr as against Rs. 53.94 cr as on 31st March 2008. The increase in paid up capital was on account of issue of 10,150 shares which were kept in abeyance consequent to the settlement of legal disputes.

Dividend

Your bank has been keeping a consistent dividend policy of balancing the twin objectives of appropriately rewarding the shareholders with cash dividends and retaining capital to maintain a healthy Capital Adequacy Ratio to support future growth.

The bank has a consistent track record of rewarding the shareholders with handsome dividends over the last many years and in line with this and taking into account the performance of the bank during the fiscal under report, your Directors are pleased to recommend a dividend of Rs. 12/- per equity share for the year 2008-09. This dividend shall be subject to tax on dividend payable by the bank. The dividend will absorb an amount of Rs. 64.74 cr excluding dividend tax of Rs. 11.00 cr.

Capital Adequacy

The net owned funds of the bank increased from Rs. 1190.00 cr to Rs. 1350.16 cr registering a growth of 13.46%. Your bank's capital adequacy ratio (CAR) stood at a healthy 14.92 % (under Basel II) and at 13.08% (under Basel I). The Capital Adequacy is well above the regulatory minimum of 9.0%.

Investments

During the fiscal 2008-09, yield on the 10-year Government security touched an intra-year low of 5.11 per cent on December 30, 2008, then increased in the wake of the large market borrowing programme of the Government, reaching 7.08 per cent on March 30, 2009. The yield has subsequently declined on account of substantial easing of liquidity.

The bank had shifted Government securities for book value of Rs.599.94 cr from AFS Category to HTM category during the year to mitigate the risk arising out of future interest rate shocks, after recognizing depreciation to the tune of Rs.37.86 cr arising out of such shifting. Net profit from sale of investments stood higher at Rs.93.58 cr as against Rs.30.68 cr for the previous fiscal.

The gross and net investments of the bank stood at Rs.4755.61 cr and Rs.4715.98 cr. as at the end of the fiscal 31st March 2009, as against Rs.3535.67 cr. and Rs.3526.33 cr. respectively as at the end of the previous fiscal. The bank's average yield on investment was 6.92%.

Forex Operations

Merchant turnover of the bank for the fiscal under report was at Rs.8323 cr. The gross income from forex operations was Rs.107.51 cr as against Rs.86.86 cr in 2007-08. Of the gross advances, export

credit amounted to Rs.559.98 cr.

Branch Network and Expansion

In pursuit of having a 'PAN INDIA' presence, your bank is embarking upon penetration into un-banked areas having business opportunities. 23 more branches were added during the fiscal under report and up-gradation of one Extension Counter into a full fledged branch taking the total number of branches to 312. The bank has 324 ATMs as on 31.03.2009.

Technology Initiatives

In every sphere of KVB's operations, technology continues to be a key enabler. It reinforces our prime position and sustains our competitive strength. While technology is generally viewed as a means to an end, for your bank, technology can provide enormous opportunities.

Your bank is one of the early adopters of latest solutions in Information technology and have kept pace with the times in leveraging IT for our business. During the year under report your bank embarked upon the following technology initiatives:

- 1) Funds transfer through ATMs
- 2) Institutional Fees payment through ATMs
- 3) Kingfisher airlines payment through ATMs
- 4) On-line shopping through CC Avenue
- 5) On-line Bill Payment through Billdesk
- 6) Straight Through Processing for RTGS transactions
- 7) Affiliate Membership for Cosmos, Tamilnad Mercantile Bank & City Union Bank
- 8) VISA VAP sharing for Cosmos Bank
- 9) Implementation of automated DR solution
- 10) Launching of Call Centre for ATM cell

Other initiatives/services:

In our endeavour to provide more value added services to the customers, your bank entered into a tie-up with M/s Religare Securities Limited for providing trading facility to the Demat customers.

The bank also entered into tie-up arrangement with LIC Mutual Fund for distributing their products. With the tie-up with LIC Mutual Fund, members are aware that the bank has tie-up arrangements with SBI Mutual Fund, Reliance Mutual Fund, Birla Sun Life Mutual Fund, Sundaram BNP Mutual Fund and Franklin Templeton Mutual Fund for distribution of mutual fund products of these funds.

Auditors

M/s J L Sengupta & Co (H.O.: Kolkatta), Chennai carried out the Statutory Central Audit of the bank. The Statutory Auditors retire at the conclusion of the 90th Annual General Meeting and are eligible for re-appointment. As recommended by the Audit Committee, the Board has proposed the appointment of M/s J L Sengupta & Co., Chartered Accountants as Statutory Auditors for the fiscal 2009-10. The share holders are requested to consider their appointment.

Statutory Disclosures

The provisions of Sec 217 (1) (e) of the Companies Act, 1956 relating to conservation of energy and technology absorption do not apply to your bank. However the bank has used information technology extensively for its operations.



DIRECTORS' REPORT

The information required under Section 217 (2A) of the Companies Act, 1956 read with Companies (Particulars of Employment) Rules, 1975 is annexed elsewhere in this report.

Employees Stock Option Scheme

The shareholders of the bank had approved the Employees Stock Option Scheme at the Annual General Meeting held on 24th July 2008. During the year under report the bank has implemented the KVB ESOS 2008 as per the Securities and Exchange Board of India (ESOS & ESOP Scheme) Guidelines 1999. Under the Scheme the total of 10,00,000 stock options were available for grant to the eligible employees and options up to a limit of 5,00,000 were made available as 1st tranche. Options were granted on 30th December 2008.

These Stock options would vest after one year. The vested options are exercisable over a period of one month from the date of vesting.

Statutory disclosures regarding ESOS under Clause 12 of the SEBI Guidelines are provided in Annexure I attached to this report.

Board of directors

The Board in the meeting held on 24th July 2008 appointed Shri A S Janarthanan as Non-Executive Chairman of the bank for a period of two years subject to the approval of RBI. The appointment is in line with the directive issued by Reserve Bank of India during May 2007 to all private sector banks to have a separate Non-executive (Part Time) Chairman of the Board and a Managing Director / CEO of the bank to look after the day to day management of the affairs of the bank. RBI vide its letter DBOD No.4250/08.41.001/2008-09 dated 11.09.2008 approved the appointment on the terms and conditions as specified in the letter from the date of taking charge. In terms of the said approval, Shri A S Janarthanan has taken charge as Non-Executive (Part Time) Chairman of the bank on 24.09.2008. A resolution has been placed before the shareholders for approval of the terms and conditions of his appointment and the Board commends the same.

Directors Sarvashri M K Venkatesan and K P Kumar retire by rotation at the ensuing Annual General Meeting and are eligible for re-appointment.

During the year under report, Dr. S Krishna Kumar was co-opted as an Additional Director of the bank in the meeting held on 27.09.2008 in terms of Sec 260 of the Companies Act, 1956 and Article 26 of the Articles of Association of the bank. He holds office up to the date of this Annual General Meeting. He is seeking election as a Director of the bank in the ensuing Annual General Meeting.

Code of conduct

The code of conduct, as adopted by the Board of Directors, is applicable to the Directors and Senior Management Personnel of the bank. The code is available on the website of the bank and it is hereby confirmed that all those who are governed by the said Code have affirmed the code of conduct as on 31st March 2009.

Responsibility Statement

The Board of Directors hereby state that

- (i) in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures
- (ii) we have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the bank as on March 31, 2009 and of the profit and loss account for the year ended on that date
- (iii) We have taken proper and sufficient care 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 frauds and other irregularities; and
- (iv) We have prepared the annual accounts on a going concern basis.

Acknowledgements

The Board of Directors thanks Reserve Bank of India and other Government and Regulatory agencies for their valuable guidance and continued support provided to the bank throughout the year. The Board of Directors is also grateful to the valued customers, esteemed shareholders, stakeholders for their patronage and confidence reposed in the bank.

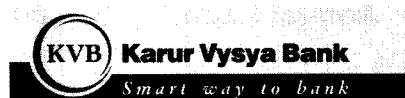
The Directors acknowledge with appreciation the co-operation and assistance extended by the National Stock Exchange of India Ltd., as also the partners in business interests viz: ECGC, Bajaj Allianz Insurance, IDBI etc.

The Board of Directors places on record their great appreciation of the commitment, sense of involvement and dedication exhibited by each staff member in the growth of the bank and look forward to their continued support and whole-hearted co-operation for realization of goals in the year ahead.

For and on behalf of the Board of Directors

Athi S. Janarthanan,
Chairman

Place: Karur,
Date : 28th May, 2009.



DIRECTORS' REPORT

ANNEXURE - I FORMING PART OF DIRECTORS' REPORT

Statutory disclosures regarding ESOS under Clause 12 of Securities and Exchange Board of India. (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999

Particulars	ESOS 2008
Options Granted out of the first tranche of 5,00,000 stock options made available	496100
Pricing Formula	Rs.70/- per share/for option
Options Exercised	NIL
Total Number of shares arising as a result of exercise of options	Not applicable
Options lapsed	NIL
Variation of terms of options	NIL
Money realized by exercise of options	Not applicable
Total Number of Options in force	484900
Employee wise details of grant to senior Managerial personnel	
Shri P T Kuppuswamy, MD & CEO	1000
Sarvashri R Sukumar	500
R Sakthivelu	500
A Ananda Nadarajan	500
K Venkateswara Rao	500
S Ramalinam	500
A S Vasudevan	500
G S Anantha Kumar	500
R Jagadeesan	500
J Natarajan	500
R Venkataramana	500
A R Ramachandran	500
T Sivarama Prasad	500
Any other employee who received a grant in any one year of the options amounting 5% or more of the options granted during the year	NIL

Identified employees who are granted options during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversion) of the company at the time of grant.	NIL
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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 recognized if fair value of options had been used is explained below.

S.No.	Particulars	Amount(Rs.)
1	Intrinsic value	70480125
2	Cost as per Black Scholes model	69621942
3	Excess charged	858183

There is no adverse impact on Net Profit and Earning per Share.

a) Weighted average details

S.No.	Particulars	Amount(Rs.)
1	Exercise Price	Rs.70/-
2	Fair Value	Rs.213.58

b) The Bank has used Black Scholes Model to calculate a theoretical call price (ignoring the dividend paid during the life of the options) using five determinants of an options price: Stock Price, Strike Price, Volatility, time to expiration and short term (risk free) interest rate. Significant assumption made to estimate the fair value of options are as under:

S.No.	Particulars	
1	Risk free interest rate	4.5%
2	Expected life (excluding grant period of one year)	1 Year
3	Expected volatility	23.0%
4	Expected dividend	4.1%
5	Price of the underlying share at the time of grant of options	Rs.215.35