



We grow with you



ANNUAL REPORT 2010 - 2011

BOARD OF DIRECTORS

CHAIRMAN



SHRI ATHI S JANARTHANAN
Till 23.09.2010



SHRI K.P. KUMAR
From 24.09.2010



SHRI P.T. KUPPUSWAMY
Till 31.05.2011



SHRI K. VENKATARAMAN
From 06.06.2011

DIRECTORS



Dr V.G. MOHAN PRASAD



SHRI M.G.S. RAMESH BABU



Dr. S. KRISHNA KUMAR



SHRI S. GANAPATHI SUBRAMANIAN



SHRI K. PARAMESHWARA RAO



SHRI V. SANTHANARAMAN



SHRI G. RAJASEKARAN



SHRI A.J. SURIYANARAYANA



T. M. LAKSHMI KATHAN
B.Sc
EXECUTIVE DIRECTOR



R. SUKUMAR
M.Sc.
CHIEF GENERAL MANAGER



R. SAKTHIVELU
M.A.,B.G.L.,C.A.I.I.B.
GENERAL MANAGER



A. ANANDA NADARAJAN
B.Com., C.A.I.I.B.
GENERAL MANAGER



K. VENKATESWARA RAO
M.A.
GENERAL MANAGER



J. NATARAJAN
M.A., C.A.I.I.B.
GENERAL MANAGER



G.S. ANANTHA KUMAR
M.Com.
GENERAL MANAGER

DEPUTY GENERAL MANAGER

RAMALINGAM. S B.Sc, B.G.L., C.A.I.I.B.
VASUDEVAN. A.S B.Com., A.C.A.
RAMACHANDRAN. A.R B.Com., C.A.I.I.B.
VENKATARAMANA. R M.Com.,L.L.B., C.A.I.I.B. ,A.C.S.
SIVARAMA PRASAD. T B.Tech., J.A.I.I.B.
BALAJI. S L.L.B., M.A., C.A.I.I.B.
SRINIVASAN. V M.B.A, J.A.I.I.B.
BALACHANDRAN. M M.B.M., C.A.I.I.B., PGDFM
SUBRAMANYAM. V B.Com., J.A.I.I.B.
SRINIVASAN. V B.Com., C.A.I.I.B., A.C.A., A.C.S.
BABUJI. S B.Sc, B.G.L., C.A.I.I.B.
BALASUBRAMANIAN. S 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.
SWAMINATHAN. K.P M.A., C.A.I.I.B.
MOHAN. K B.Com.(Hons), L.L.B., C.A.I.I.B., A.C.S. (INTER)
SANKARA VADIVEL. T.K M.A.
SEKAR. S B.Sc
SATHYAMOORTHY. K B.A.

ASSISTANT GENERAL MANAGER

VIJAYAKUMAR A M.Sc., C.A.I.I.B., C.I.S.A.
BALASUBRAMANIAN. M M.Com. ,J.A.I.I.B.
ASHOK KUMAR. G.P B.Com., C.A.I.I.B., C.I.S.A., D.C.M.P
ASHOK VENNELAKANTI M.Com.,B.L., C.A.I.I.B.
SARAVANUN. C M.Com.,B.G.L., C.A.I.I.B. DCA,P.G. Dip in Pers.Mgt & Labour law
RAGHUNATHAN. S B.A.
SAMPATH. G B.Sc
RAVI. S M.A., J.A.I.I.B.
SUBBAIYAN. M M.Com.,B.G.L., C.A.I.I.B.
RAMALINGAM. N B.Com., C.A.I.I.B.
JARARD THOMAS M.Sc.
NAGARAJAN. K M.B.M., C.A.I.I.B.
MURALI KUMAR. M B.Com., A.C.A.
GOPINATH. A B.Com. C.A.I.I.B.
CHELLADURAI S. M.Sc.
PANDIYAN. P B.Sc C.A.I.I.B.
VISWANADHAM M. B.Com. J.A.I.I.B.
PARTHASARATHI R. B.Com. C.A.I.I.B. A.C.S.
LAKSHMANAN. L B.Sc, C.A.I.I.B.
VARADHARAJAN. A B.Sc C.A.I.I.B. PGDCA
VENKATESAN. R M.Com. C.A.I.I.B.
SEKAR K S M.Sc

COMPANY SECRETARY & ASSISTANT GENERAL MANAGER

KANNAN R. B.Com., M.B.A., B.G.L.,C.A.I.I.B., A.C.S., I.C.W.A.I.(INTER)

LEGAL ADVISER

K.N. SHRINIVASAN. BA., B.L.

AUDITORS

R.K. KUMAR & CO, Chennai



SRI GAYATHRI DEVI



Best Small sized Bank, 2010
by Business World
Price Waterhouse Coopers

"Banking Technology
Excellence Awards - 2009"
For Best IT Infrastructure
Management,
2009 by IDRBT, Hyderabad



Dun & Bradstreet
Banking Award 2010
for Best Private Sector Bank
in "Asset Quality"



91ST ANNUAL GENERAL MEETING





FELICITATION TO
BELOVED
CHAIRMAN



FELICITATION TO
BELOVED
MD & CEO



DIRECTORS' REPORT

To the members

The Board of Directors take great pleasure in presenting this 92nd Annual Report on the business and operations of your bank together with the audited accounts for the year ended year ended 31st March 2011.

Economic Overview

The global economic recovery is broadly on track and continues to move rapidly though there are large output gaps in advanced economies and closing gaps in emerging and developing markets. International Monetary Fund has projected world real GDP to slow down to 4.4% in 2011 from 5% in 2010. The key to downside was primarily on account of oil prices.

Indian economy continued its good performance than most emerging markets during the fiscal 2010-11 and it retained its position as the second largest growing economy amongst the G20 countries. According to the Central Statistical Organisation (CSO) GDP factor cost at constant prices is expected to register a growth of 8.6% in FY 2010-11 while it grew by 8% in the previous fiscal. Agriculture, aided by normal monsoon, provided the impetus to growth. The agricultural production rebounded in 2010-11 after suffering drought conditions in the preceding year. With good Kharif and Rabi crops, food grains production reached a new record. A satisfactory North-East Monsoon following normal South-West monsoon, favourable reservoir positions etc., led to the improved agricultural production. Higher agricultural production and significant rise in the outputs of key agricultural products would help in reducing the pressure on food prices. The agricultural growth may also lead to better rural incomes and thus benefit the demand for other sectors.

The growth in industrial sector was moderated mainly on account of high base effect and sharp deceleration in capital and intermediate goods. Except consumer goods almost all sectors exhibited slowdown. Higher private consumption demand led to the higher growth in both durables and non-durables segment.

The services sector growth was robust notwithstanding some deceleration in government spending related services.

Exports improved during 2010-11. The exports grew by 37.5%, fastest since independence and totalled US \$ 246 billion. Imports also showed an increase of 21.2% and totalled US \$ 350 billion. Strong growth performance facilitated moderation of the current account deficit to a certain extent.

As the inflation stayed above the indicated projections during the fiscal 2010-11, monetary policy was continually tightened by the regulator throughout the year.

Monetary and liquidity conditions responded to the policy measures with slow pace. Equity market witnessed good buying interest from FIIs during the second and third quarter of 2010-11 followed by some correction along with greater volatility. The calibrated policy measures adopted has not impacted the growth momentum.

The stock market underperformed and remained volatile reflecting several uncertainties. The activity in the primary segment of the domestic capital market remained buoyant during the first three quarters and moderated during the last quarter. During the year resource mobilisation by mutual funds turned negative, owing to high volatility in the market, lower retail investments, lower corporate support and higher returns in bank deposits.

The macro economic outlook for the year 2011-12 remains favourable though the high oil prices pose the biggest risk to both growth and inflation.

Against this backdrop your bank's performance during the last fiscal is highlighted below:

Performance Highlights

Sl. No.	Particulars	(Rs. in cr)
1	Gross Deposits	24721.85
2	Gross Advances	18052.41
3	Total Income	2482.03
4	Operating Profit	600.58
5	Net Profit	415.59

Sl. No.	Appropriations Transfer to	(Rs. in cr)
1	Statutory Reserve	125.00
2	Capital Reserve	NIL
3	General Reserve	111.50
4	Special Reserve -Sec36(i)(viii) as per income Tax Act	30.00
5	a) Proposed Dividend	128.63
	b) Dividend Tax (inclusive of Surcharge and Education cess)	20.87

DIRECTORS' REPORT

Sl. No.	Other Highlights:	(Rs. in cr)
1	Net Worth	2059.19
2	Book Value per share (Rs.)	193.04
3	Earning per share (Rs.)	44.90
4	Capital Adequacy Ratio(%)-	
	BASEL I	12.16%
	BASEL II	14.41%

Deposits

Aggregate deposits of the bank increased from Rs. 19271.85 cr in March 2010 to Rs.24721.85 cr in March 2011 registering an impressive growth rate of 28.28%.

CASA constitute 23.28% of the total deposits. Savings deposits rose by Rs.765.40 cr to touch Rs.3253.07 cr from Rs.2487.67 cr. registering a growth rate of 30.77%. The savings bank campaign launched by the Bank during the year under report accelerated savings deposits growth. Cost of Deposits was lower at 6.67% compared with 7.13% during the last fiscal.

Credit Portfolio

Your Bank continued its thrust on the quality while expanding the assets base. The gross advances grew from Rs. 13675 cr as on 31st March 2010 to Rs.18052.41 cr as on 31st March 2011, an increase of 32.01%. The credit portfolio is well diversified.

Your Bank continued to give added focus to the Priority Sector lending in conformity with the national policies, regulatory expectations and fulfillment of social objectives.

As per the regulatory guidelines, achievement under priority sector for the fiscal 2010-11 is computed taking Adjusted Net Bank Credit (ANBC) of March 2010 as the base. For the fiscal under report the percentage of Priority Sector Advances to ANBC was at 41.05%, thus complying with the stipulated norm of 40% under Priority Sector Credit.

Bank has also achieved the regulatory target of 18% under agricultural advances which was at 18.29% as at 31.03.2011. The weaker section advances was at 10.17% against the prescribed 10% norm.

Recovery

Your bank has adopted two pronged strategies to prevent slippages and manage NPAs. On the one hand, aggressive thrust was given

to effect recovery by adopting specific strategies like conducting adalats, filing of suits with DRT, initiating action taken under SARFAESI Act and compromise settlements etc. On the other hand, thrust was given to appropriate management of NPAs. Towards this end, willful defaulters were identified and quick mortality cases evaluated and corrective steps initiated. Sustained monitoring and continuous followup were carried out to prevent further slippages into NPA category.

As a result, the Gross NPA level of the Bank came down from Rs. 235.34 crs to Rs.228.15 crs. The percentage of Gross NPA to Gross Advances also registered a decline- i.e from 1.72% to 1.26%. The Net NPA percentage came down significantly from 0.23% to 0.07% during the fiscal. The ratio is one of the lowest in the industry. The Bank has been consistently building up provisions for impaired assets from time to time, which has resulted in achieving a Provision Coverage Ratio (PCR) of 93.92% of the total reduction under NPA during the fiscal, cash recovery accounted for 67.79%. Despite robust growth of credit portfolio, during the past five years, the NPAs are constantly kept under control by relentless follow up and recovery drive.

Share Capital

During the year under report the Board announced Bonus shares to the shareholders in the ratio of 2 bonus shares for every five shares held on the record date. The Bonus shares were allotted on 20.09.2010. With the allotment of Bonus shares, the paid up share capital which stood at Rs.54.44 cr as at 31st March 2010 stood increased to Rs.76.21 cr. The Board also announced Rights shares in the ratio of 2 rights shares for every five shares held on the record date inclusive of the Bonus shares. The rights shares were issued and allotment of the said shares were made on 30.03.2011. With the allotment of Rights shares, the paid up share capital stands increased to Rs.94.49 cr. Further the bank has received in advance towards First call money a sum of Rs.22.45 cr.

Credit Rating

The credit rating agency, CRISIL has reaffirmed "P1+" (pronounced "P one plus") rating for the Bank's Rs. 10 billion Certificate of Deposit Programme. The rating symbol "P1+" indicates that the degree of safety with regard to timely payment of interest and principal on instrument is very strong.

Further, ICRA Limited has reaffirmed its rating for the Bank's Rs.1000 cr Certificate of Deposit Programme at "A1+" This is the highest credit quality rating assigned by ICRA to short term instruments.

DIRECTORS' REPORT

Dividend

Your bank's policy of declaring the dividend is to reward the shareholders as well as to plough back profit for maintaining a healthy capital adequacy ratio and for supporting future growth. Accordingly your Directors are pleased to propose a total dividend of 120% (i.e Rs.12/- per share of Rs.10/-) for the year ended 31st March 2011. However the proposed dividend is on the enhanced capital on account of Bonus and Rights shares allotted during the fiscal 2010-11. The payment on account of dividend would be Rs.149.50 cr including dividend tax. Board takes pleasure to mention here that this is 4th year in succession that a dividend of 120% is paid.

Net owned Funds and Capital Adequacy

The net owned funds of the Bank crossed Rs.2000 crs and stood at Rs.2136.98 cr. The Capital to Risk weighted Assets Ratio (CRAR) as per BASEL I as at the end of March 2011 stood at 12.16%. As per BASEL II norms, CRAR is 14.41 %. Your Bank continues to have the capital adequacy ratio well above the regulatory minimum of 9%. Bank's CRAR of 14.41% under BASEL II norms offers comfort and cushion for future expansion and growth in asset portfolio.

Investments

The treasury is responsible for compliance with reserve requirements, management of liquidity and interest rate risk on the Bank's Balance Sheet. Bank holds government securities in order to comply with the regulatory requirements to meet the statutory liquidity ratio (SLR).

The aggregate investments of the Bank increased to Rs.7,776.31 cr at the end of the financial year 2010-11 as against Rs.6,649.44 cr in the FY 2009-10, an increase of 16.95%. Net investments rose by Rs.1,129.60 cr as on 31.03.2011, ie. from Rs.6602.16 cr to Rs.7,731.76 cr registering a growth of 17.11%.

Incomes on investment stood at Rs.523.56 cr as on 31.03.2011, registering a rise of Rs. 127.29 cr (32.12%) compared to the previous year fiscal of Rs.396.27 cr.

The average yield on investments improved to 7.20% during the year against previous fiscal of 7.00%. Liquidity position of the Bank was comfortable through out the year.

Forex Transactions

Your bank achieved a merchant turnover of Rs.8079 cr during the fiscal 2010-11 as against Rs.6909 cr recorded in the previous fiscal. The gross income earned from the forex operations was Rs.108.83 cr. The export credit of the bank stood at Rs.837.72 cr as on March 31, 2011 as against Rs.634.74 cr as on 31.03.2010, thus registering a growth of 31.98%.

Branch Network and Expansion

During the fiscal 2010-11, 34 branches were added by the Bank including 1 satellite branch that was upgraded as a full fledged branch, taking the total branch network of the bank to 369.

During the fiscal 2010-11, 112 ATMs were brought into the network taking the total to 488 (364 on site and 124 offsite).

Your Board continues to give thrust for opening brick-and-mortar branches covering all the parts of the country in order to have a wider pan India presence and has plans to open 75 branches and 150 ATMs during the current fiscal 2011-12.

Technological Initiatives

Your bank's emphasis on technology deployment as an instrument for enhancing service quality continued during the year. A wide gamut of services has been provided under Internet banking facility. The year saw the implementation of additional security using RSA technology for internet banking users, both corporate and retail. There has been a steady increase in number of customers using the facility as also in the volume of transactions.

The bank has also launched on line bill payments of Tamil Nadu Electricity Board. Also soft launched mobile banking payment services and inter-bank mobile payment service. Your bank implemented NEFT payments through internet banking services.

At all your bank's Currency Chests, Bio-metric and Proximity Card based access control system was implemented.

Other initiatives

Members are aware that the Bank appointed Boston Consulting Group (BCG) with the mandate to assist the bank in the areas such as attaining the target of total business of Rs.1,25,000 cr

DIRECTORS' REPORT

by the centenary year 2016, restructuring the organization, Business re-engineering process, innovation of Products and services, study the recruitment and promotion policies etc. The recommendation of the said Group is being implemented under "Golden Vision Initiatives". While the bank has implemented some of the important modules suggested by them, the roll out of other modules is under study and will be implemented in stages during the current fiscal. The modules that are rolled out under the Golden Vision Initiatives are encouraging.

Your bank launched sale of Gold Coins during the year under report and the income earned is quite encouraging.

Your bank has also launched the following products during the FY2010-11:

- (a) KVB Gift Card
- (b) KVB Travel Card
- (c) KVB Prestige - an SB product for High Networth Individuals

On the assets portfolio the following new products have been introduced:

- (a) KVB Rice Plus - to finance the Rice Mills
- (b) KVB Timber Plus- to finance Timber merchants

Financial inclusion

With a view to provide banking facilities to the sections of society which are so far deprived from the formal financial sector, the bank implemented financial inclusion policy. SLBC, Tamilnadu had allotted 36 villages to your bank for implementation of the financial inclusion scheme. The bank has adopted Business Development Model and has rolled out the scheme in 34 villages taking the implementation to very impressive rate of around 95%. As a part of the financial inclusion drive, your bank formulated a special no frills savings bank product known as "KVB Grama Jyoti". Distribution of smart cards has also begun.

Special Reserve

Income tax deduction under Sec 36 (1) (viii) is available for any Special Reserve created and maintained to the extent of 20% of the profit derived from the business of providing long term finance for industrial or agricultural development or development of infrastructure facility or housing in India. As the Bank has extended Term Loans for housing, power, roads and other segments of infrastructure in the last year, it was decided to avail the said tax benefit. Accordingly your bank has created a special reserve of Rs.30 cr during the fiscal under report (previous year Rs.30 cr).

Statutory Audit

The statutory audit was carried out by M/s R K Kumar & Co., Chartered Accountants, Chennai whose report is being annexed and forms part of this report. The statutory auditors will hold office until the conclusion of the ensuing Annual General Meeting. Their re-appointment is being placed before the shareholders for approval. Certificate from the Auditors has been received to the effect that their re-appointment, if made, would be within the limits prescribed under Sec 224(1B) of the Companies Act, 1956. The auditors have also submitted the Peer Review Certificate issued to them by the Institute of Chartered Accountants of India (ICAI).

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 NIL since none employed was in receipt of the remuneration as specified in the said Rules.

Considering the nature of activities as an entity in the financial services sector, the provisions of Sec 217(1)(e) of the Companies Act, 1956 relating to conservation of energy and technology absorption do not apply to the Bank. The Bank has however made optimum use of information technology in its various operations.

Employees Stock Option Scheme

The information pertaining to the Employees Stock Option Scheme 2008 is given as an Annexure to this report.

Board of Directors

The Board consists of ten members including the Non-Executive Chairman and Managing Director & Chief Executive Officer.

Reserve Bank of India, on the recommendation of the Board of Directors appointed Shri K P Kumar as the Non-Executive Chairman of the bank for a period of three years effective from 24.09.2010. The terms of appointment are placed before the shareholders for their approval at the ensuing Annual General Meeting.

As the term of the present Managing Director & Chief Executive Officer Shri P T Kuppuswamy expires on 31st May 2011, the Board recommended the appointment of Shri Krishnamoorthy Venkataraman as the MD & CEO for a period of three years to RBI. The terms of his appointment as approved by RBI are being placed before the shareholders for approval at the ensuing Annual General Meeting.