

Growth with connections...



Annual Report 2011 - 2012

BOARD OF DIRECTORS

CHAIRMAN



SHRI K.P. KUMAR

M.D. & C.E.O



SHRI K. VENKATARAMAN

DIRECTORS



SHRI M.G.S. RAMESH BABU



SHRI S. GANAPATHI SUBRAMANIAN



SHRI K. PARAMESHWARA RAO



SHRI V. SANTHANARAMAN



SHRI G. RAJASEKARAN



SHRI A.J. SURIYANARAYANA



SHRI K. RAMADURAI



SHRI K.K. BALU



V. KRISHNASWAMY
PRESIDENT & COO



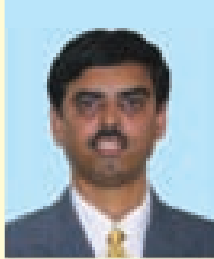
R. SUKUMAR
CHIEF GENERAL MANAGER



A. ANANDA NADARAJAN
GENERAL MANAGER



K. VENKATESWARA RAO
GENERAL MANAGER



J. NATARAJAN
GENERAL MANAGER



G.S. ANANTHA KUMAR
GENERAL MANAGER



V. BHASKAR
GENERAL MANAGER



T. SIVARAMA PRASAD
GENERAL MANAGER

DEPUTY GENERAL MANAGER

RAMALINGAM S
RAMACHANDRAN A R
VENKATARAMANA R
BALAJI S
SRINIVASAN V
BALACHANDRAN M
SUBRAMANYAM V
SRINIVASAN V
BABUJI S
BALASUBRAMANIAN S
SWAMINATHAN K P
MOHAN K

SANKARA VADIVEL T K
SEKAR S
SATHYAMOORTHY K
SAIRAJ G R
RAMASUBRAMANIAN S
ASHOK KUMAR G P
SARAVANUN C
RAGHUNATHAN S
RAVI S
PRASAD S K V
SWAMINATHAN K

ASSISTANT GENERAL MANAGER

VIJAYAKUMAR A
BALASUBRAMANIAN M
ASHOK VENNELAKANTI
SAMPATH G
SUBBAIYAN M
RAMALINGAM N
JARARD THOMAS
NAGARAJAN K
MURALI KUMAR M
KANNAN R
GOPINATH A
CHELLADURAI S
PANDIYAN P
VISWANADHAM M
PARTHASARATHI R
LAKSHMANAN L
VARADHARAJAN A
VENKATESAN R

SEKAR K S
HARIHARAN K
SANDEEP MISRA
LAKSHMINARAYANA RAO R
VENKATESH C
RAMSHANKAR R
RAMKUMAR B
RAGHAVENDRAN N
MOHAN KUMAR G
MURALI L
RAMESH E
VASUDEVAN S
LEKSHMINARAYANAN V
CHANDRASEKARAN R N
GANESAN R
ELANGO R
SANKARAN P S

COMPANY SECRETARY & ASSISTANT GENERAL MANAGER

KANNAN R.

LEGAL ADVISER

K.N. SHRINIVASAN.

AUDITORS

R.K. KUMAR & CO, Chennai





◀ "Best Private Sector Bank"
Bloomberg UTV
Financial Leadership
Awards, 2012

"Best Small Bank" &
"The Fastest Growing
Small Bank"
Business World -
Price Waterhouse Coopers
Best Bank Awards, 2011



◀ "Best Old Private
Sector Bank - Runner up"
Financial Express India's
Best Bank Award, 2011

Managing Director and CEO's letter to the shareholders

The year 2011-12 represents the 96th year of the Bank's operations and as in the yesteryears, this year also has been a year of consistent growth with continued momentum in our business. Even amidst the slowdown in the economic growth and increasing competition in the market, your Bank managed to focus its attention on execution of its strategic agenda and delivered results which would ensure that the Bank is on the right track to achieve its Centenary year goals. The highlights of the Bank's achievement this year were total business turnover reaching ₹ 56,300 crore and net profit reaching the figure of ₹ 502 crore.

In all major business parameters, viz., total business, total deposits and total advances, your Bank's growth during the year 2011-12 was higher than the CAGR for the past 5 years.

The organisational structure has undergone major changes with verticalisation as Business Strategy Group, Operations Group, Risk, Inspection & Audit and HR. The Business Strategy Group is further organized into business segments, such as Personal Banking, Commercial Banking, Corporate & Institutional Banking, International Banking and Treasury & Funds Management.

The Golden Vision transformational initiatives taken up a couple of years ago have taken strong roots and have deepened into specific focus areas of Business Process Reengineering during the year.

The Bank enjoys an enviable heritage. We have built up a large base of loyal customers and have helped them in achieving their dreams through our presence around them, offering the latest products with the traditional service that KVB is known for. While we draw inspiration from our glorious past, we would build upon our strengths to take up the challenges of the future, which look exciting.

FY 2012 has also been a year of awards and recognitions which have been conferred on our Bank. These include awards by Bloomberg UTV Financial Leadership Awards, 2012 -CNBC-TV18 Best Banks & Financial Institutions Award, Business World - Price Waterhouse Coopers Best Bank Awards, Financial Express India's Best Bank Award, SFBC Kerala Excellence Award, FIBAC Best Bank Award, by FICCI - IBA, Business Today - KPMG Best Bank Awards and Banking Technology Excellence Award, 2010-11 by Institute for Development and Research in Banking Technology, Hyderabad.

While we are happy with the recognitions received during FY 2012, we will continue to focus on our aim of "Growth with Profitability" in the current year. While we are generally optimistic of the economy picking up momentum and grow in the future, we have formulated our near term strategies based on the prevailing economic scenario.

I take this opportunity to place on record our deep gratitude for your continued strong support to the Bank and would like to assure you that we remain focussed on becoming a fundamentally strong bank with high standards of banking service to the nation.

K Venkataraman
May 25, 2012



"Best Bank Award for
 Mobile Banking among
 Small Banks"
 IDRBT Banking Technology
 Excellence Award, 2010-11

"Best Old Private Sector Bank"
 CNBC - TV18 Best Banks &
 Financial Institutions Award, 2011



"Best Cost Efficient
 Private Sector Bank"
 FIBAC Best Bank Award, 2011
 by FICCI - IBA



92ND ANNUAL GENERAL MEETING





FOUNDERS' DAY CELEBRATIONS
@ Madurai



DIRECTORS' REPORT

DIRECTORS' REPORT TO THE SHAREHOLDERS

The Board of Directors is pleased to present 93rd Annual Report of the Bank along with the Audited Balance Sheet as on March 31, 2012 and the Profit and Loss Account for the year ended March 31, 2012.

Macroeconomic Developments

As per the Advanced Estimates released by the Central Statistical Office (CSO), the Indian economy was expected to register a growth rate of 6.9% in 2011-12.

Agriculture including allied activities accounted for 13.9% of the Gross Domestic Product (GDP) at 2004-05 prices as against 14.5% recorded in 2010-11. The production of food grains during 2011-12 has been estimated at 250.42 mn tones. This is mainly due to the increase in the production of rice in some of the major rice-producing states in the country viz: Assam, Jharkhand, West Bengal, Bihar and Uttar Pradesh. The stock position of food grains in the central pool is comfortable for meeting the Public Distribution System. Higher level of agricultural output and the ample stocks augur well for bringing down the headline inflation.

Industrial growth slowed down sharply during the fiscal under report led by contraction in mining and poor performance of the manufacturing sector. The industrial activity slowed down on account of variety of reasons such as subdued investment demand due to decline in business confidence, weak demand for consumer durables, cumulative impact of monetary tightening, reflecting interest rate sensitivity, domestic policy uncertainties and slackening of external demand. In the coal and natural gas segments of the mining sector there was contraction in production. Growth moderated in manufacturing sector and given its large share in IIP, led the slowdown in the industry. The cumulative growth rate of manufacturing sector during FY2012 slowed down to 2.9% compared to 8.9% in the same period of the FY2011.

The share of services in the India's GDP was 56.3% in 2011-12 as per the Advanced Estimates. The services sector is the principal source of employment in urban areas while the agriculture sector is the primary employment providing factor in the rural areas. There was a moderation in the services sector due to the slow down in construction.

The inflation remained persistently high and sticky at around 9% during 2011 and signs of moderation was there lately. The headline inflation which was 9.7% at the start of the financial year 2011-12,

touched double digits in September 2011 and declined to 6.6% in January 2012. Consumer Price Index (CPI) inflation for the major indices declined to below 7% in December 2011. A major cause for the inflation continues to be high fuel prices driven by increase in international oil prices.

Monetary policy was strongly anti-inflationary till the third quarter and thereafter it has taken a neutral stance on account of deceleration and declining inflation momentum.

Going forward it is expected that the inflation would be at around current levels. The near terms inflation trajectory is subject to significant upside risks particularly from high oil prices, impact of significant depreciation of rupee, higher freight rates and taxes.

During the first half of 2011-12, India's exports witnessed a growth rate of 40.6%. However since October 2011, there has been a deceleration as a result of crisis originating in the periphery and spreading to the core economies in the euro area. Imports registered a growth of 29.4%. Non-POL imports grew by 25.7%. The Non-POL and non bullion imports reflect the import of capital goods needed for industrial activity and for imports needed for the exports. Bullion imports grew by 46.2%. The trade deficit at 40.4% was higher than the 2010-11 figure. India has to make progress in diversifying its imports and exports to weather the global crisis emanating from Europe and America.

The balance of payments came under significant stress during the third quarter of 2011-12 as the current account deficit (CAD) widened largely and capital inflows declined resulting in drawing down of reserves. A significant fall in capital flows particularly in the form of banking capital and investment inflows has pulled the overall balance of payments position to a deficit of \$12.8 bn in Q3 2011-12. Cumulative Balance of payments during April to December 2011 stood as deficit of \$7.1 bn against \$11 bn surplus a year ago. The forex reserves during 2011-12 was \$294.40 bn as against \$274.33 bn for the year 2010-11.

The cumulative investment inflows during the FY 2012 stood at \$64.26 bn, 3.1% lower than \$66.32 bn during FY2011. Cumulative foreign direct investments for FY2011-12 amounts to \$34.83 bn which was 17% lower than \$21.38 bn in FY 2010-11. Cumulative portfolio investments was 45% lower during the FY 2012 from \$ 31.47 bn in FY 2011 to \$ 17.41 bn. However the cumulative external commercial borrowings rose by 40% to \$35.97 bn during FY2011-12 from \$25.78 bn in the previous fiscal 2010-11.

However going forward the global economy appears to be still in a

DIRECTORS' REPORT

stalemate with domestic risks to growth persisting globally. The euro zone crisis has not seen a credible resolution yet and the zone is entering into a recession. The growth in emerging markets like China and India appears to be slowing down than what is anticipated, but these two economies do have the potential to provide some support for the global recovery.

The external factors such as Euro zone crisis, volatility in foreign investment flows and the domestic factors such as continued monetary control policies and inflation control measures coupled with declining investment rates and weak and declining industrial production will place downside pressures on GDP growth in FY 2013.

It is however expected that the growth is expected to be marginally higher in the current fiscal 2012-13 than the previous fiscal.

Performance Highlights

Your Bank posted yet another year of impressive results with a healthy top line growth and robust earnings reflecting the efficacy of its corporate strategy. The business volume touched Rs. 56,317 Cr as at the end of the fiscal year 2012 over the corresponding previous fiscal year volume of Rs.42,774 Cr.

The performance highlights of the bank for the year ended 31st March 2012 are as follows:

Sl. No.	Particulars	Amount (Rs. in cr)
1	Gross Deposits	32111.59
2	Gross Advances	24205.11
3	Total Income	3620.52
4	Operating Profit	725.71
5	Net Profit	501.72

Sl. No.	Appropriations Transfer to	Amount (Rs. in cr)
1	Statutory Reserve	150.50
2	Capital Reserve	3.14
3	General Reserve	156.80
4	Special Reserve	35.00
5	a) Proposed Dividend	150.05
	b) Dividend Tax (inclusive of Surcharge and Education cess)	24.34

Deposits

The gross deposits of the bank grew from Rs. 24,721.85 Cr as on 31.03.2011 to Rs.32,111.59 Cr as on 31.03.2012, recording a growth of 29.89% against the growth of the banking industry at 17.4% during 2011-12.

CASA deposits were at Rs. 6,151.58 Cr as at the end of 31.03.2012 as against Rs.5,755.32 Cr as on 31.03.2011. Time Deposits were at Rs.25,960.01 Cr as against Rs.18,966.53 Cr as on 31.03.2011.

During the fiscal 2011-12, your Bank conducted NRI Utsav to mobilise the NRI deposits and the result is encouraging.

Credit Portfolio

Your Bank has been according top priority to the asset quality. The total advances of the bank grew from Rs. 18,052.41Cr as on 31.03.2011 to Rs.24,205.11 Cr as on 31.03.2012, an increase of 34.08%. The growth in the advances portfolio was impressive when compared to the industry's growth rate of 19.3%.

The regulatory guidelines require that 40% of the Bank's adjusted net bank credit as at the end of the previous fiscal year, shall be lent to certain specified sectors categorized as 'Priority Sectors'. Your bank has lent Rs.7,526.92 Cr as on 31.03.2012 constituting 41.60%, well above the regulatory requirement of 40%. As at 31.03.2012, your bank has surpassed RBI stipulation of 18% in respect of agricultural credit by recording 21.90% and the advances made to weaker sections was at 10.18% against the regulatory requirement of 10%.

New Products

Your bank has expanded the product suite with the introduction of the following new products during the fiscal year under report.

In order to garner all types of retail business from Educational Institutions the bank launched a comprehensively packaged product to suit Educational Institutions called KVB Edu Plus Scheme.

To cater to the exclusive requirements of NRIs - Home Loan for NRIs was launched. The product has been titled 'KVB-Gruhapraves'. It is a retail loan product with many features to attract NRI customers into our fold.

KVB has introduced KVB Transport Plus loan product for financing transport operators for Term Loans and Working Capital Limits.