



ANNUAL REPORT
2001 - 2002

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The Lakshmi Vilas Bank Ltd

The Lakshmi Vilas Bank Ltd**BOARD OF DIRECTORS****K.R.SHENOY**

Chairman

R. Mohan

C. Krishnakumar

N. Malayala Ramamirtham

S.G. Prabhakaran

D.L. Suresh Babu

K.B. Krishnan

M.P. Shyam

V.N. Krishnamurthy

CHIEF GENERAL MANAGER

A. Krishna Moorthy

GENERAL MANAGERS

N. Ramalingam (Operations)

N. Giridharan (Credit)

DEPUTY GENERAL MANAGERS

S.R. Narayanamurthy

M.R. Subramanian

ASSISTANT GENERAL MANAGERS

R. Sridharan

S. Ravishankar

S. Manoharan

S. Jeyaraman

L. Sadanandam

P. Venkatesan

G. Regunathan

COMPANY SECRETARY

S. Venkateswaran

AUDITORS

Suri & Co,

Chartered Accountants, Chennai

Abarna & Ananthan

Chartered Accountants, Bangalore

REGD. & ADMN. OFFICE

Salem Road, Kathapara,

Karur – 639 006. Tamilnadu

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The Lakshmi Vilas Bank Ltd



DIRECTORS' REPORT

TO THE MEMBERS

Your Directors have pleasure in presenting the Seventy Fifth Annual Report on the operations of your Bank together with the Audited Accounts for the year ended the 31st March, 2002.

WORKING RESULTS

During the year, Gross Income increased from Rs.309.93 Crores to Rs.357.48 Crores, Gross Profit from Rs.67.20 Crores to Rs. 83.06 Crores and Operating Profit from Rs.60.07 Crores to Rs.77.36 Crores. The Bank has made a Net Profit of Rs. 30.92 Crores after making necessary provisions.

APPROPRIATIONS

Appropriations from operating profit have been effected as detailed below:

	<i>(Rupees in Crores)</i>	
	For the year ended	
	31 st Mar 2002	31 st Mar 2001
Operating profit	77.36	60.07
Provisions and contingencies	47.14	33.33
Net profit	30.22	26.74
Profit brought forward	0.51	0.53
Amount available for appropriation	30.73	27.27
Transfer to :		
Statutory Reserve	10.00	16.50
Capital Reserve	2.66	1.55
Investment Fluctuation Reserves	11.00	0.00
Other Reserve	1.25	3.00
	24.91	21.05
Proposed Dividend @ 50%	5.75	5.18
Corporate Dividend Tax	-	0.53
Balance of profit carried forward	0.07	0.51

PLATINUM JUBILEE

The Bank undertook a sustained publicity campaign for projecting the bank's image through electronic media facilitating a wider reach. The Platinum Jubilee commemoration ceremony was celebrated in a grand manner with the gracious presence of Sri.N.Rengachary, Chairman, Insurance Regulatory and Development Authority (IRDA) and Sri.K.L.Khetarpaul, Executive Director, RBI. As a fitting finale to the unique landmark event, a foundation stone was laid for "Platinum Jubilee Technology Block" in the precincts of the Administrative Office.

DIVIDEND

Your Directors are pleased to recommend, subject to RBI approval, a step-up in the dividend from 45% declared last year to 50% this year to mark the Bank's Platinum Jubilee Year.

NETWORTH AND CAPITAL ADEQUACY

Your Directors have proposed net transfer of Rs. 21.64 Crores to reserves which would increase the net worth of your bank from Rs.142.78 to Rs.164.42 Crores.

Your Bank has raised Rs.20.80 Crores by way of issue of unsecured, redeemable, non-convertible subordinated bonds Series II towards Tier II Capital.

The Capital to Risk Weighted Assets Ratio (CRAR) stood at 11.54% as on March 31, 2002, which is well above the stipulated norm of RBI at 9.00%.

The Tier-I and Tier-II components of Capital Adequacy Ratio were at 8.44% and 3.10 % respectively as on March 31, 2002.

RESOURCES AND LENDINGS

The Bank's aggregate deposits reached Rs. 2476.92 Crores as at 31st March, 2002, a net accretion of Rs.199.18 Crores. The Bank's credit portfolio, net of provisions, reached Rs.1565.25 Crores from Rs.1480.23 Crores in the previous year.

Priority Sector advances at Rs.611.94 Crores constituted 42.79% of the adjusted net bank credit as against the stipulated norm of 40%.

QUALITY OF LOAN ASSETS

The persistent rise in the Non-Performing Assets (NPA) has been engaging the Bank's close attention. As of 31st March, 2002, net NPA was higher at 9.13% when compared with earlier year's level of 6.47%, mainly because of various external factors impacting on the performance and financial health of the borrowers concerned. The Bank has initiated concerted measures to bring down the proportion of NPAs. A separate cell in the Recovery Department has been contemplated at the Administrative Office to identify and monitor current and potentially problematic advances, and help in their recovery or reconstruction. These pro-active steps are expected to keep the NPAs within manageable levels.

INVESTMENT OPERATIONS

The Bank's total investments expanded by Rs.122.17 Crores from Rs.782.03 Crores as at 31 March 2001 to Rs. 904.21 as at end-March 2002.

In view of the continued sluggishness in the demand for bank credit and the emerging trend towards very competitive interest rates demand by highly rated borrowers, the bank is devoting greater attention to efficient funds and investment management

The Lakshmi Vilas Bank Ltd



as an alternative to shore up declining margins. Thus the investment cell set -up in Mumbai which is very active in the Government securities market generated a trading profit of Rs. 34.36 Crores during the year under review.

FOREX OPERATIONS

The Bank's foreign exchange operation rose to Rs.1278 Crores from Rs.1222 Crores as at 31st March 2001.

NETWORK EXPANSION

The bank added 2 new branches during the year to its branch network. The number of branches rose to 211, spreading across 9 States and the Union Territory of Delhi.

INFORMATION TECHNOLOGY

Recognizing the potential of Information Technology (IT) as a strategic tool for improving operational efficiency and competitiveness, the Bank has upgraded the technology covering various operational and administrative units of the bank. Most of the branches and offices of the bank will fully or partially automated under a phased programme. During the years 8 branches were computerized thus taking the total number of computerized branches to 161, which cover 60% of business transaction of the Bank. 'Lakshmi Business Solution' (LBS), the Total Branch Automation software package developed in-house by the bank, is being used in 40 branches. The Computer Policy & Planning Department at the Administrative Office has 33 well qualified computer specialists on its role.

The Bank set up its own website on the Internet to disseminate information on its products and services.

HUMAN RESOURCES

By the end of the year, the bank had a staff strength of 1933 including 660 officers. Employees' Productivity, judged by working funds per employee, increased during the year to Rs. 212.00 lacs from Rs.192.00 lacs in the previous year. To motivate and reward performance, the bank continued its staff promotion policies during the year and 82 number of employees, in different cadres, were promoted. To enrich staff skills in various areas, and thereby enable the bank to function effectively in the increasingly liberalized environment, the bank continued to provide in-house and external training facilities to the staff at different levels. Cordial staff relations prevailed during the year.

BANCASSURANCE - CORPORATE AGENCY

In its quest for increased fee-based income and improvement in the bottom line, the bank entered into MOU with Dabur CGU Life Insurance Private Limited, New Delhi for marketing their products through selected branches of the Bank without risk participation or underwriting risk. Customized Products are

expected to be launched by the company shortly subject to requisite approvals.

ASSET LIABILITY MANAGEMENT AND RISK MANAGEMENT

Risk is inherent in the banking business and a sound risk management system is very critical to the bank's success. The Bank has been taking pro-active steps to optimize the risk profile of the Bank in consonance with RBI guidelines by employing the sophisticated tools such as Value at Risk and Duration Analysis.

Risk management in its various facets is increasingly encompassing various functions and levels of the Bank. As a part of our efforts at setting up Integrated Risk Management System, the technique of credit risk evaluation based on a risk scoring model is being tested and validation process is on, to identify, measure and manage credit risk and ultimately to determine risk premiums and appropriate pricing levels. The existing Loan Review Mechanism is being fine tuned to dovetail with extant RBI guidelines.

The proposed integration of Domestic and Forex Treasuries along with the implementation of Integrated Risk Management System will enhance bank's risk management capability.

DIRECTORS

Mr.Athi R.Venkataraman, and Mr.T.Srinivasulu resigned from the Board on the 11th March, 2002. The directors place on record their appreciation of the valuable services rendered by Mr.Athi.R.Venkataraman and Mr.T.Srinivasulu during their tenure as directors on the Board of the Bank.

Mr.M.P.Shyam, a bachelor's degree holder in Mechanical Engineering from Bangalore University and a Post graduate in Grain Science from Kansas State university, USA who is an outstanding dealer of a world renowned Automobile manufacturers and a advisory member to education institution, corporate units and Government bodies, was appointed as additional director on the Board with effect from 11th March, 2002 pursuant to Section 260 of the Companies Act, 1956.

Mr.V.N.Krishnamurthy, a Science graduate and a partner in an established textile export firm based at Karur, who has extensively travelled in Europe, was appointed as additional director pursuant to Section 260 of the Companies Act, 1956.

AUDITORS

The statutory auditors M/s.Suri & Co Chartered Accountants, Chennai and M/s.Abarna & Ananthan, Chartered Accountants, Bangalore are retiring at this Annual General meeting and being eligible, they offer themselves for reappointment.

STATUTORY DISCLOSURE

Given the nature of the Bank's operations, the requirement of disclosure of steps taken for conservation of energy and technology absorption does not apply to the Bank. The Bank is

The Lakshmi Vilas Bank Ltd

fully cognizant of the need to step up the country's exports and accordingly endeavours to enlarge its export financing. None of the Bank's employees falls within the purview of section 217(2A) of the Companies Act, 1956.

CORPORATE GOVERNANCE

The basic philosophy of Corporate Governance in the Bank is to enhance shareholder value keeping in view the needs and interests of other stakeholders. The Bank has fully complied with the code of corporate governance as enumerated in Clause 49 of the Listing Agreement. Pursuant to Clause 49 of the Listing Agreement, a Management Discussion and Analysis is presented in Annexure-A, Report on Board Committees is furnished in Annexure-B. Composition of the Board of Directors together with the attendance of Directors at various meetings of the Board, its Committees and Annual General Meeting and the number of directorships held by them are furnished in Annexure-C. General Shareholders' information is furnished in Annexure-D.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that in the preparation of the Annual Accounts for the year ended March 31, 2002:

- ◆ the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;

Place: KARUR
Date: 06/06/2002

- ◆ the accounting policies, framed in accordance with the guidelines of the Reserve Bank of India, were applied consistently;
- ◆ reasonable and prudent judgement and estimates were made wherever required so as to present a true and fair view of the state of affairs of the Bank as at the end of the financial year and the profit of the Bank for the year ended March 31, 2002.
- ◆ Proper and sufficient care was taken for the maintenance of adequate accounting records in accordance with the provisions of applicable laws governing banks in India; and
- ◆ The accounts have been prepared on a 'going concern' basis.

ACKNOWLEDGEMENT

The Board places on record its sincere thanks to the shareholders, depositors and other clientele for their continued support. The Board also expresses its thanks to a host of institutions.

Your Directors express their appreciation for the commendable contributions made by staff at all levels.

For and on behalf of the Board of Directors

K.R.SHENOY
Chairman

The Lakshmi Vilas Bank Ltd**AUDITORS' REPORT**

SURI & CO
CHARTERED ACCOUNTANTS
CHENNAI 600 006.

ABARNA & ANANTHAN
CHARTERED ACCOUNTANTS
BANGALORE 560 019.

1. We have audited the attached Balance Sheet of **"THE LAKSHMI VILAS BANK LIMITED, KARUR"** as at 31st March 2002 and the annexed Profit and Loss account of the bank for the year ended on that date, in which are incorporated the returns of 38 branches, 4 service branches and 7 controlling offices audited by us and 173 branches 2 service branches and 4 controlling offices audited by branch auditors appointed u/s 228(4) of the Companies Act, 1956. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in India. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
2. The balance sheet and profit and loss account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.
3. The reports on the accounts of branches audited by the branch auditors have been dealt with in preparing our report, in the manner considered necessary by us.

We report subject to,

- (i) *the effect of adjustments arising from reconciliation of various accounts/balances in interbranch reconciliation and subsidiary ledgers as indicated in Note no.1 of schedule 17 to the accounts, quantum of which is not ascertainable.*
- (ii) *Consideration of deferred tax asset without reckoning provisions for NPA as a timing difference but for which profit for the year would have been higher by Rs. 386 Lacs, the carried over balance of Revenue Reserves would have been higher by Rs. 862 Lacs and the deferred tax asset would have been higher by Rs. 1248 Lacs.*

For **SURI & CO,**
 Sd/-
(S.VENKATARAMANI)
 PARTNER
 CHARTERED ACCOUNTANTS

KARUR- 639 006.
June 6, 2002.

that:

- a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit and have found them to be satisfactory.
- b) The transactions of the bank, which have come to our notice, have been within the powers of the bank.
- c) In our opinion, proper books of account as required by law have been kept by the bank in so far as appears from our examination of those books and proper returns adequate for the purposes of our audit have been received from the branches of the bank.
- d) The bank's balance sheet and profit and loss account dealt with in this report are in agreement with the books of account and returns.
- e) In our opinion, the balance sheet and profit and loss account dealt with by this report comply with the accounting standards referred to in subsection (3C) of Section 211 of the Companies Act, 1956 to the extent they are applicable to Banking Companies, *subject to non compliance of Accounting Standard 17 (Segment Reporting) & Accounting Standard 18 (Related Party Disclosures) which has no bearing on the results of the Company.*
- f) On the basis of written representations received from the Directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31st March 2002 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts subject to the observation in paragraph 3 above, read with the principal accounting policies and notes thereon give the information required by the Companies Act, 1956 in the manner so required for Banking Companies and on such basis give a true and fair view -

- (i) in the case of the Balance Sheet, of the state of the bank's affairs as at 31st March 2002; and
- (ii) in the case of the Profit and Loss account, of the Profit for the year ended on that date.

For **ABARNA & ANANTHAN**
 Sd/-
(S. ANANTHAN)
 PARTNER
 CHARTERED ACCOUNTANTS

The Lakshmi Vilas Bank Ltd**BALANCE SHEET AS ON 31-MAR-2002**

(Rs. in 000s)

CAPITAL & LIABILITIES	SCHEDULE	ASON 31/03/2002	ASON 31/03/2001
Capital	1	115088	115088
Reserves & Surplus	2	1529057	1312682
Deposits	3	24769223	22776440
Borrowings	4	333498	686549
Other Liabilities & Provisions	5	1740056	1226880
TOTAL ...		28486922	26117639
ASSETS			
Cash & Balances with Reserve Bank of India	6	1589592	2030589
Balances with Banks and Money at Call & Short Notice	7	865202	368509
Investments	8	9042057	7820392
Advances	9	15652519	14802333
Fixed Assets	10	289500	266647
Other Assets	11	1048052	829169
TOTAL ...		28486922	26117639
Contingent Liabilities	12	8363105	8060622
Bills for collection		1255526	1348924
Significant accounting Policies and Notes on accounts	17		

Schedule 1 to 12 and 17 form part of this Balance Sheet.

As per our report of date annexed
For **Suri & Co,**
S. Venkataramani
Partner
Chartered Accountants

For **Abarna & Ananthan**
S. Ananthan
Partner
Chartered Accountants

R. Sridharan
Asst. General Manager
N. Giridharan
General Manager (Credit)

N. Ramalinkgam
General Manager
(Operations)

A. Krishnamoorthy
Chief General Manager

K.R. Shenoy
Chairman

DIRECTORS
R. Mohan
C. Krishnakumar
N. Malayala Ramamirtham
S.G. Prabhakaran
D.L. Suresh Babu
M.P. Shyam
V.N. Krishnamurthy

Karur
6-Jun-2002

The Lakshmi Vilas Bank Ltd**PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31st MARCH 2002**

(Rs. in 000s)

	SCHEDULE	YEAR ENDED ON 31/03/2002	YEAR ENDED ON 31/03/2001
I. INCOME			
Interest Earned	13	2715016	2510951
Other Income	14	859744	588350
TOTAL...		3574760	3099301
II. EXPENDITURE			
Interest Expended	15	2097313	1845424
Operating Expenses	16	703805	653164
Provisions & Contingencies		471431	333265
TOTAL...		3272549	2831853
III. NET PROFIT FOR THE YEAR			
Profit brought forward		5130	5252
TOTAL...		307341	272700
IV. APPROPRIATIONS			
Transfer to Statutory Reserve		100000	165000
Transfer to Capital Reserve		26628	15498
Transfer to Investment Fluctuation Reserve		110000	0
Transfer to Other Reserves		12500	30000
Proposed Dividend (C.Y. 50%)		57544	51790
Tax on Proposed Dividend		0	5282
Balance carried over to Balance Sheet		669	5130
TOTAL...		307341	272700

Schedule 13 to 16 and 17 form part of this Profit & Loss account.

As per our report of date annexed

For **Suri & Co,**
S. Venkataramani
 Partner
 Chartered Accountants

For **Abarna & Ananthan**
S. Ananthan
 Partner
 Chartered Accountants

R. Sridharan
 Asst. General Manager

N. Giridharan
 General Manager (Credit)

N. Ramalingam
 General Manager
 (Operations)

A. Krishnamoorthy
 Chief General Manager

K.R. Shenoy
 Chairman

DIRECTORS**R. Mohan****C. Krishnakumar****N. Malayala Ramamirtham****S.G. Prabhakaran****D.L. Suresh Babu****M.P. Shyam****V.N. Krishnamurthy**

Karur
6-Jun-2002