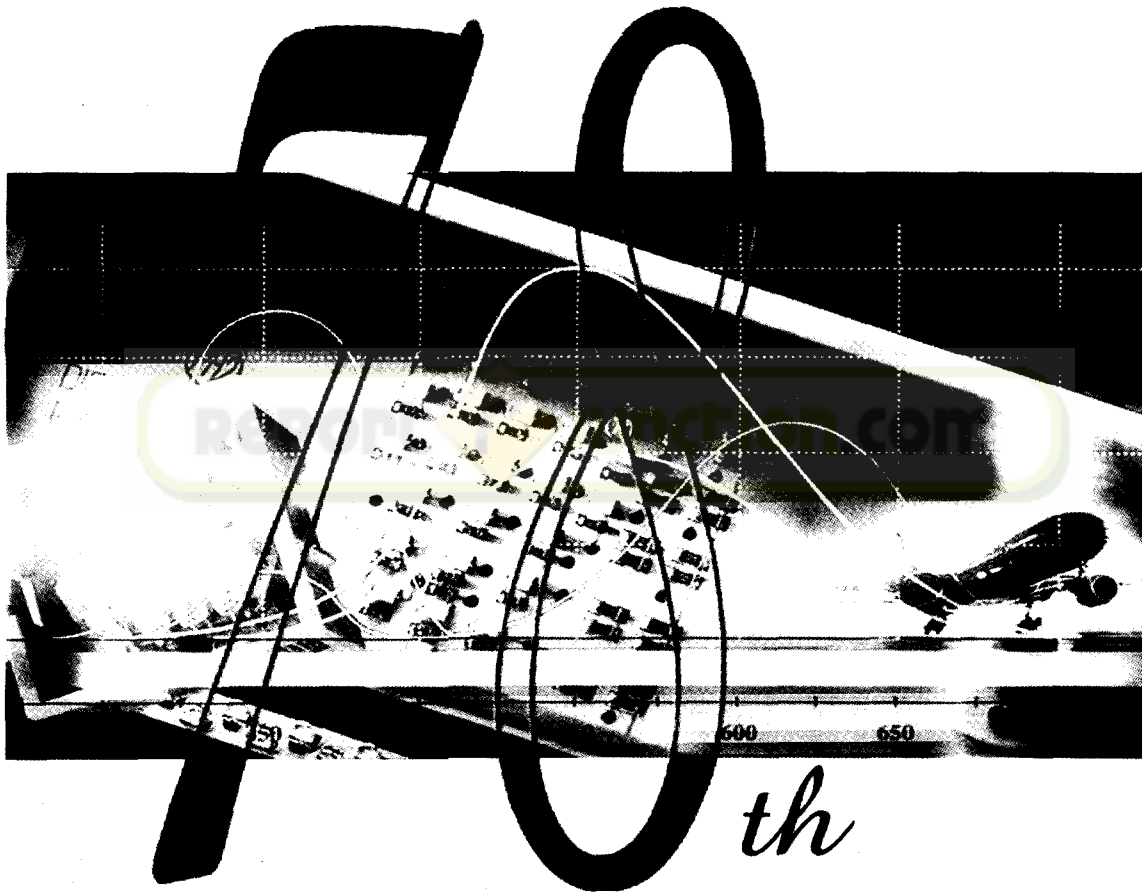




The Lakshmi Vilas Bank Ltd



ANNUAL REPORT **2004 - 2005**

The Lakshmi Vilas Bank Ltd**BOARD OF DIRECTORS****R.M.NAYAK****Chairman & Chief Executive Officer**

N. Malayalamamirtham

S.G. Prabhakaran

D.L. Suresh Babu

K.B. Krishnan

M.P. Shyam

R. Dhandapani

V. Umasankar

K. Balaji

SENIOR GENERAL MANAGER

B. Radhakrishnan (SBU I & II)

GENERAL MANAGERS

N. Ramalingam (SBU III)

N. Giridharan (SBU IV)

DEPUTY GENERAL MANAGERS

S.R. Narayanamurthy

M.R. Subramanian

Naganna Prabhakaran

R. Sridharan

S. Ravishankar

ASSISTANT GENERAL MANAGERS

S. Jeyaraman

L. Sadanandam

G. Regunathan

Y. Jairaj

V. Sekar

B. Kalyana Venkataraman

R.V. Raman

S. Elangovan

S. Suresh Babu

Y.V. Seshatalpa Sai

ASST. GEN. MANAGER & COMPANY SECRETARY

S. Venkateswaran

AUDITORS

Abarna & Ananthan

Chartered Accountants, Bangalore.

S. Viswanathan

Chartered Accountants, Chennai.

REGD. & ADMN. OFFICE

Salem Road, Kathapara, Karur-639006, Tamilnadu

Phone: 04324-220051 (10 lines)

Fax: 04324-220068 & 220069

Website: www.lvbank.com

E-Mail: secretarial@lvbank.com

CONTENTS

Notice to the Members	03
Report of Directors	05
Report of Auditors	07
Balance Sheet	08
Profit & Loss A/c	09
Schedules	10
Cash flow Statement	18
Auditor's certificate	18
Corporate Governance Report	19
Balance Sheet Abstract	23
Statement of Progress	23
Branch Net-work	24

Registrar and Share Transfer Agent

M/s Integrated Enterprises (India) LimitedII floor, "Kences Towers" No.1 Ramakrishna Street,
North Usman Road, T.Nagar, Chennai - 600 017.

Ph: 044-28140801/2/3 Fax: 28142479/28143378

Email: lvb@iepinidia.com

The Lakshmi Vilas Bank Ltd



"NOTICE TO THE MEMBERS"

Notice is hereby given that the Seventy eighth Annual General Meeting of The Lakshmi Vilas Bank Ltd., will be held at registered office of the Bank on 29th September 2005, Thursday, at 10.30 a.m. to transact the following business:

ORDINARY BUSINESS

- To receive, consider and adopt the Directors' Report and the Audited Profit and Loss Account for the year ended 31st March 2005 and the Balance Sheet at that date and the Auditors' Report thereon.
- To appoint a Director in place of Mr. M. P. Shyam who retires by rotation and being eligible, offers himself for re-appointment.
- To appoint a Director in place of Mr. D.L. Suresh Babu who retires by rotation and being eligible, offers himself for re-appointment.
- To appoint auditors and if thought fit to pass with or without modifications the following resolution as an ORDINARY RESOLUTION.
Resolved that M/s. N.B. Shetty & Co., Chartered Accountants, Mumbai in respect of whom the Bank has received a special notice pursuant to Section 225 of the Companies Act, 1956 and S. Viswanathan, Chartered Accountants, Chennai be and are hereby appointed as Auditors of the Bank to hold office from the conclusion of this meeting to till the conclusion of the next Annual General Meeting on a remuneration & out of pocket expenses, if any, to be fixed by the Board of Directors.

SPECIAL BUSINESS

- To consider and if thought fit, to pass with or without modifications the following resolution as an ORDINARY RESOLUTION.
"Resolved that the Board of Directors be and is hereby authorized to apply to the Central Government under the Companies (Branch Audit Exemption) Rules, 1961 for exemption from audit of the accounts for the year ending 31.3.2006 of such branch offices of the Bank and in the event of such exemption being not granted in respect of any such branch offices, then the Board of Directors be and is hereby authorized to arrange for audit of such branches as are not exempted."
- To consider and if thought fit, to pass with or without modifications the following resolution as an ORDINARY RESOLUTION.
"Resolved that pursuant to the provisions of Section 94 and all other applicable provisions, if any contained under the Companies Act, 1956, the Authorised Capital of the Bank be increased from Rs.20,00,00,000 (Rupees Twenty Crores Only) divided into 2,00,00,000 equity shares of Rs.10/- each to Rs.100,00,00,000 (Rupees One Hundred Crores Only) divided into 10,00,00,000 equity shares of Rs.10/- each."
- To consider and if thought fit, to pass with or without modifications the following resolution as a SPECIAL RESOLUTION.
Resolved that on the above resolution number 6 duly passed and becoming effective existing clause 6 of the Memorandum of Association of the Bank be substituted by the following clause as new clause 6 which shall read as follows:
6. "The liability of the members is limited. The authorized capital of the Bank is Rs.100,00,00,000/- (Rupees One Hundred Crores Only) divided into 10,00,00,000 equity shares Rs.10/- each. The authorized capital can be increased, reduced, sub-divided or modified by the Board of Directors with the consent of the General Body."
- To consider and if thought fit, to pass with or without modifications the following resolution as a SPECIAL RESOLUTION.
"Resolved that on the above resolution number 7 being duly passed and becoming effective existing Article 3 of the Article of the Association of the Bank, be substituted by the following Article as new Article 3."
Further resolved that Article 3 of the Article of the Association of the Bank be amended accordingly which shall read as follows:
3. "The authorized share capital of the Bank is Rs.100,00,00,000/- (Rupees one hundred crores only) divided into 10,00,00,000 (Ten crore only) equity shares of Rs.10/- each."
- To consider and if thought fit, to pass with or without modifications the following resolution as a SPECIAL RESOLUTION.
"Resolved that pursuant to Section 31 of the Companies Act, 1956, the existing Articles of Association of the Bank be amended to include a new Article 31 by insertion of the following:
No suit or other proceeding by or at the instance of any Member of the Bank relating to any General Meeting of the Bank, whether Annual General Meeting or Extraordinary General Meeting or meetings of Board or Committee of Directors, seeking any direction with reference to such meeting or to restrain any proceedings thereat or the passing of any resolution or the transaction of any business shall be instituted in any Court other than the Courts in Karur which is the place of residence of the Bank for this purpose by reason of location of its Registered Office."
- To consider and if thought fit, to pass with or without modifications the following resolution as an ORDINARY RESOLUTION.
"Resolved that consent be and is hereby accorded for appointment of Mr. R. M. Nayak as the Chairman and Chief Executive Officer of the Bank as approved by Reserve Bank of India under Section 35 B of the Banking Regulation Act, 1949, and other applicable provisions of the Companies

Act, 1956, who will be a Director of the Bank not liable to retire by rotation. Resolved further that consent be and is hereby accorded for payment of remuneration to Mr. R. M. Nayak as Chairman and Chief Executive Officer of the Bank as per the terms and conditions which are set out in the explanatory statement attached to the notice convening this Annual General Meeting, as approved by Reserve Bank of India in terms of the provisions of the Section 35B of the Banking Regulations Act, 1949.

Also resolved further that the terms of service duly approved by Reserve Bank of India in terms of the provisions of the Section 35 B of the Banking Regulation Act, 1949, be treated as distinct and separate from those applicable to officers and executives of the Bank.

And resolved that the consent of the bank be and is hereby accorded to the Board of directors to revise the remuneration and perquisites payable to Mr. R. M. Nayak as Chairman and Chief Executive officer of the Bank from time to time as approved by Reserve Bank of India in terms of the provisions of the Section 35 B of the Banking Regulation Act, 1949."

- To consider and if thought fit, to pass with or without modification, the following as an ORDINARY RESOLUTION.
"Resolved that Mr. V. Umasankar who was appointed as an additional director of the Bank by the Board of Directors under Article 17(b) and who ceases to hold office under section 260 of the Companies Act, 1956, and in terms of Article 17(c) of the Articles of Association of the Bank and in respect of whom the bank has received a notice in writing proposing his candidature for the office of director, be and is hereby appointed as a director of the bank, who will be liable to retire by rotation"
- To consider and if thought fit, to pass with or without modification, the following as an ORDINARY RESOLUTION.
"Resolved that Mr. K. Balaji who was appointed as an additional director of the Bank by the Board of Directors under Article 17(b) and who ceases to hold office under section 260 of the Companies Act, 1956, and in terms of Article 17(c) of the Articles of Association of the Bank and in respect of whom the bank has received a notice in writing proposing his candidature for the office of director, be and is hereby appointed as a director of the bank, who will be liable to retire by rotation"

BY ORDER OF THE BOARD
S. VENKATESWARAN
COMPANY SECRETARY

Place : Karur
Date : 30.08.2005

Notes:

- An Explanatory Statement as required under Section 173(2) of the Companies Act, 1956, pertaining to the special business contained in Item No. 5 to 12 above is annexed herewith.
- The Additional information pursuant to clause 49 of the listing Agreement with the National Stock Exchange in respect of the Directors seeking re-election vide Items No. 2 & 3 is detailed in the Explanatory Statement.
- An abstract of terms of remuneration payable to Shri. R. M. Nayak, Chairman and Chief Executive Officer of the Bank as required u/s 302 of the Companies Act, 1956 had been sent to shareholders.
- A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND A PROXY NEED NOT A MEMBER OF THE BANK. A PROXY IN ORDER TO BE EFFECTIVE MUST BE RECEIVED AT THE REGISTERED OFFICE OF THE BANK NOT LESS THAN FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
- The Register of members and the Share Transfer Books of the Bank will remain closed from 24.09.2005 to 29.09.2005 (both days inclusive).
- In compliance of SEBI direction to all listed companies to maintain all works relating to share registry – both physical and electronic at single point i.e. either in house or by SEBI Registered "Registrar & Transfer Agent (RTA), Bank has appointed M/s. Integrated Enterprises (India) Limited, Chennai 600 017 as Share Transfer Agent for both physical and demat segments with effect from 30.01.2003

Address of Share Transfer Agent:

M/s Integrated Enterprises (India) Limited
11 floor, "Kences Towers" No.1 Ramakrishna Street
North Usman Road, T.Nagar, Chennai – 600 017
Ph: 044-28140801/2/3 Fax: 28142479/28143378
Email: lvb@ieplindia.com

- Members are requested to notify any change in their address immediately to Share Transfer Agent and in case their shares are held in demat form, this information should be sent to the concerned Depository Participant.
- With a view to provide protection against fraudulent encashment of dividend warrants, members holding shares in physical form are requested to provide, if not already provided earlier, their bank account numbers, name and address of the bank and branch, to Share Transfer Agent M/s Integrated Enterprises (India) Limited, Chennai 600 017 to incorporate the said details on the dividend warrants. Members will appreciate that the bank will not be responsible for any loss arising out of fraudulent encashment of the dividend warrants.



The Lakshmi Vilas Bank Ltd

- 9 Pursuant to section 205A of the Companies Act, 1956, out of dividend remaining Unclaimed for more than seven years shall be transferred to Investor Education Protection Fund and no claims shall lie against the fund or the company in respect of dividend which were unclaimed and unpaid for a period of seven years by the shareholders. Viz., 1997-1998, 1998-1999, 1999-2000, 2000-2001, 2001-2002, 2002-2003, 2003-2004.

Hence, Share holders and Beneficial owners who have not so far claimed the dividend warrants issued from 1998 to 2004 hereby advised to submit the dividend warrants to the Share Transfer Agent M/s Integrated Enterprises (India) Limited, Chennai 600 017, for receiving the proceeds. If the warrant is lost, shareholders may execute undertaking letter in the format, which has been already sent to the concerned shareholders.

10. Physical shareholders are requested to furnish the Bank Account details in the format enclosed, to the Share Transfer Agent M/s Integrated Enterprises (India) Limited, Chennai 600 017 and demat shareholders to their respective Depository Participants.

Additional information pursuant to Clause 49 of the listing agreement with National Stock Exchange Limited, Mumbai in respect of the Directors seeking re-election

Item No. 2

Mr. M. P. Shyam, a bachelor degree in Mechanical Engineering from Bangalore University and Post graduation in grain science from Kansas State university, USA, outstanding dealer of world renowned Automobile manufacturers, Advisory member to Education Institutes, Corporate units and Government bodies.

Item No. 3

Mr. D.L. Suresh Babu, B.Com., B.L., F.C.A., Chartered Accountant, represents Accountancy, Finance & Law. He is occupying the position of Director over a period of five years and presides the Audit Committee as Chairman since 01-03-2000. He has been practising as chartered Accountant spanning over 35 years with special interest in Tax Planning. He was elected as Member of Central Council of Institute of Chartered Accountants of India in 1982 and held upto 1985.

Explanatory Statement as required u/s Section 173(2) of the Companies Act, 1956.

Item No. 4

M/s Abarna & Ananthan, chartered Accountants, Bangalore have been statutory auditors of the Bank since 2001. As per the regulation of RBI, the same auditors can not be re-appointed for a period beyond four years. Accordingly it is proposed to appoint M/s. N.B. Shetty & Co., Chartered Accountants, Mumbai along with M/s. S. Viswanathan, Chartered Accountants, Chennai retiring auditors as the Statutory auditors of the Bank.

Necessary approval of the RBI under the Banking Regulation Act, 1949 is obtained. The Bank recommends the appointment of M/s S. Viswanathan, Chartered Accountants, Chennai and M/s. N.B. Shetty & Co., Chartered Accountants, Mumbai as the Bank's Statutory auditors. The remuneration and out of pocket expenses, if any payable to M/s S. Viswanathan, Chartered Accountants, Chennai and M/s. N.B. Shetty & Co., Chartered Accountants, Mumbai shall be fixed by Board of Directors of the Bank.

None of the Directors is concerned or interested in this resolution.

Item No. 5

The passing of this resolution is necessary in order to meet the requirement of 228(4) of the Companies Act, 1956, under which the accounts of every branch office is required to be audited either by Bank's auditors or by a person qualified to act as Auditors.

The Bank has made satisfactory arrangement for their inspection by responsible and competent officers of the bank.

This resolution is proposed to enable the Directors to seek exemption of such of the branches as are not to be audited. None of the Directors is interested in this resolution.

Item No. 6, 7 & 8

The Bank is required to bring more capital for compliance of minimum requirement of Rs.300 crores, and also to meet out the Business Expansion coupled with compliance of Basel-II norms. Hence the Board thought it fit, to increase the Authorised Capital of the Bank to Rs.100 crores from the present Rs.20 crores. Necessary application has been filed with RBI seeking No objection for alteration of capital clause of Memorandum of Association of the Bank under section 49C of the B.R. Act, 1949.

Your directors recommend the resolution 6 for your approval as an ordinary resolution and 7 & 8 as special resolutions.

Item No. 9

The Registered Office of the Bank is situated at Karur. For the purpose of affairs and business of the Bank as a Company, its residence is where the Registered Office is located. Accordingly any case against the Bank pertaining to General Meetings or meetings of Board or Committee of Directors of the Bank shall be filed in the Courts in Karur.

Accordingly to avoid multiplicity of suits in various Courts against the Bank, as to effectively contest any such proceedings when instituted, the Board of Directors has considered it necessary and appropriate to introduce a provision in the Articles of Association of the Bank as set out in the text of the Special Resolution proposed.

Such a provision in the Articles becomes enforceable and binding by virtue of Section 36 of the Companies Act, 1956.

None of the Directors of the Bank is concerned or interested in this resolution

Item No. 10

Terms of remuneration payable to Mr. R. M. Nayak, Chairman and Chief Executive Officer of the Bank

The Board of Directors of the Bank in the meeting held on 20th June 2005 had appointed Shri R.M. Nayak as the Chairman and Chief Executive Officer of the Bank for two years and also fixed his remuneration as approved by Reserve Bank of India in terms of Section 35B of the Banking Regulation Act, 1949.

The abstract of the terms of appointment together with memorandum of concern or interest of the directors is given below as required under section 302 of the Companies Act, 1956 had been sent to shareholders on 18.07.2005.

In terms of Section 257 of the Companies Act, 1956, the bank has received from a member, notice of the intention to propose Mr. R.M. Nayak, for the office of director of the bank, along with prescribed deposit.

Terms of Appointment

- | | |
|-------------------------------------|---|
| 1. Salary / Pay | : Rs.2,00,000/- per month. |
| 2. Entertainment Charges | : Rs.10,000/- per annum, 25% against self declaration and 75% against vouchers. |
| 3. Provident Fund | : 10% of Rs.75,000/- on contributory basis. |
| 4. Gratuity | : One month's salary / pay for every completed year of service. |
| 5. Pension | : Not applicable. |
| 6. Accommodation | : Free furnished residential accommodation with water, gas and electricity. Monetary equivalent (estimates) |
| | i) Market value of rent Rs.4,000/- |
| | ii) Value of water, gas & electricity Rs.1,000/- |
| | Total : <u>Rs.5,000/-</u> |
| 7. Free use of bank's car for | : For official purpose: Bank's Chauffeur car with petrol at bank's cost. |
| 8. Travelling and Halting Allowance | : Travelling, Halting and Lodging Expenses. As applicable to CMD of Public Sector Banks. |
| 9. Medical Benefits | : Actuals for self and dependant family members. |
| 10. Telephone | : Free use. |
| 11. Insurance | : Rs.25.00 lakhs for travel by air / train / road. |
| 12. Leave | : Casual Leave - 12 days per year with provision to carry forward the unavailed casual leave.
Privilege Leave - One month for each completed 11 months of service and accumulation of PL upto 240 days.
Encashment Leave - Only the accumulated PL as on the date of demitting office.
Sick Leave - One month for each year of service subject to maximum of 18 months |
| 13. Leave Fare Concession | : Once in year to any place in India Single return fare by the highest available class. |

None of the Directors of the Bank is concerned or interested except Mr. R. M. Nayak as it relates to him.

Item No.11

Mr. V. Umasankar, a bachelor degree in commerce, Partner in firm carrying wholesale trade of rice, pulses, wheat, wheat products and sugar with solid exposure hovering over three decades, was appointed as additional director effect from 30th August, 2005 pursuant to Section 260 of the Companies Act, 1956, and Article 17(b). In terms of Section 260 of the Companies Act, 1956, and Article 17(c) of the Articles of Association of the Bank, he vacates his office at this meeting. In terms of Section 257 of the Companies Act, 1956, the bank has received from a member, notice of his intention to propose Mr. V. Umasankar for the office of director of the bank, along with prescribed deposit.

None of the Directors except Mr. V. Umasankar is concerned or interested in this resolution.

Item No.12

Mr. K. Balaji, Partner in established textile export firm based at Karur, extensively travelled & participated in home textiles fares in Japan, European and Scandinavian Countries, was appointed as additional director effect from 30th August, 2005 pursuant to Section 260 of the Companies Act, 1956, and Article 17(b). In terms of Section 260 of the Companies Act, 1956, and Article 17(c) of the Articles of Association of the Bank, he vacates his office at this meeting. In terms of Section 257 of the Companies Act, 1956, the bank has received from a member, notice of his intention to propose Mr. K. Balaji for the office of director of the bank, along with prescribed deposit.

None of the Directors except Mr. K. Balaji is concerned or interested in this resolution.

Place : Karur
Date : 30.08.2005

BY ORDER OF THE BOARD
S.VENKATESWARAN
COMPANY SECRETARY

The Lakshmi Vilas Bank Ltd



DIRECTORS' REPORT

TO THE MEMBERS

Your Directors have great pleasure in presenting the Seventy Eighth Annual Report on the business and operations of your Bank together with the Audited Accounts for the year ended 31st March, 2005.

PERFORMANCE

During the year under review, your Bank attained business turnover of Rs.5814 crores with total income of Rs.336.52 crores and operating profit of Rs.54.71 crores. The Bank could register a Net Profit of Rs.3.34 crores only as compared to Rs.41.05 crores in the previous year. The fall was essentially due to the provision that had to be made to cover diminution in value of Government Securities due to steep rise in yield from 5.16% as on 31.03.2004 to 6.68% as on 31.03.2005. As a matter of prudence, the Bank maintained an Investment Fluctuation Reserve of Rs.35.99 crores (7.55% of the investments held in the HFT and AFS categories, which was much higher than the figure of 5% stipulated by RBI).

A new product called "Lakshmi Savings Suraksha" has been launched at select branches of the bank, which is a value added Savings account that gives life protection to the account holders under a group insurance package in association with Aviva Life Insurance. The said savings product which covers Life Risk and Double Accident Benefit to the eligible members to the extent of Rs.1.00 lakh for Life Risk and Rs.2.00 lakhs for Accident Benefit is presently available at Metro and urban branches.

In line with recommendations of Management Consultants M/s Deloitte Touche Tohmatsu three Strategic Business Units (SBU) have been formed by re-organising top management structure to achieve effective and focused direction across products/ Business.

APPROPRIATIONS

Appropriations from operating profit have been effected as detailed below:

Particulars	(Rs. in crores)	
	For the year ended	
	31 st March 2005	31 st March 2004
Operating Profit	54.71	91.00
Provisions and contingencies	51.37	49.95
Net Profit	3.34	41.05
Profit brought forward	0.22	0.09
Amount available for appropriation	3.56	41.14
Transfer to:		
Statutory Reserve	0.85	14.00
Capital Reserve	2.49	5.43
Investment Fluctuation Reserves	0.00	13.75
Other Reserve	0.00	1.25
Proposed Dividend	0.00	5.76
Corporate Dividend Tax	0.00	0.73
Balance of Profit Carried forward	0.22	0.22

DIVIDEND

In order to retain the entire earnings within the system thereby, and as a matter of abundant prudence, your Directors have proposed that the Bank may not declare any dividend for the year 2004-05.

NETWORTH AND CAPITAL ADEQUACY

Your Directors have proposed net transfer of Rs.3.34 Crores to reserve, which would increase the net worth of your bank from Rs.226.64 Crores to Rs.229.98 Crores.

Your Bank has raised by way of Unsecured, Redeemable, Non-convertible Subordinated bonds - Series (IV A - Rs.19 crores allotted on 31.03.2005 & IV B - Rs.11 crores allotted on 31.05.2005) rated "A" by CARE. Instruments with this rating are considered upper medium grade instruments and have many favourable investment attributes indicating adequate safety for principal and interest.

Your Bank's Capital Adequacy Ratio (CRAR) stood at a healthy 11.32 % as on March 31, 2005, well above the regulatory minimum of 9.00% stipulated by RBI.

The Tier-I and Tier-II components of Capital Adequacy Ratio were 5.67 % and 5.65% respectively as on March 31, 2005.

Your bank successfully raised its Tier I capital by way of Rights issue priced at Rs.55/- per share (payable on application - Rs 25/- per share and on allotment Rs.30/-per share) in the ratio of 7: 10. With this rights issue, the net worth of the Bank increased to Rs.256.86 crores as on 16.07.2005. The directors of your Bank thank you for your overwhelming support for the rights issue of the Bank.

LISTING AGREEMENT WITH STOCK EXCHANGE

As you are aware, your Bank's shares were initially listed on the National

Stock Exchange and Madras Stock Exchange. However in terms of the resolution passed by shareholders of the Bank in the Annual General Meeting held on 29.07.2004, the Bank's shares were since got de-listed from the Madras Stock Exchange as such the equity shares continue to be listed and traded in the National Stock Exchange which has trading terminals all over the country.

RESOURCES AND LENDINGS

The overall performance during the financial year 2004-05 remained good. The Bank's total business crossed Rs.5814 crores. Aggregate deposits reached Rs.3495.92 crores with net accretion of Rs.200.11 crores. The Bank's credit portfolio, net of provisions, increased to Rs.2317.71 crores from Rs.2038.70 crores in the previous year, as rise of over Rs.279 crores.

Advances under Priority Sector during the year were at Rs.950.43 crores, constituting 41 % of the adjusted net bank credit, as against the stipulated norm of 40%.

QUALITY OF LOAN ASSETS

As a result of concerted efforts initiated on the recovery front, the gross NPAs reduced from 10.15 % in the previous year to 7.88 % and the net NPAs from 5.40 % to 4.98 %.

INVESTMENT OPERATIONS

In order to insulate the Government securities portfolio from future interest rate risk and adverse market movements, the Bank has opted to prune the excess securities held. Besides, for the same purpose, the Bank has shifted Government securities worth Rs.549.23 crores from AFS category to HTM category, incurring depreciation to the tune of Rs.35.75 crores.

The Bank's total investments as at 31st March 2005 were Rs.1180.86 crores.

FOREX OPERATIONS

The Bank's merchant turnover in foreign exchange transactions were Rs.1421.65 crores as compared to Rs.1402.29 crores during the previous year.

NETWORK EXPANSION

The bank has opened one new branch at Anna Nagar, Chennai during the year and two existing branches namely C.Pudupatty and Anbil have been converted into satellite offices. The bank has 225 branches as on 31.03.2005 spread across 9 states and Union Territory of Pondicherry including 5 satellite branches. Plans are afoot to open 6 more at different centres for which licenses from RBI have been obtained.

INFORMATION TECHNOLOGY

During the year a wide area network (WAN) has been launched, inter connecting branches at 30 locations, initially. The Bank has plans to network all the branches in phases, so that the latest technology enabled services and products can be extended to our customers.

A pilot project of launching Core banking software (CBS) at six branches has been completed. On examining the efficacy thereof a comprehensive view in transforming your Bank into a State of the Art Technology driven will be taken. The Bank's in-house developed Total Branch Automation (TBA) software LBS2001 was enhanced to a contemporary technical platform. The number of Totally Computerized Branches stand increased to 150, by an addition of 50 branches during the year.

An ATM Cell has been created to cater to the ATM services extended by the Bank. Real Time Gross Settlement system (RTGS) has been implemented and made live at our Investment Cell, Mumbai and all interbank transactions have been, since migrated to the RTGS system.

Several in-house utilities software have been developed and provided to branches, making them more productive and efficient. An Integrated Management Information Systems (IMIS) has been introduced, at 3 pilot branches.

HUMAN RESOURCES

Appreciating and recognizing the value of Human resources, the Bank continued to focus on training its employees on a continuing basis on-job and through training programmes conducted with internal and external faculty to keep them abreast of the changing competitive environment. As on 31st March 2005, the Bank had a staff strength of 1928 including 765 officers. Business per employee increased to Rs.308.00 lakhs from Rs.276.00 lakhs as at the previous year. During the year, as part of the continuous efforts of the Bank to motivate and reward performing employees, 88 employees in different cadres, were promoted. Bank has also directly recruited the required resources for appropriate placements during the year. The relationship with staff has been cordial.

The Lakshmi Vilas Bank Ltd



FEE BASED VENTURES

The bank in tune with the market demand and as value addition to customers has diversified into undertaking distribution of Life Insurance products as Corporate Agent for AVIVA Life Insurance, one of the world's largest Life Insurance Company, which is yet another milestone in its commendable history. 45 trained personnel of the Bank in Bancassurance are dealing with AVIVA's customized life insurance products. During the year under perusal, about 4200 proposals have been procured for an insurance coverage of over Rs.41 crores. The Bank has collected a gross insurance premium of around Rs.10.68 crores and received a commission payment of Rs.86.13 Lakhs, in the first year of operation. The bank has plans to expand insurance marketing in Maharashtra, Gujarat and Karnataka shortly.

Subsequent to the Bancassurance tie-up with M/s. Royal Sundaram Alliance Insurance Co. Ltd. for non-life business, our bank is instrumental in collecting a gross premium (non-life) of Rs.1.45 crores out of our referrals, thereby earning Rs. 16.55 lakhs in the FY 2004-05. Plans to distribute personal non-life products such as Health Insurance, Accident Insurance, Household Insurance etc., in the near future are under active consideration.

As for Mutual Fund at present, our Bank has distribution tie-ups with Reliance Capital Asset Management Limited & Franklin Templeton Asset Management (India) Private Limited. Out of these cross selling activities, we could mobilise Rs.1.02 crores and earn a commission of Rs. 2.23 lacs in the FY 2004-05. We plan to have a distribution tie-up with more such reputed mutual fund to achieve a quantum jump in our parabanking activities.

RISK MANAGEMENT

The steps initiated by the bank during the previous years in the area of risk management continued to receive focused attention, in tune with the regulatory guidelines and dynamic business scenario. The bank has taken pro-active steps to implement the best risk management practices, covering Credit Risk, Market Risk and Operational Risk, in line with strategic perspective, size and complexities of bank's business.

The Integrated Risk Management Policy, highlighting the risk management philosophy, risk identification criteria, systems for measurement, monitoring and control of risk, risk quantification techniques, risk mitigation and regulatory compliance which was put in place during the previous year has been modified and fine-tuned to meet the dynamic changes in business environment and corporate objectives.

Pro-active steps have been taken to introduce a framework for parallel calculation of Economic Capital as per Basel II norms likely to be applicable from 31/03/06, and to ensure compliance therewith.

DIRECTORS

Mr.C Krishnakumar, resigned from the Board on the 31st March,2005. Mr.A.Krishnamoorthy then Chairman and Chief Executive Officer on his resignation, has been relieved on 15.04.2005. Mr. V.N. Krishnamurthy resigned from the Board on 30th August,2005. The directors place on record their appreciation of the valuable services rendered by Mr.C.Krishnakumar, Mr. A.Krishnamoorthy and Mr. V.N. Krishnamurthy during their tenure.

Mr. R. M. Nayak has been co-opted as an Additional director in the meeting of the Board of Directors held on 20th June,2005 pursuant to section 260 of the Companies Act,1956,subsequently assumed as Chairman and Chief Executive Officer of the Bank effective from 20th June,2005 as per the approval of Reserve Bank of India.

Mr. V. Umasankar was appointed as additional director on the Board with effect from 30th August 2005 pursuant to Section 260 of the Companies Act, 1956.

Mr. K. Balaji was appointed as additional director on the Board with effect from 30th August 2005 pursuant to Section 260 of the Companies Act, 1956.

Mr. M. P. Shyam and Mr. D.L. Suresh Babu, Directors are due to retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for reappointment.

AUDITORS

The statutory auditors M/s. S.Viswanathan, Chartered Accountants, Chennai and M/s.Abarna & Ananthan, Chartered Accountants, Bangalore are retiring at this Annual General Meeting. M/s Abarna & Ananthan, Chartered Accountants, Bangalore had been the joint Statutory Auditors of your Bank since 2001 completed consecutive 4 years period, they cannot be considered for re-appointment as per the extant regulatory guidelines of RBI. Your directors therefore proposed to appoint M/s. N.B. Shetty & Co., Chartered Accountants, Mumbai and proposed to re-appoint M/s S.Viswanathan, Chartered Accountants, Chennai as the joint Statutory Auditors of the Bank at the forthcoming Annual General Meeting of the Bank as approved by Reserve Bank of India under Section 30 (1A) of the Banking Regulation Act, 1949.

Your directors place on record their appreciation for the professional services

rendered by M/s. Abarna & Ananthan, as the Statutory Auditor of the Bank. The statutory audit of the Bank was carried out by M/s. Abarna & Ananthan, Chartered Accountants, Bangalore and M/s S.Viswanathan, Chartered Accountants, Chennai whose report is attached herewith. The Statutory Central and Branch Auditors audited all the branches and other offices of the Bank.

Explanations is offered below on the auditors' reference in their report vide

- i) Point no.11 a) Note no. 1(b) of Schedule 17 to the accounts regarding the effect of adjustments arising in tallying of balances in the accounts as per General Ledger with those of subsidiary ledgers, the quantum of which is not ascertained.

Tallying of balances in the accounts as per General Ledger with those of subsidiary ledgers / registers/ schedules is in progress and accounts tallied till date have not materially affected the published accounts.

- ii) Point no.11 b) Note no 6 in Schedule 17 regarding provision for wage arrears. Pending exact quantification, we are unable to comment on the adequacy of the same.

The Bank is in the process of working out the additional liability towards salaries and wages arising on account of the settlement reached in this regard by the Indian Banks' Association with the trade unions representing employees. Pending calculation of actual liability, a provision of Rs.4.25 crores (PY.Rs.4.25 cr) has been made during the year on an estimated basis. The Bank holds a total provision of Rs.8.50 crores as at year - end towards this liability, which is considered by management as adequate.

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 fully cognizant of the need to step up the country's exports and accordingly endeavors 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 of the Bank is relating to enhancing contributory value addition to our customers, employees, stakeholders and the society. The Bank has fully complied with the code of corporate governance as enumerated in Clause 49 of the Listing Agreement. Board of Directors executed deed of covenant and undertaking individually in line with Dr.Ganguly Committee Report. 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 alongwith the details of Audit Committee and Share Transfer Grievances Committee are furnished in Annexure-C. General Shareholders' information is furnished in Annexure-D.

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors confirm that in the preparation of the annual accounts for the year ended March 31, 2005:

- ❖ the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- ❖ 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 on March 31, 2005;
- ❖ 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. Board gratefully extends its thanks for the support and guidance accorded by RBI, Government Agencies and host of other institutions.

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

Place :KARUR
Date :30.8.2005

For and on behalf of the Board of Directors
R. M. NAYAK
Chairman

**AUDITORS' REPORT**

M/s. ABARNA & ANANTHAN
CHARTERED ACCOUNTANTS
BANGALORE - 560 085.

M/s. S VISWANATHAN
CHARTERED ACCOUNTANTS
CHENNAI - 600 004.

- 1) We have audited the attached Balance Sheet of THE LAKSHMI VILAS BANK LIMITED, KARUR as at 31st March 2005, the annexed Profit and Loss Account and also the Cash Flow Statement for the year ended on that date in which are incorporated the returns of 42 Branches, 8 Divisional Offices, 6 Service Branches and 3 other offices audited by us and 178 Branches audited by Branch auditors appointed u/s. 228(4) of the Companies Act, 1956. There are no unaudited branches or other offices. These financial statements are the responsibility of the Bank's management. Our responsibility is to express our opinion on these financial statements based on our audit.
- 2) 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 misstatements. 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.
- 3) The Balance Sheet and the Profit & Loss account have been drawn up in accordance with the provisions of Section 29 of Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.
- 4) The reports on the accounts of the branches audited by Branch Auditors have been dealt with in preparing our report in the manner considered necessary by us.
- 5) We have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit and have found them to be satisfactory.
- 6) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.
- 7) In our opinion, proper books of accounts as required by law have been kept by the Bank so far as appears from our examination of those books and proper returns adequate for the purpose of our audit have been received from the branches of the Bank.
- 8) The Bank's Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account and audited returns from the branches of the Bank.
- 9) In our opinion, the Balance Sheet and Profit and Loss Account dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of the Section 211 of the Companies Act, 1956.
- 10) On the basis of written representations received from the Directors and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2005 from being appointed as a Director in terms of clause (g) of sub-section (1) of Section 274 of the Companies Act, 1956.
- 11) **Reference is invited to**
 - a) **Note no. 1(b) of Schedule 17 to the accounts regarding the effect of adjustments arising in tallying of balances in the accounts as per General Ledger with those of subsidiary ledgers, the quantum of which is not ascertained.**
 - b) **Note no 6 in Schedule 17 regarding provision for wage arrears. Pending exact quantification, we are unable to comment on the adequacy of the same.**
- 12) **Subject to para 11 above**, in our opinion and to the best of our information and according to the explanations given to us, the said accounts together with 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 Affairs of the Bank as at 31st March 2005;
 - (ii) In the case of the Profit & Loss Account, of the Profit of the Bank for the year ended on that date; and
 - (iii) In the case of the Cash Flow Statement, of the cash flows for the year then ended

and are in conformity with the Accounting Principles generally accepted in India.

for M/s. Abarna & Ananthan
 Chartered Accountants
S. Ananthan
 Partner
 Membership No:26379

for M/s. S. Viswanathan
 Chartered Accountants
R. M. Narayanan
 Partner
 Membership No: 25650

Place Karur
 Date: 27th June 2005