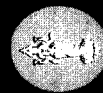


79th ANNUAL REPORT
2005 - 06



DRIVING GROWTH THROUGH TECHNOLOGY.



LAKSHMI VILAS BANK





LAKSHMI VILAS BANK



Red is for the values,
pure and strong
Red is for truth
that can do no wrong

Gold is the land of prosperity
where we all belong
The abode of wealth
where happiness hails from

A glimmer of lights
from Ochre Gold
The circle of Kumkum
where all good things hold

Come walk the path of Lakshmi
celebrate her blessings
wisdom, growth and contentment
and a life full of rich meaning.



CHAIRMAN'S MESSAGE

June 15, 2006



To
The Shareholders,

The founders of our bank envisioned an organization that will live for centuries, based on an enduring value system of tradition culture and a powerful aspiration to help create wealth for all the stake holders.

Today, we take pride in building a rewarding & long lasting relationship with millions of our customers. This alone stands the test of time, trust, avowed values and a commitment for high standards of service.

Transformation in banking sector today, is propelled by the changing aspirations of the customers. Proactively reorienting its policies to meet the challenges of deregulation and economic reforms, the bank has taken great strides in reaching out to the various segments of society with innovative products delivered through technology enabled channels woven around branches in various geographies. In tune with the changing customer preferences, the bank has been continuously innovating and delighting the customers through products and service enhancements.

Today, Lakshmi Vilas Bank stands out as a vibrant organization ever endeavouring to meet all the financial requirements of its customers under one roof. All the constituents of the bank need to be impacted with the clear perception that 'the bank is moving with the time'. Hence, as a part of our initiative to truly project the bank's philosophy of 'wealth to every one associated with the Bank', we have unveiled a new logo as our identity that reflects our image - An embodiment of age old trusted values, vibrancy and modernity that extends prosperity to all its stake holders.

Our new logo unit marks the first external visible phase of this change. It has the base of red colour, symbolizing Stability and Goodness. The image of Goddess Lakshmi embossed on a circle of ochre gold colour represents riches on the foundation of trusted values together with modernity and an ever-evolving change. The graphical rendition of gold coins reflects prosperity in a very modern form. The complete logo unit represents the deep cultural values of the bank, projecting an image of modernity, strength and prosperity. This is our new identity.

The bank is looking forward to marching towards greater heights with renewed zeal and a reaffirmation of the values we stand for. The new image will surely embolden our initiatives. I am confident that you will continue to patronize the bank and guide it towards the cherished goals.

With greetings,

R M Nayak
Chairman & CEO

LAKSHMI VILAS BANK**BOARD OF DIRECTORS**

Sarvashree

R.M.NAYAK, CHAIRMAN & CHIEF EXECUTIVE OFFICER

D.L.Suresh Babu

K.B.Krishnan

M.P.Shyam

R.Dhandapani

K.Balaji

E.Sreedhar

N.Saiprasad

G.Sudhakara Gupta

K.Ravindrakumar

SENIOR GENERAL MANAGER

S.Rajagopal

GENERAL MANAGERS

M.R.Subramanian

R.Sridharan

Naganna Prabhakaran

B.Murali Nair, CHIEF TECHNOLOGY OFFICER.

DEPUTY GENERAL MANAGERS

S.R.Narayanamurthy

S.Ravishankar

J.V.S.Chetty

V.Sekar

N.Parameswara Iyer

S.Venkateswaran, COMPANY SECRETARY.

ASSISTANT GENERAL MANAGERS

L.Sadanandam

Y.Jairaj

B.Kalyanavenkataraman

R.V.Raman

S.Elangovan

S.Suresh Babu

T.B.Sathyanarayanan

M.Sethuraman

RM.Kumarappan

N.Durairajan

B.Ranjan Babu

S.Kannan

H.S.Srinivasan

AUDITORS

S.Viswanathan

Chartered Accountants, Chennai

N.B.Shetty & Co

Chartered Accountants, Mumbai

REGD. & ADMN. OFFICESalem Road, Kathapara, Karur-639 006,
Tamilnadu.

Phone : 04324-220051(10 Lines)

Fax : 04324-220068 & 220069

Website : www.lvbank.com

E.Mail : secretarial@lvbank.com

CONTENTS

Notice to the Members	02
Report of Directors	04
Report of Auditors	07
Balance Sheet	08
Profit & Loss A/c	09
Schedules	10
Cash flow Statement	19
Auditor's certificate	20
Balance Sheet Abstract	20
Statement of Progress	25

Registrar and Share Transfer Agent
M/s.Integrated Enterprises (I) Limited
II Floor, "Kences Towers",
No.1, Ramakrishna Street,
North Usman Road, T.Nagar,
Chennai - 600 017.
Phone : 044-28140801/2/3
Fax : 28142479 / 28143378
Email : lvb@iepindia.com

LAKSHMI VILAS BANK

"NOTICE TO THE MEMBERS"

Notice is hereby given that the Seventy Ninth Annual General Meeting of The Lakshmi Vilas Bank Ltd will be held at registered office of the Bank on 14th August 2006, Monday, 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 2006 and the Balance Sheet at that date and the Auditors' Report thereon.
- To declare dividend.
- To appoint a Director in place of Mr.K.B.Krishnan who retires by rotation and being eligible, offers himself for re-appointment.
- To appoint a Director in place of Mr.R.Dhandapani who retires by rotation and being eligible, offers himself for re-appointment.
- To appoint auditors and if thought fit to pass with or without modification the following resolution as an ORDINARY RESOLUTION.
"Resolved that M/s. S.Viswanathan, Chartered Accountants, Chennai and M/s. N.B. Shetty & Co,Chartered Accountants, Mumbai be and are hereby re-appointed as Auditors of the Bank to hold office from the conclusion of this meeting 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, on the recommendation of the Audit Committee of the Board."

SPECIAL BUSINESS

- To consider and if thought fit, to pass with or without modification/s, the following resolution as an ORDINARY RESOLUTION.
"Resolved that the Board of Directors be and are 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 31.3.2007 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 are hereby authorized to arrange for audit of such branches as are not exempted."
- To consider and if thought fit, to pass with or without modification/s, the following resolution as an ORDINARY RESOLUTION.
"Resolved that Mr.E.Sreedhar, 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/s, the following resolution as an ORDINARY RESOLUTION.
"Resolved that Mr.N.Saiprasad, 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/s, the following resolution as an ORDINARY RESOLUTION.
"Resolved that Mr. K.Ravindrakumar, 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/s, the following resolution as an ORDINARY RESOLUTION.
"Resolved that Mr. G.Sudhakara Gupta, 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/s, the following resolution as an ORDINARY RESOLUTION.

"Resolved that

- subject to the provisions of the Articles of Association of the Bank and subject to such consents and approvals as may be required and such conditions and modifications as may be considered necessary and agreed to by the Board of Directors of the Bank (hereinafter referred to as the Board which expression shall also include a Committee thereof), such sum as may be determined to be required by the Board, be capitalized and transferred from the Share Premium Account to Share Capital Account and that such sum as may be determined to be required shall be applied for allotment of new equity shares of the Bank of Rs.10/- each as fully paid bonus shares to the persons who on a date to be hereafter fixed by the Board (the Record Date) shall be the holders of the existing equity shares of Rs.10/- each of the Bank on the said date and that such new equity shares out of the Bank's unissued equity shares credited as fully paid up accordingly allotted as bonus shares to such persons respectively as aforesaid in proportion of 1 (one) new equity share of Rs.10/- for every 2 (two) existing equity shares held by such persons on the record date upon the footing that they become entitled thereto for all purposes as capital;
- the New Equity shares of Rs.10/- each to be allotted as Bonus Shares shall be subject to the Memorandum and Articles of Association of the Bank and shall rank pari passu in all respects with and carry the same rights as the existing Equity Shares and shall be entitled to participate in full in any dividends declared after the Bonus Shares are allotted;
- no Letter of Allotment shall be issued to the allottees of the Bonus Shares and the Share Certificates in respect of the New Equity Shares shall be issued and despatched to the allottees thereof within the period prescribed or that may be prescribed in this behalf from time to time, except that the Bonus Shares will be credited to the demat accounts of the allottees who are holding the existing Equity Shares in electronic form;
- the allotment of the fully paid New Equity Shares as Bonus Shares to the extent that they relate to non-resident members of the Bank, shall be subject to the approval of the Reserve Bank of India, under the Foreign Exchange Management Act, 1999, if necessary;
- for the purpose of giving effect to this Resolution, the Board be and is hereby authorized to do all such acts and things and give such directions as may be necessary or desirable and to settle all questions or difficulties whatsoever that may arise with regard to the issue, allotment and distribution of the New Equity Shares."

BY ORDER OF THE BOARD

S.VENKATESWARAN

Place : Karur

Date : 06.07.2006

COMPANY SECRETARY & Dy. GENERAL MANAGER

Notes:

- An Explanatory Statement as required under Section 173(2) of the Companies Act, 1956, pertaining to the special business contained in Item No.6 to 11 above is annexed herewith.
- The Additional information pursuant to clause 49 of the listing Agreement with the Stock Exchange in respect of the Directors seeking re-election vide Item No. 3 & 4 is detailed in the Explanatory Statement.
- 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 BE 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 05.08.2006 to 14.08.2006 (both days inclusive).
- Dividend, if declared, will be paid to those members holding physical shares whose names stand on the Register of Members of the Bank as on 14.08.2006 and in case of dematerialized shareholders, to those Beneficial owners whose names stand on the records of the Depositories as at the close of working hours on 04.08.2006, subject to the provisions of Section 206 A of the Companies Act, 1956.
- 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)

LAKSHMI VILAS BANK

Limited, Chennai 600 017 as Share Transfer Agent for both physical and demat segments with effect from 30.01.2003.

7. 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.
 8. 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.
 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., 1998-99, 1999-2000, 2000-2001, 2001-2002, 2002-2003, 2003-2004. However, the dividend for the year 2004-05 was not declared.
- Dividend declared in the year 1999 for the financial year 1998-1999 and remaining unclaimed will be transferred to Investor Education Protection Fund after conclusion of this Annual General Meeting.**
- Hence, Share holders and Beneficial owners who have not so far claimed the dividend warrants issued from 1999 to 2004 are 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 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. 3

Mr.K.B.Krishnan, B.E (Mech), represents SSI and Management Consultancy. He had worked as Vice president for more than 33 years in Research and Development wing of Asia's Biggest Textile Machinery Manufacturer and had also widely travelled abroad.

Item No. 4

Mr.R.Dhandapani, having a specialized knowledge in Agriculture, is a bachelor degree holder in Agriculture. He has rich experience in Research (Agri) and Marketing, by virtue of his work experience in a leading fertilizer company. He also has a flair for Human Resources Development, Teaching and Sports.

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

Item No.6

The passing of this resolution is necessary in order to meet the requirement of Section 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.7

Mr. E.Sreedhar, B.Sc., PGDCA., M.B.A, specialized in Systems & Technology and Total Hardware Solution; Promoter director of a leading company specialized in the field of networking on turnkey basis, was appointed as additional director with effect from 31st January, 2006 pursuant to Section 260 of the Companies Act, 1956 and Article 17(b), representing majority sector as per Sec 10A (2) (a) of the Banking (Regulation) Act, 1949 and as an independent, non-executive director in compliance of clause 49 of listing agreement. 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.E.Sreedhar, for the office of director of the bank, along with prescribed deposit.

None of the Directors except Mr.E.Sreedhar is concerned or interested in this resolution.

Item No.8

Mr. N.Saiprasad, M.sc., M.B.A, specialized in textile business for more than a decade; widely travelled in India and abroad; participant in several National & International trade fairs and Textile shows; partner in many firms dealing in exports/wholesale trade in textiles and a director in a Mutual Benefit Fund, was appointed as additional director with effect from 20th March, 2006 pursuant to Section 260 of the Companies Act, 1956 and Article 17(b), representing minority sector as per Banking (Regulation) Act, 1949 and as a Non-independent, non-executive director in compliance of clause 49 of listing agreement. 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.N.Saiprasad, for the office of director of the bank, along with prescribed deposit. He has served as a Director of your Bank during the year 1990 to 1998.

None of the Directors except Mr.N.Saiprasad is concerned or interested in this resolution.

Item No.9

Mr. K.Ravindrakumar, a post graduate in Commerce from Loyola College, Chennai; a Partner in a leading Jewellery firm based at Karur; founder member of Rotaract Club of Karur ; travelled widely in India & abroad, was appointed as additional director with effect from 20th March, 2006 pursuant to Section 260 of the Companies Act, 1956 and Article 17(b), representing minority sector as per Banking (Regulation) Act, 1949 and as a Non-independent, non-executive director in compliance of clause 49 of listing agreement. 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.Ravindrakumar, for the office of director of the bank, along with prescribed deposit.

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

Item No.10

Mr. G.Sudhakara Gupta, a graduate in Commerce having decades of experience at different levels in private sector and quasi-government undertaking; worked as a President of multi-crore construction company with specialized skills in marketing & construction; currently a Consultant was appointed as additional director with effect from 20th March, 2006 pursuant to Section 260 of the Companies Act, 1956 and Article 17(b), representing minority sector as per Banking (Regulation) Act, 1949 and as a Non-independent, non-executive director in compliance of clause 49 of listing agreement. 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.G.Sudhakara Gupta, for the office of director of the bank, along with prescribed deposit.

None of the Directors except Mr.G.Sudhakara Gupta is concerned or interested in this resolution.

Item No.11

In order to reward the shareholders when the Bank is going to celebrate its 80th year of foundation shortly, the Board at its meeting held on 6th July 2006 recommended an issue of Bonus Shares in the proportion of 1 (One) new Equity Share of the Bank of Rs.10/- each for every 2 (two) existing Equity shares of Rs.10/- each held by the Members on a date to be fixed by the Board, by capitalizing Share Premium Account.

As per Article 1 of the Articles of Association of the Bank read with Schedule I, Table A, Regulation 96, it is necessary for the Members to approve the issue of Bonus Shares.

It is also necessary to authorize the Board of Directors of the Bank to complete all the regulatory formalities in connection with the issue of Bonus Shares that may be prescribed by SEBI, the Stock Exchange on which the Bank's securities are listed and/or any other regulatory authority.

Place : Karur
Date : 06.07.2006

BY ORDER OF THE BOARD
S.VENKATESWARAN
COMPANY SECRETARY & Dy. GENERAL MANAGER

LAKSHMI VILAS BANK

DIRECTORS' REPORT

1. TO THE MEMBERS

Your Directors have great pleasure in presenting the Seventy Ninth Annual Report on the business and operations of your Bank together with the Audited Accounts for the year ended 31st March, 2006.

2. FINANCIAL PERFORMANCE

(Rs. in crores) For the year ended		
	31 st March 2006	31 st March 2005
Deposits	4336.38	3495.93
Advances	2952.82	2317.71
Investments	1279.87	1180.86
Total Income	368.13	336.52
Operating profit	39.92	54.71
Provisions and contingencies	17.45	51.37
Net Profit	22.47	3.34

Your Bank registered appreciable growth in business volumes and profit that compare favourably with the industry averages. The Bank attained total business turnover of Rs.7289.20 crores from Rs.5813.64 crores as on 31.03.2005, registering a growth rate of 25.38%.

The total deposits grew from Rs.3495.93 crores in 2004-05 to Rs.4336.38 crores recording a growth of 24.04 %. The total credit expanded from Rs.2317.71 crores of the previous year to Rs.2952.82 crores during the fiscal, an increase of 27.40 %. The priority sector credit increased from Rs.950.43 crores to Rs.1078.60 crores and Agri advances reached a level of Rs.429.64 crores from Rs.291.59 crores in the previous year. The lendings under other targeted segments showed good progress.

The total investments of the Bank stood at Rs.1279.87 crores as against Rs.1180.86 crores as at 31.03.2005. Your Bank followed prudent investment policy and employed risk mitigation techniques to insulate the investment portfolio from the negative impact of volatile interest rates. Further, the Bank maintained IFR of 9.61%, well above the 5% level stipulated by the RBI.

3. PROFIT

During the year, your Bank posted a net profit of Rs.22.47 crores as against Rs.3.34 crores recorded in 2004-05, registering an increase of 572.75%. As a result, the Return on Assets (ROA) improved from 0.08% in 2004-05 to 0.53% as on 31.03.2006.

4. APPROPRIATION

(Rs. in Crores) For the year ended		
Particulars	31 st March 2006	31 st March 2005
Net Profit	22.47	3.34
Profit brought forward	0.22	0.22
Amount available for appropriation	22.69	3.56
Transfer to:		
Statutory Reserve	10.00	0.85
Capital Reserve	1.00	2.49
Investment Fluctuation Reserves	4.75	0.00
Other Reserve	1.00	0.00
Proposed Dividend	4.88	0.00
Corporate Dividend Tax	0.68	0.00
Balance of Profit Carried forward	0.37	0.22

As appropriated above Rs.16.75 crores have been transferred to Reserves to strengthen the Net worth of the Bank.

5. DIVIDEND

Your Directors are pleased to recommend a dividend of 25% for the year 2005-06 on the enhanced equity capital. The total amount of dividend proposed to be distributed is Rs.5.56 Crores (including dividend distribution tax).

6. EPS/BOOK VALUE

The Earnings Per Share and the Book Value of the share stood at Rs.11.50 and Rs.149 respectively as at 31.03.06.

7. NET OWNED FUNDS / CAPITAL ADEQUACY RATIO

Your Bank has raised Rs.30 crores by way of Unsecured, Redeemable, Non-convertible Subordinated bonds - Series IV A allotted on 31.03.2005 and IV B allotted on 31.05.2005 for Rs.19 crores & Rs.11 crores respectively, rated "A" by the rating agency, CARE.

During the financial year 2005-06, your Bank came out with the rights issue of equity shares to strengthen Tier I capital which evoked very good response from the shareholders in keeping with their deep patronage. The directors of the Bank thank the shareholders for the strong support. 9379 partly paid up equity shares have been forfeited on which allotment money was not paid.

Consequent to Rights Issue and transfer of Rs.16.75 crores as given in appropriation account to Reserves, the net worth of your Bank has increased from Rs.229.98 Crores to Rs.291.05 crores.

As on 31st March, 2006 your Bank's Capital Adequacy Ratio (CAR) stood at 10.79%, well above the regulatory minimum of 9.00 % stipulated by RBI. The Tier-I and Tier II components of Capital Adequacy Ratio were 6.94% and 3.85% respectively.

As the management is of the opinion that Contingency Reserve of Rs.3.87 crore, Building Reserve of Rs.4.48 crore and Development Reserve of Rs.14.86 crore totaling Rs.23.21 crore are not required to marked items, they are transferred to Statutory Reserve to strengthen Tier- I capital of the Bank.

The Board has considered rewarding the existing shareholders with the issue of Bonus shares in the ratio of 1:2 (one share for every two shares) by capitalizing the share premium account which is placed before the shareholders for approval.

The Board has further proposed to enhance the Share Capital of the Bank by way of issue of Equity Shares to the existing shareholders on Rights basis at the rate of one equity share for every equity share held, excluding the proposed bonus.

8. NON PERFORMING ASSETS

The Bank identified NPA management as a thrust area and, during the year, galvanized recovery activities at all levels of the organization for bringing about marked reduction in the level of NPA. The results were truly gratifying.

The gross NPA was reduced to Rs.124.76 crores from the levels of Rs.187.44 crores in the previous year. In percentage terms, the gross NPA stood at 4.14% as against 7.88 % in the previous year. The net NPA came down to Rs.55.59 crores in 2005-06 compared to Rs.115.05 crores in the previous year. The percentage of net NPAs fell steeply to 1.89% from a high 4.98 % of the previous year.

9. BRANCH NETWORK

During the year, the Bank has opened two new branches, one at Ghatkopar East in Maharashtra and another at Kondalampatti (Salem) in Tamilnadu. As on 31.03.2006, the Bank has 227 branches including five satellite offices spread across 10 states and one Union Territory.

LAKSHMI VILAS BANK

The Bank has plans to open twenty more branches in 2006-07 of which five branches at Noida (U.P.), T.Nagar (Chennai), Velacherry (Chennai) Karimnagar (Andhra) and Gurgaon (Haryana) have been opened.

10. RATINGS / RECOGNITION

The premier credit rating agency of the country CARE has accorded 'A' rating to the Bank's Tier II subordinated bonds.

For achieving operational efficiency, the Bank has put in place a comprehensive Integrated Risk Management System, benchmarking its practices with the best in the industry. Appreciating the initiatives taken by the Bank in the area of Risk Management, the RBI has nominated the Bank as a member of the Steering Committee on Basel II.

11. INTERNATIONAL BUSINESS

During the year, the Bank achieved foreign exchange business turnover of Rs.1522.92 crores as against Rs.1421.65 crores during the previous year registering a growth of 7.12%. Lending to export sector increased from Rs.120.17 crores to Rs.120.45 crores.

12. PARA BANKING / CROSS SALES

Bank has a bancassurance arrangement with M/s AVIVA Life Insurance for sale of life insurance products through our branches. During the year 2005-06, around 3000 proposals were procured by branches for an insurance coverage of over Rs.66.47 crores involving a gross insurance premium of around Rs.18.04 crores. Bank received a commission income of Rs.117.04 lacs. Bank had a bancassurance pact with Royal Sundaram Alliance Insurance Co. Ltd for distribution of general insurance product and on mutual agreement, the tie-up was cancelled.

Bank has distribution arrangement with leading Asset Management Companies like Reliance, Franklin Templeton, SBI, HDFC, Pru-ICICI, Kotak, Sundaram, Chola, UTI, Tata, etc., for making available Mutual Fund products to the Bank's customers. Through this arrangement, Bank mobilized around Rs.98.00 crores and earned a commission income of Rs.31.08 lacs in the FY 2005-06.

13. SEGMENT REPORTING

The overall performance of the Bank in major business and operational segments has been satisfactory.

TREASURY OPERATIONS

With clear focus on operational efficiency, treasury operations were closely monitored. During the year ended 31.03.2006, the Bank has earned a total revenue of Rs.89.91 crores with a net result of Rs.11.76 crores (previous year loss of Rs.26.58 crores)

EXPOSURE TO SENSITIVE SECTOR

The Bank's exposures to sensitive sectors including Real Estate and Capital Market were maintained well within the limits of regulatory/Board prescription.

RISKS AND CONCERNS

Taking a comprehensive and holistic view of the complexities and contours of the business profile of the Bank and the relative regulatory prescriptions, Bank has initiated pro-active steps for bringing about further improvement in risk management across the Organization.

Bank has constituted Integrated Risk Management Committees at the Board and at the Top Management levels for supervising various risk management initiatives in the Bank. The Integrated Risk Management Policy formulated by the Bank enshrines policy framework for management of various types of business and operational risks for meeting the dynamic challenges in the external and internal environments in which the Bank operates and for meeting the regulatory compliances in this regard.

The Bank is fully geared to implement the Basel II norms on Capital Adequacy.

INTERNAL CONTROL SYSTEMS

The Bank has put in place well articulated internal control measures in tune with the complexity of business operations, organization size and supervisory compliance standards. The system of regular inspection, credit inspection, concurrent audit, etc., form the integral part of the internal control mechanism. As per RBI guidelines, the Bank has introduced Risk Based Internal Audit System in 100 Branches. Computerized operations have been subject to Systems/IS Audit. The Audit Committee of the Board is supervising the internal audit and compliance function.

14. HUMAN RESOURCES

As on 31st March 2006, the total number of employees of the Bank stood at 1873. The employee productivity measured in terms of Business per employee, increased to Rs.371 lacs from Rs.296 lacs in the previous year. Focusing on training its employees on a continuous basis, training programs are being conducted by the Bank continuously, with internal and external faculty. The Bank's own Staff Training College was shifted to a more spacious premises, well equipped with technology aided training facility. Industrial relationship in the Bank has remained cordial.

15. SOCIETAL INITIATIVES

Bank is running a medical centre at Vengamedu, Karur since 1994 catering the medical requirements of needy people under aegis of Karur Rotary Club.

16. CORPORATE GOVERNANCE

The basic philosophy of Corporate Governance of the Bank has continued to base on high standard of ethical values with a view to enhancing and protecting the interest of all the stakeholders. The Bank has fully complied with the code of corporate governance as enumerated in Clause 49 of the Listing Agreement. All the Directors on the Board have executed deed of covenant and undertaking individually in line with the recommendations of 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 along with the details of Audit Committee and Share Transfer & Investors' Grievances Committee are furnished in Annexure-C. General Shareholders' information is furnished in Annexure-D.

17. BOARD OF DIRECTORS

Mr.N.Malayalamamirtham and Mr.S.G.Prabhakaran resigned from the Board on 20th March, 2006 in compliance of Sec 10 A(2-A) (i) of Banking Regulation Act, 1949 and Mr.V.Umasankar resigned on 20th March, 2006 from the Board on personal grounds.

The Directors place on record their appreciation of the valuable services rendered by Mr.N.Malayalamamirtham, Mr.S.G.Prabhakaran and Mr.V.Umasankar during their tenure.

Mr.E.Sreedhar was appointed as additional Director on the Board with effect from 31st January 2006 pursuant to Section 260 of the Companies Act, 1956.

Mr.N.Saiprasad, Mr.K.Ravindrakumar and Mr.G.Sudhakara Gupta were appointed as additional Directors on the Board with effect from 20th March 2006 pursuant to Section 260 of the Companies Act, 1956.

Mr. K.B.Krishnan, Director is due to retire by rotation at the ensuing Annual General Meeting and being eligible, offers himself for reappointment.

Mr. R.Dhandapani, Director is due to retire by rotation at the ensuing