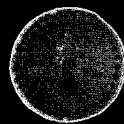
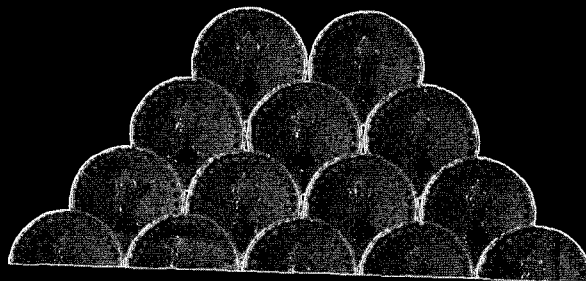


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Prosperity. Growth. Convenience.
Lakshmi Vilas Bank.



80th ANNUAL REPORT 2006 - 2007



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.

LAKSHMI VILAS BANK



BOARD OF DIRECTORSSarvashree

R.M.Nayak CHAIRMAN & CHIEF EXECUTIVE OFFICER (TILL 19.06.2007).

D.L.Suresh Babu

K.B.Krishnan

M.P.Shyam

R.Dhandapani (TILL 20.08.2007)

K.Balaji

E.Sreedhar

N.Saiprasad

G.Sudhakara Gupta

K.Ravindrakumar

GENERAL MANAGERS

R.Sridharan

Naganna Prabhakaran

S.R.Narayanamurthy

B.Murali Nair, CHIEF TECHNOLOGY OFFICER.

DEPUTY GENERAL MANAGER & COMPANY SECRETARY

S.Venkateswaran,

DEPUTY GENERAL MANAGERS

S.Ravishankar

J.V.S.Chetty

V.Sekar

L.Sadanandam

R.V.Raman

S.Suresh Babu

A.K.Ramakrishnan

ASSISTANT GENERAL MANAGERS

B.Kalyanavenkataraman

S.Elangovan

T.B.Sathyanarayanan

M.Sethuraman

RM.Kumarappan

N.Durairajan

B.Ranjan Babu

S.Kannan

K.Vishnumohan

K.Srinivasan

AUDITORS

S.Viswanathan

Chartered Accountants, Chennai

N.B.S & Co (Previously known as N.B.Shetty & Co)

Chartered Accountants, Mumbai

REGD. & ADMN. OFFICE

Salem Road, Kathapara, Karur-639 006, Tamilnadu

Phone: 04324-220068 & 220069

Website: www.lvbank.com

E.Mail: secretarial@lvbank.com

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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@ieindia.com

"NOTICE TO THE MEMBERS"

Notice is hereby given that the 80th Annual General Meeting of The Lakshmi Vilas Bank Ltd will be held at registered office of the Bank on Wednesday the 26th September 2007, at 10.00 a.m. to transact the following business:

ORDINARY BUSINESS

1. To receive, consider and adopt the Directors' Report and the Audited Profit and Loss Account for the year ended 31st March 2007 and the Balance Sheet at that date and the Auditors' Report thereon.
2. To declare dividend.
3. To appoint a Director in place of Mr.D.L.Suresh Babu who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr.M.P.Shyam who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint a Director in place of Mr.K.Balaji who retires by rotation and being eligible, offers himself for re-appointment.
6. To appoint auditors and if thought fit to pass with or without modification the following resolution as an **ORDINARY RESOLUTION**.

Resolved that M/s.Sundaram & Srinivasan, Chartered Accountants, Chennai in respect of whom the Bank has received a special notice pursuant to Section 225 of the Companies Act, 1956 and M/s.N.B.S & Co, (Previously known as M/s.N.B.Shetty & Co), Chartered Accountants, Mumbai be and are hereby 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.

SPECIAL BUSINESS

7. 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 31.3.2008 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."
8. To consider and if thought fit, to pass with or without modification/s, the following resolution as an **ORDINARY RESOLUTION**.
"Resolved that Mr. R. Mohan, 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."
9. To consider and if thought fit, with or without modification/s to pass 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.1,00,00,00,000 (Rupees One Hundred Crore Only) divided into 10,00,00,000 equity shares of Rs.10/- each to Rs.150,00,00,000 (Rupees One Hundred and Fifty Crore Only) divided into 15,00,00,000 equity shares of Rs.10/- each."
10. To consider and if thought fit, to pass with or without modification/s the following resolution as a **SPECIAL RESOLUTION**.
"Resolved that on the above resolution number 9 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.150,00,00,000/- (Rupees One Hundred and Fifty Crore Only) divided into 15,00,00,000 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."
11. To Consider and if thought fit, to pass with or without modification/s the following resolution as a **SPECIAL RESOLUTION**.
"Resolved that on the above resolution number 9 being duly passed and becoming effective existing Article 3 of the Article of the Association of the Bank, be amended which shall be read as follows:
3. The authorized share capital of the Bank is Rs.150,00,00,000 /- (Rupees one hundred and fifty crore only) divided into 15,00,00,000 (Fifteen crore only) equity shares of Rs.10/- each."
12. To consider and if thought fit, to pass with or without modification/s the following resolution as a **SPECIAL RESOLUTION**.
"RESOLVED that pursuant to the provisions of Section 31 and other applicable provisions, if any, of the Companies Act, 1956 the Articles of Association of the Bank be and is hereby amended in the following manner:-
1. In Article 2 after sub clause (e) the following sub-clause (f) shall be inserted.
(f) Chairman means a Chairman appointed by the Board under Article 14 either as an Executive Chairman or as a Non-Executive Chairman.
2. Article 10 (e) be and is hereby deleted and following article substituted.
(e) **The Executive or Non Executive Chairman**, if any, of the Board shall preside as

Chairman at every general meeting of the company. If there is no such **Executive or Non Executive Chairman** or if he is not present within fifteen minutes after the time appointed for holding the meeting or is unwilling to act as Chairman of the meeting, the Directors present shall elect any one of them to be the Chairman of the meeting.

3. Article 14 be and is hereby deleted and following article substituted.

14. Subject to the provisions of the Companies Act, 1956 and the Banking Regulation Act, 1949 the Board of Directors of the Bank shall elect or appoint a whole time chairman and Chief Executive Officer of its Board. The whole time Chairman and Chief Executive Officer shall be entrusted with the Management of the whole of the affairs of the Bank subject to the superintendence, control and direction of the Board of Directors.

Alternatively, the Board of directors may subject to the prior approval of RBI, appoint or re-appoint one of them to be the **Non Executive Chairman** of the Bank for such a period and subject to such conditions as the RBI may specify, while giving such approval, and that in such event the management of the whole of the affairs of the Bank shall be entrusted to a Managing Director who will be the Chief Executive Officer of the Bank who shall exercise his powers subject to the superintendence, control and direction of the Board of Directors.

The Chairman (whether **Executive or Non Executive Chairman**) shall preside over the meeting of the Board of Directors / Committee thereof and the General Meeting of the Bank and he shall have the second or casting vote.

4. Article 15 be and is hereby deleted and following article substituted.

15. Every whole time Chairman and Chief Executive Officer or alternatively Non-Executive Chairman or Managing Director / CEO of the Bank shall hold office for such period, not exceeding five years, as the Board of Directors may fix and on such remuneration as may be determined by General Body and shall subject to the provisions of the Act or the Banking Regulation Act, be eligible for re-election or re-appointment but shall not be liable to retirement by rotation.

5. In Article 16 for the words 'Chairman shall not be required to hold any qualification shares' the words '**Executive or Non-Executive Chairman or Managing Director/ CEO shall not be required to hold any qualification shares'** shall be substituted.

6. In Article 23 (b) for the word 'Chairman', the words '**Executive or Non Executive Chairman or Managing Director/ CEO'** shall be substituted.

7. In Article 26 for the words 'other than Chairman', the words '**other than Executive or Non Executive Chairman or Managing Director/ CEO'** shall be substituted.

8. In Article 26 (a) for the words 'other than the whole time Chairman', the words '**other than Executive or Non Executive Chairman or Managing Director/ CEO'** shall be substituted.

9. In Article 28 (b) for the word 'Chairman', the words '**Executive or Non Executive Chairman or Managing Director/ CEO'** shall be substituted.

10. In Article 28 (c) for the word 'Chairman', the words '**Executive or Non Executive Chairman or Managing Director/ CEO'** shall be substituted.

11. In Article 30 for the word 'Chairman', the words '**Executive or Non Executive Chairman or Managing Director/ CEO'** shall be substituted.

13. To consider and if thought fit, to pass with or without modification/s the following resolution as a **SPECIAL RESOLUTION**.

"Resolved that pursuant to the provision of Section 31 and other applicable provisions, if any, of the Companies Act, 1956 the Articles of Association of the Bank be and is hereby amended to incorporate the following Article as Article 17 (d).

17 (d) Nomination Committee or such other Committee of the Board or the Board shall undertake a process of due diligence to determine the suitability of the person for appointment/re-appointment as a director based upon qualification, expertise, track record, integrity and other fit and proper criteria as may be laid down/ to be laid down by the Nomination Committee taking into consideration the relevant provisions of the applicable statutes, regulatory guidelines and the rules framed there under.

In determining the suitability of the candidate, Nomination Committee or such other Committee of the Board or the Board shall have power to accept or reject any nomination based on 'fit and proper criteria' and such decision shall be final."

14. To consider and if thought fit, to pass with or without modification the following resolution as a **SPECIAL RESOLUTION**.

"Resolved that pursuant to the provision of Section 31 and other applicable provisions, if any, of the Companies Act, 1956 the Articles of Association of the Bank be and is hereby amended to incorporate the following Article as Article 5 (B).

5(B) In case of physical shares, the Bank will obtain acknowledgement from Reserve Bank of India before effecting transfer of shares when the transfer makes the shareholding of individual / group equivalent to 5% or more of the total paid up capital of the Bank. In case of demat shares as the Bank will come to know only post facto by way of downloads from the depositories at frequent intervals, the onus of obtaining prior permission/ acknowledgement from Reserve Bank of India rests with the applicant/ acquirer before such acquisition and he/they shall duly report to the Bank for conducting 'Fit and Proper criteria' to determine the desirability of such applicant / acquirer or group of acquirers to hold equity shares of the Bank by a process of due diligence as per RBI Guidelines.

Place: Karur

Date: 21.08.2007

BY ORDER OF THE BOARD
S.VENKATESWARAN
COMPANY SECRETARY



Notes:

1. An Explanatory Statement as required under Section 173(2) of the Companies Act, 1956, pertaining to the special business contained in Item No.7 to 14 above is annexed herewith.
2. 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 & 5 are detailed in the Explanatory Statement.
3. 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.
4. The Register of members and the Share Transfer Books of the Bank will remain closed from 15th September 2007 to 26th September 2007 (both days inclusive).
5. 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 26th September 2007 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 14th September 2007, subject to the provisions of Section 206 A of the Companies Act, 1956. Partly paid shares are eligible for proportional dividend only.
6. 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@lepindia.com
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., 1999-2000 to 2005-2006. However, the dividend for the year 2004-05 was not declared.
Dividend declared in the year 2000 for the financial year 1999-2000 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 2000 to 2006 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 Director seeking re-election.

Item No. 3

Mr.D.L.Suresh Babu, B.Com., B.L., F.C.A., Chartered Accountants represents Accountancy, Finance & Law. He is occupying the position of Director over a period of 7 years and presides over the Audit Committee as Chairman since 01.03.2000. He has been practicing as Chartered Accountant spanning over 37 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 office upto 1985.

Item No. 4

Mr.M.P.Shyam, is a bachelor degree holder 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 educational Institutions, Corporate units and Government bodies.

Item No. 5

Mr. K Balaji, Partner in established textile export firm based at Karur, extensively traveled and participated in Home textile fairs in Japan, European and Scandinavian Countries. He is successfully managing a globally competing business unit and has appreciable expertise and exposure in management areas and developed close liaison with multi-faceted trade promotion agencies and social organizations.

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

Item No.6

M/s S.Viswanathan, Chartered Accountants, Chennai have been statutory auditors of the

Bank since 2003. 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.Sundaram & Srinivasan, Chartered Accountants, Chennai along with M/s NBS & Co (Previously known as M/s.N.B.Shetty & Co) ,Chartered Accountants, Mumbai retiring auditors as the Statutory auditors of the Bank.

Necessary approval of the RBI under the Banking Regulation Act, 1949 is being sought for.

The Bank recommends the appointment of M/s N.B.S & Co,Chartered Accountants, Mumbai and M/s Sundaram & Srinivasan, Chartered Accountants, Chennai as the Bank's Statutory auditors. The remuneration and out of pocket expenses, if any payable to M/s.N.B.S & Co,Chartered Accountants, Mumbai and M/s Sundaram & Srinivasan, Chartered Accountants, Chennai, shall be fixed by Board of Directors of the Bank.

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

Item No.7

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.8

Mr. R. Mohan, B.E. (Hons), M.Sc., ME, representing agriculture & SSI, was appointed as additional director with effect from 21st August, 2007 pursuant to Section 260 of the Companies Act, 1956 and Article 17(b), representing majority sector as per 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. R. Mohan, for the office of director of the bank, along with prescribed deposit. He has served as a Director of your Bank during the year 1995 to 2003.

Item No. 9, 10 & 11

The Bank is required to augment more capital for expansion of business in line with Basel II requirements. Hence the Board thought it fit, to increase the Authorised Capital of the Bank to Rs.150 crores from the present Rs.100 crores, subject to the obtention of 'No objection' from RBI.

Your directors recommend the resolution 9 for your approval as an ordinary resolution and 10 & 11 as special resolutions.

Item No.12

The Banking Regulation Act, 1949 was amended by the Banking Regulation (Amendment) Ordinance 1994 issued on 31st January, 1994. The amendment made to the said Act provided for appointment of either a Chairman on a part-time basis (Non-Executive Chairman) and Managing Director or a Chairman on a whole-time basis (Executive Chairman). The Reserve Bank of India has advised that the Bank would have to amend its Articles of Association suitably to provide for the appointment of a part-time Chairman (Non-Executive Chairman) and a Whole-time Managing Director.

In view of the recent RBI Guidelines on splitting of dual position of whole-time Chairman and CEO into part-time Chairman and Managing Director/CEO against the backdrop of Dr.Ganguly Committee recommendation on Corporate Governance, amendment to the existing Articles of the Bank is sought by inserting a new article enabling appointment of Non Executive Chairman and full time Managing Director/ CEO.

Your directors recommend passing this resolution as a SPECIAL RESOLUTION.

Item No.13

Reserve Bank of India issued a circular DBOD.No.BC.105/08.139.001 /2003-04 dated 25.06.2004 advising the banks in the private sector to undertake a process of due diligence to determine the suitability of a person to be appointed as Director based upon qualification, expertise, track record, integrity and other fit and proper criteria. The said Circular was issued under Sec 35 A of the Banking Regulation Act, 1949. The Board of the Bank has a Nomination Committee to determine the suitability of a person to be appointed / re-appointed as a director of the Bank. The said Committee is undertaking the process of due diligence in terms of the 'fit and proper' criteria and determining the suitability or unsuitability of the person for appointment as a director of the Bank. In order to bring the decision of the Nomination Committee as final, it has been proposed to include a new Article 17 (d) under Article 17.

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

Item No.14

RBI vide its circular DBOD.No.PSBP.BC.349/16.13.100/99-2000 dated 21st September 1999 advised banks to obtain acknowledgement/ approval from them before effecting transfer of shares when the transfer makes the shareholding of the individual / group equivalent to 5% or more of the total paid up capital of the bank. Whereas such permission/ approval could be effected before transfer of shares in physical form, the acquisition of shares in the demat form is out of the control of the Bank, till the downloaded beneficiary position is made available periodically by the depositories. To fix the responsibility on the acquirer to obtain prior permission / acknowledgement from the Regulator this amendment is proposed to include a new Article (B) under Article 5 vesting rights with the Bank to identify the desirability of such person/s or group to hold equity shares at a level of 5% or more of the total paid up capital of the Bank by the process of due diligence based on 'Fit and Proper' criteria as per RBI Guidelines on acknowledgement for acquisition or transfer of shares issued on February 3, 2004.

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

Place: Karur
Date: 21.08.2007

BY ORDER OF THE BOARD
S.VENKATESWARAN
COMPANY SECRETARY

DIRECTORS' REPORT

1. TO THE MEMBERS

Your Directors have great pleasure in presenting the 80th Annual Report on the business and operations of your Bank together with the Audited Accounts for the year ended 31st March, 2007.

2. FINANCIAL PERFORMANCE

(Rs. in crores) For the year ended		
	31 st March 2007	31 st March 2006
Deposits	5019.87	4336.38
Gross Advances	3612.70	2952.82
Investments	1309.30	1279.87
Total Income	474.99	357.00
Operating profit	73.58	39.92
Provisions and contingencies	56.00	17.45
Net Profit	17.58	22.47

Your Bank has continued to post a robust growth in business volumes and revenue that compare favourably with the industry averages. The Bank attained total business turnover of Rs.8632.57 crores from Rs.7289.20 crores as on 31.03.2007 registering a growth rate of 18.43%.

The total deposits during the year grew from Rs.4336.38 crores in 2005-06 to Rs.5019.87 crores registering a growth of 15.76%. The total credit expanded from Rs.2952.82 crores of the previous year to Rs.3612.70 crores during the fiscal, an increase of 22.35%. The priority sector credit increased from Rs.1078.60 crores to Rs.1375.07 crores and Agri advances reached a level of Rs.651.37 crores from Rs.480.36 crores in the previous year. The lending under other targeted segments showed good progress.

During the year under review, the total investments of the Bank stood at Rs.1309.30 crores as against Rs.1279.87 crores as at 31.03.2006. Despite hardening interest rate your Bank could insulate the investment portfolio from the negative impact of volatile interest rates by adopting prudent investment policy and risk mitigation techniques.

3. PROFIT

The net profit of the Bank stood at Rs.17.58 crores as against Rs.22.47 crores recorded in 2005-06, because of the increased provision. As a result, the Return on Assets (ROA) moderately impacted from 0.53% in 2005-06 to 0.33% as on 31.03.2007.

4. APPROPRIATION

(Rs. in crores) For the year ended		
Particulars	31 st March 2007	31 st March 2006
Net Profit	17.58	22.47
Profit brought forward	0.37	0.22
Balance transferred from IFR	40.74	--
Amount available for appropriation	58.69	22.69
Transfer to:		
Statutory Reserve	53.24	10.00
Capital Reserve	0.77	1.00
Investment Fluctuation Reserves	--	4.75
Other Reserve	0.25	1.00
Proposed Dividend	3.42	4.88
Corporate Dividend Tax	0.58	0.68
Balance of Profit Carried forward	0.43	0.37

As appropriated above Rs.54.26 crores have been transferred to Reserves to strengthen the Net worth of the Bank. During the year the entire amount of Rs.40.74 crores in Investment Fluctuation Reserve (IFR) was transferred to Profit & Loss appropriation account

5. DIVIDEND

Your Directors are pleased to recommend a dividend of 7% for the year 2006-07 on the enhanced equity capital on account of bonus and rights shares. Partly paid-up rights shares shall rank for dividend in proportion to the amount paid-up.

The total amount of dividend proposed to be distributed is Rs.4.00 Crores (including dividend distribution tax).

6. EPS/BOOK VALUE

The Earnings Per Share and the Book Value of the share stood at Rs.3.60 and Rs.81.18 respectively as at 31.03.07.

7. NET OWNED FUNDS / CAPITAL ADEQUACY RATIO

During the financial year 2006-07, your Bank raised Rs.30 crores by way of Unsecured, Redeemable, Non-convertible Subordinated bonds - Series V- rated "A" by the rating agency, CARE and A- (Ind) by Fitch and allotment was made on 30.09.2006.

During the year, your Bank rewarded the shareholders with a bonus issue of one equity share for every two shares held by capitalizing the share premium account with your approval and with Rights Issue of equity shares in the ratio of one share for every shares held excluding the bonus at a price of Rs.50/- per share (including the premium of Rs.40/- per share) to strengthen Tier I capital which evoked very good response from the shareholders exhibiting their deep patronage. The share issue expenses of Rs.1.14 crore were netted against the share premium account. The directors of the Bank thank the shareholders for the strong support.

Consequent to Rights Issue and transfer of Rs.54.26 crores as given in appropriation account to Reserves, the net worth of your Bank has increased from Rs.291.05 Crores to Rs.396.08 crores.

The Capital Adequacy Ratio (CAR) as on 31st March 2007 stood at 12.43%, well above the regulatory minimum of 9.00 % stipulated by RBI. The Tier-I and Tier II components of Capital Adequacy Ratio are 9.93 % and 2.50 % respectively.

8. NON PERFORMING ASSETS

The Bank continued to improve its assets quality by giving a thrust to NPA Management with a focused vigor on recovery front for bringing about marked reduction in the level of NPA.

The gross NPA increased to Rs.131.18 crores from the levels of Rs.124.77 crores in the previous year. However, In percentage terms, the gross NPA stood at 3.57% as against 4.14 % in the previous year. The net NPA slightly gone up to Rs.56.94 crores in 2006-07 compared to Rs.55.60 crores in the previous year. However, the percentage of net NPAs fell to 1.58% from 1.89 % of the previous year.

9. BRANCH NETWORK

During the year, the Bank continued to expand its distribution network by opening 9 branches viz.6 branches in Tamil Nadu in T.Nagar, Velachery, Chinna Salem, Echanari, Kulithalai and Thokkavadi and one branch each in the states of Haryana (Gurgoan), Uttar Pradesh(Noida) and Andhra Pradesh (Karimnagar). As on 31.03.2007 the bank had 236 branches including 5 Satellite Offices spread across 11 states and one union territory. The bank has plans to open 15 more branches during 2007-08 (for which licences from RBI have already been obtained) of which 3 branches are in Andhra Pradesh, 4 branches in Tamil Nadu, 2 branches each in Maharashtra & Orissa and 1 branch each in the states of Rajasthan, Haryana, Jharkand and Delhi (Union territory).

10. RATINGS / RECOGNITION

The premier credit rating agency of the country CARE has accorded 'A' rating to the Bank's Tier II subordinated bonds indicating adequate safety for repayment of principal and interest and Fitch has rated A-(Ind).

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

The Bank achieved foreign exchange business turnover of Rs.2262.27 crores as against Rs.1522.92 crores during the previous year, registering a growth of 48.55%. Lending to export sector increased from Rs.120.45 crores to Rs.156.93 crores.

12. PARA BANKING / CROSS SALES**DISTRIBUTION OF:****a) LIFE INSURANCE:**

Bank has a Bancassurance pact with M/s AVIVA Life Insurance Company for distributing their life insurance schemes through the branches. During the year 2006-07, 1782 fresh policies were procured by branches with an insurance premium collection of Rs. 4.30 crores. The total premium collected by the bank during this fiscal, both by fresh and renewal premium is Rs.12.71 Crores & the bank has earned a gross commission of Rs.106.87 lacs.

b) GENERAL INSURANCE:

Bank has tied up with M/s.Bajaj Allianz General Insurance company to market their General Insurance products through the branches.

c) MUTUAL FUND SCHEMES:

The bank is presently having a tie up with 10 leading Asset Management companies to distribute their schemes through the select branches. The income earned out of this business is Rs.18.37 lacs for the fiscal 2006-07.

The bank has plans to improve the bottom line by accelerating the Para banking business also.

13. SEGMENT REPORTING

The overall performance of the Bank in major business and operational segments has been satisfactory. Both business and earnings continued to display high growth.

TREASURY OPERATIONS

During the year ended 31.03.2007, the Bank has earned a total revenue of Rs.96.82 crores in treasury operations with a net result of Rs.12.46 crores (previous year profit of Rs.11.76 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

The bank has put in place various risk management systems for managing market risk, credit risk and operational risk. The integrated risk management committees of the Board (IRMC-B) and of the top management (IRMC-E) undertake the supervisory review of the risk management function of the bank. The integrated risk management policy (IRM policy) framework of the bank covers detailed policy frameworks on management of credit risk, interest rate risk, liquidity risk, price risk, exchange risk etc. The policy framework has been reviewed periodically for enhancing the scope of risk management process in the bank. The risk parameters set as per the policies are measured and monitored periodically against the limits and triggers spelt out in the IRM policy framework. Bank is in the process of putting in place various system for complying with the new norms of capital adequacy (Basel II norms). 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 150 Branches. Computerized operations have been subject to Systems/IS Audit. The Audit Committee of the Board is supervising the internal audit and compliance function on an ongoing basis.

14. HUMAN RESOURCES

As on 31st March 2007, the total number of employees of the Bank stood at 1926. The employee productivity measured in terms of Business per employee, increased to Rs.430 lacs from Rs.371 lacs in the previous year. During the year the Bank recruited nearly 139 personnel and promoted as much as 40 personnel at various levels. Focusing on training its employees on a continuous basis, training programs are being conducted by the Bank, with internal and external faculty. Industrial relationship in the Bank has remained cordial.

15. CORPORATE SOCIAL RESPONSIBILITY (CSR)

Bank has sponsored a medical centre at Vengamedu, Karur under aegis of Karur Rotary Club, since 1994 for catering to the medical requirements of needy people. The Bank has liberally donated towards construction of class rooms to Vasavi Educational Trust, Karur, besides contributions to Educational / Charitable Institutions.

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

The Term of office of Mr.R.M.Nayak, Chairman & CEO ended on 19th June 2007 after he completed two years of his office as per the terms of approval for his appointment given by RBI vide its letter DBOD/ No.1303/08.44.001/2004-2005 dated June 11, 2005. The Directors place on record their appreciation of the valuable services rendered by Mr.R.M.Nayak during his tenure.

In accordance with the provisions of the Companies Act,1956 and the Articles of Association of the Bank, Shri.D.L.Suresh Babu, Shri.M.P.Shyam, and Shri.K.Balaji Directors are retiring by rotation and being eligible, offer themselves for reappointment as Directors of the Bank. In terms of Clause 49 of the Listing Agreement, brief resumes of the above directors is furnished elsewhere in this report.

18. DIRECTORS' RESPONSIBILITY STATEMENT PURSUANT TO SEC 217 (2AA) OF COMPANIES ACT, 1956

All the Directors on the Board of your Bank confirm that in the preparation of the annual accounts for the year ended March 31, 2007:

- 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 judgment 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, 2007;
- 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
- accounts have been prepared on a 'going concern' basis.

19. STATUTORY DISCLOSURE

1. The provisions of Section 217(1)(e) of the Companies Act, 1956 relating to conservation of energy and technology absorption do not apply to your Bank. The Bank has, however, used Information Technology extensively in its operations.



2. The Bank continued to encourage the country's exports and accordingly endeavored to enlarge its export financing.

3. None of the Bank's employees fall within the purview of section 217(2A) of the Companies Act, 1956 except Mr.R.M.Nayak, who joined the Bank as Chairman and CEO on 20th June, 2005 and his term of office ended on 19th June 2007. Details of his salary are furnished in the Notes on Accounts. He is not related to any of the Directors of the Bank.

20. OTHER HIGHLIGHTS

BRAND INITIATIVES

The new identity the bank embraced by adopting the new logo unit, representing the deep cultural values of the bank, projecting an image of modernity, strength and prosperity energized the stakeholders of the bank which is exhibited by splendid all round performance.

TECHNOLOGY ROLLOUT

The bank entered the era of centralized and networked banking with the introduction of the Core Banking System. As on 31st March, 2007, CBS software has been implemented in 30 branches situated mainly in metro, covering substantial portion of Bank's business. As on date the CBS software has been implemented in 88 branches covering more than 50% of the Bank's business. This has provided a solid foundation for introduction of technology driven products and meeting the competition. All the Core Banking branches are capable of providing instant transfer of funds between the CBS branches and also quick remittance through the RTGS facility of RBI. Customers are now capable of carrying out anytime/ anywhere banking from nearly 25 centers across various states. More products are on the anvil to enhance the customer experience.

The introduction of Core Banking has also enabled the Bank to obtain real time information for decision support. This will also go a long way in strengthening the Management Information System of the Bank.

CORPORATE GOAL

Encouraged by the strong performance during 2006-07, your Bank has envisaged to achieve business turnover of Rs.11,200 crores, comprising deposits of Rs.6615 crores and advances of Rs.4585 crores for the year ending 31.03.2008.

21. MISSION & VISION

Every organization communicates its purpose of existence through its Vision and Mission statements. Vision statement focuses on the organization's future while a Mission statement focuses on its present state.

Place: KARUR

Date :31st July 2007

The mission of the Bank is to play an integral role in the growth and prosperity of its customers by providing them with high standard services and innovative products through state-of-the art technology.

Encompassing the time tested traditional values and sophistication in operations through modernization and innovation, the Bank is endeavoring to meet all the financial requirements of its customers under one roof. The value based tradition, adherence to best practices, speedy induction of state-of-the art technology and good corporate governance have been the core strengths of the Bank.

22. AUDITORS

The statutory auditors M/s. S.Viswanathan, Chartered Accountants, Chennai and M/s.N.B.S & Co., Chartered Accountants, Mumbai are retiring at this Annual General Meeting. M/s S.Viswanathan, Chartered Accountants, Chennai had been the joint Statutory Auditors of your Bank since 2004 have completed consecutive 4 years period. They cannot be considered for re-appointment as per the extant regulatory guidelines of RBI. Your directors therefore propose to appoint M/s Sundaram & Srinivasan, Chennai and re-appoint M/s N.B.S & Co, (Previously known as M/s.N.B.Shetty & Co), Chartered Accountants, Mumbai as the joint Statutory Auditors of the Bank at the forthcoming Annual General Meeting of the Bank subject to the approval of Reserve Bank of India under Section 30 (1A) of the Banking Regulation Act, 1949. Considering their professionalism and the quality of the audit carried out by them, the Board has recommended their re-appointment of M/s/N.B.S & Co, Chartered Accountants, Mumbai for another year.

Your directors place on record their appreciation for the professional services rendered by M/s. S.Viswanathan, Chennai as the Statutory auditor of the Bank.

The statutory audit of the Bank was carried out by M/s. S.Viswanathan, Chartered Accountants, Chennai and M/s. N.B.S & Co, Chartered Accountants, Mumbai whose report is attached to the Annual Report. The Statutory Central and Branch Auditors audited all the branches and other offices of the Bank.

23. ACKNOWLEDGEMENT

Your Directors would like to place on record their profound gratitude for the committed support received from the share holders, customers and other stake holders of the Bank. Board also gratefully acknowledges the guidance and co-operation received from the Reserve Bank of India and other government and regulatory authorities like SEBI, NSE etc.

Your Directors would like to take this opportunity to express their appreciation of the contribution of the dedicated team of employees and their sincere efforts in organization building.

For and on behalf of the Board of Directors

(N.SAIPRASAD)
(K. RAVINDRAKUMAR)
(K. BALAJI)
DIRECTORS