



LAKSHMI VILAS BANK

88th ANNUAL REPORT 2014 - 2015



BOARD OF DIRECTORS



Shri RAKESH SHARMA
Managing Director & CEO



Shri D.L.N. RAO



Shri K.R. PRADEEP



Shri S.G. PRABHAKHARAN



Shri S. DATTATHREYAN



Shri P.A. SHANKAR



Shri N. MALAYALARAMAMIRTHAM



Shri PANKAJ VAISH



Shri PRAKASH P MALLYA



Smt. E.V. SUMITHASRI



Shri VIVEK DEEP
RBI Nominee



Shri K. BABUJI
RBI Nominee



BOARD OF DIRECTORS

Shri. / Smt.

Raghuraj Gujjar - Non Executive Chairman (Till 25.04.2015)

Rakesh Sharma - Managing Director & CEO

D.L.N. Rao

B.K.Manjunath - (Till 13.01.2015)

K.R. Pradeep

S.G. Prabhakaran

S. Dattathreyan

R. Sharan - (Till 23.08.2014)

A. Satish Kumar (Till 04.09.2014)

P.A. Shankar

N. Malayalamamirtham

Pankaj Vaish - (From 23.08.2014)

Prakash P Mallya - (From 23.08.2014)

E.V. Sumithasri - (From 10.03.2015)

Ashok Narain - RBI Nominee (Till 02.12.2014)

Vivek Deep - RBI Nominee (From 03.12.2014)

R. Ravikumar - RBI Nominee (Till 13.05.2015)

K. Babuji - RBI Nominee (From 14.05.2015)

CHIEF FINANCIAL OFFICER

M. Palaniappan

CHIEF GENERAL MANAGER

A.J. Vidya Sagar

RM. Meenakshisundaram

GENERAL MANAGERS

R.V. Raman

RM. Kumarappan

S. Ramanathan

R. Kamalasekaran

A. Shankar

R.K. Gurumurthy

Peeush Jain

P. Premkumar

Ashok Kumar Pareek

Sudhir Kaushik

COMPANY SECRETARY

N. Ramanathan

AUDITOR

M/s. R.K. Kumar & Co.

Chartered Accountants

Chennai

(Firm's Registration No. 001595S)

REGISTERED OFFICE

Salem Road, Kathapara, Karur-639 006, Tamilnadu

Phone: 04324-220051 to 220060 (10 lines)

Website: www.lvbank.com

E-Mail: secretarial@lvbank.in

CORPORATE OFFICE

"LVB HOUSE", No. 4, Sardar Patel Road,

Guindy, Chennai - 600 032

Tamilnadu

Phone: 044 - 22205306

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

Email: corpserv@integratedindia.in



CONTENTS	Page No.
Report of Directors	3
Report of Auditors	14
Balance Sheet	16
Profit & Loss Account	17
Schedules	18
BASEL III - Pillar 3 Disclosures	49
Cash Flow Statement	72
Auditor's Certificate	73
A Decade of Progress	119



DIRECTORS' 88th ANNUAL REPORT

TO THE MEMBERS

The Directors of your Bank have great pleasure in presenting this 88th Annual Report on the business and operations of your Bank together with the Audited Accounts for the year ended 31st March, 2015 (FY 2014-15).

1. FINANCIAL PERFORMANCE

The highlights of the financial performance of your Bank for the year ended 31st March, 2015 are as under:

	(` in crore) For the year ended	
	31 st March 2015	31 st March 2014
Deposits	21,964.21	18,572.88
Advances (Net)	16,352.02	12,889.19
Investments (Net)	6,103.78	5,688.68
Total Income	2,498.56	2,187.54
Operating profit	376.44	309.00
Provisions and contingencies	244.15	249.34
Net Profit	132.29	59.66

Your bank registered appreciable growth in business volumes that compares very favorably with the industry average. The Bank attained total business of ` 38,316.22 Crores in FY 2014-2015 a growth of 21.79% over ` 31,462.07 Crores in FY 2013-2014.

Deposits grew by 18.26%, from ` 18,572.88 Crores as at 31st March 2014 to ` 21,964.21 Crores as at 31st March 2015, and total advances expanded by 26.87%, from ` 12,889.19 Crores to ` 16,352.02 Crores in FY 2014-2015. Of this, lending to Priority Sector rose from ` 5,216.52 Crores in the previous year to ` 5,849.89 Crores as on 31st March 2015. Agricultural Advances slightly decreased to ` 2,457.18 Crores from ` 2,462.00 Crores and advances to Weaker Section exposure also slightly decreased from ` 1,730.71 Crores to ` 1,712.77 Crores.

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

As at the end of the year under review, the total investments of the Bank stood at ` 6,145.48 Crores as against ` 5,731.96 Crores as on 31st March 2014.

Your Bank's Treasury continues to focus on sound Asset-Liability Management and on servicing clients with appropriate treasury products and was managed well in a systematic way in a challenging year when yields were constantly rising.

2. PROFIT

The Bank has posted an operating profit of ` 376.44 Crores in FY 2014-2015 against ` 309.00 Crores in the previous year FY 2013-14 registering a growth of 21.83%. The net profit for the year, after provisions and taxes, amounts to ` 132.29 Crores as against ` 59.66 Crores recorded in 2013-14 recording a growth of 121.72%.



3. APPROPRIATIONS

Particulars	(` in crore) For the year ended	
	31.03.2015	31.03.2014
Profit brought forward	0.07	0.09
Amount available for appropriation	132.35	59.74
Transfer to:		
Statutory Reserve	33.20	15.00
Capital Reserve	4.78	0.11
Other Reserve	41.40	24.00
Investment Fluctuation Reserve	0.73	0.00
Transfer to Special Reserve U/s 36(1) (viii) of the IT Act, 1961.	9.15	9.15
Proposed Dividend	35.84	9.75
Corporate Dividend Tax	7.17	1.66
Balance of Profit carried forward	0.08	0.07

4. DIVIDEND:

Your Board of Directors are pleased to recommend a dividend of ` 2.00 (20%) per share for the post Rights Issue Capital for the year ended 31st March, 2015 as against ` 1.00 (10%) per share for previous year ended 31st March, 2014. The total out go in the form of dividend, including taxes, will be ` 43.01 Crores.

5. EPS / BOOK VALUE:

Earnings per Share stood at ` 9.16 for the year ended 31st March, 2015 as compared to ` 6.11 as on 31st March, 2014.

Book Value of the share, post rights issue stood at ` 82.48 on 31st March, 2015 as compared to ` 100.16 as on 31st March, 2014.

6. NET OWNED FUNDS / CAPITAL ADEQUACY RATIO:

Net Owned Funds (NOF) of the Bank increased from ` 977.17 Crores as at the end of FY 2013-2014 to ` 1,477.69 Crores as at the end of FY 2014-2015, reflecting a growth of 51.22%.

The Capital Adequacy Ratio (CAR) as on 31st March 2015 as per BASEL III is 11.34%. The bank has been consistently maintaining Capital Adequacy Ratio well above the regulatory minimum of 9% stipulated by the Reserve Bank of India.

The Tier-I and Tier-II components of Capital Adequacy Ratio were comfortable at 9.33% and 2.01% respectively.

7. NON-PERFORMING ASSETS (NPA'S):

Indian Banking industry continued to experience accretion of NPA in recent past. This has largely been attributed to the weak performance of the global as well as Indian economy, resulting in the deterioration of asset quality held by the banking sector. This trend continued to persist to certain extent during this financial year also across the Indian banking sector. This position is expected to improve in the current year.

Against this backdrop, your bank has shown an improved performance in NPA management during the last financial year. The percentage of Gross & Net NPA of your bank decreased to 2.75 % and 1.85 % respectively as on 31.03.15 against the last year figure of 4.19 % & 3.44 %.

This was made possible due to the combined efforts put in by the employees, which yielded the desired results. Your Bank has also sold some hard core NPAs to ARCs which has also enabled the Bank to make substantial recovery from NPAs during the FY. Stressed accounts were upgraded through efficient recovery follow-up and cash recoveries were also significant during the period. Coordinated recovery efforts resulted in improved performance during the FY.



During the year, Credit monitoring has been strengthened and follow-up methodology was further improved which has resulted in a great reduction of slippage to NPA. Conducts of the high value credit portfolio was under constant monitoring. Monitoring process has been aided by technology. Wherever stress was noticed, immediate remedial steps were taken and stressed assets were nurtured back to performing assets.

8. BRANCH AND ATM NETWORK:

The bank has a network of 400 branches including a satellite branch and 7 extension counters, spread over 16 states and the union territory of Pondicherry. The Bank's focus is on customer delight, by maintaining high standards of customer service. LVB has a strong and wide base in the State of Tamil Nadu, one of the progressive States in the country. LVB has been focusing on retail banking, corporate banking and bancassurance, by rendering high-tech services.

The Bank has an ATM network of 820 (264 Onsite & 556 offsite), in vital / major locations for better service to our customers. Bank continues to invest in expanding the network of Branches & ATMs.

9. FINANCIAL INCLUSION:

Financial Inclusion may be defined as the process of ensuring access to financial services to vulnerable groups such as weaker sections and low income groups at an affordable cost and providing timely and adequate credit where needed. The essence of financial inclusion is to ensure that a range of appropriate Basic financial services are made available to every individual and enabling them to understand and access those services.

The bank has implemented the financial Inclusion plan in 356 villages & wards allotted by SLBC in Tamilnadu. The bank has opened 150370 Basic Savings Bank Deposit Accounts (BSBDA) including 70358 accounts under Prime Minister Jan Dhan Yojana (PMJDY).

10. INTERNATIONAL BUSINESS:

Global Dollar strength kept most currencies under pressure during the year. Strong Foreign Portfolio inflows and increase in Foreign Direct investment flows supported Indian Rupee from major weakness. Euro and Japanese Yen weakened as a consequence of sustained quantitative easing by the respective Central Banks. There is a consensus estimate that the US is widely expected to raise interest rates during the second half of 2015. During the year under the report, the Bank has achieved a foreign exchange turnover of ` 4,560.82 Crores as against ` 4,310.08 Crores in the previous year. The outstanding advances to export sector stood at ` 275.02 Crores as on 31st March 2015. The business turnover is expected to significantly improve as more branches are identified for undertaking foreign exchange business.

11. BANK TRANSFORMATION EXERCISE:

A Bank-wide transformation exercise – 'Project Lakshya' - is currently underway at LVB, in collaboration with Ernst & Young LLP, across areas ranging from Retail and Corporate Banking, Human Resources, Information Technology, Treasury, Risk Management and Compliance. Through a range of strategic initiatives, the Bank is being positioned for competitive advantage and growth while improving its operating efficiency, meeting evolving customer needs and ensuring greater employee engagement.

Last year, Ernst & Young LLP carried out a detailed Bank-wide diagnostic exercise, through which a range of actionable initiatives were identified. The current phase of the exercise focuses on implementing the high impact strategic initiatives identified through that exercise. Best-in-class processes are being implemented, that will further improve the turnaround time to serve customers. Customer focused products are being launched, to ensure customers get what they need. The human resources function is being further strengthened, so as to ensure that employees are happier and are able to serve customers even better. Risk management and compliance policies and controls are being further strengthened, so as to create an even stronger base, as the bank embarks on its growth journey. Select IT projects are also being implemented, which will drive greater degree of automation and seamless customer servicing. Last, but not the least of Project Lakshya's focus areas, is driving the overall effectiveness and efficiency of the treasury function.

There are also a range of initiatives which are aimed at creating high performance branches with strong customer orientation. Select branches have been identified across several regions for piloting these initiatives and implementation of these initiatives is currently underway at these branches.

12. LVB CROWN SERVICES:

Lakshmi Vilas Bank launched **LVB Crown Services**, a bespoke suite of products and services, designed exclusively for high net worth individuals. The Bank has envisioned a premium value proposition, with customers being mapped to either CROWN Relationship Managers or Branch Managers. This would ensure a responsive, superior service experience for customers. Also, the LVB CROWN



Savings Bank account offers INR 25 lacs Personal Accident Cover, 25% discount on locker facilities, free RTGS, Platinum VISA International Debit card with higher limits on POS and ATM transactions, among a host of other benefits. The Bank is also creating LVB CROWN lounges for CROWN customers, in select Branches. The first LVB CROWN lounge was launched in Cantonment Branch, Bengaluru, in February'15, and more are slated for launch in the current financial year. The Bank would bring in more products and services as part of LVB CROWN, catering to the varied needs of our esteemed customers.

13. LISTING AGREEMENT WITH STOCK EXCHANGES:

The Equity Shares of the bank are listed with the National Stock Exchange of India Ltd, Mumbai and Bombay Stock Exchange, Mumbai which is enhancing the liquidity of our equity shares.

14. ALIGNING TECHNOLOGY WITH BUSINESS OBJECTIVE:

- Your bank has implemented various software tools and applications, customized CBS towards business needs and compliance.
- Your bank enabled the customers to receive LPG subsidy by enabling DBTL at branches through both Aadhar and Non-Aadhar Modes.
- Your bank has introduced product portability which will enable the customers to migrate from one product to another product without change in the account number.
- Your bank has made the Internet Banking more safe and secure by introducing Two Factor Authentication.
- Your bank has made the Internet Banking more user friendly by facilitating online password reset.
- Your bank has upgraded the branch business connectivity across all locations for better operational efficiency and deliverance of customer service.

IT Awards:

- Your bank has bagged National Payment Corporation of India (NPCI) award for NACH (National Automated Clearing House) operations under Scheduled banks category – “Small Banks”.
- Your bank has bagged one of the prestigious Business Technology Industry award from “Data Quest” in the area of “Unified Communications”.

15. WEALTH MANAGEMENT / PARABANKING ACTIVITIES:

- i. **Life Insurance:** Bank has entered into a strategic alliance with one of the leading life insurers in the country M/s. Max Life Insurance Company Ltd (MLI) to offer Life Insurance products to our customers.
- ii. **General Insurance:** Bank has tied-up with M/s. Future Generali India Insurance Company Ltd for General Insurance business distribution.
- iii. **Mutual Funds & PMS:** The Bank is presently having tie-up with thirteen leading Asset Management Companies for promoting various Mutual Fund schemes. In addition, we are promoting Portfolio Management Services (PMS) through UTI, Reliance and Sundaram Asset Management Company.
- iv. **Money Transfer through Branch Channels:** Foreign inward remittances are facilitated by arrangement with M/s. Weizmann Forex Ltd. for extending Western Union Money Transfer facility. In addition, tied-up with M/s. UAE Exchange & Financial Services Ltd., also for offering Global Money Transfer services through Xpress Money and Moneygram.
- v. **Money Transfer through Direct Remittances:** Tied up with Times of Money - Remit 2 India for Inward remittance from Abroad, this enables the NRIs to directly remit the amount to their account / residents.
- vi. **Investment & Infrastructure Bonds:** Bank empanelled with M/s. Bajaj Capital Ltd. for promoting Investment & Infrastructure Bonds.
- vii. **PAN Card Services:** Bank has tied up with M/s. UTI Infrastructure & Technology Services Ltd., (UTIITSL) as PAN Service Agent (PSA) for collecting the PAN Application across the country through Branches.
- viii. **Depository Participant Services:** Registered as Depository Participant with NSDL and with necessary clearances, this product is offered to our customers.
- ix. **Online Trading Services:** Bank has tied up with M/s. IDBI Capital Market Services Ltd. for offering Online Trading Services (OLT) to customers.



- x. **New Pension System (NPS):** Bank has registered with PFRDA and NSDL-CRA as Point of Presence (PoP) for offering NPS services for all Indian citizens except Government Employees already covered by NPS.
- xi. **ASBA:** As Bankers to the issue, the Bank can now receive applications under ASBA mode thus enabling the investors to earn interest till allotment of securities.

16. RISK:

Risk is an integral component of the activities of any bank. Risk management is an attempt to identify, to measure, to monitor and to manage uncertainty. It is not only a requirement under several voluntary codes and statutes but also make business sense to identify the probability of not achieving strategic and business goals. Risk Management has to be embedded in business processes to ensure that it is being practiced and made part of the culture of the organization. With this in mind the bank has established systems and policies ensuring an ongoing assessment of relevant risk types on an individual basis and in the aggregate as well.

The Bank's board ensures that the risks are managed appropriately through laid down policies and effective systems. A Board Level Committee inter alia oversees the implementation of Credit risk, Market Risk and Operational Risk policy prescriptions. The Asset Liability Management Committee (ALCO) looks into the management of Liquidity and Market risks and ensures adherence to the prudential limits. At Executive Level also, a committee consisting of Top Executives reviews periodically Liquidity Risk, Credit Risk & Market risk to take stock of the current situation. At the organization level, an Integrated Risk Management Department headed by General Manager is functioning at Corporate office to identify, measure, monitor and reduce risk, optimize returns and assess the required capital level. Bank has already automated the process of capital calculation and Base rate as per RBI Guidelines. Bank has a robust credit risk assessment system to ascribe borrower risk grades. This facilitates data collection and analysis for moving towards Advanced Approaches. Bank has in place well defined frame work for managing Market Risk. Basic Indicator Approach has been adopted for computation of capital charge for Operational Risk.

The Bank has migrated to Basel III in a phased manner (as per RBI guidelines) from April 2013 onwards and is preparing ICAAP document to assess its inherent risk and capital requirements. Bank is doing the Stress Testing as per the revised guidelines issued by RBI during December 2013 and Scenario Analysis for various risks as required under Pillar II for enhancing risk assessment and to provide the bank, a better understanding of the likely impact even in extreme circumstances. Technology is extensively used in measuring and discussing market risk using statistical tools including stress testing.

17. INTERNAL CONTROLS:

Bank has a separate Audit and Inspection Department which subjects all the branches besides the Treasury, Currency Chests, Service Branches, Regional Offices and every department of the Corporate Office through Regular Inspections. Key Functional areas including Integrated Treasury at Mumbai and Central Processing Cell, Chennai, Lotus-CPC, Karur and 100 branches are under Concurrent Audit which covers 59.00% of the total Deposits and 78.00% of the total Advance of the Bank. All the branches are subjected to IS Audit.

Audit Committee of the Board constituted in line with RBI guidelines and as per the requirements of clause 49 of the listing agreement, reviews the adequacy of the audit and compliance functions, including the policies, procedures and techniques.

18. HUMAN RESOURCE:

During the year 2014-15 the Bank adopted strategy by introducing new verticals in the Organizational structure and redeploying Top executives. In this connection, strategic positions had been filled with competent resources, we have recruited 22 Executives, 238 Officers, 88 Clerks & 28 Sub-staff. We have also engaged 472 Sales Personnel to promote sales. The Bank has effected promotion to 140 staff members across different cadres. The number of employees as on 31.03.2015 was 3459 as against 3292 as on 31.03.2014. Business per employee has gone up from ` 8.59 Crores as on 31.03.2014 to ` 9.80 Crores as on 31.03.2015.

The Bank's focus on training the human resources on a continual basis gained momentum by conducting online e-learning duly leveraging technology. Bank has trained the executives and officers by deputing to various programmes offered by reputed external institutions such as RBI, CAB, SIBSTC, IDRBT, NIBM, ISB, IIFB and other specialized organizations.

19. PARTICULARS OF LOANS, GUARANTEES OR INVESTMENTS BY THE BANK:

Disclosure under Section 186 of the Companies Act, 2013 does not apply to Banking Company.

20. PARTICULARS OF CONTRACTS OR ARRANGEMENTS WITH RELATED PARTIES:

The related party transaction during the financial year was under ordinary course of business of the Bank and on arm's length basis and Form AOC-2 is not applicable to the Bank. During the FY 2014-15, the bank did not have any material Related Party Transaction.



The Bank has an approved policy on Related Party Transactions, which has been disclosed on the website and can be viewed at https://www.lvbank.com/UserFiles/File/RelatedPartyTransactions_Policy.pdf

21. OUTLOOK 2015-16:

The broad-based decline in retail inflation since September 2014, plans announced in the Union Budget to step up infrastructure investment, depressed commodity prices and upbeat financial market conditions have improved the prospects for growth in 2015-16. Retail inflation is projected to remain below 6 per cent in 2015-16. Persisting slack in the economy and restrained input costs should sustain disinflationary impulses, unless disrupted by reversal in global commodity prices and/or deficiency in the south-west monsoon. The most significant change to forecasts has been the collapse of international commodity prices, particularly those of crude. For the Indian economy, this translated into a sizable softening of prices of both raw materials and intermediates.

Another factor vitiating baseline assumptions has been the different speeds at which global activity evolved across geographies. With several emerging market economies (EMEs) slowing down alongside sluggish advanced economies – barring the United States (US) – external demand fell away and sent prices of tradables into contraction. For India, import prices declined faster than export prices, conferring unexpected gains in net terms of trade as well as an appreciable easing of imported inflationary pressures. As data from the US allayed fears of early monetary policy normalisation and ultra-accommodative monetary policies took hold in Europe, Japan and China as also elsewhere, risk appetite roared into financial markets and India became a preferred destination for capital flows. The appreciating bias imparted to the exchange rate of the rupee brought with it a disinflation momentum.

Domestically, prices of fruits and vegetables ebbed from September 2014 after supply disruptions induced spikes in July-August. Aided by proactive supply management strategies and moderation in the pace of increase in minimum support prices, food inflation eased more than expected. Another favourable but unanticipated development that restrained cost-push pressures has been the sharp deceleration in rural wage growth to below 6 per cent by January 2015 from 16 per cent during April-October 2013. The confluence of these factors fortified the anti-inflationary stance of monetary policy and reinforced the impact of the policy rate increases effected between September 2013 to January 2014. In the event, CPI inflation retreated below the January 2015 target of 8 per cent by close to 300 basis points.

The Government of India and the Reserve Bank have committed to an institutional architecture that accords primacy to price stability as an objective of monetary policy. The Monetary Policy Framework Agreement envisages the conduct of monetary policy around a nominal anchor numerically defined as below 6 per cent CPI inflation for 2015-16 (to be achieved by January 2016) and 4 +/- 2 per cent for all subsequent years, with the mid-point of this band, i.e., 4 per cent to be achieved by the end of 2017-18. Failure to achieve these targets for three consecutive quarters will trigger accountability mechanisms, including public statements by the Governor on reasons for deviation of inflation from its target, remedial actions and the time that will be taken to return inflation to the mid-point of the inflation target band. This flexible inflation targeting (FIT) framework greatly enhances the credibility and effectiveness of monetary policy, and particularly, the pursuit of the inflation targets that have been set. The commitment of the Government to this framework enhances credibility significantly since it indicates that the Government will do its part on the fiscal side and on supply constraints to reduce the burden on monetary policy in achieving price stability.

Inflation expectations of various economic agents polled in forward looking surveys have been easing, partly reflecting the adaptation of expectations to the decline in inflation as well as growing credibility around the Reserve Bank's inflation targets. Although households' expectations of inflation three months ahead as well as one year ahead appear to have firmed up modestly in March 2015 in response to the uptick in retail inflation in January – February 2015, the softening of food and fuel inflation will likely temper those expectations going forward. This is borne out by the survey of professional forecasters for March 2015 in which five years ahead inflation expectations have dropped by 50 basis points to 5.3 percent. Professional forecasters expect CPI inflation to average between 5.0 and 6.0 per cent in 2015-16. The industrial outlook survey of the Reserve Bank indicates that manufacturers expect softer input prices in the near-term, which could transmit to output prices with a lag in view of the slack in economic activity.

22. CORPORATE GOVERNANCE:

Corporate Governance of the Bank continues to rest on the fundamental pillar of high ethical values, designed to enhance and protect the interests of all the stakeholders. The Bank has 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 and 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 Stakeholders Relationship Committee are furnished in Annexure-C. General Shareholders' information is furnished in Annexure-D. Details pertaining to the Composition of Audit Committee are mentioned elsewhere in this report.