



LAKSHMI VILAS BANK

89th ANNUAL REPORT 2015 - 2016



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BOARD OF DIRECTORS



Shri PARTHASARATHI MUKHERJEE
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 K. BABUJI
RBI Nominee



Shri SUVENDU PATI
RBI Nominee


LAKSHMI VILAS BANK

BOARD OF DIRECTORS

Shri. / Smt.

Parthasarathi Mukherjee - Managing Director & CEO

D.L.N.Rao

K.R.Pradeep

S.G.Prabhakaran

S.Dattathreya

P.A.Shankar

N.Malayalaramamirtham

Pankaj Vaish

Prakash P Mallya

E.V.Sumithasri

K.Babuji - RBI Nominee

Suvendu Pati - RBI Nominee

PRESIDENT & CHIEF FINANCIAL OFFICER

M. Palaniappan

PRESIDENTS

A.J.Vidyasagar

RM.Meenakshisundaram

COMPANY SECRETARY

N. Ramanathan

SENIOR VICE-PRESIDENT

RM.Kumarappan

R.Kamalasekaran

A.Shankar

R.K.Gurumurthy

P.Premkumar

Peeush Jain

Ashok Kumar Pareek

B.Nedumaran

Sudhir Kaushik

V.Madhusudhana Rao

STATUTORY AUDITOR

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

Chartered Accountants

Chennai

(Firm's Registration No. 001595S)

SECRETARIAL AUDITOR

K.Muthusamy,

Practicing Company Secretary

Coimbatore

(M.No.F 5865; CP:3176)

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



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**LAKSHMI VILAS BANK****DIRECTORS' 89th ANNUAL REPORT**

TO
THE MEMBERS

The Directors of your Bank have great pleasure in presenting this 89th Annual Report on the business and operations of your Bank together with the Audited Accounts for the year ended 31st March, 2016 (FY 2015-16).

1. FINANCIAL PERFORMANCE

The highlights of the financial performance of your Bank for the year ended 31st March, 2016 are as under:

| | For the year ended (₹ in crore) | |
|----------------------------|------------------------------------|-----------------------------|
| | 31 st March 2016 | 31 st March 2015 |
| Deposits | 25,430.96 | 21,964.21 |
| Advances (net) | 19,643.74 | 16,352.02 |
| Investments (net) | 6,545.40 | 6,051.15 |
| Total Income | 2,872.83 | 2,498.56 |
| Operating Profit | 407.12 | 368.41 |
| Provisions & Contingencies | 226.88 | 236.12 |
| Net profit | 180.24 | 132.29 |

Your bank registered appreciable growth in business volumes that compares very favorably with the industry average. The Bank attained total business of ₹ 45,074.70 crores in FY 2015-16 a growth of 17.64% over ₹ 38,316.23 Crores in FY 2014-15.

Deposits grew by 15.78%, from ₹ 21,964.21 Crores as at 31st March 2015 to ₹ 25,430.96 crores as at 31st March 2016, and total advances (net) expanded by 20.13%, from ₹ 16,352.02 Crores to ₹ 19,643.74 crores in FY 2015-16.

Of this, lending to Priority Sector rose from ₹ 5,849.89 Crores in the previous year to ₹ 7,349.81 Crores as on 31st March 2016. Agricultural Advances rose to ₹ 3,086.15 Crores from ₹ 2,457.18 Crores and advances to Weaker Section exposure rose from ₹ 1,712.77 Crores to ₹ 1,772.02 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 (net) of the Bank stood at ₹ 6,545.40 crores as against ₹ 6,051.15 Crores as on 31st March 2015.

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 ₹ 407.12 crores in FY 2015-16 against ₹ 368.41 Crores in the previous year FY 2014-15 registering a growth of 10.51%. The net profit for the year, after provisions and taxes, amounts to ₹ 180.24 crores as against ₹ 132.29 Crores recorded in 2014-15 recording a growth of 36.25%.

**3. APPROPRIATIONS**

| Particulars | For the year ended (₹ in crore) | |
|-----------------------------------------------------|------------------------------------|------------|
| | 31.03.2016 | 31.03.2015 |
| Profit brought forward | 0.08 | 0.07 |
| Transfer from IFR | 0.73 | 0.00 |
| Amount available for appropriation | 181.04 | 132.35 |
| Transfer to: | | |
| Statutory Reserve | 45.20 | 33.20 |
| Capital Reserve | 6.04 | 4.78 |
| Other Reserve | 50.00 | 41.40 |
| Investment Reserve | 0.00 | 0.73 |
| Special Reserve u/s 36(i)(viii) of the IT Act, 1961 | 15.00 | 9.15 |
| Proposed Dividend | 53.84 | 35.84 |
| Corporate Dividend Tax | 10.96 | 7.17 |
| Balance of profit carried forward | * 0.00 | 0.08 |

* balance of profit carried forward for FY 2015-16 ₹ 0.44 lakhs

4. DIVIDEND:

Your Board of Directors are pleased to recommend a dividend of ₹ 3.00 (30%) per share for the year ended 31st March, 2016 as against ₹ 2.00 (20%) per share for previous year ended 31st March, 2015. The total out go in the form of dividend, including taxes, will be ₹ 64.80 Crores.

5. EPS / BOOK VALUE:

Earnings per Share stood at ₹ 10.05 for the year ended 31st March, 2016 as compared to ₹ 9.16 as on 31st March, 2015. Book Value of the share, stood at ₹ 88.70 as on 31st March, 2016 as compared to ₹ 82.48 as on 31st March, 2015.

6. NET OWNED FUNDS / CAPITAL ADEQUACY RATIO:

Net Owned Funds (NOF) of the Bank increased from ₹ 1,477.70 Crores as at the end of FY 2014-2015 to ₹ 1,591.86 Crores as at the end of FY 2015-2016, reflecting a growth of 7.73%.

The Capital Adequacy Ratio (CAR) as on 31st March 2016 as per BASEL III is 10.67%. 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 8.69 % and 1.98% 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 1.97% and 1.18% respectively as on 31.03.2016 against the last year figure of 2.75% & 1.85%.

This was made possible due to the combined efforts put in by the employees, which yielded the desired results. Your Bank also sold some hard core NPAs to ARCs which 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 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:

During the fiscal 2015-16, the Bank added 60 new branches to its network across the country and as on 31st March 2016, the Bank had a network of 459 branches, 1 satellite branch and 7 extension counters, spread across 16 states and the union territory of Pondicherry.

The Bank also has ATM network of 910 (327 Onsite & 583 offsite), in vital / major locations for better service to customers. The Bank continued to expand its distribution network, which remains an integral part of the Bank's strategy for tapping low-cost CASA deposits, lending to retail & SME segments and cross selling third-party products.

The Bank's focus is on customer ecstasy, by maintaining a high degree of service. The bank has a strong and wide base in the Southern states of India and is focusing on retail and SME sector, by rendering high-tech services.

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 160513 Basic Savings Bank Deposit Accounts (BSBDA) including 81297 accounts under Prime Minister Jan Dhan Yojana (PMJDY).

10. INTERNATIONAL BUSINESS:

Dollar remained strong for better part of the Financial Year 2016. However, the rally in dollar reversed post Federal Reserve Meet in March 2016 where it was hinted of two rate hikes in 2016, down from the four predicted at the December meeting. Emerging Market currencies including Indian Rupee rallied after the Federal Reserve statement. Indian Rupee reversed its weakening trend and started gaining post Federal Budget.

During the year under the report, the Bank achieved a foreign exchange turnover of ₹ 5,219.18 Crores as against ₹ 4,560.82 Crores in the previous year. The outstanding advances to export sector stood at ₹ 292.43 Crores as on 31st March 2016. Going ahead, we expect the business to improve significantly with up-gradation of more branches to undertake foreign exchange business.

11. BANK TRANSFORMATION EXERCISE:

Bank concluded its Transformation project with EY. Many exercises during the course of the project cycle were initiated and completed. Some more suggestions were accepted and are in the process of being implemented. Bank will now take forward the transformation exercise with an internal Transformation Team under the guidance of Top Management.

In the journey of Transformation, Bank successfully enhanced the business in the selected 30 Branches and now will be replicating the same approach in about 70 more branches this year. The team will work closely with various Departments on the suggestions made by EY plus other suggestions coming from various internal sources. These initiatives are expected to not only enhance the business numbers but also enable the staff at various levels to perform well with a focused approach with clearly drafted KRA/KPI of every individual role.

Going forward a Team of 3 Officers under Leadership of SVP (Transformation) will work closely on the implementation and a core team of Top Management Headed by the MD & CEO will monitor the progress regularly.

12. LVB CROWN SERVICES:

LVB CROWN Services launched for high net-worth customers in FY16 got off to a robust start with very positive response from customers. In the first year, we have added over 5,665 customers to our CROWN portfolio. These esteemed customers have a Savings Bank book of over INR 246 Crores. With a growing customer base, CROWN Connect Engagement Programs are being conducted for customers in Branches, as well as through specific events. These programs aim at keeping us well connected with our customer, at the branch level. Our teams are also advising customers on Third Party Products like Life Insurance, Health Insurance, as well as investment in Mutual Funds, especially through SIPs. We have 3 CROWN lounges at present, one each at Bangalore, Hyderabad, and Chennai. We have plans to increase many more lounges in FY 2017. In the coming year, we would extend LVB CROWN Services to NRI and Business relationships also. LVB CROWN will be the focus for delivering superior, differentiated offerings to our customers in FY 2017.



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 your equity shares.

14. ALIGNING TECHNOLOGY WITH BUSINESS OBJECTIVE:

Your bank has launched user friendly mobile banking App "LVB Mobile" in all three major mobile platforms - viz, Android, Windows and Apple-IOS. You can do funds transfer (RTGS, NEFT, IMPS), set financial limit for all your transactions, do all kinds of recharges, manage and pay utility bills, request cheque books, block your debit card using "LVB Mobile" .

Your bank has introduced Welcome kit to facilitate the customer to commence using our services / alternate delivery channels as soon as the Savings Account is opened and to reduce TAT (Turnaround Time) for on-boarding customers.

Your bank has deployed Cash Deposit Machine at various locations to enable you to deposit the cash in your bank account at any time 24 X 7 X 365 without visiting the branches.

Your bank has also introduced EMV chip based debit cards for additional security as per RBI guidelines.

Information Security:

Your bank has implemented various security measures as per RBI Guidelines (Gopalakrishna Committee Recommendations) to protect the interest of customers/public. The robust security measures like two factor authentication, One Time Password (OTP), Public Key Infrastructure (PKI) were implemented to enable the customers to perform the financial transactions through Internet Banking, ATM, POS and Mobile banking applications. Your Bank has implemented the Business Continuity Plan (BCP) across the Bank to ensure uninterrupted services to the customers during any disaster.

Technology Awards:

Your bank has won "Best bank award for Managing IT Infrastructure among small banks" from IDRBT "Institute of Development and Research in Banking Technology"- (established by RBI).

Your bank has also bagged CIO100 award from M/s. IDG Media Pvt. Ltd. for implementing private cloud technology.

15. WEALTH MANAGEMENT / PARABANKING ACTIVITIES:

- i. **Life Insurance:** Bank has tied-up with Max Life Insurance Company Ltd (MLI) to offer Life Insurance products to the customers.
- ii. **General Insurance:** Bank has tied-up with M/s. Future Generali India Insurance Company Ltd for General Insurance business distribution.
- iii. **Health Insurance:** Bank has tied up with M/s. Cigna TTK Standalone Health Insurance Company Ltd to offer Health Insurance Products to the customers.
- iv. **LVB SBI Co-Branded Credit Cards:** Bank has tied up with M/s. SBI Cards and Payment Services Pvt Ltd (SBICPSL) and offering cobranded credit card to the customers and employees of the bank.
- v. **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 Port Folio Management Services (PMS) through UTI, Reliance and Sundaram Asset Management Company.
- vi. **Money Transfer through Branch Channels:** Foreign inward remittances 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., for offering Global Money Transfer services through Xpress Money and Moneygram.
- vii. **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.
- viii. **Investment & Infrastructure Bonds:** Bank empanelled with M/s Bajaj Capital Ltd. for promoting Investment & Infrastructure Bonds.
- ix. **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.
- x. **Depository Participant Services:** Registered as Depository Participant with NSDL and with necessary clearances, this product is offered to our customers.



- xi. **Online Trading Services:** Bank has tied up with M/s. IDBI capital Market Services Ltd & Way2Wealth Brokers Private Limited for offering online trading services to the customers.
- xii. **New Pension System (NPS):** Bank has registered with PFRDA and NSDL for NPS and recently enabled the eNPS facility also for subscribers.
- xiii. **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.
- xiv. **Prime Minister Social Security:** Bank has successfully launched the Prime Minister Jeevanjyoti Bima Yojana, Prime Minister Suraksha Bima Yojana and Atal Pension Yojana.

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 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 risk and ensure 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 is headed by Senior Vice President and it 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 of the bank besides the Treasury, Currency Chests, Service Branches, Regional Offices and every department of the Corporate Office, to regular inspection. All the branches are subjected to IS Audit. Key Functional areas including Integrated Treasury at Mumbai, Central Processing Cell, Chennai, Lotus-CPC, Karur and 102 branches are under Concurrent Audit which covers 59.00% of the total Deposits and 78.00% of the total Advance of the Bank.

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

18. HUMAN RESOURCE:

The Staff strength of the Bank was augmented during the year 2015-16 with recruitment of 17 Executives, 155 Officers, 125 Junior Officers & 20 Sub-staff. Further, 446 Sales Personnel were also engaged to boost sales. Promotion to higher scale and cadre were rolled out and 262 staff got promoted across different cadres. Total number of employees as on 31.03.2016 was 3565 as against 3459 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 exercise duly leveraging technology. Bank has trained considerable number of resources in offsite training programmes conducted by reputed institutions such as RBI, CAB, SIBSTC, IDRBT, NIBM & FEDAI.

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:

There were no related party transactions during the year under review and Form AOC-2 is not applicable to the Bank. During the FY 2015-16, 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 http://www.lvbank.com/UserFiles/File/RelatedPartyTransactions_Policy.pdf

21. OUTLOOK 2016-17:

The Indian economy is on the brink of a major transformation, with several policy initiatives set to be implemented shortly. Positive business sentiments, improved consumer confidence and more controlled inflation are likely to prop-up the country's the economic growth. Enhanced spending on infrastructure, speedy implementation of projects and continuation of reforms are expected to provide further impetus to growth. All these factors suggest that India's banking sector is also poised for robust growth as the rapidly growing business would turn to banks for their credit needs.

Also, the advancements in technology have brought the mobile and internet banking services to the fore. The banking sector is laying greater emphasis on providing improved services to their clients and also upgrading their technology infrastructure, in order to enhance the customer's overall experience as well as give banks a competitive edge.

Envisaging profitable growth is the prime vision of any organization and our bank is no exception. Study on profitability from all varied angles ultimately reaches to a common consensus that, reduction in cost of deposits and operating expenses is the need of the hour. We expect that RBI has room to cut its policy repo rate over fiscal 2017, given projections of inflation. Coupled with gradual economic and investment recovery and funding needs for auction proceeds, bank credit growth is likely to be in the 20% range in fiscal 2017; we expect similar growth in deposit also.

Banking industry, in its attempt to guard against high cost funds have been focusing on CASA (Current Account Saving Account) to save profit margins. High proportion of low-cost deposits builds a bank's ability to reduce its cost of funds. For the fiscal 2016-17, the bank envisages a higher CASA composition to total deposits.

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 Corporate Governance provisions as specified in SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015. All the Directors on the Board have executed deed of covenant and undertaking individually in line with the recommendations of Dr. Ganguly Committee Report.

Further pursuant to SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015, 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, including composition of the Audit Committee. General Shareholders' information is furnished in Annexure-D.

23. NUMBER OF MEETINGS OF THE BOARD:

During the financial year, the Board met 12 times. The Board meetings were held in accordance with the provisions of the Companies Act 2013. The details of the meetings held are provided in the Corporate Governance Report that forms part of this Annual Report.

24. POLICY OF DIRECTOR'S APPOINTMENT AND REMUNERATION:

According to the Articles of Association of our Bank, the number of Directors of the Bank shall not be less than nine and more than twelve and not less than fifty-one percent of the total number of Directors shall be persons who satisfy the requirements of Section 10A of the Banking Regulation Act. The process of Due Diligence is undertaken in compliance of Directives/Guidelines/Circulars issued by RBI from time to time in the matter of appointment/re-appointment of Director. The Non-Executive Chairman of the Bank and the Managing Director are appointed with prior approval of the RBI. Based on the vacancies that may arise in the Board from time to time, the Board follows a due process of appointment of directors through prior due diligence in line with the regulatory advice given by RBI, SEBI and MCA by way of Circulars / Guidelines / Regulations / Act. The Nomination and Remuneration Committee of the Board has formulated evaluation criteria for the appointment or re-appointment of directors. The Managing Director and CEO is paid remuneration as approved by the RBI but is not paid sitting fees. Other than the MD&CEO, no other directors are paid any remuneration apart from sitting fees. The details of remuneration of the MD&CEO and that of the sitting fees paid to the directors are available elsewhere in the report. The senior management of the Bank along with the KMPs abide by the Code of Conduct prescribed