

Annual Report 1998-99



Banking for Generations



The
Nedungadi Bank
Ltd.

REGD. OFF.: K.P. KESAVAMENON ROAD, CALICUT



Timeless Vision

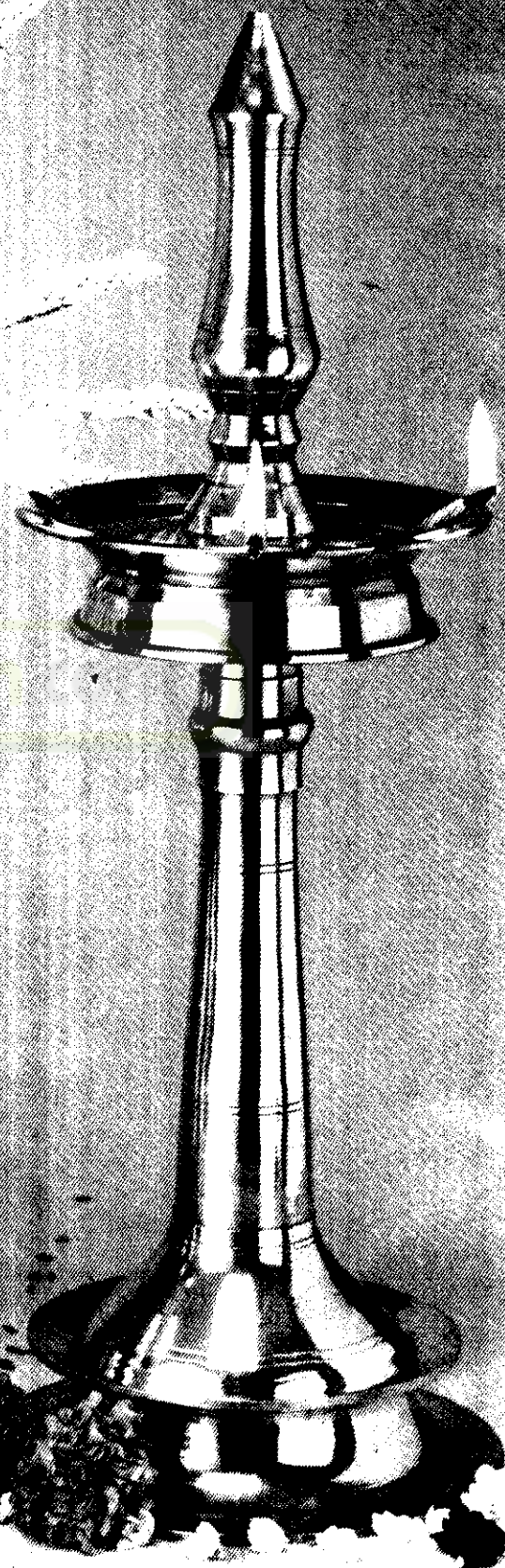
Rao Bahadur Appu Nedungadi, our founder, was indeed a man of uncommon vision.

His versatile genius recognized the crying need for an indigenous banking institution catering to the common man. Thus was born Nedungadi Bank in 1899.

A century later the Bank has become a treasured tradition for generations of customers.

A sign of reliability, prosperity and trust.

Thanks to a vision which is well set to take the Bank to another century of accomplishments.



BOARD OF DIRECTORS



The
Nedungadi Bank
Ltd.

Registered Office:
K.P.Kesava Menon Road,
CALICUT - 673 001

Shri. A.R. Moorthy
Chairman
Shri. P. Kumaran
Shri. C.V. Radhakrishnan
Shri. C.V. Nair
Shri. P.S. Menon
Shri. M. Ratnasingsh
Shri. Suresh G. Vaidya
Shri. M.G. Damani
Shri. L.V. Balasubramaniam
Shri. V. Manghat
Smt. S. Valsala Devi
Additional Director, RBI Nominee
Shri. Jose Mathew
Alternate Additional Director, RBI Nominee

EXECUTIVES

General Managers

Shri. T.V. Radhakrishnan
Shri. V. Narayanan

Deputy General Managers

Shri. C.K. Prabhakaran
Shri. K.P. Ramachandran

Assistant General Managers

Shri. V.N. Unnikrishnan Nair
Shri. G. Rajkumar
Shri. T.R. Narayanan
Shri. D. Subramaniam
Shri. N.V. Unniraghavan
Shri. M. Mohandas Kumar
Shri. M. Krishnan
Shri. S. Kesava Iyer
Shri. P. Cyril Jayaraj
Shri. K. Damodaran
Shri. K.P. Narayanan
Shri. P.K. Surendra Raja
Shri. A. Thomas Mathew

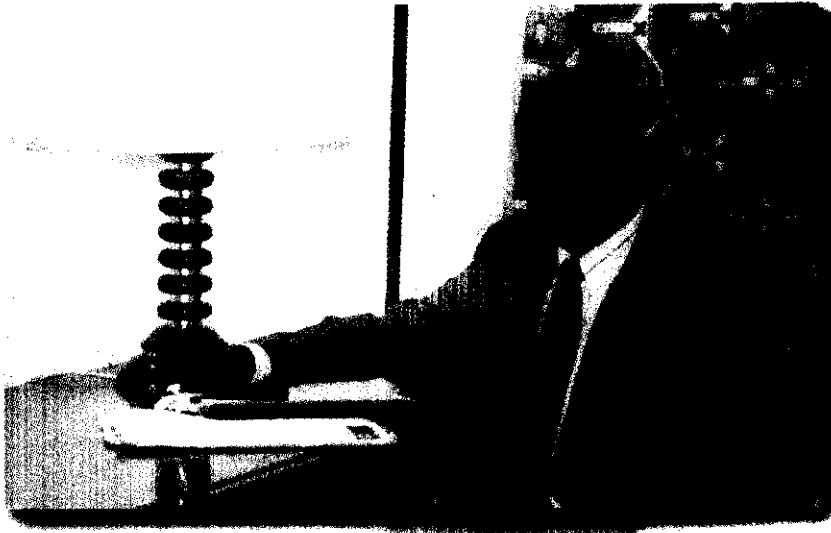
COMPANY SECRETARY

Shri. R. Srikar Pai

AUDITORS

M/s. Venkateswaran & Veeramani
Chartered Accountants, Calicut

CHAIRMAN'S MESSAGE



The seeds of the success story of any organisation are sown by visionary entrepreneurs perceiving a potential opportunity and relating it to their common aspirations and goals. They transform such an opportunity into a going and growing concern through collective efforts, shared vision and with a definite purpose. They are guided by their own philosophy which gets reflected in the various initiatives and activities of their organisation. Through an effective percolation of such a philosophy to all levels, they transform excellence into a way of life in their functioning. The success story of the Nedungadi Bank is no exception.

We are now in our Centenary Year which is truly a legendary mile stone not only for our Bank, but also in the annals of Indian Banking history. It is a rare privilege for all of us to be a part of this historical event. We are proud of our Bank which is committed to being a customer oriented institution striving for excellence that will create prosperity for our customers. During the Centenary Year, we have plans to organise functions at various centres and interact with the customers and to broad-base our clientele. We reiterate our commitment to our customers and to the overall growth and development of the economy of our country. I am proud to say that my entire 1600 plus strong team of staff members are with me to provide better customer service.

I would also like to record my profound gratitude for the wholehearted support and encouragement from the Board of Directors, investors, customers and staff members at all levels whose collective efforts have helped the steady ascent of the Bank to its present stature of pride and eminence in the national banking scene.

On this historic occasion we reiterate our cent percent commitment, confidence and courage to attain our corporate mission.

- A.R. Moorthy



Shri. T.V. Radhakrishnan



Shri. V. Narayanan



Shri. A.R Moorthy
Chairman



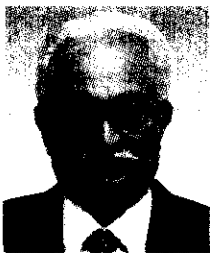
Shri. P. Kumaran
Director



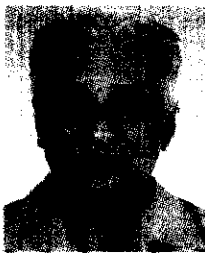
Shri. C.V. Radhakrishnan
Director



Shri. C.V Neir
Director



Shri. P.S Menon
Director



Shri. M. Ratna Singh
Director



Shri. Suresh G. Vaidya
Director



Shri. M.G. Damani
Director



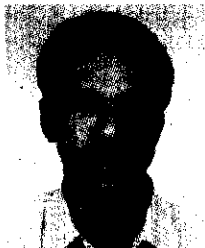
Shri. L.V. Balasubramaniam
Director



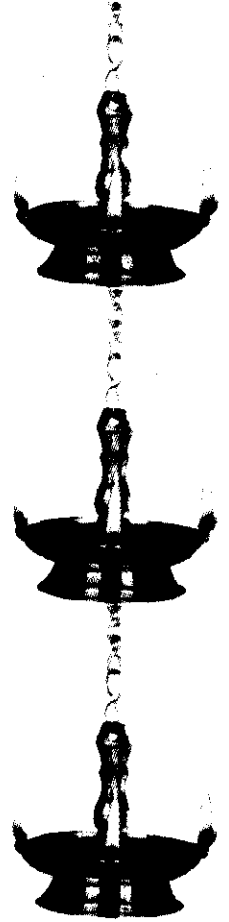
Shri. V. Manghat
Director



Smt. S. Valsala Devi
Addnl. Dir., RBI Nominee



Shri. Jose Mathew
Alt. Addnl. Dir., RBI Nominee



DIRECTORS' REPORT

The Board of Directors have immense pleasure in presenting the 86th Annual Report on the operations of the Bank together with the Audited annual accounts for the year ended March 31st, 1999.

As you are aware, the Nedungadi Bank was established in 1899 and celebrates a centenary of trusted service to the nation. On this historic occasion, the Board of Directors wish to record their respectful homage to the founding father Rao Bahadur T M Appu Nedungadi and remember with gratitude the yeoman services of illustrious personalities who have guided the destiny of the Bank over the years.

ECONOMIC ENVIRONMENT

During the year, the economy achieved an estimated GDP growth of 5.8 per cent as compared with a growth rate of 5.0 per cent for 1997-98. This was primarily due to a substantial increase in the output of the agriculture sector and continued good performance of the services sector. Industrial growth measured in terms of index of industrial production showed a lower growth during the year and is estimated at 3.9 per cent as against 6.9 per cent during 1997-98. The slowdown of industrial growth adversely affected the demand for credit from the banking sector and also the recovery.

The rate of inflation during the year was placed at 5.0 per cent down from 5.3 per cent in the previous year. The country's foreign exchange position remained very comfortable notwithstanding a marginal fall in exports.

OPERATING ENVIRONMENT

The credit and monetary policy measure initiated by the Reserve Bank of India during the year was focused to have controlled monetary expansion with provision of reasonable liquidity and lower interest rates.

Banks have been given sufficient flexibility to decide their deposit and lending rate structures and manage their assets and liabilities efficiently. To have further flexibility towards this direction, banks are now permitted to offer differential rates of interest depending upon the size of deposits. Further, in order to remove the disincentive to the flow of credit to small borrowers, lending rate on loan upto Rs.2.00 lakhs was capped at Prime Lending Rate (PLR).

The ongoing financial sector liberalisation is leading to intensified competition between various segments of the financial system, as well as within the banking industry. Customers now demand prompt personalised service. The traditional yardsticks of judging bank's performance mainly by the volume of deposits mobilised and credit deployed and the number of new branches opened are giving way to criteria of efficiency, profitability and stability. This calls for optimum management of Banks funds with greater prudence. Your Bank is gearing up to meet the challenge of this new environment.

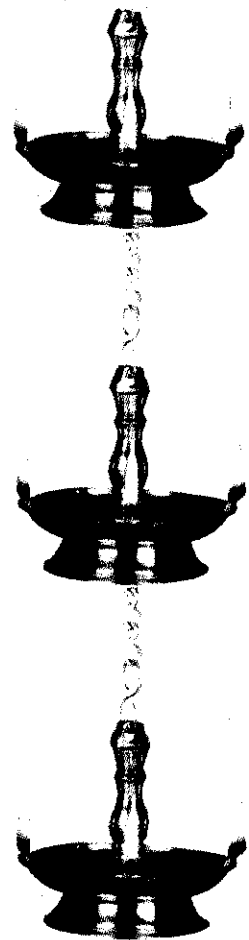
FINANCIAL RESULTS

Despite the difficulties faced by the industries and the business due to economic recession, your Bank has been able to perform better than the previous year as can be seen from the key performance indicators given herein below:

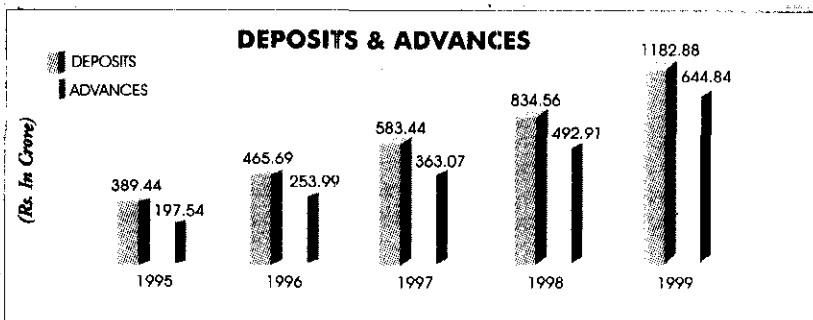
The Bank's key performance indicators:

	31.03.1999	31.03.1998	(Rs. In lakhs) % of growth
Deposits	118288.33	83455.98	42
Advances	64483.67	49291.03	31
Total Income	16385.15	11880.95	38
Total Expenses	15576.73	11154.83	40
Net Profit	808.42	726.12	11
Working Funds	130776.88	93205.91	40
Business Per Employee	107.92	84.72	27
Earnings Per Share (In Rs.)	7.93	7.12	11

The CD ratio of the Bank stood at 55% for the Financial Year 1998-99 as compared to 59% for the Financial Year 1997-98.



Banking for Generations



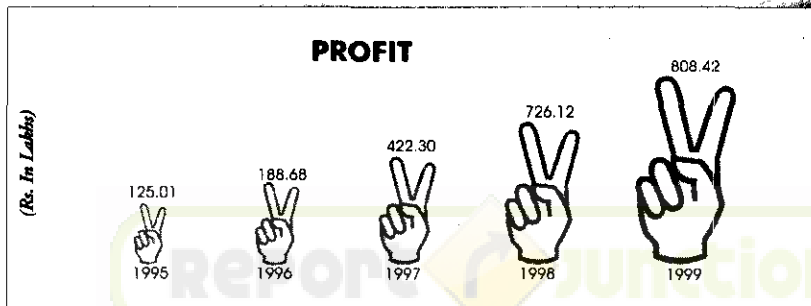
The Bank's Net Profit for 1998-99 was Rs.808.42 lakhs. After considering the brought forward balance of Rs.24.06 lakhs, the surplus of Rs.832.48 lakhs has been appropriated as shown below.

Statutory Reserves	: Rs.250.00 lakhs
Other Reserves	: Rs.270.00 lakhs
Proposed Dividend	: Rs.255.00 lakhs
Tax on proposed Dividend	: Rs. 28.05 lakhs
Balance carried over	: Rs. 29.43 lakhs

The Directors sincerely hope that the improved performance in an year when many banks are either reporting lower profits or losses shall be appreciated by the members.

DIVIDEND

The Directors are pleased to recommend a dividend @ 25% for approval in the Annual General Meeting.



OWNED FUNDS

The Capital together with Reserves increased to Rs.4072.83 lakhs from Rs.3686.75 lakhs. The Capital Adequacy Ratio stood at 10.24% against the stipulated minimum of 8%. The Bank is actively examining various methods to raise Capital during the current financial year to adhere to the prescribed norms as set by the Reserve Bank of India. The Equity shares of the Company are actively traded in the Stock Exchange Mumbai.

BUSINESS PARAMETERS

a. Resource Mobilisation

The deposit base of the Bank increased from Rs.83455.98 lakhs to Rs.118288.33 lakhs during the year representing a growth of 42%. The major emphasis was not only on achieving a stable growth in deposits but also improvement in deposit mix so as to reduce the cost of deposits. The average cost of deposits for the year stood at 10.51%. One of the reasons for containing the cost of deposits was the low corpus of high-cost NRI deposits maintained with the Bank.

The Bank continued to enjoy the growing trust and confidence of Non Resident Indians (NRIs) whose deposits with the Bank rose by 32.30% during the year to Rs.18284.00 lakhs representing about 15.46% of the Bank's aggregate deposits.

b. Credit Deployment

Advances of the Bank reached Rs. 64483.67 lakhs from Rs.49291.03 lakhs registering a growth of 31% over the previous year. This has been possible due to better credit marketing and focusing on specific market segmentation. The financial assistance extended by the Bank to Priority Sector stood at Rs.24535.99 lakhs. In addition to direct lending, funds to the tune of Rs.1239.00 lakhs have been channelised to Priority Sector by way of investment in eligible areas. Thus the aggregate funds deployed in Priority Sector were of the order of Rs.25774.99 lakhs representing 51.55% of the net bank credit, which is higher than the stipulated target of 40%.



The level of non-performing assets (NPAs) has been engaging the Bank's close attention. As at the end of the year, net NPAs formed 12.23% of the net advances. This is higher than the 9.41% a year earlier, partly because of various external factors impacting on the performance and financial health of the borrowers concerned. The Board is concerned about the seriousness of the situation and guiding the administration in effecting maximum recovery and arresting further NPAs. Signs of improvement in the economy will ease the situation to bring the assets to performing status sooner than later.

c. Treasury Operations

The Bank's investment operations in securities showed substantial growth. The total investment of the Bank increased to Rs.47743.59 lakhs as on 31st March, 1999 from Rs.28514.40 lakhs as on 31st March, 1998. 77% of approved securities classified under the current category have been marked to market as against the 70% stipulated by RBI. The income on investments was Rs.5221.86 lakhs contributing to about 31.87% of the Bank's total income in the year under report.

d. Forex Business

The Foreign Exchange turnover of the Bank is Rs.163016.86 lakhs. The export credit as on 31st March, 1999 stood at Rs.3821.28 lakhs registering a growth of 19%. The income from Foreign Exchange business for the year under review was Rs.502.21 lakhs.

We are happy to report that your Bank has received permanent licence to act as Authorised Dealer in Foreign Exchange w.e.f. 7th June, 1999.

ENLARGED BRANCH NETWORK

The Bank continued to extend its geographical reach to intensify its efforts to garner substantial additional resources and to explore new avenues for credit deployment. The bank opened four more branches during the year at Changanacherry, Thiruvalla, Mayur Vihar (Delhi), and Andhen (East). With this, total number of branches moved upto 161 and extension counters stood at 5 at the end of the financial year.

Taking into account, the newly opened Service Branch at Chennai during the current financial year, the number of branches moved to 162 as on 15th June, 1999. The Bank proposes to open branches at Angamaly, Calcutta, Coonoor, Kulasekaram, Secunderabad, Vashi and Visakhapatnam during the current financial year.

PRIDE IN PEOPLE

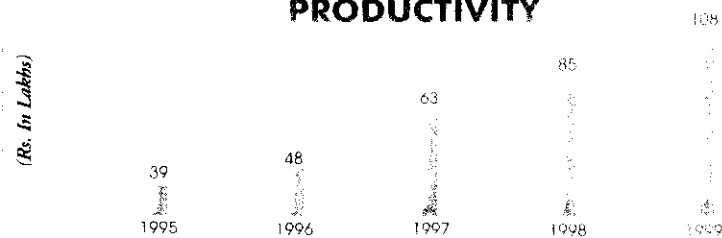
The Bank is having a strength of 1665 employees as at 31st March, 1999, consisting of 491 Officers, 800 Clerks and 374 other staff members. Fresh recruitment was carried out during the year to both Officers and non-officers cadres in order to cope with the Bank's expanding operations.

Human Resource is the most important asset of any organisation. Keeping this in view, the Bank has been endeavouring to provide appropriate internal and external training to selected staff members. The emphasis is on dissemination of knowledge, development of skills and re-orientation of attitude of the staff for enabling them to cope with the challenges facing the banking industry.

Your Bank has implemented the Pension Scheme in full by purchasing annuities from LIC of India.

The industrial relations remained very cordial throughout the year. The Bank has continued its efforts to maintain frequent interaction between the management and the Staff Union, Officers' Association and Staff Federation.

PRODUCTIVITY



INFORMATION TECHNOLOGY AND STATUS ON Y2K COMPLIANCE

In a competitive environment, better work technology will provide the cutting edge. In a service industry like banking, where information management needs are substantial, use of Information Technology [IT] offers an effective solution. Recognising this, the Bank has been taking various proactive measures and making significant Capital Investments. At the end of March 1999, eight branches of the Bank had been fully computerised and partial computerisation was achieved in 29 branches. During the year, the Bank further increased the level of office automation at controlling and Head Office levels with special emphasis on meeting the Management Information System requirements. As an effort to enhance computer literacy level in the Bank, a full fledged computer lab was opened at our Staff Training Institute, Calicut during the year under report.

The Bank has hoisted a website to facilitate NRIs, Resident Indians and other visitors. Browsers from any part of the world can have access to details of the various products and services offered by the Bank through the website. They can even download the requisite application forms to open accounts with the Bank. The website is one more step in our march towards custom-made focused services to our clients and potential clients world-wide. The address of the website is 'www.nedungadi-bank.com'

Your bank has addressed the Y2K compliance issue and has achieved Year 2000 compliance of hardware, Software and Operating Systems as on 31st March, 1999. The financial cost for the bank for addressing the Y2K issue is about Rs.18.28 lakhs. The Bank has prepared a contingency plan to meet any unforeseen eventuality arising out of Y2K related problems.

CORPORATE GOVERNANCE

The spirit of good corporate governance is brought into effective use in the policy making and the operational areas of the Bank in a deliberate and sustained manner. The Bank is confident that this will yield rich dividend in the form of confidence of the investors, the borrowers and the depositors which is very essential in the liberalised environment.

The Bank has formulated operational policies on Asset Liability Management (ALM) in line with the Reserve Bank of India recommendations. Asset Liability Management Committee (ALCO) composed of the Senior Executives at the Head Office, meets at regular intervals and gives directions including strategic action plan for managing risks. The ALCO manages and controls the structure of assets and liabilities to optimise profit at the same time ensuring proper liquidity management.

The existing Vigilance mechanism in the Bank was toned up. Focus of attention in the area of vigilance has been on preventive aspects. Constant review of the systems and procedures is carried out in key operational areas with a view to plugging the loopholes. Whenever preventive vigilance measures fail to stop forays into integrity of administration, investigative and punitive vigilance steps are initiated.

The system of Concurrent Audit by independent external firm of Chartered Accountants have been extended to 32 branches of the Bank, which covers 55% of credit and other risk exposures and 50% of total deposits of the Bank as on 31.3.1999. Treasury operations are also being concurrently audited.

STATUTORY DISCLOSURES

The Bank has initiated all possible efforts for conservation and reduction of energy consumption. The required technology absorption is made quickly considering the nature of activities.

Through its export financing operations, the Bank supports and encourages the country's export efforts.

None of the Bank's employees falls under the purview of Section 217(2A) of the Companies Act, 1956.

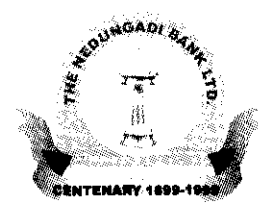
AUDITORS AND AUDITORS' REPORT

The Statutory Auditors M/s. Venkateswaran and Veeramani, Chartered Accountants, Calicut are retiring at this Annual General Meeting and are being eligible, offer themselves for re-appointment subject to approval of the Reserve Bank of India.

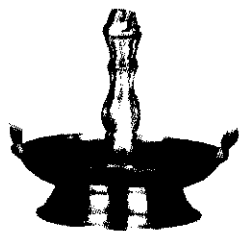
The notes to the account referred to in the Auditors' Report are self explanatory and, therefore, do not call for any further comments.

COMPOSITION OF THE BOARD

The constitution of the Board underwent changes during the year. Shri. S. Krishnan and Shri. K. Bhaskaran Nair were in the Board of the Bank upto the date of the last Annual General Meeting and ceased to be directors, as they did not seek re-election. The Board of Directors record their gratitude for the valuable services rendered by them.



Banking for Generations



Prof. M K A Hameed, who was on the Board of the Bank since 1994 expired on 25.11.1998. The Board deeply mourn the sad and untimely demise of late Prof. M.K.A. Hameed and pray that his soul may rest in peace. His contribution for the growth of the Bank has been remarkable and acknowledged with gratitude.

Dr. N. Vijayan relinquished office of the Director on the completion of eight year term on 8.12.1998. The Board of Directors place on record their sincere appreciation and gratitude for the valuable services rendered by Dr. N. Vijayan during his tenure as Director on the Board of the Bank.

The Reserve Bank of India appointed Smt. S. Valsala Devi as Additional Director in the place of Shri. C.N. Kutty and Shri. Jose Mathew as Alternate Additional Director effective from February 24, 1999. The Board of Directors place on record their appreciation for the valuable services rendered by Shri. C.N. Kutty during his tenure as Additional Director.

Shri. C. V. Radhakrishnan and Shri. P.S. Menon would be retiring at the forthcoming Annual General Meeting.

Further, Shri. Varjakshan Manghat was co-opted by the Board as an Additional Director on 29.6.1999 to represent the SSI sector. The Board welcomes the new Director. In terms of Articles of Association of the Bank, Shri. Varjakshan Manghat would be holding office upto the date of the forthcoming Annual General Meeting and is entitled for re-appointment. Notice has been received proposing the appointment of Shri. Varjakshan Manghat as Director subject to retirement by rotation.

ACKNOWLEDGEMENT

The Board of Directors place on record their sincere thanks to the large number of shareholders, valued customers and well-wishers for their continued support and good wishes. The Board also expresses their thanks to a host of institutions and other organisations whose assistance and support the Bank has been privileged to receive in one way or the other. These include the Reserve Bank of India, Securities and Exchange Board of India, Industrial Development Bank of India, Small Industries Development Bank of India, National Bank for Agriculture and Rural Development, National Housing Bank, Discount and Finance House of India, Export Credit and Guarantee Corporation, Indian Banks' Association, Foreign Exchange Dealers Association of India, Registrar of Companies (Kerala), Stock Exchanges Cochin, Mumbai and Chennai.

The Directors place on record their deep appreciation of the valuable contribution of the members of the staff at all levels to the all-round progress of the bank during the year and look forward to the continued involvement in the realisation of the corporate goals in the days ahead.

LOOKING AHEAD

The second generation of Banking Reforms selected for implementation further strengthens the prudential norms laid down for banking industry. These include:

- Raising of minimum capital to risk asset ratio from existing 8 per cent to 9 per cent effective from the year ending 31 March, 2000.
- Bringing Income Recognition and Provisioning Norms on Government guaranteed advances on par with those on other advances with effect from the financial year 2000-2001.
- Introduction of provisioning for Standard Assets with effect from the year ending 31st March, 2000 to enhance the inherent strength of the bank balance sheets.
- Reducing the time frame for categorising advances as doubtful debt from existing 24 months to 18 months. The banks will be given a time frame for the said provisioning norms in two phases during the year 2000-2001 and 2001-2002.
- Introduction of provision for risk weight of 2.5 per cent on Government approved securities from the year ending 31 March, 2000.
- Implementing cent per cent risk weight on Foreign Exchange open position with effect from 31 March, 1999. The banks have to introduce effective risk management system to cover credit risks, market risks and operational risks.

The Bank plans at improving profitability further by implementing various strategies towards this end. These includes reducing cost of deposits through a more favourable deposit mix, improving recovery in NPAs, increasing non-interest income and strong treasury operations. The management realises the importance of increasing shareholders wealth through value addition.

As we have entered into the Centenary Year, the Directors are happy to announce that arrangements have been made for year long celebrations of the Centenary of the Bank during 1999-2000 by organising functions country-wide at all important centres. To mark the beginning of the Centenary a function to lay the foundation stone for the new Corporate Office "Shatabdi Bhavan", by His Excellency Mr. Justice Sukhdev Singh Kang (Retd.), Governor of Kerala, was organised on 28th April, 1999 at Calicut.

The Board of Directors reiterate their commitment to synergise, improve and innovate to meet the changing aspirations of our customers, shareholders and above all, to fulfil national and social priorities.

For and on behalf of Board of Directors

Thiruvananthapuram,
16 July, 1999

A.R.MOORTHY
CHAIRMAN

