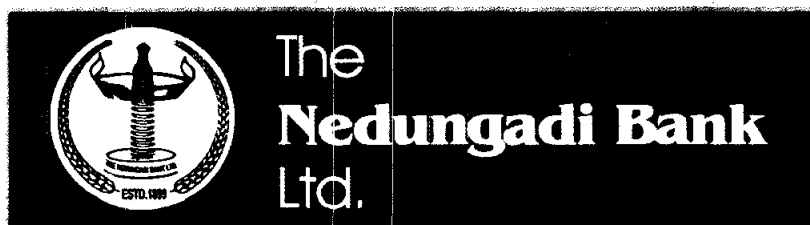


ANNUAL REPORT

2000-2001



REGD OFFICE: SHATHABDIBHAVAN, MINI BYPASS ROAD, P.O. GOVINDAPURAM, CALICUT-673016, KERALA
Visit us at: www.nedungadi-bank.com

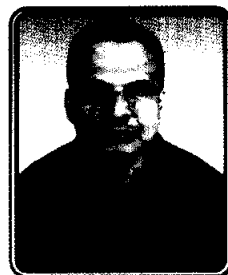
Board of Directors



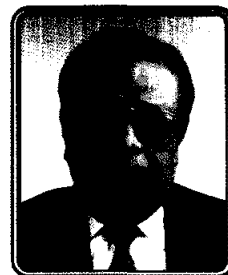
T.M. Appu Nedungadi (1860-1933)

Author, Educationist, Reformer

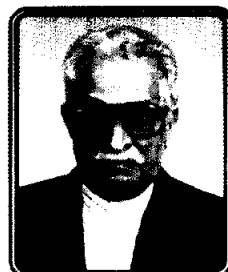
Founder, Nedungadi Bank



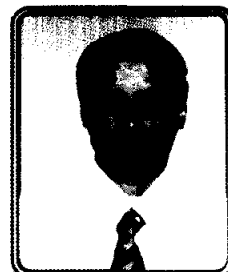
Shri. J.R. Prabhu
Chairman



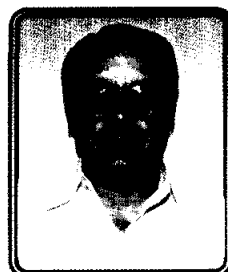
Shri. C.V. Nair
Director



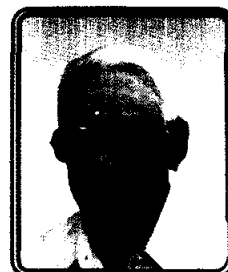
Shri. P.S. Menon
Director



Shri. L.V. Balasubramaniam
Director



Shri. V. Mahadevan
Director



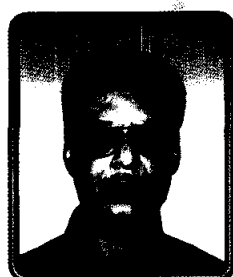
Dr. P.K. Warriar
Director



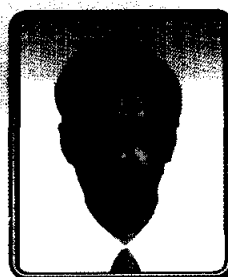
Shri. V.O. Gopi
Addnl.Dir., RBI Nominee
(Non Official)



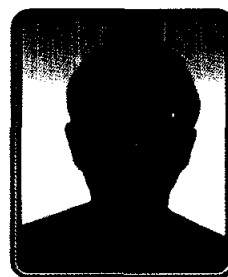
Shri. P. Manomohan
Addnl.Dir., RBI Nominee
(Non Official)



Shri. V. Manomohan
Gen. Manager

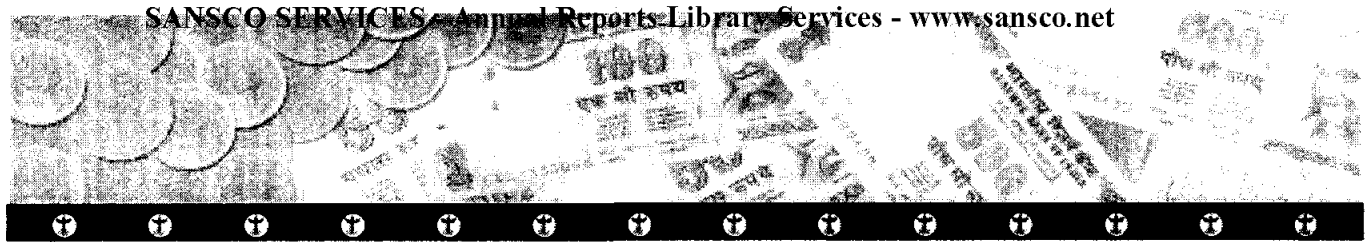


Shri. Jose Mathew
Addnl.Dir., RBI Nominee
(Official)



Shri. Cherian P. Thomas
Alt. Addnl.Dir., RBI Nominee
(Official)

Report Junction



EXECUTIVES

GENERAL MANAGERS

Shri. V. Narayanan

Shri. C.K. Prabhakaran
(Officiating)

DEPUTY GENERAL MANAGERS

Shri. K.P. Ramachandran

Shri. T.R. Narayanan

ASSISTANT GENERAL MANAGERS

Shri. G. Rajkumar

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. P.K.Surendra Raja

Shri. A. Thomas Mathew

Shri. K. Raveendranatha Sarma

Shri. Mohandas Mackanchery

Shri. K. Jañardhana Kurup

Shri. P. Rajan

Shri. R. Srikar Pai

M/s. Venkateswaran & Veeramani

Chartered Accountants , Calicut.

COMPANY SECRETARY

AUDITORS



Regd. Office: Shathabdi Bhavan, Mini Bypass Road,
P.O Govindapuram, Calicut- 673 016 -Kerala

DIRECTORS' REPORT

The Board of Directors are presenting the 88th Annual Report on the operations of the bank together with the Audited Annual Accounts for the year ended 31st March, 2001.

BANKING SCENARIO

Indian banking system continued its efforts in implementing further reforms during the year 2000-2001. The focus was on the development and regulation of financial markets, strengthening the financial system in the context of the changes occurring in environment in which the financial institutions and markets operate and strengthen the regulatory and supervisory function in the light of the changes.

The banking industry witnessed mergers among banks in order to increase the capital base, business volume and to meet the ever increasing competition in the banking field. The reduction in CRR requirements and Bank Rate has helped in increased liquidity in the system and soften interest rate regime. The aggregate deposits of the scheduled commercial banks increased to 18.4% in the last fiscal from 13.9% in 1999-2000. Commercial bank credit decreased by 17.3% from 18.2% recorded during the previous year.

OPERATIONS OF THE BANK

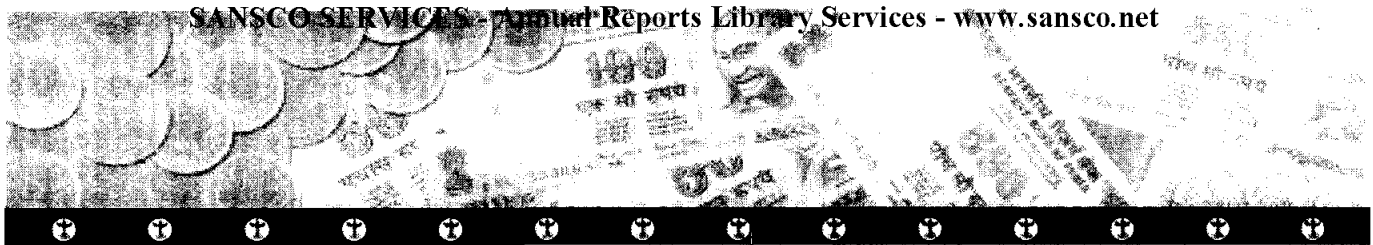
The bank's key performance indicators are detailed hereunder:

(Rs. in crores)

	31.03.2001	31.03.2000
Deposits	1749.37	1588.21
Advances	848.55	793.74
Investments	705.49	549.38
Total Income	206.17	197.83
Total Expenses	205.53	171.61
Profit before provisions & contingencies	0.64	26.22
Provisions & contingencies	68.43	11.60
Net (Loss) / Profit	(67.79)	14.62
Less:		
Transfer from Investment Fluctuation Reserve	0.75	0.00
Profit brought forward	0.28	0.00
Balance carried over to balance sheet	(66.76)	0.28
Business per employee	1.45	1.33

The CD Ratio of the bank stood at 49% as on 31.3.2001 as compared to 50% as on 31.3.2000.

Due to inadequacy of profit, the Board of Directors are not recommending any dividend on the bank's shares for the year ended 31st March, 2001.



NETWORTH AND CAPITAL ADEQUACY

The networth of the bank amounting to Rs. 60.22 crores was eroded by the balance of loss of Rs. 66.76 crores carried over to balance sheet as on 31.3.2001. Consequently, the Capital Adequacy of the bank became nil. The Board is examining various options to raise capital to adhere to the prescribed norms as set by the Reserve Bank of India.

BUSINESS PARAMETERS

a. Deposits

The deposits of the bank increased during the year from Rs. 1588.21 crores to Rs. 1749.37 crores registering a growth of 10.14%. The total NRI deposits of the bank touched the level of Rs. 272.52 crores and registered a growth of 22.42 % over the previous year and constituted 15.58% of the total deposits.

The bank has introduced a new customer friendly deposit scheme named "Vishranthi" which provides value addition on the deposits of senior citizens by way of higher rate of interest.

b. Advances

The aggregate advances during the year rose to Rs. 848.55 crores from Rs. 793.74 crores in the previous year, recording a growth of 7%. The fall in interest rate scenario had led to a competitive environment wherein the bank had to offer finer rates to the borrowers.

The bank continued to comply with the stipulated norm that 40% of net bank credit is to be extended to the borrowers in the priority sector. The aggregate funds deployed in priority sector were of the order of Rs. 286.75 crores including investments with authorised institutions representing 42.89% of the net bank credit, which has surpassed the stipulated target.

Reduction of NPAs continues to be a major thrust area of the bank. However, during 2000-01 overhang of the previous years, business cycle downtrends and non-existence of congenial recovery climate continued to stand in the way of quick recovery of loans. As at the end of the year, net NPAs formed 21.04% of the net advances.

In order to ensure that there is no let up on the recovery and upgradation of the non-performing assets, the bank has put in place detailed operational guidelines as follows:

- a) Regular and continuous follow up of non-performing assets for recovery / regularisation.
- b) Special drive for one time settlements.
- c) Follow up for early disposal of suit filed and decreed accounts.
- d) Close monitoring to avoid slippage in standard assets.
- e) Efforts towards up-gradation of substandard assets.

f) Holding of Recovery adalaths

g) Exercise of discretionary lending powers linked to the extent of recoveries made by the branch managers.

h) Task forces comprising bank's senior executives to expedite the recovery process.

The Committee of Directors constituted to review the NPA accounts and the bank's Board are closely monitoring recovery of NPAs. The strategies adopted are expected to yield results in the current year.

c. Treasury Operations

Investment Portfolio of the bank recorded a growth of 28.4% and stood at Rs. 705.49 crores as against Rs. 549.38 crores as on 31st March, 2000. The income on investments was Rs. 74.87 crores contributing to 36.31% of the bank's total income in the year under report.

d. Forex business

The bank's foreign exchange turnover rose to Rs. 1515.13 crores during the year 2000-01 compared to Rs. 1129.76 crores in the previous year recording a growth of 34.11%. The export credit as on 31st March, 2001 stood at Rs. 52.25 crores registering a growth of 13.29%. The exports credit accounted for 7.35% of the net bank credit. The income from foreign exchange business during the year under review was Rs. 5.06 crores.

BRANCH EXPANSION

During the year 2000-01, three branches were opened at Coonoor, Govindapuram (Kozhikode) and Secunderabad. Also an Asset Recovery Branch at Coimbatore and an extension counter at Kuttanellur attached to the Thrissur branch were also opened. A new Regional Office based at Mumbai was opened to administer the branches situated in the northern part of the country. A new branch is also opened at Mysore during the current financial year. With the opening of 4 more new branches, the number of branches of the bank stood at 172 spread over 8 states and 1 Union Territory of the country as on 30th October 2001 besides 8 extension counters. The bank proposes to open branches shortly at Pune, Tirupathi and Thodupuzha.

PERSONNEL

At the end of March, 2001 the bank had 1782 employees as compared to 1739 a year earlier. The workforce consists of 569 officers, 795 clerks and 418 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 increasing operations.

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 during the year under review.

INFORMATION TECHNOLOGY

During the year total branch computerisation was implemented in four branches of the bank. The newly opened branches of the bank at Coonoor, Secunderabad and Govindapuram (Kozhikode) and the Asset Recovery Branch at Coimbatore are fully



computerised. Partial computerisation was done in 7 branches and one extension counter. So far 22 branches of the bank including 2 service branches and one Asset Recovery branch are totally computerised and 48 branches and 2 extension counters have been partially computerised. Local Area Network connecting the computer systems at Head Office of the bank has been provided. Training facility in computer technology is provided at the Head Office.

SERVING SOCIAL CAUSE

The bank donated Rs. 5 lakhs to the Gujarat Chief Minister's Relief Fund for Gujarat earthquake victims to provide timely relief to the victims of the devastating earthquake. Besides, the employees of the bank donated their one day's salary amounting to Rs. 6.06 lakhs for the purpose.

CORPORATE GOVERNANCE

The basic philosophy of corporate governance in the bank is to bring more transparency and enhance the shareholders' value.

Your directors are fully committed to adopt and implement the mandatory measures as stipulated in the Clause 49 of the Listing Agreement well before 31.3.2002, the outer date set by the Stock Exchanges.

AUDIT

The Reserve Bank of India had appointed under Section 35 A of the Banking Regulation Act, 1949 M/s S. Venkatram & Co., Chartered Accountants, Chennai as bank's Central Co-statutory auditors for the year 2000-01 along with M/s Venkateswaran and Veeramani, Chartered Accountants, Calicut, the statutory Auditors appointed in the Annual General Meeting of the bank held on 29.9.2000.

M/s Venkateswaran and Veeramani completed four years as Statutory Auditors of the bank. The bank has to appoint new Statutory Auditors for the year 2001-02. In terms of the approval of the Reserve Bank of India it is recommended that M/s Krishnamoorthy & Krishnamoorthy, Chartered Accountants, Cochin be appointed as Statutory Auditors of the bank for the financial year 2001-2002 and the Board of Directors be authorised to fix their remuneration.

The statutory Auditors, M/s Venkateswaran & Veeramani submitted their audit report dated 28.9.2001. As M/s Venkatram & Co. were appointed by the Reserve Bank of India as Co- statutory auditors, they have submitted their audit report to the board. The audit report of M/s Venkateswaran & Veeramani has taken into account the observations of the Co-statutory auditors, M/s Venkatram & Co.

Explanations on the qualifications made by the Statutory Auditors of the bank are given in the addendum to this report.

COMPOSITION OF THE BOARD

The constitution of the Board underwent the following changes since the last Annual General Meeting of the bank.

The Reserve Bank of India appointed Shri. Jose Mathew as Additional Director (official) in place of Smt. S. Valasaladevi

and Shri. Cherian P. Thomas as Alternate Additional Director (official) effective from January 19, 2001.

Shri. Suresh G. Vaidya resigned from the directorship of the bank in March , 2001

Shri. Varijakshan Manghat resigned from the directorship of the bank. in April, 2001.

Shri. A.R. Moorthy, Chairman & CEO of the bank was removed from office by the Reserve Bank of India by invoking the provisions of Sec. 36 AA of the Banking Regulation Act, 1949 from 4th May 2001.

Shri. M. Ratnasingh resigned from the directorship of the bank in June, 2001 consequent to his appointment as Advocate General of Kerala.

Shri. Rajendra Kumar Banthia who was appointed as Additional Director of the bank by the Board of Directors in its meeting held on 26.12.2000 was restrained by the Reserve Bank of India from acting as a Director of the bank with effect from 27.04.2001 under Section 36AA (2) of the Banking Regulation Act, 1949. Shri. Rajendra Kumar Banthia resigned from the directorship of the bank in May, 2001.

The Board of Directors record their gratitude for the valuable services rendered by them.

The Reserve Bank of India appointed Shri. V.O. Gopi and Shri. P. Manomohan as Additional Directors (non-official) of the bank effective from 7.7.2001 for a period of one year under section 36AB of the Banking Regulation Act, 1949.

Shri. Jaganath Radhakrishna Prabhu (J.R. Prabhu) was appointed as Chairman & Chief Executive Officer of the bank at the Board of Directors' meeting held on 31st July, 2001 and assumed office on 21st August, 2001. The Reserve Bank of India had approved the appointment of Shri. J.R. Prabhu as Chairman & CEO of the bank for a period of two years. Shri. J.R. Prabhu who retired as Executive Director from the Reserve Bank of India was Banking Ombudsman for Maharashtra and Goa till July, 2001.

The Board of Directors in its meeting held on 3-09-2001 extended the term of appointment of Shri. C.V. Nair as Director of the bank for a further period with effect from 15.09.2001 to 11.04.2003 (the date on which the director concerned completes his term of eight years) in accordance with articles 105 and 108 of the Articles of Association of the bank and provisions of Section 10A (2-A) of the Banking Regulation Act, 1949.

NEW CORPORATE OFFICE

The centenary celebration of the bank was concluded with the inauguration of the new Corporate Office 'Shathabdi Bhavan' on 25th November, 2000 by Mr. Justice V. Balakrishna Eradi, Retired Judge of Supreme Court of India. His Excellency Sri. K.R. Narayanan, President of India conveyed his best wishes on the occasion.

Subsequently, the Registered Office of the bank was shifted to the Shathabdi Bhavan from 25th January, 2001.

OTHER MATTERS

- (i) The bank introduced a scheme in September 1999 envisaging purchase and sale of shares in order to take advantage of the arbitrage opportunities in the prices of shares between Bombay Stock Exchange and National Stock Exchange. It was decided to avail the services of a few share broking firms with high degree of expertise as the bank did not have in-house expertise. Accordingly, through these brokers, the bank resorted to arbitrage / trading transactions in shares during the period from September 1999 to March 2000. At the end of 31st March, 2000 an amount of Rs.94.52 crores was receivable on account of sales effected from the brokers. As the sale of shares was already effected and the amount was receivable from the brokers (accounted under suspense account along with other receivables), the appropriate head where it could be shown in the prescribed format of the balance sheet was 'other assets' and hence the bank had shown the amount due under 'other assets'. The bank was able to recover a sum of Rs.73.42 crores subsequently and an amount of Rs.21.10 crores still remains to be paid by one of the brokers. The bank is taking steps for the recovery of the dues from the broker concerned by resorting to arbitration proceedings through the Bombay Stock Exchange after getting legal advice in the matter. The broker concerned has also made a counter claim of Rs.1.79 crores against the bank by filing a suit in the High Court, Mumbai. The suit is pending.
- (ii) The Reserve Bank of India has filed a complaint in the Court of Judicial First Class Magistrate -1, Kozhikode naming the bank as the first accused and the immediate past Chairman as the second accused under Sec.46 of the Banking Regulation Act, 1949 read with section 190 (1) of the Criminal Procedure Code. The complaint is for violation of the directives issued by the Reserve Bank of India pertaining to investment in shares, etc., not properly disclosing the amount of Rs.94.52 crores as receivables in the balance sheet for the year ended 31-3-2000 and including such amounts under the common heading 'other assets'.
- (iii) Joint Parliamentary Committee on stock markets scam and the matters relating thereto is also looking into bank's arbitrage / trading in share operations.

STATUTORY DISCLOSURES

- a) Companies (Disclosure of particulars in the report of the Board of Directors) Rules 1988.

The bank has initiated all possible efforts for conservation and reduction of energy consumption.

Being a banking company, the required technology absorption is made considering the nature of activities.

Through its export financing operations, the bank supports and encourages the country's export effort.

- b) Companies (Particulars of Employees) Rules 1975

The information required under the provisions of Sec.217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules 1975 as amended is not furnished since no employee employed throughout / part of the year, was in receipt of remuneration of Rs. 12,00,000/- or more per annum or Rs. 1,00,000/- or more per mensem as the case may be.