

Annual Report 2009 -10

DIRECTORS' REPORT



To the members

Your Directors take pleasure in presenting the 91st Annual Report, the Audited Balance Sheet as at 31st March 2010 and the Profit and Loss Account for the year ended 31st March 2010 along with the Auditor's Report.

ECONOMIC OVERVIEW

The global economy, which saw an unprecedented government intervention during the economic crisis in 2008, continues to recover in the wake of policy support and improving financial market conditions.

The Indian economy recovered quickly from the global financial crisis thanks to the monetary and fiscal stimulus initiated by the RBI and the Government. These factors ensured not only mitigating the adverse impact but also quick recovery of the economy. The Indian economy is now placed firmly on the recovery path. The advance estimates released by the Central Statistical Organisation puts the GDP growth at 7.2% in fiscal 2009-10, with industrial and service sectors growing at 8.2 and 8.7 percent respectively.

In the Agricultural front, South-West monsoon, deficient during 2009 with a shortfall of 23% in precipitation, brought drought in several states. However the North-East monsoon during 2009 has been satisfactory. The delayed withdrawal of South-West monsoon and the above normal North-East monsoon and focused government attention towards increasing the rabi production would result in higher rabi output and thus off-set the losses in Kharif output. As per the advance estimates for 2009-10, the total food grain production would decline by 7.5% over the previous year.

The industrial production, affected by cyclical slowdown and international commodity price shocks in 2007-08 and global recession during the last fiscal 2008-09, showed recovery path substantially. There was a double digit growth in Index of Industrial Production (IIP). The industrial growth was broad based, driven by the manufacturing sector.

The services sector, which exhibited recovery in the second quarter, showed down trend in third quarter of 2009-10. The decline was on account of decline in growth of community, social and personal services. There has been accelerated growth in the output of sub-groups such as construction, trade, hotel, transport and communication.

The country's external sector showed improvement with recovery signs seen in the global economic environment resulting in turnaround of exports, buoyancy in capital flows and acceleration in foreign exchange reserves. The balance of payments position remained comfortable and there has been a modest increase in current account deficit. As at the end of March 2010, the country's

forex reserves were at US\$ 279.10 billion.

Gaining traction from the economic turnaround the annual growth in Bank credit recorded a 16.04% growth in line with the regulator's projection of 16% for the FY 2009-10. The deposits went up by 18.14% y-o-y as against the revised growth projection of 18% fixed by RBI.

The aggregate business of your bank crossed yet another milestone figure of Rs. 30,000 cr and stood at Rs. 32,946.85 cr at the end of the financial year 2009-10. The total business of the bank increased by Rs. 7,282.56 cr from the previous year's figure of Rs. 25,664.29 cr registering a y-o-y growth of 28.38%.

PERFORMANCE HIGHLIGHTS

Against the backdrop of the economic turnaround, your bank has posted good performance. The financial performance of your bank for the fiscal 2009-10 is given below:

	Particulars	Rs. (in cr)
01	Deposits	19,271.85
02	Gross Advances	13,675.00
03	Total Income	2,004.92
04	Operating Profit	463.22
05	Net Profit	336.03
	Appropriations:	
	Transfer to	
01	Statutory Reserve	101.00
02	Capital Reserve	5.20
03	General Reserve	133.00
04	Special Reserve-Sec 36(1)(viii)	
	as per Income Tax Act	30.00
05	(a) Proposed Dividend	65.32
	(b) Dividend Tax (inclusive of	
	Surcharge and Education cess)	11.10
	Other Highlights:	
01	Net Worth	1,619.98
02	Book Value per share (Rs.)	297.60
03	Earning per share (Rs.)	62.23
04	Capital Adequacy Ratio (%)	
	(under BASEL II)	14.49

DEPOSITS

The total deposits of the Bank have grown by Rs. 4,170.46 cr from Rs. 15,101.39 cr as on 31st March 2009 to Rs. 19,271.85 cr as on 31st March 2010, registering a growth of 27.62 %. Savings Deposits have grown from a base of Rs. 1,808.82 cr to Rs. 2,484.67 cr showing an increase of Rs.675.85 cr from the previous financial year (37.36%), mainly on account of the Savings Deposit campaign launched by the bank during the year. The Demand Deposits grew by 37% to reach Rs. 2,050.53 cr as at the end of FY 2009-10 from Rs. 1,496.77 cr as at the end of the previous fiscal 2008-09. Thus

your bank posted an impressive growth of 37.20% (y-o-y) under LCD segment.

CREDIT PORTFOLIO

Your Bank continued its prudent approach in expanding quality credit assets in line with its policy on credit risk management. The advances of the bank increased by Rs. 3,112.10 cr from Rs. 10,562.90 cr as on 31.03.2009 to Rs. 13,675.00 cr as on 31.03.2010, recording an impressive growth of 29.46%. The growth of credit has been marked by a broad-based expansion across sectors as diverse as agriculture, small and medium industry, large industry and infrastructure.

During the year, the bank has adopted a number of strategies to achieve sustainable credit growth and asset quality improvement thereby ensuring higher earnings besides maintaining a well diversified credit portfolio.

The priority sector credit accounts for Rs.4,521.86 cr as at the end of the fiscal 2009-10, constituting 42.80% of the net bank credit of the previous fiscal as per regulatory norms.

In terms of regulatory guidelines under BASEL II, the bank's corporate clients are to be rated by a credit rating agency. In this connection your bank has already entered into MOU with CARE and also with CRISIL for rating corporate clients. Further the bank has also entered into MOU with SME Rating Agency of India Ltd (SMERA) for rating of the SME borrowers.

RECOVERY

The bank has devised a strategic policy for recovery of NPAs. The various measures adopted for recovery included one time settlements/out of court settlements, Lok Adalat, filing of suits before the Debt Recovery Tribunals and action taken under SARFASEI Act etc. Continuous monitoring of stressed accounts at the Central Office as also at the Divisional Offices yielded desired results in arresting slippage to NPAs.

As a result of pro-active approach and the sustained efforts taken by the bank, Gross NPA at the end of the fiscal amounted to Rs. 235.34 cr (1.72%) as against Rs.205.86 cr (1.95%) previous fiscal. The percentage of net NPA declined from 0.25% to 0.23%.

The bank has been keeping a strict vigil on the delinquency aspect, keeping in view the dynamic credit growth. This has been amply testified by the fact that the credit portfolio of the bank has posted a four fold growth since 2003 from Rs.3,424 cr to Rs.13,675 cr, while the Gross NPA has declined from Rs.255.47 cr to Rs.235.34 cr.

As against the regulatory prescription of 70% coverage ratio for NPAs, your bank maintains a higher provision of 86.85%.

SHARE CAPITAL

The paid up capital of the bank as on 31.03.2010 stood at Rs. 54.44 cr as against Rs.53.95 cr during the previous year. The increase in the paid up capital was due to the issue and allotment of 4,70,250 equity shares under Employees Stock Option Scheme 2008 (Tranche I) as also allotment of 13,710 equity shares which were kept in abeyance consequent to settlement of legal disputes.

TIER II SUBORDINATED DEBTS

To augment capital adequacy, the bank issued during the year Unsecured Redeemable Non-Convertible Subordinated (Tier II) Bonds (Series I) in the nature of promissory notes for cash to the extent of Rs.150 cr. The said bonds were allotted to a financial institution and a bank. The subordinated debts are assigned a rating of 'LA+' (pronounced as LA Plus) by ICRA. The rating indicates adequate credit quality.

CREDIT RATING

The Certificate of Deposit programme of the Bank for INR 20 billion (Rs.2,000 cr) are rated 'P1+' by the credit rating agency CRISIL for INR 10 billion (Rs.1,000 cr) and another INR 10 billion (Rs.1,000 cr) by ICRA which has assigned the rating 'A1+'. Both the ratings indicate highest credit quality.

DIVIDEND

Rewarding shareholders with rich cash dividends as well as ploughing back of profits to support bank's future growth have been the twin objectives of your bank over many years. Keeping in mind the overall performance of the bank, your directors recommend a dividend of Rs.12/- per equity share of Rs.10/- each. Shareholders are aware that this is the third time in a row the bank has declared 120% dividend and the seventh successive year the bank rewarding the shareholders with 100% and above dividend. The outgo in the form of dividend (inclusive of dividend tax) during the year 2009-10 would amount to Rs. 76.42 cr.

NET OWNED FUNDS AND CAPITAL ADEQUACY

The net owned funds of your bank increased from Rs. 1,350.16 cr to Rs. 1,619.98 cr, registering a growth of 19.98 %. The capital adequacy ratio stood at 14.49% as per BASEL II norms and at 12.48% as per BASEL I norms. The Bank has been maintaining Capital Adequacy Ratio well above the regulatory minimum of 9% stipulated by the Reserve Bank of India.

INVESTMENTS

The Gross investments of the bank grew by 39.82% to reach Rs.6,649.44 cr as on 31st March 2010 from the level of Rs.4,755.61 cr as at the end of the previous fiscal. The net investments rose from

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Rs.4,715.98 cr as on 31st March 2009 to reach Rs.6,602.16 cr as at the end of fiscal 2009-10.

Interest income on investments grew by 43.36% to reach Rs. 396.27 cr as against Rs.276.41 cr earned during the last fiscal. The average yield on investments during the year was 7% as against 6.92% during the earlier fiscal. Liquidity position was generally comfortable throughout the year. In order to improve the overall yield on the available short term surplus funds, the bank deployed the funds judiciously in other avenues.

FOREX OPERATIONS

During the year the bank achieved a merchant turnover of Rs.6,909 cr in foreign exchange business. The gross income earned from the foreign exchange operations was Rs.100.34 cr. The advances to export sector were at Rs.634.74 cr as at the end of the fiscal 2009-10.

BRANCH NETWORK AND EXPANSION

In order to increase the market share over the years your bank has been expanding its network. During the fiscal 2009-10, the bank has opened 23 new branches and 54 new ATMs. As at the end of the fiscal the total number of branches and ATM centres of the Bank were at 335 and 376 respectively.

RISK MANAGEMENT

The bank has put in place a robust risk management system as per the guidelines of the Reserve Bank of India to manage credit, market and operational risks. The risk management architecture of the Bank is being upgraded with the support of the external consultants by enhancing the coverage of risk management policies, improving the risk infrastructure and review mechanisms. The bank is also in the process of installing sophisticated software system for integrated risk management. Your bank has Board approved policies for Advances, ALM, Investments and Information Security.

TECHNOLOGY INITIATIVES

Your bank is one of the forerunners in introducing technology. Ever since it has embarked upon technology for its operations, it has been constantly upgrading and foraying into various areas to leverage technology to the benefit of the customers as well as the bank. The technology initiatives during the year under report are:

- (a) Virtual Key Board Security for internet Banking users.
- (b) Secured instant Messaging System
- (c) RTGS Service through internet banking
- (d) Utility bill through Billdesk.com
- (e) Online bill payments through our debit cards using VISA Bill pay.
- (f) Two factor Authentication Tokens for internet Banking Users

The Bank has also revamped its Information Security Policy.

The Bank has also replaced all desktops in the bank which are more than five years old.

Your bank has also implemented Digital Certificates issuance through a registration office set up for E-mudhra.

OTHER INITIATIVES

During the year under report your Bank appointed Boston Consulting Group (BCG) to suggest ways and means for the business re-engineering process of the bank to achieve the total business of Rs.1,25,000 cr by the time the bank celebrates its centenary year.

The terms of appointment include restructuring of the organization, business re-engineering process, developing brand equity, rationalization of expenditure etc. The Group has submitted its preliminary report and the bank has initiated steps to implement its suggestions.

Your bank has made concerted efforts for brand building and the bank continued to communicate messages on products, services, interest rates and performance to the customers, shareholders and the general public through advertisements and outdoor publicity units.

As a part of the brand building exercise, your bank has sponsored 'The Business Line Club' for the year 2009-10 under which the publication arranges for lectures being delivered by leading management gurus and industrialists in various educational institutions in Tamil Nadu and Andhra Pradesh. Out of the 250 events planned by Business Line, 175 events have been conducted so far.

FINANCIAL INCLUSION

In terms of the RBI directives, your Bank has a Board approved policy on financial inclusion to deliver banking services at affordable cost to vast sections of the disadvantaged and low income groups. As each bank has been permitted to have its own strategy in line with its own business model and comparative advantage, your bank has also planned its model on financial inclusion. The policy covers the financial inclusion for next three years through branchless banking model. Your Bank has plans to implement the project in 2010-11 by appointing Business Correspondents in villages where the population is above 2000. In all the villages allotted by SLBC, no frill accounts will be opened and Micro Credit and Micro Insurance products will be encouraged.

The bank has relationships with 19 micro finance institutions and has extended credit facilities whereby nearly one lakh households have been the beneficiaries of financial inclusion. Besides

this, the bank has extended direct credit to several SHGs and thereby sizeable households have been brought under Financial Inclusion.

SPECIAL RESERVE

Sec 36 (1)(viii) of the Income Tax Act, 1961 provides for deduction in respect of any Special Reserve created and maintained to the extent of 20% of the profit derived from the business of providing long term finance for industrial or agricultural development or development of infrastructure facility or housing in India. In view of the Bank's term lending for housing, power, roads and other segments of infrastructure in the last fiscal, it was decided to avail the tax benefit under Sec 36(1) (viii) of the Income Tax Act, 1961. Accordingly, the Bank has created a Special Reserve of Rs. 30 cr during this year.

STATUTORY AUDIT

The statutory audit was carried out by M/s J L Sengupta & Co, Chartered Accountants, Chennai (H.O.: Kolkata) whose report is being annexed and forms part of this report. The Statutory Auditors will hold office until the conclusion of the ensuing Annual General Meeting.

The Central Statutory Auditors have been associated with the bank continuously for the last four years. In terms of the guidelines issued by the Reserve Bank of India, the Statutory Auditors cannot continue to hold the office beyond four years.

Reserve Bank of India, on the recommendation of the Board of the Bank, approved the appointment of M/s R.K.Kumar & Co., Chartered Accountants, Chennai as the Statutory Auditors to hold office from the conclusion of the ensuing Annual General Meeting until the conclusion of the next Annual General Meeting. The Bank received a certificate from the said Auditors stating that their appointment, if approved by the members, would be within the limits prescribed under Sec 224 (1B) of the Companies Act, 1956.

STATUTORY DISCLOSURES

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 annexed elsewhere in this report.

The provisions of Sec 217 (1) (e) of the Companies Act, 1956 relating to conservation of energy and technology absorption do not apply to your bank. However the bank has used information technology extensively in its operations.

EMPLOYEES STOCK OPTION SCHEME

The shareholders of the Bank approved 10,00,000 Employees Stock Options at the Annual General Meeting held on 24.07.2008.

During the year under review first tranche stock options were vested on 01.01.2010. 4,70,250 stock options were exercised by the eligible employees of the bank. The exercised options were duly allotted on 24.02.2010. The shares allotted under first tranche have a lock in period of three years from the date of allotment.

The Bank granted second tranche of 5,29,750 stock options on 24.02.2010 to the eligible employees as determined by the Compensation Committee of the Board and these stock options would vest after one year. The vested options are exercisable over a period of one month from the date of vesting.

Statutory disclosures regarding the grant of second tranche of ESOS under Clause 12 of the SEBI Guidelines are provided in Annexure attached to this report.

BOARD OF DIRECTORS

The Board has ten members as on 31.03.2010 including Part-Time (Non-Executive) Chairman and a Managing Director and Chief Executive Officer.

Shri M K Venkatesan, has not sought re-election at the last Annual General Meeting due to personal reasons and hence demitted office of the Director on 26.07.2009. The Board places on record its appreciation for the valuable services and guidance rendered by him to the bank during his tenure.

CA K Ramadurai, who was a member of the Board vacated office on 06.08.2009 in terms of Sec 10-A (2-A) (i) of the Banking Regulation Act, 1949 viz: completion of tenure of office. He was also the Chairman of the Audit Committee of the Board. The Board places on record its sincere appreciation for the valuable contributions rendered by him for the overall growth of the bank during his tenure.

CA S Ganapathi Subramanian, was co-opted as an Additional Director on 26.08.2009. He presently heads the Audit Committee of the Board.

Shri K Parameshwara Rao was co-opted as an Additional Director on 25.09.2009.

Shri V Santhanaraman was co-opted as an Additional Director on 13.03.2010.

The Additional Directors are seeking election as Directors of the Bank in the ensuing Annual General Meeting.

Director Shri M G S Ramesh Babu retires by rotation and being eligible, offers himself for re-appointment.

In terms of Clause 49 of the Listing Agreement, brief resume of the above directors who are seeking election at the ensuing Annual General Meeting is furnished in the Corporate Governance Report attached to this report.

Director Dr T R Ramanathan, is not seeking re-election in view of the attainment of the maximum age limit prescribed under the regulatory guidelines. The Board also places on record its sincere appreciation for the valuable services rendered by him during his tenure as a Director of the Bank.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to Sec 217 (2AA) of the Companies Act, 1956, the Directors of the Bank state that:

- a. in the preparation of the annual accounts, the applicable accounting standards as modified and advised by RBI have been followed together with proper explanations for the deviations if any.
- b. generally accepted accounting policies and the guidelines issued by the Reserve Bank of India have been followed consistently.
- c. reasonable and prudent judgments and estimates had been made so as to give a true and fair view of the state of affairs of the bank as at 31.03.2010 and the profit of the bank for the year ended on that date.
- d. proper and sufficient care was taken for the maintenance of adequate accounting records as per the applicable provisions governing banks in India.
- e. the annual accounts had been prepared on a going-concern basis.

AWARDS AND RECOGNITION

Your bank has received the following awards and recognition during the fiscal under report:

1. Adjudged as the second best bank in the mid-size banks category (balance sheet size Rs. 24000 cr and number of branches being more than 10) in a study conducted by the Business To-day magazine and KPMG. The study was based on the published annual reports for the year 2008-09. The award was given on 26.11.2009 at Mumbai.
2. Your bank has secured No.1 position under the parameter "productivity and efficiency" in the above mentioned survey.
3. The Banker Magazine, London has featured your bank among the TOP 1000 world banks and KVB is one of the 32 Indian banks featured in the list.

4. Received the Gold CIO Award in the more than Rs. 1000 cr. category of the Enterprise Connect Awards'09 instituted by CIOL (Cybermedia India Online Limited).

CORPORATE SOCIAL RESPONSIBILITY

The bank has been discharging its role as a corporate citizen to various sections of the society on different occasions. Your bank has undertaken several initiatives in the area of education, health care, environment etc signifying its continued and long standing commitment to social and community welfare. Your bank's initiatives in this area are channeled through institutions/ organizations who specialize in these activities.

Some of the initiatives include: Contributions made to the KVBOA Matriculation School, Karur, provision of ambulance to the St. Margaret Education Society, New Delhi, construction of modern bio-gas crematorium at Udumalpet and construction of open air stadium at Karur. Liberally contributed to the project Green Hands of the Isha Foundation.

The bank rose to the occasion when devastation struck Andhra Pradesh in the form of floods in October 2009, the Bank on its own contributed Rs.1 cr to the Chief Minister's Relief Fund there.

ACKNOWLEDGEMENTS

Your Directors convey their sincere gratitude to the Reserve Bank of India, National Stock Exchange, SEBI, other Government and regulatory authorities, financial institutions and correspondent banks for their continued guidance and support.

Your Directors also place on record their gratitude to the bank's valuable shareholders, esteemed customers and other well-wishers for their continued patronage and confidence reposed in the bank.

The Board wishes to place on record its appreciation for the dedicated service rendered by the employees of the bank at all levels.

For and on behalf of the Board of Directors

Place: Karur,
Date: 20.05.2010

A S Janarthanan
Chairman

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ANNEXURE FORMING PART OF DIRECTORS' REPORT

Statutory disclosures regarding ESOS under Clause 12 of Securities and Exchange Board of India (Employees Stock Option Scheme and Employees Stock Purchase Scheme) Guidelines, 1999.

Particulars	ESOS 2008
Options Granted out of the second tranche	5,29,750
Pricing Formula	Rs.150/- per share/option
Options Exercised	NIL
Total Number of shares arising as a result of exercise of options	Not applicable
Options lapsed	NIL
Variation of terms of options	NIL
Money realized by exercise of options	Not applicable
Total Number of Options in force	5,29,750
Employee wise details of grant to Senior Managerial Personnel : Sarvashri	
P T Kuppuswamy, MD & CEO	1100
T M Lakshmikanthan	513
R Sukumar	530
R Sakthivelu	513
A Ananda Nadarajan	530
K Venkateswara Rao	530
S Ramalingam	530
J Natarajan	530
A S Vasudevan	530
R Venkataramana	513
A R Ramachandran	530
T Sivarama Prasad	530
G S Anantha Kumar	530
S Balaji	530
V Srinivasan	530
M Balachandran	513
Any other employee who received a grant in any one year of the options amounting 5% or more of the options granted during the year	NIL
Identified employees who are granted options during any one year equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversion) of the company at the time of grant.	NIL

The Bank follows the intrinsic method for valuing the stock options. The difference between Employee Compensation Cost computed based on such intrinsic value and Employee Compensation Cost that shall have been recognized if fair value of options had been used is explained below:

S.No	Particulars	Amount (Rs.)
1	Intrinsic value	12,32,46,338
2	Cost as per Black Scholes model	4,14,68,830
3	Excess charged	8,17,77,508

There is no adverse impact on Net Profit and Earning per Share.

a) Weighted average details

S.No	Particulars	Amount (Rs.)
1	Exercise Price	150/-
2	Fair Value	228.28

b) The Bank has used Black Scholes Model to calculate a theoretical call price (ignoring the dividend paid during the life of the options) using five determinants of an options price: Stock Price, Strike Price, Volatility, time to expiration and short term (risk free) interest rate. Significant assumption made to estimate the fair value of options are as under:

S.No	Particulars	
1	Risk free interest rate	5.09%
2	Expected life(excluding grant period of one year)	One month from the date of vesting
3	Expected volatility	20.5%
4	Expected dividend	3.14%
5	Price of the underlying share at the time of grant of options	Rs.382.65

CORPORATE GOVERNANCE

Your Bank's philosophy of corporate governance is driven by its desire towards attainment of highest levels of transparency, accountability and equity in all its operations and in all its interactions with the customers, shareholders, employees, government and other regulatory bodies and wider public community. The bank believes that it has a duty to enhance the shareholders wealth by economic addition. The Bank recognizes the fact that they are the purveyors of public money and in order to fulfill its fiduciary obligations and responsibilities it has to maintain and continue to enjoy the trust and goodwill of the public at large.

The bank has been adopting best practices of corporate management viz:

- Strive towards enhancement of shareholders value through sound business decisions, prudent financial management and high ethical standards throughout the organization
- Ensure timely and accurate disclosure of information on financial position, performance, ownership and governance
- Ensure high levels of transparency and professionalism in all the interactions and dealings
- Achieve excellence in corporate governance by conforming to and going beyond the mere letter of the statutory and regulatory prescription on corporate governance
- Strive to excel in its commitment to:
 - surpass stakeholder expectations
 - conduct the affairs in an ethical, sincere and

transparent manner to earn trust and respectful place in the industry
- relentlessly work towards improvement and upgrading itself so as to become the best organisation

1. BOARD OF DIRECTORS

The composition of the Board of Directors is governed by the Banking Regulation Act, 1949, the Companies Act, 1956 and the Listing Agreement entered into by the bank with the Stock Exchange. The members of the Board have rich experience and specialized knowledge in various areas relevant to the Bank such as Banking, Accountancy, Law, Agriculture, Rural Economy, Risk Management, Information Technology and Strategic Planning.

The Board is headed by Shri A S Janarthanan, who is the Part-Time Chairman of the Bank. Shri P T Kuppaswamy is the Managing Director and Chief Executive Officer of the Bank and other members of the Board are Non-Executive and Independent.

No director is a member of more than ten committees or chairs more than five committees, across all the companies of which he is a director. The Directors of the bank have disclosed their Committee positions in other companies to the Bank.

I. The name, category and sectoral representation of the Directors and the details of their attendance at the meetings of the Board and its Committees are furnished below. The details as to the Audit Committee and Customer Service and Shareholders and Investors Grievance Committee are given elsewhere in the report.

Sl No	Name of the Director Sarvashri	Sectoral Representation	No. of Meetings attended during the year 2009 - 2010						
			Board	Advances	S & D	RM & ALM	NPAM & FM	Nomination	Compensation
	Total No. of meetings held		25	8	31	3	4	5	1
01	A S Janarthanan	Business & Finance	25	8	31	3	4	-	1
02	P T Kuppaswamy	Banking	25	8	27	3	4	5	-
03	K Ramadurai	Accountancy	8	-	-	-	1	2	-
04	M K Venkatesan	SSI	6	3	3	1	1	-	-
05	Dr V G Mohan Prasad	Agriculture	12	-	-	2	-	3	1
06	K P Kumar	Law	24	-	15	-	3	2	1
07	Dr T R Ramanathan	Agriculture & Rural Economy	25	8	-	-	3	5	-
08	M G S Ramesh Babu	SSI	25	7	25	2	3	5	1
09	Dr S Krishnakumar	Information Technology	18	-	-	1	-	1	-
10	S Ganapathi Subramanian	Accountancy	17	5	22	-	-	-	-
11	K Parameshwara Rao	Banking- Risk Management	13	-	-	-	-	-	-
12	V Santhanaraman	Strategic Planning	2	-	-	-	-	-	-

Notes:

Advances	-	Advances Committee
S & D	-	Staff & Development Committee
RM&ALM	-	Risk Management and Asset Liability Management Committee
NPAM&FM	-	NPA Management and Fraud Monitoring Committee
Nomination	-	Nomination Committee
Compensation	-	Compensation Committee

Shri M K Venkatesan was a member of the Board till 26.07.2009.

Shri K Ramadurai was a member of the Board till 06.08.2009.

Messrs S Ganapathi Subramanian, K Parameshwara Rao and V Santhanaraman joined the Board on 26.08.2009, 25.09.2009 and 13.03.2010 respectively.

II. Details of attendance of Directors at the last Annual General Meeting and Directorships/Committee positions held in other public limited companies are as under:

All the then Directors of the bank have attended the last Annual General Meeting held on 27.07.2009.

The Directors of the Bank are not directors of other public limited companies.

2. AUDIT COMMITTEE OF THE BOARD

The Audit Committee consists of five directors and is chaired by Shri S Ganapathi Subramanian, a Non-Executive Independent Director, who is a Chartered Accountant.

Sl.No.	Name	Designation	No. of Meetings Present (Including as spl. Invitee)
01	Shri K Ramadurai*	Chairman of the Committee	3
02	Shri S Ganapathi Subramanian**	Chairman of the Committee	4
03	Shri A S Janarthanan	Chairman	7
04	Shri M K Venkatesan***	Director	2
05	Shri K P Kumar	Director	5
06	Dr T R Ramanathan	Director	7
07	Dr S Krishnakumar****	Director	3
08	Shri K Parameshwara Rao*****	Director	1

*Shri K Ramadurai was Chairman of the Committee till 06.08.2009

**Shri S Ganapathi Subramanian is the Chairman of the Committee since 27.08.2009

***Shri M K Venkatesan was a member of the Committee till 26.07.2009

The Audit Committee has been constituted in accordance with the directions of the Reserve Bank of India to look into the matters specified by the RBI as also the requirements specified under the Listing Agreement and the Companies Act, 1956.

The terms of reference of the ACB, inter-alia, include the following:

- Overseeing the Bank's financial reporting process ensuring correct, sufficient and credible disclosure of financial information;
- Review of Bank's financial policies and where necessary, recommend changes for the Board's approval;
- Recommending for appointment, re-appointment, removal or replacement of the external auditors and fixing their fees;
- Reviewing the adequacy of internal audit functions;
- Reviewing with the management the annual financial statements with special focus on accounting policies and practices, compliance with accounting standards and other legal requirements concerning financial statements;
- Reviewing periodically the adequacy of the internal control systems with the management and external and internal auditors, assure itself that the systems are being effectively observed and monitored, and, where necessary, approve changes or recommend changes for the Board's approval.

The Committee met 7 times during the fiscal 2009-10. The names of the members of the Audit Committee and their attendance at the Audit Committee Meetings during the Financial Year 2009-2010 are given below :

****Dr S Krishna Kumar is a member of the Committee since 27.08.2009

*****Shri K Parameshwara Rao is a member of the Committee since 01.12.2009

3. REMUNERATION OF DIRECTORS

Shri A S Janarthanan, Non-Executive Chairman of the Bank was paid a sum of Rs. 6,00,000/- as remuneration for the fiscal 2009-10 besides sitting fees for attending the Board and Committee meetings.

Shri P T Kuppuswamy, MD&CEO was paid a sum of Rs. 39,99,366.95 as remuneration for the fiscal 2009-10 as per the terms of appointment approved by the Reserve Bank of India

and also by the shareholders of the bank.

MD & CEO was granted 1100 options on 24.02.2010. The said stock options have not vested on him during the year.

The other directors do not receive any remuneration except sitting fees for attending Board/Committee meetings. No stock option has been granted to any of the Directors of the bank, other than MD&CEO.

4. SHARES HELD BY THE NON-EXECUTIVE DIRECTORS IN THE BANK

Shares held by the directors of the bank as on 31.03.2010

Sl.No.	Name Sarvashri	No. of Shares	Sl.No.	Name Sarvashri	No. of Shares
01	A S Janarthanan	3,68,116	06	M G S Ramesh Babu	48,222
02	P T Kuppuswamy	4,500	07	Dr S Krishnakumar	500
03	K P Kumar	10,000	08	S Ganapathi Subramanian	500
04	Dr V G Mohan Prasad	17,688	09	K Parameshwara Rao	500
05	Dr T R Ramanathan	24,300	10	V Santhanaraman	500

5. BOARD PROCEDURES

All the major issues included in the Agenda for discussion in the Board/Committees of the Board are backed by comprehensive memorandum to enable the Board/Committee to take informed decisions. Agenda papers are generally circulated well in advance to the members prior to the meeting of the Board/Committee.

The Board met 25 times as detailed herein during the year under report.

07.05.2009	08.05.2009	28.05.2009	29.05.2009
25.06.2009	26.06.2009	27.07.2009	28.07.2009
26.08.2009	27.08.2009	25.09.2009	26.09.2009
30.10.2009	31.10.2009	30.11.2009	01.12.2009
29.12.2009	30.12.2009	29.01.2010	30.01.2010
24.02.2010	25.02.2010	13.03.2010	26.03.2010
27.03.2010			

6. SHAREHOLDERS

Director Shri M G S Ramesh Babu retires by rotation and is seeking the approval of the shareholders for his re-appointment. Dr T R Ramanathan has attained the maximum age limit and hence not seeking re-election at this meeting.

Shri S.Ganapathi Subramanian, Shri K.Parameshwara Rao and Shri V.Santhanaraman who were co-opted as Additional Directors during the year hold the office until the date of the ensuing Annual General Meeting. They have signified their candidature for seeking appointment as directors and their appointments are covered as agenda items in the Notice of the Annual General Meeting.

Pursuant to the Listing Agreement pertaining to Corporate Governance a brief resume including their expertise in specific functional areas, their directorships and the membership in committees of the Board/s of other companies are furnished hereunder:

Sl. No.	Name of the Director Sarvashri	Appointment/ Reappointment	Brief Resume	Other Directorships
01	M G S Ramesh Babu	Re-appointment	<p>Shri M G S Ramesh Babu, aged 45 years, is a graduate in Mathematics. He is the Managing Partner in Sri Ramavilas Weaving Factory, Sri Rajaram Textile and Sri Rama Weaving. He is a leading exporter of Karur City and has a vast experience in textiles.</p> <p>He is an independent director. He represents majority sector SSI.</p> <p>He holds 48,222 shares in the Bank.</p>	NIL
02	S Ganapathi Subramanian	Appointment	<p>Shri S Ganapathi Subramanian, aged 65 years, is a Commerce graduate and a Fellow Member of the Institute of Chartered Accountants of India. He is a partner in M/s Price Patt & Co., Chartered Accountants, Chennai.</p> <p>He has over 19 years of experience in audit of Banks including as Central Statutory Auditor for many banks such as Indian Bank, Indian Overseas Bank, State Bank of India and Union Bank. He has also been associated with the audit of many public sector undertakings such as BHEL, MRL, MMTC and also Indian Oil Corporation. He has over 39 years of experience in Income tax matters and appearing before the tribunals. He had also served as an arbitrator appointed by the High Court of Madras.</p> <p>He is an independent Director in terms of Clause 49 of the Listing Agreement and represents the majority sector "Accountancy".</p> <p>He holds 500 shares in the Bank.</p>	NIL
03	Shri K Parameshwara Rao	Appointment	<p>Shri K Parameshwara Rao, aged 60 years, is a Post graduate in Commerce. He had joined as a Scale I Officer in Corporation Bank in February 1976 and was elevated to various positions and finally as a General Manager of the bank in the year 2005. He had served as the Branch Manager of the said bank at various centers and later headed the bank's Zonal Offices at Mumbai and Bangalore. He had also worked at the Credit Department of the bank's Head office at Mangalore. He had also served as a Managing Director of the Corp Bank Homes Ltd., a subsidiary company of the said bank. He retired as a General Manager of the bank and has over three and a half decades of experience in banking.</p> <p>He is an independent Director in terms of Clause 49 of the Listing Agreement and represents the majority sector "Banking – Risk Management".</p> <p>He holds 500 shares in the Bank.</p>	NIL

04	V Santhanaraman	Appointment	<p>Shri V.Santhanaraman, aged 60 years, is a graduate in Commerce and a Certified Associate of the Indian Institute of Bankers. He started his career as an Officer in Indian Bank in 1970 and rose through various Officer and Executive level positions up to General Manager in that Bank. He was appointed as an Executive Director of the Bank of Baroda in October 2006, a post which he held up to his retirement in August 2009.</p> <p>As ED of Bank of Baroda, he led the Corporate Banking, Treasury, Risk Management, Balance Sheet Management, Information Technology, Inspection and Audit and Corporate Planning activities of the bank.</p> <p>He also headed and was the Chairman of the Bank of Baroda's international subsidiaries in Kenya, Tanzania and Uganda. He is a widely travelled person and has participated in international conferences in China, Canada, Singapore, USA and Europe.</p> <p>Presently member of Central Advisory Board on Bank, Commercial and Financial Frauds.</p> <p>He is an independent Director in terms of Clause 49 of the Listing Agreement and represents the majority sector "Strategic Planning".</p> <p>He holds 500 shares in the Bank.</p>	NIL
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7. CUSTOMER SERVICE AND SHAREHOLDERS / INVESTORS GRIEVANCE COMMITTEE

Shri A S Janarthanan, Non-Executive Chairman is the Chairman of the Customer Service and Shareholders/Investors Grievance Committee. The Committee has the following other Directors as its members:

Shri.P.T.Kuppuswamy	MD & CEO
Dr. V G Mohan Prasad	Director
Shri K P Kumar	Director

The terms of reference of the Committee include:

- to consider share transfers /transmissions apart from the delegation of power to the Chairman of the bank to consider the share transfers.
- to look into the redressal of shareholders' complaints relating to share transfers and transmissions, non receipt of dividends and annual reports, etc.
- to look into the redressal of grievances of customers of the bank in connection with the services extended by the Branches/offices.

During the fiscal, the committee met once and except Dr. V G Mohan Prasad all the other members of the committee attended the meeting.

There were 223 complaints in all, pertaining to the transfer of shares, non-receipt of dividend warrants and Balance Sheets, non receipt of Rights/Bonus share certificate/s etc and all the complaints were redressed.

8. COMMITTEES OF THE BOARD

In compliance with regulatory guidelines and for operational needs, the Board constituted several Committees apart from Audit and Customer Service & Shareholders and Investors Grievance Committees.

The details as to the members of the Committees as on 31st March, 2010 are furnished hereunder:

ADVANCES COMMITTEE	STAFF & DEVELOPMENT COMMITTEE
Sarvashri	Sarvashri
1. A S Janarthanan 2. P T Kuppuswamy 3. Dr T R Ramanathan 4. M G S Ramesh Babu 5. S Ganapathi Subramanian	1. A S Janarthanan 2. P T Kuppuswamy 3. K P Kumar 4. M G S Ramesh Babu 5. S Ganapathi Subramanian
RISK MANAGEMENT AND ASSET LIABILITY MANAGEMENT COMMITTEE	NPA MANAGEMENT AND FRAUD MONITORING COMMITTEE
Sarvashri	Sarvashri
1. A S Janarthanan 2. P T Kuppuswamy 3. Dr V G Mohan Prasad 4. M G S Ramesh Babu 5. Dr S Krishna Kumar	1. A S Janarthanan 2. P T Kuppuswamy 3. K P Kumar 4. Dr T R Ramanathan 5. M G S Ramesh Babu

NOMINATION COMMITTEE	COMPENSATION COMMITTEE
Sarvashri	Sarvashri
1. P T Kuppuswamy 2. K P Kumar 3. Dr T R Ramanathan 4. Dr S Krishna Kumar 5. M G S Ramesh Babu	1. A S Janarthanan 2. K P Kumar 3. M G S Ramesh Babu 4. Dr V G Mohan Prasad

The Nomination Committee headed by the MD&CEO met on five occasions to scrutinize the Declaration and Undertakings furnished by the Directors and others seeking appointment/reappointment and decided their eligibility for appointment or reappointment as Directors of the bank based on qualification, expertise, track record, integrity and other fit and proper criteria.

The Compensation Committee consisting of majority of Independent Directors is headed by Shri A.S.Janarthanan and has been constituted to administer the Employees Stock Option Scheme in the bank. The Committee met once during the year on 24.02.2010.

9. GENERAL BODY MEETINGS

Information relating to last three General Body Meetings is furnished below:

Name of the Meeting	Day, Date And Time of Meeting	Venue	Special Resolutions Transacted
88th AGM	Friday, 20.07.2007 10.00 A.M	Regd. & Central Office, Erode Road, Karur	NIL
89th AGM	Thursday, 24.07.2008 10.15 A.M.	Regd. & Central Office, Erode Road, Karur	1. Amendments made to the Articles in the Articles of Association of the bank to provide for the post of Part-time Chairman of the Board of Directors and a separate Managing Director/ Chief Executive Officer as directed by the Reserve Bank of India, as also consequential changes in various Articles in relation to the said posts. 2. Amendment in the Articles of Association for increasing the Authorised Capital of the bank to Rs.200 cr. 3. Issue of Employees Stock Option to the tune of 10,00,000 options to the employees of the bank.
90th AGM	Monday, 27.07.2009 10.00 A.M	Regd. & Central Office, Erode Road, Karur	NIL

No special resolution was passed through Postal Ballot during the year 2009-10 and the bank has not proposed to conduct any resolution through postal ballot in the ensuing AGM.

10. DISCLOSURES

There were no materially significant transactions entered into by the Bank with its Directors, management or relatives conflicting with the interest of the bank at large during the fiscal under report.

The Bank declares that all the Directors and Senior Management Personnel have affirmed the compliance to the Code of Conduct laid down by the Bank as on 31.03.2010.

The Bank has complied with the requirements of the RBI/Stock Exchange/SEBI and other statutory authorities on all matters concerning the banking and capital market.

There are no instances of non-compliance by the bank, penalties and strictures imposed by the Stock Exchange, SEBI on any matter related to capital markets during the last three years.

The Bank has complied with all the mandatory recommendations prescribed under Clause 49 of the Listing Agreement. A certificate

to the effect from the Bank's Statutory Auditors M/s J L Sengupta & Co., Chartered Accountants is annexed.

Regarding the Non-mandatory requirements, the bank has formulated a 'whistle blower' mechanism to report to the management, concerns about unethical behaviour, actual or suspected fraud or violation of the Bank's Code of Conduct or ethics policy and it is hereby confirmed that no person has been denied access to the Audit Committee.

11. MEANS OF COMMUNICATION

The quarterly, half yearly and annual results are published in the leading national dailies like Business Line, Business Standard etc and vernacular news papers like Dina Malar/Dinamani within the timeframe stipulated under the Listing Agreement. The un-audited or audited financial results were also put on our web site www.kvb.co.in.

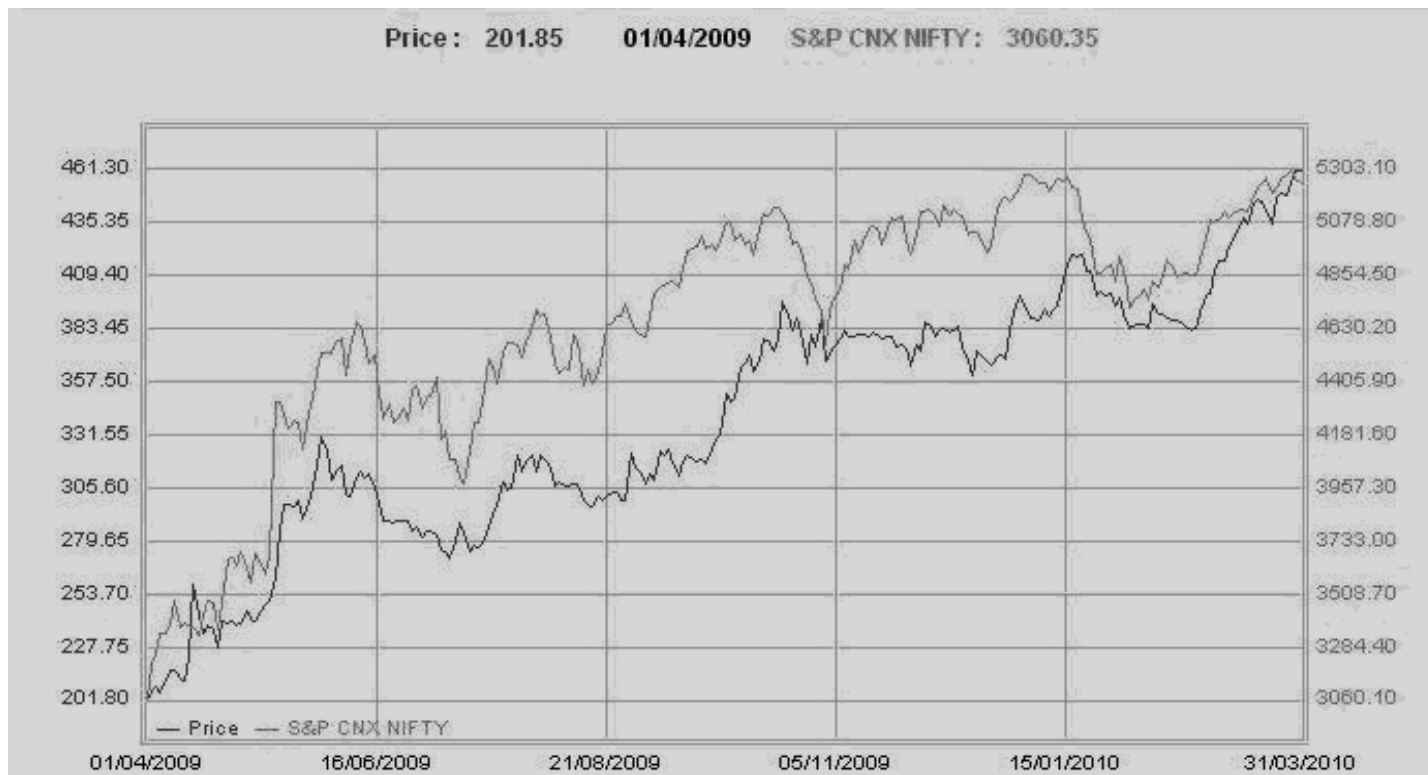
12. GENERAL SHAREHOLDER INFORMATION

91st Annual General Meeting	Date	21.07.2010 (Wednesday)
	Time	10.15 AM
	Venue	Regd & Central Office of the Bank, Karur
Financial Year	2009-10	
Date of the Book Closure	16.07.2010 to 21.07.2010(both days inclusive)	
Dividend payment date	21.07.2010	
Listing on Exchanges	The equity shares of the bank are listed on the National Stock Exchange of India Limited, Mumbai. The shares are being traded as a permitted security in Bombay Stock Exchange Ltd.	
Payment of listing fees	The Bank has paid the listing fees to the stock exchange for the year 2009-10.	
Stock Code	Trading symbol on NSE : KARURVYSYA Scrip code on BSE : 590003	
ISIN No. at NSDL/CDSL	INE036D01010	

Market Price Data

The monthly high & low prices of the shares traded in the National Stock Exchange of India Ltd (NSE) are given below.

Month	High (Rs)	Low (Rs)	Month	High (Rs)	Low (Rs)
April 2009	268.00	200.00	October 2009	410.00	339.05
May 2009	323.90	235.10	November 2009	399.00	348.00
June 2009	339.00	280.10	December 2009	407.20	356.10
July 2009	329.00	268.35	January 2010	429.00	382.10
August 2009	332.50	295.10	February 2010	410.00	375.10
September 2009	353.90	305.20	March 2010	467.90	394.00



Distribution of shareholding as on 31.03.2010

No of Shares (Category)	No. of Shares				No. of Shareholders			
	Physical	Demat	Total	%	Physical	Demat	Total	%
upto 250	686,029	1,349,119	2,035,148	3.74	9,273	19,386	28,659	68.00
251 - 500	738,171	1,404,018	2,142,189	3.94	2,058	3,851	5,909	14.02
501 - 1000	638,139	1,786,661	2,424,800	4.45	859	2,384	3,243	7.69
1001 - 2000	786,890	2,154,866	2,941,756	5.40	549	1,491	2,040	4.84
2001 - 3000	348,253	1,445,243	1,793,496	3.29	140	580	720	1.71
3001 - 4000	300,976	1,108,873	1,409,849	2.59	85	319	404	0.96
4001 - 5000	236,434	788,037	1,024,471	1.88	53	173	226	0.54
5001 - 10000	497,772	2,424,192	2,921,964	5.37	73	349	422	1.00
10001 & above	2,423,315	35,318,591	37,741,906	69.33	80	442	522	1.24
Total	6,655,979	47,779,600	54,435,579	100.00	13,170	28,975	42,145	100.00
% to Total	12.23	87.77	100.00		31.25	68.75	100.00	

Dematerialisation of the Bank's shares

The equity shares of the Bank are compulsorily traded in Dematerialised form in terms of SEBI directives. The Bank has entered into tripartite agreements with the Depositories and M/s SKDC Consultants Limited, Coimbatore for dematerialization of shares.

As on 31.03.2010, 66,55,979 shares constituting 12.23% and 4,77,79,600 shares constituting 87.77% of the paid up capital were held in physical and electronic mode respectively.

In case of physical transfers, the share transfer instruments as and when received are duly processed and shares in respect of valid share transfer instruments transferred in the names of the

transferee, complying with the rules in force.

Registrar and Share Transfer Agent

The Bank has appointed M/s SKDC Consultants Limited as common Share Transfer Agent for both physical and electronic shares and therefore all correspondence relating to share transfer, dividend, change of address for shares held in physical form and dematerialization of shares etc., are to be addressed to the Registrar and Share Transfer Agent at the following address

M/s SKDC Consultants Limited,
Kanapathy Towers, 1391/A-1, III Floor, Sathy Road,
Ganapathy, Coimbatore 641 006
Tel: (0422) 6549995, 2539835, 2539836 Fax: (0422) 2539837
Email: info@skdc-consultants.com

Pursuant to Clause 47 C of listing Agreement Bank has created a separate E mail ID for redressal of Investor Grievances. The said E mail ID is kvb_sig@kvbmail.com

LOCATION OF THE REGISTERED OFFICE:

The Registered and Central Office of the Bank is located at Karur in the state of Tamil Nadu.

Address for Communication:

The Karur Vysya Bank Limited.,
Regd. & Central Office,
Post Box No. 21, Erode Road,
Karur - 639 002
Tamil Nadu.
Phone : 04324-226520, 225521-25
Fax : 04324-225700
Email : kvbshares@kvbmail.com
Website : www.kvb.co.in

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the members of The Karur Vysya Bank Limited

We have examined the compliance of conditions of Corporate Governance by the Karur Vysya Bank Limited for the year ended on 31st March, 2010 as stipulated in clause 49 of the Listing Agreement of the said Bank with Stock Exchange.

The compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither an assurance as to the future viability of the Bank nor the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

Karur,
20 /05/2010

For J L Sengupta & Co
Chartered Accountants

S R ANANTHAKRISHNAN
Partner
M.No.18073

INDUSTRY STRUCTURE AND DEVELOPMENTS

In the pre-reform era, the Indian banking system was meeting the planned economic development of the country under the frame work of mixed economy. The Government sector had a predominant role in the economic activities. Government of India controlled around 91% of the banking business in the country.

The pre-reform period witnessed major regulatory constraints on the banking sector which not only distorted the efficiency of the interest rate mechanism but also considerably affected the viability and profitability of the banks. These constraints include: large pre-emptions –both Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) and complex structure of administered interest rates. Directed lending to preferred sectors was insisted. In order to ensure soundness of the financial sectors vis-à-vis the banking segment, the Government set up different committees at different times. Based on the recommendations of the several Committees, major reforms were brought in to the banking sector which ultimately changed the face of the Banking sector. These include:

- a. De-regulation of interest rates both on deposits and advances.
- b. Adoption of prudential norms in terms of capital adequacy, asset classification, income recognition, provisioning and exposure limits.
- c. Gradual reduction of Government holdings in PSBs and allowing them to tap the capital markets for their capital needs.
- d. Efforts were made to enhance the productivity and efficiency through competition. New private sector banks were allowed to be set up and foreign banks or their subsidiaries were allowed to expand their operations.
- e. Greater flexibility in operations in terms of opening and swapping of the branches, ATM and recruitment of manpower.
- f. Opening of new areas for bank financing like investment banking and asset management.
- g. Introduction of several new instruments for better flexibility and better risk management like interest rate swap, futures and options etc.
- h. Measures were taken for greater transparency and disclosure standards/norms.
- i. Developmental financial institutions were allowed to get into working capital financing and banks were permitted to diversify into long term financing.
- j. Technology and infrastructure for payment and settlement system was strengthened by the introduction of electronic funds transfer-RTGS, NEFT etc.
- k. Establishment of Board for Financial Supervision (BFS) for supervision and inspection in relation to

banking companies and Board for Regulation and Supervision of Payment and Settlement System (BPSS).

- I. New laws enacted for strengthening the banking system viz: setting up of Debt Recovery Tribunal, Securitisation Act and Prevention of Anti Money Laundering Act.

These reforms had a salutary impact on the financial health of the banking system as evidenced by the number of prudential parameters. The average capital adequacy ratio for scheduled commercial banks increased to 13.15% as at March 2009, despite growth in assets of the banking system. The asset quality has also improved with the significant decline of Gross NPAs to 2.4% in March 2009. Despite the progressive tightening of the norms the Net NPAs have recorded steep fall from 8.1% in 1997 to 1.12% in 2009. Profitability of the banks has shown good improvement.

Banks are providing specialized financial products and services, with the private sector banks invading the market share of the public sector banks by offering new products and services to enhance their profitability.

In the wake of the global financial crisis, RBI took a series of measures to inject liquidity into the system and special refinance. Both the regulator and the Government took measures to implement stimulus packages and restructured facilities to tide over the crisis. The banks, with the support extended by the regulator, posted robust growth.

OPPORTUNITIES AND THREATS

With the growth of the Indian economy, the demands for banking services continue to be stronger. Banking in the years to come will be a mixture of unlimited opportunities amidst variety of challenges.

Deposit growth has been impressive driven by the higher rate offered to the depositors on term deposits. Consequently the CASA to total deposit ratio has reduced. The cost of deposits has moved up sharply. This resulted in reduced margins. Hence there is an imperative need to improve CASA percentage to the total deposits. Though our experience has been quite successful in this area, a lot needs to be done. Banks have begun employing customer relationship management tools in order to attract new customers while retaining existing customers. As the needs of the customer are increasing banks should gear themselves up to meet the same. For the discerning modern day bank customers, it is not only relevant to offer a wide range of services but also provide the services in an increasingly efficient manner in terms of cost, time and convenience.

Increasing the penetration through branch network to the un-banked and under-banked areas would result in expansion of business opportunities. Also there are numerous opportunities for increasing the clientele base especially the youth segment of

the population by selling the Technology products of the bank such as mobile and internet banking. The focus of the bank in the years to come would be in these areas where the scope and potential is very vast.

There is a need to strengthening the liquidity management in banks by shoring up core deposits by reducing the dependence on bulk deposits. The dependence on the bulk deposits to fund credit growth may impact the liquidity and profitability.

Another important aspect is that the banks have to increase their volumes in order to effectively combat the falling margins in their transactions due to severe competition. This can be achieved through leveraging technology to provide affordable and cost effective banking services to the masses through multi-delivery channels.

Banks have to design the products that suit the needs of varied customers, identify the target markets and marketing the products and promoting them through their sales force. Constant up-gradation or changes based on the past experiences would go a long way in getting more clientele.

With the increasing pace with which the economy is moving towards the globalization and the systemic opening up of the banking system to global competition, banks have to brace themselves to operate in an environment of competition. Banks need to enhance their systems and procedures to the international standards. A robust risk management practice is more important in order to address the systemic risk associated with the banking activities.

Indian banks are taking steps to achieve quality assets as is evident from the declining trend of the Non-performing assets. This should continue in the years to come as the banks are already advised to maintain 70% provisioning norms by September 2010. Our bank maintains more than adequate provisioning cover for the impaired assets and the present provision coverage is 86.85%.

SEGMENT WISE AND PRODUCT WISE PERFORMANCE

The segment wise performance of the bank both in Deposits and Advances is furnished below:

Deposits	Rs. (in cr)	Advances	Rs. (in cr)
Demand	2,050.53	Cash Credits, Overdrafts & Demand Liabilities	8,209.04
Savings	2,484.67	Bills Purchased & Discounted	962.55
Term	14,736.65	Term Loans	4,503.41
TOTAL	19,271.85	TOTAL	13,675.00

As in the previous fiscal, the bank continued its thrust on the retail deposits particularly the low cost deposits and deposit mobilization campaign was conducted during the fiscal under report. The total deposits of the bank registered an increase of 27.62% to reach Rs.19,271.85 cr as at the end of 31st March 2010 from Rs.15,101.39 cr as at the end of fiscal 2008-09. The average deposits of the bank was up by Rs. 3,251.32 cr and stood at Rs.16,498.06 cr as on 31st March 2010 registering a growth of 24.54% over the previous fiscal ended 31st March 2009.

The cost of deposits of the bank has declined and stood at 7.13% as at 31st March 2010 compared to 7.66% as at March 31, 2009.

The growth in advances on year on year basis was 29.46% during the fiscal under report. The average advances was higher by Rs. 2,024.15 cr to reach Rs.11,711.29 cr as at the end of 31st March 2010 from Rs.9,687.14 cr as on 31st March 2009. The average yield on advances was 11.43% as on 31.03.2010.

Pursuant to the regulatory guidelines on Accounting Standard 17 (Segment Reporting), the bank has identified four business segments namely Treasury, Corporate/whole sale banking, Retail banking and other banking operations. The results of the four business segments are furnished elsewhere in the report.

OUT LOOK

The bank is well poised to meet the challenges of heightened competition and emerge successful in its inimitable style in the years to come. The bank has set an ambitious target of Rs. 42,052 cr business for the current fiscal 2010-11 with the target for deposits and advances fixed at Rs.24,500 cr and Rs.17,552 cr respectively.

Enthused by the success in the CASA campaign launched during the fiscal under report, the bank has plans for special drive to be held in all its branches for mobilizing savings and current accounts in the current fiscal too.

The bank also has plans to open 50 more branches all over the country in the current fiscal. It has plans to aggressively market technology products.

In a growing economy like ours Micro, Small and Medium Enterprises (MSMEs) are the backbone. The sector encompasses the wide spectrum of the economy from the traditional manufacturing sector such as textiles, leather, ceramics, forging, jewellery, handicrafts etc to modern technology and knowledge based sectors such as IT, Telecom etc. The sector accounts for 40% of industrial production and 35% of export besides providing employment to millions of people in the country.

SMEs are seen as a new engine of growth in the coming future

and for banks they provide important business opportunity. Considering the business potential your bank has set up a Commercial Banking Business Cell at the Central Office for strengthening our presence in the sector. This cell would be catering to the SME customers with a wide range of banking services viz: working capital, term finance, trade services, foreign exchange and e-banking requirements.

Our strategy for the current year emphasizes the following:

- To leverage the technology platform and open scalable systems to deliver products to cater the needs of different customer segments, bring in more customers into our fold while controlling costs of operation
- To continue to maintain high asset quality through disciplined credit risk management
- To increase market share in the country's expanding banking industry through branch net work and quality customer service focusing on healthy earnings.

The bank is confident that it would achieve the projected business growth for the current fiscal.

RISKS AND CONCERNS

Banks, being financial intermediaries, are exposed to various kinds of risks both financial and non-financial. The Bank has put in place a comprehensive risk management architecture taking into account the bank's size and business levels as also in tune with the regulatory guidelines for managing various types of risks through appropriate risk-return trade off.

Various types of risks faced by the banks are mainly credit, market and operational risks. There are also residuary risks such as Reputation risk, Liquidity risk etc. The primary responsibility of laying down risk parameters and establishing an integrated risk management framework and control system rests with the Board of the Bank. A Board level Risk Management and Asset Liability Management Committee oversees the three main risks viz: credit, market and operational risks. The effective management of capital, operational and market risks are taken care of by the Risk Management Department headed by the General Manager of the bank. He is also responsible for compliance functions of the bank. A separate Asset Liability Management Committee of the executives is also in place.

Credit Risk management aspects are addressed in the Risk Management policy and the Credit Policy document of the Bank. The Bank has also put in place the required monitoring and controlling mechanisms for high value exposures at the Central Office and Divisional Offices. Also there exists various credit risk rating and scoring models.

Market risk is managed through Asset Liability Management exercises by the ALM Committee. The bank has Market Risk Management Policy to deal with the various aspects on the tools, techniques and processes for managing interest rate risk, Foreign exchange risk, and Liquidity risk management. The said policy is being revised and reviewed periodically in tune with the Regulatory guidelines. Aggregate gap limits, Duration and Value at Risk (VaR) approaches are followed where appropriate, as a part of market risk mechanism. The Bank computes explicit capital charge for market risks in line with the regulatory prescriptions.

Banks have Operational risk inherent in all its activities, systems and procedures. These are managed in the integrated risk management system. A separate Business Intelligence and Analytical Cell is in place to take care of Operational Risk areas especially in view of the growing dependence and complexities involved in the technology.

The bank is Basel II compliant as at 31.03.2009 itself and the Pillar III Disclosures are furnished elsewhere in the Report.

INTERNAL CONTROL SYSTEMS AND ADEQUACY

The Bank has an adequate internal control system in place. The internal control system aims at achieving efficiency in operations while complying with the applicable rules and regulations. The internal control mechanism comprises a well-defined organizational structure, pre-determined authority levels, with segregation of duties, risk assessment and management framework. The bank's policies and operating procedures are well documented in the form of book of instructions and circulars issued from time to time.

A well defined system of periodical as well as surprise internal inspection is in place. At the same time the bank has rural audit, revenue audit, Information and security audit in addition to Statutory Audit. A risk based internal audit is also in place whereby various risks are captured adequately. Annual risk assessment of branches has also been put in place. The Divisional Offices and the Departments at the Central Office are brought under Management Audit.

The Bank has a Board approved policy on KYC and Anti-Money Laundering (AML) measures in tune with the Regulatory guidelines issued from time to time.

The bank has taken strict measures to adhere to the Know Your Customer (KYC) policy as a compliance measure.

Anti Money Laundering Software put in place at the Central Office provides alerts on the basis of pre-defined benchmarks. These alerts enable the bank to process the transactions and help to verify the abnormal transactions. It is an ongoing exercise.

FINANCIAL PERFORMANCE WITH RESPECT TO OPERATIONAL PERFORMANCE

The operating profit of the bank for the year ended 31st March 2010 stood at Rs. 463.22 cr compared to Rs.418.02 cr as at March 31st, 2009 registering a growth of 10.81%. The net profit of the bank grew by 42.48% to Rs. 336.03 cr during the year 2009-10 from Rs. 235.84 cr reported in the previous fiscal. The total income increased by 17.16% to Rs. 2,004.92 cr during the year 2009-10 compared to Rs. 1,711.30 cr during 2008-09. Interest income for the year 2009-10 improved by 21.57% to Rs. 1,757.94 cr in 2009-10 from Rs. 1,446.09 cr in 2008-09. Non-interest income was at Rs. 246.98 cr during the fiscal 2009-10. The interest expended increased to Rs. 1,193.05 cr in 2009-10 from Rs. 1,035.68 cr in 2008-09.

The earning per share (EPS) of the Bank improved by Rs. 62.23 as on 31st March 2010 from Rs. 43.71 as on 31.03.2009.

Average Credit Deposit Ratio of the Bank stood at 70.96% as on 31.03.2010.

The Net interest margin (NIM) of the Bank improved to 3.23% as on 31st March 2010 from 2.95% as on 31st March 2009.

The Return on Assets was up by 0.27% and stood at 1.76% as at the end of the fiscal under report compared to 1.49% as at the end of the previous fiscal.

HUMAN RESOURCES, INDUSTRIAL RELATIONS

Stiff competition and fast paced growth of business necessitate the bank to make available the competencies and talents at its various locations commensurate with the requirements. Therefore, a career planning programme is designed to meet the Bank's requirements wherein the potential employees are developed to take leadership roles in future from within.

The bank continued to lay emphasis on development of human resources. Training programmes are conducted towards development of skills, attitude and knowledge of employees

were pursued as planned in its in house Training centre as also at various external centres like the National Institute of Bank Management, Pune, SIBTC, Bangalore and other places. While the in-house courses were designed to enable the employees to effectively handle their current and future assignments and to perform their duties and responsibilities effectively in the highly competitive and tech-savvy, customer driven environment, the external training programmes were for specialized areas viz: Risk Management, Marketing, Treasury etc.

The number of manpower who were imparted training during the fiscal 2009-10 were 2,655 both in-house and external.

Creating work force of the best talent is challenging and maintaining them over a period of time is still more challenging. To maintain the standards of best talent pool we have recruited our personnel taking into account the business needs. The new recruits were given orientation programme which not only aims at imparting knowledge to the new recruits but also work towards their harmonious integration into the organization. The bank has been recruiting need based human resources. In tune with the future expansion your bank is constantly upgrading and revisiting its manpower planning policy periodically.

The average age profile of the employees of the bank was at 34 as at the end of 2009-10.

The business per employee and the profit per employee as on 31st March 2010 were Rs. 7.89 cr and Rs. 8.05 lakhs respectively compared to Rs.6.38 cr and Rs. 5.98 lakhs respectively during the last fiscal 2008-09.

The man power strength of the bank as on 31st March 2010 stood at 4,175.

The pro-active and humanistic approach undertaken by your bank has yielded desired results and the Bank is showing growth consistently with the combined efforts of the management and the employees. As always the industrial relations in the bank have been harmonious and cordial.

STATEMENT PURSUANT TO SEC 217 (2A) OF THE COMPANIES ACT, 1956 & THE COMPANIES (PARTICULARS OF EMPLOYEES) RULES 1975 FORMING PART OF THE REPORT OF THE DIRECTORS

Name	Qualification	Age in Years	Designation Nature of Duties	Remuneration Received		Experiance No. of Years	Date of Commencement of Employment	Last Employment
Shri P T Kuppuswamy	B.Com., A.C.A., A.C.S.	66	MD & CEO	Pay	30,70,000.00	40	09.07.2001	Canara Bank
				Bank's Contribution to P.F.	3,68,400.00			
				Perquisites	5,60,966.95			
				Total	39,99,366.95			

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AUDITORS' REPORT



1. We have audited the attached Balance sheet of The Karur Vysya Bank Limited, Karur as at 31st March, 2010 and also the annexed Profit and Loss Account of the Bank and the Cash Flow Statement for the year ended on that date in which are incorporated the returns of 8 Offices/Branches audited by us and 369 Offices/Branches (including Extension Counters/Satellite Branches) audited by Branch Auditors. These financial statements are the responsibilities of the Banks' Management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with Auditing Standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Balance sheet and the Profit and Loss account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949 read with Section 211 of the Companies Act, 1956.

4. The reports on the accounts of the Branches audited by Branch Auditors have been dealt with in preparing our report in the manner considered necessary by us.

5. We report that:

(a) We have obtained all the information and explanations, which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory.

(b) The transactions of the Bank, which have come to our notice, have been within the powers of the Bank.

(c) In our opinion, proper books of account as required by law have been kept by the Bank so far as it appears from our examination of those books and proper returns adequate for the purpose of our audit have been received from the branches of the Bank.

(d) The Balance Sheet and Profit and Loss Account of the Bank dealt with by this report are in agreement with the books of account and with the audited returns from the branches.

(e) On the basis of written representations received from the directors and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31st March 2010 from being appointed as a director in terms of clause (g) of Sub-section (1) of Section 274 of the Companies Act, 1956.

6. In our Opinion, the Profit and Loss Account and the Balance Sheet dealt with by this report are in compliance with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Companies Act, 1956, in so far as they apply to the Banks.

7. In our opinion and to the best of our information and according to the explanations given to us, the said accounts read together with the Significant Accounting policies and Notes thereon give the information required by the Companies Act, 1956, in the manner so required for banking companies, and on such basis, give a true and fair view:

i. in the case of the said Balance Sheet, of the state of affairs of the Bank as at 31st March 2010;

ii. in the case of the Profit and Loss Account, of the profit for the year ended on that date, and

iii. in the case of the Cash Flow Statement, of the cash flow of the Bank for the year ended on that date.

For J.L.SENGUPTA & CO.,
Chartered Accountants
(S.R.ANANTHAKRISHNAN)
Partner
M.No.18073

Karur
20th May 2010

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BALANCE SHEET AS AT 31ST MARCH 2010



Karur Vysya Bank

Smart way to bank

	SCHEDULE	AS ON 31.03.2010 Rs.	(000's omitted) AS ON 31.03.2009 Rs.
CAPITAL & LIABILITIES			
Capital	1	54,43,56	53,95,16
Reserves & Surplus	2	1565,54,05	1296,21,44
Deposits	3	19271,85,37	15101,38,94
Borrowings	4	475,88,46	23,03,81
Other Liabilities and Provisions	5	625,77,98	586,14,96
TOTAL		21993,49,42	17060,74,31
ASSETS			
Cash and Balances with Reserve Bank of India	6	1198,48,82	963,81,58
Balances with Banks and Money at call and short notice	7	36,57,33	410,35,03
Investments	8	6602,16,03	4715,98,01
Advances	9	13497,49,84	10409,88,05
Fixed Assets	10	137,81,35	115,69,39
Other Assets	11	520,96,05	445,02,25
TOTAL		21993,49,42	17060,74,31
Contingent Liabilities	12	5862,25,38	4207,64,31
Bills for collection		763,71,92	789,51,26
SHRI ATHI. S. JANARTHANAN Chairman			
SHRI P.T. KUPPUSWAMY MD & CEO			
SHRI Dr. V.G. MOHAN PRASAD Director		SHRI K.P. KUMAR Director	
SHRI M.G.S. RAMESH BABU Director		SHRI Dr. T.R. RAMANATHAN Director	
SHRI T. M. LAKSHMIKANTHAN Executive Director		SHRI S. GANAPATHI SUBRAMANIAN Director	
		SHRI V. SANTHANARAMAN Director	
		SHRI R. SUKUMAR Chief General Manager	
		SHRI R. KANNAN Company Secretary	
		SHRI A.R. RAMACHANDRAN Deputy General Manager	
		For J.L.SENGUPTA & CO. , Chartered Accountants	
		(S.R.ANANTHAKRISHNAN) Partner M.No.18073	

Karur
20th May 2010

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PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH 2010



Karur Vysya Bank

Smart way to bank

	SCHEDULE	Year Ended 31.03.2010 Rs.	(000's omitted) Year Ended 31.03.2009 Rs.
I INCOME			
Interest earned	13	1757,94,54	1446,08,94
Other Income	14	246,97,70	265,20,92
TOTAL		2004,92,24	1711,29,86
II EXPENDITURE			
Interest expended	15	1193,04,66	1035,68,08
Operating expenses	16	348,65,32	257,59,64
Provisions and Contingencies		127,19,10	182,17,99
TOTAL		1668,89,08	1475,45,71
III PROFIT			
Net Profit for the year		336,03,16	235,84,15
Amount Transferred From Investment Reserve		Nil	1,37,88
Amount Transferred From General Reserve		10,00,00	Nil
Profit brought forward		1,44,98	1,10,62
TOTAL		347,48,14	238,32,65
IV APPROPRIATIONS			
Transfers to			
Statutory Reserve		101,00,00	71,00,00
Capital Reserve		5,20,25	41,13,18
Special Reserve U/s 36(1)(viii) of IT Act		30,00,00	Nil
Revenue & Other Reserves		133,00,00	49,00,00
Proposed Dividend		65,32,27	64,74,20
Dividend Tax		11,10,16	11,00,29
		345,62,68	236,87,67
V BALANCE OF PROFIT		1,85,46	1,44,98
TOTAL		347,48,14	238,32,65
Significant Accounting Policies	17		
Notes on Accounts	18		

SHRI ATHI. S. JANARTHANAN

Chairman

SHRI Dr. V.G. MOHAN PRASAD

Director

SHRI M.G.S. RAMESH BABU

Director

SHRI T. M. LAKSHMIKANTHAN

Executive Director

SHRI K.P. KUMAR

Director

SHRI S. GANAPATHI SUBRAMANIAN

Director

SHRI V. SANTHANARAMAN

Director

SHRI R. SUKUMAR

Chief General Manager

SHRI R. KANNAN

Company Secretary

SHRI P.T. KUPPUSWAMY

MD & CEO

SHRI Dr. T.R. RAMANATHAN

Director

SHRI K. PARAMESHWARA RAO

Director

SHRI A.R. RAMACHANDRAN

Deputy General Manager

For **J.L.SENGUPTA & CO.**,
Chartered Accountants

(S.R.ANANTHAKRISHNAN)

Partner

M.No.18073

Karur

20th May 2010

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SCHEDULES

	AS ON 31.03.2010 Rs.	(000's omitted) AS ON 31.03.2009 Rs.
SCHEDULE 1 - CAPITAL		
Authorised Capital		
20,00,00,000 Equity Shares of Rs. 10 each	200,00,00	200,00,00
Issued Capital:		
5,44,69,602/5,39,99,352 Equity Shares of Rs.10/- each	<u>54,46,96</u>	<u>53,99,94</u>
Subscribed & Paid up Capital:		
5,39,51,619/5,39,41,469 Equity Shares of Rs.10/- each	53,95,16	53,94,14
Add:		
Allotment of shares kept in abeyance:	1,37	1,01
13,710/10,150 Equity shares of Rs.10/- each		
Calls received	NIL	1
Issue of 470250 equity shares issued to Employees of the bank pursuant to the exercise of KVB ESOP 2008 - Tranche I	47,03	NIL
TOTAL	54,43,56	53,95,16
SCHEDULE 2 - RESERVES AND SURPLUS		
I Statutory Reserve		
Opening Balance	482,03,31	411,03,31
Addition during the year	101,00,00	71,00,00
	<u>583,03,31</u>	<u>482,03,31</u>
II Capital Reserve		
Opening Balance	51,51,39	10,38,21
Addition during the year	5,20,25	41,13,18
	<u>56,71,64</u>	<u>51,51,39</u>
III Share Premium		
Opening Balance	119,78,60	119,72,85
Addition during the year (Rights Issue)	6,47	5,75
Addition during the year (ESOS)	9,65,66	Nil
	<u>129,50,73</u>	<u>119,78,60</u>
Less : Issue of Bonus shares kept in abeyance	25	Nil
	<u>129,50,48</u>	<u>119,78,60</u>
IV General Reserve		
Opening Balance	641,43,16	592,43,16
Addition during the year	133,00,00	49,00,00
Deduction during the year	10,00,00	Nil
	<u>764,43,16</u>	<u>641,43,16</u>

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SCHEDULES



Karur Vysya Bank

Smart way to bank

	AS ON 31.03.2010 Rs.	(000's omitted) AS ON 31.03.2009 Rs.
V Investment Reserve :		
Opening Balance	Nil	1,37,88
Addition during the year	Nil	Nil
Deduction during the year	Nil	1,37,88
	Nil	Nil
VI Special Reserve U/s 36(1) (viii) of I.T. Act		
Opening Balance	Nil	Nil
Addition during the year	30,00,00	Nil
Deduction during the year	Nil	Nil
	30,00,00	Nil
VII Balance of Profit :	1,85,46	1,44,98
TOTAL	1565,54,05	1296,21,44
SCHEDULE 3 - DEPOSITS		
A I. Demand Deposits :		
i) From Banks	4,83,12	5,72,80
ii) From Others	2045,69,68	1491,04,16
	2050,52,80	1496,76,96
II. Savings Bank Deposits	2484,67,29	1808,81,58
III. Term Deposits		
i) From Banks	328,77,29	510,22,56
ii) From Others	14407,87,99	11285,57,84
	14736,65,28	11795,80,40
TOTAL OF I, II & III	19271,85,37	15101,38,94
B Deposits of Branches :		
i) In India	19271,85,37	15101,38,94
ii) Outside India	Nil	Nil
TOTAL	19271,85,37	15101,38,94

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SCHEDULES



	AS ON 31.03.2010 Rs.	(000's omitted) AS ON 31.03.2009 Rs.
SCHEDULE 4 - BORROWING		
I Borrowings in India		
i) Reserve Bank of India	Nil	Nil
ii) Other Banks	3,95	Nil
iii) Other Institutions and Agencies	189,64,68	18,99,19
iii a) Tier II Bonds	150,00,00	Nil
	339,68,63	18,99,19
II Borrowings outside India	136,19,83	4,04,62
TOTAL	475,88,46	23,03,81
Secured Borrowings included in I and II above	174,88,93	Nil
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS		
I Bills Payable	187,28,16	187,88,16
II Inter Office Adjustments (Net)	Nil	Nil
III Interest Accrued	90,80,38	69,49,30
IV Deferred Tax	8,25,00	1,49,00
V Others (including provisions)	339,44,44	327,28,50
TOTAL	625,77,98	586,14,96
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I Cash in Hand (Including Foreign Currency Notes)	167,69,80	172,23,06
II Balances with Reserve Bank of India In Current Account	1030,79,02	791,58,52
TOTAL	1198,48,82	963,81,58

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SCHEDULES



(000's omitted)

	AS ON 31.03.2010	AS ON 31.03.2009
	Rs.	Rs.

SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL & SHORT NOTICE

In India

i) Balances with Banks :		
a) In Current Accounts	20,51,19	36,54,87
b) In Other Deposit Accounts	33,73	368,33,73
ii) Money at Call and Short Notice with Banks	Nil	Nil

	20,84,92	404,88,60
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Outside India

In Current Accounts	6,74,41	5,46,43
In Other Deposit Accounts	8,98,00	Nil

TOTAL	36,57,33	410,35,03
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SCHEDULE 8 - INVESTMENTS

I Investments in India in

i) Government Securities	5682,44,08	3815,48,09
ii) Other Approved Securities	4,33,13	13,59,05
iii) Shares	82,72,50	74,80,02
iv) Debentures and Bonds	259,21,93	239,50,00
v) Mutual Fund Units & Others	573,44,39	572,60,85

TOTAL	6602,16,03	4715,98,01
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Gross Investments in India	6649,44,30	4755,61,47
Less : Provision for Investment		
Depreciation and impairment	47,28,27	39,63,46

Net Investments in India	6602,16,03	4715,98,01
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II Investments outside India

	Nil	Nil
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SCHEDULES



Karur Vysya Bank

Smart way to bank

	AS ON 31.03.2010 Rs.	(000's omitted) AS ON 31.03.2009 Rs.
SCHEDULE 9 - ADVANCES		
A		
i) Bills purchased and discounted	951,25,31	808,51,39
ii) Cash Credits, Overdrafts and Loans repayable on Demand	8184,48,76	6060,41,41
iii) Term Loans	4361,75,77	3540,95,25
TOTAL	13497,49,84	10409,88,05
B		
i) Secured by tangible assets (incl. Book Debts)	12159,35,06	9303,27,46
ii) Covered by Bank / Government guarantees	283,59,23	362,29,86
iii) Unsecured	1054,55,55	744,30,73
TOTAL	13497,49,84	10409,88,05
C		
I. Advances in India		
i) Priority Sector	4450,86,50	3781,09,29
ii) Public Sector	2297,47,78	1207,73,93
iii) Banks	Nil	Nil
iv) Others	6749,15,56	5421,04,83
TOTAL	13497,49,84	10409,88,05
II Advances Outside India	Nil	Nil
TOTAL	13497,49,84	10409,88,05
SCHEDULE 10 - FIXED ASSETS		
I Premises :		
At cost as on 31st March of the preceding year	74,19,01	67,92,51
Addition during the year	10,44,84	6,26,50
	<u>84,63,85</u>	<u>74,19,01</u>
Deduction during the year	Nil	Nil
	<u>84,63,85</u>	<u>74,19,01</u>
Depreciation to date	22,68,08	20,49,51
	<u>61,95,77</u>	<u>53,69,50</u>
II Building under construction	2,74,73	Nil
III Other Fixed Assets :		
(Including Furniture & Fixtures) At cost as on 31st March of the preceding year	204,55,72	183,99,52
Addition during the year	31,91,13	20,82,76

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SCHEDULES



Karur Vysya Bank

Smart way to bank

	AS ON 31.03.2010 Rs.	(000's omitted) AS ON 31.03.2009 Rs.
Deduction during the year	236,46,85 35,41	204,82,28 26,56
Depreciation to date	236,11,44 163,00,59	204,55,72 142,55,83
	73,10,85	61,99,89
TOTAL	137,81,35	115,69,39
SCHEDULE 11 - OTHER ASSETS		
I Inter Office Adjustments (Net)	36,71,67	24,08,77
II Interest Accrued	129,80,72	114,60,77
III Tax paid in advance / Tax deducted at source	49,49,51	19,50,31
IV Stationery and Stamps	9,65,00	4,60,68
V Deferred Tax	5,23,15	9,07,00
VI Non Banking Assets acquired in satisfaction of claims	Nil	Nil
VII Others	290,06,00	273,14,72
TOTAL	520,96,05	445,02,25
SCHEDULE 12 - CONTINGENT LIABILITIES		
I Claims against the Bank not acknowledged as debts	5,21,63	5,50,21
II Liability on account of outstanding		
a) Forward Exchange Contracts	3384,66,14	2188,25,53
b) Derivatives	200,00,00	200,00,00
III Guarantees given on behalf of Constituents in India	1299,31,38	981,79,55
IV Acceptances, Endorsements and other Obligations	973,06,23	832,09,02
V Other items for which the Bank is contingently liable/ Bills of exchange rediscounted with IDBI	Nil	Nil
TOTAL	5862,25,38	4207,64,31
SCHEDULE 13 - INTEREST EARNED		
	Year Ended 31.03.2010 Rs.	Year Ended 31.03.2009 Rs.
I Interest / discount on advances/bills	1338,11,18	1140,33,56
II Income on Investments	396,27,52	276,40,92
III Interest on balances with Reserve Bank Of India and other inter-bank funds	5,41,58	14,38,74
IV Others	18,14,26	14,95,72
TOTAL	1757,94,54	1446,08,94

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SCHEDULES



Karur Vysya Bank

Smart way to bank

(000's omitted)

Year Ended 31.03.2010
Rs

Year Ended 31.03.2009
Rs

SCHEDULE 14 - OTHER INCOME

I	Commission, Exchange and Brokerage	156,80,47	140,19,00
II	Profit/Loss on sale of investments-Net	56,35,97	93,58,41
III	Profit on sale of land, buildings and other assets	44,06	26,41
IV	Profit on exchange transactions - Net	18,44,33	19,59,61
V	Miscellaneous Income	14,92,87	11,57,49
TOTAL		246,97,70	265,20,92

SCHEDULE 15 - INTEREST EXPENDED

I	Interest on Deposits	1176,41,18	1014,40,44
II	Interest on Reserve Bank of India/ Inter-bank borrowings	8,17,23	15,71,05
III	Others	8,46,25	5,56,59
TOTAL		1193,04,66	1035,68,08

SCHEDULE 16 - OPERATING EXPENSES

I	Payments to and Provisions for employees	163,26,61	122,85,75
II	Rent, Taxes and Lighting	29,32,17	23,15,71
III	Printing and Stationery	3,81,14	3,34,99
IV	Advertisement and Publicity	13,41,53	10,42,47
V	Depreciation on Bank's Property	22,63,33	20,52,99
VI	Directors' fees, allowances and expenses	46,80	70,05
VII	Auditors' fees and expenses (includes for branch auditors)	75,32	75,25
VIII	Law Charges	77,24	62,53
IX	Postages, Telegrams, Telephones, etc.	13,22,96	11,57,31
X	Repairs and maintenance	6,91,78	7,21,19
XI	Insurance	15,95,94	13,36,00
XII	Other Expenditure	78,10,50	43,05,40
TOTAL		348,65,32	257,59,64

SCHEDULE 17

SIGNIFICANT ACCOUNTING POLICIES

1. GENERAL

The accompanying financial statements are prepared on historical cost basis and on accrual basis of accounting, unless otherwise stated and in conformity with the requirements of relevant statutes, guidelines issued by Reserve Bank of India and practices prevailing in the banking industry in India.

2. FOREIGN EXCHANGE TRANSACTIONS

2.1 Monetary assets and liabilities have been translated at the exchange rates announced by FEDAI at the close of the year.

2.2 Income and Expenditure items have been translated at the exchange rates prevailing on the date of transactions.

2.3 Profit or loss on pending forward exchange contracts is accounted for by way of revaluation at the appropriate forward rates prevailing at the close of the year as advised by FEDAI.

2.4 Foreign Currency guarantees, acceptances, endorsements and other obligations are stated at the exchange rates prevailing on the date of transactions.

3. INVESTMENTS

3.1 Investments are categorized into three categories – (i) Held to Maturity, (ii) Held for Trading and (iii) Available for sale, with sub-classification under each category viz., (i) Government Securities, (ii) Other Approved Securities, (iii) Shares, (iv) Debentures & Bonds, (v) Subsidiary and Joint Ventures and (vi) Others – Units of Mutual Funds, Certificate of Deposits etc., in accordance with the guidelines issued by Reserve Bank of India.

3.2 The category under which the investments would be classified is decided at the time of acquisition.

3.3 Shifting of securities among the categories are accounted at the least of the acquisition cost / book value / market price prevailing on the date of shifting and depreciation, if any, on such shifting is fully provided for.

3.4 Investments classified under HTM category are carried at acquisition cost except in cases where the acquisition cost is higher than the face value, in which case the premium is amortized over the remaining period to maturity.

3.5 Investments classified under HFT and AFS categories are marked to market at regular intervals as per the quotations put out by FIMMDA from time to time and net depreciation within each sub-classification is recognized and provided for, while net appreciation is ignored.

3.6 The Bank follows the method of calculating and accounting

of profit on sale of investments under weighted average cost method.

4. DERIVATIVES

Interest rate swaps pertaining to trading position and which are outstanding as on Balance Sheet date are marked to market and net appreciation is ignored and net depreciation is recognized in the Profit & Loss Account. Foreign Currency Options and Swaps are accounted in accordance with the guidelines issued by FEDAI.

5. ADVANCES

Advances are classified as Performing and Non-performing Assets and Provisions therefor are made as per the prudential norms prescribed by Reserve Bank of India. Advances shown in the Balance Sheet are net of provisions.

6. FIXED ASSETS

6.1. Premises and other fixed assets are accounted for at historical cost as reduced by depreciation written off.

6.2. Depreciation has been provided on diminishing balance method at the rates specified in the schedule XIV of the Companies Act, 1956 except on Computers. On Computers, including software, depreciation has been provided on straight-line method @ 33.33% as advised by the Reserve Bank of India.

7. DEFERRED TAX ACCOUNTING

Deferred Tax Assets are recognized in the books of accounts to the extent of their future reversibility. Deferred Tax Liabilities are recognized fully in the year of accrual.

8. REVENUE/EXPENDITURE RECOGNITION

8.1 Interest income on all advances other than non-performing assets is recognized on accrual basis. In respect of non-performing assets, the interest income is recognized on cash basis.

8.2 Commission (including commission received on insurance business), exchange, brokerage and locker rent are accounted on cash basis.

8.3 Expenditure is generally accounted on accrual basis.

9. EMPLOYEE BENEFITS

Provision for Gratuity, Pension and other defined employee benefits are made on accrual basis as per Actuarial valuation done at the year-end and short term benefits are accounted for as and when the liability becomes due in accordance with the guidelines contained in Accounting Standard 15 (Revised 2005) issued by ICAI.

Options granted under Employee Stock Option Scheme (ESOS)

are accounted for in accordance with the policies contained in Schedule 1 to clause 13.1 of the SEBI guidelines 1999 (updated in August 2008).

10. NET PROFIT

The net profit disclosed in the Profit and Loss Account is after providing for:

Provision for Taxes, Provision for Standard Assets and Non Performing Assets, Provision for Depreciation on investments, and Other usual and necessary provisions

SCHEDULE 18

NOTES FORMING PART OF BALANCE SHEET AND PROFIT AND LOSS ACCOUNT

1. INTER-BRANCH TRANSACTIONS

Inter branch/Office accounts reconciliation has been completed upto 31.03.2010 and all the Inter branch entries have been reconciled upto 31.03.2010.

2. BALANCING OF BOOKS

The books of accounts have been balanced and tallied in all branches of the Bank up to 31st March 2010. The reconciliation of accounts with other Banks has been completed up to 31st March 2010.

3. INVESTMENTS

In line with the extant guidelines of Reserve Bank of India, the Bank has shifted certain securities from HTM category to AFS category and NIL depreciation has been provided.

4. COMPLIANCE WITH ACCOUNTING STANDARDS

4.1 Net Profit or loss for the period, Prior Period Items and Changes in Accounting Policies (AS-5):

There are no material prior period income and expenditure included in the Profit & Loss account, which requires a disclosure as per AS-5.

4.2 Revenue Recognition: (AS-9):

Income / Expenditure items recognized on cash basis were either not material or did not require disclosure under AS-9 (Revenue Recognition).

4.3 Employee Benefits: (AS-15):

The Bank is following Accounting Standard 15 (Revised 2005) 'Employee Benefits' as under:

(i) In respect of Contributory Plan, viz., Provident Fund, the Bank pays fixed contribution at pre-determined rates to a separate Trust, which invests in permitted securities. The obligation of the Bank is limited to such fixed contribution.

(ii) In respect of Defined Benefit Plans, viz., Gratuity and Pension, provision has been made based on actuarial valuation as per the guidelines.

(iii) In respect of other employee benefits such as Leave encashment and Medical leave, provisioning requirement has been ascertained as per actuarial valuation.

The disclosure requirements as per the Accounting Standards are given below:

Expenses recognized in Profit and Loss Account

(Rs. in Crore)

Particulars	Gratuity	Pension
Current Service Cost	2.31	3.18
Interest cost on benefit obligation	2.51	2.68
Expected return on plan assets	(2.82)	(3.66)
Net actuarial gain / (loss) recognised in the year	(0.61)	7.50
Expenses recognised in the Profit and Loss Account	1.39	9.70

Changes in the present value of the defined benefit obligation

(Rs. in Crore)

Particulars	Gratuity	Pension
Present value of obligation as at 1.4.2009	35.01	39.78
Interest cost	2.51	2.68
Current Service Cost	2.31	3.18
Benefits paid	(3.03)	(8.10)
Net actuarial gain / (loss) on obligation	(0.68)	6.54
Present value of the defined benefit obligation as at 31.3.2010	36.12	44.08

Change in the fair value of plan assets

(Rs. in Crore)

Particulars	Gratuity	Pension
Fair value of plan assets as at 1.4.2009	35.01	39.78
Expected Return on plan assets	2.82	3.66
Contribution by employer	1.40	9.71
Benefit Paid	(3.03)	(8.11)
Actuarial gain / (loss)	(0.06)	(0.95)
Fair value of plan assets as at 31.3.2010	36.14	44.09

Wage Arrears

In terms of settlement of wage revision, the Bank has made an estimated provision of Rs.32 crore of which Rs.18 crore has been provided during the year and Rs.14 crore has been paid as adhoc payment (Rs.6.07 crore for 2009-10, Rs.5.69 crore for 2008-09 & Rs.2.34 crore for 2007-08). The impact on retirement benefits

on above has not been considered by the Bank.

Employees Stock Option Scheme

During the year, the Bank has allotted 470250 shares of Rs.10/- each at a premium of Rs.60/-each to the employees under Employees Stock Option Scheme. These shares have been listed on the National Stock Exchange.

4.4 Segment Reporting:(AS-17)

Part A: Business segments

(Rs. in Crore)

Sl.No.	Particulars	Year Ended 31.03.2010 (Audited)	Year Ended 31.03.2009 (Audited)
(a)	Segment Revenue		
	1. Treasury Operations	476.73	404.51
	2. Corporate/Wholesale Banking Operations	682.16	548.75
	3. Retail Banking Operations	841.10	754.65
	4. Other Banking Operations	4.93	3.39
	Total	2004.92	1711.30
(b)	Segment Results		
	1. Treasury Operations	125.57	117.77
	2. Corporate/Wholesale Banking Operations	165.33	131.97
	3. Retail Banking Operations	256.74	254.52
	4. Other Banking Operations	4.53	3.14
	Total	552.17	507.40
(c)	Unallocated Income/Expenses	88.95	89.38
(d)	Operating Profit	463.22	418.02
(e)	Income Taxes	89.84	95.10
(f)	Other Provisions	37.35	87.08
(g)	Net Profit	336.03	235.84
(h)	Other Information		
(i)	Segment Assets		
	1. Treasury Operations	6638.73	5126.33
	2. Corporate/Wholesale Banking Operations	6940.38	4995.65
	3. Retail Banking Operations	6734.62	5414.23
	4. Other Banking Operations	0.00	0.00
	5. Unallocated Assets *	1679.76	1524.53
	Total	21993.49	17060.74

(Rs. in Crore)

Sl.No.	Particulars	Year Ended 31.03.2010 (Audited)	Year Ended 31.03.2009 (Audited)
(i)	Segment Liabilities		
	1. Treasury Operations	804.66	533.26
	2. Corporate/Wholesale Banking Operations	9614.05	7002.23
	3. Retail Banking Operations	9329.02	7588.94
	4. Other Banking Operations	0.00	0.00
	5. Unallocated Liabilities	625.78	586.15
	Capital Employed		
	i) Treasury Operations	484.37	407.38
	ii) Corporate/Wholesale Banking Operations	506.46	396.88
	iii) Retail Banking Operations	491.34	430.21
	iv) Other Banking Operations	0.00	0.00
	v) Unallocated Liabilities	137.81	115.69
	Total	21993.49	17060.74

* Cash, bank balances and RBI balances have been included

Part B: Geographic segments

There is only one segment i.e., Domestic Segment.

Notes

(i) As a prudent policy, the Bank holds provision for NPAs and standard assets over and above the minimum required under the RBI norms.

(ii) As per the Reserve Bank of India guidelines on enhancement of disclosures relating to Segment Reporting under AS-17, the reportable segments have been divided into Treasury, Corporate/Wholesale Banking, Retail Banking and Other Banking Operations.

(iii) Cash in hand, Balance with RBI and other inter-bank funds are included in Un-allocated assets.

4.5 Related Party Transactions (AS-18)

Key Management Personnel	Designation	Item	Amount (in Rupees)
Shri.A.S. Janarthanan	Chairman	Remuneration	6,00,000/-
Shri. P.T. Kuppuswamy	M.D. & C.E.O.	Remuneration	39,99,367/-

4.6 Earning per Share (AS-20):

Sl.No.	Particulars	2009-10	2008-09
1	Basic EPS (Rs.)	62.23	43.71
2	Diluted EPS (Rs.)	N.A	N.A

Computation of Basic EPS

Sl.No.	Particulars	2009-10	2008-09
A	Net Profit (Rs. in Crore)	336.03	235.84
B	Weighted number of shares	53999798	53951619
C	Basic EPS (A/B) (Rs.)	62.23	43.71
D	Nominal Value per share (Rs.)	10.00	10.00

4.7 ACCOUNTING FOR TAXES ON INCOME (AS-22):

4.7.1 Appeals are pending with Income Tax Appellate Tribunal and Commissioner of Income Tax (Appeals) for various years. No provision is considered necessary for the disputed income tax

on the basis of favourable decisions.

4.7.2 The Bank has complied with Accounting Standard 22 "Accounting for Taxes on Income" issued by the Institute of Chartered Accountants of India.

The components of Deferred Tax for the year are as follows:

Deferred Tax Liabilities

(Rs. in Crore)

Sl.No.	Particulars	As on 31.03.2010	As on 31.03.2009
1	Depreciation on Fixed Asset	0.00	0.13
2	Interest accrued but not due	8.25	1.36
	TOTAL	8.25	1.49

Deferred Tax Assets

(Rs. in Crore)

Sl.No.	Particulars	As on 31.03.2010	As on 31.03.2009
1	Depreciation on Fixed Asset	0.10	0.00
2	Provision for leave encashment	9.55	9.07
	TOTAL	9.65	9.07

Amount of Provisions made for Income tax during the year

(Rs. in Crore)

Sl.No.	Particulars	Current Year 2009-10	Previous Year 2008-2009
1	Provision for Income Tax	83.66	96.21

4.8. INTANGIBLE ASSETS (AS-26)

Depreciation on software is calculated on straight-line method at 33.33% in compliance with Accounting Standard 26.

5. Disclosures required by Reserve Bank of India

5.1 Capital Adequacy

Sl.No.	Items	2009-10		2008-09	
		Basel II	Basel I	Basel II	Basel I
I	CRAR (%)	14.49%	12.48%	14.92%	13.08%
II	CRAR - Tier I capital (%)	12.88%	11.10%	14.40%	12.63%
III	CRAR - Tier II Capital (%)	1.61%	1.38%	0.52%	0.45%
IV	Amount of subordinated debt raised as Tier-II capital	150 Cr.	150 Cr.	NIL	NIL

The bank has raised following Tier II instruments to augment capital requirements

Raised during the year	Nature	Amount	Reckoned for the purpose of CRAR computation (as per RBI guidelines)
2009-10	Lower Tier II	Rs.150 crore	Rs.150 crore

5.2 Investments

(Rs. in Crore)

Sl.No.	Items	2009-10	2008-09
1	Value of Investments		
	(i) Gross Value of Investments		
	(a) In India	6649.44	4755.61
	(b) Outside India,	Nil	Nil
	(ii) Provisions for Depreciation @		
	(a) In India	47.28	39.63
	(b) Outside India,	Nil	Nil

5.2 Investments

(Rs. in Crore)

Sl.No.	Items	2009-10	2008-09
2	(iii) Net Value of Investments		
	(a) In India	6602.16	4715.98
	(b) Outside India,	Nil	Nil
	Movement of provisions held towards depreciation on investments.		
	(i) Opening balance	34.09	3.80
	(ii) Add: Provisions made during the year	7.65	68.15
	(iii) Less: Write-off/ write-back of excess provisions during the year	NIL	37.86
(iv) Closing balance	41.74	34.09	

@ Includes Provision for Non Performing Investments amounting to Rs.5.54 crore for 2009-10 and 2008-09.

5.3 Repo Transactions

(Rs. in Crore)

	Minimum outstanding during the year	Maximum outstanding during the year	Daily Average outstanding during the year	As on March 31, 2010
Securities sold under repos	NIL	NIL	NIL	NIL
Securities purchased under reverse repos	25	275	9.12	Nil

5.4 Non-SLR Investment Portfolio

5.4.1 Issuer composition of Non SLR investments

Issuer composition of Non SLR investment as on 31.03.2010

(Rs. in Crore)

Sl.No.	Issuer	Amount	Extent of Private placement	Extent of below investment grade securities	Extent of unrated securities	Extent of unlisted securities
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	PSUs	152.93	149.20	-	0.00	54.50
2	Fis	19.52	19.52	-	-	-
3	Banks	98.15	55.50	-	0.00	0.00
4	Private Corporates	76.88	36.56	-	1.56	1.56
5	Subsidiaries / Joint Ventures	0.00	-	-	-	-
6	Others	576.38	-	-	0.00	0.00
7	Less: Provision held towards depreciation and non performing investments	8.47	Xxx	Xxx	Xxx	Xxx
	TOTAL	915.39	260.78	-	1.56	56.06

5.4.2 Non performing Non-SLR investments:

(Rs. in Crore)

Sl.No.	Particulars	As on 31.03.2010	As on 31.03.2009
1	Opening balance	5.54	5.54
2	Additions during the year since 1st April	Nil	Nil
3	Reductions during the above period	Nil	Nil
4	Closing balance	5.54	5.54
5	Total provisions held	5.54	5.54

5.5 Forward Rate Agreement/ Interest Rate Swap

(Rs. in Crore)

Sl.No.	Items	2009-10	2008-09
1	The notional principal of swap agreements	200.00	200.00
2	Losses which would be incurred if counterparties failed to fulfil their obligations under the agreements	2.42	4.34
3	Collateral required by the bank upon entering into swaps	Nil	Nil
4	Concentration of credit risk arising from the swaps	Banks & PDs	Banks & PDs
5	The fair value of the swap book	-0.16	-0.46

5.6 Exchange Traded Interest Rate Derivatives

(Rs. in Crore)

Sl.No.	Particulars	Amount
I	Notional principal amount of exchange traded interest rate derivatives undertaken during the year	Nil
II	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March 2009	Nil
III	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective"	Nil
IV	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective"	Nil

5.7 Disclosures on risk exposure in derivatives

5.7.1 Qualitative Disclosure:

Structure, Organisation, Scope, Nature of risk management in derivatives

The organization structure consists of Treasury Department which is segregated into three functional areas i.e., front office, mid office and back office.

Rupee derivative deals are executed for hedging or for trading. The risk in the derivatives portfolio is monitored by assessing the mark to market (MTM) position of the portfolio on a daily basis and the impact on account of probable market movements. The overall portfolio is operated within the risk limit fixed by the Bank.

Forex derivative deals are offered to clients on back-to-back basis. The outstanding deals are marked to market on monthly basis. The MTM values are informed to the clients every month after getting it from the counterparty banks.

The Board reviews the risk profile of the outstanding portfolio at regular intervals.

Accounting

Accounting Policies as per RBI guidelines have been adopted. The hedge swaps are accounted for like a hedge of the asset or liability. The income / expense on hedge swaps are accounted on accrual basis except where swaps transactions whose underlying is subjected to mark to market. Such hedge swaps are marked to market on a monthly basis and the gain / losses are recorded as an adjustment to the designated asset / liability. The Non hedge swaps are marked to market every month and the MTM losses in the basket are accounted in the books while MTM profits are ignored.

Collateral Security

As per market practice, no collateral security is insisted on for the contracts with counter parties like Banks / PDs etc. For deals

with Corporate Clients, appropriate collateral security / margin etc. are stipulated whenever considered necessary.

Credit Risk Mitigation

Most of the deals have been contracted with Banks / Major PDs/highly rated clients and no default risk is anticipated on the deals with them.

Dealing in derivatives is centralized in the treasury of the Bank. Derivative transactions are entered into by the treasury front office. Treasury middle office conducts an independent check of the transactions entered into by the front office and also undertakes activities such as confirmation, settlement, accounting, risk monitoring and reporting and ensures compliance with various internal and regulatory guidelines.

The market making and the proprietary trading activities in

derivatives are governed by the derivatives policy of the Bank, which lays down the position limits, stop loss limits as well as other risk limits. As far as forex derivatives are concerned, they are undertaken on back-to-back basis only.

Risk monitoring on derivatives portfolio is done on a daily basis. The Bank measures and monitors risk using PVBP (Price Value of a Basis Point) approach. Risk reporting on derivatives forms an integral part of the management information system and the marked to market position and the PVBP of the derivatives portfolio is reported on a daily basis to the top management.

Risk monitoring on forex derivatives is done on a monthly basis after getting the monthly MTM values from the counterparty banks. It is reported to the top management and related clients on monthly basis.

5.7.2 Quantitative Disclosures

(Rs. in Crore)

Sl.No.	Particulars	Currency Derivatives	Interest rate derivatives
I	Derivatives (Notional Principal Amount)*	3384.66	200.00
	a) For hedging	NIL	NIL
	b) For trading	3384.66	200.00
II	Marked to Market Positions [1]	NIL	-0.16
	a) Asset (+)	+3384.66	NIL
	b) Liability (-)	-3384.66	-0.16
III	Credit Exposure [2]	67.69	2.42
IV	Likely impact of one percentage change in interest rate (100*PV01)	NIL	0.04
	a) on hedging derivatives	NIL	NIL
	b) on trading derivatives	NIL	0.04
V	Maximum and Minimum of 100*PV01 observed during the year		
	a) on hedging	NIL	NIL
	b) on trading	NIL	Max & Min.Rs.0.04 Cr

* Forward Contract - Rs.3384.66 crore

5.8. (a) Non-Performing Asset:

(Rs. in Crore)

Sl.No.	Items	2009-10	2008-09
I	Net NPAs to Net Advances (%)	0.23%	0.25%
II	Movement of NPAs (Gross)		
	(a) Opening balance	205.86	194.26
	(b) Additions during the year	120.94	82.11
	(c) Reductions during the year	91.46	70.51
	(d) Closing balance	235.34	205.86
III	Movement of Net NPAs		
	(a) Opening balance	25.82	17.29
	(b) Additions during the year	5.13	8.53
	(c) Reductions during the year	0.00	0.00
	(d) Closing balance	30.95	25.82

5.8. (a) Non-Performing Asset

(Rs. in Crore)

Sl.No.	Items	2009-10	2008-09
IV	Movement of provisions for NPAs		
	(a) Opening balance	153.02	147.31
	(b) Provisions made during the year	24.48	5.71
	(c) (i) Amt transferred to floating Provisions	NIL	NIL
	(ii) Provisions reversed & used for Standard assets / Misc provisions	NIL	NIL
	(d) Closing balance	177.50	153.02

NPA Coverage Ratio is 86.85% (Previous year 86.93%)

5.8 (b) Movement of Floating Provision

(Rs. in Crore)

Sl.No.	Particulars	2009-10	2008-09
1	Floating Provision at the beginning of the year	18.69	21.84
2	Floating Provision made during the year	Nil	Nil
3	Amount of provision withdrawn during the year	Nil	3.15
4	Floating Provision at the end of the year	18.69	18.69

5.9. Details of Loan Assets subjected to Restructuring during the year

(Rs. in Crore)

Sl.No.	Items	2009-10	2008-09
I	Total amount of loan assets subjected to restructuring, rescheduling, renegotiation; - of which under CDR	215.29 12.45	293.39 NIL
II	The amount of Standard assets subjected to restructuring, rescheduling, renegotiation; - of which under CDR	215.29 12.45	293.39 NIL
III	The amount of Sub-Standard assets subjected to restructuring, rescheduling, renegotiation; - of which under CDR	NIL NIL	NIL NIL
IV	The amount of Doubtful assets subjected to restructuring, rescheduling, renegotiation; - of which under CDR	NIL NIL	NIL NIL

Particulars of Accounts Restructured as on 31.03.2010

(Rs. in Crore)

		CDR Mechanism	SME Debt Restructuring	Others
Standard Advances Restructured	No. of borrowers	4	62	75
	Amount Outstanding	72.13	27.75	462.66
	Sacrifice (diminution in the fair value)	8.84	0.25	0.12
Sub standard advances restructured	No. of Borrowers	NIL		
	Amount outstanding	NIL		
	Sacrifice (diminution in the fair value)	NIL		
Doubtful advances restructured	No. of Borrowers	NIL		
	Amount outstanding	NIL		
	Sacrifice (diminution in the fair value)	NIL		
TOTAL	No. of Borrowers	4	62	75
	Amount outstanding	72.13	27.75	462.66
	Sacrifice (diminution in the fair value)	8.84	0.25	0.12

5.10. Details of financial assets sold to Securitisation / Reconstruction Company for Asset Reconstruction

(Rs. in Crore)

Sl.No.	Items	2009-10	2008-09
I	No. of accounts	NIL	NIL
II	Aggregate value (net of provisions) of accounts sold to SC/RC	NIL	NIL
III	Aggregate consideration	NIL	NIL
IV	Additional consideration realized in respect of accounts transferred in earlier years	NIL	NIL
V	Aggregate gain over net book value.	NIL	NIL

5.10 a) : Details of Non-performing assets purchased/sold - NIL

5.11 Provisions on Standard Asset:

(Rs. in Crore)

Sl.No.	Items	As on 31st Mar 2010	As on 31st Mar 2009
1	Provisions towards Standard Assets	51.37	48.07

5.12. Business Ratio

Sl.No.	Items	2009-10	2008-09
1	Interest Income as a percentage to Working Funds	9.18%	9.16%
2	Non-interest income as a percentage to Working Funds	1.29%	1.69%
3	Operating Profit as a percentage to Working Funds	2.42%	2.65%
4	Return on Assets	1.76%	1.49%
5	Business (Deposits plus advances) per employee (Rs. in crore)	7.89	6.38
6	Profit per employee (Rs. in lakh)	8.05	5.98

5.13 Maturity pattern of certain items of assets and liabilities

(Rs. in Crore)

Particulars	1 day	2 to 7 days	8 to 14 days	15 to 28 days	29 days to 3 months	Over 3 months & up to 6 months	Over 6 months & up to 1 year	Over 1 year & up to 3 years	Over 3 years & up to 5 years	Over 5 years	Total
Deposits	275.37	284.84	226.57	570.14	2448.45	1590.54	3748.99	6956.08	1295.25	1875.62	19271.85
Advances	404.10	46.87	105.34	247.36	979.94	682.58	2990.51	5328.98	1530.86	1358.46	13675.00
Investments	836.94	74.23	0.00	55.65	36.02	2.84	26.17	810.80	511.13	4295.66	6649.44
Borrowings	1.54	174.89	0.00	0.00	135.80	0.90	2.00	7.18	3.58	150.00	475.89
Foreign Currency assets	--	--	1.08	10.37	21.30	11.09	6.78	--	--	--	50.62
Foreign Currency liabilities	--	--	61.83	0.37	136.49	4.02	19.69	6.52	0.75	--	229.67

The above data has been compiled on the basis of the guidelines of RBI and certain assumptions made by management and have been relied upon by auditors.

5.14 Lending to Sensitive Sector

5.14.1 Exposure to Real Estate Sector:

(Rs. in Crore)

Sl.No.	Category	2009-10	2008-09
A	Direct exposure		
	(i) Residential Mortgages – Lendings fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented;	343.85	288.31
	(ii) Commercial Real Estate – Lendings secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits;	478.08	443.95
	(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
	a. Residential,	NIL	NIL
	b. Commercial Real Estate.	NIL	NIL
B	Indirect Exposure		
	Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs).	161.79	292.27

5.14.2. Exposure to Capital Market

(Rs. in Crore)

Sl.No.	Items	2009-10	2008-09
I	Investments made in equity shares,	83.44	93.43
II	Investments in bonds/ convertible debentures	NIL	NIL
III	Investments in units of equity-oriented mutual funds	11.10	18.29
IV	Advances against shares to individuals for investment in equity shares (including IPOs/ ESOPS), bonds and debentures, units of equity oriented mutual funds.	2.24	0.91
V	Secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers	174.04	163.82
	Total Exposure to Capital Market (I+II+III+IV+V)	270.82	276.45
	1. Of (v) above, the total finance extended to stockbrokers for margin trading.	NIL	NIL

5.15. Risk Category wise Country Exposure

(Rs. in Crore)

Risk Category	Exposure (net) as at 31st March 2010	Provision held as at 31st March 2010	Exposure (net) as at 31st March 2009	Provision held as at 31st March 2009
Insignificant	223.75	NIL	248.00	NIL
Low	143.60	NIL	58.25	NIL
Moderate	12.57	NIL	7.54	NIL
High	0.19	NIL	4.33	NIL
Very High	0.07	NIL	12.74	NIL
Restricted	NIL	NIL	NIL	NIL
Off-credit	NIL	NIL	NIL	NIL
Total	380.18	NIL	330.86	NIL

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The net funded exposure of the bank in respect of foreign exchange transactions with each country is within 1% of the total assets of the Bank and hence no provision is required in terms of RBI guidelines.

5.16. Agricultural Debt Waiver and Debt Relief Scheme 2008

The bank has implemented the above scheme announced by the GOI.

A) Under debt waiver to small and marginal farmers, bank

has submitted a final claim of Rs.34.74 Crores duly certified by Statutory Auditors out of which Rs.22.57 Crores received from the Government of India and present Balance outstanding is Rs.12.17 Crores.

B) As regards to Debt Relief Scheme, the Bank has so far settled an amount of Rs.2.39 Crores to farmers as per the RBI guidelines. As the scheme is extended up to 30/06/2010, final claim will be made thereafter by the Bank. These accounts are classified as Standard Advances.

5.16 (a). Details of Single Borrower Limit (SBL), Group Borrower Limit (GBL) exceeded by the bank.

(Rs. in Crore)

SI No.	Name of the Borrower	Exposure ceiling	Limit sanctioned	Position as on 31/03/2010
1	Alok Industries Limited	207.00	231.02	190.22

5.17. Provisions and Contingencies :

(Rs. in Crore)

SI.No.	Break-up of 'Provision and Contingencies' shown under the head Expenditure in Profit & Loss Account	2009-10	2008-09
1	Provision for Bad & Doubtful Debts	17.50	5.28
2	Provision for Standard Assets	3.30	3.93
3	Provision for Restructured Advances	9.21	9.97
4	Provision for Income Tax (Including FBT and Deferred tax)	89.84	* 95.10
5	Provision for Wealth Tax	NIL	NIL
6	Provision for Depreciation on Investments	7.65	68.15
7	Provision for Derivatives	-0.31	-0.25
	Total	127.19	182.18

* Provision for Income Tax is made after considering current year's liability and previous years' reversals.

5.18 (a) Customer Complaints

No. of complaints pending at the beginning of the year	NIL
No. of complaints received during the year	64
No. of complaints redressed during the year	63
No. of complaints pending at the end of the year	01

5.18 (b) Awards passed by Banking Ombudsman

No. of unimplemented awards at the beginning of the year	1
No. of awards passed by banking ombudsman during the year	2
No. of awards implemented during the year	2
No. of awards dismissed on appeal by RBI	1
No. of unimplemented awards at the end of the year	0

5.19. Disclosure of Penalties imposed by RBI

No penalty was imposed by the Reserve Bank of India during the year.

due to exercise of Employee Stock Option Scheme (ESOS) during the year ended 31st March 2010.

5.20. Increase in Paid-up share capital and Share Premium

The increase in Paid-up share capital and Share Premium is

5.21. Creation of Special Reserve U/s 36 (1) (viii) of I.T. Act

As per Section 36 (1)(viii) of the Income Tax Act, 1961, the Bank has created a Special Reserve of Rs.20.00 crore for the year 2009-

10 and Rs.10.00 crore transferred from General Reserve for the year 2008-09, being the eligible amount of deduction available under the said provision.

5.22 Drawdown from General Reserve

An amount of Rs.10 crore has been transferred to profit & Loss account as “below the line” item in the Profit & Loss Appropriation account after determining the profit for the year to create Special Reserve U/s 36 (1) (viii) of I.T. Act for the year 2008-09.

Miscellaneous Disclosures required by Reserve Bank of India

6.1.1 Concentration of Deposits

(Rs. in Crore)

	As on 31.03.2010
Total Deposits of twenty largest depositors	2133.53
Percentage of Deposits of twenty largest depositors to Total Deposits of the bank	11.07%

6.1.2 Concentration of Advances

(Rs. in Crore)

	As on 31.03.2010
Total Advances to Twenty Largest Borrowers	3584.25
Percentage of Advances to twenty Largest Borrowers to Total Advances of the Bank.	26.21%

6.1.3 Concentration of Exposures

(Rs. in Crore)

	As on 31.03.2010
Total Exposures to Twenty Largest Borrowers / customers	3604.85
Percentage of Exposures to twenty largest borrowers/customers to Total Exposure of the bank on borrowers/customers	22.11%

6.1.4 Concentration of NPAs

(Rs. in Crore)

Total Exposure to top four NPA Accounts as on 31.03.2010	77.54
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6.2 Sector-wise NPAs

Sl.No.	Sector	Percentage of NPAs to Total Advances in that sector
1	Agriculture & allied activities	0.44
2	Industry (Micro, small, medium and large)	1.80
3	Services	0.89
4	Personal Loans	1.49

6.3 Movement of NPAs

(Rs. in Crore)

Particulars	Amount
Gross NPAs as on 1st April 2009	205.86
Additions during the year	120.94
Sub-total (A)	326.80
Less : -	
(i) Upgradations	16.55
(ii) Recoveries (excluding recoveries made from upgraded accounts)	41.12
(iii) write-offs	33.79
Sub-total (B)	91.46
Gross NPAs as on 31st March 2010	235.34

6.4 Overseas Assets, NPAs and Revenue : NIL

6.5 Off-balance sheet SPVs sponsored (which are required to be consolidated as per accounting norms) : NIL

SHRI ATHI. S. JANARTHANAN
Chairman

SHRI Dr. V.G. MOHAN PRASAD
Director

SHRI M.G.S. RAMESH BABU
Director

SHRI T. M. LAKSHMIKANTHAN
Executive Director

Karur
20th May 2010

SHRI K.P. KUMAR
Director

SHRI S. GANAPATHI SUBRAMANIAN
Director

SHRI V. SANTHANARAMAN
Director

SHRI R. SUKUMAR
Chief General Manager

SHRI R. KANNAN
Company Secretary

6.6 Bancassurance Business

The Bank has received an amount of Rs.4.93 crore towards Fee/remuneration in respect of the bancassurance business undertaken during 01.04.2009 to 31.03.2010 (expenses reimbursement is not taken into consideration)

SHRI P.T. KUPPUSWAMY
MD & CEO

SHRI Dr. T.R. RAMANATHAN
Director

SHRI K. PARAMESHWARA RAO
Director

SHRI A.R. RAMACHANDRAN
Deputy General Manager

For **J.L.SENGUPTA & CO.**,
Chartered Accountants

(S.R.ANANTHAKRISHNAN)
Partner
M.No.18073

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2010



Karur Vysya Bank

Smart way to bank

	As at 31.03.2010	(000's omitted) As at 31.03.2009
CASH FLOW FROM OPERATING ACTIVITIES		
NET PROFIT AS PER PROFIT AND LOSS ACCOUNT	3360315	2358415
ADJUSTMENTS FOR		
DEPRECIATION	226333	205299
PROVISIONS AND CONTINGENCIES	1271911	1821799
PROVISION FOR LEAVE ENCASHMENT	14198	20100
PROFIT/LOSS ON SALE OF INVESTMENTS	-563597	-935841
PROFIT / LOSS ON SALE OF ASSETS	-4406	-2641
OPERATING PROFIT BEFORE WORKING CAPITAL CHANGES	4304754	3467131
INCREASE/DECREASE IN OPERATING ASSETS		
PURCHASE AND SALE OF INVESTMENTS	-18374687	-10960641
FUNDS ADVANCES TO CUSTOMERS	-31120982	-9940633
OTHER OPERATING ASSETS	-327370	203204
	-45518285	-17230939
INCREASE/DECREASE IN OPERATING LIABILITIES		
DEPOSITS FROM CUSTOMERS	41704643	25513965
BORROWINGS FROM BANKS	3028466	-3053026
OTHER OPERATING LIABILITIES	125897	-1062668
AMOUNT PAID TO PENSION & GRATUITY FUND	Nil	Nil
CASH GENERATED FROM OPERATIONS	-659279	4167332
DIRECT TAXES PAID	-1136520	-1342508
NET CASH GENERATED FROM OPERATIONS	-1795799	2824824
CASH FLOW FROM INVESTING ACTIVITIES		
PURCHASE OF FIXED ASSETS	-451069	-199218
SALE OF FIXED ASSETS	7947	5297
NET CASH GENERATED FROM INVESTING ACTIVITIES	-443122	-193921

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CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2010



Karur Vysya Bank

Smart way to bank

(000's omitted)

As at 31.03.2010

As at 31.03.2009

CASH FLOW FROM FINANCING ACTIVITIES

PROCEEDS FROM SHARE CAPITAL	4840	103
PROCEEDS FROM SHARE PREMIUM	97188	575
PROCEEDS FROM TIER II BOND ISSUANCE	1500000	0
DIVIDEND PAID (incl Dividend distribution Tax)	-754153	-755639
NET CASH FLOW FROM FINANCING ACTIVITIES	847875	-754961
CASH FLOW FROM OPERATING ACTIVITIES	-1795799	2824824
CASH FLOW FROM INVESTING ACTIVITIES	-443122	-193921
CASH FLOW FROM FINANCING ACTIVITIES	847875	-754961
INCREASE IN CASH & CASH EQUIVALENT	-1391046	1875942
CASH AND CASH EQUIVALENTS AS AT 31.3.2009/31.3.2008	13741661	11865719
CASH AND CASH EQUIVALENTS AS AT 31.03.2010/31.03.2009	12350615	13741661

Karur
20th May 2010

Sd/-
P.T. Kuppuswamy
M.D. & C.E.O

AUDITORS' CERTIFICATE

We have verified the cash flow statement of the Karur Vysya Bank Limited for the year ended 31.03.2010. The Statement has been prepared by the Bank in accordance with the requirements of listing agreement, clause 32, with the Stock Exchange and is based on and in agreement with corresponding Profit & Loss account and Balance Sheet of the Bank covered by the report of 20th May 2010 to the shareholders of the Bank.

Karur
20th May 2010

For J. L. Sengupta & Co.,
Chartered Accountants,
Sd/-
S.R. Ananthkrishnan
Partner
M.No.18073

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BALANCE SHEET ABSTRACT



BALANCE SHEET ABSTRACT AND COMPANY'S GENERAL BUSINESS PROFILE

(Submitted in terms of Part IV of Schedule VI to the Companies Act, 1956)

I Registration Details

Registration Number	1295	State Code	18
Balance Sheet Date	31/3/2010		

II Capital Raised During the year (Amount in Rs.'000)

Public Issue	NIL	Rights Issue (abeyance shares)	112
Bonus Issue (abeyance shares)	25	Private Placement	NIL
ESOS	4703		

III Position of Mobilisation and Deployment of Funds (Amount in Rs.'000)

Total Liabilities	219934942	Total Assets	219934942
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Sources of Funds

Paid-up Capital	544356	Reserves & Surplus	15655405
Deposits	192718537	Borrowings	4758846
Other liab. Provisions	6257798		

Application of Funds

Net fixed Assets	1378135	Investments	66021603
Advances	134974984	Other Assets	17560220
Misc. Expenditure	NIL		

IV Performance of the Company (Amount in Rs.'000)

Total Income	20049224	Total Expenditure	15416998
Profit Before Tax	4632226	Profit After Tax	3360315
Earnings per share in Rs.	62.23		

V Generic Names of Principal Services of the Company (as per monetary terms)

Item Code No.(ITC code)	NA
Product Description	BANKING COMPANY