

Annual Report



74 Years of
Banking on
Relationship

Relationships forever

THE DHANLAXMI BANK LIMITED.

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Company Secretary

RAVINDRAN K. WARRIER

Auditors

M/S. V.K.S. NARAYAN & CO.

M/S. MAHADEVAN & SIVARAJAN

Legal Advisors

R. SREEKRISHNAN ASSOCIATES

T. PADMANABHA MENON

A. GOURI SANKAR

B.S. KRISHNAN

Registrars

M/S. KARVY CONSULTANTS LTD.

G-39, BHAVANA, PANAMPILLY NAGAR

COCHIN - 682 036

KERALA



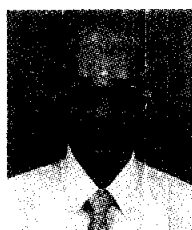
BOARD OF DIRECTORS



T. M. Venkataraman
Chairman



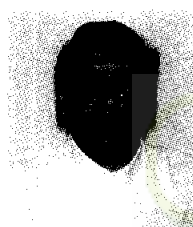
R. Kalyanaraman



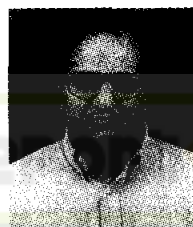
A.V. Ramaswamy



P.K. Ananthanarayanan



Dr. P. Raja Mohan Rao



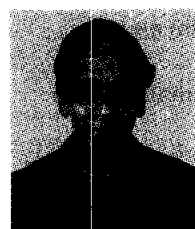
V.K. Sharma



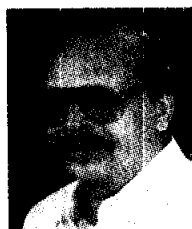
S. Varadachary



K. Govindan



A.P. Venkateswaran



Prof. V.J. Pappoo



James Pothen
(RBI)



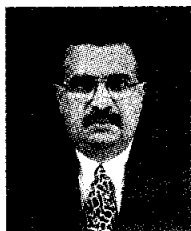
P.M. Saseenocranath
(RBI)



SENIOR EXECUTIVES



K.A. Menon
Executive Director



Thomas Mathew
General Manager

2

DEPUTY GENERAL MANAGERS

H.L. Sitaraman

P.G. Jayakumar

P.T. Thomas

A.K. Ramakrishnan

ASSISTANT GENERAL MANAGERS

M.P.S. Sarma

A. Ram Mohan

P.S. Revikumar

R. Krishnan

A.K. Ramalingam

M. Vijayakumar

K.K. Ranganathan

P.R. Narayanan

P.K. Ganapathy

Ravindran K. Warriar



REPORT OF THE BOARD OF DIRECTORS

The Directors have pleasure in presenting the Seventy Fourth Annual Report of the Bank for the year ended 31 March 2001.

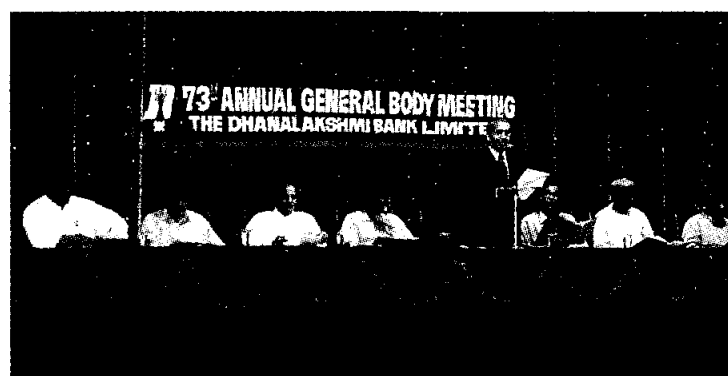
ENVIRONMENTAL SCENARIO

The year under review was one of belied expectations for the Indian economy. The year began with the hope of significant recovery in economic activity. However, as the year progressed, this expectation faded and estimates now reveal that the GDP grew by 5.2% during the year, compared to 6.4% the year before. The deceleration of economic activity for the second year in succession has raised some concerns about the feasibility of rapidly moving the economy to a higher growth path. This is despite the softening trends in interest rates, lower level of inflation and comfortable foreign exchange reserves. Non-food credit, an indicator of industrial activity, has been sluggish and there is no sign of growth in the infrastructure sector. In this background, the current financial year is expected to be a fairly difficult one.

PERFORMANCE OF THE BANK

The major performance indicators of the bank for the last two years are as under:

	March 2000	March 2001
	(Rs in Crores)	
Aggregate Deposits	1295.97	1480.44
Inter-Bank Deposits	104.69	13.90
Advances	776.31	880.10
Investments	563.70	560.45
Operating Profit	30.12	17.05
Net Profit	11.28	6.77
Business per employee (Rs. in lacs)	153.66	184.28
Profit per employee (Rs. in lacs)	0.82	0.52



Chairman addressing 73rd Annual General Meeting



APPROPRIATION OF NET PROFIT

(000's omitted)

Net Profit		67705
Transfer from investment fluctuation Reserve		2257
Balance carried over from the previous year		32
		<u>69994</u>
Appropriations		
Statutory Reserves	20312	
Capital Reserves	11986	
Other Reserves	14600	46898
Balance		<u>23096</u>

Of the balance, Rs.2.30 Crores is set apart for dividend and tax thereon. The Board recommends 15% dividend, tax free in the hands of shareholders.

CAPITAL AND RESERVES

Capital together with Reserves increased to Rs.78.15 Crores from Rs.73.88 Crores.

The Capital to Risk weighted Assets Ratio (CRAR) stood at 9.69%, above the stipulated minimum of 9%.

Consequent to the approval of the Hon'ble High Court of Kerala for reduction of capital, there was a restructure of the capital of the Bank, by conversion of partly paid shares to fully paid shares on a pro-rata basis. This has resulted in the reduction of subscribed and paid up capital of the bank from Rs.14.66 Crores to Rs.13.74 Crores. The reduction of Rs.0.92 Crores representing premium was transferred to Share Premium Account.

Reserve Bank of India has been insisting the Bank to increase the net worth to a minimum Rs.100 Crores. To comply with this requirement and to ensure a reasonable cushion in the CRAR for sustaining future growth, the Board has decided to go in for a right issue of equity capital, the details of which will be communicated to the members at the appropriate time on completion of various procedural formalities.

The Bank has entered into an agreement with NSDL and CDSL for dematerialisation of its shares. Members intending to get their shares demated may avail this facility.

DEPOSITS

Aggregate deposits moved to Rs.1,480.44 Crores from Rs.1,295.97 Crores registering a growth of 14.23%. The growth was moderate but considered satisfactory in the backdrop of the bank's decision to discourage high-cost deposits. Savings deposits increased by 13.30%. Field functionaries are being constantly exhorted to step up the share of such low cost funds. As a result, the cost of deposits came down from 9.49 % to 8.92%.

ADVANCES

Gross credit rose from Rs.805.88 Crores to Rs.913.31 Crores recording an increase of 13.33%. A tenor linked prime lending rate was introduced during the year to give a boost to short term lending. Exposure to various sectors is strictly maintained within the stipulated ceiling.

The Bank continues to give added focus in recovery of Non Performing Assets (NPA). Branches having higher levels of NPA's are being closely monitored through special recovery officers attached to group of branches. Many such borrowers are being persuaded to come with a compromise settlement in accordance with policy formulated by the Bank. Progress in recovery of large NPA accounts are being monitored by a Committee of Directors.

The systems and procedures have been streamlined to detect incipient irregularities in the asset portfolio and to take corrective steps without delay. Total recoveries during the year amounted to Rs.29.22 Crores as against



Rs.18.50 Crores during previous year. With all our efforts, the rise in NPA's during the year could not be avoided as some of the accounts under non banking financial institutions and steel sector have turned irregular due to prevailing economic scenario.

PROFITABILITY

The continuous fall in interest rate during the year and adverse market conditions had severely affected the profitability of the Bank. During the year there was an additional burden of Rs.2.48 Crores on account of Voluntary Retirement Scheme (VRS). The profit on trading in investment was lower by Rs.3.18 Crores and, in addition, an amount of Rs.3.42 Crores had to be provided for depreciation on investments. We have also written off an amount of Rs.7.67 Crores from impaired loan assets, looking to the chances of recovery, instead of making provision. However in all such cases our recovery efforts will continue. These factors resulted in the reduction of the Operating Profit from Rs.30.12 Crores in the previous year to Rs.17.05 Crores this year and the Net Profit from Rs.11.28 Crores to Rs. 6.77 Crores.

PRIORITY SECTOR

Our achievement was above the benchmark of 40% of net bank credit at 41.05% including investment with National Bank for Agriculture and Rural Development.

INVESTMENTS

There were continued uncertainties and occasional turbulence in the capital and money markets during the first three quarters and hence our participation had to be guarded. Though there was improvement in the average investment to Rs.601.33 Crores compared to Rs.501.36 Crores during the previous year, the actual year-end figures is marginally lower. The market got activated during the last quarter only and the Bank did capitalise on the opportunities during this limited period. However, the Bank could book Trading Profit of Rs.7.44 Crores only as against Rs.10.62 Crores during previous year.

FOREX BUSINESS

Aggregate income from Forex operation touched Rs.3.56 Crores as against Rs.2.47 Crores in the previous year. Despite the challenge posted by the State Bank of India Millennium deposits, foreign currency deposits moved up from Rs.32.58 Crores to Rs.40.10 Crores recording an improvement of 23.07%. Total NRI deposits jumped from Rs.160.61 Crores to Rs.231.04 Crores registering an increase of 43.85%. Most of the B category branches have reported encouraging improvement in the export/import turnovers. Exports turnover had improved from Rs.105.70 Crores to Rs. 234.34 Crores while that of imports moved up to Rs.67.06 Crores from Rs.27.84 Crores.

ASSET LIABILITY MANAGEMENT

Following Reserve Bank of India guidelines, the bank has implemented Asset Liability System (ALM), effective 1 April 1999 and has set up internal Asset Liability Management Committee (ALCO) at the top management level. Monthly statements on structural liquidity and interest rate sensitivity are generated and monitored closely for any mismatches of assets and liabilities. ALCO is also looking after the pricing of products, liquidity risks and other market risks associated with funds management.

RISK MANAGEMENT

In compliance with the Reserve Bank of India guidelines, a Risk Management structure is being put in place. A formal Risk Management Policy covering the areas of Investment, Credit & Foreign exchange has been formulated and is in the process of implementation. Among other things the Policy covers Credit Risk, Market Risk, Liquidity Risk, Interest Rate Risk and Operations Risk.

BRANCH NETWORK

We opened our Branch at Koramangala (Bangalore), Kalpetta (Wynad Dist) and Kasaragod taking the number of branches to 153. The bank proposes to open a branch at Kolkata shortly. In addition to the branch network, the bank has twenty Extension Counters in operation. The bank is examining the feasibility of opening a few



more branches and extension counters at strategic locations. Steps are also being initiated to close/restructure some of the branches continuing to be non viable.

INFORMATION TECHNOLOGY

The Bank has kept pace with the metamorphosis in the technological and communication sectors. Out of 153 branches, 135 branches are having Computer support. To provide value added services to our customers, we have installed Automated Teller Machine (ATM) at Thrissur Main, Kaloor, Anna Nagar and Koramangala Branches. Three more ATMs will be launched shortly, one each at Mumbai, Calicut and Edappally (Kochi). The Bank has introduced Cash Management Services (CMS) through 15 branches in the first phase and 15 more branches will be taken up shortly. Process of Networking branches in major centers through lease line is also in progress.

To enable expatriates in Gulf to transfer funds instantly, we have entered into an arrangement with the Wall Street Finance Co. Ltd. Thirteen branches, which have been provided Internet connection, have already started dispensing this service.

NEW BUSINESS ACTIVITIES

The Bank also proposes to offer another technology based service namely Depository Participation to increase our client base and add to our fee based income.

The Bank also proposes to take up Corporate Agency for selling of Life/Non-Life insurance products. Necessary approval to the alteration to the main object clause of the Memorandum of Association is sought for in the notice to the proposed Annual General Meeting. Obtaining of permission from RBI and compliance of various other formalities are in the process.

HUMAN RESOURCES DEVELOPMENT

Sri. K.A. Menon having rich experience in State Bank of India and a New Generation Private Sector Bank has joined the Bank as Executive Director.

A Voluntary Retirement Scheme was introduced in our Bank during the year with the twin objectives of downsizing the flab and inducting personnel with specialised skills. 81 Officers, 47 Clerks and 8 sub-staff opted for the scheme.

Our Training College imparted training to 667 employees during the year, which included specialised programs on Marketing and Self Help Groups by external experts. 93 Officers were deputed to other institutions for acquiring skills in specialised areas.

The business per employee has gone upto Rs.184.28 lacs from Rs.153.66 lacs during previous year.

To enable all our personnel to acquire computer skills, a Computer Lab is proposed in the Training College.

The industrial relation continued to be cordial as has been in the past.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that in the preparation of the annual accounts for the year ended March 31, 2001-

- i) the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- ii) accounting policies, framed in accordance with the guidelines of the Reserve Bank of India, were applied consistently ;
- iii) reasonable and prudent judgement and estimates were made wherever required so as to present a true and fair view of the state of affairs of the Bank as at the end of the financial year and the profit of the Bank for the year ended on March 31, 2001;
- iv) proper and sufficient care was taken for the maintenance of adequate accounting records in accordance with the provisions of applicable laws governing banks in India and
- v) the accounts have been prepared on a 'going concern' basis.



THE COMPANIES (Disclosure of Particulars in the Report of the Board of Directors) RULES, 1988.

- a) Conservation of Energy
All efforts are being made to reduce energy consumption to the extent possible
- b) Technology Absorption
Being a banking company, the required technology absorption is made considering the nature of activities.
- c) Foreign Exchange Earnings and Outgo
Being an authorised dealer in Foreign Exchange, the Bank is taking all possible steps to augment net foreign exchange earnings, the details of which are furnished separately under the head 'Forex Business'.

AUDITORS

The Statutory Audit of the Bank was jointly conducted by M/s.V.K.S. Narayan & Co. and M/s.Mahadevan & Sivarajan.

QUALIFICATIONS IN AUDITORS' REPORT

Explanations are offered below on the comments made by the Statutory Auditors.

- a) The outstanding unadjusted items in Inter-Branch accounts, Agency Bank Accounts and Demand Draft Accounts do not materially affect the final accounts. Reconciliation of entries and elimination and adjustment have been done as per the relevant RBI directives. Every effort is being made to adjust the outstanding entries in these accounts.
- b) The guidelines of FEDAI on conversion of foreign currency, forward exchange contracts etc. which have been approved by RBI are mandatory. Hence these guidelines have been followed in preference to Accounting Standard No.11 of the Institute of Chartered Accountants of India.
- c) The guidelines of RBI on Accounting of leased assets are mandatory. Hence these guidelines have been followed in preference to Guidance Note issued by the Institute of Chartered Accountants of India. Since the leased assets are depreciated in full over primary lease period in accordance with RBI direction, the effect in the accounts is Nil which is affirmed by the Statutory Auditors.
- d) No provision is made for disputed demands of Income Tax and Interest Tax amounting to Rs.1001.87 lakhs, in view of the judicial pronouncements and/or legal counsel's opinion.
- e) The accounting policy mentioned against para 7 of Schedule 18 together with para 5 of 'Notes to Accounts' is self-explanatory.
- f) Leave encashment on retirement of employees is accounted for on 'pay-as-you-go-basis'. This method is being followed consistently as in the previous years. However, since the amount has been charged to Profit and Loss Account, there is no impact on the Profit for the year or in the Reserves and Surplus, which is affirmed by the Statutory Auditors.
- g) In view of the above observations, the Directors are of the opinion that there will be no material effects in the ratios, including Capital to Risk Assets Ratio in para No.6 of 'Notes to Accounts'.

DIRECTORS

In the last Annual General Meeting Sri.R.Kalyanaraman who retired was reelected and Sri.S.Varadachary appointed as Director.

Sri.P.S.Mani and Sri. A.V.Jose who were to retire by rotation did not offer themselves for reelection.

Sri. M. K. Kesavan, Sri. D. Lakshminarayanan and Sri. S. Sivaramakrishnan, consequent to their resignation,



ceased to be Directors. Sri.N.Gopalakrishnan who was co-opted to the office of Director not liable to retire by rotation ceased to be Director consequent to the expiry of the term of office.

Sri. V.K. Sharma was appointed as Director on 12 June 2000 in the casual vacancy caused by the resignation of Sri. M.K. Kesavan. Subsequently on 24 April 2001, consequent to the resignation of Sri. S. Sivaramakrishnan, he was co-opted to the office of Director not liable to retire by rotation. Sri. K. Govindan, Sri. A.P. Venkateswaran and Sri. V.J. Pappoo were co-opted as Additional Directors on 29.8.2000, 30.09.2000 and 28.04.2001 respectively.

No Director is disqualified under sub-clause (A) and (B) of Sec. 274(1) (g) or any other provision of The Companies Act, 1956.

REPORT ON CORPORATE GOVERNANCE

The mandatory requirements on Corporate Governance are applicable to the Bank with effect from March 31, 2002. However your Board has thought it fit to include the report on Corporate Governance in the Annual Report for the year ended 31 March 2001 itself.

Good Corporate Governance depends on the ability of the management of the Bank to build trust with customers and investors and such trust should enable them to repose faith in the management that the Bank will be managed properly, will successfully perpetuate its businesses, will protect and enhance the capital of its investors, and will increase corporate value for its shareholders.

1. Board of Directors:

a) Composition of the Board as on date:

All the Directors except the Chairman and Chief Executive Officer Sri.T.M.Venkataraman are non-executive directors. All the other Directors are independent. Thus, the condition regarding one-third of the Board being independent has been met. Further the constitution of the Board is in compliance with Sec 10 A of The Banking Regulation Act, 1949.



Padmashree Dr. K.J. Yesudas, Inaugurating ATM at
Our Anna Nagar branch, Chennai.