

Annual Report 2001-2002



Relationships forever





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Company Secretary

RAVINDRAN K. WARRIER

Auditors'

**M/s. V.K.S. NARAYAN & Co.
M/s. R.G.N. PRICE & Co.**

Legal Advisors

**R. SREEKRISHNAN ASSOCIATES
T. PADMANABHA MENON
A. GOURI SANKAR
B.S. KRISHNAN**

Registrars and Transfer Agent

**M/s. KARVY CONSULTANTS LTD.
No. 51/2, TKN COMPLEX, VANI VILAS ROAD
OPP. NATIONAL COLLEGE, BASAVANAGUDI
BANGALORE - 560 004.**



BOARD OF DIRECTORS



T.M. VENKATARAMAN
Chairman



Sri. A.V. Ramaswamy



Dr. P. Raja Mohan Rao



Sri. P.K. Anantha Narayanan



Sri. V.K. Sharma



Sri. S. Varadachary



Sri. K. Govindan



Sri. A.P. Venkateswaran



Sri. V.J. Pappoo



Sri. James Pothen



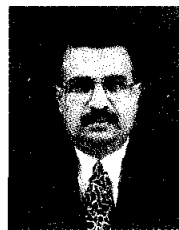
Sri. P.M. Saseendranath



SENIOR EXECUTIVES



Sri. K.A. Menon
Executive Director



Sri. Thomas Mathew
General Manager

DEPUTY GENERAL MANAGERS

Sri. H.L. Sitaraman

Sri. P.G. Jeyakumar

Sri. P.T. Thomas

Sri. A.K. Ramakrishnan

ASSISTANT GENERAL MANAGERS

Sri. M.P.S. Sharma

Sri. A. Ram Mohan

Sri. P.S. Revikumar

Sri. R. Krishnan

Sri. A.K. Ramalingam

Sri. M. Vijayakumar

Sri. K.K. Ranganathan

Sri. P.R. Narayanan

Sri. P.K. Ganapathy

Sri. Ravindran K. Warriar



REPORT OF THE BOARD OF DIRECTORS

The Directors have pleasure in presenting the Seventy Fifth Annual Report of the Bank for the year ended 31 March 2002.

ENVIRONMENTAL SCENARIO

The financial year 2001-2002 was beset with challenges and constraints on a global level. The terrorist attacks in the United States of America on 11 September 2001 and the consequential war in Afghanistan led to a slowdown in the US economy. This had impact on the economies of other countries including that of ours. Estimates for GDP growth were revised and brought down from the initial target of 6.5% to around 5.4%. Though the services sector and the agricultural sector fared reasonably well, this was partially offset by the sluggish performance of the manufacturing and industrial sector.

Inflation was mild in 2001-2002 with average inflation as measured by the Whole Sale Price Index estimated at around 4.7% as against 7% at the beginning of the year.

In this backdrop, the Reserve Bank of India continued a low interest rate regime throughout the financial year through successive cuts in Bank Rate and consequently the market interest rates showed a downward trend.

For the fifteenth successive year, a normal monsoon was predicted and the outlook of National Council for Applied Economic Research is positive for the economy as a whole during 2002-2003. However, the recent report on monsoon trends does not augur well.

PERFORMANCE OF THE BANK

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

(Rupees in Crores)

	March 2002	March 2001
Aggregate Deposits	1639.54	1477.84
Inter-Bank Deposits	17.69	16.48
Advances	917.71	880.10
Investments	651.31	560.45
Operating Profit	50.59	24.72
Net Profit	10.07	6.77
Business per employee (Rs. in lakhs)	199.24	184.28
Profit per employee (Rs. in lakhs)	0.78	0.52

APPROPRIATION OF NET PROFIT

(Rupees in Lakhs)

	March 2002	March 2001
Net Profit	1007.06	677.05
Transfer from investment fluctuation Reserve	--	22.57
Balance carried over from the previous year	0.96	0.32
	1008.02	699.94
Appropriations		
Statutory Reserves	302.12	203.12
Capital Reserves	6.91	119.86
Investment Fluctuation Reserve	200.00	--
Other Reserves	17.12	146.00
Balance	481.87	230.96

Out of the balance, Rs.480.87 lakhs is set apart for dividend for reasons mentioned in para 20 under notes attached to and forming part of the Profit and Loss account and Balance Sheet in Schedule No. : 17. The Board of Directors is recommending a dividend of 15%.



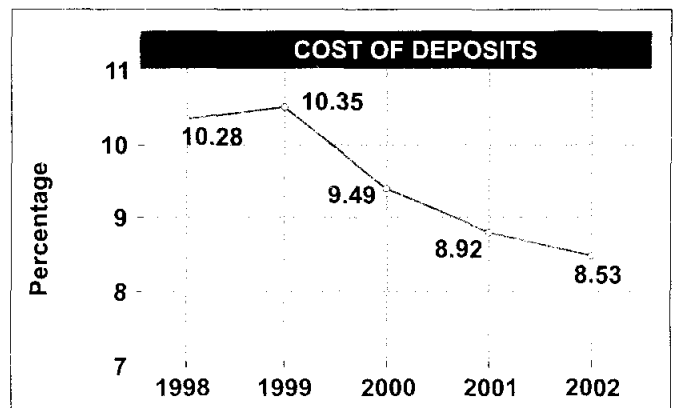
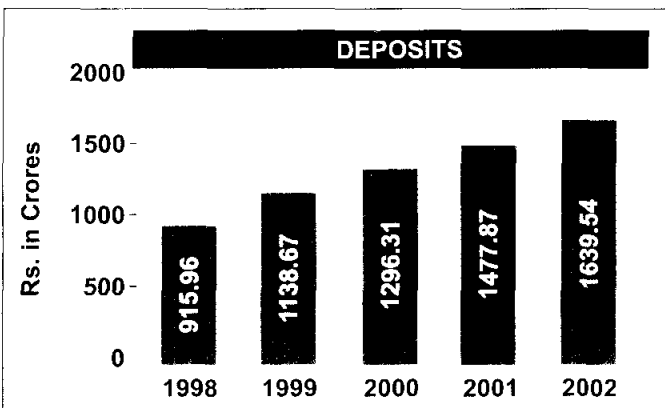
CAPITAL AND RESERVES

With a view to comply with the stipulation of Reserve Bank of India to increase the network to a minimum of Rs.100 crores and also to ensure that there is enough cushion in Capital to Risk Weighted Assets Ratio (CRAR) for sustaining growth, the Board of Directors had decided to go for a Right Issue of capital to the tune of Rs. 27, 47,50,500/- (1,83,16,700 Equity Shares of Face Value Rs.10/- at a premium of Rs.5/-). The existing shareholders were offered 4 equity shares for every 3 equity shares held.

The issue opened on 1 March 2002 and closed on 30 March 2002. We are happy to state that the issue was fully subscribed. The shares have not been allotted to the applicants till date pending clearance from the Reserve Bank of India. With the share application money accounted, our net owned funds has increased from Rs.78.15 crores to Rs.112.38 crores and the Capital Adequacy Ratio increased to 11.23% from 9.69%.

DEPOSITS

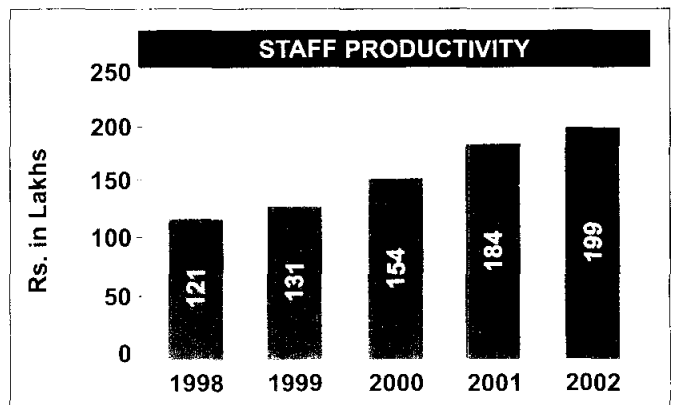
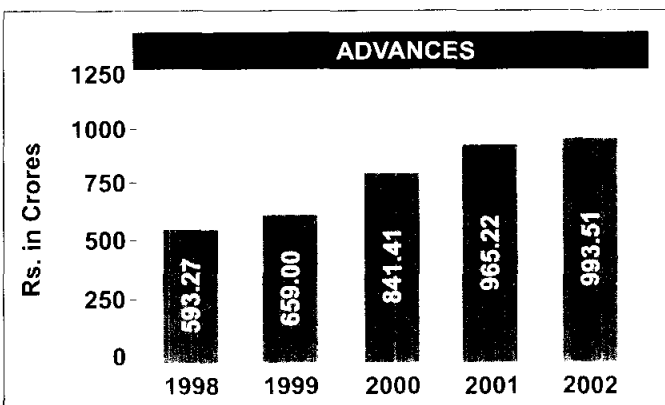
Aggregate deposits moved from Rs.1477.84 crores to Rs. 1639.54 crores registering a growth of 10.94%. This modest growth is mainly due to a conscious decision to shed the high cost deposits, more particularly, from institutions. With a focus on bringing down the cost of deposits, the interest rates for deposits were revised from time to time and the concentration was more on low cost deposits. Savings deposits have registered a growth of 19.30% as against 13.30% during previous year. As a result, the cost of deposits has come down from 8.92% to 8.53%.



ADVANCES

Total advances rose from Rs.965.22 crores to Rs.993.51 crores. Credit growth was unimpressive during the year because of the all-round general recession. This resulted in lower utilisation of sanctioned working capital limits in many cases. Besides, impaired assets amounting to Rs.31.49 crores were written off from the advances portfolio, while recovery steps were continuing. Further major loan accounts amounting to Rs.25.77 crores have been closed.

A substantial positive change in credit dispensation and monitoring has been initiated through a revised credit policy. The policy primarily aims at segmentation of the retail and corporate portfolios for improved thrust in both the areas. To enable branch managers in rural and semi-urban areas to concentrate on priority sector and structured products and to reduce the workload on cash credit accounts, specific directions have been given in the revised policy. Fifteen branches at important locations have been identified to focus on relatively large commercial advances. Mandatory benchmarks in key financial ratios have been fixed at the entry level for high value advances. Some of our retail products have been fine-tuned to be on par with market trends.





THE DHANALAKSHMI BANK LIMITED

The non-performing assets have been a major cause of concern for the financial sector and our bank also has its share of afflictions. The prevailing economic scenario only added to our woes in this regard during the year. We are continuing with our long drawn efforts on recoveries and going in for across the board settlements wherever merited. This resulted in cash recoveries of Rs.22.22 crores during the year. Notwithstanding the substantial recoveries and write offs, the NPA level has shown a marginal increase mainly on account of bills drawn on a tyre company becoming overdue consequent to closure of the unit.

PROFITABILITY

The continuous fall in interest rates did affect our spread, but the treasury market, which was active for most part of the year, contributed appreciably to the profitability. Profit on sale of investments increased to Rs.39.98 crores from Rs.7.44 crores. This partially offset the low spread and NPA provisions. As a result, the operating profit recorded a growth of Rs.25.87 crores (104.65%). Net profit increased from Rs. 6.77 crores to Rs.10.07 crores (48.74 %).

PRIORITY SECTOR ADVANCES

Our achievement at 40.57%, including investments with the National Bank for Agriculture and Rural Development, was above the benchmark of 40% of net bank credit. The concept of rural development through micro-credit to Self-Help Groups (SHGs) has gained countrywide momentum. Our bank has been active in this area for the last few years. It has been decided to intensify efforts for formation of Farmers' Clubs and SHGs. A committee comprising of the Board of Directors and members of top management has been constituted to give impetus to the activity. As of 31 March 2002, the bank has formed 12 Farmers' Clubs and associated with 1461 SHGs. Out of these, 254 SHGs have been credit linked with a total disbursement of Rs.73.82 lakhs.

INVESTMENTS

Falling interest rates and acute competition in an atmosphere of recessionary conditions did not offer much scope for lending. This opened up avenues for parking/investing bank funds in government securities at reasonably good rates of interest. These fully secured yields provided better margin over cost of funds. Our bank capitalised on these opportunities well. The average investments improved from Rs.572.42 crores to Rs.627.23 crores and this has contributed substantially to the profit of the Bank.

FOREX BUSINESS

The Forex merchant turnover increased to Rs.430.70 crores during the year under report from Rs.311.73 crores last year. Exports turnover improved from Rs.130.34 crores to Rs.169.18 crores while that of imports moved up to Rs. 86.07 crores from Rs.67.06 crores. Aggregate income from forex operations touched Rs.3.71 crores as against Rs.3.56 crores in the previous year. Despite steep falls in the London Inter-Bank Offer Rate, foreign currency deposits moved up from Rs.40.10 crores to Rs.48.39 crores. Total NRI deposits jumped from Rs. 233.30 crores to Rs.271.41 crores. During the year under report, 8 more branches were given B category status taking the total number to 17 branches. Some of our B category branches have recorded appreciable improvement in export/import business.

ASSET LIABILITY MANAGEMENT (ALM)

The Bank has a very effective Asset Liability Management (ALM) system and the top management frequently reviews the effectiveness of ALM. The ALM is handled by the Executive level Committee (ALCO) with supervision by the Board. The ALM of the Bank focuses on liquidity risk and interest rate risk. The bank has formulated a comprehensive ALM policy, which specifies the tolerance level for liquidity risk. The statements of structural liquidity and interest rate sensitivity addressing the liquidity risks and interest rate risks are regularly reviewed by the Board. The Bank has conducted a number of training programs for operational staff to develop greater awareness about the concept of ALM.

RISK MANAGEMENT

In compliance with the Reserve Bank of India guidelines, a Risk Management structure has been put in place. We have well defined Credit and Investment policies wherein different parameters are clearly articulated. The Bank, with a view to imbibe the 'best practices', has appointed ICRA, a rating agency, to study the existing Credit Risk Management systems and recommend changes, wherever necessary.

BRANCH NET WORK

During the year, we opened branches at Kalpetta (Waynad district), Kasaragod and Kolkata. Our Extension Counter at Edappally catering to the Super Speciality Hospital of the Sri Mata Amritanandamayi Math was upgraded to a full-fledged branch. For want of worthwhile business, our Muthalamada and N G Hally Branches were closed. With these changes, we have at present, 153 branches and 20 extension counters. The Bank has detailed plans to open 21 branches in potential areas, more particularly in metros, during the current fiscal year. Presently, we have 7 on-site Automated Teller Machines.



INFORMATION TECHNOLOGY

Utmost importance is given to equip the Bank with state-of-the-art technology. Thanks to the continued initiatives in this area, all our branches are computerised with connectivity to the corporate office and a well set management information system is in place. We have also embarked on a time bound action plan to acquire a centralised banking solution and networking of branches with the centralised database. This will facilitate anytime, anywhere banking services and Internet banking to put us on par with the new generation banks.

NEW BUSINESS ACTIVITIES

The deregulation of Insurance sector opened vistas for domestic and foreign players to tap the vast potential market. To offer this product to a cross section of clients and thereby augment our fee-based income, we have entered into a tie-up with MetLife Assurance, the largest insurance conglomerate in the US. We have also set up an exclusive marketing department for sale of the insurance products through selected branches. Also, a tie-up is on the anvil for selling General Insurance Products.

During the year under report, Cash Management Services have been extended to 14 more branches taking the total number covered under these services to 29 branches.

Depository participant services commenced at our Thrissur Main branch in February 2002 and we now intend extending this service to a few more strategic branches.

HUMAN RESOURCES DEVELOPMENT

Harmonious industrial relations prevailed in the bank throughout the year. The profit per employee increased to Rs. 0.78 lacs from Rs.0.52 lacs. To offer professional services to clients of our specialised services and with a futuristic vision to take the bank to a niche status, well-experienced and qualified youngsters were recruited from the market and also through the campus recruitment route. The bank recognises that up-gradation of employee skills at all levels is essential to meet competitive challenges. Accordingly, staff training programs were focused on Credit, Automation, Customer Service and Marketing of our products.

During the year under report 51 employees (previous year: 78 employees) left the Bank on account of Voluntary Retirement Scheme and the cost involved was Rs.4.08 crores (previous year: Rs.1.90 crores) taking the total expenditure on account of VRS to Rs.5.99 crores. The outstanding liability amounts to Rs.2.49 crores, which has been accounted for in the current financial year.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that in the preparation of the annual accounts for the year ended March 31,2002:-

- 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 judgment 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 March 31, 2002;
- 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 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. R.G.N.Price & Co. .

QUALIFICATIONS IN AUDITORS' REPORT

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

Para (f)

- i) The accounting policy mentioned against para 7.1 to 7.3 of Schedule 18 together with para 5 of schedule 17, 'Notes on Accounts' regarding liability towards staff pension, gratuity and leave encashment are self explanatory.
- ii) 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 instead of Accounting Standard 11 of The Institute of Chartered Accountants of India.
- iii) AS-17 on Segment Reporting is optional for Banks, as detailed guidelines have not been issued by Reserve Bank of India. This is in line with the Circular DBOD.No.BP.BC.109/21.04.018/2001-02 dated May 29, 2002 issued by RBI.

Para (g)

Para 20 of Schedule 17 'Notes on Accounts' regarding appropriation of dividend is self explanatory.

Para (h)

- The outstanding unadjusted items in Inter Office, Inter Branch, Clearing Accounts and Drafts Payable Account 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.
- Note.5a regarding non provision of liability towards contribution to pension fund, Note 5b regarding contribution to gratuity fund and Note 6 regarding non-provision for VRS of Notes on Accounts are self explanatory
- Note 7.3 of Schedule 18 regarding accounting of leave encashment is self explanatory.
- No provision is made for disputed demands of Income Tax and Interest Tax Liabilities amounting to Rs.712.37 lacs, in view of the judicial pronouncements and/or legal counsel's opinion.
- Note 21 of Notes on Accounts regarding non-provision for legal expenses is self explanatory.

DIRECTORS

In the last Annual General Meeting, Dr.P.Raja Mohan Rao and Sri.P.K.Ananthanarayanan who retired were re-elected. Further, Sri.K.Govindan, Sri.A.P.Venkateswaran and Sri.V.J.Pappoo, who were co-opted as Additional Directors, were elected.

Sri.R.Kalyanaraman, consequent to his resignation on November 26, 2001, ceased to be a Director. The Board places on record its appreciation for his services to the Bank during his tenure as Director.

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



Chairman addressing the shareholders at the Seventy Fourth Annual General Meeting



REPORT ON CORPORATE GOVERNANCE OF THE BANK

1. Board of Directors:

a) Composition of the Board as on date:

All the Directors of the Bank 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. 10A of The Banking Regulation Act, 1949.

The Composition of the Board and the Sector pursuant to Sec.10- A (2) of The Banking Regulation Act, 1949 each Director represents are given below-

Sl No.	Name of the Director/ Designation	Name of the Sector which the Director represents
1.	Sri.T.M.Venkataraman, Chairman & Chief Executive Officer	Majority Banking
2.	Sri.A.V.Ramaswamy Director	Majority Agriculture & SSI
3.	Dr.P.Raja Mohan Rao Director	Minority
4.	Sri.P.K.Ananthanarayanan Director	Minority
5.	Sri.V.K.Sharma Director	Majority Accountancy
6.	Sri.S.Varadachary Director	Majority Agriculture & Rural Economics
7.	Sri.K.Govindan Director	Majority Banking & Finance
8.	Sri.A.P.Venkateswaran Director	Majority Economics & Law
9.	Sri.V.J.Pappoo Director	Minority

Sri.James Pothan is the Additional RBI nominee Director and Sri.P.M.Saseendranath, alternate Additional RBI nominee Director.



Customer Meet at Erode



Customer Meet at Coimbatore