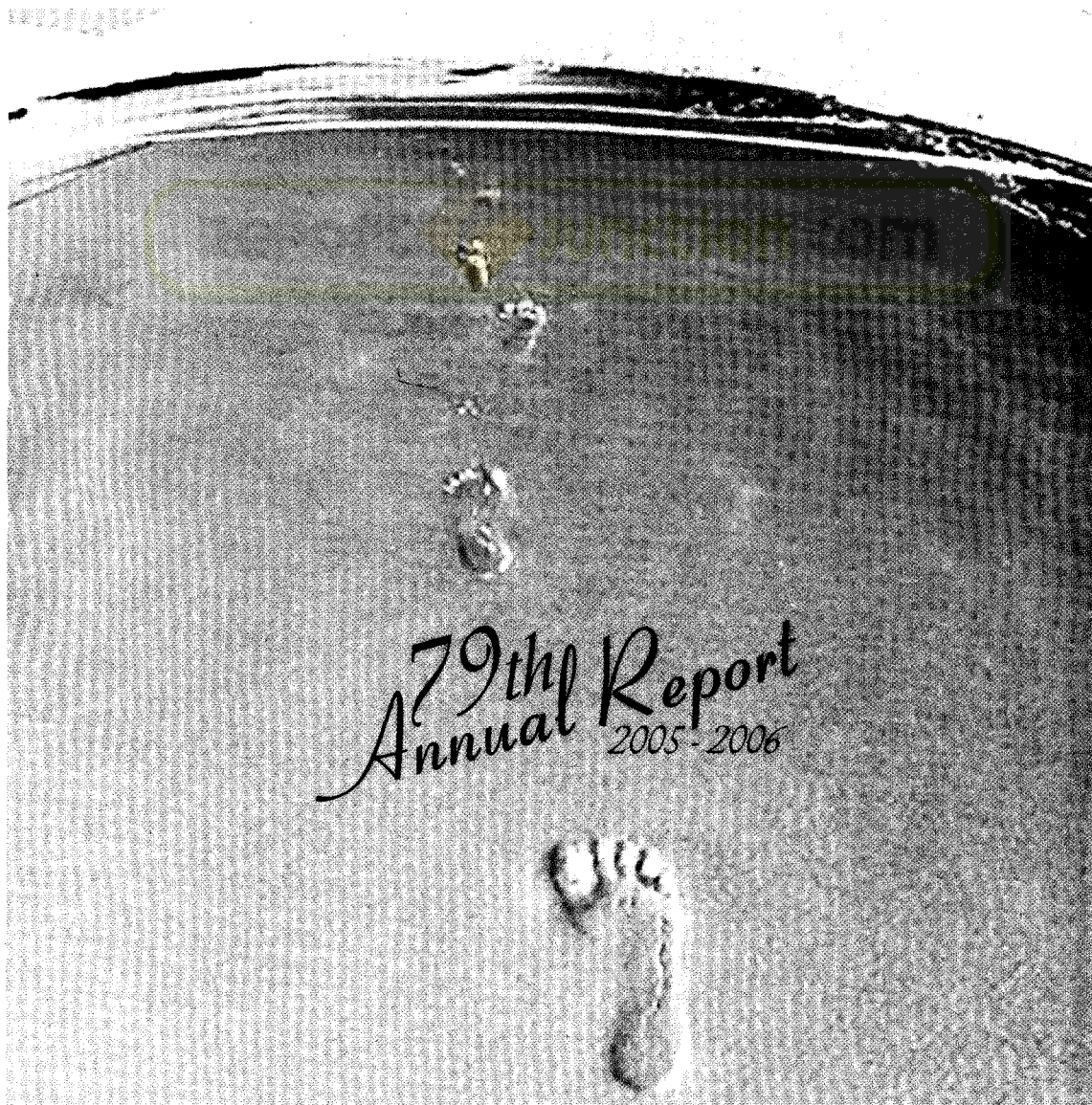




**THE
DHANALAKSHMI BANK
LIMITED**

Corporate Office: Thrissur - 680 001

Relationships forever



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Registered Office

**P B No. 9, DHANALAKSHMI BUILDINGS, NAICKANAL
THRISSUR - 680 001.**

Secretary to Board & Company Secretary

RAVINDRAN K WARRIER

Auditors

**M/s. FORD RHODES PARKS & Co.
M/s. P.B. VIJAYARAGHAVAN & Co.**

Legal Advisors

**R. SREEKRISHNAN ASSOCIATES
A.GOURI SANKAR
B.S. KRISHNAN**

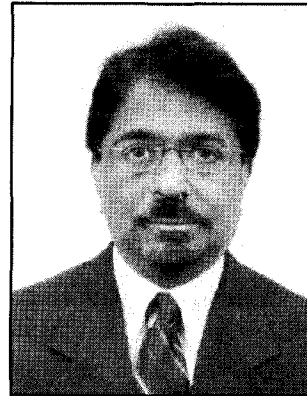
Registrars and Transfer Agent

**M/s. KARVY COMPUTERSHARE PRIVATE LIMITED
46, AVENUE 4, STREET No. 1
BANJARA HILLS
HYDERABAD - 500 034**

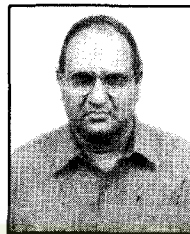
BOARD OF DIRECTORS



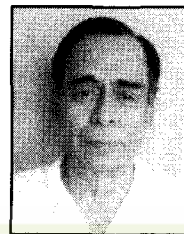
Shri. A.D. Navaneethan
Chairman



Shri. P.S. Prasad
Managing Director & CEO



Shri. V.K. Sharma



Shri. S. Varadachary



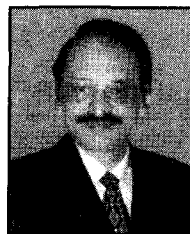
Shri. A.P. Venkateswaran



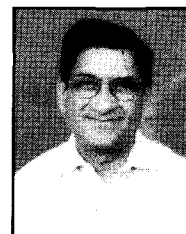
Smt. Nandini Rangaswamy



Shri. D. Lakshminarayanan



Shri. V. Jagannathan



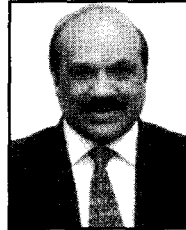
Shri. Vidyadhara Rao Chalasani

OBSERVER - RESERVE BANK OF INDIA



Smt. Parvathy Vairavasundaram

EXECUTIVE DIRECTOR



Shri. V.S.R. Murthy

HEAD - NRI

Shri. M. Sreedharan Kutty

GENERAL MANAGERS

Shri. P.G. Jayakumar

Shri. D. Nanha Ram

DEPUTY GENERAL MANAGERS

Shri. A.K. Ramakrishnan

Shri. P.S. Revikumar

Shri. Ravindran K Warriar

ASSISTANT GENERAL MANAGERS

Shri. R. Krishnan

Shri. H. Rangarajan

Shri. N.R. Balakrishnan

Shri. B.C.M. Prasad

Shri. V. Gopinath

Shri. C.J. Jose

Shri. S. Suresh Kumar

Shri. G.K. Warriar

Shri. P. Manikandan

Shri. C.M. Muraleedharan

Shri. K. Deivarayan

Shri. N. Krishnakumar

Shri. G. Ajith Kumar

Shri. K.K. Rajan

Shri. Asok Hastagiri

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors are pleased to present the Bank's 79th Annual Report along with the audited Balance Sheet and Profit and Loss account for the year ended 31.03.2006.

PERFORMANCE HIGHLIGHTS

The salient features of the Bank's performance for the year 2005-06 as compared to the previous fiscal are as under:

- Total deposits moved from Rs.2338.84 crores to Rs.2532.67 crores
- Low Cost Deposits as a % to total deposits increased from 26.87% to 28.92%
- Cost of deposits declined from 5.33% to 5.19%
- Net advances increased from Rs.1410.15 crores to Rs.1594.34 crores
- Priority Sector Advances to Net Bank Credit was 43.84% as against the bench mark of 40%
- Yield on advances increased from 9.32% to 9.44%
- Operating profit increased from Rs.18.45 crores to Rs.28.24 crores
- Net Profit was Rs.9.51 crores for the year ended 31st March 2006 as compared to net loss of Rs.21.60 crores for the year ended 31st March 2005
- Gross NPA declined from 8.51% to 6.71%
- Net NPA declined from 3.92% to 2.44%
- Number of networked branches increased from 47 to 116

DIVIDEND

The Board of Directors are pleased to recommend a dividend of 7% to the shareholders for the year ended 31st March 2006.

CAPITAL AND RESERVES

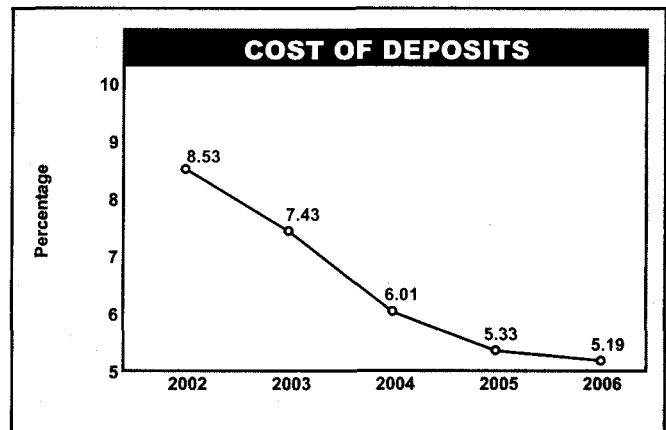
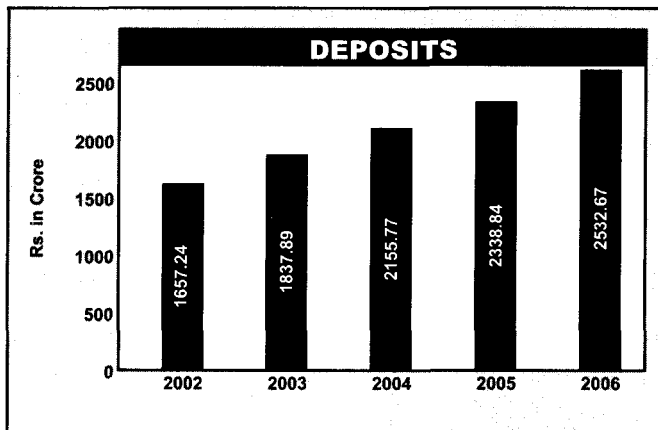
Capital and Reserves of the Bank increased from Rs.114.11crores as on 31.03.2005 to Rs. 134.40 crores as on 31.03.2006. During the year, the Bank raised its Tier II Capital by Rs.10 crores through private placement of Unsecured, Non-Convertible and Redeemable Bonds. The Capital Adequacy Ratio was 9.75% as on 31.03.2006 [10.16% as on 31.03.2005] as against the bench mark of 9%.

BRANCH NETWORK

During the year, the Bank opened 3 Branches at Eluru, Vijayawada Ring Road and Kakinada and 4 Extension Counters. As on 31.03.2006, the Bank operated through 178 Branches and 27 Extension Counters spread over 8 States. It also had 50 on-site and 11 off-site ATMs. As on 31.03.2006, the Bank had three licences on hand for opening branches. The Bank has already formulated a plan for branch expansion for the years 2006-07 and 2007-08 with a view to accelerating business growth.

DEPOSITS

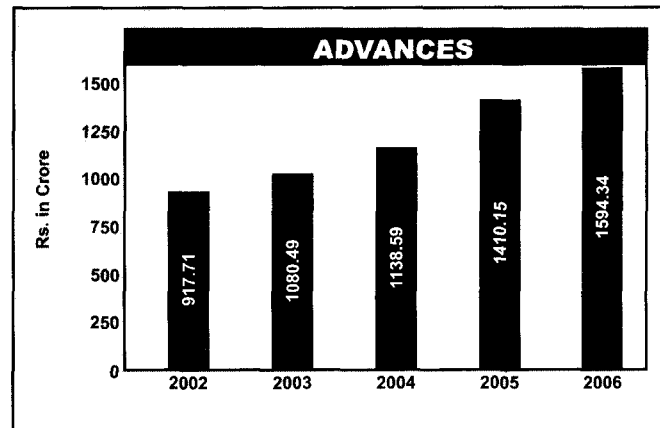
Deposits of the Bank increased from Rs.2338.84 crores as on 31.03.2005 to Rs.2532.67 crores as on 31.03.2006 recording a growth rate of 8.29%. During the same period, low cost deposits increased from Rs.628.30 crores to Rs.732.30 crores at 16.55%. The percentage of low cost deposits to total deposits also moved from 26.87% to 28.92% facilitating a decline in the cost of deposits from 5.33% to 5.19% during the period.



The Bank introduced two new deposit products during the year viz. 'Dhanam Power' and 'Dhanam Supreme' for Current and Savings Account holders respectively which enables customers to take advantage of anywhere banking through multi city cheques. Further, a new 'no frills' Savings Bank account 'Dhanam Simple' was introduced during the year with a view to promote financial inclusion in the community.

NET ADVANCES

Net Advances of the Bank increased from Rs.1410.15 crores as on 31.03.2005 to Rs.1594.34 crores as on 31.03.2006 a growth of 13.06%. Priority Sector Advances increased from Rs.422.08 crores as on 31.03.2005 to Rs.567.14 crores as on 31.03.2006 a growth of 34.37%. The ratio of priority sector advances to net bank credit as on 31.03.2006 stood at 43.84%, which is well above the benchmark of 40%. Special efforts were made during the year to boost Agriculture and Micro Credit in consonance with national priorities; consequently, agricultural outstandings increased from Rs.190.34 crores to Rs.277.20 crores during the period.



MICRO CREDIT

Micro Credit outstandings increased from Rs.28.95 crores as on 31.03.2005 to Rs.55.64 crores as on 31.03.2006, recording a high growth of 92.19%. The Bank has been a keen and active participant in micro credit as part of its social welfare endeavours. As on 31.03.2006, 3604 SHGs had availed credit facilities from the Bank to the tune of Rs.1743 lakhs. Kissan Credit Cards were issued to 2194 farmers for Rs.605.52 lakhs as on 31.03.2006.

PROFITABILITY

The Bank recorded a net profit of Rs.9.51crores for the year ended 31st March 2006 as against a net loss of Rs.21.60 crores for the year ended 31.03.2005. In view of adverse movements in interest rates, the profitability of treasury operations were affected. The Bank could achieve a net profit mainly on account of higher inflow from operations, increased NPA recoveries and commission received on insurance business during the year.

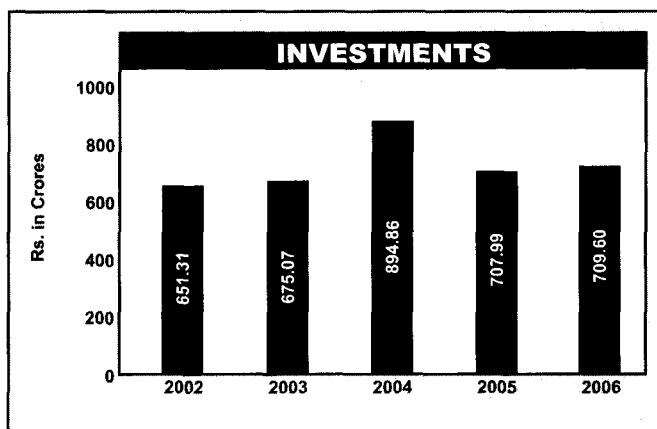
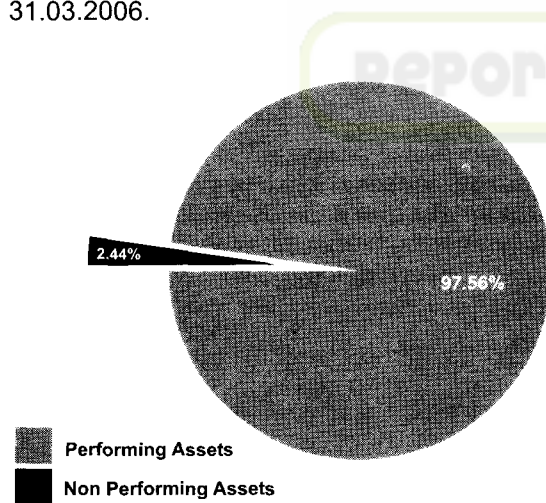
NON-PERFORMING ASSETS

The Bank made concerted efforts on this front during the year. Strategies for preventing slippage of borderline accounts were implemented. The Bank chose the settlement route to accelerate recoveries besides organizing revenue recovery camps, Lok Adalats, etc.

As at the end of the year, the percentage of net NPAs to net advances declined to 2.44% from 3.92% as on 31st March 2005. This is attributable to the reduction during the year in the non-performing assets of the Bank to the extent of Rs.55.39 crores [Rs.38.96 crores during 2004-05] including cash recovery of Rs.38.35 crores and upgradation of Rs.7.09 crores.

INVESTMENTS

The total investments of the Bank stood at Rs.709.60 crores as on 31.03.2006 as against Rs.707.99 crores as on 31.03.2005. The SLR investments comprised Rs. 676.61 crores accounting for 95.35% of total investments. The activities on the investment front were marked by caution, keeping in view the market conditions.



FOREX BUSINESS

The forex business turnover increased from Rs.750.04 crores as on 31.03.2005 to Rs.1036.72 crores as on 31.03.2006. Aggregate income from forex operations increased during the same period from Rs.4.15 crores to Rs.5.16 crores.

RISK MANAGEMENT

The Bank has evolved an integrated approach for management of risks comprising credit, market and operational risks. The Bank has evolved a road map to move towards implementation of Basel II, as per the Reserve Bank of India directions. The policies framed and the procedures/practices adopted are benchmarked to the best in the industry on a continuous basis.

ASSET LIABILITY MANAGEMENT [ALM]

The Bank has put in place a well defined Asset Liability Management policy. The policy is designed to protect the Bank's net interest income in the short run and the market value of the equity in the long run for enhancing the shareholders' wealth. As per the prescriptive guidelines of the Reserve Bank, structural liquidity, interest-rate sensitivity, Earnings at Risk etc. are reviewed in the fortnightly Asset Liability Committee [ALCO] meetings. Necessary action is initiated to manage liquidity, interest and earning risks on an ongoing basis.

CREDIT RISK MANAGEMENT

Bank's Credit Risk Management is covered in the Credit Policy document of the Bank, which details the Bank's strategy in the areas of risk tolerance, risk acceptance/avoidance, risk diversification/ concentration, besides risk measurement, monitoring and control mechanisms. Standardised Credit Approval procedures with well established process of appraisal and rating are in place. Credit proposals beyond the set threshold are also evaluated by the Risk Management Department from industry perspective. Prudential Exposure norms are monitored periodically and apprised to the Board. The rating migration in accounts are also tracked and analysed.

PROGRESS IN NEW LINES OF BUSINESS

(A) INSURANCE

In order to optimize channel presence and to increase non-interest income, steps were initiated to cross sell our products to our customers. Towards this end, the Bank has tied up with M/s. Metlife in the area of life business and with M/s. Iffco-Tokio in the non-life sector. A special thrust was provided to this sector during the year. For the year ended 31st March 2006, the commission earned by the Bank on insurance business was Rs.3.37 crores as compared to Rs.0.48 crores in the previous year. The Bank has plans to strengthen its endeavours on this front in the current year through multi pronged efforts.

(B) CASH MANAGEMENT SERVICES

This is a service by which speedy cheque collection facilities are extended to customers through 59 Branches of our Bank. The income through CMS operations increased from Rs.156.29 lakhs as on 31.03.2005 to Rs.160.27 lakhs as on 31.03.2006. The Bank has already deployed sophisticated software to enhance the efficiency of operations in this area with a view to extending better service to our clientele.

(C) DEPOSITORY SERVICES

The Bank is a depository participant of National Securities Depository Ltd. Depository services are currently offered by the Bank at Thrissur, Kaloor [Ernakulam] and Mumbai Fort Branches. The income generated through DP operations for the year ended 31.03.2006 was Rs. 2.83 lakhs.

INFORMATION TECHNOLOGY

The Bank continued to deploy technology extensively during the year with a view to improving the range and quality of services to its clientele. The number of branches covered under Centralised Banking Solution [CBS] increased from 47 to 116 during the year. The business covered under Core Banking as at 31.03.2006 was 86% as compared to nearly 50% as on 31.03.2005. Further, 29 ATMs were deployed at important centres during the year. The Bank has also finalised the arrangements for putting in place Real Time Gross Settlement [RTGS] in respect of customer transactions. The plan of the Bank for the current year in the area of Information Technology is as under:

- Increasing the number of Branches under Core Banking to 150 covering 95% of total business
- Increasing the number of ATMs deployed to 75
- Putting in place Internet Banking on on-line mode
- Introducing Cheque Truncation Project in the National Capital Region
- Introducing new services in Core Banking like SMS Alert, etc.
- Setting up a Disaster Recovery Site at Chennai

Keeping in view the importance of Core Banking in the emerging banking scenario, the Bank imparted training in this area to 92 Officers and 140 Clerks during the year.

SERVICE QUALITY

The Bank accords highest importance for extending quality service to its customers. A Customer Service Committee comprising 4 Directors of the Board oversees the implementation of customer service measures periodically. During the year, the Bank took special steps to organize workshops on Service Quality to its officers and staff with a view to appropriately sensitise them to the importance of this aspect in a competitive scenario. 73 officers and 87 staff have benefited from these programmes.

HUMAN RESOURCES DEVELOPMENT

The total staff on the rolls of the Bank as on 31.03.2006 was 1385, comprising 570 Officers, 76 Junior Officers, 14 Special Assistants, 588 Clerks and 137 Subordinate staff. The Bank recruited 81 Probationary Officers and 77 Junior Officers during the year. Further, promotion exercises were conducted for various cadres during the year, thereby elevating 78 personnel to the next higher level.

The Staff Training College of the Bank was strengthened during the year with a view to imparting the required skill-sets to different levels of employees. A total of 576 personnel were trained through 38 in-house programmes during the year. Additionally, 166 employees were deputed to external training programmes.



STRENGTHENING THE CAPITAL BASE

RBI had advised that banks in the private sector with a network of less than Rs.300 crores shall draw a clear road map for reaching that level. The network of the Bank as on 31.03.2006 was Rs. 106.92 crores. The Bank has already submitted a road map in this connection to RBI. The various avenues for strengthening the capital base are being continuously explored in line with regulatory guidelines.

LISTING ON STOCK EXCHANGES

The Equity Shares of the Bank are listed on the National Stock Exchange of India Ltd., Bombay Stock Exchange Ltd., and Cochin Stock Exchange Ltd.

THE COMPANIES [DISCLOSURE OF PARTICULARS IN THE REPORT OF THE BOARD OF DIRECTORS] RULES, 1988

None of the Bank's employees falls within the purview of Section 217 [2A] of the Companies Act, 1956.

Conservation of energy

All efforts are being made to reduce energy consumption to the maximum extent possible.

Technology Absorption

Being a Banking Company, the required technology is absorbed keeping in view the nature of activities.

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'.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that in the preparation of the annual accounts for the year ended 31 March 2006;

- the applicable accounting standards have been followed along with proper explanation relating to material departures, if any;
- the accounting policies, framed in accordance with the guidelines of the Reserve Bank of India, were applied consistently;
- 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 31st March 2006;
- 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
- the accounts have been prepared on a 'going concern' basis.

APPOINTMENT OF AUDITORS

The Statutory Audit of the Bank was jointly conducted by M/s. Ford, Rhodes, Parks & Co., Mumbai and M/s. P.B. Vijayaraghavan & Co., Chennai. M/s. P.B. Vijayaraghavan & Co., Chennai are eligible for re-appointment. M/s. Ford Rhodes Parks & Co. have completed 4 years of continuous association with the Bank and are due for change as per RBI's policy on rotation and resting.

The Directors place on record their appreciation for the professional services rendered by M/s. Ford, Rhodes, Parks & Co. and M/s. P.B. Vijayaraghavan & Co., as the Joint Statutory Auditors of the Bank.

EXPLANATION ON THE QUALIFICATIONS MADE BY THE STATUTORY AUDITORS OF THE BANK IN THEIR REPORT

Reconciliation of pending items in inter office, inter branch, drafts payable and clearing accounts as on 31.03.2006 are in progress. In the opinion of the Bank, consequential effect of the same on the revenue / assets / liabilities is not material.

CHANGES IN THE BOARD

Mrs. Nandini Rangaswamy and Mr. D. Lakshminarayanan, who retired at the 78th Annual General Meeting were re-appointed as Directors of the Bank. At the said meeting, Mr. V. Jagannathan and Mr. V.K. Sharma were appointed as Directors of the Bank liable to retire by rotation.

Mr. T.R. Madhavan, then Managing Director & CEO resigned from the Board on 27.07.2005. The Directors place on record their appreciation of the valuable services rendered by Mr. T.R. Madhavan during his tenure.

Mr. P.S. Prasad, has assumed charge as Managing Director & CEO on 26.11.2005.

Mrs. Parvathy Vairavasundaram ceased to be RBI Nominee Director with effect from 29.11.2005. She has been appointed as an observer by the RBI.

Mr. A.P. Venkateswaran and Mr. S. Varadachary, Directors are due to retire by rotation at the ensuing Annual General Meeting.

ACKNOWLEDGEMENTS

The Board expresses its sincere gratitude to the Reserve Bank of India, Government of India, State Governments, Securities and Exchange Board of India and other Regulatory Bodies for their support and guidance. Your Directors are also grateful to the shareholders, depositors, other clients and well wishers for their continued support, patronage and goodwill and look forward for the same in the years to come.

The Board places on record its appreciation for the valuable contribution made by members of staff at all levels for the growth of the Bank.

For and on behalf of the Board

A. D. NAVANEETHAN
Chairman

Cochin
31 July 2006



Shri. A.D. Navaneethan, Chairman addressing the Shareholders at the 78th Annual General Meeting.