



80th Annual Report 2006-2007



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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. P.B. VIJAYARAGHAVAN & Co.
M/s. R. SUBRAMANIAN & Co**

Legal Advisors

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

Registrars and Transfer Agent

**M/s. KARVY COMPUTERSHARE PRIVATE LIMITED
PLOT NO. 17-24, VITHAL RAO NAGAR,
MADHAPUR, HYDERABAD - 500081.**

NOTICE is hereby given that the 80th Annual General Meeting of the shareholders of The Dhanalakshmi Bank Ltd., will be held at 11 AM on Wednesday, the 26 September 2007 at Kousthubham, Shoranur Road, Thrissur 680001 to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Balance Sheet as at 31 March 2007, and Profit and Loss Account for the year ended on that date and the Report of the Board of Directors and Auditors' thereon.
2. To appoint a Director in place of Mr.V.K.Sharma (Director in Majority Sector), who retires by rotation and does not offer himself for re-appointment.
3. To appoint a Director in place of Mrs.Nandini Rangaswamy (Director in Minority Sector), who retires by rotation and offers herself for re-appointment.
4. To appoint Statutory Central Auditors for the year 2007-08 and to authorize the Board to fix their remuneration.

Note:

The present joint Statutory Central Auditors M/s. P.B.Vijayaraghavan & Co., Chartered Accountants and M/s. R.Subramanian & Co., Chartered Accountants retire at the Annual General Meeting. RBI has vide their letter no. DBS.ARS.No.608/08:08:005/2007-2008 dated 13 July 2007, approved the appointment of M/s.P.B.Vijayaraghavan & Co., Chartered Accountants as the Statutory Auditors for the year 2007-08.

SPECIAL BUSINESS:

5. To consider and if thought fit to pass, with or without any modification, the following resolution as an Ordinary Resolution:
 "RESOLVED that pursuant to the provisions of Section 228 and other applicable provisions, if any, of the Companies Act, 1956 (Act), the Board be and is hereby authorized to appoint, in consultation with the Bank's Statutory Auditors, any qualified person(s) to act as Auditors of any Branch of the Bank, whether existing or which may be opened hereafter, and to fix their remuneration".

Place: Thrissur
 Date: 20 August 2007

By Order of the Board
 Sd/-
Ravindran K Warriar
 Company Secretary

NOTES:

1. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of the business under Item No.5 is annexed hereto.
2. Declaration of dividend was subject to approval of RBI. Though the Board of Directors had recommended payment of 10% dividend, RBI did not accede to the request for the declaration. Consequently accounts will have to be adopted with necessary revision.
3. **A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member of the Bank.** Proxies, in order to be effective, must be received at the Bank's Registered Office not less than 48 hours before commencement of the meeting. Proxies submitted on behalf of limited companies, societies, etc. must be supported by appropriate resolution / authority, as applicable, issued on behalf of the nominating organization.
4. The Register of Members will remain closed from 18 September 2007 to 26 September 2007, both days inclusive.
5. Members should notify the changes in their addresses immediately to the Registrars and Transfer Agents/ Depository Participants as the case may be giving full details in block letters with Pin Code and Post Office.

6. Members described as 'Minors' in the address but who have attained majority of age, may get their status in Register of Members corrected by producing proof of age.
7. Pursuant to Sections 205A and 205C of the Companies Act, 1956, all unclaimed / unpaid dividend, application money remaining unpaid or unclaimed for a period of 7 years from the date they became due for payment, have been transferred to the Investor Education & Protection Fund (IEPF) established by the Central Government. Members are requested to contact the Bank's Registrars and Transfer Agents, in respect of unclaimed / unpaid dividends declared on or after 22.11.2001.
8. Members should quote their Register Folio No. / Client ID No. & DP No. in all their Correspondence.
9. Members should produce the attendance slip at the venue of the meeting.
10. Members holding shares in identical order of names in more than one folio are requested to write to the Registrars and Transfer Agents to facilitate consolidation of their holdings in one folio.

Particulars of Directors seeking re-election

Mrs.Nandini Rangaswamy (Director in Minority Sector) who is retiring by rotation at the ensuing meeting and seeking re-appointment is an industrialist with 22 years of business experience. She was the Chairperson of Confederation of Indian Industries Coimbatore Zone for the 2004-05 term. She has established many educational institutions and is the Secretary / Correspondent of the institutions. She was appointed as Director on 7 July 2003 and was last re-appointed at the 78th Annual General Meeting held on 23 September 2005. She holds 200 shares in the Bank.

She holds Directorship in the following companies:

Company	Office Held
1. Chandra Textiles Pvt. Ltd.	Managing Director
2. Chandra Automobile India P Ltd.	Managing Director
3. Lakshmigrha Apparels P Ltd.	Director
4. Magna Electro Castings Ltd.	Director*

* Is a member of the Audit Committee.

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.

Item No.5:

The Bank has branches spread over the country and may open new branches in future. It may be necessary to appoint branch auditors for carrying out the audit of the accounts of such branches. The Shareholders are requested to authorize the Board of Directors of the Bank to appoint branch auditors in consultation with the Bank's Statutory Auditors and to fix their remuneration.

As per Section 228 of the Companies Act, 1956, where a Company in General Meeting decides to have the accounts of a branch office audited otherwise than by the Company's Statutory Auditors, the Company in that meeting may authorize the Board of Directors to appoint qualified persons in consultation with the Company's Statutory Auditors.

None of the Directors is interested in the Resolution. The Board of Directors recommends the passing of the resolution set out in Item No.5 of the notice as an Ordinary Resolution.

Place: Thrissur
Date: 20 August 2007

By Order of the Board
Sd/-
Ravindran K Warriar
Company Secretary

**THE DHANALAKSHMI BANK LTD**

Registered Office : Naickanal, Thrissur - 680 001

ATTENDANCE SLIP

To be handed over at the entrance of Meeting hall

Name of the Shareholder

Folio No. / DP ID & Client ID

I, hereby record my presence at the 80th Annual General Meeting at 'Kousthubham', Shoranur Road, Thrissur - 680 001 on 26th September 2007 at 11 AM.

NUMBER OF SHARES HELD

SIGNATURE OF THE MEMBER/ PROXY

Shareholders who come to attend the meeting are requested to bring their copies of Annual Report with them.

**THE DHANALAKSHMI BANK LTD**

Registered Office : Naickanal, Thrissur - 680 001

PROXY FORM

I/We.....of.....in the district of.....being a member / members of the above named Bank, hereby appoint.....of.....in the district of.....or failing him / herof.....in the district of.....

as my / our Proxy in my / our absence to attend and vote for me / us on my / our behalf, at the 80th Annual General Meeting of the Bank to be held on 26th September 2007 at 11 AM and at every adjournment thereof.

Signed this..... day of.....2007

Folio No. / DP ID & Client ID

NUMBER OF SHARES HELD

Affix
15 paise
Revenue
Stamp

Signature

- Notes: 1. The proxy to be valid should be deposited at the Registered Office of the Bank at Naickanal, Thrissur - 680 001, atleast **48 hours before the meeting**.
2. In the case of a body corporate, the Proxy Form should be signed by the authorised person duly enclosing thereto, a certified copy of the resolution of the Board under Section 187 of the Companies Act, 1956.

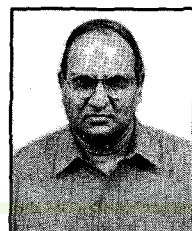
BOARD OF DIRECTORS



Shri. A.D. Navaneethan
Chairman



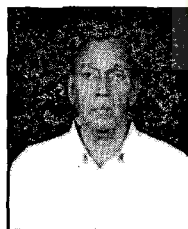
Shri. P.S. Prasad
Managing Director & CEO



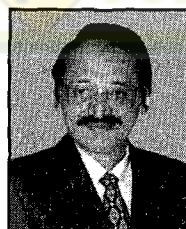
Shri. V.K. Sharma



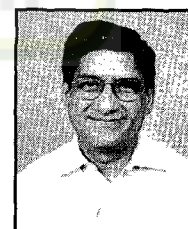
Smt. Nandini Rangaswamy



Shri. D. Lakshminarayanan



Shri. V. Jagannathan



Shri. Vidyadhara Rao Chalasani



Shri. Suresh Balasubramaniam



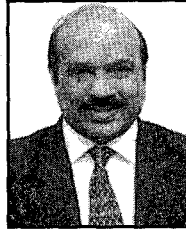
Shri. T. Umamaheswara Rao

OBSERVER - RESERVE BANK OF INDIA



Smt. Parvathy Vairavasundaram

EXECUTIVE DIRECTOR



Shri. V.S.R. Murthy

Shri. M. Sreedharan Kutty
(Head - NRI)

Shri. P.G. Jayakumar
(General Manager)

Shri. D. Nanha Ram
(General Manager)

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DEPUTY GENERAL MANAGERS

Shri. P.S. Revikumar

Shri. Ravindran K Warriar

Dr. V.S. Somanath

Shri. C.K. Guha

ASSISTANT GENERAL MANAGERS

Shri. H. Rangarajan

Shri. N.R. Balakrishnan

Shri. B.C.M. Prasad

Shri. S. Suresh Kumar

Shri. G.K. Warriar

Shri. P. Manikandan

Shri. C.M. Muraleedharan

Shri. N. Krishnakumar

Shri. G. Ajith Kumar

Shri. K.K. Rajan

Shri. Asok Hastagiri

Shri. R. Surendra Babu

Shri. Jyotirmoy Jain

Shri. N. Raghumohan

Shri. E.K. Raju Antony

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors have pleasure in presenting the Bank's 80th Annual Report along with the Audited Balance Sheet and Profit and Loss account for the year ended 31.03.2007.

PERFORMANCE HIGHLIGHTS:

The salient features of the Bank's performance for the fiscal 2006-07 as compared to the previous year are as under:

- Net Profit of Rs.16.14 crores recorded for the year ended 31st March 2007 as compared to Rs.9.52 crores for the year ended 31st March 2006 registering an increase of Rs.69.54%
- Operating profit increased from Rs.23.09 crores to Rs.38.64 crores registering a growth of 67.35%
- Total deposits increased from Rs.2532.67 crores to Rs.3087.96 crores by 21.93%
- Total advances increased from Rs.1690.02 crores to Rs.1928.21 crores by 14.09%
- Priority Sector Advances as a percentage to Net Bank Credit was at 45.79% as against the bench mark of 40%
- Yield on advances increased from 9.44% to 10.27%
- Gross NPA percentage declined from 6.71% to 5.06%
- Net NPA percentage declined from 2.82% to 1.75%
- Number of networked branches increased from 116 to 150 covering about 95% of the total business
- Business per employee increased from Rs.311.71 lakhs to Rs.366.68 lakhs

DIVIDEND

The Board of Directors have proposed a dividend of 10% which is subject to the approval by the Reserve Bank of India.

CAPITAL AND RESERVES

The Capital and Reserves of the Bank increased from Rs.134.40 crores as on 31.03.2006 to Rs.147.37 crores as on 31.03.2007. During the year, the Bank raised its Tier II Capital by Rs.17 crores through private placement of Unsecured, Non-Convertible and Redeemable Bonds. The Capital Adequacy Ratio was 9.77% as on 31.03.2007 [9.75% as on 31.03.2006] as against the bench mark of 9%.

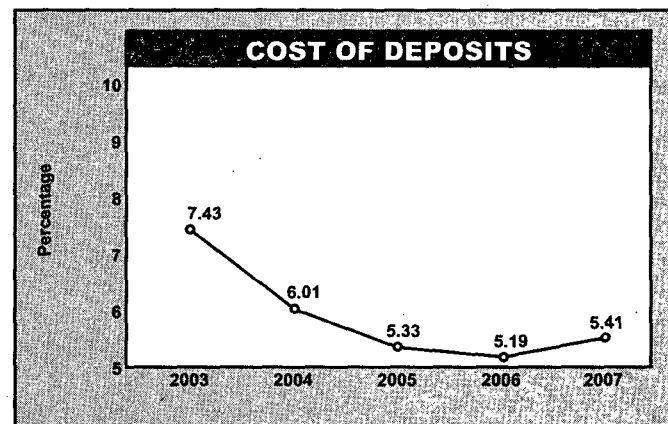
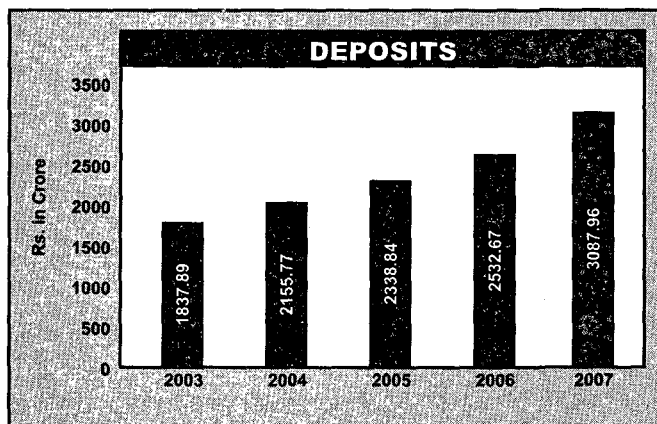
BRANCH NETWORK

During the year, the Bank opened 3 Branches at Nizamabad, Karunagappally (upgradation of the Extension Counter) and Khammam. As on 31.03.2007, the Bank operated through 181 Branches and 26 Extension Counters spread over 8 States. It also had 54 on-site and 13 off-site ATMs.

The Bank has formulated a plan for branch expansion for the year 2007-08 aimed at accelerating business growth and tap the business opportunities in potential centres identified.

DEPOSITS

Deposits of the Bank increased from Rs.2532.67 crores as on 31.03.2006 to Rs.3087.96 crores as on 31.03.2007 - an increase of Rs.555.29 crores at 21.93%. During the period, low cost deposits moved from Rs.732.41 crores to Rs.875.92 crores registering a growth of 19.59%. The percentage of low cost deposits to total deposits was 28.37 while the cost of deposits stood 5.41% at the end of the year. Efforts to increase the client base continued throughout the year through referral and other means.



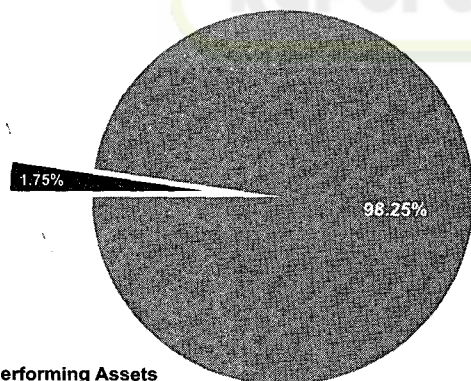
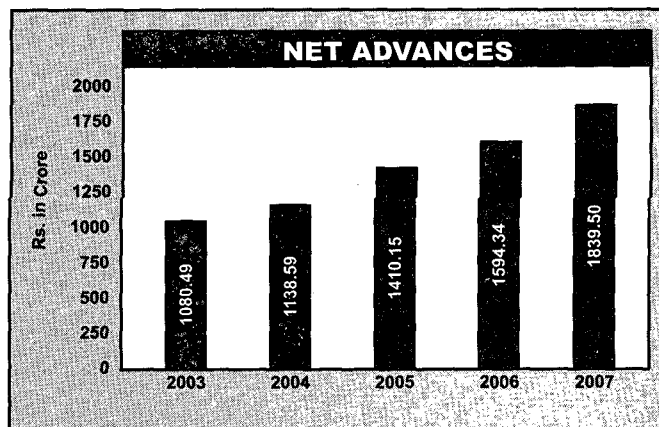
The Bank introduced 3 new deposit products during the year viz. Dhanam Tax Advantage that carries tax benefits, Dhanam Salary meant for employees of corporates that maintain salary accounts with the Bank and Dhanam Bonus, a special deposit carrying high interest for a period of over 3 years. Further, the Bank also introduced odd maturity deposit schemes for 400 days and 500 days in response to market demands. As part of its efforts to promote financial inclusion, the Bank had opened 17925 accounts till 31.03.07 under the zero balance Dhanam Simple Savings Bank deposit scheme.

NET ADVANCES

Net Advances of the Bank increased from Rs.1594.34 crores as on 31.03.2006 to Rs.1839.50 crores as on 31.03.2007 - an increase of Rs.245.16 crores at 15.37%. Priority Sector Advances increased from Rs.567.14 crores as on 31.03.2006 to Rs.707.75 crores as on 31.03.2007, recording a growth of 24.79%. The priority sector ratio as on 31.03.2007 stood at 45.79%, which is well above the RBI benchmark of 40%. The Bank accorded special attention to agriculture in line with national priorities with outstandings in this area increasing from Rs.277.20 crores to Rs.381.40 crores during the year.

MICRO CREDIT

Outstandings in the area of Micro Credit increased from Rs.55.64 crores as on 31.03.2006 to Rs.60.72 crores as on 31.03.2007. The Bank has been an active participant in spreading the culture of Micro Credit as part of its social welfare responsibilities. Continued efforts were made to further strengthen the Self Help Group [SHG] and the Bank linkage. The number of Savings Bank accounts maintained by SHGs in our various branches increased from 13627 to 15431 during the year. Credit facilities availed of by SHGs from the Bank stood at Rs.14.13 crores as on 31.03.2007. Kisan Credit Cards amounting to Rs.4.69 crores were issued to 1821 farmers as on 31.03.2007. The Bank was adjudged as the Best Bank by the Govt. of Kerala as on 31.03.2007 for its active participation in the poverty reduction efforts of Kudumbashree and for supporting the community based organisations of the poor in a big way.



■ Performing Assets
 ■ Non Performing Assets

PROFITABILITY

The net profit of the Bank increased from Rs.9.52 crores in fiscal 2005-06 to Rs.16.14 crores during the year under review, an increase of 69.54%. The Bank was able to improve the profitability through increased recoveries in NPA accounts, higher inflow from operations and higher level of income from cross selling of Bancassurance products.

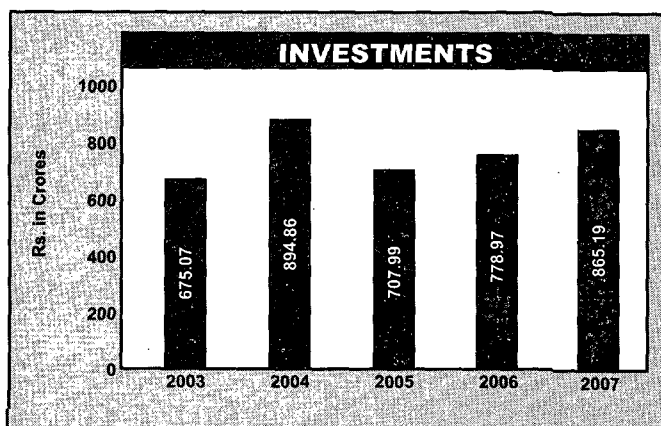
NON-PERFORMING ASSETS

Top priority was accorded during the year for preventing fresh NPAs and for reducing the existing NPA level. A multipronged strategy was put in place in this area comprising Recovery camps, Lok Adalats, activation of settlement process and enforcement of SARFAESI Act, wherever possible.

During the fiscal, the percentage of gross NPA to gross advances declined from 6.71% to 5.06% while net NPAs to net advances came down to 1.75% from 2.82% during the same period. The total cash recoveries including upgradation and recoveries in written off accounts during the year amounted to Rs.41.99 crores.

INVESTMENTS

The net investments of the Bank increased from Rs.778.97 crores as on 31.03.2006 to Rs.865.19 crores as on 31.03.2007 - an increase of Rs.86.22 crores at 11.07%. The SLR investments amounted to Rs.757.19 crores accounting for 85.63% of the total investments.



FOREX BUSINESS

The turnover in forex business increased from Rs.1036.72 crores as on 31.03.2006 to Rs.1515.00 crores as on 31.03.2007. Aggregate income generated from forex operations during the year was Rs.5 crores.

RISK MANAGEMENT

The Bank has been following an integrated approach to risk management in tune with business requirements. The Risk Management policy covers the strategy as also the systems and processes the Bank has put in place for managing the identified risk classes viz., credit risk, market risk and operational risk on a continuous basis. The Bank is well poised to adopt the mandated minimum requirements for implementing Basel II, in terms of the Reserve Bank of India guidelines.

ASSET-LIABILITY MANAGEMENT (ALM):

The ALM functions are governed and reviewed periodically by the Asset Liability Committee (ALCO). The ALM policy was comprehensively reviewed during the year with a view to protecting the Bank's net interest income in the short run and market value of the equity in the long run for enhancing the shareholders' wealth. During the year, 28 ALCO meetings were held to deliberate on various ALM issues including managing the liquidity, interest-rate and earnings risks.

CREDIT RISK MANAGEMENT (CRM):

The Credit Risk Management policy covers the Bank's strategies for undertaking risks in the identified target markets, risk tolerance, risk acceptance/ avoidance, risk diversification/ concentration, besides credit risk measurement, monitoring and controlling mechanisms. Credit exposures beyond Rs.1 crore are subject to industry analysis with a view to professionally evaluating the level of risk. Further, prudential exposure norms are monitored periodically as part of efforts aimed at risk containment.

OPERATIONAL RISK MANAGEMENT (ORM):

The Bank has evolved an Operational Risk management policy encompassing the Bank's generic banking operations and also outsourced activities. This policy covers business continuity and disaster recovery management measures in an era of heightened technology risks / natural disasters, besides putting in place an Incident Reporting system.

PROGRESS IN NEW LINES OF BUSINESS

(a) Insurance

Improving the non-interest income is one of the focus areas for the Bank. 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 with a view to augmenting its non-interest income. There was substantial improvement in income generation on this front during the year with the Bank earning a commission of Rs.7.67 crores as compared to Rs.3.35 crores in the previous year.

(b) Cash Management Services

The Bank has been providing quick cheque collection facilities to its customers through this service covering 50 Branches. The income generated through these operations was Rs.164.32 lakhs for the year ended 31.03.2007. The Bank is constantly exploring possibilities of striking new tie up arrangements for widening the reach of these services.

(c) Depository services

The Bank is a depository participant of National Securities Depository Ltd. offering depository services through Thrissur, Kaloor [Ernakulam], Mumbai Fort, Vijayawada (Ring Road) and Chennai (George Town) Branches. DP operations are carried out in compliance with SEBI / NSDL guidelines. The Bank has 25 NSDL Depository Operations certified staff. The Bank is planning to extend this service to more branches in the current year.

(d) Information Technology

This area attracts priority in the Bank's scheme of things. The Bank has been taking initiatives on an ongoing basis for deploying technology with a view to improving the scope and quality of services to our customers. As part of this effort, the number of branches under Core Banking increased from 116 to 150 during the year covering around 95% of the Bank's business. Keeping in view the importance of Core Banking as an effective instrument of customer service, the Bank imparted training in this area to 45 Officers and 44 Clerks during the year. The other initiatives in this area are as under:

- Launching of SMS mobile alert facility whereby customers whose accounts are credited / debited with amounts exceeding Rs.2000 are advised within 15 minutes of giving effect to the transaction