



Relationships forever

81st Annual Report 2007-2008

Report  junction.com

CONTENTS

	Page No.
Board of Directors	1
Top / Senior Management Team	2
Report of the Board of Directors	3
Management Discussion and Analysis Report	8
Report on Corporate Governance	10
Auditors' Report	25
Balance Sheet	26
Profit & Loss Account	27
Schedules	28
Cash Flow Statement	46
Balance Sheet Abstract	48
Corporate Office / Zonal Offices / Branch Network	49

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.

Legal Advisors

**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 - 500 081**

BOARD OF DIRECTORS



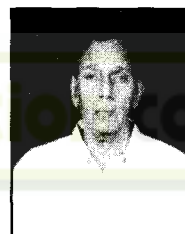
Shri. Ghyanendra Nath Bajpai
Chairman



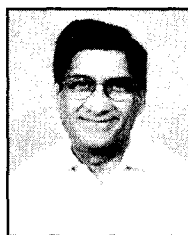
Shri. P.S. Prasad
Managing Director & CEO



Smt. Nandini Rangaswamy



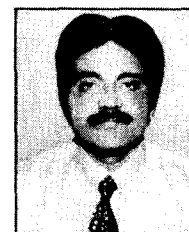
Shri. D. Lakshminarayanan



Shri. Vidyadhara Rao Chalasani



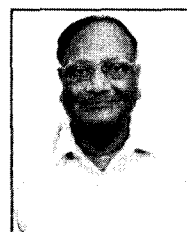
Shri. Suresh Balasubramaniam



Shri. K. Srikanth Reddy



Shri. Shailesh V Haribhakti



Shri. S. Santhanakrishnan

TOP / SENIOR MANAGEMENT TEAM

Shri. M. Sreedharan Kutty
(Head - NRI)

Shri. P.G. Jayakumar
(General Manager)

Shri. D. Nanha Ram
(General Manager)

DEPUTY GENERAL MANAGERS

Shri. P.S. Revikumar

Shri. Ravindran K Warriar

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. Krishna Kumar

Shri. G. Ajith Kumar

Shri. K.K. Rajan

Shri. Asok Hastagiri

Shri. Jyotirmoy Jain

Shri. N. Raghu Mohan

Shri. E.K. Raju Antony

Shri. B. Venkateswarlu

Shri. N. Narayana

Shri. Debajyoti Chakravarty

Shri. P. Chandrasekhara Reddy

Shri. K. Venkateswara Rao

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors has pleasure in presenting the Bank's 81st Annual Report along with the Audited Balance Sheet and Profit and Loss account for the year ended 31.03.2008.

PERFORMANCE HIGHLIGHTS

The salient features of the Bank's performance for the year 2007-08 as compared to the previous year are as under:

- Recorded Net Profit of Rs.28.46 crore for the year ended 31st March 2008 as against Rs.16.14 crore for the year ended 31st March 2007 registering an increase of 76.33%.
- Total deposits increased from Rs. 3087.96 crore to Rs.3608.42 crore, an increase of Rs.520.46 crore at 16.85%.
- Low cost deposits increased from Rs.875.92 crore as on 31.03.07 to Rs.1054.92 crore as on 31.03.08, an increase of Rs.179 crore at 20.44%.
- Total advances increased from Rs.1925.77 crore to Rs.2163.73 crore an increase of Rs.237.96 crore at 12.36%
- Priority Sector Advances as a percentage to Net Bank Credit stood at 51.24% as against the RBI benchmark of 40%.
- Agricultural outstandings as a % to Net Bank Credit was 19.08% as against the RBI prescription of 18%.
- Gross NPA percentage declined from 5.06 to 2.95.
- Net NPA percentage declined from 1.75 to 0.88.
- All branches of the Bank were brought under Core Banking during the year making the Bank 100% Core Banked.
- Business per employee increased from Rs. 366.68 lakh to Rs.409.08 lakh.

DIVIDEND

The Board of Directors proposed a dividend of 10% to the shareholders subject to approval by the Reserve Bank of India. Based on the approval received from the RBI, the Board recommends a dividend of 5% to the shareholders.

CAPITAL AND RESERVES

The Capital and Reserves of the Bank increased from Rs. 147.37 crore as on 31.03.2007 to Rs.172.23 crore as on 31.03.2008. The Capital Adequacy Ratio was 9.21% as on 31.03.2008 [9.77 % as on 31.03.2007] as against the RBI benchmark of 9%.

Strengthening the capital base

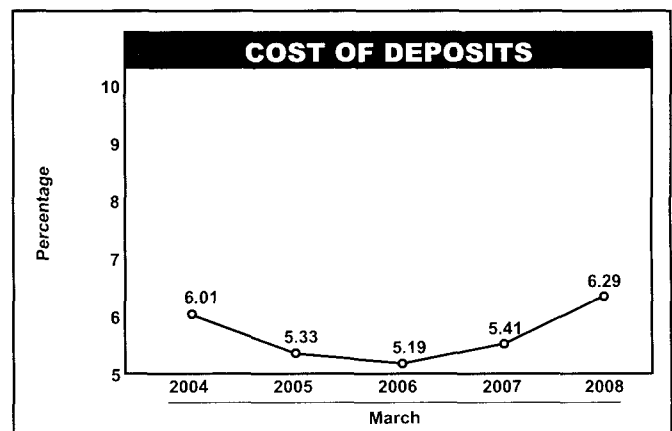
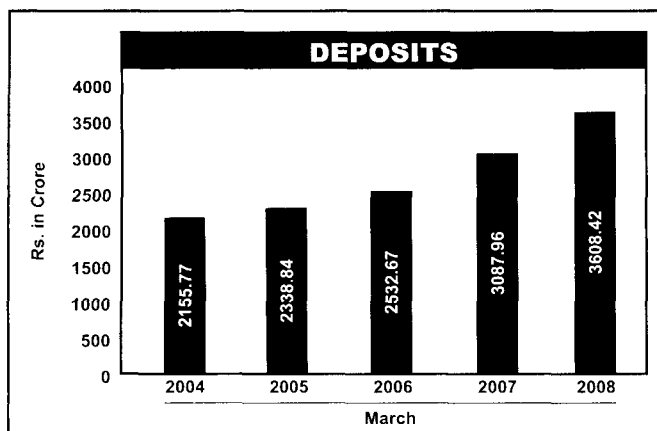
The networth of the Bank as on 31.03.08 stood at Rs.151.12 crore. The Bank successfully completed, in April 2008, the Rights Issue for Rs.198.76 crore at a premium of Rs.52 per share on a 1:1 basis. The issue opened on 19th February 2008 and closed on 17th April 2008. The allotment process was completed on 2nd May 2008. The issue has enabled the Bank to increase its networth beyond Rs.300 crore prescribed by RBI.

BRANCH NETWORK

As on 31.03.2008, the Bank operated through a network of 181 Branches and 26 Extension Counters spread over 8 States besides 55 on-site and 13 off-site ATMs.

DEPOSITS

Total deposits of the Bank increased from Rs. 3087.96 crore as on 31.03.2007 to Rs.3608.42 crore as on 31.03.2008, an increase of Rs.520.46 crore showing a growth of 16.85%. During the period, low cost deposits increased from Rs. 875.92 crore to Rs.1054.92 crore registering a growth of 20.44%. The percentage of low cost deposits to total deposits increased from 28.37% as on 31.03.07 to 29.23% as on 31.03.08. The Bank continued its efforts for mobilizing low cost funds by organizing a campaign during the year with a view to widening the customer base.



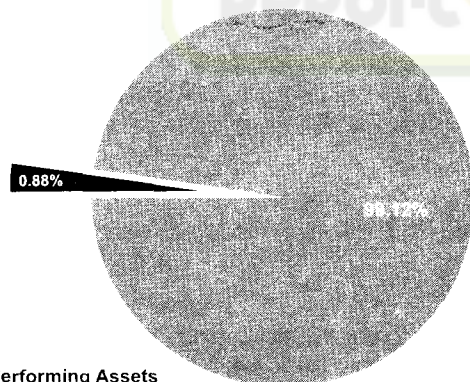
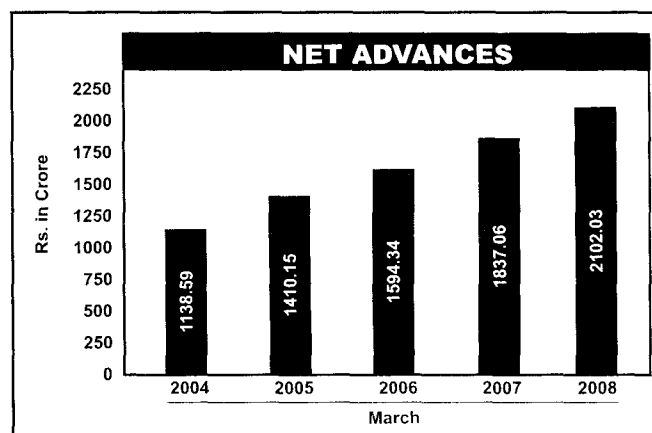
As part of the above exercise, the Bank introduced 2 new deposit products during the year viz. Dhanam Platinum, a premium SB account and Dhanam Super Power, a current account for high network individuals offering anywhere banking facilities. There was also a conscious effort to promote financial inclusion across branches resulting in a steep increase in the number of accounts under the zero balance Dhanam Simple Savings Bank deposit scheme from 17925 as on 31.03.07 to 48136 as on 31.03.08.

ADVANCES

Net Advances of the Bank increased from Rs.1837.06 crore as on 31.03.2007 to Rs.2102.03 crore as on 31.03.2008, an increase of Rs.262.54 crore exhibiting a growth of 14.27%. Priority Sector Advances increased from Rs.707.75 crore as on 31.03.2007 to Rs.908.77 crore as on 31.03.2008, recording a growth of 28.40%. The priority sector ratio as on 31.03.2008 was 51.24%, well above the RBI benchmark of 40%. The agricultural loan outstandings of the Bank as a percentage of net bank credit touched 19.08% as against the RBI norm of 18%. The Bank has completed the exercise of identifying the beneficiaries under the Farm Loan Debt Waiver Scheme announced by the Government of India in the budget for 2008-09.

MICRO CREDIT

The Bank continued its thrust in the area of micro credit during the year. Outstandings in this sector increased from Rs.60.72 crore as on 31.03.2007 to Rs.92.08 crore as on 31.03.2008 showing a growth of 51.65%. Focused efforts were also made to further strengthen Bank's linkage with the Self Help Groups [SHG]. The number of Savings Bank accounts maintained by SHGs in our various branches increased from 15431 to 19822 during the year. Credit facilities availed of by SHGs from the Bank stood at Rs.27.77 crore as on 31.03.2008. Kisan Credit Cards amounting to Rs.5.46 crore were issued to 1956 farmers as at the end of March 2008.



■ Performing Assets
■ Non Performing Assets

CREDIT MONITORING

The Bank formed a new Cell viz. Credit Monitoring and Administration Cell to facilitate effective monitoring of credit. The Cell captures early warning signals and initiates appropriate measures to arrest slide in asset quality. The Cell ensures that credit sanctions are in accordance with policy prescriptions besides monitoring the compliance with sanction terms and completion of documentation.

PROFITABILITY

The net profit of the Bank increased from Rs.16.14 crore for the year 2006-07 to Rs.28.46 crore during the year under review, an increase of 76.33%. The increase in net profit was made possible through better yield on advances, higher income from fee based business and cost control measures.

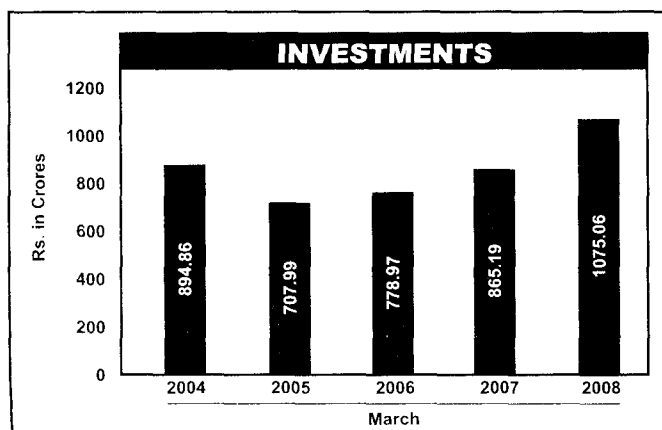
NON-PERFORMING ASSETS

The Bank made sustained efforts during the year for preventing fresh NPAs and for reducing the existing NPA level. Focussed efforts were made in this direction that included Recovery camps, Lok Adalats, activation of settlement process and enforcement of SARFAESI Act, etc.

The percentage of gross NPA to gross advances declined from 5.06% as on 31.03.07 to 2.95%, while net NPAs to net advances came down to 0.88% from 1.75% during the same period. The total cash recoveries including upgradation and recoveries in written off accounts during the year amounted to Rs.36.13 crore.

INVESTMENTS

The net investments of the Bank increased from Rs.865.19 crore as on 31.03.2007 to Rs.1075.06 crore as on 31.03.2008, an increase of Rs.209.87 crore with a growth of 24.26%. The SLR investments amounted to Rs.945.16 crore accounting for 87.92% of the total investments.



FOREX BUSINESS

The turnover in merchant forex business increased from Rs.1445.26 crore as on 31.03.2007 to Rs.1838.25 crore as on 31.03.2008. Aggregate income generated from forex operations during the year was Rs.9.80 crore.

RISK MANAGEMENT

The Bank has an integrated approach to management of risks, which enables compliance with regulatory prescriptions and adoption of international best practices. It has procedures to identify measure, monitor, control and manage different types of risks viz. Credit Risk, Market Risk, Liquidity Risk and Operational Risk systematically across all its portfolios. These are reviewed by the Board periodically. The Bank has formulated a policy of pricing the risk in consonance with credit rating. The Bank has also put in place a Stress Testing Policy.

ASSET-LIABILITY MANAGEMENT (ALM)

The Bank follows ALM with the larger objective of Balance sheet planning to optimize Net Interest Income (NII) in the short term and the overall share holder value in the long term. The ALM also captures important objectives of the Bank namely management of liquidity, interest rate and earnings risk. The Asset-Liability Management Committee (ALCO) met 27 times during the year 2007-08 to guide the Bank in achieving the key ALM objectives.

COMPLIANCE WITH BASEL II NORMS

The Bank is geared to adopt global practices while implementing risk management stipulations that are in conformity with Basel II framework. A comprehensive risk management architecture is in place to address various issues concerning Basel II. As a part of moving towards Basel II framework, a detailed Roadmap is drawn. With a view to ensuring smooth transition and successful implementation of Basel II and also to streamline the systems and strategies, the Bank has started parallel run of the Basel II framework. Further, as a capacity building measure, the Bank has conducted workshops and training programmes on Basel II implementation across the country.

The Bank is adopting Standardised Approach for Credit Risk, modified duration approach for Market Risk and Basic Indicator Approach for Operational Risk for computing the capital requirements under the Basel II Framework.

AUGMENTING FEE BASED INCOME

(a) Insurance

Improving fee based income is one of the thrust 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.10.42 crore as compared to Rs.7.67 crore in the previous year. The employees irrespective of their cadre in the Bank have contributed actively in this area thereby augmenting the Bank's non-interest income.

(b) Cash Management Services

The Bank has been providing quick cheque collection facilities to its customers through this service covering 61 Branches. The income generated through various collection and payment services was Rs.150.33 lakh for the year ended 31.03.2008 as compared to Rs.99.07 lakh in the previous year. The Bank is constantly exploring possibilities of striking new tie ups with other Banks and organizations 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 10 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 as key facilitator for efficient Banking. 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 its customers. As part of this effort, all branches of the Bank were brought under Core Banking covering 100% of the Bank's business to enable Anywhere Anytime Banking. Keeping in view the advantages accruing to our customers from the 'one system, one bank' concept, the Bank imparted training in CBS to 31 Officers and 39 Clerks during the year. The other initiatives taken in this area during the year are as under:

- Operationalisation of the Disaster Recovery Centre (DRC) at Thrissur to enable uninterrupted service to customers.
- Real Time Gross Settlement (RTGS) and National Electronic Funds Transfer (NEFT) packages at all branches to facilitate funds transfer across banks.

- Implementation of Anti Money Laundering package.
- Launching of SMS mobile alert facility
- Developing a web based speed remittance transaction system that facilitates instant transfer of funds from Exchange Houses to any customer of any bank in India.
- Deploying in-house software for a number of day to day functions resulting in a higher level of operational efficiency
- Efforts to implement Integrated Treasury Software at Treasury Mumbai are on.

The Bank continued its emphasis during the year on strengthening Information System Security. A policy approved by the Board in this regard is in place and necessary training is imparted to the employees to ensure its effective implementation.

INSPECTION & VIGILANCE

The Bank has switched over to Risk Based Internal Audit (RBIA) in place of Regular Inspection of Branches with a view to capturing its inherent risk involved by imparting a professional dimension to this work.

The Bank has introduced "Dhanalakshmi Bank Protected Disclosures Scheme" to enable employees of the Bank, its customers, stakeholders and members of the public to lodge complaints with Reserve Bank of India relating to corruption, misuse of office, criminal offences, suspected / actual fraud, failure to comply with Rules and Regulations and Acts resulting in Financial Loss / Operational Risk, Loss of Reputation etc detrimental to Depositors' interest / Public interest. It has also introduced a 'Whistle Blower Policy and Code of Conduct' to enable the employees of the Bank to approach the Ethic Counsellor / Chairman of the Audit Committee of the Bank on instances of unethical behaviour, actual or suspected fraud or violation of Bank's Code of Conduct. Further, a software has been operationalized for detecting Suspicious Transactions and for generating Cash Transaction Reports (Rs.10 lakhs and above)

SERVICE QUALITY

The Bank attaches considerable importance to extending quality service to its constituents. A Customer Service Committee of the Board comprising 3 Directors monitors the implementation of customer service measures periodically. The Bank is also a member of the Banking Codes and Standards Board of India (BCSBI) and is actively implementing the Code for customers formulated by the Board. The implementation of customer service measures at branches is keenly monitored during the visits of top executives to branches. The Bank conducted a sample customer satisfaction survey at select branches in Kerala during the year and the response to its services was satisfactory.

The Bank has also Rupee Drawing Arrangements with 8 Exchange Companies in the Middle East to facilitate faster funds transfer for its NRI customers.



HUMAN RESOURCES DEVELOPMENT

The total staff on the rolls of the Bank as on 31.03.2008 was 1411, covering 706 Officers, 589 Clerks and 116 Subordinate staff. The Bank recruited 83 Officers including 5 Senior Executives during the year.

The training system was strengthened during the year with a view to imparting the required skill sets to different levels of employees. A total of 789 staff members including 668 officers were trained through in-house programmes and 197 staff members were sent to external training programmes during the year.

The business per employee rose from Rs. 366.68 lakhs as on 31.03.2007 to Rs.409.07 lakhs as on 31.03.2008.

Keeping in view the growing importance of human capital in accelerating business growth amidst severe competition, the Bank is formulating a comprehensive HR policy covering the entire gamut of recruitment, training, placement and compensation.

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.

Directors' responsibility statement

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 deployed keeping in view the nature of activities.

Foreign Exchange Earnings and Outgo

Being an Authorised Dealer in Foreign Exchange, all possible measures are taken by the Bank to increase foreign exchange earnings, the details of which are given 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 2008:

- 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 on 31st March 2008;
- 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 conducted by M/s. P.B. Vijayaraghavan & Co.

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 31.03.2008 is 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

Shri.A.D.Navaneethan, demitted office on 29.03.2008 as Part-time Chairman on completion of his term. The Board places on record its appreciation of his valuable services and guidance rendered to the Bank during his tenure both as a Director and as Chairman during the period August 2003 March 2008. Shri.Ghyanendra Nath Bajpai, former Chairman of LIC of India and SEBI who was appointed as Director at the 80th Annual General Meeting assumed charge as Part-time Chairman on 07.05.08.

Shri.V K Sharma, Director, retired on 26.09.07 by rotation. Shri. T Umamaheshwara Rao, Director, retired on 26.09.07 on expiry of his term. Shri. V Jagannathan, Director resigned on 15.05.08. The Board places on record its appreciation for the valuable services rendered by them during their tenure.

Shri. Kadapala Srikanth Reddy, Shri Shailesh V Haribhakti and Shri S Santhanakrishnan were appointed as Additional Directors on the Board on 29.10.07, 30.04.08 and 30.06.2008 respectively.

Acknowledgements

The Board is happy to place on record its sincere gratitude to:

- the Government of India, the Reserve Bank of India, State Governments, Securities and Exchange Board of India and other Regulatory bodies for their support and guidance
- the customers, shareholders, other stakeholders and well wishers for their valued patronage
- the Officers and Staff for their dedication and contribution to the Bank's growth and development.

For and on behalf of the Board
 -Sd-
G.N. Bajpai
 Chairman

Ernakulam
 26 July 2008

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

ECONOMIC AND BANKING SCENARIO

Global Economy

Global economic activity decelerated during the year 2007-08 in relation to earlier expectations mainly on account of the slow down in the US economy. This was sparked by the unfolding of the sub prime mortgage crisis coupled with growing concerns about a contraction of economic activity in US in 2008. The IMF has forecast that the emerging and developing economies' growth will slow to 6.7% in 2008 from 7.9% in 2006-07 and further to 6.6% in 2009. The sharp increase in crude prices has also affected the global economy's deepening uncertainties.

Indian Economy

The Indian economy exhibited strong growth impulses even in the midst of a global slowdown. The growth of real Gross Domestic Product (GDP) in 2007-08 has been estimated at 8.7% as compared to 9.6% in 2006-07. The momentum of growth slackened in the year 2007-08 and moved gradually over the 4 quarters with real GDP growth at 9.3%, 8.9%, 8.4% and 8.4% respectively.

Real GDP originating in agriculture and allied activities is estimated to have risen by 2.6% in 2007-08 as compared to 3.8% in the previous year. Industry recorded a growth of 8.6% in 2007-08 as against 10.6% in the previous year. The Index of Industrial Production (IIP) recorded an increase of 8.7% during April-February 2007-08 vis-à-vis 11.2% a year ago. The output of the six key infrastructure industries (with a weight of 26.7% in IIP) registered a lower growth of 5.6% during April-February 2007-08 as against 8.7% during the corresponding period of the previous year. Real GDP in the services sector rose by 10.6% in 2007-08 as compared to 11.2% a year ago.

Banking Sector

The overall moderation in real sector activity was reflected on the banking arena. Aggregate deposits of Scheduled Commercial Banks increased by 22.2% (Rs.5,80,208 crore) during 2007-08 as compared with 23.8% (Rs.5,02,885 crore) in the previous year. Demand deposits grew by 20.2% as compared to 17.9% whereas time deposits increased by 22.6% vis-à-vis 25.1% in the previous year.

Non- food credit extended by Scheduled Commercial Banks increased by 22.3% (Rs.4,19,425 crore) as compared with 28.5% (Rs.4,18,282 crore) in the previous year. Bank credit to the commercial sector increased by 20.3% (Rs.4,32,574 crore) vis-à-vis 25.8% (Rs.4,37,074 crore) a year ago. During the year, financial markets experienced alternate shifts in liquidity conditions. On a year on year basis, inflation based on the Wholesale Price Index (WPI) stood at 7.4% in end 2008 as compared to 5.9% a year ago.

There was rapid growth in turnover in the foreign exchange market with the average daily turnover increasing to US \$ 57.30 billion at end March 2008 from US \$ 33.18 billion at end March 2007. The country's equity market witnessed large swings during 2007-08.

As on 31 March 2008, the country's foreign exchange reserves stood at US \$309.70 billion, which were higher by US \$110.50 billion as compared to end March 2007.

The growing competition for public patronage continues to pose a threat to our Bank's efforts in accelerating growth. The Bank has, therefore, designed a slew of strategies that would ensure a top line growth ahead of the industry expectations and a doubling of its bottom line during the year 2008-09.

Segment wise Performance

Rs. in crores

Particulars	As on 31 March 2008	As on 31 March 2007	Growth (%)
Current Deposits	412.10	350.38	17.62
Savings Bank Deposits	642.83	525.55	22.32
Term Deposits	2553.50	2212.04	15.44
Total Deposits (a)	3608.42	3087.96	16.85
Priority Sector Advances	908.77	707.75	28.40
Non-Priority Sector Advances	1193.26	1129.31	5.66
Net Advances (b)	2102.03	1837.06	14.42
TOTAL BUSINESS (a) + (b)	5710.45	4925.02	15.95