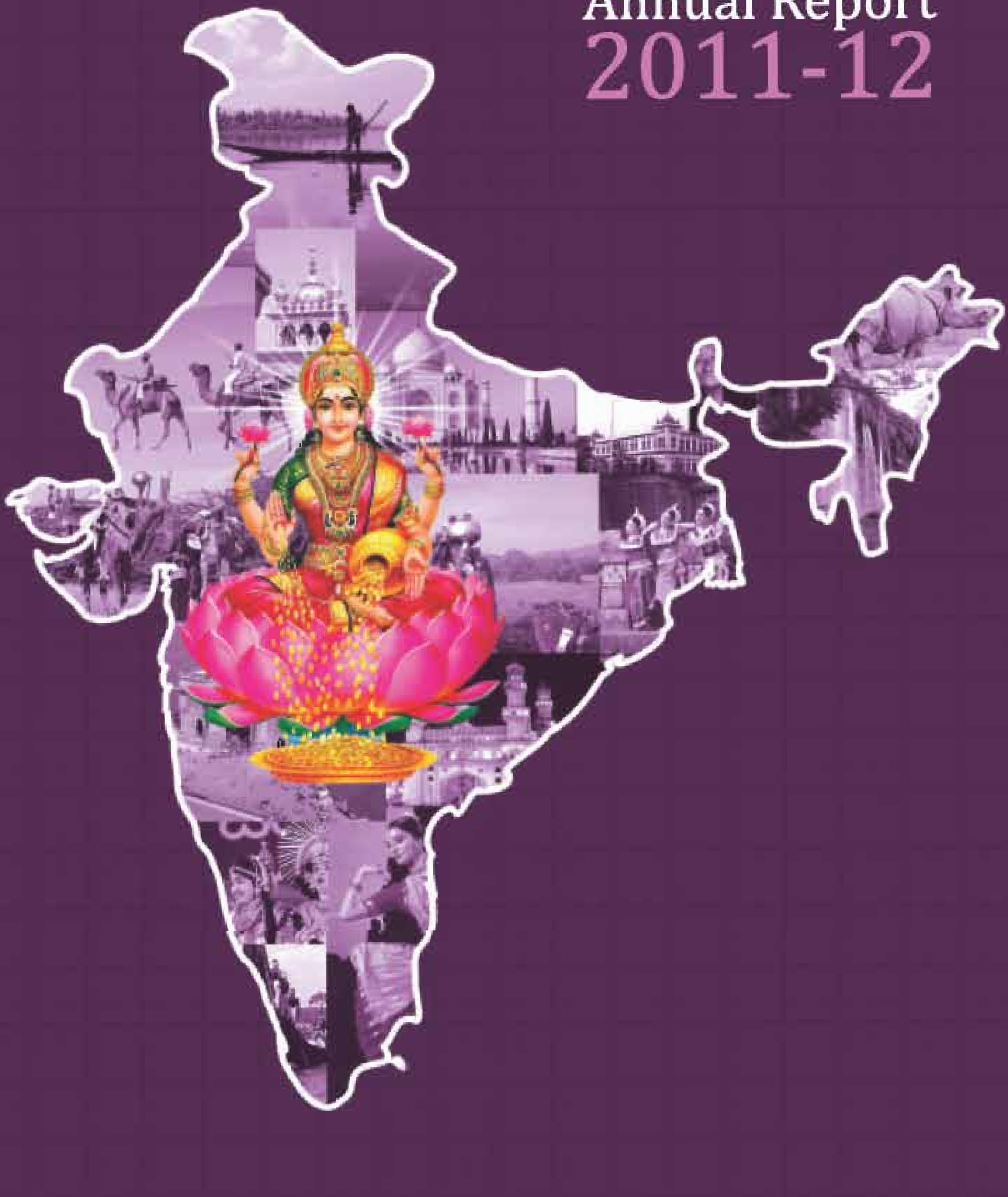
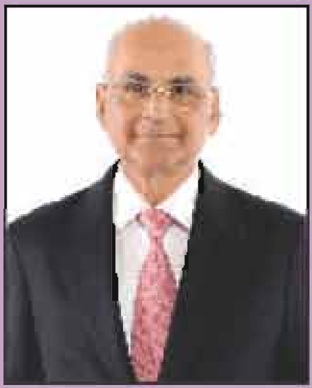
DhanlaxmiBank
established 1927

Annual Report 2011-12



Board of Directors

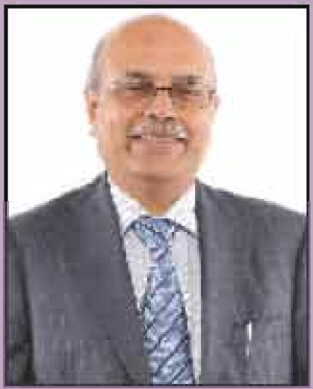


G N Bajpai, Chairman

P G Jayakumar, Managing Director & CEO

S Santhanakrishnan

K Srikanth Reddy



Shailesh V Haribhakti

Sateesh Kumar Andra

Registered Office & Corporate Office

Dhanlaxmi Bank Ltd., P B No. 9, Dhanalakshmi Buildings, Naickanal
THRISSUR - 680 001.

Kindly refer to the website for other offices.

Company Secretary

RAVINDRAN K. WARRIER

Auditors

M/s Walker, Chandiok & Co., Mumbai
M/s Sharp & Tannan, Mumbai

Legal Advisors

Amarchand & Mangaldas
B. S. Krishnan, High Court of Kerala, Cochin.
Advocates & Solicitors

Stock Exchanges

National Stock Exchange (NSE)
Bombay Stock Exchange (BSE)
Cochin Stock Exchange (CSE)

Registrar & Transfer Agents

Karvy Computer Share Private Ltd., Plot No. 17-24,
Vithal Rao Nagar, Madhapur, Hyderabad - 500 081.

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Chairman's Statement

G. N. Bajpai

Dear Shareholders,

I have often been inspired by the adage penned by the immortal Chinese religio-philosopher Confucius: "Our greatest glory is not in never falling but in rising every time we fall". The wisdom inherent in the quote applied in a large sense to the global as well as Indian economy and also to enterprises including our own Bank during the year 2011-12.

The global economy painted telltale signs of slowing down in the year passed by. In its latest update of the World Economic Outlook (WEO), the International Monetary Fund has revised its projection of global growth in 2012 marginally downwards to 3.5% and also emphasized further downside risks to growth. In the U.S., output growth decelerated to 1.5% in Q2 from 2% in Q1 of 2012. Fiscal cliff hanger – Bush era tax cuts and payroll tax cuts looms large, while congress bickers on raising debt. Fed is smarting to unleash QE3 to push growth. In the Euro area, growth was flat in Q1 after a contraction by 1.2% in the previous quarter. In the UK, growth climbed down by 2.8% in Q2 and 1.3% in Q1. As of now, "Greece totters, Spain withers and Italy dithers". Initiatives implemented so far have hardly calmed the markets and overhang of debt seem snowballing into an avalanche. Options in circulation to address the mess appear to be OMNISHABLES. Japan too has suffered slippages. The volcano of debt to GDP ratio of 200%, currently protected by private sector and House Hold Savings could erupt into a deluge with the flight of capital.

Among the BRICS countries, global engine of growth-China fell from 8.1% in Q1 of 2012 to 7.6% in Q2, broadcasting signals of strain; exports, FDI, bank lending et el all are moving southward. Wen Jiabao said some time back, "There are structural problems in Chinese economy that cause unsteady, unbalanced, uncoordinated unsustainable developments." Growth had also moderated significantly in Brazil (GDP is growing lower than Japan) and South Africa in Q1. According to IMF, growth in a number of Emerging Development Economies (EDEs) turned out to be lower than earlier forecast.

It appears bad leadership, tepid tactics and partisan politics have contaminated the environment across geographies. Hopefully, the Europe will witness the requisite political courage to move towards creation of a strong and stable monetary union and building a perspective of erecting the magnificence of the fiscal union and steer the world economy out of prolonged uncertainty.

Against this backdrop, Asia's third largest-India could hardly remain insulated. A sharp slowdown in industrial growth as well as deceleration in services sector pulled down the overall GDP growth to a nine- year low of 6.5% for 2011-12. In fact, it decelerated over 4 successive quarters from 9.2% in Q4 of 2010-11 to 5.3% in Q4 of 2011-12. A key reason for the decline was the negative growth in the Index of Industrial Production (IIP) that fell sharply from 8.2% in 2010-11 to 2.9% in 2011-12. Global rating agencies are adding to the gloom through periodical threats of a downgrade.

It is by now well known that the Indian economy was buffeted by numerous constraints during the year viz. political uncertainties, policy paralysis, lower capex, declining capital inflows, weakening rupee and renewed concerns about the slowdown of global economy. In fact, the three demons of macro-economic stability – inflation, fiscal deficit and current account have invaded together and derailed the growth trajectory. RBI and Ministry of Finance have also since expressed serious discomfort over the rising fiscal deficit and declining House Hold Savings (lowest in 22 years). Challenged by adverse macro and micro factors both have scaled down growth prospects. Estimates of GDP growth pronounced by the economists, agencies and policy planners as of now range between 5%-6.5%. Monetary authorities are still grappling with finding the right balance between containing inflation (their dharma) and spurring growth; and Political Executive with social and political overtones of alleged corruption in the national life.

However, India's resilience in the face of challenges has been legendary, which was tested even recently when it successfully weathered the storm of the 2008 global meltdown. Some of our economy's fundamentals are still intact and portend immense growth potential. It augurs well that the Prime Minister elevated the success of economic reforms as being essential to national security in his Independence Day address to the nation. A comforting note comes from the Centre for Monitoring Indian Economy (CMIE), which estimates the aggregate value of completed projects for FY 13 to rise to ₹ 5.7 lakh crore compared to ₹ 4.1 lakh crore in 2011-12. The change of guard at the Ministry of Finance seems to beam rays of hope. Newspapers' reports suggest, "Men are at work"; bureaucracy is energized, files are being dusted and Allies have been beckoned. The key growth drivers are being primed to contain fiscal deficit and inflation and propel the economy into a higher growth trajectory with special reference to infrastructure investment, job creation and structural reforms for boosting agricultural productivity. However, the journey of the year 2012-13 is going to be formidably challenging.

Though the financials of the banking system grew in size as well as strength during the year, periodical changes in RBI's policy rates to contain inflation vis-à-vis growth dynamics have affected the credit expansion. Further, during the year, economic slowdown impacted the banking sector adversely resulting in a sharp increase in non-performing assets. Additionally, it is estimated that restructured assets amount to over 2.2% of GDP broadcasting SOS for revival of the economy. However, banking industry is readying to meet the emerging challenges with conviction and dexterity.

Our Bank went through a churning during the year that affected both growth and profitability. There has been change of leadership and restructuring of the organization. Other immediate priorities like capital raising, consolidation and profitability are being addressed sagaciously. The Bank has crafted a Turnaround Plan for 2012-13 with the guidance of the RBI, which is well on track. Bank is hopeful of emerging triumphant yet again from this trying phase too with vital indicators pointing to a definite revival. Your continued support and confidence will arm us further with the requisite weaponry to conquer.

May the year 2012-13 prove rewarding to you and all other stakeholders.

With best wishes

G. N. Bajpai
Chairman

Managing Director & CEO's Statement

Dear Shareholders

I am privileged to share with the shareholders of Dhanlaxmi Bank the perspectives on the future we dream about the bank.

I have been a part and parcel of Dhanlaxmi for over 35 years. Its ethos and culture have shaped my core beliefs and value systems in banking over the decades. The bank's chequered history in the service of the people of this country, particularly the common man and the financially excluded sections of the society are widely recognized. The soul of the bank is its social commitment. The defining character of the Bank, in its 85 year old journey, has always been its strength of resilience – a capacity to bounce back even in the worst of times. Popularly known as God's Bank in God's own country, it has often served as a crucible for experimentation and adversities have conferred on it a special blessing to be back in the reckoning, more often sooner than later.

It would seem appropriate to judge the Bank's progress in recent years against the above backdrop. Needless to emphasise that the Bank had consciously opted in 2008-09 for a different business model that carried an inspiring and challenging vision. The strategy towards achieving it was launched with the opening of 66 branches and around 400 ATMs spread across 14 States and its changed brand that made the Bank a truly pan India entity and reflected youthfulness in its maturity. The bank also introduced several improvements like the centralized account opening, which helped to take the KYC-AML standards to a higher pedestal and for better regulatory compliance. The infusion of young blood lent a certain vigour and vitality to the organization. Successful raising of capital at a high premium provided the right atmosphere for accelerated growth.

However, the weaknesses in the business model compounded by slowdown in economy came to the fore in 2011-12 and impacted the business growth and coupled high operating expenses pushed the Bank into the strained profitability scenario. Consequent to change in leadership, and revisit of business model organisational restructuring to branch centric approach shaped up. This model is time tested in the banking industry and is in vogue in over 80% of the Banks in the country today.

We are confident that this model will be more delightful to the customers as the customer facing points are empowered to offer solutions to all customer needs. This takes us further close to the customer for better relationship, which has been the soul of the bank all along its eight decades journey. In the reengineered business model, decision making will be faster as Branch head, Regional Head, Zonal Heads are closer to the markets of the geography they operate. The systems have been fine tuned to render impeccable services to the patrons of the bank.

All the good initiatives of the last three years have totally integrated into the new system to make the delivery of the bank's services and products unique and hence, more efficient.

The technological capabilities the bank acquired in the last couple of years make it one of the best in the industry, offering state of the art banking services like internet banking, mobile banking, three in one account for savings and stock trading et al.

An important felt need at this juncture has been manpower rationalization, which is under way. A more realistic Performance Management System is also on the cards. Pricing policy, which is central to improved profitability, is constantly under review. Fee based income has been elevated to the priority watch list. In fact, every activity is critically scrutinized from the viewpoint of income generation or cost reduction or both.

The transition to the new model has been smooth. Keeping in view the formidable nature of the challenges ahead, the Bank is leaving no stone unturned to raise fresh capital, accelerate business growth and improve the bottom-line through a slew of initiatives. It is on the road to prosperity and is well set to achieve the goals enshrined in the Turnaround Plan 2012-13 that was formulated with the guidance of RBI and the board of the bank. All trade unions in the Bank have been lending excellent support in business development and all around progress of the bank. Thus journey to prosperity is gathering momentum every passing day.

I gratefully acknowledge and inform our stake holders about the excellent support the bank is fortunate to have from the government, Quassi government institutions, Statutory institutions, leading NGOs engaged in the social service of Bank's Home state, the religious trusts, valued customers of all hues. This unstinted support make our journey to prosperity, speedy and sagacious. I would like to inform the dear shareholders that your bank enjoys huge trust and confidence in the society.

Let me take this opportunity to assure you that your Bank has the inherent strength of character to weather any storm and forge ahead in a competitive landscape. The future holds exciting possibilities and we are upbeat in harnessing them. Even as we greatly value your support in the Bank's endeavours, we seek your continued patronage in taking the Bank to greater heights.

Thanking you and with warm regards,

P. G. Jayakumar
Managing Director and CEO

Directors' Report

Report of the Board of Directors

We have pleasure in presenting the Bank's 85th Annual Report along with the Audited Balance Sheet and Profit and Loss Account for the year ended 31.03.2012.

Capital and Reserves

The Bank's Capital and Reserves declined from ₹844.64 crore as on 31.03.2011 to ₹725.25 crore as on 31.03.2012. The Capital Adequacy Ratio as per Basel I was 9.49% as on 31.03.2012 as against 10.81% as on 31.03.11. Under Basel II, it was 9.49% as on 31.03.12 as against 11.80% as on 31.03.11. The benchmark prescribed by RBI is 9%.

Branch Expansion

The Bank's customer outlets stood at 680, as on 31.03.12, comprising 268 branches, 400 ATMs and 12 processing centres. No branch or ATM was opened during the year. The top 5 States where the Bank has presence are (number of customer outlets given in brackets): Kerala (307), Tamil Nadu (114), Maharashtra (78), Andhra Pradesh (54) and Karnataka (53).

Deposits

The total deposits of the Bank stood at ₹11,804.41 crore as on 31.03.2012 as against ₹12,529.63 crore as on 31.03.2011. The decline is largely attributable to the withdrawal/non-renewal of bulk deposits under Certificate of Deposits and Inter Bank Deposits during the year. The Bank consciously discouraged mobilization of bulk funds from a cost and ALM perspective. CASA balances as on 31.03.2012 accounted for 19.35% of total deposits.

The Bank launched incentive based campaigns during the year for strengthening its resources base with special emphasis on CASA accounts. The number of deposit accounts increased from 13.20 lac as on 31.03.2011 to 14.61 lac as on 31.03.2012.

Advances

Total advances of the Bank stood at ₹8,830.85 crore as on 31.03.2012 as against ₹9,121.61 crore as on 31.03.2011. The decline is largely attributable to shedding of low yielding advances. There was also a conscious shift in focus during the year from corporate segment to SME and Retail sectors. During the year, the Credit Deposit Ratio rose from 72.80% to 74.81%. The number of borrowal accounts stood at 2.17 lac as on 31.03.12 as compared to 2.29 lac as on 31.03.11.

Total Business

The total business of the Bank stood at ₹20,635.26 crore as on 31.03.2012 as against ₹21,651.24 crore as on 31.03.2011.

Priority Sector Advances

The Bank continued its efforts during the year in facilitating the growth of the productive sectors of the economy. Priority Sector Advances increased from ₹2,565.23 crore as at the end of March 2011 to ₹2,810.34 crore as at the end of March 2012 – a rise of ₹245.11 crore during 2011-12. Direct agricultural outstandings grew from ₹704.09 crore to ₹781.71 crore during the same period. The share of priority sector advances and agricultural credit in net bank credit was 30.87% and 9.97% vis-à-vis the RBI mandated targets of 40% and 18% respectively. The outstandings under credit to weaker sections of society was ₹738.78 crore representing 8.11% of Net Bank Credit vis-à-vis the guideline of 10% set by RBI.

The Bank has chalked out a set of aggressive strategies in the current year for reaching the prescribed targets under the above segments. A key aspect of this strategy is the popularizing of gold loan especially agricultural gold loan and focus on micro lending, the training for which is in full swing across all our branches in the country.

Profitability

As against a profit of ₹26.06 crore for the previous year, the Bank posted a loss of ₹115.63 crore in the current year due to a sharp increase in manpower cost, other operational expenses and higher NPA provisioning. A number of income generation and cost reduction endeavours were put in place in the last quarter of the year to strengthen the bottomline, which have started yielding results.

Dividend

In view of the net loss recorded by the Bank during the year, regrettably no dividend could be recommended to the shareholders.

Non-Performing Assets

Concerted efforts were taken during the year to reduce the level of non-performing assets. However, owing to fresh accretion and a decline in total advances, the percentage of gross NPAs to gross advances increased from 0.74% to 1.18% during the year, while the net NPA ratio increased from 0.30% to 0.66% during the period. The total cash recoveries, including upgradation and recoveries in written-off accounts, during the year was ₹64.15 crore (₹59.30 crore in 2010-11) surpassing the annual target of ₹63.49 crore. Increase in Net NPA was to the extent of ₹30.53 crore during the year. The Provision Coverage Ratio stood at 45.59% as at the end of 31.03.12.

The Bank could achieve good recovery during the year through a set of measures, viz. action under SARFAESI Act, litigation, settlement through negotiation etc. The health of the borrowal accounts was continuously monitored with a view to constantly improving the asset quality and to facilitate faster recycling of funds.

Customer Service

The Bank attaches top priority to the quality of service rendered across its branches/offices. It has taken several measures during the year through deployment of technology and otherwise for significantly enhancing service quality.

A Customer Service Committee of the Board, comprising of 5 Directors, monitors the implementation of customer service measures periodically. Customer Service Committees comprising of Bank personnel as well as our constituents have been formed at the apex level and at Branches for monitoring service quality and bringing about improvements in this area on an ongoing basis. The Bank is a member of the Banking Codes and Standards Board of India (BCSBI) and is actively implementing the Code of Commitment to Customers as also the Code for Micro and Small Enterprises formulated by the BCSBI. The Bank has 24x7 phone banking call centre at Bangalore as an outsourced model, which is functioning satisfactorily.

Damodaran Committee on Customer Service

The Reserve Bank of India had constituted a Committee under the Chairmanship of Shri M. Damodaran, former Chairman, SEBI to interalia:

- Review the existing system of attending to customer service in banks – approach, attitude and fair treatment to customers from retail, small and pensioners segments.
- Evaluate the existing system of grievance redressal mechanism prevalent in banks, its structure and efficacy and recommend measures for expeditious resolution of complaints. The committee may also lay down a suitable time frame for disposal of complaints including last escalation point within that time frame.
- Examine the functioning of Banking Ombudsman Scheme – its structure, legal framework and recommend steps to make it more effective and responsive.
- Examine the possible methods of leveraging technology for better customer service with proper safeguards including legal aspects in the light of increasing use of Internet and IT for bank products and services and recommend measures to enhance consumer protection.
- Review the role of the Board of Directors of banks and the role of Regulators in customer service matters.

The recommendations of the Committee were studied by the IBA and a list of 77 recommendations were advised to banks for implementation. The Bank has already implemented 64 of these and the remaining items are in process.

The following important products and services were introduced during the year for the benefit of the customers:

1. Speed Clearing in 193 locations
2. Insta-PIN facility for Debit Cards
3. Launch of one time registration bill payment feature
4. New features added in mobile banking
5. Introduction of mobile banking for NRI customers
6. Online Tax return filing facility for customers
7. Introduction of Dhanlaxmi Bank Gold and Platinum debit cards
8. Introduction of Dhanlaxmi Bank Forex Cards
9. Launch of short code for Lead Generation and SMS based ATM / Branch Locator
10. Launch of Interactive Voice Response (IVR) at Call Centre
11. One Time Registration Bill Payment module – through Internet Banking
12. E-Commerce enablement of Visa Debit Card
13. Corporate Internet Banking
14. IMPS (Interbank Mobile Payment Service) via Mobile Banking
15. Retail Gold Sales – Corporate Deals
16. Shabarimala Accident Policy
17. Gold Bullion and Dhan Silver Bar sales
18. Decentralisation of opening of Fixed Deposit and Loan Against Deposits

In addition to the above, there were value adds in several existing products in line with the Bank's constant endeavours to cater to growing customer needs.

The position of customer complaints during 2011 – 12 is as under:

Particulars	Contact Centre	ZOs & CO	ATM Recon.	Banking Ombudsmen	Total
No. of complaints pending at the beginning of the year	24	11	0	10	45
No. of complaints received during the year	3731	622	8673	74	13100
No. of complaints redressed during the year	3741	626	8669	81	13117
No. of complaints pending at the end of the year	14	7	4	3	28

Out of the 28 complaints pending for resolution as on 31.03.2012, 23 complaints including all Ombudsman complaints have been closed since till date.

Investor Education and Protection Fund

During the year, the Bank had transferred the unclaimed, unpaid dividend for the year 2003-04 an amount of ₹5,34,425 to the Investor Education and Protection Fund (IEPF) constituted under Section 205C of the Companies Act, 1956.

Listing on Stock Exchanges

The Equity shares of the Bank are listed on the Bombay Stock Exchange Ltd., National Stock Exchange Ltd., and Cochin Stock Exchange Ltd. The Bank confirms that it has paid the listing fees to all the Stock Exchanges for the year 2011-12.

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 Companies (Disclosure of Particulars in respect of Board of Directors) Rules, 1968.

"The statement containing particulars of employees as required under Section 217(2A) of the Companies Act, 1956 and the rules thereunder, is given in an Annexure appended hereto and forms part of this report. In terms of Section 219(1) (iv) of the Act, the Report and Accounts are being sent to the shareholders excluding the aforesaid Annexure. Any shareholder interested in obtaining a copy of the Annexure may write to the Company Secretary of the Registered Office of the Bank."

Directors' responsibility statement

The Directors confirm that in the preparation of the annual accounts for the year ended 31 March 2012:

- 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 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 31st March 2012
- 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
- the accounts have been prepared on a 'going concern' basis and
- that proper systems are in place to ensure compliance of all laws applicable to the Bank.

Changes in the Board

Shri Amitabh Chaturvedi demitted office on 06.02.2012 as Managing Director & Chief Executive Officer.

Shri. Vidyadhara Rao Chalasani, Director resigned on 14.12.2011.

Shri. Ghanshyam Dass, Director resigned on 16.07.2012.

The Board places on record its appreciation for the valuable services.

Mr. P. G. Jayakumar, was appointed as Managing Director and CEO on 6.02.2012 and assumed charge as regular MD & CEO on 18.5.2012 on receipt of approval of his appointment by RBI.

All the Non-Executive Directors of the Bank have certified that apart from receiving the Director's remuneration/sitting fees, they have not entered into any material pecuniary relationship or transactions with the Bank, its promoters, its Directors, its senior management, which may affect the independence of their directorship.

All Directors except Managing Director and CEO are Non-Executive and Independent Directors.

Acknowledgements

The Board places on record its 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 continued assistance and guidance.
- The customers, shareholders, other stakeholders and well wishers for their valued patronage.
- The officers and staff for their active involvement and contribution to the Bank's growth and development.

By Order of the Board

Sd/-

Place : Mumbai
Date : 25.08.2012

G. N. Bajpai
Chairman

Management Discussion and Analysis Report

Global Economy

The financial crisis of 2008 and its aftermath continued to cast its ominous shadow on the global economy during the year. The gradual recovery from its ill effects was affected by the sovereign debt crisis in Europe. Consequently banks overseas developed risk aversion and reducing their debt exposure to emerging markets like India affecting inward fund flows. The global economy grew by 3.9% in 2011 against 5.3% in 2010 and is expected to decline further to 3.5% in 2012 as per the International Monetary Fund's April, 2012 update of the World Economic Outlook. Gross Domestic Product (GDP) growth in advanced economies declined to 1.6% in 2011 compared to 3.2% in 2010 and is expected to further slow down to 1.4% in 2012. Emerging economies too suffered the impact of the global slowdown with their GDP growth recording 6.2% in 2011 compared to 7.5% in 2010 and expected to fall to 5.7% in 2012. It can be said in the light of the above that global financial system is still some distance away from a full recovery.

Indian Economy

The country's economy was affected during the year by concerns of burgeoning fiscal and current account deficit and higher inflation. Therefore, balancing growth with price stability became key factors in the RBI's monetary policy throughout the year.

All three sectors viz. agriculture, industry and services slowed down in 2011-12. The growth of agriculture and allied sectors was only 2.8% in 2011-12 against 7% in 2010-11. Services sector is estimated to grow at 8.5% in 2011-12 as against 9.2% in 2010-11 reflecting the overall slow down in the economy. The Index of Industrial Production (IIP) for 2011-12 was low at 2.8% vis-à-vis 8.2% in 2010-11. The growth in index of 8 core industries contributing 38% to the IIP fell to 4.3% during 2011-12 as compared to 6.6% in the previous year. There was a decline in capacity utilization across sectors especially infrastructure.

While headline inflation during FY 2011-2012 remained highest at around 9%, the continued fall of the rupee against the dollar during the year dented the confidence of investors in the robustness of the country's economy.

Developments on the Monetary Front

Throughout the year, the monetary policy of the RBI endeavoured to balance growth vis-à-vis inflation. The policy rates were appropriately changed (13 times since March 2010) in conformity with the stance. The key developments on this front during the year were:

- Repo rate was the only one varying policy rate and Reverse Repo rate to be 100 basis points below the Repo.
- A new Marginal Standing Facility (MSF) was introduced in May 2011 upto 1% of NDTL at 1% above repo rate.
- SB interest were deregulated in Oct. 2011 and NRE/NRO rates deregulated in December 2011.
- Bank rate increased from 6% p.a. to 9.5% p.a. w.e.f. 13.2.2012.
- Draft guidelines for implementation of Basel III capital regulations introduced.
- Higher rates of provisioning were introduced for non-performing assets.

Performance of the Banking system

Aggregate deposits of All Scheduled Commercial Banks grew by ₹9,04,510 crore (17.40%) on year-to-year basis to touch ₹61,12,480 crore as at the last Friday of March 2012. Gross Advances grew by ₹7,62,710 crore (19.30%) during the same period to touch ₹47,04,790 crore. Food credit increased by 24.12% to ₹79,790 crore. Non-Food credit grew by 19.27% to ₹46,25,000 crore. The investment portfolios of banks moved up by 16.20% (compared to the growth of 8.40% during previous year) to touch ₹17,44,960 crore.

Credit Monitoring

Credit Administration Officers have been posted at branches to take care of the post sanction credit process such as security creation, account management, monitoring of the assets, quality of asset portfolio, reporting of irregularities, and ensuring adherence to terms of sanction. This helps in monitoring those areas prone to weakness and taking remedial action in time.

Detailed guidelines and well-defined procedures on the process flow for credit disbursement were put in place to ensure safety of securities and safe-keeping of loan documents.

Credit Sanction

Credit Risk is defined as the possibility of losses associated with attenuation in the credit quality of borrowers or counterparties. Credit risk is managed through a framework which sets out policies and procedures covering its measurement and management. To manage the credit risk, a comprehensive Credit Policy has been put in place in the Bank with the following broad objectives:

- Maintain quality of loan assets.
- Ensure reasonable return on the assets.
- Ensure an acceptable risk profile.
- Achieve proper sectoral/geographical distribution of assets.
- Compliance with regulatory norms in respect of exposure caps, pricing, IRAC guidelines, targeted credit etc.

The practice of providing an internal rating to borrowers, besides the external rating, has been put in place by the bank. The credit policy of the bank has prescribed exposure cap to ensure a fairly diversified spread of the credit portfolio to avoid credit concentrations either to a sector or to any borrower/group. The Bank expects to achieve its earnings objectives and to satisfy its customers' needs while maintaining a sound portfolio. The Bank is adopting a careful assessment of risk-return trade-off, which is critical to its success.

The Bank has also created dedicated and distinct teams to take care of various functions and sub-functions. As part of these exercises, the credit dispensation function was trifurcated as Credit Sourcing, Credit Sanction and Credit Monitoring. Recovery of the non-performing assets is taken care of by a separate team.

To enable taking a focused view within the credit portfolio, the Bank has fixed targets for the following segments and achievement under these segments is monitored regularly.

- Corporate Banking
- SME
- Retail Assets
- Agri & Microcredit

Corporate Banking

The Bank provides its corporate and institutional clients a wide range of commercial and transactional banking products, backed by high quality service and relationship management.

Funded and non-funded products including working capital finance, term loan finance, trade services, foreign exchange, cash management, distribution products and syndication services for debt and equity are offered by the Bank.

The main focus is on growth sectors like pharmaceuticals, infrastructure, hospitality, education, etc. As per Planning Commission estimates, infrastructure spending in India of approximately $500 billion envisaged during the 11th Five Year Plan is expected to double to $1 trillion in the next five year plan (2012-17).

Out of the total advances of the Bank, Corporate Banking has a share of 23%.

Lending to Micro, Small and Medium Enterprises

The Micro, Small and Medium Enterprises (MSME) segment is a key business area for the Bank. MSMEs play a vital role in the development of the economy and generation of employment. Banks are able to participate in both fund and non-fund based credit limits, diversification of risk and cross-selling. Importantly, banks can also fulfill their priority sector obligations by lending to MSME.

One of the routes for achieving financial inclusion is by supporting small and micro enterprises, which in turn provide employment opportunities to the financially excluded. The Bank offers complete banking solutions to micro, small and medium scale enterprises across industry segments, including manufacturers, retailers, wholesalers/traders and services. The entire suite of financial products – including cash credit, overdrafts, term loans, bills discounting, letter of credit, bank guarantees, cash management services and other structured products – is made available to these customers. Bank has entered into agreement with Credit Guarantee Trust Fund for Micro and Small Enterprises to provide collateral free credit facilities to the borrowers in this segment.

Retail Advances

Retail exposure is mostly in the segments of mortgage, vehicle loan, education loan and other commercial loans. Bank has developed an array of parameterized retail credit products to suit the requirements of retail customers. Customized credit products are available for individuals, traders, contractors, businessmen, professionals, etc. The products are mostly decentralized and are offered through the branch channels.

Microfinance & Agriculture Lending

The Bank has been working with various Self Help Groups to cater to a wide consumer base through its own branch network, rather than concentrate on providing microfinance and agriculture loans only. Bank has NGO partners who work with the objective of providing credit for income generation activities by providing training, vocational guidance, and marketing support to their members.

The Bank continued to focus on agriculture lending as a large portion of India's un-banked population relies on agriculture as their main source of livelihood. The Bank provides various loans to farmers through its suite of specifically designed products – such as kisan credit cards, crop loans, livestock loans, plantation loans, supply chain financing etc. The Bank targets specific sectors to capture supply chain of certain crops from the production stage to the sales stage. On the basis of these cash flows, the Bank is able to finance specific needs of the farmers. Highlights of the Bank's Microfinance and Agri-business during the year were:

- Outstandings in the area of Micro Credit was ₹248.42 crore as on 31.03.2012.
- Direct & Indirect Agriculture sector ratio stood at 9.97% as against target of 18%.
- Overall weaker section portfolio accounted for 8.11% as against a target of 10% of ANBC.
- Focus on grass root level lending to SHGs through Direct SHG – Bank Linkage Lending Model in Kerala & Tamil Nadu.
- There are 22614 number of SHGs maintaining savings bank account with our various branches. Credit facilities availed by SHGs from the Bank stood at ₹109.83 crore as on 31.03.2012. Kisan Credit Cards amounting to ₹5.19 crore were issued to 217 farmers as on 31.03.2012.
- Tied-up with dairies for providing cattle loans under JLG model and with NGOs for providing rural housing loans to SHG members.

Financial Inclusion

In the last few years, your Bank has been working on a number of initiatives to promote financial inclusion across identified sections of rural, under-banked and un-banked consumers. These initiatives target segments of the population that have limited or no access to the formal banking system for their basic banking and credit requirements. The Bank's financial inclusion initiatives have been integrated across various businesses, as also product groups.

The Bank has been actively involved in providing micro-credit facility at grassroot levels for over a decade having recognized its emerging potential as an instrument for empowerment of women and for poverty alleviation. Bank expects the living standards to significantly improve as a result of augmenting the income/ business cycles of these individuals. This would incidentally create more jobs and therefore, more stable families, supported by new incomes and employment. As basic needs are met, borrowers will be able to put in more effort into other income-generating projects – such as irrigation and thereby maximize the use of available resources.

The Bank also leverages these branches as hubs for other inclusion initiatives such as direct linkages to Self Help Groups and joint liability groups, bank on wheels, point of sale (POS) terminals, information technology enabled kiosks etc. The Bank firmly believes that, apart from agricultural loans, there are many other credit products that the Bank can use to aid financial inclusion endeavours in rural locations. The Bank has extended its retail loans to large segments of the rural population where the end-use of the products acquired by availing our loans is used for income generating activities. For example, loans for tractors or commercial vehicles supplement the farmer's income by improving productivity and reducing expenses.

As part of the overall efforts towards financial inclusion, the Bank has opened 22 BCs (Customer Service Points (CSP) in Kerala & Tamil Nadu) covering 20,507 'no-frill' accounts. The business correspondent locations will have a representative from the Bank to guide and educate customers on various banking services. These CSPs will be responsible for sourcing 'no-frills' accounts, service the deposit and withdrawal requirements of the customer after opening such accounts. Other banking services, such as insurance and loan products, will also be offered from the CSP location. The CSPs are being offered marketing, technology and training support required to deliver the above services. The Bank has tied up with NGOs for deepening its overall inclusion activities. The number of 'no-frill' savings bank accounts opened by the Bank through its branch network totalled to 1,17,853 as on 31.03.2012.

Information Technology, Operations and Customer Service

The year 2011-12 was encouraging for the Bank's IT operations. The Bank secured three awards from renowned entities during the year viz.

- EDGE Award 2011 conferred by "Information Week" for using IT for maximizing business impact.
- Computer Society of India (CSI) national award for excellence in IT.
- The Asian Banker Technology Implementation Award 2012 – International award for best Branch automation project.

The awards are a recognition of the Bank's constant endeavours to improve the quality of customer service through deployment of advanced technology.

Significant initiatives on the IT front taken during the year were:

- Master Data Mart, that will help the Bank understand the customers across relationships and help track progress.
- An integrated Disaster Recovery Run on a working day encompassing all offices/branches, thereby giving confidence on Business Continuity from an IT perspective.
- Corporate Internet Banking that helps our customers transact through the internet.
- Beefing up of Information Security capabilities.
- More customer friendly features enabled in our Core Banking System.
- The data flow for RBI has been automated for regulatory MIS reports.
- Cheque Truncation System implemented in Chennai, Bangalore and Coimbatore making clearing and collection facilities easy for the customers across the country.
- Launched Interactive Voice Response System enabling customers to know the account balance and other enquiry through telephone using their debit cards.
- The "prasadham" distribution process in Shabarimala was automated to efficiently manage the entire process.
- Customer Relationship Management has been initiated to enhance the quality of Customer Service.
- Launched Inter Bank Mobile Payments for customers to transact through their mobile phones.
- Offered the facility of investment in IPOs through its Branches as also through ASBA facility thereby giving our Bank customers an edge.
- All branches were trained to service the retail asset customers of the bank for their most frequent customer requests like statement of account, foreclosure, certificates etc.
- Also launched a complaint tracker which helped the customers monitor the resolution of their customers within the timelines prescribed.
- The Bank's efforts in digitization helped shorten the Turn Around Time and saved nearly five lac sheets of paper and over one lac couriers thereby making it environment friendly.
- The Bank added products in the Forex suite for the convenience of its customers traveling overseas by launching the US Dollar, EUR and GBP denominated Forex Travel Cards. These products are available through select branches to our walk-in customers as well.
- Launched the 'Gold' and the 'Platinum' variants of its Visa Debit Cards with higher cash withdrawal and purchase limits. These Debit card offerings targeted at specific customer segments also provide various benefits and lifestyle privileges in conjunction with Visa.

Treasury Operations

The year 2011-12 put to test the resilience of the Bank to withstand wild swings in both interest and exchange rates. The Bank was able to moderate the interest rate risk on the investment portfolio and could attain a 7% reduction in the Modified Duration without compromising on portfolio yield. This was possible through investments in a judicious mix of treasury bills and floating rate instruments. In the foreign exchange market, the Bank could more than double the merchant turnover during the year. The trading volumes recorded a 33% increase during the year. In line with the objective of turning Treasury in to a Profit Centre, the Bank commenced transactions in derivatives and handled a volume of ₹650 crore. It was also active in trading in non-SLR debt instruments and contributed significantly to the revenue. Further, the Bank augmented its resource base by accessing overseas inter-bank markets considerably during the year, within the regulatory norms in vogue. This also helped the Bank in supporting customers with trade credits from across the border. The Bank played its role as a member of self regulatory bodies, FEDAI and FIMMDA.

As part of broadbasing the revenue streams, the Bank commenced bullion business during the year with necessary approval from the RBI. The Bank also commenced retailing in gold and silver and established robust systems in procurement and pricing and managing the attendant risks.

The gross investments of the Bank increased from ₹3,648.91 crore as at the end of 2010-11 to ₹4,376.55 crore as at the end of 2011-12. SLR accounted for 93.43% (₹4,089.22 crore/ ₹4,376.55 crore) of the portfolio. The Bank also adhered to the SLR/CRR norms prescribed by the RBI throughout the year.

Forex Business

There has been a sharp increase in remittance volumes under Speed remittance arrangements owing to competitive pricing of transactions vis-à-vis peer banks. The positive impact of this pricing on remittance volumes is given in the following table.

Speed Remittance Transactions			
Particulars	**FY 10-11**	**FY 11-12**	**% Increase Over FY 10-11**
Number of Transactions	37,405	98,305	163%
Value of Inward Remittance (in Crore)	159.89	487.64	205%

The remittance tie-up arrangement with Doha Bank has considerably helped in generating 'new to Bank' HNI customers besides increasing remittance volumes. This arrangement resulted in inflows of ₹132 crore from 11,288 transactions in FY 2011-12 and is likely to scale up in the next financial year with enablement of real-time credits to customer accounts.

Pursuant to increase in remittance volumes, NRI business clocked an encouraging growth of 42% over FY 2010-11 with overall book growth of ₹223 crore in FY 2011-12. NRI deposits of the Bank for the year ended 31.03.2012 stood at ₹745 crore. The Bank had drawing arrangements with 8 Exchange Houses covering DDA as well as speed remittance.

The Bank went live on remittance tie-up with Al Zaman Exchange in Qatar during the year. This would increase our reach in Qatar and increase remittance volumes, which are currently channelized only through Doha Bank in Qatar.

The Bank has initiated straight processing for providing real-time credits to our customers' accounts routing transactions through branches of UAE Exchange, Abu Dhabi. This would help in scaling up the remittance volumes and in turn generating low cost NRI CASA deposits.

Besides exchange houses tie-up arrangements in UAE, Kuwait and Oman, the Bank is also exploring tie-ups with leading banks based in other GCC locations like Qatar, Saudi Arabia and Oman.

Marketing and Corporate Communication

The focus in this area was to make inroads into customers' mind through our various products offering best suit customer needs at various levels in the customer life cycle. Niche channels were utilized at various touch points to ensure that the Bank remained top of the mind. Some of the key areas in the Bank's scheme of things were: Branch catchment visibility, In-branch design, Gold Coin, NRI banking, Fixed Deposit and launch of Forex Card. These products were promoted through online campaigns such as as SEO (Search Engine Optimization) and SEM (Search Engine Marketing), digital media and on-ground activation.

True to our promise, the Bank partnered with renowned brands to provide greater value to our customers. Focus was on up-selling and cross-selling of our products to increase the wallet share per customer.

The Bank made solid inroads into the Social Media front too. It launched its first ever Facebook page and had more than 13,000 followers soon after.

The Bank also focused on building 'state-of-the-art' in-branch designs to ensure favourable customer experience with its branches across the country. Further, market research across key metros was carried out to test the efficacy of our strategies.

The marketing efforts were suitably tailored to business needs throughout the year.

Inspection & Vigilance

The Bank has a detailed Inspection Manual and a robust Inspection Policy, which are updated periodically. The policy takes care of modifications in the audit methodology in line with the changes brought in the organizational structure and business models with the objective of auditing an activity at the place of its origin. This comprises of Risk Based Internal Audit (RBIA) of branches, Concurrent Audit of branches, Central Processing Centre, Regional Processing Centers, Trade Finance, Retail Asset and Integrated Treasury. RBIA of the branches is done at periodic intervals as per the risk rating awarded to the branch in the previous Audit. During the year 2011-12, 173 branches were subjected to RBIA. Besides, 214 RBIA reports were subjected to first review and 196 RBIA reports were taken up for final review during the year. 57 Branches, 9 Regional Processing Centers, 7 Trade Finance Locations, 5 Retail Asset Operation Centers, Central Processing Centre and Integrated Treasury were also covered under the purview of Concurrent Audit. These branches/Treasury cover 71.20% of deposits, 89.26% of total advances and 78.91% of the total business. Out of this, audit of 31 branches, 8 RPCs, 6 Trade Finance Locations, 5 Retail Asset Offices and CPC were undertaken by our own internal Audit officers.

Off site Surveillance System (OSS) was introduced during the year, which is a web based technology providing data to monitor and analyze exceptions and thus facilitates tracking of risks at transaction level. The system has enabled identification of revenue recovery, timely escalation of post migration issues to CBS for resolution, defects in setting variance and other system parameters etc. besides facilitating analysis of specific day to day exceptions and monitoring of the same. The alerts generated by the system are thoroughly checked, scrutinized and based on the severity of the divergence, the OSS escalates the observations to the respective branches for compliance. Further, OSS also extends necessary MIS support to internal auditors and concurrent auditors.

ISO 9001: 2008 Surveillance Audit was carried out at 12 departments of the Bank's Head Office by external auditors and extended the validity of the certification by 1 year.

Vigilance department of the Bank is responsible for implementing policies laid down in this regard by the Government of India, RBI and the Bank's

Board and monitoring it periodically. All fraud related issues are handled as per regulatory norms. The Bank ensures timely reporting of frauds to the RBI. The Bank also conducts investigations into frauds/serious complaints/irregularities and takes remedial measures for non-recurrence of the same. The Preventive Vigilance Committee meetings at branches and follow-up of the proceedings is a notable initiative taken by the Bank.

Anti Money Laundering (AML)

Centralized transaction monitoring is done on the basis of the guidelines defined for the industry. The Bank files reports such as Cash Transaction Reports (CTR), Suspicious Transaction Reports (STR), Non-Profit Organization's Transaction (NTR) and Counterfeit Currency Report (CCR) well in time to Financial Intelligence Unit (FIU), Govt. of India.

During the year, we have evaluated various options to further strengthen the controls in AML and have finalized a new software to take care of the guidelines of the IBA.

DC/DR Audit: Data Centre and Disaster Recovery Centre audit were conducted by external Auditors, which covered all applications deployed, network and other delivery channels to ensure that the required controls are in place.

Risk Management

The Bank has adopted an integrated approach for the management of risk. Effective internal policies have been developed in tune with the business requirements and best practices, which address the risk management aspects of the different risk classes namely, credit risk, market risk and operational risk. The policies, procedures and practices adopted in the Bank are benchmarked to the best in the industry on a continuous basis and the Bank has a clear goal to reach an advanced level of sophistication in risk management.

The Bank's risk management structure is overseen by the Board of Directors and appropriate policies to manage various types of risks are in place. The Bank has a Board level subcommittee for Risk Management. At the executive level, the Bank has a Risk Management Committee of Executives (RMCE), Asset Liability Committee (ALCO), Credit Risk Management Committee (CRMC) and Operational Risk Management Committee (ORMC). These Committees along with the Investment Committee ensures adherence to the implementation of the risk management policies.

The risk management policies like ICAAP (Internal Capital Adequacy Assessment Process) Policy, Credit Risk Management Policy, Asset Liability Management Policy, Operational Risk Management Policy and Integrated Risk Management Policy were comprehensively reviewed during the year.

The Bank has also developed a Stress testing Policy and formulated different stress scenarios. The impact of various risks under stress situation on the profitability of the Bank and on the CRAR of the Bank are analyzed and reviewed periodically.

During the FY 2011-12, banks in general had to face many challenges like tight liquidity conditions, falling spread, rising provision for NPAs etc. Considering the market scenario and bank specific issues, the Bank has conducted a study of historical data focusing on the top five risk events emerging in the Bank viz. liquidity risk, capital risk, credit risk, profitability risk and interest rate risk. A detailed analysis of the above top five risks was done along with mitigation strategies which enabled the Bank management to assess the material risk exposures incurred by the bank and to evaluate the potential vulnerability.

Basel II

The Bank is Basel II compliant and assesses the capital adequacy under the New Capital Adequacy Framework (NCAF) on a quarterly basis as per RBI guidelines.

Under Pillar I, the Bank computes capital for credit risk under Standardized Approach, for market risk under Standardized Duration Approach and for operational risk under Basic Indicator Approach.

Under Pillar II, the Bank has put in place the ICAAP (Internal Capital Adequacy Assessment Process) framework for integrating capital planning with budgetary planning and to capture the residual risks which are not addressed in **Pillar I** like credit concentration risk, interest rate risk in the banking book, liquidity risk, earnings risk, strategic risk, reputation risk etc.

Under Pillar III, the Bank discloses its risk philosophy, risk exposures, risk assessment and its capital adequacy to the market in a more consistent and comprehensive manner.

Credit Risk

The Bank is exposed to credit risks through its lending and investment activities. Bank assesses the credit risk at the portfolio level as well as at the exposure or counterparty level. Bank has a robust credit risk management framework comprising of the three distinct building blocks namely Policy & Strategy, Organisational structure and Operations/Systems.

Bank has a Board approved Credit Risk Management policy, which is reviewed annually. It deals with various areas of credit risk, goals to be achieved, current practices and future strategies. The CRM policy details the risk appetite, credit risk identification, measurement, monitoring/controlling mechanisms and concentration risk. During the year, Bank's CRM Policy was reviewed in line with RBI guidelines.

The credit risk management aims at ensuring sustained growth of healthy credit portfolio. Bank has stipulated minimum standards for origination, benchmarks for certain key financial risk parameters, and has a multi-tier credit approval system based on exposure, rating and transaction risks. Exposure caps in terms of individual, group, industry/sector and segment level are defined to control risk concentrations and to ensure a fairly diversified spread of credit portfolio.

Bank has developed comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. The bank presently has six risk rating models, which were reviewed and revised during the year based on the portfolio specific characteristics of the bank, best practices prevalent in the industry and in line with AFI report etc. All exposures of ₹2 lac and above will come under the purview of rating. Retail loans are subjected to scoring models, which support credit decisions.

The Bank has put in place Rating migration analysis of all credit exposures above ₹10 crore on a quarterly basis. Rating migration analysis covering all advances above ₹25 lac is being conducted on an annual basis. As a step to move towards advanced approaches, the Bank has attempted to compute the Probability of Default (PD) based on 3 year rating migration data. In the case of retail asset, pool/ segment rating methodology is also applied to monitor defaults.

During the year 2011-12, the Bank undertook functions of rating validation and development of rating models and completed it for 1130 credit exposures. Bank has been using B2ReCAP software for calculation of Risk-Weighted Assets (RWA) and Regulatory Capital for Credit Risk.

Credit risks inherent in investments in non-SLR Bonds are being assessed independently by mid office treasury using the internal rating models.

The Bank has been conducting quarterly industry analysis/study as a proactive credit risk management practice, which would facilitate an effective review of distribution of credit portfolio across various industries/sectors, assessing the degree of credit concentration, basis for selection of industry to which increased exposure can be considered and provide necessary information to increase/hold/decrease exposure. During the year FY 2011-12, the Bank has conducted industry analysis on the sectors – Real Estate, NBFC, Infrastructure and SME.

The Credit Risk Management Committee (CRMC) consisting of the Bank's senior management including MD & CEO is responsible for the implementation of the credit risk policy/strategy approved by the Board. CRMC met 6 times in the year 2011-12 to monitor adherence to prudential exposure norms, rating migration analysis, industry analysis etc. and to discuss/recommend new credit products.

Market Risk

Market Risk is defined as the possibility of loss to a bank caused by changes in the market variables. Market risk arises from changes in interest rates, foreign exchange rate, equity prices and commodity price. Small changes in these market variables can cause substantial changes in income and economic value of the Bank. Besides, market risk is also about the bank's ability to meet its obligations as and when they fall due, which can vary with market conditions.

One of the major risks under Market Risk is the **Liquidity Risk,** which is the risk to a bank's earnings and capital arising from its inability to timely meet obligations when they become due without incurring unacceptable losses. Liquidity obligation of the Bank arises from withdrawal of deposits, repayment of borrowed funds at maturity and meeting credit and working capital needs. The primary tool of monitoring liquidity is the mismatch/gap analysis, which is monitored over successive time bands on a static basis. The Bank is generating daily Structural Liquidity Statement, which is used by the Treasury Department for effective liquidity management. Apart from the above, the trend in the major liquidity ratios are measured and analyzed fortnightly. The Bank also prepares liquidity projections on a weekly basis. Moreover, the funds readily available as a back stop to meet contingency situations are measured and analyzed on a continuous basis.

Interest Rate Risk is another major risk involved in market risk. It is the exposure of a Bank to financial loss through movements in interest rates. The immediate impact of changes in interest rates is on bank's earnings due to change in Net Interest Income (NII). The change in net interest income in the event of adverse change in interest rates is measured in terms of EAR (Earnings at Risk) using traditional gap analysis. A long term impact of changing interest rates is on bank's market value of equity (MVE) or Networth as the economic value of bank's assets, liabilities and off-balance sheet positions get affected due to variation in market interest rates. The Bank measures the impact on EVE on a monthly basis using duration gap analysis.

The Asset Liability Management Committee (ALCO) consisting of the Bank's senior management is responsible for reviewing Bank's liquidity position and ensuring adherence to the limits set by the Board. ALCO plays an important role in deciding the business strategy of the Bank in line with the Bank's budget, Corporate Goals and risk tolerance levels decided by the Board having regard to the Capital Adequacy and Regulatory prescriptions. During the year, ALCO met 32 times to deliberate on various ALM issues and manage liquidity, interest-rate and earnings risks.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Bank has a comprehensive policy on Operational Risk Management to ensure that all the operational risks within the Bank are identified, monitored and reported in a structured manner.

Every new product or service introduced is subject to risk review and sign-off process where all relevant risks are identified and assessed. To mitigate operational risks arising from frauds, the Bank has put in place "Fraud Risk Management Policy", which was revised during the year. The above framework lays down the steps to be adopted for preventive vigilance. People risk is mitigated by implementation of directives laid down in operational risk, human resources and training policies. The risk of probable losses due to technical failures and business disruptions are mitigated through business continuity planning, adequate back up facilities, the existence of disaster setup and regular testing. Operational risk from external events, were brought down by transferring the risk outside the Bank by means of appropriate insurance cover.

The Bank had rolled out the Risk Control Self Assessment (RCSA) to pro-actively identify emerging risks at operational level for devising mitigants at source itself during 2010-11 and has successfully completed RCSAs of 'Trust' branches and other business functions.

Separate document on Risk Control Self Assessment has perceived immense importance with unique tools and methodologies of management. Business Line Mapping, identifying Key Risk Indicators (KRI) and collation of "Loss Events" are brought into the ambit of Operational Risk Management as a first measure to move towards The Standardized Approach (TSA)/ Advanced Measurement Approach (AMA).

Human Resources

The Bank moved towards the end of the year from a vertical based business model to a branch centric business model, as part of a conscious, strategic decision to accelerate growth, improve profitability and enhance service quality. This led to restructuring of the organization throwing up surplus staff in the system. Consequently, manpower rationalization measures were put in place and these are continuing.

The Bank's employee strength, which was 3665 as on 31st March 2011, fell to 3468 as on 31st March 2012. The number of sales executives also declined to 492 on 31st March 2012 from the level of 595 as on 31st March 2011.

Considerable importance is being attached to providing training to employees keeping in view the changed business model. A total of 1710 employees were trained during the year. The following initiatives were introduced by the training system during the year:

- "Daily Banking Digest" that shares with all employees the essence of the day's developments in the financial sector.
- A monthly bulletin "Regulatory Comfort" that provides a gist of all RBI circulars issued to Scheduled Commercial Banks, during the month.
- 'Learning Curve', an e-bulletin that focusses on a specific banking subject every fortnight.

The Bank entered into a wide ranging agreement with Dhanalakshmi Bank Officers Organization during the year, which paved the way for a conducive industrial relations climate.

Corporate Social Responsibility

The Bank strengthened its endeavours in this area during the year. It continued its association with 'Walkers Park' in Thrissur. In alliance with Trichur Management Association, it had initiated in the year 2010 scholarship programs for deserving MBA students seeking financial assistance. During the year 2011-12, the bank gave the scholarship to two MBA students.

The City of Mumbai has more than 1000 Children suffering from Thalassaemia Major. They need lifelong blood transfusions every fortnight. A huge quantity of blood is required daily for this purpose. In association with Think Foundation, an NGO looks at the needs of children with Thalassaemia disease. As a token of its contribution, the Bank organized blood donation camps and awareness programs at its various offices in Mumbai.

Blood donation camps, relief materials to flood & quake victims, donations drives, 'giving' weeks etc. were part of the Bank's CSR activity during the year.

As part of our 85th Foundation day, several 'Community Connect' activities were carried out throughout the Bank. Its employees visited several orphanages, juvenile homes, charity institutions and ashrams on the day across the country and conducted various programs and donated food, dress, books and other materials to the inmates. Tree plantation drive, Clean your city campaign, Health check-up/Blood donation/Eye check-up camps, Annadhanam & drinking water to Shabarimala pilgrims/Devotees of Mukteshwar temple, donation of books & other materials were undertaken on the anniversary day.

Sale of Bullion

The Bank had received license from RBI to import Gold in March 2011 and Silver in June 2011. The wholesale and retail gold business was consequently launched. Pursuant to this, the Bank sold 335.15 kg of Gold and 65.85 kg of Silver in FY 2011-12 generating ₹7.32 crore revenue in retail bullion sales. The bank also sold 7532.35 kg of gold and 35752.33 kg silver in FY 2011-12 generating ₹2.76 crore revenue in wholesale bullion business.

The bank launched 2g, 5g, 8g, 10g, 20g and 50g coins for retail gold sales and 50g and 100g in retail silver sales. The above initiatives received good response from the public at large.

Outlook and challenges for 2012-13

Keeping in view the slowdown in the economy during 2011-12, the Govt. has projected a GDP growth of around 7% for 2012-13. The outlook in respect of other areas is as under:

- Fiscal deficit is budgeted at 5.1% of GDP through capping of subsidies at 2% of GDP.
- Higher GDP growth and industrial performance anticipated vis-à-vis 2011-12.
- Aggregate deposits of the banking system are expected to grow by 16%-16.5% and bank credit by around 17% in FY 2013.
- Falling inflation is expected to lead to policy rate cuts during the year resulting in fall in borrowing costs..

The key challenges for the banking system during FY 2013 are:

- Need for large capital mobilization in view of Basel III implementation.
- Scope for improving NIM in the light of deregulation of SB as well as NRE/NRO deposit rates.
- Enhancing IT systems in place to comply with the MIS demands of Automated Data flow to RBI.
- Converting the opening balance sheet as on 1.4.2013 in compliance with the converged International Financial Reporting Standards.
- Coping with the exit of experienced personnel on account of increased level of superannuation.

Report on Corporate Governance

2011-12

This report on Corporate Governance forms part of the Directors' Report to the shareholders.

The Board of Directors and the Management of this Bank believe that a strong system of corporate governance is critically important to usher in a value-based organization that is socially responsible and commercially vibrant. The Bank is committed to adhering to the highest standards of corporate governance through constantly benchmarking itself against global best practices.

The essence of the Bank's corporate governance philosophy flows from the following:

- All Directors are independent Directors.
- The Directors have distinguished themselves in different walks of life through experience and expertise.
- The Board is professional in character with a strong commitment to shareholder value, transparency, accountability, ethical standards and regulatory compliances.
- The Board's approach to and outlook on every aspect of governance is propelled by a keenness to further realization of the Bank's Vision and Mission.

1. Board of Directors

a) Movement of Directors during the year

Name of the Director	Appointment	Cessation
Mr. Vidyadhara Rao Chalasani		Director w.e.f.14.12.2011
Mr. Amitabh Chaturvedi		Managing Director & CEO w.e.f. 06.02.2012

b) Composition of the Board as on 31.03.2012

The composition of the Board is in compliance with Para IA of Clause 49 of the Listing Agreement.

All Directors are **Non-Executive and independent Directors.**

The particulars of Directors, and the sectors they represent, for the purpose of Section 10-A (2) of the Banking Regulation Act, 1949 are given below:

Sl. No.	Name of the Director/Designation	Executive/ Non-executive	Sector which the Director represents
1	Mr. Ghyanendra Nath Bajpai – Part-time Chairman	Non-Executive	Majority - Finance
2	Mr. K. Srikanth Reddy	Non-Executive	Majority – Agriculture & Rural Economy
3	Mr. Shailesh V. Haribhakti	Non-Executive	Majority – Accountancy
4	Mr. S. Santhanakrishnan	Non-Executive	Majority - Banking
5	Mr. Ghanshyam Dass	Non-Executive	Majority - Banking & Finance
6	Mr. Sateesh Kumar Andra	Non-Executive	Majority - Small Scale Industry

All the non-executive Directors have furnished a declaration to the effect that they are Independent Directors as per Clause 49 I (A) of the Listing Agreement.

c) Number of Board Meetings held during the year 2011-12 with dates

During the year 2011-12, 12 Board meetings were held on the following dates :

23.04.2011, 16.05.2011, 22.06.2011, 25.07.2011, 22.09.2011, 20.10.2011, 09.12.2011, 30.12.2011, 06.02.2012, 14.02.2012, 21.02.2012 and 28.03.2012

d) Attendance of Directors

Sl.No.	Director	Number of Board Meetings		Last AGM
		Held	Attended	Attendance
01	Mr. Ghyanendra Nath Bajpai	12	12	Present
02	Mr. Amitabh Chaturvedi *	08	08	Present
03	Mr. Vidyadhara Rao Chalasani **	07	02	Present
04	Mr. K. Srikanth Reddy	12	12	Present
05	Mr. Shailesh V. Haribhakti	12	11	Present
06	Mr. S. Santhanakrishnan	12	12	Present
07	Mr. Ghanshyam Dass	12	09	Present
08	Mr. Sateesh Kumar Andra	12	12	Present

* Resigned as MD & CEO w.e.f. 06.02.2012

** Resigned as Director w.e.f. 14.12.2011

e) Directors' Shareholding as on 31.03.2012

Sl. No.	Director	No. of Shares held	% of holding
1	Mr. Ghyanendra Nath Bajpai	50,000	0.06
2	Mr. K. Srikanth Reddy	20,000	0.02
3	Mr. Shailesh V. Haribhakti	200	0.00
4	Mr. S. Santhanakrishnan	700	0.00
5	Mr. Ghanshyam Dass	5,000	0.01
6	Mr. Sateesh Kumar Andra	400	0.00

f) The Committees of Directors functioning in the Bank during the year ending 31.03.2012 were as under:

1. Audit Committee
2. Remuneration Committee
3. Shareholders' Grievance Redressal Committee
4. Large Value Fraud Monitoring Committee
5. Customer Service Committee
6. Risk Management Committee
7. Nomination Committee
8. Management Committee
9. Human Resources Development Committee.
10. Information Technology Committee
11. Committee of Directors (Proposals)
12. Committee of Directors (MD & CEO)

Details of Committee positions held by the Directors of the Bank and also of other companies are given below.

g) Committee position of Directors in the Bank as on 31.03.2012:

Sl. No.	Name of the Director	Member	Chairman
1	Mr. Ghyanendra Nath Bajpai	1. Human Resource Development Committee 2. Nomination Committee 3. Risk Management Committee 4. Remuneration Committee 5. Information Technology Committee	1. Human Resource Development Committee 2. Nomination Committee 3. Risk Management Committee 4. Remuneration Committee 5. Information Technology Committee
2	Mr. K. Srikanth Reddy	1. Shareholders' Grievance Redressal Committee 2. Management Committee 3. Human Resource Development Committee 4. Remuneration Committee 5. Audit Committee 6. Customer Service Committee 7. Information Technology Committee	–
3	Mr. Shailesh V. Haribhakti	1. Large Value Fraud Monitoring Committee 2. Human Resource Development Committee 3. Remuneration Committee 4. Nomination Committee 5. Audit Committee 6. Risk Management Committee 7. Committee of Directors (Proposals) 8. Committee of Directors (MD & CEO)	–

Sl. No.	Name of the Director	Member	Chairman
4	Mr. S. Santhanakrishnan	1. Shareholders' Grievance Redressal Committee 2. Large Value Fraud Monitoring Committee 3. Management Committee 4. Nomination Committee 5. Audit Committee 6. Customer Service Committee 7. Risk Management Committee 8. Information Technology Committee 9. Committee of Directors (MD & CEO) 10. Committee of Directors (Proposals)	1. Shareholders' Grievance Redressal Committee 2. Customer Service Committee 3. Audit Committee 4. Management Committee 5. Large Value Fraud Monitoring Committee 6. Committee of Directors (MD & CEO) 7. Committee of Directors (Proposals)
5	Mr. Ghanshyam Dass	1. Shareholders' Grievance Redressal Committee 2. Large Value Fraud Monitoring Committee 3. Information Technology Committee 4. Customer Service Committee 5. Risk Management Committee 6. Human Resource Development Committee 7. Audit Committee 8. Committee of Directors (MD & CEO) 9. Committee of Directors (Proposals)	-
6	Mr. Sateesh Kumar Andra	1. Large Value Fraud Monitoring Committee 2. Information Technology Committee 3. Committee of Directors (MD & CEO) 4. Customer Service Committee 5. Remuneration Committee	-

h) Committee Position of Directors in other Public Limited Companies as on 31.03.2012:

Sl. No.	Name of the Director	Public Companies in which holding Directorship	Membership in Board Committees	Committees of which Chairman
1	Mr. Ghyanendra Nath Bajpai	1. Future Generali India Life Insurance Co. Ltd.	-	Audit/ Shareholder Grievance Committee
		2. Future Generali India Insurance Co. Ltd.	-	Audit/ Shareholder Grievance Committee
		3. Emaar MGF Land Ltd.	Audit Committee	-
		4. Future Capital Holdings Ltd.	Audit Committee	-
		5. Mandhana Industries Ltd.	Audit Committee	-
		6. Future Ventures India Ltd.	-	Audit Committee
		7. United Spirits Ltd.	-	-
		8. New Horizons India Ltd.	-	-
		9. PNB Housing Finance Ltd.	-	-
		10. Nitesh Estates Ltd.	-	-
		11. Usha Martin Ltd.	-	-
		12. Micromax Informatics Ltd.	-	-
		13. Walchandnagar Industries Ltd.	-	-
		14. Dalmia Cement (Bharat) Ltd.	Audit Committee	-

Sl. No.	Name of the Director	Public Companies in which holding Directorship	Membership in Board Committees	Committees of which Chairman
2	Mr. K. Srikanth Reddy	-	-	-
3	Mr. Shailesh V. Haribhakti	1. Pantaloon Retail (India) Ltd. 2. Everest Kanto Cylinder Ltd. 3. Mahindra Life Space Developers Ltd. 4. Blue Star Ltd. 5. Hexaware Technologies Ltd. 6. ACC Ltd. 7. Ambuja Cements Ltd. 8. Future Capital Holdings Ltd. 9. J K Paper Ltd. 10. Fortune Financial Services (India) Ltd. 11. Raymond Ltd. 12. Future Value Retail Ltd. 13. Hercules Hoists Ltd. 14. L& T Finance Holdings Ltd. 15. Torrent Pharmaceuticals Ltd.	Audit Committee - Audit Committee Audit Committee - - - - - - - - - - Audit Committee	- - - - Audit Committee Audit Committee Audit Committee - - - Audit Committee - - Audit Committee -
4	Mr. S. Santhanakrishnan	1. Reliance Capital Trustee Co. Ltd. 2. ICICI Home Finance Co. Ltd. 3. Easy Access Financial Services Ltd. 4. Sundaram-Clayton Ltd. 5. TVS Credit Services Ltd. 6. Axiom Cardages Ltd.	Audit Committee Audit Committee - - - Audit Committee	- - - - Audit Committee -
5	Mr. Ghanshyam Dass	1. Jain Irrigation Systems Ltd. 2. Jubilant Industries Ltd. 3. Powerica Ltd.	- Audit, Committee to Monitor Voluntary Corporate Governance & CSR Guidelines, and Business Sustainability Committee -	Audit Committee - -
6	Mr. Sateesh Kumar Andra	-	-	-

2. Audit Committee

i) The Board of the Bank has constituted a four-member Audit Committee. All the four members of the Committee are non-executive Directors, with Mr. S. Santhanakrishnan as its Chairman and Mr. K Srikanth Reddy, Mr. Shailesh V. Haribhakti and Mr. Ghanshyam Dass as the other members.

ii) Brief description of the terms of reference:

Apart from the mandatory items to be taken care by the Audit Committee in accordance with Para II (D) of Clause 49 of the Listing Agreement, the role of the Committee includes the following:

a. Providing direction as also overseeing the operations of the total audit function in the Bank.

b. Reviewing the Risk Based Internal Audit (RBIA)/audit function – the system, its quality and effectiveness in terms of follow up.

c. Reviewing the (RBIA) reports of all branches (First Review) and final review of branches having High, Medium and above Risk level with "Increasing" trend.

d. Focusing on the follow-up of:
   - Reconciliation of inter-branch adjustment accounts
   - Long outstanding entries in inter-bank accounts and nostro accounts
   - Arrears in balancing of books at various branches
   - Frauds and
   - Other key areas of housekeeping

e. Reviewing half yearly reports from the Compliance Officers of the Bank.

f. Following up all the issues brought out in the Long Form Audit Report (LFAR) and interacting with the Statutory Auditors before finalisation of the annual financial accounts and reports.

g. Following up on all the issues/concerns raised in the Annual Financial Inspection (AFI) reports of Reserve Bank of India in respect of Regional Offices/Zonal Offices and Head Office.

h. Reviewing with the Management, the quarterly and annual financial statements.

i. Review of Revenue leakage detected in RBIA/Revenue/Concurrent Audit.

j. Review of Concurrent Audit of Depository Department.

k. Review of dishonored cheques of ₹ 1crore and cheques issued by broker entities.

l. Review of Forex Transactions.

m. Review of Concurrent Audit of Integrated Treasury and branches (quarterly).

n. Summary of Risk Control Self Assessment (RCSA) of functions/branches done together with open and closed issues.

o. Working of the Vigilance Department – month wise.

p. Quarterly report on the activity of Inspection Department.

q. Review of the functioning of the meetings of Audit Committee of Executives.

r. Review of Inspection reports on Zonal Offices.

s. Quarterly/Annual review of frauds.

iii) Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
08	23.04.2011, 16.06.2011, 25.07.2011, 22.09.2011, 20.10.2011, 09.12.2011, 14.02.2012 and 28.03.2012.

The details of attendance of each Director are as under:

Name of the Director	Number of Audit Committee Meetings	
	Held	Attended
Mr. S. Santhanakrishnan	08	08
Mr. Vidyadhara Rao Chalasani *	06	02
Mr. K. Srikanth Reddy	08	08
Mr. Shailesh V. Haribhakti	08	07
Mr. Ghanshyam Dass #	02	02
Mr. Sateesh Kumar Andra $	06	06

* Resigned as Director w.e.f.14.12.2011

Inducted to the Committee w.e.f. 02.02.2012

$ Ceased to be a member w.e.f. 09.12.2011

3. Remuneration Committee:

The Board constituted a Remuneration Committee on 29.02.2008, which was reconstituted on 27.09.2008 and 06.10.2009, for determining the modalities of providing appropriate incentives to employees, including stock options (i) to foster employee commitment and a feeling of ownership, (ii) to retain employees or skill groups among them, (iii) attract talented professionals, (iv) to instill a sense of belonging to the Bank, among employees.

Remuneration and other perquisites paid to the Part-time Chairman and Managing Director & CEO are as approved by the Reserve Bank of India. Non-executive Directors are being paid sitting fees for each meeting attended by them. During the year, no remuneration, excepting sitting fees and re-imbursement of actual travel and out-of-pocket expenses was paid.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Date of Meeting
01	26.08.2011

The details of attendance of each Director are as under:

Name of the Director	Number of Remuneration Committee Meeting	
	Held	Attended
Mr. Ghyanendra Nath Bajpai	01	01
Mr. Amitabh Chaturvedi *	01	01
Mr. K. Srikanth Reddy	01	01
Mr. Shailesh V. Haribhakti	01	01
Mr. Sateesh Kumar Andra	01	00

* Resigned as MD & CEO w.e.f. 06.02.2012

4. Shareholders' Grievance Redressal Committee

i) Mr. S. Santhanakrishnan, Mr. K. Srikanth Reddy and Mr. Ghanshyam Dass are members of the Committee. The Committee reviews redressal of investors' complaints like transfer of shares, non-receipt of Annual Reports, non-receipt of dividend warrants and other related matters. The Committee reviews reports from the Registrar and Share Transfer Agents to monitor grievances redressal and also reviews the Reconciliation of Share Capital Audit Report and Half-Yearly Secretarial Audit Reports.

During the year, the Bank received 2 complaints from shareholders, which have been resolved.

ii) Details of Compliance Officer and Registrar & Transfer Agent are as follows:

Description of delegated authority	Full address of delegated authority	Telephone Numbers	Fax Numbers	E-mail ID
Name and designation of Compliance Officer of the Bank	Mr. Ravindran K. Warrier Secretary to Board & Company Secretary	0487 - 6617000 0487 - 2334612 (D)	0487 2335367	investors@dhanbank.co.in
Registrar & Share Transfer Agent	M/s Karvy Computershare (P) Ltd.	040 23420815 - 23420824	040 23420814	einward.ris@karvy.com

iii) Details of number of meetings of Shareholders' Grievance Redressal Committee held and their dates are as follows:

No. of meetings held during the year 2011-12	Dates of Meetings
03	23.04.2011, 22.09.2011 and 14.02.2012

The attendance of each member of the committee is given below:

Sl. No.	Name of the Director	No. of meetings held during the Director's tenure	No. of meetings attended
1	Mr. Amitabh Chaturvedi *	02	02
2	Mr. K. Srikanth Reddy	03	03
3	Mr. S. Santhanakrishnan	03	03
4	Mr. Vidyadhara Rao Chalasani **	02	00
5	Mr. Ghanshyam Dass	03	02

* Resigned as MD & CEO w.e.f. 06.02.2012

** Resigned as Director w.e.f. 14.12.2011

iv) Number of investor complaints received and attended to by the Bank during the year 2011-12 are as follows:

Sl. No.	Nature of complaint	No. of complaints pending as on 01.04.2011	No. of complaints received	No. of complaints resolved	No. of complaints pending as on 31.03.2012
1	Transfer related Complaints	Nil	Nil	Nil	Nil
2	Dividend related Complaints	Nil	2	2	Nil
3	Others	Nil	Nil	Nil	Nil
	Total	**Nil**	**2**	**2**	**Nil**

5. Large Value Fraud Monitoring Committee:

The Committee has been constituted to exclusively monitor large frauds of ₹1 crore and above.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
02	16.06.2011 and 14.02.2012

The attendance of each member of the Committee is given below:

Name of the Director	Number of Large Value Fraud Monitoring Committee Meetings	
	Held	Attended
Mr. Amitabh Chaturvedi *	01	01
Mr. Vidyadhara Rao Chalasani **	01	01
Mr. S. Santhanakrishnan	02	02
Mr. Shailesh V. Haribhakti	02	02
Mr. Ghanshyam Dass	02	02
Mr. Sateesh Kumar Andra	02	02

* Resigned as MD & CEO w.e.f. 06.02.2012

** Resigned as Director w.e.f. 14.12.2011

6. Customer Service Committee

Customer Service Committee monitors the progress in bringing about improvements in the quality of service provided to customers of the Bank. The Committee also reviews the implementation of guidelines and procedures prescribed by RBI that have a bearing on customer service of the Bank and makes suitable recommendations.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
03	16.05.2011, 20.10.2011 and 03.03.2012

The details of attendance of each Director are as under:

Name of the Director	Number of Customer Service Committee Meetings	
	Held	Attended
Mr. Amitabh Chaturvedi *	02	02
Mr. S. Santhanakrishnan	03	03
Mr. K. Srikanth Reddy	03	03
Mr. Vidyadhara Rao Chalasani **	02	00
Mr. Ghanshyam Dass	03	02
Mr. Sateesh Kumar Andra	03	03

* Resigned as MD & CEO w.e.f.06.02.2012

** Resigned as Director w.e.f. 14.12.2011

7. Risk Management Committee:

Risk Management Committee of the Board oversees the implementation of Risk Management guidelines prescribed by the Reserve Bank of India. The Committee reviews the procedures laid down to ensure that the Bank controls the risks through a properly defined framework.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Date of Meeting
03	25.07.2011, 09.12.2011 and 28.03.2012

The details of attendance of each Director are as under:

Name of the Director	Number of Risk Management Committee Meetings	
	Held	Attended
Mr. Ghyanendra Nath Bajpai	03	02
Mr. Amitabh Chaturvedi *	02	02
Mr. Vidyadhara Rao Chalasani **	02	01
Mr. Shailesh V. Haribhakti	03	02
Mr. S. Santhanakrishnan	03	03
Mr. Ghanshyam Dass	03	02

* Resigned as MD & CEO w.e.f. 06.02.2012

** Resigned as Director w.e.f. 14.12.2011

8. Nomination Committee

The Committee undertakes the process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as Director on the Board, based on the specific criteria prescribed by Reserve Bank of India.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
03	23.04.2011, 13.05.2011 and 10.06.2011

The details of attendance of each Director are as under:

Director	Number of Nomination Committee Meetings	
	Held	Attended
Mr. Ghyanendra Nath Bajpai	03	03
Mr. Amitabh Chaturvedi*	03	03
Mr. Shailesh V. Haribhakti	03	03
Mr. S. Santhanakrishnan	03	03

* Resigned as MD & CEO w.e.f. 06.02.2012

9. Management Committee:

Management Committee exercises sanction of one-time settlement & write-off and administrative powers.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
04	23.04.2011, 22.09.2011, 09.12.2011 and 03.03.2012

The details of attendance of each Director are as under:

Director	Number of Management Committee Meetings	
	Held	Attended
Mr. Amitabh Chaturvedi *	03	03
Mr. K. Srikanth Reddy	04	04
Mr. S. Santhanakrishnan	04	04

* Resigned as MD & CEO w.e.f. 06.02.2012

10. Human Resources Development Committee

The Committee oversees the overall manpower planning of the Bank and conducts interviews for lateral recruitment and internal promotions.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
01	26.08.2011

The details of attendance of each Director are as under:

Director	Number of HRD Committee Meetings	
	Held	Attended
Mr. Ghyanendra Nath Bajpai	01	01
Mr. Amitabh Chaturvedi *	01	01
Mr. K. Srikanth Reddy	01	01
Mr. Shailesh V. Haribhakti	01	01
Mr. Ghanshyam Dass	01	00

* Resigned as MD & CEO w.e.f. 06.02.2012

11. Information Technology Committee

The Committee dissolved on 30.04.08 and revived with the following members on 26.07.08 to examine IT related topics in question.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
02	16.05.2011 and 03.03.2012

The details of attendance of each Director are as under:

Director	Number of Information Technology Committee Meetings	
	Held	Attended
Mr. Ghyanendra Nath Bajpai	02	01
Mr. Amitabh Chaturvedi *	01	01
Mr. K. Srikanth Reddy	02	02
Mr. S. Santhanakrishnan	02	02
Mr. Ghanshyam Dass	02	01
Mr. Sateesh Kumar Andra	02	02

* Resigned as MD & CEO w.e.f. 06.02.2012

12. Committee of Directors (Proposals)

The Board of the Bank has constituted a Committee of Directors (Proposals) (vide item E-41 of the Board Meeting held on 13.08.2010), comprising of Mr. S. Santhanakrishnan and Mr. Shailesh V. Haribhakti and Mr. Ghanshyam Dass to approve all financial sanctions/exposures between ₹6 crores and ₹25 crores.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
05	02.04.2011, 10.06.2011, 22.09.2011, 09.12.2011 and 07.03.2012

The details of attendance of each Director are as under:

Director	Number of Committee of Directors (Proposals) Meetings	
	Held	Attended
Mr. Amitabh Chaturvedi *	04	04
Mr. S. Santhanakrishnan	05	05
Mr. Shailesh V. Haribhakti	05	03
Mr. Ghanshyam Dass #	01	01

* Resigned as MD & CEO w.e.f. 06.02.2012

Inducted to the Committee w.e.f. 14.02.2012

13. Committee of Directors (MD & CEO)

Consequent to the resignation of Mr. Amitabh Chaturvedi, MD & CEO, Reserve Bank of India (RBI) vide letter dated February 08, 2012 has advised to constitute a Committee of Directors to oversee the operations and administrations of the Bank till a regular MD & CEO is appointed and the discretionary powers of the MD & CEO for sanction of credit proposals to be exercised by the above Committee of Directors. Therefore the Board of the Bank has constituted a Committee of Directors (MD & CEO) comprising of Mr. S. Santhanakrishnan and Mr. Shailesh V. Haribhakti, Mr. Ghanshyam Dass and Mr. Sateesh Kumar Andra.

Meetings, dates and attendance during the year

No. of meetings held during the year 2011-12	Dates of Meetings
03	03.03.2012, 07.03.2012 and 17.03.2012

The details of attendance of each Director are as under:

Director	Number of Committee of Directors (MD & CEO) Meetings	
	Held	Attended
Mr. S. Santhanakrishnan	03	03
Mr. Shailesh V. Haribhakti	03	01
Mr. Ghanshyam Dass	03	02
Mr. Sateesh Kumar Andra	03	03

Mr. K. Srikanth Reddy has been invited to the Committee of Directors (MD & CEO) as a Special Invitee at the meeting held on 07.03.2012.

14. General Body Meetings

Location and time where last three Annual General Meetings (AGM) were held:

AGM Number	Date & Time	Venue
84th	22.06.2011 1.30 PM	LuLu International Convention Centre, Thrissur
83rd	15.07.2010 11 AM	LuLu International Convention Centre, Thrissur
82nd	31.07.2009. 03 PM	LuLu International Convention Centre, Thrissur

Details of special resolutions passed in the previous 3 AGMs.

At the 82nd AGM, two Special Resolutions were passed, one for altering the Clause (iii) of Article 64 of Articles of Association of the Bank and the other for implementation of the Dhanalakshmi Bank Employees Stock Option Scheme 2009.

At the 83rd AGM, two Special Resolutions were passed, one for changing the name of the Bank from 'The Dhanalakshmi Bank Limited' to 'Dhanlaxmi Bank Limited' and the other for Issue of 2.10 crore Equity Shares of ₹10/- each to the Qualified Institutional Buyers (QIBs) by a Qualified Institutional Placement (QIP).

At the 84th AGM, three Special Resolutions were passed, one for Issue of not exceeding 2,07,52,000 equity shares on preferential basis, other one was to amend the terms of the Dhanalakshmi Bank Employees Stock Option Scheme 2009 (ESOP Scheme) and the last one for altering the Articles of Association of the Bank so as to include any other Whole time Director or any Director in the whole time employment of the Bank between the words "The Chairman and / or Managing Director" and "shall not retire by rotation" appearing in Article 50(iii) of the Articles of Association of the Bank.

15. Disclosures

Related Party Transactions

During the financial year, the Bank did not enter into any related party transactions with its Directors or Senior

Management or their Relatives that would potentially conflict with and / or adversely affect the interests of the Bank, excepting the remuneration paid to the Managing Director & CEO.

Disclosure of Accounting Treatment

In preparation of financial statements, there has been no treatment different from that prescribed in the Accounting Standard that is being followed.

Risk Management

Bank follows an integrated approach to managing risks and the processes are embedded in the fundamental business model. The Risk Management Landscape in the Bank covers the stages of identifying, assessing, measuring, managing, controlling and reporting risk concerns across all the risk classes viz., Credit, Market and Operational Risks.

The organization of Risk Management function in the Bank spans various levels of oversight from operatives to the Board, offering lines of defense and escalation. The Risk Management Policies adopted and reviewed periodically articulate, codify the strategy, structure, processes and systems to manage bank-wide risks. These are administered by the structured / internalized roles and functions of the Committees namely Risk Management Committee of the Board (RMCB), Risk Management Committee of Executives (RMCE), Asset Liability Management Committee (ALCO), Credit Risk Management Committee (CRMC) and the Operational Risk Management Committee (ORMC). Key risk management activities are reviewed by the Board-level Risk Management Committee (RMCB) and reported to the Board.

Remuneration of Directors

Name & Designation	Salary	Perquisites	Total
Mr. Amitabh Chaturvedi, MD & CEO *	**38,42,254**	**-**	**38,42,254**

* Resigned w.e.f. 06.02.2012

All other Directors are not paid any remuneration other than the sitting fees for attending the meetings of the Board / Committee of Directors.

During the year:

– The Bank has complied with the directives issued by the Stock Exchanges / Securities and Exchange Board of India (SEBI) and other statutory authorities on all matters related to capital markets and no penalties have been imposed by them.

– The Bank has complied with all the mandatory requirements and has adopted the following non-mandatory requirements of Clause 49 of the Listing Agreement:

  - The Nomination Committee undertakes the process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a Director on the Board.
  - The Company has framed Whistle Blower Policy and affirmed that no personnel have been denied access to the Audit Committee.

16. Means of Communication

The Board took on record the unaudited financial results subjected to a "Limited Review" by the Auditors, in the prescribed proforma of the Stock Exchanges within 45 days of the closure of every quarter and announced immediately thereafter, the results to all the Stock Exchanges where the Bank's shares are listed.

The Board also approved the audited annual results within three months. The highlights of quarterly results and audited annual results were published in leading one national and one vernacular newspaper within 48 hours of the conclusion of the Board Meeting in which they were taken on record and information was also placed on the website of the Bank at www.dhanbank.com.

17. General Shareholder Information

85th AGM	**Date**	**27.09.2012**
	Time	**3 p.m.**
	Venue	**Kousthubham Auditorium, Thrissur**
Name and other details regarding Compliance Officer		**Mr. Ravindran K. Warrier** Secretary to Board & Company Secretary Dhanlaxmi Bank Ltd. Naickanal, Thrissur - 680 001
Financial Year		2011-12
Date of Book Closure		15th September 2012 to 27th September 2012
Listing on Stock Exchanges		The equity shares of the Bank are listed on: Cochin Stock Exchange Ltd. Bombay Stock Exchange Ltd. National Stock Exchange of India Ltd.
Stock Code – Equity Shares		532180 – Bombay Stock Exchange Ltd. DHANBANK - National Stock Exchange of India Ltd.
Registrar and Transfer Agents		M/s. Karvy Computershare Private Ltd. Plot No. 17-24, Vithal Rao Nagar, Madhapur, Hyderabad – 500 081 Phone : 040 23420815 -23420824 Fax : (040) 23420814 E-mail: einward.ris@karvy.com
Dematerialisation of shares and liquidity		The equity shares are available for dematerialisation with ISIN No. INE 680A01011.
Registered Office and Address for Correspondence		P.B.No.9, Dhanlaxmi Buildings, Naickanal, Thrissur – 680 001. E-mail : investors@dhanbank.co.in

Market Price Data

The monthly high and low prices of the Bank's shares traded in The National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Ltd., (BSE) during each month in the financial year ended 31 March 2012 are as under:

Month	NSE		BSE	
	High (₹)	Low (₹)	High (₹)	Low (₹)
April 2011	135.95	112.55	135.90	112.75
May 2011	130.15	115.00	130.35	114.55
June 2011	124.20	110.10	123.95	110.05
July 2011	122.00	103.00	121.40	103.15
August 2011	107.45	67.00	108.65	66.60
September 2011	86.80	73.05	83.65	72.00
October 2011	74.70	54.30	74.65	54.25
November 2011	72.50	52.00	72.30	52.30
December 2011	63.20	41.95	63.10	42.40
January 2012	62.00	43.85	61.80	43.70
February 2012	76.10	54.25	76.00	54.80
March 2012	75.00	56.30	75.00	57.20

Distribution of shareholding as on 31.03.2012:

Distribution of Shareholding as on 31.03.2012					
Sl. No.	Category (Shares)	No. of Holders	% to Holders	No. of Shares	% to Equity
1	1 - 5000	70711	98.90	19563775	22.98
2	5001 - 10000	375	0.52	2761988	3.24
3	10001 - 20000	177	0.25	2553448	3.00
4	20001 - 30000	76	0.11	1904924	2.24
5	30001 - 40000	35	0.05	1246707	1.46
6	40001 - 50000	21	0.03	961691	1.13
7	50000 - 100000	24	0.03	1771132	2.08
8	100001 and above	75	0.10	54372654	63.87
	Total	**71494**	**100.00**	**85136319**	**100.00**

Category - wise distribution of shareholding as on 31.03.2012:

Sl. No.	Description	Cases	Shares	% to Equity
1	Banks	4	136137	0.16
2	Clearing Members	188	1594852	1.87
3	Directors	6	76300	0.09
4	Foreign Institutional Investor	43	28054753	32.95
5	Huf	790	966674	1.14
6	Insurance Companies	2	442277	0.52
7	Bodies Corporates	995	10662140	12.52
8	Mutual Funds	7	63000	0.07
9	Non Resident Indians	1459	5079162	5.97
10	Resident Individuals	67991	38045544	44.69
11	Trusts	9	15480	0.02
	Total	**71494**	**85136319**	**100.00**

As on 31.03.2012, 41,32,759 shares constituting 4.85% and 8,10,03,560 shares constituting 95.15% of the paid up capital were held in physical and electronic mode respectively.

As per SEBI directives, the settlement of the Bank's shares is to be compulsorily done in Demat form.

In the case of physical transfers, the share transfer instruments as and when received are duly processed and shares in respect of valid share transfer instruments transferred in the names of transferee, complying with the rules in force.

18. Compliance status of Clause 49 of the listing agreement

All Board members and senior management personnel have affirmed compliance with the Code of Conduct. A declaration to this effect by the Managing Director & CEO in charge is annexed as Annexure I to this report.

The Bank has complied with all mandatory recommendations prescribed in Clause 49 of the Listing Agreement. A certificate to this effect from the Bank's Statutory Auditors is annexed as Annexure II to this report.

ANNEXURE I

MANAGING DIRECTOR & CEO CERTIFICATION ON COMPLIANCE WITH THE CODE OF CONDUCT FOR DIRECTORS AND SENIOR MANAGEMENT PERSONNEL OF THE BANK

TO THE MEMBERS OF DHANLAXMI BANK LIMITED

I affirm that the Board of Directors and Senior Management Personnel of the Bank have complied with the Code of Conduct during the financial year ended 31 March, 2012.

Sd/-
P. G. JAYAKUMAR
Managing Director & CEO

Place : Mumbai
Date : 25.08.2012

ANNEXURE II

AUDITORS' CERTIFICATE ON CORPORATE GOVERNANCE

To the shareholders of Dhanlaxmi Bank Limited

We have examined the compliance of conditions of Corporate Governance by **Dhanlaxmi Bank Limited** (formerly, "The Dhanalakshmi Bank Limited") for the year ended March 31, 2012, as stipulated in Clause 49 of the Listing Agreement of the Bank with the Stock Exchanges.

The Compliance of conditions of Corporate Governance is the responsibility of the management. Our examination was limited to procedures and implementation thereof, adopted by the Bank for ensuring the compliance of the conditions of the Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Bank.

In our opinion and to the best of our information and according to the explanations given to us, we certify that the Bank has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement.

We further state that such compliance is neither as assurance as to future viability of the Bank nor the efficiency or effectiveness with which the management has conducted the affairs of the Bank.

For Walker, Chandiok & Co.
Chartered Accountants
Firm Registration No.: 001076N

Sd/-
per **Khushroo B. Panthaky**
Partner
Membership No.: F-42423

Place : Mumbai
Date : 22nd June, 2012

For Sharp & Tannan
Chartered Accountants
Firm Registration No.: 109982W

Sd/-
Edwin P. Augustine
Partner
Membership No.: 043385

Place : Mumbai
Date : 22nd June, 2012

Auditors' Report

31st March, 2012

To the Members of Dhanlaxmi Bank Limited

1. We have audited the attached Balance Sheet of **Dhanlaxmi Bank Limited** (the 'Bank') as at 31st March, 2012 the annexed Profit and Loss Account and the Cash Flow Statement for the year ended on that date, in which are incorporated the audited returns of 19 branches and treasury division audited by us, 107 branches audited by the Branch Auditors and 161 branches on which we carried out limited review procedures. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

3. The Balance Sheet and the Profit and Loss Account have been drawn up in accordance with the provisions of Section 29 of the Banking Regulation Act, 1949, read with Section 211 (1), (2) and (3C) of the Companies Act, 1956.

4. The financial information as at and for the year ended 31st March, 2012 of 107 branches has been audited by other auditors whose reports have been furnished to us and our opinion is based solely on the reports of such other auditors.

5. On the basis of our audit and having regard to the reports received by us from the auditors of the branches audited by other auditors and based on limited review procedures carried out by us on certain branches as mentioned above, we report that:

   a. we have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit and have found them to be satisfactory;

   b. in our opinion, the transactions of the Bank, which have come to our notice, have been within the powers of the Bank; and

   c. the returns received from the offices and branches of the Bank have been found adequate for the purposes of our audit.

6. In our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the accounting principles generally accepted in India including Accounting Standards referred to in Section 211(3C) of the Companies Act, 1956, in so far as they apply to the Bank and are not inconsistent with the accounting policies prescribed by the Reserve Bank of India.

7. We further report that:

   a. the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account and returns;

   b. in our opinion, proper books of account as required by law have been kept by the Bank so far as appears from our examination of those books;

   c. on the basis of the written representations received from the Directors, as on 31 March, 2012, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 March, 2012 from being appointed as a director in terms of Section 274(1)(g) of the Companies Act, 1956.

8. In our opinion and to the best of our information and according to the explanations given to us, and on consideration of reports submitted by the auditors of the branches not audited by us, and based on limited review procedures carried out by us on the financial reporting of certain branches as mentioned under paragraph 1 above, since the total assets of such branches as at 31st March, 2012 and total revenue/net cash flows for the year then ended are not very significant to the total assets of the Bank as at 31st March, 2012 and total revenue/net cash flows of the Bank for the year then ended, respectively, the said financial statements read together with the Significant Accounting Policies and the Notes in Schedule 17 and 18 respectively, give the information required by the Companies Act, 1956, in the manner so required for banking companies and the guidelines issued by the Reserve Bank of India from time to time, give a true and fair view in conformity with the accounting principles generally accepted in India;

   a. in the case of Balance sheet, of the state of affairs of the Bank as at 31st March, 2012;

   b. in the case of Profit and Loss Account, of the loss for the year ended on that date; and

   c. in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

For Walker, Chandiok & Co.
Chartered Accountants
Firm Registration No.: 001076N

Sd/-
per **Khushroo B. Panthaky**
Partner
Membership No.: F-42423

Place : Mumbai
Date : 30th May, 2012

For Sharp & Tannan
Chartered Accountants
Firm Registration No.: 109982W

Sd/-
Edwin P. Augustine
Partner
Membership No.: 043385

Place : Mumbai
Date : 30th May, 2012

Balance Sheet

As at March 31, 2012

(₹ in '000)

	Schedule	As at March 31, 2012	As at March 31, 2011
Capital And Liabilities			
Capital	1	851,363	851,357
Reserves and Surplus	2	6,431,092	7,595,043
Deposits	3	118,044,103	125,296,317
Borrowings	4	17,215,095	6,261,056
Other Liabilities and Provisions	5	4,223,210	2,677,727
Total		**146,764,863**	**142,681,500**
Assets			
Cash and Balances with Reserve Bank of India	6	8,679,453	8,028,047
Balances with Banks and Money at call and short notice	7	581,157	1,323,559
Investments	8	43,601,572	36,396,768
Advances	9	87,580,524	90,651,517
Fixed Assets	10	1,486,942	1,343,558
Other Assets	11	4,835,215	4,938,051
Total		**146,764,863**	**142,681,500**
Contingent Liabilities	12	33,615,648	32,508,539
Bills for collection		3,633,763	1,806,454
Significant Accounting Policies	18		
Notes to the Financial Statements	19		

The schedules referred to above form an integral part of the Financial Statements.

For and on behalf of the Board of Directors

Sd/- **Ghyanendra Nath Bajpai**
Chairman

Sd/- **S. Santhanakrishnan**
Director

Sd/- **P. G. Jayakumar**
Managing Director & CEO

Sd/- **Shailesh V. Haribhakti**
Director

Sd/- **Bipin Kabra**
President & CFO

Sd/- **Mini Nair**
Senior Vice President
(Finance & Accounts)

Sd/- **Ravindran K. Warrier**
Company Secretary

As per our Report of even date

For Walker, Chandiok & Co.
Chartered Accountants
Firm Registration No.: 001076N

Sd/- **Khushroo B. Panthaky**
Partner
Membership No.: F-42423

Place : Mumbai
Date : May 30, 2012

For Sharp & Tannan
Chartered Accountants
Firm Registration No.: 109982W

Sd/- **Edwin P. Augustine**
Partner
Membership No. 043385

Place : Mumbai
Date : May 30, 2012

Profit & Loss Account

For the year ended March 31, 2012

(₹ in '000)

	Schedule	Year ended March 31, 2012	Year ended March 31, 2011
Income			
Interest Earned	13	13,936,543	9,064,178
Other Income	14	1,436,418	1,467,696
Total		**15,372,961**	**10,531,874**
Expense			
Interest expended	15	11,461,344	6,412,860
Operating Expenses	16	4,890,676	3,444,682
Provisions and Contingencies	17	177,211	413,710
Total		**16,529,231**	**10,271,252**
Net Profit / Loss for the year		(1,156,269)	260,622
Profit brought forward		100	100
Transfer from dividend payable account including dividend tax		-	37,503
		(1,156,169)	**298,225**
Appropriations			
Transfer to Statutory Reserve		-	78,187
Transfer to Capital Reserve		45,708	2,328
Transfer to Special Reserve U/S 36(1)(viii) of Income Tax Act		-	18,581
Transfer to Other Reserve		-	149,227
Proposed dividend		-	42,568
Dividend tax		-	7,234
Balance carried forward to Balance Sheet		(1,201,877)	100
Total		**(1,156,169)**	**298,225**
Earnings Per Share (in ₹) Basic EPS		(13.58)	3.31
Diluted EPS		(13.58)	3.29
Significant Accounting Policies	18		
Notes to the Financial Statements	19		

The schedules referred to above form an integral part of the Financial Statements.

For and on behalf of the Board of Directors

Sd/- **Ghyanendra Nath Bajpai**
Chairman

Sd/- **S. Santhanakrishnan**
Director

Sd/- **P. G. Jayakumar**
Managing Director & CEO

Sd/- **Shailesh V. Haribhakti**
Director

Sd/- **Bipin Kabra**
President & CFO

Sd/- **Mini Nair**
Senior Vice President
(Finance & Accounts)

Sd/- **Ravindran K. Warrier**
Company Secretary

As per our Report of even date

For Walker, Chandiok & Co.
Chartered Accountants
Firm Registration No.: 001076N

Sd/- **Khushroo B. Panthaky**
Partner
Membership No.: F-42423

Place : Mumbai
Date : May 30, 2012

For Sharp & Tannan
Chartered Accountants
Firm Registration No.: 109982W

Sd/- **Edwin P. Augustine**
Partner
Membership No. 043385

Place : Mumbai
Date : May 30, 2012

Cash Flow Statement

For the year ended March 31, 2012

(₹ in '000)

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Cash flow from operating activities		
Net profit before income tax	(1,167,326)	396,811
Adjustments for :		
Depreciation on fixed assets	294,667	155,934
(Profit)/Loss on Revaluation of Investments	71,232	64,330
Amortisation of premia on investments	75,654	62,833
Loan Loss provisions including write off	86,217	63,273
Provision against standard assets	4,185	146,100
Provision for wealth tax	470	418
Provision for NPA (Investments)	(4,064)	-
Provision for restructured assets	3,690	3,400
Profit on sale of fixed assets	(10,459)	(5,228)
	521,593	**491,060**
Adjustments for :		
Increase in Investments	(7,347,627)	(16,246,004)
(Increase) /Decrease in Advances	2,976,900	(40,652,204)
Decrease in Borrowings	10,854,039	3,010,521
Increase/(Decrease) in Deposits	(7,252,214)	54,311,477
(Increase) / Decrease in Other assets	188,893	(2,672,827)
Increase in Other liabilities and provisions	1,595,147	245,254
	1,015,138	**(2,003,783)**
Direct taxes paid (net of refunds)	(75,000)	(171,000)
Net cash flows from operating activities	**294,405**	**(1,286,913)**

(₹ in '000)

Particulars	Year ended March 31, 2012	Year ended March 31, 2011
Cash flows from investing activities		
Purchase of fixed assets	(457,580)	(718,938)
Proceeds from sale of fixed assets	27,244	17,152
Net cash flows from investing activities	**(430,336)**	**(701,786)**
Cash flows from financing activities		
Proceeds from issue of equity shares	6	210,201
Proceeds from issue of Upper and Lower Tier II capital instruments net of repayment	100,000	75,000
Adjustments towards share issue expenses/ Proceeds from Share Premium (net of share issue expenses)	(4,938)	3,589,329
Dividend provided last year paid during the year including dividend tax	(50,133)	(37,509)
Net cash generated from financing activities	**44,935**	**3,837,021**
Net increase in cash and cash equivalents	**(90,996)**	**1,848,322**
Cash and cash equivalents as at April 1st	9,351,605	7,503,283
Cash and cash equivalents as at March 31st	**9,260,609**	**9,351,605**

For and on behalf of the Board of Directors

Sd/-
Ghyanendra Nath Bajpai
Chairman

Sd/-
S. Santhanakrishnan
Director

Sd/-
P. G. Jayakumar
Managing Director & CEO

Sd/-
Shailesh V. Haribhakti
Director

Sd/-
Bipin Kabra
President & CFO

Sd/-
Mini Nair
Senior Vice President
(Finance & Accounts)

Sd/-
Ravindran K. Warrier
Company Secretary

As per our Report of even date
For Walker, Chandiok & Co.
Chartered Accountants
Firm Registration No.: 001076N

Sd/-
Khushroo B. Panthaky
Partner
Membership No.: F-42423

Place : Mumbai
Date : May 30, 2012

For Sharp & Tannan
Chartered Accountants
Firm Registration No.: 109982W

Sd/-
Edwin P. Augustine
Partner
Membership No. 043385

Place : Mumbai
Date : May 30, 2012

Schedules to the Financial Statements:

As at March 31, 2012

(₹ in '000)

	As at March 31, 2012	As at March 31, 2011
SCHEDULE 1 - CAPITAL		
Authorised		
20,00,00,000 (March 31, 2011 : 10,00,00,000) Equity Shares of ₹10 each	2,000,000	1,000,000
Issued, Subscribed and Paid up		
8,51,36,319 (March 31, 2011 : 8,51,35,749) Equity Shares of ₹10 each	851,363	851,357
Total	**851,363**	**851,357**
SCHEDULE 2 - RESERVES AND SURPLUS		
I. Statutory Reserve		
Opening Balance	772,614	694,427
Add: Transfer from Profit and Loss Account	-	78,187
	772,614	**772,614**
II. Revenue and Other Reserves		
Opening Balance	826,195	677,264
Add : Transfer from Profit and Loss Account	-	149,227
Adjustments during the year	-	(296)
	826,195	**826,195**
III. Balance in Profit and Loss Account	**(1,201,877)**	**100**
IV. Securities Premium Account		
Opening Balance	5,639,597	2,050,268
Add :- (Adjustments)/Additions during the year (net of share issue expenses)	(4,938)	3,589,329
	5,634,659	**5,639,597**
V. Capital Reserve		
Opening Balance	296,680	296,280
Add: Transfer from Profit and Loss Account	45,708	2,328
Less: Due to depreciation of Revalued Premises	(2,744)	(1,928)
	339,644	**296,680**
VI. Special Reserve U/s 36(1)(viii) of Income Tax Act, 1961		
Opening Balance	59,857	41,276
Add: Transfer from Profit and Loss account	-	18,581
	59,857	**59,857**
Total	**6,431,092**	**7,595,043**

(₹ in '000)

	As at March 31, 2012	As at March 31, 2011
SCHEDULE 3 - DEPOSITS		
A. I. Demand Deposits		
(i) From Banks	342,392	1,137
(ii) From Others	8,300,193	15,310,755
	8,642,585	**15,311,892**
II. Savings Bank Deposits	**14,197,537**	**13,380,210**
III. Term Deposits		
(i) From Banks	15,464,118	9,602,733
(ii) From Others	79,739,862	87,001,482
	95,203,980	**96,604,214**
Total	**118,044,103**	**125,296,317**
B. I. Deposits of Branches in India	118,044,103	125,296,317
II. Deposits of Branches outside India	-	-
Total	**118,044,103**	**125,296,317**
SCHEDULE 4 - BORROWINGS		
I. Borrowings in India		
(i) Reserve Bank of India	7,979,741	3,790,000
(ii) Other Banks	-	-
(iii) Other Institutions and Agencies	4,551,122	426,056
	12,530,863	**4,216,056**
II. Tier II bonds in India		
Upper Tier II bonds	275,000	275,000
Lower Tier II bonds	1,870,000	1,770,000
	2,145,000	**2,045,000**
III. Borrowings Outside India #	2,539,232	-
	2,539,232	**-**
# Book credit balances in foreign currency mirror accounts		
Total	**17,215,095**	**6,261,056**
SCHEDULE 5 - OTHER LIABILITIES AND PROVISIONS		
I. Bills Payable	480,147	562,701
II. Interest accrued	2,172,864	1,478,103
III. Unsecured Redeemable Bonds #	-	-
IV. Others (including Provisions)	1,570,199	636,923
Total	**4,223,210**	**2,677,727**
SCHEDULE 6 - CASH AND BALANCES WITH RESERVE BANK OF INDIA		
I. Cash on Hand (including foreign currency notes)	1,575,023	1,486,831
II. Balances with Reserve Bank of India		
(a) In current accounts	7,104,430	6,541,216
(b) In other accounts	-	-
	7,104,430	**6,541,216**
Total	**8,679,453**	**8,028,047**

(₹ in '000)

	As at March 31, 2012	As at March 31, 2011
SCHEDULE 7 - BALANCES WITH BANKS AND MONEY AT CALL AND SHORT NOTICE		
I. In India		
(i) Balances with Banks :		
(a) In current accounts	544,071	307,823
(b) In other deposit accounts	37,085	822,485
	581,157	**1,130,308**
(ii) Money at Call and Short Notice		
(a) With banks	-	-
(b) With other institutions	-	-
	-	-
	581,157	**1,130,308**
II. Outside India		
(a) In current account	-	193,251
(b) In other deposit accounts	-	-
	-	193,251
Total	**581,157**	**1,323,559**
SCHEDULE 8 - INVESTMENTS		
A. Investments in India in		
(i) Government Securities	41,636,659	33,081,070
(ii) Approved securities	187	1,213
(iii) Shares	58,012	19,633
(iv) Debentures and Bonds	802,652	608,668
(v) Subsidiaries/Joint Ventures	-	-
(vi) Others	1,104,062	2,686,184
Total	**43,601,572**	**36,396,768**
B. Investments outside India	-	-
	43,601,572	**36,396,768**
(i) Gross Value of Investments		
(a) In India	43,765,464	36,489,068
(b) Outside India	-	-
	43,765,464	**36,489,068**
(ii) Provision for Depreciation		
(a) In India	163,891	92,300
(b) Outside India	-	-
	163,891	**92,300**
(iii) Net Value of Investments		
(a) In India	43,601,572	36,396,768
(b) Outside India	-	-
Total	**43,601,572**	**36,396,768**
SCHEDULE 9 - ADVANCES		
A. (i) Bills Purchased and discounted	2,351,909	11,526,797
(ii) Cash Credits, Overdrafts and Loans repayable on Demand	15,088,779	11,203,737
(iii) Term Loans	70,139,836	67,920,984
Total	**87,580,524**	**90,651,517**

(₹ in '000)

	As at March 31, 2012	As at March 31, 2011
B. (i) Secured by Tangible assets	76,124,102	79,519,059
(ii) Covered by Bank/Govt. Guarantee	2,335,269	365,627
(iii) Unsecured	9,121,154	10,766,831
Total	**87,580,524**	**90,651,517**
C. **I. Advances in India**		
(i) Priority sectors	28,103,400	25,652,365
(ii) Public Sector	174,563	2,108,741
(iii) Banks	379	-
(iv) Others	59,302,182	62,890,410
Total	**87,580,524**	**90,651,517**
II. Advances Outside India	-	-
Total	**87,580,524**	**90,651,517**
SCHEDULE 10 - FIXED ASSETS		
A. Premises		
At cost as per last Balance sheet	352,411	349,214
Additions during the year due to revaluation of Premises	-	-
Additions/Adjustments during the year	2,668	3,575
Deductions during the year	(5,849)	378
Depreciation to date	(94,780)	(86,550)
Net Block	**254,450**	**265,861**
B. Other Fixed Assets (includes Furniture and Fixture and Computers)		
At cost as per last Balance sheet	1,739,914	999,525
Additions/Adjustments during the year	455,536	810,056
Deductions during the year	(37,969)	69,667
Depreciation to date	(1,017,921)	(755,773)
	1,139,560	**984,141**
Capital Work In progress	92,933	93,556
Net Block	**1,486,942**	**1,343,558**
SCHEDULE 11 - OTHER ASSETS		
I. Interest Accrued	1,548,529	945,595
II. Inter Office Adjustments (Net)	10,153	101,603
III. Tax paid in advance and Tax Deducted at Source (net of provisions)	755,593	477,719
IV. Deferred Tax Asset	132,194	143,251
V. Stationery and stamps	5,754	1,182
VI. Non Banking Assets acquired in satisfaction of claims	548	548
VII. Others	2,382,443	3,268,153
Total	**4,835,215**	**4,938,051**
SCHEDULE 12 - CONTINGENT LIABILITIES		
I. Claims against the bank not acknowledged as debts	39,407	24,643
II. Liabilities on account of outstanding forward exchange contracts	20,149,849	27,832,756
III. Guarantees given on behalf of constituents in India	5,384,177	3,356,928
IV. Acceptance endorsements and other obligations	1,182,292	585,866
V. Liability on account of interest rate swaps	6,500,000	-
VI. Other items for which Bank is contingently liable #	359,923	708,346
#(disputed income tax liability)		
Total	**33,615,648**	**32,508,539**

Schedules to the Financial Statements:

For the year ended March 31, 2012

(₹ in '000)

	Year ended March 31, 2012	Year ended March 31, 2011
SCHEDULE 13 - INTEREST EARNED		
I. Interest/Discount on Advances/bills	10,753,875	6,990,975
II. Income on Investments	3,135,840	2,017,335
III. Interest on balance with RBI/other inter Bank funds	43,592	55,868
IV. Others	3,236	-
Total	**13,936,543**	**9,064,178**
SCHEDULE 14 - OTHER INCOME		
I. Commission, Exchange and Brokerage	84,996	87,174
II. Profit/(Loss) on sale of Investments (Net)	88,734	96,773
III. Profit on sale of land, building and other Assets (Net)	10,459	5,228
IV. Profit on exchange transactions (Net)	118,800	56,565
V. Income from Insurance	82,881	66,150
VI. Miscellaneous Income	1,050,549	1,155,806
Total	**1,436,418**	**1,467,696**
SCHEDULE 15 - INTEREST EXPENDED		
I. Interest on Deposits	10,155,937	5,842,374
II. Interest on RBI/Inter Bank Borrowing	851,209	327,385
III. Others	454,198	243,101
Total	**11,461,344**	**6,412,860**

(₹ in '000)

	Year ended March 31, 2012	Year ended March 31, 2011
SCHEDULE 16 - OPERATING EXPENSES		
I. Payments to and Provisions for Employees	2,739,556	2,014,649
II. Rent, Taxes and Lighting	402,107	459,225
III. Printing and Stationery	62,970	51,382
IV. Advertisement and Publicity	108,299	60,606
V. Depreciation to Banks property	294,667	155,934
VI. Directors Fee, Allowance and Expense	2,319	2,881
VII. Auditors Fee and Expense (including Branch Auditors)	4,923	5,823
VIII. Law charges	6,402	2,984
IX. Postage, Telegram, Telephone etc.	156,865	122,252
X. Repairs and Maintenance	33,327	20,850
XI. Insurance	146,305	79,117
XII. Other Expenditure	932,936	468,979
Total	**4,890,676**	**3,444,682**

SCHEDULE 17 - PROVISIONS AND CONTINGENCIES		
I. Provision for NPA (Advances)	69,336	44,110
II. Floating Provision for NPA (Advances)	-	-
III. Provision for Standard Assets	4,185	146,100
IV. Provision for Restructured Advances	3,690	3,400
V. Provision for Securitisation	-	-
VI. Bad Debts Written Off	16,882	19,163
VII. Provision for Deprn on Investments (Net)	75,654	64,330
VIII. Provision for NPA (Investments)	(4,064)	-
IX. Provision for Income Tax/Wealth Tax/FBT	471	166,200
X. Deferred Tax	11,057	(29,593)
Total	**177,211**	**413,710**

SCHEDULE 18 - PRINCIPAL ACCOUNTING POLICIES APPENDED TO AND FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH, 2012

Background

Dhanlaxmi Bank Limited was incorporated in November 1927 at Thrissur, in Kerala by a group of ambitious entrepreneurs. Dhanlaxmi Bank is a publicly held banking company engaged in providing a wide range of banking and financial services including commercial banking and treasury operations**.** Dhanlaxmi bank is a banking company governed by The Banking Regulation Act, 1949. It became a scheduled commercial bank since 1977.

Basis of preparation of financial statements

The financial statements have been prepared and presented under the historical cost convention and accrual basis of accounting, unless otherwise stated and in compliance with generally accepted accounting principles, statutory requirements prescribed under the Banking Regulation Act, 1949, circulars and guidelines issued by the Reserve Bank of India ('RBI') from time to time, Accounting Standards ('AS') issued by the Institute of Chartered Accountants of India ('ICAI') and notified by the Companies Accounting Standard Rules, 2006 to the extent applicable and in compliance of the current practices prevailing within the banking industry in India.

The preparation of financial statements requires the management to make estimates and assumptions considered in the reported amounts of assets and liabilities (including contingent liabilities) as of the date of the financial statements and the reported income and expense for the reporting period. Management believes that the estimates used in the preparation of the financial statements are prudent and reasonable. Future results may differ from these estimates. Any revision in the accounting estimates is recognized prospectively in the current and future period.

PRINCIPAL ACCOUNTING POLICIES

1. **Revenue recognition**
   - Items of income and expenditure are accounted for on accrual basis, except as stated hereunder:
     - o Interest / Discount on loans & advances / Bills is recognized on accrual basis other than on those stipulated in RBI's prudential norms on income recognition, asset classification and provisioning relating to NPAs where the income is recognized on realization.
     - o Rent on safe deposit lockers, dividends, depository participant business etc. are accounted for on cash basis.
   - Loan processing fee on retail assets is accounted for upfront when it becomes due. Loan processing fees for buyout/other loans would be recognized over the period of tenor of the loan on constant yield basis. Service charges to be paid on buyout loans would be recognized as and when due.
   - Commission received on guarantees issued is amortised on a straight-line basis over the period of the guarantee.
   - Interest on income tax refunds is accounted in the year in which the same is received / adjusted by the income tax department.
   - In respect of accounts covered under one time settlement, the recoveries are adjusted against book balance and the net balance is written off.
   - Income accounted for in the preceding year and remaining unrealized is de-recognized in respect of advances classified as NPA during the year. Interest on NPA is transferred to interest suspense account and recognised in Profit and Loss Account when realized.
   - In respect of sale of Assets under securitization the Bank has followed RBI guidelines as under:
     - o Sale price received shall be duly accounted for and shall be apportioned to each asset on the basis of respective valuations given to the asset.
     - o If the sale price is below Net Book Value (i.e. Outstanding book balance less interest suspense and provisions held) {Net NPA}, then short fall should be debited to profit and loss account.

- o If sale value is higher than the Net NPA balance, then excess provisions shall not be reversed but should be utilized to meet the short fall/loss on account of sale of other non-performing Assets.
- o At the end of each reporting year, security receipts issued by the asset reconstruction company are valued in accordance with the guidelines applicable to such instruments, prescribed by RBI from time to time. Accordingly, in cases where the cash flows from security receipts are limited to the actuarial realization of the financial assets assigned to the instruments in the concerned scheme, the bank reckons the net asset value obtained from the asset reconstruction company from time to time, for valuation of such investments at each reporting year end. The cash consideration received in respect of accounts written off shall be credited to Profit and Loss Account and the value of Security Receipts shall be classified under investments and the corresponding provision shall be retained.

- All income other than the transactions specified above are accounted on proportionate basis over the period of the contract.

2. Investments

Investments are accounted for in accordance with the extant RBI guidelines on investment classification and valuation as mentioned below:

a) Classification

Investments in Government, other approved securities, shares, debentures, bonds and other securities are categorized into (a) Held to Maturity (b) Held for Trading and (c) Available for Sale in terms of RBI guidelines.

b) Basis of Classification

Investments that are held principally for resale within 90 days from the date of purchase are classified under "Held for Trading" category.

Investments which the Bank intends to hold till maturity are classified as HTM securities.

Investments which are not classified in the above categories are classified under "Available for Sale" category.

c) Acquisition Cost

In determining acquisition cost of an investment:

- Brokerage, Commission, etc. paid at the time of acquisition, are charged to revenue at the time of settlement.
- Broken period interest (the amount of interest from the previous interest payment date till the date of purchase/sale of instruments) on debt instruments is treated as a revenue item.
- Cost of investments is based on the following basis:
  - o Held to Maturity – Weighted Average
  - o Held for Trading – Weighted Average
  - o Available for sale – Weighted Average

d) Valuation of Investments is done as under

- Held to Maturity: 'Held to Maturity' securities are carried at their acquisition cost or at amortised cost, if acquired at a premium over the face value. Any premium over the face value of fixed rate and floating rate securities acquired is amortised over the remaining period to maturity on a constant yield basis.
- 'Available for Sale' and 'Held for Trading' securities are valued periodically as per RBI guidelines. Quoted investments are valued based on the trades/quotes on the recognized stock exchanges, subsidiary general ledger account transactions, price list of RBI or prices declared by Primary Dealers Association of India jointly with Fixed Income Money Market and Derivatives Association (FIMMDA), periodically.

The market/fair value of unquoted government securities which are in the nature of Statutory Liquidity Ratio (SLR) securities included in the 'Available for Sale' and 'Held for Trading' categories is as per the rates published by FIMMDA. The valuation of other unquoted fixed income securities wherever linked to the Yield-to-Maturity (YTM) rates, is computed with a mark-up (reflecting associated credit risk) over the YTM rates for government securities published by FIMMDA.

Unquoted equity shares are valued as per the RBI guidelines which is presently at the break-up value, if the latest balance sheet is available, or at ₹1, per company.

Securities are valued scrip-wise and depreciation/appreciation is aggregated for each category. Net appreciation in each category, if any, being unrealised, is ignored, while net depreciation is provided for.

Investment valuation norms for various categories is as given in table below:

Particulars	Valuation Norms
Central Government Securities	Prices published by PDAI/FIMMDA
State Government Securities	At YTM published by PDAI/FIMMDA
Other Approved Securities	YTM published by PDAI/FIMMDA duly adjusted as per RBI guidelines
Bonds, Debentures and Preference Shares	As per rates / methodologies prescribed by FIMMDA
Equity Shares	**Quoted:** Valued as per currently traded quotes on the stock exchange. **Unquoted:** Valued at book value as per the latest Balance Sheet. Where Balance Sheets are not available, at ₹1/- per Company
Units of Mutual Fund	Re-purchase price / NAV declared by the Mutual Fund as at the close of the year
Other Securities	As per guidelines prescribed by RBI

Non-performing investments are identified and depreciation/provision is made thereon based on the RBI guidelines. The depreciation / provision is not set off against the appreciation in respect of other performing securities. Intereston non-performing investments is not recognised in the Profit or Loss Account until received.

e) Sale of Investments

Profit on sale of investments in the 'Held to Maturity' category is credited to the profit and loss account and is thereafter appropriated (net of applicable taxes and statutory reserve requirements) to Capital Reserve. Profit on sale of investments in 'Available for Sale' and 'Held for Trading' categories is credited to profit and loss account.

The shifting of securities from one category to another is done with the approval of the Board as per RBI guidelines. The shifting is effected at acquisition cost/book /market value on the date of transfer, whichever is the least and the depreciation if any at the time of shifting is fully provided for.

Repo and Reverse Repo Transactions

In a repo transaction, the bank borrows monies against pledge of securities. The book value of the securities pledged is credited to the investment account. Borrowing costs on repo transactions are accounted for as interest expense. In respect of repo transactions outstanding at the balance sheet date, the difference between the sale price and book value, if the former is lower than the latter, is provided as a loss in the income statement.

In a reverse repo transaction, the bank lends monies against incoming pledge of securities. The securities purchased are debited to the investment account at the market price on the date of the transaction. Revenues thereon are accounted as interest income.

In respect of repo transactions under Liquidity Adjustment Facility with RBI (LAF), monies borrowed from RBI are credited to investment account and reversed on maturity of the transaction. Costs thereon are accounted for as interest expense. In respect of reverse repo transactions under LAF, monies paid to RBI are debited to investment account and reversed on maturity of the transaction. Revenues thereon are accounted as interest income.

3. Advances

Advances are classified as performing and non-performing based on the Reserve Bank of India guidelines and further into Standard, Sub-Standard, Doubtful and Loss Assets and are stated net of bills rediscounted, specific provisions, floating provisions, interest in suspense for non-performing advances and claims received from Export Credit Guarantee Corporation.

Specific loan loss provisions in respect of non-performing advances (NPAs) are made based on management's assessment of the degree of impairment of wholesale and retail advances, subject to the minimum provisioning level prescribed in the RBI guidelines.

The Bank maintains general provision for standard assets at levels stipulated by RBI from time to time. Provision for standard assets is included under Other Liabilities. Provisions made in excess of these regulatory levels or provisions which are not made with respect to specific non-performing assets or assets which are restructured / securitised are categorised as floating provisions.

The Bank considers a restructured account as one where the Bank, for economic or legal reasons relating to the borrower's financial difficulty, grants to the borrower concessions that the Bank would not otherwise consider. Restructuring would normally involve modification of terms of the advance/securities, which would generally include, among others, alteration of repayment period/repayable amount/the amount of installments/rate of interest (due to reasons other than competitive reasons). Restructured accounts are reported as such by the Bank only upon approval and implementation of the restructuring package. Necessary provision for diminution in the fair value of a restructured account is made.

The Bank buys loans through the direct assignment route. In respect of direct assignment, where the purchase consideration is higher than the principal amount of the portfolio, the resultant additional upfront amount is classified as 'Other assets' which will amortise during the life of the advances on constant yield basis. In other cases, these are accounted at the deal value.

4. Fixed assets and depreciation

Fixed assets, except those revalued, are stated at cost less accumulated depreciation. Cost includes cost of purchase and all expenditure like site preparation, installation costs, professional fees and other expenses incurred on the asset before it is ready to use. Subsequent expenditure incurred on assets put to use is capitalized only when it increases the futures benefit/functioning capability from/of such assets.

Depreciation is charged over the estimated useful life of the fixed asset on a written down value basis except on computers. The rates of depreciation are given below :

Particulars	Rate of Depreciation
Owned Premises	5.00% per annum
Office equipment	18.10% per annum
Motor cars	25.89% per annum
Electrical items	13.91%
Items (excluding staff assets) costing less than ₹5,000/-	Fully depreciated in the year of purchase
Computer Hardware expenditure	33.33% per annum on Straight Line Basis
Computer software and system development expenditure	20.00% per annum on Straight Line Basis
All other assets	As per the rates specified in Schedule XIV of the Companies Act, 1956

Software is capitalized where it is reasonably estimated that the software has an enduring useful life. Software is amortized over an estimated useful life of 5 year.

For assets purchased and sold during the year, depreciation is provided on pro rata basis by the Bank.

5. Impairment of Assets

The Bank assesses at each balance sheet date whether there is any indication that an asset may be impaired. Impairment of loss, if any, is provided in the Profit and Loss Account to the extent the carrying amount of assets exceeds their estimated recoverable amount.

6. Transactions involving foreign exchange

- Monetary assets and liabilities are translated at the exchange rates prevailing at the close of the year as advised by FEDAI and the resulting net gain/loss is recognized in the revenue account.
- Profit or loss on outstanding forward foreign currency contracts are accounted for at the exchange rates prevailing at the close of the year as per FEDAI/ RBI guidelines.
- Income and expenditure items are accounted at the exchange rates ruling on the date of transaction.
- Contingent liabilities in respect of outstanding forward foreign currency exchange contracts, guarantees and letters of credit are stated at the exchange rates prevailing at the close of the year.
- Premium/discount on hedge swaps are recognized as interest income/expenses and are recognized/ amortised over the period of the transactions.

7. Employee Stock Option Scheme ("ESOS")

Dhanlaxmi Bank Limited Employees Stock Option Scheme, 2009 ("ESOP Scheme") provides for the grant of equity shares of the Bank to its eligible employees and Directors in the whole time employment of the Bank/Managing Director. The Scheme provides that employees are granted an option to acquire equity shares of the Bank that vests in a graded manner. The options may be exercised within a specified period. The Bank follows the intrinsic value method to account for its stock-based employee's compensation plans. Compensation cost is measured as the excess, if any, of the fair market price of the underlying stock over the exercise price on the grant date. The fair market price is the latest closing price, immediately prior to the date of the Board of Directors meeting in which the options are granted, on the stock exchange on which the shares of the Bank are listed. In this regard the Bank has complied with the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

8. Employee Benefit

The defined employee benefit schemes are as under:-

- **Provident Fund**
  The contribution as required by the Statute is made to the staff PF Trust of the bank is debited to the Profit and Loss Account. The obligation of the Bank is limited to such contribution.

- **Gratuity**
  The Bank has a defined benefit gratuity plan for Officers and Workmen. Every Officer/workman who has rendered continuous services of five years or more is eligible for Gratuity on superannuation, resignation, termination, disablement or on death. The scheme is funded by the bank and is managed by a separate staff trust. The liability for the same is recognized on the basis of actuarial valuation and certificate issued by independent actuary.

- **Pension**
  The bank has a defined benefit Pension Plan. The plan applies to those employees of the bank who were on the Bank payroll as on September 29, 1995, having opted for the pension scheme and to all workmen joining, thereafter. The scheme is managed by a simple separate trust and the liability for the same is recognized on the basis of actuarial valuation and certificate issued by independent actuary.

9. Lease Accounting

Lease payments for assets taken on operating lease are recognized in the Profit and Loss Account over the lease term in accordance with the AS – 19, Leases.

10. Income tax

Income tax expense comprises current tax provision, the net change in the deferred tax asset or liability in the year. Deferred tax assets and liabilities are recognised for the future tax consequences of timing differences between the carrying values of assets and liabilities and their respective tax bases, and operating loss carry forwards. Deferred tax assets and liabilities are measured using the enacted or substantially enacted tax rates at the balance sheet date.

Deferred tax assets are recognized only to the extent there is reasonable certainty that the assets can be realized in future. In case of unabsorbed depreciation or carried forward loss under taxation laws, deferred tax assets are recognized only if there is virtual certainty of realization of such assets. Deferred tax assets are reviewed at each balance sheet date and appropriately adjusted to reflect the amount that is reasonably/virtually certain to be realized.

11. Accounting for provisions, contingent liabilities and contingent assets

In accordance with AS - 29, Provisions, Contingent Liabilities and Contingent Assets, issued by the Institute of Chartered Accountants of India, the Bank recognises provisions when it has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and when a reliable estimate of the amount of the obligation can be made.

Provisions are determined based on management estimate required to settle the obligation at the balance sheet date, supplemented by experience of similar transactions. These are reviewed at each balance sheet date and adjusted to reflect the current management estimates. In cases where the available information indicates that the loss on the contingency is reasonably possible but the amount of loss cannot be reasonably estimated, a disclosure is made in the financial statements.

Contingent Assets, if any, are not recognised in the financial statements since this may result in the recognition of income that may never be realized.

12. Earnings per share

The Bank reports basic and diluted earnings per equity share in accordance with AS - 20, Earnings per Share, issued by the Institute of Chartered Accountants of India. Basic earnings per equity share have been computed by dividing net profit for the year by the weighted average number of equity shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue equity shares were exercised or converted during the year. Diluted earnings per equity share have been computed using the weighted average number of equity shares and dilutive potential equity shares outstanding during the period except where the results are anti dilutive.

13. Segment reporting

The Bank has recognized Business segments as primary reporting segment and geographical segments as secondary segment in line with RBI guidelines on compliance with Accounting Standard 17, Segment Reporting issued by the Institute of Chartered Accountants of India.

Primary Segments: Business segments

a. **Treasury Operations:** Includes the entire investment portfolio of the bank.

b. **Corporate/Wholesale Banking:** Includes all advances to trusts, partnership firms, companies and statutory bodies which are not included under "Retail Banking".

c. **Retail Banking:** The exposure upto ₹5.00 Crores to individual, HUF, Partnership firm, Trust, Private Ltd. Companies, Public Ltd. Companies, Co-operative Societies etc. or to a small business is covered under retail banking. Small business is one where average of last three years annual turnover (actual for existing & projected for new entities) is less than ₹50 crores.

d. Unallocated segment includes all other operations not covered under Treasury, Wholesale Banking and Retail banking Segments.

Secondary Segments: Geographical segments

Since the Bank is having domestic operations only, no reporting does arise under this segment.

SCHEDULE 19 - NOTES TO THE FINANCIAL STATEMENTS

1. Capital commitments ₹719 Lakhs (Previous Year ₹249 Lakhs)

2. (a) Provisions and Contingencies

₹ in Lakhs

Particulars	March 31, 2012	March 31, 2011
Provision for depreciation on Investments	756	643
Provision for Non-Performing Investments	(41)	-
Provision for Standard Assets	42	1,461
Provision for NPA (including Bad Debts written off and write back)	862	633
Provision for diminution in value of Restructured Accounts	37	34
Provision for Income Tax, Wealth Tax etc.	5	1,662
Deferred Tax Assets	111	(296)
Total	**1,772**	**4,137**

(b) Floating Provisions

₹ in Lakhs

Particulars	2011-12	2010-11
(a) Opening balance	200	200
(b) Additional Provisions made during the year	-	-
(c) Amount of draw down made during the year	-	-
(d) Closing balance	200	200

3. Capital Adequacy

₹ in Lakhs

Sr. No.	Items	March 31, 2012		March 31, 2011	
		Basel I	Basel II	Basel I	Basel II
(i)	Capital to Risk/weighted Assets Ratio (%)	8.79	9.49	10.81	11.80
(ii)	Tier I Capital (%)	6.88	7.42	8.62	9.41
(iii)	Tier II Capital (%)	1.91	2.07	2.19	2.39
(iv)	Percentage of the shareholding of the Government of India in nationalized banks	-	-	-	-
(v)	Amount of Subordinated debt raised as Tier-II capital	1,000	1,000	2,750	2,750
(vi)	Amount raised by issue of IPDI	-	-	-	-
(vii)	Amount raised by issue of Upper Tier II instruments	-	-	-	-

4. Investments

₹ in Lakhs

Items	March 31, 2012	March 31, 2011
(1) Value of Investments		
(i) Gross Value of Investments		
(a) In India	437,655	364,891
(b) Outside India	-	-
(ii) Provisions for Depreciation on investments		
(a) In India	1,639	923
(b) Outside India	-	-
(iii) Net Value of Investments		
(a) In India	436,016	363,968
(b) Outside India	-	-
(2) Movement of provisions held towards depreciation on investments		
(i) Opening balance	923	811
(ii) Add: Provisions made during the year	716	112
(iii) Less: (Write-off/write-back of excess provisions during the year)	-	-
(iv) Closing Balance	1,639	923

5. Repo Transactions

₹ in Lakhs

Particulars	Minimum outstanding during the year ended March 31		Maximum outstanding during the year ended March 31		Daily Average outstanding during the year ended March 31		As on March 31, 2012	As on March 31, 2011
	2012	2011	2012	2011	2012	2011		
Securities sold under repos	2,000	1,500	172,000	71,500	90,312	30,800	72,500	37,500
Securities purchased under reverse repos	5,000	-	42,500	-	19,364	-	-	-

6. Non-SLR Investment Portfolio

a. Issuer wise composition of Non-SLR investments as on March 31, 2012

₹ in Lakhs

Sr. No.	Issuer	Amount	Extent of Private Placement	Extent of 'Below Investment Grade' Securities	Extent of 'Unrated' Securities	Extent of 'Unlisted' Securities
(i)	Public Sector Units	914	914	-	-	-
(ii)	Financial Institutions	-	-	-	-	-
(iii)	Banks	200	200	200		
(iv)	Private Corporate	8,426	8,356	2,000	134	131
(v)	Subsidiaries/Joint Ventures	-	-	-	-	-
(vi)	Others	2,346	2,346	-	-	-
(vii)	Provision held towards depreciation	-	-	-	-	-
	Total	**11,886**	**11,816**	**2,200**	**134**	**131**

b. Non-Performing Non-SLR Investments

₹ in Lakhs

Particulars	2011-12	2010-11
Opening balance	744	744
Additions during the year	-	-
Reductions during the year	40	-
Closing balance	704	744
Total provisions held	**704**	**744**

7. Derivatives

Forward Rate Agreement/ Interest Rate Swap

₹ in Lakhs

Sr. No.	Particulars	March 31, 2012	March 31, 2011
i)	The notional principal of swap agreements	65,000	-
ii)	Losses which would be incurred if counterparties failed to fulfill their obligations under the agreements	257	-
iii)	Collateral required by the bank upon entering into swaps	-	-
iv)	Concentration of credit risk arising from the swaps	189	-
v)	The fair value of the swap book	64,977	-

Exchange Traded Interest Rate Derivatives

₹ in Lakhs

Sr. No.	Particulars	
(i)	Notional principal amount of exchange traded interest rate derivatives undertaken during the year (instrument-wise)	-
(ii)	Notional principal amount of exchange traded interest rate derivatives outstanding as on 31st March 2012 (instrument-wise)	-
(iii)	Notional principal amount of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument- wise)	-
(iv)	Mark-to-market value of exchange traded interest rate derivatives outstanding and not "highly effective" (instrument- wise)	-

Disclosures on risk exposure in derivatives

Qualitative Disclosure

Bank discusses its risk management policies pertaining to derivatives with particular reference to the extent to which derivatives are used, the associated risks and business purposes served. The discussion includes:

a) the structure and organization for management of risk in derivatives trading;

b) the scope and nature of risk measurement, risk reporting and risk monitoring systems;

c) policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges / mitigants; and

d) accounting policy for recording hedge and non-hedge transactions; recognition of income, premiums and discounts; valuation of outstanding contracts; provisioning, collateral and credit risk mitigation.

Quantitative Disclosures

₹ in Lakhs

Sr. No.	Particular	Currency Derivatives	Interest rate derivatives
(i)	Derivatives (Notional Principal Amount)	-	-
	a) For hedging	-	-
	b) For trading	-	65,000
(ii)	Marked to Market Positions [1]	-	64,977
	a) Asset (+)	-	-
	b) Liability (-)	-	-
(iii)	Credit Exposure [2]	-	257
(iv)	Likely impact of one percentage change in interest rate (100*PV01)	-	-
	a) on hedging derivatives		-
	b) on trading derivatives	-	0.93
(v)	Maximum and Minimum of 100*PV01 observed during the year	-	-
	a) on hedging	-	-
	b) on trading Maximum Minimum	-	 1.37 0.75

8. Asset Quality

i. Claim pertaining to debt relief arising till December 31, 2009 was ₹15.16 Lakhs which was shown as receivable from Government of India under Agricultural Debt Relief Scheme 2008, which was received from RBI during

2010-11. Additional claim amount of ₹2.20 Lakhs pertaining to the extended period of Debt Relief Scheme from January 1, 2010 to June 30, 2010 (which was clubbed under head advances) was also received from RBI during 2011-12 and receivable from RBI in this regard is ₹ **Nil**.

ii. Non-Performing Assets

₹ in Lakhs

Items		March 31, 2012	March 31, 2011
(i)	Net NPAs to Net Advances (%)	0.66	0.30
(ii)	Movement of NPAs (Gross)		
	(a) Opening balance	6,709	7,750
	(b) Additions during the year	9,182	4,113
	(c) Reductions during the year	5,464	(5,154)
	(d) Closing balance	10,427	6,709
(iii)	Movement of Net NPAs		
	(a) Opening balance	2,747	4,194
	(b) Additions during the year	7,028	3,708
	(c) Reductions during the year	3,826	(5,190)
	(d) ECGC Collection	28	35
	(e) Floating Provision	177	-
	(f) Closing balance	5,800	2,747
(iv)	Movement of provisions for NPAs		
	(excluding provisions on standard assets)		
	(a) Opening balance	3,910	3,469
	(b) Provisions made during the year	2,331	1,591
	(c) Write-off/ write-back of excess provisions	1,638	(1,150)
	(d) Closing balance	4,603	3,910

iii. Details of Loan Assets subjected to Restructuring as on March 31, 2012

₹ in Lakhs

	Particulars	CDR Mechanism	SME Debt Restructuring	Others
Standard advances restructured	No. of Borrowers	3	1	-
	Amount outstanding	1,297.73	5.23	-
	Sacrifice (Diminution in the fair value)	3.15	0.33	-
Sub standard advances restructured	No. of Borrowers	-	-	-
	Amount outstanding	-	-	-
	Sacrifice (Diminution in the fair value)	-	-	-
Doubtful advances restructured	No. of Borrowers	-	-	-
	Amount outstanding	-	-	-
	Sacrifice (Diminution in the fair value)	-	-	-
Total	No. of Borrowers	3	1	-
	Amount outstanding	1,297.73	5.23	-
	Sacrifice (Diminution in the fair value)	3.15	0.33	

Sacrifice for 1.04.2011 to 31.03.2012 to be provided : ₹3.48 Lakhs

iv. Details of financial assets sold to Securitisation / Reconstruction Company

₹ in Lakhs

Sr. No.	Item	March 31, 2012	March 31, 2011
(i)	No. of accounts	-	-
(ii)	Aggregate value (net of provisions) of accounts sold to SC/RC	-	-
(iii)	Aggregate consideration	-	-
(iv)	Additional consideration realized in respect of accounts transferred in earlier years	-	-
(v)	Aggregate gain/loss over net book value.	-	-

v. Details of non-performing financial assets purchased/sold

A. Details of non-performing financial assets purchased

₹ in Lakhs

Particulars			March 31, 2012	March 31, 2011
1.	(a)	No. of accounts purchased during the year	-	-
	(b)	Aggregate outstanding	-	-
2.	(a)	Of these, number of accounts restructured during the year	-	-
	(b)	Aggregate outstanding	-	-

B. Details of non-performing financial assets sold:

₹ in Lakhs

Particulars		March 31, 2012	March 31, 2011
1.	No. of accounts sold	-	-
2.	Aggregate outstanding	-	-
3.	Aggregate consideration received	-	-

vi. Provisions on Standard Assets

₹ in Lakhs

Item	March 31, 2012	March 31, 2011
Provisions towards Standard Assets	3,415	3,373

vii. Unsecured advances against intangible assets

As at March 31, 2012, the amount of unsecured advances against intangible assets was ₹ Nil and the estimated value of the intangible collaterals was ₹ Nil.

9. Business Ratio

Sr. No.	Items		March 31,2012	March 31, 2011
(i)	Interest Income as a percentage to Working Funds	(%)	8.78	8.09
(ii)	Non-interest income as a percentage to Working Funds	(%)	0.90	1.31
(iii)	Operating Profit as a percentage to Working Funds	(%)	(0.62)	0.60
(iv)	Return on Assets	(%)	(0.73)	0.23
(v)	Business (Deposits plus advances) per employee – ₹ in Lakhs		592.92	589.22
(vi)	Profit/(Loss) per employee - Rs in Lakhs		(3.33)	0.71

Provision Coverage Ratio (PCR)

The PCR (ratio of provisioning of Gross non-performing assets)

Particulars	March 31, 2012	March 31, 2011
Provision Coverage Ratio	45.59%	60.51%

10. Asset Liability Management

Maturity Pattern of certain items of assets and liabilities as at March 31, 2012 are as follow:

₹ in Lakhs

Due within	Advances	Invest-ments	Foreign currency		Deposits	Borrowings
			Assets	Liabilities		
Day 1	24,253	-	8,953	3,106	9,174	1,819
2 to 7 Days	27,018	33,225	5,896	9,720	52,193	78,497
8 to 14 days	11,337	13,637	838	540	41,634	-
15 to 28 days	15,702	29,371	383	236	49,818	-
29 days upto 3 months	75,953	56,838	66,140	64,182	176,736	14,835
Over 3 months and upto 6 months	68,925	-	31,254	31,851	231,557	13,630
Over 6 months and upto 1 year	104,722	1,870	17,050	18,852	267,623	10,925
Over 1 year and upto 3 years	326,714	15,354	-	545	320,166	25,780
Over 3 years and upto 5 years	83,875	59,851	-	397	28,873	22,915
Over 5 years	137,306	227,509	64	-	2,667	3,750
Total	**875,805**	**437,655**	**130,578**	**129,429**	**1,180,441**	**172,151**

11. Lending To Sensitive Sector

i) Exposure to Real Estate Sector

₹ in Lakhs

Category	March 31, 2012	March 31, 2011
a) Direct Exposure		
(i) Residential Mortgages –		
Lending fully secured by mortgages on residential property that is or will be occupied by the borrower or that is rented; **(A)**	37,329	51,617
Of which individual housing loans up to ₹15 lakh	6,516	11,537
(ii) Commercial Real Estate –		
Lendings secured by mortgages on commercial real estates (office buildings, retail space, multi-purpose commercial premises, multi-family residential buildings, multi-tenanted commercial premises, industrial or warehouse space, hotels, land acquisition, development and construction, etc.). Exposure would also include non-fund based (NFB) limits; **(B)**	45,125	39,674
(iii) Investments in Mortgage Backed Securities (MBS) and other securitised exposures –		
a. Residential	-	-
b. Commercial Real Estate	-	-
(iv) Other Direct Exposure (C)	103,698	-
b) Indirect Exposure		
Fund based and non-fund based exposures on National Housing Bank (NHB) and Housing Finance Companies (HFCs). **(D)**	-	17,299
Total Exposure to Real Estate Sector (A+B+C+D)	**186,152**	**108,590**

ii) Exposure to Capital Market

₹ in Lakhs

Particulars	March 31, 2012	March 31, 2011
(i) direct investment in equity shares, convertible bonds, convertible debentures and units of equity-oriented mutual funds the corpus of which is not exclusively invested in corporate debt;	1,379	1,420
(ii) advances against shares/bonds/debentures or other securities or on clean basis to individuals for investment in shares (including IPOs/ESOPs), convertible bonds, convertible debentures, and units of equity-oriented mutual funds;	140	92
(iii) advances for any other purposes where shares or convertible bonds or convertible debentures or units of equity oriented mutual funds are taken as primary security;	-	-
(iv) advances for any other purposes to the extent secured by the collateral security of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds i.e. where the primary security other than shares/ convertible bonds/convertible debentures/units of equity oriented mutual funds `does not fully cover the advances;	-	-
(v) secured and unsecured advances to stockbrokers and guarantees issued on behalf of stockbrokers and market makers;	4,764	5,150
(vi) loans sanctioned to corporates against the security of shares/bonds/ debentures or other securities or on clean basis for meeting promoter's contribution to the equity of new companies in anticipation of raising resources;	-	-
(vii) bridge loans to companies against expected equity flows/issues;	-	-
(viii) underwriting commitments taken up by the banks in respect of primary issue of shares or convertible bonds or convertible debentures or units of equity oriented mutual funds;	-	-
(ix) financing to stockbrokers for margin trading;	-	-
(x) all exposures to Venture Capital Funds (both registered and unregistered) will be deemed to be on par with equity and hence will be reckoned for compliance with the capital market exposure ceilings (both direct and indirect)	-	-
Total Exposure to Capital Market	**6,283**	**6,662**

12. Risk Category Wise Country Exposure

₹ in Lakhs

Risk Category	Exposure (net) as at	Provision held as at	Exposure (net) as at	Provision held as at
	March 31, 2012	March 31, 2012	March 31, 2011	March 31, 2011
Insignificant	1,686	-	3,758	-
Low	8	-	13	-
Moderate	-	-	-	-
High	-	-	-	-
Very High	-	-	-	-
Restricted	-	-	-	-
Off-credit	-	-	-	-
Total	**1,694**	**-**	**3,771**	**-**

13. Details of Single Borrower Limit, Group Borrower Limit Exceeded by the Bank

The details of single borrower limit exceeded by bank

₹ in Lakhs

Sr. No.	Name of the borrower	Exposure Permissible	Actual Exposure
1	Parekh Aluminex	13,700	14,200
2	Core Education & Technologies Ltd.	13,700	14,500

The bank has not exceeded group borrower limit during the year.

14. Provisions

₹ in Lakhs

Particulars	March 31, 2012	March 31, 2011
Income Tax	-	1,658
Wealth Tax	4.71	4
Fringe Benefit Tax	-	-
Deferred Tax	110.56	(296)

15. No penalty has been imposed during the year 2011-12 by RBI

16. Disclosure for Customer Complaints/unimplemented Awards of Banking Ombudsman

Customer complaints

Particulars	2011-12
(a) No. of complaints pending at the beginning of the year	21
(b) No. of complaints received during the year	696
(c) No. of complaints redressed during the year	707
(d) No. of complaints pending at the end of the year	10

Unimplemented awards of Banking Ombudsmen

Particulars	2011-12
(a) No. of unimplemented awards at the beginning of the year	-
(b) No. of Awards passed by the Banking Ombudsmen during the year	1
(c) No. of Awards implemented during the year	1
(d) No. of unimplemented Awards during the year	-

17. Disclosure of Letter of Comforts (LOCs) Issued by the Bank

The Bank has not issued any Letter of Comfort during the year 2011-12.

18. (I) Concentration of Deposits, Advances, Exposures and NPAs

a) Concentration of Deposits

₹ in Lakhs

Particulars	March 31, 2012	March 31, 2011
Total Deposits of twenty largest depositors	264,165	241,852
Percentage of Deposits of twenty largest depositors to Total Deposits of the Bank	25.70%	19.30%

b) Concentration of Advances

₹ in Lakhs

Particulars	March 31, 2012	March 31, 2011
Total Advances to twenty largest borrowers	146,024	139,426
Percentage of Advances to twenty largest borrowers to Total Advances of the bank	16.53%	15.29%

c) Concentration of Exposures

₹ in Lakhs

Particulars	March 31, 2012	March 31, 2011
Total Exposure to twenty largest borrowers/customers	185,378	167,700
Percentage of Exposures to twenty largest borrowers/ customers to Total Exposure of the bank on borrowers/ customers	14.13%	13.25%

d) Concentration of NPAs

₹ in Lakhs

Particulars	March 31, 2012	March 31, 2011
Total Exposure to top four NPA accounts	2,082	1,150

(II) Sector-wise NPAs

Sector	Percentage of NPAs to total Advances in that Sector as on March 31, 2012	Percentage of NPAs to total Advances in that Sector as on March 31, 2011
Agriculture and allied activities	1.15%	0.98%
Industry (Micro & small, Medium and Large)	1.23%	0.76%
Services	0.60%	0.59%
Personal Loans	2.41%	2.23%

(III) Movement of NPAs

₹ in Lakhs

Particulars	2011-12	2010-11
Opening balance	6,709	7,750
Additions (Fresh NPAs) during the year	9,182	4,113
Sub-total (A)	**15,891**	**11,863**
Less:-		
(i) Up gradations	1,742	1,543
(ii) Recoveries (excluding recoveries made from upgraded accounts)	3,555	3,420
(iii) Write-offs	167	191
Sub-total (B)	**5,464**	**5,154**
Closing balance (A-B)	**10,427**	**6,709**

(IV) Overseas Assets, NPA and Revenue

₹ in Lakhs

Particulars	March 31, 2012	March 31, 2011
Total Assets	-	-
Total NPAs	-	-
Total Revenue	-	-

(V) Off-balance Sheet SPVS Sponsored (Which are Required to be Consolidated as per Accounting Norms)

₹ in Lakhs

Name of the SPV sponsored	
Domestic	**Overseas**
-	-

19. ESOP Scheme

On May 11, 2010, 20,000 options were issued at an exercise price of ₹144.70 to new joinees in addition to 3,979,225 options granted on 6 August, 2009 to employees under two different plans at a uniform option price of ₹118.35. Out of the above, 20,149 shares were exercised during the previous year and 570 shares were exercised during the current year. Options granted to the employees under the first plan ('Existing Employees') shall vest at the rate of 30%, 30% and 40% on each successive anniversary of the grant date. Options granted to the employees under the second plan ('Joining Employees') shall vest after completion of 12 months from the date of grant. Further, all the option granted to 'Joining Employees' under the scheme shall be subject to a lock in period of twenty four months from date of vesting of options under this scheme.

Based on the information provided by the client, the details of the Employees Stock Option Plan-2009 as at March 31, 2012 are as follows:

Sr. No.	Particulars	Employee Stock Option Plan-2009
1.	Details of Approval	Remuneration Committee resolution, dated August 6, 2009.
2.	Implemented through	Directly by the bank
3	Total number of shares	4,042,470
4.	Price per option	₹ 118.35
5.	Granted	3,999,225
6.	Vested	3,667,742
7.	Exercised	20,719
8.	Lapsed options	1,559,891
9.	Vested and unexercised	2,118,013
10.	Total number of options in force	2,418,615
11.	Money realized	₹ 2,452,094

12.	Senior Managerial Personnel	Options Granted	Options Vested	Options Lapsed	Options Exercised	Balance
		1,100,000	-	-	-	1,100,000

13. Exercise period will commence from the date of vesting of option and will end on 10 years from the date of grant of options or 10 years from the date of vesting of Option, whichever is later.

Note:

a) The compensation Committee has granted a total of 3,999,225 options convertible into 3,999,225 Equity shares which represent 6.24% of the paid up share capital of the Bank. The fair market value one day before the date of grant is ₹118.35 which is also the exercise price of the option.

b) The Bank accounts for 'Employee Share Based Payments' using the fair value method.

The movement of stock options during the year ended March 31, 2012 is summarized below :

Particulars	Number of Options
Outstanding at the beginning of the year	3,968,376
Granted during the year	-
Forfeited during the year	1,549,191
Exercised during the year	570
Expired during the year	-
Outstanding at the end of the year	2,418,615
Exercisable at the end of the year	2,118,013

20. Employee Benefits (AS 15)

The summarized position of various defined benefits recognized in the profit and loss account and balance sheet along with the funded status are as under:

A. Expenses recognized in Profit and Loss Account

₹ in Lakhs

Particulars	Pension	Gratuity	Leave
Current Service Cost	553	240	165
Interest cost on benefit obligation	738	280	173
Expected return on plan assets	(977)	(228)	-
Net actuarial gain/(loss) recognized in the year	826	145	326
Past Service Cost PSL – amortization	1,262	781	-
Expenses recognized in the Profit and Loss Account	2,402	1,218	664

B. The amount recognized in the Balance Sheet

₹ in Lakhs

Particulars	Pension	Gratuity	Leave
Present Value of obligation at the end of the year (i)	10,605	3,281	1,955
Fair value of plan assets at the end of the year (ii)	10,001	2,944	-
Difference (ii)-(i)	(604)	(337)	(1,955)
Unrecognized past service liability	-	-	-
Net asset/(liability) recognized in the Balance Sheet	(604)	(337)	(1,955)

C. Changes in the present value of the defined benefit obligations:

₹ in Lakhs

Particulars	Pension	Gratuity	Leave
Present value of obligation at the beginning of the year	9,677	3,056	1,665
Interest cost	737	280	173
Current Service Cost	553	240	165
Benefits paid	(269)	(440)	(374)
Net actuarial gain/(loss) on obligation	564	145	326
Past service cost	-	-	-
Settlements	(657)	-	-
Present value of the defined benefit obligation at the end of the year.	10,605	3,281	1,955

D. Change in the fair value of plan assets:

₹ in Lakhs

Particulars	Pension	Gratuity	Leave
Fair value of plan assets at the beginning of the year	8,047	2,200	-
Expected return on plan assets	977	228	-
Contributions by employer	1,631	955	374
Benefit paid	(270)	(440)	(374)
Settlements	(657)	-	-
Actuarial gain/(loss)	(261)	-	-
PF transfer	-	-	-
Fair value of plan assets at the end of the year	10,001	2,944	-
Total Actuarial Gain/(Loss) to be recognized immediately	(826)	(145)	(326)

E. Details of the Plan Asset

The details of the plan assets (at cost) are as follows:

₹ in Lakhs

Particulars	Pension	Gratuity	Leave
Central Government securities	2,418	-	-
State Government securities	2,192	280	-
Investment in Public Sector Undertakings	1,789	60	-
Investment in Private Sector Undertakings	1,925	752	-
Others	1,422	1,804	-
Total	**9,746**	**2,896**	**-**

F. Actuarial Assumptions

Principal assumptions used for actuarial valuation are:

Method used	Pension Project Unit Credit Method	Gratuity Project Unit Credit Method	Leave Project Unit Credit Method
Discount rate	8.50%	8.50%	8.50%
Expected rate of return on assets	9.00%	9.00%	-
Future salary increase	4.50%	4.50%	4.50%

Note:

Consequent on the reopening of the pension option and enhancement of the gratuity limit following the amendments to Payment of Gratuity Act 1972, RBI has allowed amortisation of the additional expenses over a period of five years beginning with the financial year ending March 31, 2011 subject to a minimum of $1/5^{th}$ of the total amount involved every year. Out of the total liability of ₹2,554 lakhs arising on account of above mentioned amendments, ₹511 lakhs has been charged to the Profit and Loss Account in the current year and the balance unrecognised portion shall be amortised with in next three years.

21. Segment Reporting (AS 17)

The Bank has recognized Business segments as primary reporting segment and Geographical segments as secondary segment in line with RBI guidelines on compliance with Accounting Standard 17.

I. Primary Segments: Business segments.
   a) Treasury Operations
   b) Corporate / Wholesale Banking
   c) Retail banking
   d) Other banking business operations

II. Secondary Segments: Geographical segments.
   Since the Bank is having domestic operations only, no reporting does arise under this segment.

SEGMENT RESULTS – March 31, 2012

(This section has been intentionally left blank)

₹ in Lakhs

	Treasury		Retail Banking		Corporate / Wholesale Banking		Other Banking Operations		Unallocated		Total	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Revenue	33,870	22,265	72,463	44,301	47,260	38,700	-	-	137	53	153,730	105,319
Results	(1,448)	1,534	(4,094)	3,573	(3,248)	2,582	-	-	-	-	(8,790)	7,689
Unallocated Expenses	-	-	-	-	-	-	-	-	-	-	1,001	946
Operating Profit	-	-	-	-	-	-	-	-	-	-	(9,791)	6,743
Total Provisions	-	-	-	-	-	-	-	-	-	-	1,657	2,771
Tax Expenses	-	-	-	-	-	-	-	-	-	-	115	1,366
Extra ordinary items	-	-	-	-	-	-	-	-	-	-	-	-
Profit After Tax	-	-	-	-	-	-	-	-	-	-	(11,563)	2,606
Other Information	-	-	-	-	-	-	-	-	-	-	-	-
Segment Assets	516,178	437,755	567,874	520,908	374,656	461,938	-	-	-	-	1,458,708	1,420,601
Unallocated Assets	-	-	-	-	-	-	-	-	-	-	8,941	6,214
Total Assets	-	-	-	-	-	-	-	-	-	-	1,467,649	1,426,815
Segment Liabilities	510,692	414,811	532,690	491,596	351,443	435,944	-	-	-	-	1,394,825	1,342,351
Unallocated Liabilities	-	-	-	-	-	-	-	-	-	-	72,824	84,464
Total Liabilities	-	-	-	-	-	-	-	-	-	-	1,467,649	1,426,815

22. Related Party Disclosures (AS 18)

	2011-12	2010-11
a) Key Management Personnel	Sri Amitabh Chaturvedi MD & CEO	Sri Amitabh Chaturvedi MD & CEO
b) Nature of transaction: Remuneration (including perquisites)	₹ 38,42,254 (Resigned w.e.f. February 06, 2012)	₹ 53,71,000

23. Leases (AS 19)

The details of maturity profile of future operating lease payments are given below

₹ in Lakhs

Period	March 31, 2012	March 31, 2011
Not later than one year		
• Rented Premises	3,280	3,000
• IT equipments	409	409
Later than one year and not later than five years		
• Rented Premises	14,016	12,960
• IT equipments	-	409
Later than five years		
• Rented Premises	4,000	5,000
• IT equipments	-	-
Total	**21,705**	**21,778**
Total minimum lease payments recognized in the Profit and Loss Account for the year		
• Rented Premises	2,738	3,397
• IT equipments	409	409

24. Earnings Per Share (AS 20)

Particulars	March 31, 2012	March 31, 2011
Net Profit/ (Loss) after tax (₹ in lakhs)	(11,562.69)	2,606.22
Weight average number of equity shares for Basic EPS	85,136,268	78,737,719
Weight average number of equity shares for Diluted EPS	83,309,976	79,222,004
Earnings per share (Basic)	₹ (13.58)	₹ 3.31
Earning per share (Diluted)	₹ (13.58)	₹ 3.29

25. Accounting for Taxes on Income (AS 22)

The major components of Deferred Tax are as follows:

₹ in Lakhs

Particulars	Deferred tax assets		Deferred tax liabilities	
	March 31, 2012	March 31, 2011	March 31, 2012	March 31, 2011
Depreciation on Assets	-	-	420.21	279.98
Leave Encashment	634.20	566.00	-	-
Provision for Standard Assets	1,107.95	11,46.49	-	-
Total	**1,742.15**	**1,712.49**	**420.21**	**279.98**
Net balance	**1,321.94**	**1,432.51**	-	-

26. Bancassurance Business

₹ in Lakhs

Sr. No.	Nature of Income	2011-12
1	For selling life insurance policies	760.16
2	For selling non-life insurance policies	68.65
3	For selling mutual fund products	335.10
4	Others	-
	Total	**1,163.91**

27. Draw Down of Reserves

The bank has not undertaken any draw down of reserves during the year except expenses incurred towards increasing of Authorised share capital, which have been adjusted against the Share Premium Account.

28. Impact of Change in Accounting Policy

Till the previous year, income from bills discounting was recognized upfront except where the tenure exceeds one year. However, during the year, the Bank has changed its method of recognizing income, wherein the income is apportioned to the profit and loss account on a daily basis to the extent it relates to the year and the balance amount in subsequent periods. Had the Bank had followed the earlier accounting policy, income for the year would have been higher by ₹205 Lakhs and the Loss for the Year would have been lower by the like amount.

29. Previous year figures are regrouped wherever necessary.

Signatories to Schedule 1 to 18

Sd/-
Ghyanendra Nath Bajpai
Chairman

Sd/-
S. Santhanakrishnan
Director

Sd/-
P. G. Jayakumar
Managing Director & CEO

Sd/-
Shailesh V. Haribhakti
Director

Sd/-
Bipin Kabra
President & CFO

Sd/-
Mini Nair
Senior Vice President
(Finance & Accounts)

Sd/-
Ravindran K. Warrier
Company Secretary

For Walker, Chandiok & Co.
Chartered Accountants
Firm Registration No.: 001076N

Sd/-
Khushroo B. Panthaky
Partner
Membership No.: F-42423

Place : Mumbai
Date : May 30, 2012

Sharp & Tannan
Chartered Accountants
Firm Registration No.: 109982W

Sd/-
Edwin P. Augustine
Partner
Membership No.: 043385

Place : Mumbai
Date : May 30, 2012

BASEL II (PILLAR III) DISCLOSURES

TABLE DF 1 – SCOPE OF APPLICATION

Qualitative Disclosures:

a) Dhanlaxmi Bank has no subsidiaries.

b) Not applicable since the Bank does not have any subsidiaries

Quantitative Disclosures:

c & d. Since the Bank does not have any subsidiaries, there are no quantitative disclosures.

TABLE DF 2 - CAPITAL STRUCTURE

Qualitative disclosures:

a) Summary

Tier I capital of the Bank includes

- Equity Share Capital
- Reserves & Surpluses comprising of
  - ✓ Statutory Reserves,
  - ✓ Capital Reserves,
  - ✓ Share Premium and
  - ✓ Balance in P & L Account

Tier II Capital includes

- Revaluation Reserve,
- Special Reserves,
- Standard Asset Provisions and
- Tier II Bonds.

Quantitative Disclosures: ₹ in lakhs

Items	31.03.2012	31.03.2011
(a) The amount of Tier I capital, with separate disclosure of :		
Paid-up share capital	8514	8514
Reserves	62067	73679
Innovative Instruments	-	-
Other capital instruments	-	-
Sub-total:	70581	82193
Less amounts deducted from Tier I capital, including goodwill and investments.	5858	1433
Total Tier I capital	**64722**	**80760**
(b) The total amount of Tier II capital (net of deductions from Tier II capital)	18044	20554
(c) Debt capital instruments eligible for inclusion in Upper Tier II capital		
• Total amount outstanding	2750	2750
• Of which amount raised during the current year.	0	2750
• Amount eligible to be reckoned as capital funds	2750	2750

Items		31.03.2012	31.03.2011
(d)	Subordinated debt eligible for inclusion in Lower Tier II capital.		
	Total amount outstanding	18700	17700
	Of which amount raised during the current year.	1000	-
	Amount eligible to be reckoned as capital funds.	10540	13080
(e)	Other deductions from capital, if any	-	-
(f)	Total eligible capital – Tier I + Tier 2 (a+b-e)	82767	101314

TABLE DF 3 – CAPITAL ADEQUACY

Qualitative Disclosures:

The Bank has put in place a robust Risk Management Architecture with due focus not only on Capital optimization, but also on Profit Maximisation. The Bank has put in place the "Internal Capital Adequacy Assessment Process" Policy. Capital requirement for current business levels and framework for assessing capital requirement for future business levels has been made. Capital need and capital optimization are monitored periodically by the Committee of Top Executives. The Top Executives deliberate on various options available for capital augmentation in tune with business growth. The Bank has worked out CRAR based on both Basel I and Basel II guidelines. The Bank maintains Basel II CRAR of more than 9% and Tier I CRAR of more than 6%. Besides the Bank complies with the prudential floor for maintenance of capital as per the Revised Framework.

Quantitative Disclosures:

₹ in Lakhs

Items		31.03.2012	31.03.2011
(a)	Capital requirements for credit risk		
	• Portfolios subject to standardized approach	72260	72099
	• Securitisation exposures	-	-
(b)	Capital requirements for market risk Standardized duration approach		
	• Interest rate risk	1630	2275
	• Foreign exchange risk (including gold)	326	68
	• Equity position risk	83	16
(c)	Capital requirements for operational risk		
	• Basic Indicator Approach	4170	2816
(d)	Total and Tier I CRAR for the Bank		
	• Total CRAR (%)	9.49	11.80
	• Tier I CRAR (%)	7.42	9.41
(e)	Total and Tier I CRAR for the consolidated Group		
	• Total CRAR (%)	NA	NA
	• Tier I CRAR (%)	NA	NA
(f)	Total and Tier I CRAR for the Significant subsidiary which are not under consolidated group		
	• Total CRAR (%)	NA	NA
	• Tier I CRAR (%)	NA	NA

TABLE DF 4 –CREDIT RISK: GENERAL DISCLOSURES

Qualitative disclosures:

(a) General :

Definitions of past due and impaired (for accounting purposes)

The bank has adopted the definition of the past due and impaired (for accounting purposes) as defined by the Regulator for income recognition and asset classification norms which is furnished below:

1. Non-performing Assets

An asset, including a leased asset, becomes non-performing when it ceases to generate income for the bank. A non-performing asset (NPA) is a loan or an advance where;

a) interest and/or instalment of principal remain overdue for a period of more than 90 days in respect of a term loan,

b) the account remains 'out of order' as indicated at paragraph 2 below, in respect of an Overdraft/Cash Credit (OD/CC),

c) the bill remains overdue for a period of more than 90 days in the case of bills purchased and discounted,

d) the instalment of principal or interest thereon remains overdue for two crop seasons for short duration crops,

e) the instalment of principal or interest thereon remains overdue for one crop season for long duration crops,

An account is classified as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

2. 'Out of Order' status

An account is treated as **'out of order'** if the outstanding balance remains continuously in excess of the sanctioned limit/drawing power. In cases where the outstanding balance in the principal operating account is less than the sanctioned limit/drawing power, but there are no credits continuously for 90 days as on the date of Balance Sheet or credits are not enough to cover the interest debited during the same period, these accounts are treated as **'out of order'**.

3. 'Overdue'

Any amount due to the bank under any credit facility is 'overdue' if it is not paid on the due date fixed by the bank.

Strategies and Processes for Credit Risk Management

Credit Risk Management Committee (CRMC) headed by MD & CEO is the top level functional committee for Credit risk. The committee considers and takes decisions necessary to manage and control credit risk within overall quantitative prudential limit set up by Board. The committee is entrusted with the job of approval of policies on standards for presentation of credit proposal, fine-tuning required in various rating models based on feedbacks or change in market scenario, approval of any other action necessary to comply with requirements set forth in Credit Risk Management Policy/ RBI guidelines or otherwise required for managing credit risk.

The Bank's strategies to manage the credit risks in its lending operations are as under:

a) The Bank has a Comprehensive Board Approved Credit Risk Management Policy which is reviewed and revised annually. In addition to the above, various strategies with regard to Credit risk management is covered under Banks Credit Policy, Credit Monitoring Policy and Recovery Policy which are periodically reviewed by the Board.

b) Defined segment exposures delineated into Retail, SME and Corporates;

c) Industry wise exposure caps on aggregate lending by Bank

d) Individual borrower wise caps on lending as well as borrower group wise lending caps linked as a percentage to the Bank's capital funds in line with RBI guidelines.

e) Credit rating of borrowers and allowing credit exposures only to defined thresholds of risk levels

f) A well defined approach to sourcing and preliminary due diligence while sourcing fresh credit accounts

g) A clear and well defined delegation of authority within the Bank in regard to decision making linking exposure, rating and transaction risks.

h) Regular review of all credit structures and caps, continuously strengthening credit processes, and monitoring oversight which are regularly reviewed and duly approved by the Board of the Bank.

i) Credit Risk management Cell is validating the rating assigned to all individual credit exposures of ₹25 Lakh and above.

j) Bank has an ever improving procedures and structures with respect to Credit Approval Process, Credit Rating, Prudential Limits, Documentation, Credit Monitoring and Review Mechanism.

k) A Loan Review Mechanism for constantly evaluating the quality of loan book, by way of review of sanctions made, renewal process, submission of monitoring reports, credit related MIS, is in place.

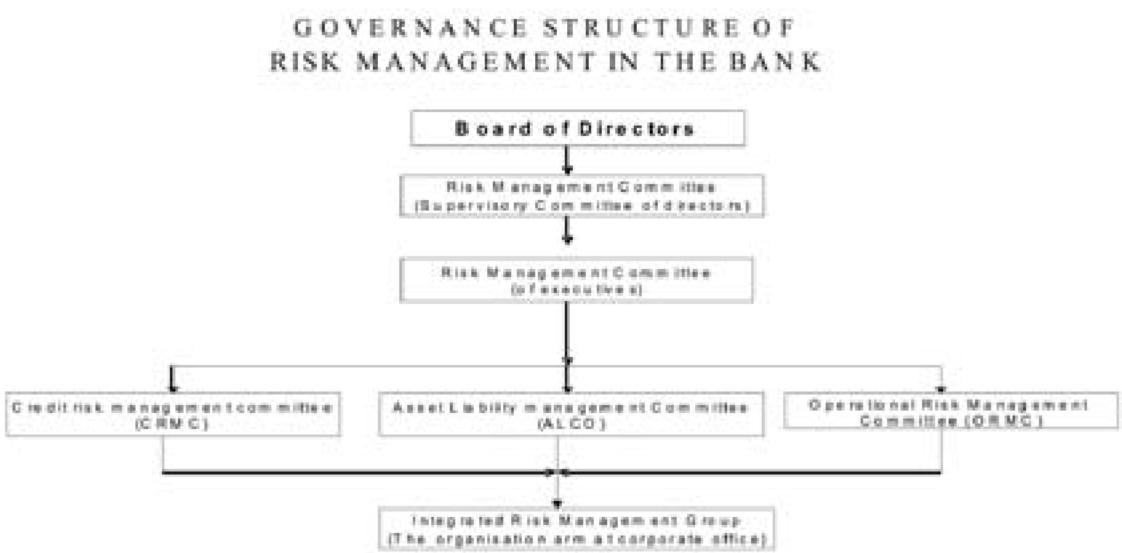
l) The Bank has a Credit Administration team which takes care of the security creation and account management.

m) Credit Monitoring & Recovery Group takes care of the monitoring of the loan assets.

n) Bank has started quarterly industry study which would provide necessary information to increase/hold/decrease exposure under various industries.

Structure and Organization of the Risk Management function in the Bank

The Bank has a Credit Risk Management Committee (CRMC) in place with representation from IRMG, Credit, Credit Mid-Office Group and Treasury. The Committee is headed by the Managing Director & CEO of the Bank. CRMC monitors credit risk on a bank wide basis and discuss on adherence to prudential limits, policies on rating standards and benchmarks etc.



Scope and Nature of Risk Reporting and/or Measurement Systems

The Bank has developed a comprehensive risk rating system that serves as a single point indicator of diverse risk factors of counterparty and for taking credit decisions in a consistent manner. Major initiatives of IRMG are -

- ✓ Risk rating system is drawn up in a structured manner incorporating the parameters from the five main risk areas 1) Financial risk, 2) Industry/Market risk, 3) Business Risk, 4) Management Risk, and 5) Facility risk
- ✓ Risk rating system is made applicable for loan accounts with total limits of ₹2 lakhs and above.
- ✓ Different rating models are used for different types of exposures, for eg; Traders, SME, NBFC, Corporate, small loans etc.
- ✓ IRMG validates the ratings of all exposures of ₹25 lakhs and above.
- ✓ An independent analysis is carried out of the various risks attached to the credit proposals including industry analysis.

- ✓ Carries out rating migration analysis of the credit exposures of ₹10 crores & above on a quarterly basis. Rating Migration analysis covering all exposures of ₹25 lacs and above is being conducted on an annual basis.
- ✓ Evaluates the asset quality by tracking the delinquencies and migration of borrower from one rating scale to another in various industry, business segment etc.

Credit facilities are sanctioned at various levels in accordance with the delegation approved by the Board. The Bank has in place the following hierarchical functionaries with powers delegated for credit sanction and administration:

- ➢ Branch Heads / Branch operational Managers (Jointly)
- ➢ Regional Credit Head
- ➢ Zonal Credit Committee (ZCC)
- ➢ Corporate Credit Committee (CCC)
- ➢ Management Committee of Directors (MC/ Board)

Head Integrated Risk Management Group is a member of the CCC. The bank has implemented a software solution to get system support for calculation of Risk Weighted Assets for CRAR computation.

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants

The Bank has put in place a Board approved policy on Credit Risk Mitigation Techniques and Collateral Management, covering the credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes. Apart from the Basel defined collateral, the Bank ensures securities by way of inventories, Book Debts, plant & machineries, Land & Buildings and other moveable/immovable assets/properties. The Bank also accepts personal/corporate guarantee as an additional comfort for credit risk mitigation. The securities are subjected to proper valuation as prescribed in the Credit Policy of the Bank.

Bank has laid down detailed guidelines on documentation to ensure legal certainty of Bank's charge on collaterals. In order to ensure that documents are properly executed, the function has been brought under the purview of Credit Administrative Officers (CAOs). The CAOs at branches ensure documentation, ground level follow up, collection of feedback, closer monitoring of accounts, quality of asset portfolios, statistical analyses, reporting of irregularities, providing guidelines, compliance with policy prescriptions and adherence to terms of sanction.

The Bank has an exclusive set up for Credit monitoring functions in order to have greater thrust on post sanction monitoring of loans and strengthen administering the various tools available under the Bank's policies on loan review mechanism. For effective loan review, the Bank has the following in place:

- ➢ On site monitoring tools like Inspection of assets/ books/stock of the borrower, stock audit, operations in the account, payment of statutory dues etc.
- ➢ Recording of loan sanctioned by each sanctioning authority by the next higher authority.
- ➢ Off site monitoring tools like Financial Follow Up Reports, verification of various statutory returns, Audit Reports etc.

Quantitative Disclosures:

(a) Total Gross credit exposures: (After accounting offsets in accordance with applicable accounting regime and without taking into account the effects of credit risk mitigation techniques e.g. Collateral and netting)

₹ in Lakhs

Overall credit exposure		31.03.2012	31.03.2011	TOTAL 31.03.2012	TOTAL 31.03.2011
Fund Based	Loans & advances	886838	915450	1038912	1068497
	Cash, RBI and Banks	92606	93516		
	Others (Fixed Assets & other Assets)	59468	59531		
Non-Fund Based	LC, BG etc.	58657	39428	82773	57549
	Forward Contracts	9852	5567		
	Others	14264	996		
Investments (Banking Book only)	--	290706	244828	290706	244828
Total of Credit Risk exposure	--	**1412391**	**1359316**	**1412391**	**1370874**

(b) Geographic distribution of exposures:

₹ in Lakhs

Exposures	31.03.2012			31.03.2011		
	Fund based	Non-Fund Based	TOTAL	Fund Based	Non-fund based	TOTAL
Domestic operations	1329618	82773	1412391	1313325	57549	1370874
Overseas operations	Bank has no overseas operations					

(c) Industry type distribution of exposures:

₹ in Lakhs

Sl. No.	Industry	Total Lending Exposures			
		Fund Based Outstanding		NFB Outstanding	
		31.03.2012	31.03.2011	31.03.2012	31.03.2011
1	Mining and Quarrying	0	218	0	
2	Food Processing	5083	1252	366	
3	Sugar	216	229		
4	Edible oils and vanaspati	562	307		
5	Textiles	19757	17971	6508	166
6	Paper & paper products	1265	13802	2	
7	Chemicals and chemical products	14430	15436	4695	1249
7.1	*Of which, fertilizer*		*9600*		
7.2	*Of which, Drugs & Pharmaceuticals*	*8759*	*1397*	*4515*	
7.3	*Others*	*5671*	*4439*	*180*	
8	Rubber and rubber products	4343	10104	27	
9	Cement & Cement products	4403	10227	20	
10	Metal & Metal products	29517	2267	119	
11	All Engineering	6980	18230	2149	92
12	Automobiles	4699	8631	440	
13	Gems & Jewellery	23067	22445	12435	1390

₹ in Lakhs

Sl. No.	Industry	Total Lending Exposures			
		Fund Based Outstanding		NFB Outstanding	
		31.03.2012	31.03.2011	31.03.2012	31.03.2011
14	Construction	2082		120	
15	Infrastructure	72963	124036	8694	1527
15.1	*Of which, Power*	*29586*	*54092*	*464*	
15.2	*Of which, Telecommunications*	*7499*	*15500*		
15.3	*Of which, Roads & ports*		*6206*		
15.4	*Of which, Other infrastructure*	*35878*	*48238*		
16	NBFC	41073	51867	3006	
17	Trading	11719	128089	595	
18	Other Industries	81190	24935	4258	
	Total	**323349**	**450046**	**43898**	**4424**
19	Residuary other advances (to balance with Total advances)	559736	462116	18703	34933
	Grand Total	**883085**	**912162**	**62601**	**39357**

(d) Residual maturity breakdown of assets:

₹ in Lakhs

Maturity Pattern Assets	Advances 31.03.2012	Advances 31.03.2011	Investments 31.03.2012	Investments 31.03.2011	Foreign Currency 31.03.2012	Foreign Currency 31.03.2011
Day 1	24253	7710	0	-	8,953	6423
2 to 7 Days	27018	10314	33225	-	5,896	4706
8 to 14 days	11337	11796	13637	-	838	270
15 to 28 days	15702	20366	29371	23226	383	1310
29 days up to 3 months	75953	74108	56838	19631	66,140	30021
Over 3 months and up to 6 months	68925	85509	0	25153	31,254	26765
Over 6 months and up to 1 year	104722	190132	1870	11762	17,050	73003
Over 1 year and up to 3 years	326714	270814	15354	7865	0	-
Over 3 years and up to 5 years	83875	139364	59851	19404	0	-
Over 5 years	137306	96402	227509	257850	65	-
Total	**875805**	**906515**	**437655**	**364891**	**130,578**	**142498**

(e) Non-performing assets:

₹ in Lakhs

No.	Items	Amount	
		31.03.2012	31.03.2011
1	**Gross NPAs**	**10427**	**6709**
1.1	Substandard	5359	1878
1.2	Doubtful 1	1790	1378
1.3	Doubtful 2	1004	735
1.4	Doubtful 3	791	1136
1.5	Loss	1483	1582
2	**Net NPAs**	**5800**	**2747**

₹ in Lakhs

No.	Items	Amount	
		31.03.2012	31.03.2011
3	**NPA Ratios**		
3.1	Gross NPAs to Gross Advances (%)	1.18	0.74
3.2	Net NPAs to Net Advances (%)	0.66	0.30
4	**Movement of NPAs (gross)**		
4.1	Opening balance	6709	7750
4.2	Additions	9182	4113
4.3	Reductions	5464	5154
4.4	Closing balance	10427	6709
5	**Movement of provisions for NPAs**		
5.1	Opening balance	3910	3469
5.2	Provisions made during the year	2331	1591
5.3	Write-off	1638	0
5.4	Write back of excess provisions	0	1150
5.5	Closing balance	4603	3910
6	**Amount of non-performing investments**	704.00	744
7	**Amount of provisions held for non-performing investments**	704.00	744
8	**Movement of Provisions held for NPIs**		
8.1	Opening balance	744.00	744
8.2	Provisions made during the period	-	-
8.3	Write-off/ Write back of excess provisions	(40.00)	-
8.4	Closing balance	704.00	744

TABLE DF 5- DISCLOSURES FOR PORTFOLIOS SUBJECT TO THE STANDARDIZED APPROACH

Qualitative Disclosures:

(a) For Portfolios under the standardized approach

1	Names of credit rating agencies used	Bank has approved all the four external credit rating agencies accredited by RBI for the purpose of credit risk rating of domestic borrowal accounts, i.e., CRISIL, CARE, FITCH, ICRA and International Credit rating agencies, i.e, Standard and poor, Moody's , FITCH
2	Changes if any, since prior period disclosure in the identified rating agencies and reasons for the same.	No change
3	Types of exposure for which each agency is used	All the above identified Rating Agency rating are used for various types of exposures as follows : (i) For Exposure with a contractual maturity of less than or equal to one year (except Cash Credit, Overdraft and other Revolving Credits) , **Short-Term Rating** given by ECAIs will be applicable. (ii) For Domestic Cash Credit, Overdrafts and other Revolving Credits (irrespective of the period) and/or Term Loan exposures of over one year, **Long Term Rating** will be applicable. (iii) For Overseas exposures, irrespective of the contractual maturity, Long-Term Rating given by IRAs will be applicable. (iv) Rating by the agencies is used for both fund based and non-fund based exposures. (v) Rating assigned to one particular entity within a corporate group cannot be used to risk weight other entities within the same group.

4	Description of the process used to transfer public issue rating on to comparable assets in the banking book.	Long-term Issue Specific (our own exposures or other issuance of debt by the same borrower-constituent/counter-party) Ratings or Issuer(borrower-constituent/counter-party) Ratings can be applied to other unrated exposures of the same borrower-constituent/counter party in the following cases :
		(i) If the Issue Specific Rating or Issuer Rating maps to Risk Weight equal to or higher than the unrated exposures, any other unrated exposure on the same counter-party will be assigned the same Risk Weight, if the exposure ranks pari passu or junior to the rated exposure in all aspects.
		(ii) In cases where the borrower-constituent/counter-party has issued a debt (which is not a borrowing from our Bank), the rating given to that debt may be applied to Bank's unrated exposures if the Bank's exposure ranks pari passu or senior to the specific rated debt in all respects and the maturity of unrated Bank's exposure is not later than Maturity of rated debt.

Quantitative Disclosures

Amount of bank's outstandings (rated & unrated) in major risk buckets – under standardized approach after factoring risk mitigants (i.e., collaterals):

₹ in Lakhs

Particulars		31.03.2012 Fund based	Non-fund based	Total	31.03.2011 Fund based	Non-fund based	Total
Below 100% risk weight		758447	19073	777519	671536	17408	688944
100% risk weight		437351	58845	496196	519220	36582	555802
More than 100% risk weight		133821	4855	138676	122568	3559	126127
Total Exposure		**1329619**	**82773**	**1412391**	**1313324**	**57549**	**1370873**
Deducted (Risk mitigants)	Below 100% RW	82392	1610	84002	70737	-	70737
	100% RW	11468	4136	15605	17973	-	17973
	More than 100% RW	48567	1998	50565	80039	-	80039
Net Exposure		**1187192**	**75028**	**1262219**	**1144575**	**57549**	**1202124**

TABLE DF 6 –CREDIT RISK MITIGATION – STANDARDIZED APPROACH

Qualitative Disclosure:

(a) General

Policies and processes for collateral valuation and management:

The Bank has put in place a Board approved policy on Credit Risk Mitigation techniques and collateral management, covering the credit risk mitigation techniques used by the Bank for both risk management and capital computation purposes.

A description of the main types of collateral taken by the Bank

Collateral used by the Bank as risk mitigants for capital computation under Standardized Approach comprise eligible financial collaterals namely: -

- ✓ Cash and fixed deposits of the counter-party with the Bank.
- ✓ Gold: value arrived at after notionally converting these to 99.99% purity.
- ✓ Securities issued by Central and State Governments.

- ✓ Kisan Vikas Patra and National Savings Certificates.
- ✓ Life Insurance Policies restricted to their surrender value.
- ✓ Debt securities rated by an approved Rating Agency.
- ✓ Unrated debt securities issued by banks, listed in Stock Exchange.
- ✓ Units of Mutual Funds.

Bank has no practice of on balance sheet netting for credit risk mitigation.

The main types of guarantor counter-party and their creditworthiness:

Bank accepts guarantees of individuals or corporates of adequate networth, as an additional comfort for mitigation of credit risk which can be translated into a direct claim on the guarantor and are unconditional and irrevocable.

Main types of guarantor counter-party as per RBI guidelines are: -

- ✓ Sovereigns (Central/ State Governments)
- ✓ Sovereign entities like ECGC, CGTSI
- ✓ Bank and primary dealers with a lower risk weight than the counter-party
- ✓ Other entities rated AA (-) and above. The Guarantees has to be issued by entities with a lower risk weight than the counter-party.

Information about risk concentrations of collaterals concentration within the mitigation taken:

Financial Risk Mitigants	Outstanding Covered by Risk Mitigants (In Lakhs)		Risk Concentration %	
	31.03.2012	31.03.2011	31.03.2012	31.03.2011
Gold	108488	137489	72.24	81.48
Cash & Bank Deposits	41432	30852	27.59	18.28
KVP/IVP/NSC	213	345	0.14	0.20
LIC Policy	37	64	0.02	0.04
Total	**150170**	**168750**	**100**	**100.00**

Majority of the financial collaterals held by the Bank are by way of Gold, own deposits, Life Insurance Policies and other approved securities. Bank does not envisage market liquidity risk in respect of financial collaterals.

Concentration on account of collateral is also relevant in the case of land & building. However, as land & building is not recognized as eligible collateral under Basel II standardized approach, its value is not reduced from the amount of exposure in the process of computation of capital charge. It is used only in the case of housing loan to individuals and non-performing assets to determine the appropriate risk weight. As such, there is no concentration risk on account of nature of collaterals.

Quantitative Disclosures:

For the disclosed Credit Risk portfolio under the Standardised Approach, the total Exposure that is covered by:

(i) Eligible Financial Collateral : ₹150170 lakhs

(ii) Other eligible Collateral (after Hair Cuts) : ₹ Nil

DF TABLE 7- SECURITISATION – STANDARDIZED APPROACH

Qualitative Disclosures:

- ❖ Bank has not securitized any of its standard assets till date.

DF TABLE 8 - MARKET RISK IN TRADING BOOK- STANDARDIZED MODIFIED DURATION APPROACH

Qualitative Disclosures:

(a) General :

Strategies and processes

The overall objective of market risk management is to maximize shareholder value by improving the bank's competitive advantage and reducing loss from all types of market risk loss events. For effective management of market risk, bank has put in place a well established framework with the Integrated Treasury Policy and Asset Liability Management Policy. The Asset Liability Management Committee is responsible for establishing market risk management and Asset liability management in the Bank. ALCO is a decision making unit responsible for balance sheet planning from risk-return perspective including the strategic management of interest rate and liquidity risks. ALCO ensures adherence to the limits set by RBI as well as the Board.

Scope and nature of risk reporting/measurement systems

The Bank has put in place regulatory/internal limits for various products and business activities relating to trading book. Various exposure limits for market risk management such as overnight limit, VaR limit, Daylight limit, Aggregate Gap limit, Investment limits etc. are in place. The reporting system ensures time lines, reasonable accuracy with automation, highlight portfolio risk concentrations and include written analysis. The reporting formats and frequency are periodically reviewed to ensure that they suffice for risk monitoring, measuring and mitigation requirements of the Bank. Bank also subjects Non-SLR investments to credit rating.

Policies for hedging/mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants:

Board approved policies viz., Integrated Treasury Policy and Asset Liability Management Policy provides the framework for risk assessment, identification, measurement and mitigation, risk limits & triggers, risk monitoring and reporting.

Liquidity risk of the Bank is assessed through Statement of Structural Liquidity Statement which is prepared on a daily basis. The Bank also reviews various liquidity ratios on a fortnight basis in order to control the liquidity position. Interest Rate risk is analyzed from earnings perspective using Traditional Gap Analysis on a fortnightly basis and economic value perspective using Duration Gap Analysis on a monthly basis. Stress tests are conducted at quarterly intervals to assess the impact of various contingencies on the bank's earnings and the capital position.

The Bank uses Standardized Duration approach for computation of market risk capital charge on the investment portfolio held under HFT and AFS, Gold and Forex Open positions. The market risk capital charge is calculated on a daily basis and reported to ALCO.

The portfolio covered by Standardized Duration approach for computation of market risk capital charge are investment portfolio held under HFT and AFS, Gold and Forex Open positions.

Quantitative Disclosures :

₹ In Lakhs

Particulars	Amount of capital requirement 31.03.2012	Amount of capital requirement 31.03.2011
Interest rate risk	**1630**	**2275**
Equity position risk	**83**	**16**
Foreign exchange risk	**326**	**68**

TABLE DF 09-OPERATIONAL RISK

Qualitative Disclosures:

(a) General

Strategies and processes :- The Bank's strategy is to ensure that the Operational risks which are inherent in Process, People and System and the residual risks are well managed by the implementation of effective Risk management techniques. Keeping this in view, the Bank has been following risk management measures which address the risks before and after implementation of a process, product and system. All new products, processes and systems which are cleared by the Product & Process Approval Committee (PPAC) are risk vetted by the Operational Risk Management (ORM) cell, before implementation. The ORM cell has completed Risk & Control Self Assessment (RCSA) at Thrust Branches and other core functions highlighting the potential risks that can happen during the course of operations and to assess whether the controls are adequate to manage/ mitigate these risks. Risk Based Internal Audit is in place in all the Branches. The bank has a RCSA document approved by the Risk Management Committee of the Board (RMCB), in place.

The framework for Operational Risk Management is well-defined in the Operational Risk Management (ORM) Policy which is reviewed and revised annually. The ORM Committee at the executive level, which meets at regular intervals oversees bank-wide implementation of Board approved policies and process in this regard. The Bank has put in place important policies like Information System Security, Know Your Customer & Anti Money Laundering, Fraud Risk Management, Business Continuity and Disaster Recovery Management.

Scope and nature of risk reporting/ measurement systems : -

The Bank has adopted Operational Loss Data Reporting Format from the Loss Data Methodology Document for collection of Loss Data, which will enable the Bank to eventually ease the transition to Advanced Measurement Approach for Capital Calculation. The ORM cell has a well-built internal Loss data collection system in place integrating the Inspection, Legal and IT departments. The risk reporting consists of operational risk loss incidents/ events occurred in branches/ offices relating to people, process, technology and external events. The bank has implemented a software solution which is a modular Operational risk management solution which satisfies end-to-end operational risk management requirements (quantitative and qualitative).

Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/ mitigants:

Internal control mechanism is in place to control and minimize the operational risks. If any controls are found to be ineffective during the course of Risk & Control Self Assessment, corrective measures are adopted in due course. A monitoring system is also in place for tracking the corrective actions plan periodically. Bank is using insurance for mitigating operational risk. The various Board approved policies viz., Operational Risk Management Policy, Outsourcing Policy, Compliance Policy, Internal Inspection & Audit Policy, Internet Banking Security Policy; Information Systems Security Policy and Business continuity Plans addresses issues pertaining to Operational Risk Management.

Operational Risk capital assessment:

The Bank has adopted Basic Indicator Approach for calculating capital charge for Operational Risk, as stipulated by the Reserve Bank of India. The ORM Cell is now in the process of Business Line mapping in line with the RBI guidelines, targeting of migrating to The Standardised Approach (TSA) for operational risk capital assessment. The ORM Cell is now focusing on the qualitative and quantitative requirements (RCSA, KRI identification, Business line mapping etc.) prescribed by the regulator are being adopted by the Bank to move on to the Advanced Approaches in due course.

TABLE DF 10- INTEREST RATE RISK IN THE BANKING BOOK (IRRBB):

Qualitative Disclosures:

Strategies and processes

The Bank has put in place a comprehensive market risk management framework to address market risks. The Asset Liability Management Policy prescribes the measurement of the interest rate risk under two perspectives – Earnings perspective and Economic Value Perspective.

Under Earnings perspective, bank uses the Traditional gap analysis method to calculate the Earnings at Risk (EAR), which is the quantity by which net income might change in the event of an adverse change in interest rate. EAR is calculated on a fortnightly basis.

Under Economic value perspective, bank uses Duration Gap Analysis to assess the impact of interest rate risk. The Duration gap analysis monitors the impact of changes in the interest rates on the Market Value of Equity (MVE). It is calculated on a monthly basis.

The framework for managing interest rate risk (EVE) under Pillar II of Basel II is put in place through ICAAP Policy document.

Scope and nature of risk reporting/ measurement systems

Interest rate risk under duration gap analysis is evaluated on a monthly basis. The likely drop in Market Value of Equity for a 200 bps change in interest rates is computed. Earnings at Risk based on Traditional Gap Analysis are calculated on a fortnightly basis and adherence to tolerance limits set in this regard is monitored and reported to ALCO. Stress tests are conducted to assess the impact of interest rate risk under different stress scenarios on earnings of the Bank.

Policies for hedging/ mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants

Bank has operationalised mitigating/hedging measures prescribed by Integrated Treasury Policy, ALM Policy and Stress Testing Policy. The strategy adopted by ALCO for mitigating the risk is by clearly articulating the acceptable levels of exposure to specific risk types (interest rate, liquidity etc.). The process for mitigating the risk is initiated by altering the mix of asset and liability composition and with the proper pricing of advances and deposits.

Brief description of the approach used for computation of interest rate risk

The interest rate risk (EVE) is computed through Duration Gap Analysis. The step-by-step approach for computing modified duration gap is as follows:

i) Identify variables such as principal amount, maturity date/re-pricing date, coupon rate, yield, frequency and basis of interest calculation for each item/category of Rate Sensitive Asset/Rate Sensitive Liability (RSA/RSL).
ii) Plot each item/category of RSA/RSL under the various time buckets. For this purpose, the absolute notional amount of rate sensitive off-balance sheet items in each time bucket are included in RSA if positive or included in RSL if negative.
iii) The mid-point of each time bucket is taken as a proxy for the maturity of all assets and liabilities in that time bucket.
iv) Determine the coupon and the yield curve for arriving at the yields based on current market yields or current replacement cost for computation of Modified Duration (MD) of RSAs and RSLs.
v) Calculate the MD in each time band of each item/category of RSA/RSL using the maturity date, yield, coupon rate, frequency, yield and basis for interest calculation.
vi) Calculate the MD of each item/category of RSA/RSL as weighted average MD of each time band for that item.
vii) Calculate the weighted average MD of all RSA (MDA) and RSL (MDL) to arrive at Modified Duration Gap (MDG).

Quantitative Disclosures

The impact on earnings and economic value of equity for notional interest rate shocks as on 31.03.2012.

Earnings at Risk

₹ in Lakhs

Change in interest rate	Change in EaR
± 25 bps	**250**
± 50 bps	**500**
± 75 bps	**751**
± 100 bps	**1001**

The Bank is computing market value of equity based on Duration Gap Analysis.

For a 200 bps rate shock, the drop in equity value as on 31.03.2012	7.66%

Prudential floor limit for minimum capital requirements:

The guidelines for implementation of the new capital adequacy framework issued by RBI, stipulates higher of the following amounts as minimum capital required to be maintained by the bank.

(a) Minimum capital as per Basel II norms for Credit, Market and Operational risks.

(b) Minimum capital as per Basel I norms for Credit and market risks.

The minimum capital required to be maintained by the Bank as on 31.03.2012 as per Basel I norms is ₹84711 Lakhs and as per Basel II norms is ₹78469 Lakhs.

Capital (Tier I and Tier II) maintained by the Bank as on 31.03.2012 is ₹82766 Lakhs, which is above the Basel II prudential floor limit.

Balance Sheet Abstract and Company's General Business Profile

A.	**Registration details**			
	Registration Number	09307	State Code	09
	Balance Sheet Date	Mar-12		
B.	**Capital raised during the year (₹ '000s)**			
	Public Issue	Nil	Bonus Issue	Nil
	Rights Issue	Nil	Private Placement	Nil
C.	**Position of mobilisation and deployment of funds (₹ '000s)**			
	Total Liabilities	146,764,863	Total Assets	146,764,863
	Sources of Funds			
	Paid up Capital	851,363	Reserves and Surplus	6,431,092
	Secured Loan	Nil	Unsecured Loans	135,259,198
	Application of Funds			
	Net Fixed Assets	1,486,942	Investments	43,601,572
	Net Current Assets	97,453,138	Misc. Expenditure	Nil
	Accumulated Losses	Nil		
D.	**Performance of the Company (₹ '000s)**			
	Total Income	15,372,961	Total Expenditure	16,352,020
	Profit Before Tax	(1,144,742)	Profit After Tax	(1,156,269)
	Earnings Per share			
	Basic	(13.58)	Dividend rate	NA
	Diluted	(13.58)		
E.	**Generic names of three principal products/ services of the company**			
	(As per monetary terms)			
	Item Code	NA		
	Product Descripition	Banking Company		

For and on behalf of the Board of Directors

Sd/- **Ghyanendra Nath Bajpai** Chairman	Sd/- **S. Santhanakrishnan** Director	Sd/- **P. G. Jayakumar** Managing Director & CEO
Sd/- **Shailesh V. Haribhakti** Director	Sd/- **Bipin Kabra** President & CFO	Sd/- **Mini Nair** Senior Vice President (Finance & Accounts)

Sd/-
Ravindran K. Warrier
Company Secretary

As per our Report of even date

For Walker, Chandiok & Co. Chartered Accountants Firm Registration No.: 001076N	**For Sharp & Tannan** Chartered Accountants Firm Registration No.: 109982W
Sd/- **Khushroo B. Panthaky** Partner Membership No.: F-42423 Place : Mumbai Date : May 30, 2012	Sd/- **Edwin P. Augustine** Partner Membership No.: 043385 Place : Mumbai Date : May 30, 2012

P G Jayakumar, Managing Director & CEO in a function at Corporate office on 15 /06/ 2012 felicitating the farmers, who received aid from the Bank and won the Kerala State Govt awards for the best Animal Farm (Sri. Muhammed Haji), the best Dairy Farm (Mrs. Mumthas) and the best dairy farmer in Thrissur District (Mr. Nandakumar)

Dr. Mar. Raphel Thattil, Auxiliary Bishop of Syro-Malabar Catholic Archdiocese of Thrissur inaugurating our High Road Thrissur Branch evening counter in the presence of Sri T K Thomas, Assistant Police Commissioner of Thrissur www.dhanbank.com