

Dear Shareholders,

I have great pleasure in presenting to you the Annual Report of the Bank along with the Balance Sheet as at 31st March 2009 and Profit & Loss Account for the year ended 31st March 2009.

### The Backdrop

The year 2008-09, particularly the second-half of the fiscal witnessed global turmoil with recessionary trends prevailing in most economies in the aftermath of the Sub-prime crises in the US. The year saw the collapse of number of banks across the globe. International oil prices rose to touch an all time high before cooling down to more earthly levels. The global economic conditions deteriorated sharply during the year 2008 with several advanced economies experiencing sharp decline in their growth rates with a corresponding increase in unemployment levels.

Inflation conditions witnessed sharp volatility globally during the year and in India headline inflation rose considerably up to July 2008, but declined sharply thereafter.

The monetary and fiscal authorities of the country, realizing that fast and well calibrated responses were required to minimize the pains of the recessionary trends on the economy that had been riding high with 9% growth over the previous 5 years, rose to the occasion and rolled out a series of monetary and fiscal measures aimed at restoring a balance in the economy.

On the fiscal side, the Government of India had initiated a number of measures over and above the Budget pronouncements.

Fortunately, Indian financial sector continued to be resilient even in the face of the global financial turmoil. Indian financial markets continued to function in an orderly manner. India's growth trajectory was, however, impacted both by the financial

crisis and the global meltdown. The impact turned out to be deeper and wider than was anticipated earlier. Concurrently, both on account of the global developments and the supply and demand management measures initiated by Government of India and the Reserve Bank of India, WPI inflation declined considerably from the 12% in August 2008 to an all time low of 0.14% by April 2009.

### Banking Sector

The Indian banking industry showed tenacity in the face of extreme pressures that followed the sub-prime effects elsewhere mainly on account of the adequate levels of capitalization. Against the international norms of 8% CRAR, Reserve Bank of India had prescribed 9% as minimum CRAR for Indian banks for long. During the fiscal 2008-09, all scheduled commercial banks in the country adopted Basel II norms (New Capital Adequacy Framework laid down by Reserve Bank of India in April 2007). The public sector banks in the country that constitute the very backbone of the Indian banking scene by and large had CRAR of 12% and over. Furthermore, the Government of India has shown a clear inclination to further recapitalize the banks in which it has major stake.

The growth in aggregate deposits of banks, was 18.8 per cent at end-March 2009 as compared to 21.7 per cent as at end-March 2008. Non-food credit by SCBs was moderated to 17.5 per cent, at end-March 2009 in comparison with 23.0 per cent at end March 2008.

### Your Bank's Performance

Your Bank experienced pressure on Net Interest Income on account of interest rate movements and the need to further improve asset quality while reducing the non performing assets sizably. This had been a difficult task against the backdrop of the economic slowdown. I am happy to inform you that by and large, the bank had overcome these challenges reasonably well

by constantly reviewing its interest rates on both sides of the balance sheet. The Bank's benchmark prime lending rate (BPLR) peaked at 14.25% in August 2008 and had come down to 12.75% by March 2009 with a further reduction of 25 basis points in April 2009. The interest rate on domestic term deposits with a tenor of 1 year that was 8.25% in April 2008 had increased to 8.75% in March 2009. Thus despite the increase in cost of deposits and cut in BPLR, strategies like concentration on high yielding advances, faster recycling of funds through short term loans at competitive rates, etc led to an increase in yield on advances and thus contain the impact on NIM.

I would like to touch upon some areas where your Bank has performed well during 2008-09.

#### Business Growth and Earnings

The Bank's business comprising of deposits and advances, at Rs.72236 crore registered an increase of 26.01% during 2008-09 as against 23.62% for the previous year. Total deposits grew by 26.83% and advances by 24.82% as against the growth rates for previous year at 22.58% and 25.15% respectively. The thrust areas for credit expansion, with emphasis on risk scattering continued to be on SME, retail and agriculture sectors.

The Bank continued with its strategies of concentrating on recoveries in written off accounts, commission income from government business and referral income from distribution of third party products etc and this approach had yielded good results. It is my pleasure to announce that as a result of all these efforts, your Bank has posted a sizeable increase in net profit by 17.47% over the previous year i.e. from Rs.359.79 crore to Rs.422.66 crore. A dividend at the rate of 12% as against 10% for the previous year has been recommended by the Board, considering the need of higher plough back of profits to augment capital funds to support growth of assets at

higher rate in view of the limiting factors in accessing further equity by the Bank

### Asset Quality

The Bank's strategy on asset quality has been to build up a well diversified portfolio of credit and investments spread across various sectors and industries. The Bank has also put in place a strong credit monitoring system to aid identification of early warning signals in its assets portfolio and initiate timely corrective actions.

Aided by efforts at all levels within the Bank, the ratio of Gross NPAs further improved from 2.45% to 2.13% during the year while the ratio of Net NPAs marginally increased to 1.09% from 0.94%.

### New Capital Adequacy Norms

Your Bank has embraced the New Capital Adequacy frame work more popularly called "Basel – II Norms" as at 31<sup>st</sup> March 2009. The Capital Adequacy of the Bank stood at 12.07% under Basel – II despite having allocated capital for operational risk. The CRAR under Basel – II at 12.07% compares well with that of 10.73% under Basel – I and is clear reflection of the Bank's strategies to focus on Agriculture, Retail and SMEs and to carefully, select large borrowers with higher external credit rating.

### Retail Banking

Bank has started opening Retail Assets Branches for giving speedy service to retail borrowers. During 2007-08 one branch at Mumbai and 2008-09 three branches at Ahmedabad, New Delhi and Kolkata were opened. The Bank is planning to open eight more Retail Asset Branches during current year at various centres.

### Augmenting Non-Interest Income

The bank continued to leverage its relationships with its loyal customer base by cross selling its products as well as third party products like life and non-life insurance, mutual funds etc. and strategic tie-ups with insurance companies and mutual funds also helped the Bank to augment its fee and referral income. The continued focus on recoveries in written off accounts yielded over Rs.100 crores for the third consecutive year. Trading activities in government securities and equity also contributed to non interest income of the Bank.

### Catalysts for Growth

#### Ever expanding Outreach

The traditional distribution channels of the Bank stood at 1184 as at the end of 2008-09 with the opening of 26 more Branches during the year. In all, the Bank has now a presence in 24 States and 4 Union territories. The alternative delivery channels also have increased during the year as 71 more ATMs were installed during the year. The Bank's ATMs include two Bio metric ATMs that form part of the Bank's strategy for financial inclusion. As at 31st March 2009, the Bank had an installation base of 387 ATMs comprising of 284 on-site ATMs and 103 Off-site ATMs for the convenience of customers.

### Human Resources

The Bank views that the cutting edge of competitiveness at retail level and efficient customer service is the human resources of the Bank. During the year, the Bank continued with the task of upgrading the skill levels of employees at all levels by organizing a number of special programs, workshops etc. Induction training to new recruits was given special focus. The bank also recruited 259 new officers during 2008-09 including various areas of specialization like Credit, Forex, IT, Marketing, Personal etc.

### Transformation through Technology

Technology along with Human Resources is the main catalyst for growth. The bank has extended the core banking project to 498 more branches including 26 newly opened branches during the year, taking the total number of branches covered to 606. As at 31st March 2009, 86.01% of the Bank's business has been covered under the prestigious Dena Garima Project (CBS) and the Bank has plans to cover all its Branches by December 2009. Further, as CBS is expected to bring about a major transformation in the way the banking business is done, the bank has already taken steps to fully exploit the potential of CBS. In line with this strategy, the Bank has already launched its Internet Banking Services (Dena i Connect) at all CBS branches and some select non CBS branches during the year. The Bank has also launched a new technology based product 'Dena VISA International Gold Debit Card'. Besides, to harvest the full benefits of core banking, the Bank has also implemented many initiatives for Business Process Reengineering aimed both at optimal utilization of man-power and reducing operational costs.

### Rural Initiatives and Financial Inclusion

The bank has been in the forefront in taking rural initiatives as well. The bank was the pioneer in introducing Kisan Credit Cards for rural areas way back in 1988-89 to assist farmers, a concept that has subsequently caught up with all the banks. The bank has taken the lead in establishment of Farmers' Clubs and extending financial assistance to Self Help Groups. The bank's credit flow to weaker sections and SC/STs had registered growth of 24.77% and 26.85% respectively during 2008-09.

Coming to financial inclusion, the Bank has taken various steps to gear up the pace of bringing families into the banking fold, which were hitherto, not availing of banking facilities. During the year 2008-09, the Bank opened 3.17 lacs no frill accounts (Dena Alpa Bachat Khata ) and the total number of these

accounts stood at 4.05 lacs as on 31<sup>st</sup> March, 2009. Further the Bank also issued 2102 Bhoomiheen Kisan Credit Cards and 12021 Dena General Credit Cards during the year. The Bank rolled out its first Credit Counseling Center at Himatnagar in August 2007. Subsequently, the Bank has also opened Credit Counseling centers at Palanpur, Mehsana, Bhuj and Silvassa. These centers are christened as Dena Mitras.

### Corporate Social Responsibilities

The Dena Rural Development Foundation set up by the Bank has set up 3 RUDSETIs at Bhuj, Mehsana and Himatnagar which impart training to unemployed rural youth and women for capacity building so as to enable them to set up self employment ventures. Over 3530 rural youth/women have already been imparted training by these RUDSETIs.

As a part of Corporate Social Responsibility, the Bank continues with its unique Dena Laxmi Shiksha Protsahan Yojana to sponsor education of Girl Child in the villages served by the Bank. The scheme aims at providing scholarship to identified girl students belonging to Below Poverty Line (BPL) family. The Bank has so far assisted 1603 children under the scheme. Further, In order to acquaint / empower the farmers with latest technological developments / knowledge in the field of agriculture, the Bank has been arranging locational training programmes to its farmer borrowers in association with various agricultural universities.

### The Road Ahead

Economic slowdown, increased Government borrowings from the market and the resultant market volatilities, Interest Rate movements, increasing competition in terms of new & attractive products and services and optimal utilization of core banking platform constitute the main challenges before the Bank in the days ahead. However, the Bank has strategized its approach to these challenges and in responding to new developments in a timely manner. This approach has yielded

the desired results during the last two years and the Bank is confident that it is adequately prepared for the current year also.

During the current year, thrust areas of SME, Retail and Agriculture will continue to be in focus. Enhancing CASA deposits level, augmenting non interest income through better marketing of bank's own products that generate fee based income, commission etc as well as distribution of third party products, aggressive recovery efforts addressing the written-off accounts / investments, focused implementation of Core Banking, improvement in asset quality with emphasis on avoidance of concentration risk etc will constitute important planks of the Bank's strategies. In the process, growth requirements will also be adequately addressed by a quantum increase in customer base by targeting bringing in more and more new customer accounts.

Upon perusing the Directors' Report, the Balance Sheet and the Profit & Loss Account for the year 2008-09, I am sure that you will appreciate that the shareholders' sentiments have been respected by the bank's Board, Management and all sections of the employees.

I hope the Management will continue to have the privilege of your continued support and patronage in steering the Bank amidst innumerable challenges during the current year.

#### Acknowledgements

I express my sincere thanks to the Bank's valued customers, shareholders and well wishers for their valuable contribution to the progress of the Bank and seek their continued support and co-operation in future.

I acknowledge with gratitude, the timely advice, valuable guidance and support received from Government of India and Reserve Bank of India.

I am also thankful to the Financial Institutions / Banks and Correspondents for their cooperation and support to the Bank.

I wish to place on record, the deep appreciation of the valuable contribution of the staff, at all levels, without which the progress achieved, would have been unattainable. I look forward to your continued cooperation in faster business development and progress of the Bank.

D.L. Rawal  
Chairman & Managing Director  
Date: