

Chairman & Managing Director's Statement

Dear Shareholders,

I have great pleasure in presenting to you the Annual Report of your Bank along with the Balance Sheet as of 31st March, 2007 and Profit & Loss Accounts for the year ended 31st March, 2007.

Backdrop

India is passing through an exciting phase. The Indian economy is blazing a new trail with one of the fastest growth rates among large economies. We have clocked over 8% growth consecutively for three years with the growth for the year 2006-07 being estimated at 9.20% and we are vying to touch double digit growth. All growth sectors have put in a stellar performance. All economic indicators, be it services, exports, manufacturing, FDI and foreign exchange reserves etc., are in upswing. The power unleashed by the globalization of the Indian economy has opened up new opportunities, creating avenues of employment and improving affluence levels. There is a renewed focus on infrastructure development and improvement in the quality of life. There is a sense of great optimism among the people, hardly seen before.

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The Banking and financial sector has been one of the prime performers of the economy. Banks are enjoying a phase replete with opportunity and are helping script the economic resurgence of the nation. While on the one hand, the banks are assisting the emergence of Indian MNCs in their global hunt, they are passionately supporting the small man through Financial Inclusion measures simultaneously. If they have supported the large and small businesses, they have been equally keen to help build the retail consumer's dreams be it for a home, a car or for education. Retail loans have been one of the fastest growing segments of bank credit. Overall, the banks have themselves emerged stronger.

As far as your Bank is concerned, the onset of the financial year 2006-07 posed quite a few challenges before the Bank. The most important being a strong turn around so as to restart rewarding the stakeholders, besides shedding the concerns on the asset quality for the reasons that the NPAs of the Bank continued to be one of the highest in the Industry.

The situation for the Bank, therefore, warranted a resurrecting strategy for tangible results so as to re-establish itself as a serious player in the market. I would like to share with you some of the

key strategies that the Bank followed to achieve the desired results.

Business Growth & Earnings

The strategy for growth in business was led by augmenting low cost resources, mainly through domestic and retail segment, so as to maintain better margins and balancing the credit portfolio by ensuring smooth flow of credit to productive sectors of economy while keeping a close eye on the yield.

The strategy paid rich dividends with Interest on advances registering an increase of more than 41% as against 15%, achieved last year. Supported with a measured control on cost of deposits, the Net Interest Income also increased by more than 18% vis-à-vis a paltry 5%, registered during the previous year.

I am happy to share, that these increased margins, coupled with Bank's aggressive multi-pronged strategy towards recovery in written off accounts, resulted into a phenomenal jump of 176% in Net Profits for the year that stood at Rs. 201.56 Crs. as against Rs. 72.99 Crs. posted in the previous year.

Asset Quality

A **balanced portfolio** of Credit and Investments, consistent with the market conditions, with a close eye on the quality remained the prime agenda for the Bank. A two pronged strategy was actively followed to achieve this objective. Direct corporate attention on the accounts with early warning signals was so bestowed that those with exposure of Rs. 25 lacs and above were being reviewed / monitored by the top management, at weekly intervals. Simultaneously, an **aggressive action** plan was put in place for recovery in NPAs and written off accounts. Prompt action under SARFAESI Act, recovery camps at regular intervals and negotiated settlements - bilateral/through Lok Adalat were resorted to in a bid to bring about marked improvement in the asset quality by the end of the year.

The Bank also engaged the services of **consultants of repute** to advise and carry out a process of sale of sticky/written off assets. I am happy to share that the Bank was successful in selling off 30 sticky NPA accounts during the year, through the process, resulting into a recovery of Rs. 83 Crores. Concerted efforts on the front resulted into bank's Gross & Net NPAs **declining** by a whopping **246 bps & 105 bps** and stood lower at 3.98 % and 1.99%, respectively, as at the end of the year.

Augmenting Other Income

The touchstone of our Bank has always been very strong relationship with customers. In view of the winds of change sweeping across the banking landscape, the relationships only are not enough. Today, the customer wants to be serviced efficiently with products and advisory services delivered at a place and time of his/her convenience. Your Bank has been offering a wide array of banking products suited to satiate the needs of most demanding customer. The Bank is in the forefront of a marketing revolution where acquisition and servicing of client needs are done at his/her doorstep.

With a view to provide a wider choice of investments to bank's customers / HNIs, the Bank had entered into tie up arrangements with **4 more leading mutual funds**, during the year, taking the tally of such arrangement to 8. A rupee denominated DD drawing arrangement was made with UAE exchange, enabling not only the fee generating foreign inward remittances from NRIs, but also an opportunity to bring in their resident counterparts into bank's fold.

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Government business (collections/payments on behalf of Govt) of the Bank was given a strategic shift with a focus towards making it a profit centre. A Government business cell was established at the Bank's corporate office under the direct supervision of a top executive, supported by centralised technology based solutions. Thus, not only ensuring a swifter regulatory compliance but laying a sound platform for augmenting fee based income.

Human Resources – Catalysts for Growth

The Bank had endeavored to position the human capital as a **differentiating factor** towards customer satisfaction and the prime catalyst for growth. Special workshops were held for top executives of the Bank reinforcing leadership skills. Besides, a good number of executives / officers were deputed for external training programmes in different functional, managerial & behavioral areas, enroute to transformation. Major thrust was laid on encompassing a larger segment of the bank's work force to undergo periodical skill building drills.

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Bank had also inducted **371 new officers**, during the year, across various cadres covering specialised skills in Credit / Forex / Marketing & Agriculture streams to support operational / functional teams for a competitive edge by infusing new blood in the organisation.

Expanding outreach

Bank's distribution channels were further expanded by adding **13 new branches**, during the year, across various centres including the 1st footprint at the Union Territory of Pondicherry. The State of Gujarat, main bastion of the Bank's operations was further supported by establishing an Industrial Finance Branch at Ahmedabad, thus adding to an existing base of 2 branches located in Mumbai.

29 ATM outlets were added to the bank's network, taking the total tally of this distribution window to 269, at the end of the year.

Rural Initiatives

While the Bank continued to exceed the regulatory norms with regard to priority sector lending, greater attention was paid towards inclusive banking by way of supporting rural innovations, devising innovative schemes viz. 'Dena Swachcha

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Gram Yojna', 'Dena Paryavarn Suraksha Yojana' etc.

The Bank continued its commitments towards Corporate Social Responsibility by adoption of villages for total development, imparting knowledge / enhancing skills of the farmers / rural folk by way of its initiatives in the form of RUDSETIs, Farmers' Clubs and Self Help Groups. The Bank also continues to sponsor education of a girl child in each of villages under its command area in the state of Gujarat.

Transformation through Technology

Bank is alive to the challenges presented by the twin forces of globalization & competition and is in the midst of total transformation by benchmarking itself with the best global practices. Technology has created a paradigm shift in the way banking is being done and will be done in the days to come. Recognizing, technology a key driver of business today, the Bank has embraced world class technological platform to provide banking services to its customers at the touch of a button. This technology adoption shall not only enable the much required satisfaction to the customers by providing value additions but is also envisaged at reduction in transaction costs, reducing the branch

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load and progressing in the direction of ultimately reducing dependence on branch centric model so as to facilitate faster expansion of bank's footprints across the country.

Core Banking Solution, the lead project in this process of transformation got kicked off in March 07 with Bank's Mahim, Mumbai branch getting migrated under the solution. With profound esteem, your Bank has named this project as '**Dena Garima**'. 13 Branches had already been taken under '**Dena Garima**' by the end of March 2007. The Bank is also in the process of setting up data warehouse that is expected to strengthen bank's decision support system enabling stronger customer relations and opportunities to cross sell.

The Roadmap

Your Bank somehow had not been getting its due for quite some time, in spite of its intrinsic strengths. I am glad that the measures taken during the previous year and the ground work done in the recent past, has started giving positive results. The momentum has been set in motion and the organisation has become more nimble and responsive. It is expected that the results will be bettered further in coming years. Gradually, but

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surely, the bank is in course to re-establish brand 'Dena' in the consciousness of the people.

The Bank has embarked upon a process of **repositioning** itself and has engaged the services of a consultant of repute to advise on the specific strategies and the action plan, in order to corner a larger pie of the market space, while remaining competitive. The exercise is expected to be completed soon.

Garnering low cost resources and improvement in asset quality shall continue to be the **theme line** driving the business growth and the resultant increase in net profits. The entire machinery across the Bank has been sensitized on the need and importance of widening the customer base that shall be the lead strategy in enhancing Bank's market share. The Bank envisages increasing its customer base by 50% in the current year. Befittingly, the Bank would be observing the current year as the 'Year of Resource Mobilization'.

The canvas coverage of the Bank is envisaged to be further expanded by opening **additional branches** and a larger network of ATMs including Bio-metric ATMs at strategic locations, during the current year. 130 additional branches are planned

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to be brought under 'Dena Garima' during the current year.

Marketing of bank's services and third party products shall be the key driver towards giving a major boost to other income. The Bank plans to engage the services of experts of repute/standing in the field at market related compensation.

I am quite confident that the roadmap as envisaged shall add strength and vigor towards attaining the Bank's vision and fulfillment of the aspirations of Bank's stakeholders. I once again solicit your continued support in this endeavour.

Lastly, I can vividly recall the sentiments expressed by the august audience at the Annual General Meeting held last year, with regard to expected return on their investments in bank's equity. I am happy to share that with an improved performance during the previous year the Board of Directors of your Bank has recommended a dividend @ 8%. The proposed pay out may not be big enough, but it is a pride moment for the Bank having come back to the list of dividend paying corporates, after a gap of six years. Besides, you would also agree that with the Govt's holding in the Bank's equity having reached the threshold,

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the option to tap the primary market for augmenting capital is not available with the Bank. It is therefore imperative for the Bank to retain the earnings, as much as possible, to enable continued growth, opportunities for higher profits and the resultant higher total stakeholder returns.

I look forward to your continued support and patronage in the journey ahead to further improvement in business and soundness of the Bank.