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7th Year
2003-2004
Annual Report



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CONTENTS

	Page No.
Board of Directors	1
Senior Executives	2
Report of the Board of Directors	3
Management Discussion and Analysis Report	8
Report on Corporate Governance	10
Auditors' Report	19
Balance Sheet	20
Profit & Loss Account	21
Schedules	22
Cash Flow Statement	35
Balance Sheet Abstract	37
Branch Network	38

Registered Office

**P B No. 9, DHANALAKSHMI BUILDINGS, NAICKANAL
THRISSUR - 680 001.**

Secretary to Board & Company Secretary

RAVINDRAN K. WARRIER

Auditors

**M/s. R.G.N. PRICE & Co.
M/s. FORD RHODES PARKS & Co.**

Legal Advisors

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

Registrars and Transfer Agent

**M/s. KARVY COMPUTERSHARE PRIVATE LIMITED
No. 51/2, TKN COMPLEX, VANI VILAS ROAD
OPP. NATIONAL COLLEGE, BASAVANAGUDI
BANGALORE - 560 004.**

BOARD OF DIRECTORS



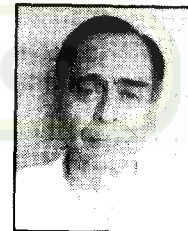
Shri. T.R. MADHAVAN
Managing Director & CEO



Dr. P. Raja Mohan Rao



Shri. V.K. Sharma



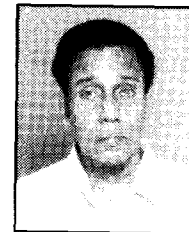
Shri. S. Varadachary



Shri. A.P. Venkateswaran



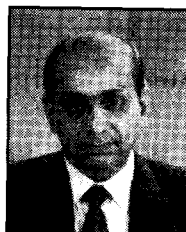
Smt. Nandini Rangaswamy



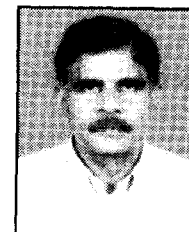
Shri. D. Lakshminarayanan



Shri. A.D. Navaneethan

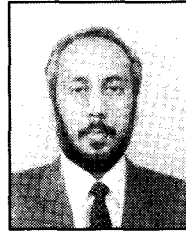


Shri. K.V. Krishnamurthy



Shri. E. Madhavan

SENIOR EXECUTIVES



Shri. K.A. Menon
Executive Director



Shri. Thomas Mathew
General Manager



Shri. J.S. Kalyanpur
General Manager

DEPUTY GENERAL MANAGERS

Shri. H.L. Sitaraman

Shri. P.G. Jayakumar

Shri. P.T. Thomas

Shri. A.K. Ramakrishnan

Shri. D. Nanha Ram

ASSISTANT GENERAL MANAGERS

Shri. M.P.S. Sarma

Shri. A. Ram Mohan

Shri. P.S. Revikumar

Shri. R. Krishnan

Shri. A.K. Ramalingam

Shri. M. Vijayakumar

Shri. K.K. Ranganathan

Shri. P.R. Narayanan

Shri. P.K. Ganapathy

Shri. Ravindran K. Warriar

Shri. R. Mallikarjunan

Smt. E. Pankaja

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors have pleasure in presenting your Bank's seventy seventh Annual Report along with the Audited Balance Sheet, Profit and Loss account and Cash flow statement for the year ended 31 March 2004.

ECONOMIC SCENARIO

The macroeconomic environment in the country was conducive during the year, enabling a positive outlook on both the domestic and external fronts. The growth prospects were good, inflation was under control, interest rates were on the decline, foreign exchange reserves were comfortable and liquidity in the system adequate. The overall GDP grew significantly by over 7% as compared to 4.3% in the previous year. The economy was consequently buoyant resulting in good growth in all three sectors viz. Agriculture, Industry and Services.

PERFORMANCE HIGHLIGHTS:

(Rs. in Crores)

Particulars	March 2004	March 2003	Growth(%)
Operating Profit	66.94	63.52	5.38
Net Profit	17.48	15.02	16.38
Deposits	2155.77	1837.88	17.30
Advances	1138.59	1080.49	5.38
Total Investments	898.52	681.08	31.92
Business per employee (in lakhs)	248.63	222.06	11.97
Profit per employee (in lakhs)	1.32	1.15	14.78

- The Operating Profit and the Net Profit grew modestly by 5.38% and 16.38% respectively during the year. However, the Operating and Net Profit would have been much higher at 11.18% and 40.81% respectively if an amount of Rs.3.67 crores representing onetime outgo under Voluntary Retirement Scheme (VRS) is excluded from the calculations.
- Deposits of your Bank increased satisfactorily by 17.30% as against 10.90% in the previous year and compared favourably with the growth of the banking industry.
- Credit Outstandings recorded a growth of 5.38%, attributable to lack of timely availment of sanctions besides slower pace of credit outgo to the industrial sector.
- NPA management - focus area for the Bank - produced encouraging results with Net NPA to Net Advances recording a steep decline from 9.25% to 6.68%.
- Investments rose significantly by 31.92% aided by an encouraging growth in resources coupled with a sluggish credit off-take.

APPROPRIATION OF NET PROFIT:

(Rs. in Lakhs)

Particulars	March 2004	March 2003
Net Profit	1747.55	1501.51
Balance carried over from previous year	1.00	1.00
Transfer from Dividend payable Account	0.00	274.81
Available for appropriations	1748.55	1777.32
Appropriations:		
Transfer to Statutory Reserve	524.27	450.45
Transfer to Capital Reserve	0.00	82.44
Transfer to Investment Fluctuation Reserve	800.00	700.00
Transfer to Revenue and Other Reserves	61.63	0.95
Proposed Dividend	320.58	480.87
Dividend Tax	41.07	61.61
Balance carried to Balance Sheet	1.00	1.00

DIVIDEND

Having regard to the extant guidelines of RBI regarding payment of dividend, it has been decided to pay dividend of 10% for the year. The Board of Directors are, therefore, pleased to recommend a dividend of 10%, which is subject to approval in the forthcoming Annual General Meeting and also by RBI. The dividend is tax free in the hands of the shareholders.

CAPITAL AND RESERVES

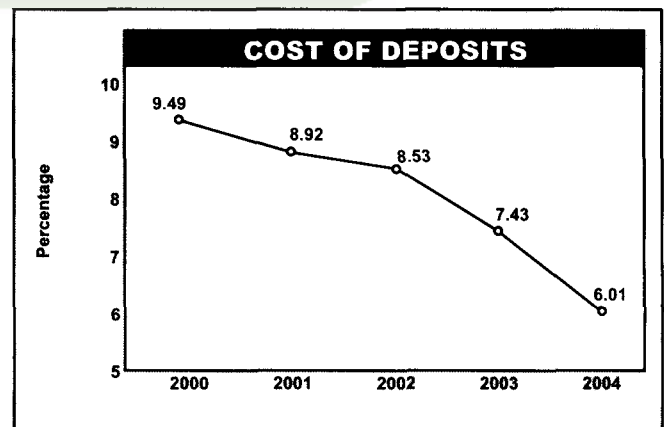
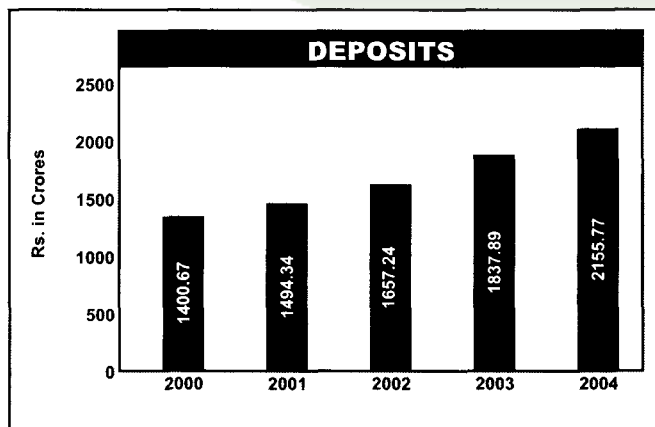
With a view to strengthening the capital base and to sustain long-term business expansion, the Bank raised its Tier II Capital by Rs.35 crores by private placement of Unsecured, Non-Convertible and Redeemable Bonds. Consequently, the Capital Adequacy Ratio rose to a comfortable level of 13.56% as on 31 March 2004 as compared to 10.45% as on 31 March 2003.

BRANCH NETWORK

During the year, the Bank extended its geographical spread by opening 7 new branches including upgradation of two extension counters. The Bank presently operates through 166 Branches and 20 extension counters spread over 7 States and 1 Union Territory. In addition, it also has 9 on-site ATM outlets. It has obtained licence from Reserve Bank of India for opening 10 more branches in the current year. Efforts are also on to open branches in about 25 to 30 centres during 2004-05.

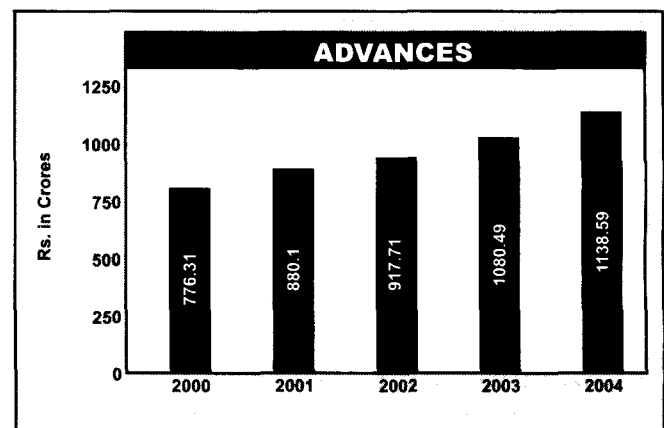
DEPOSITS

Deposits of the Bank increased from Rs.1837.88 crores to Rs.2155.77 crores during the year, a rise of Rs.317.89 crores at 17.30% growth. Reflecting the continued stress placed by the Bank on mobilization of low cost deposits, Demand and Savings Bank deposits put together encouragingly rose by 19.54%. Consequently, the cost of deposits steeply declined from 7.43% to 6.01% during 2003-04. As of 31 March 2004, the percentage of low cost deposits to total deposits stood at 24.87%. Efforts to widen the clientele base continued throughout the year.



ADVANCES

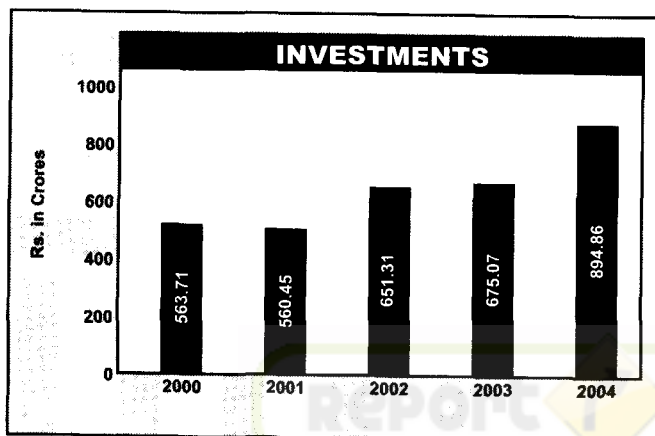
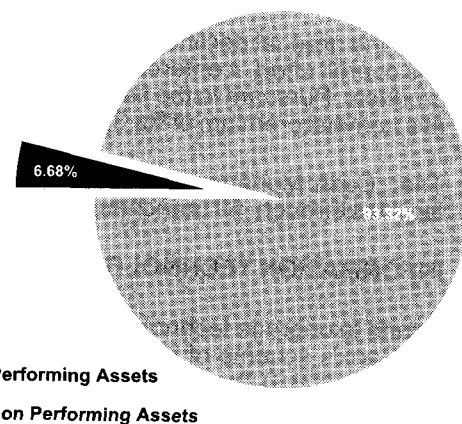
Net Advances of the Bank increased from Rs.1080.49 crores to Rs.1138.59 crores during 2003-04 registering a growth of 5.38%. The poor credit off-take is mainly attributable to lack of timely availment of sanctions. The yield on advances stood at 10.34% for the year.



NON-PERFORMING ASSETS

Top priority was accorded for putting in place preventive steps for avoiding fresh NPAs and curative measures for reducing the existing NPA level. A multi pronged attack was launched in this area through a combination of measures that included Recovery Camps, Adalats, activation of settlement process, rigorous follow-up at Debt Recovery Tribunal and judicious application of the Securitisation Act.

Over 2250 accounts were closed through the settlement process during the year resulting in a reduction of Rs.64.78 crores in NPA. The total cash recoveries during the year amounted to Rs.30.43 crores. The Net NPA to Net Advances was significantly brought down to 6.68% as on 31 March 2004 from a level of 9.25% as on 31 March 2003.



INVESTMENTS

The total investments of the Bank rose from Rs.681.08 crores as on 31 March 2003 to Rs. 898.52 crores as on 31 March 2004 at a rate of 31.92%. The SLR investments were Rs.770.32 crores comprising 85.73% of total investments. The surge in investments during the year was attributable to the combined effect of high deposit growth and sluggish credit off-take. The Bank booked a profit of Rs.38 crores on treasury operations with a portfolio yield of 8.48%.

During the year, the Integrated Treasury Department was shifted to Mumbai, keeping in view strategic and operational considerations.

FOREX BUSINESS

The forex business turnover was Rs.665.61 crores for the year 2003-04 (comprising export turnover of Rs.426.81 crores and import turnover of Rs.238.80 crores) as compared to Rs.659.66 crores in the previous year. Aggregate income from forex operations was Rs.3.90 crores as at 31 March 2004.

RISK MANAGEMENT AND ASSET LIABILITY MANAGEMENT

The Bank has already put in place a suitable Risk Management structure on the basis of extant RBI guidelines. A comprehensive risk profile of the Bank was prepared on the basis of templates made available by the Reserve Bank of India.

An Asset Liability Management (ALM) system is also well in place. The Asset Liability Management Committee (ALCO) decides on the quality of business and its pricing besides initiating timely corrective action on mismatches and liquidity shortfalls.

The statements of Structural Liquidity and Interest Rate Sensitivity addressing the liquidity and interest rate risks are prepared on a fortnightly basis and are regularly reviewed by the Board.

MICRO CREDIT

Recognising micro finance intervention as an effective tool for poverty alleviation, the Bank has streamlined the Self Help Group (SHG) Bank linkage as a major programme, enhancing the outreach of micro credit through 97 out of 166 branches. SHGs maintaining savings bank accounts in our various branches have increased from 2100 to 3642 during the year. As of 31 March 2004, 823 SHGs availed credit facilities from the bank with a total disbursement of Rs.736 lakhs.

The Bank has assisted in the formation of 20 farmers clubs and has strengthened its liaison with Kudumbashree and other agencies for providing additional fillip in the area of micro credit.

Specialised field officers have been deputed to give impetus for upliftment of rural masses and to propagate the concept of micro credit. Kissan Cards are being issued to all eligible farmers.

NEW BUSINESS

With the gradual decline in lending rates, the Bank continued to scout for new avenues for augmenting its earnings. As part of this overall effort, it entered into an agreement with United India Insurance Company to act as Corporate Agent for selling their products. Pursuant to the tie-up, a novel scheme titled 'Dhanam Sabari Policy' was launched providing death / accidental cover at a nominal premium of Rs.35 per Rs.1 lakh to devotees covering their period of journey to Sabarimala shrine.

The Cash Management System (CMS) was further streamlined during the year and provides speedy cheque collection facilities through 59 branches. The net income to the Bank under this head during the year was Rs.73.87 lakhs.

INFORMATION TECHNOLOGY

Efforts to upgrade technology with a view to enhancing the quality and range of customer service continued to attract priority in the Bank's scheme of things. The Bank has entered into a tie-up with i-flex solutions, for implementing Centralised Banking Solution (CBS) for extending anywhere, anytime and anyhow banking to its growing clientele through multiple delivery channels. Dickenson Road Branch, Bangalore became the first unit to be rolled out under the new dispensation.

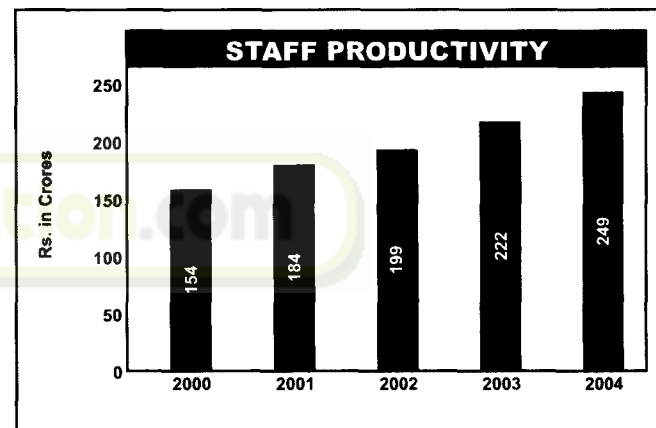
The Information Technology plans for the current year include: (i) extending CBS to 50 more strategic branches covering 70% of the total business (ii) providing 100 more networked ATMs at important centres (iii) spreading the culture of Internet Banking which is currently available at 40 branches.

The bank has also commissioned a state-of-the-art Data Centre at Bangalore to act as the hub for its Core Banking activities.

HUMAN RESOURCES DEVELOPMENT

The total staff strength of the Bank as on 31 March 2004 was 1325 comprising 505 Officers, 647 Clerks and 173 Subordinate staff. A Voluntary Retirement Scheme (VRS) was introduced during the year as part of streamlining the manpower profile and also keeping in view the rapid computerization of core banking functions through implementation of the Centralised Banking Solution. A total of 86 employees comprising 58 Officers, 24 Clerks and 4 Subordinate staff have opted to avail voluntary retirement.

The Bank's staff training college continued its stress on skill upgradation by imparting training to 617 employees during the year. Apart from in-house training, 230 employees were benefited through external training programmes.



The business per employee increased from Rs.222.06 lakhs to Rs.248.63 lakhs during the year while the profit per employee rose from Rs.1.15 lakhs to Rs.1.32 lakhs during the same period.

LISTING ON NATIONAL STOCK EXCHANGE

With a view to providing greater convenience and liquidity to the investors, the Bank's equity shares were also listed on the National Stock Exchange (NSE), Mumbai in addition to Mumbai, Chennai and Kochi Stock Exchanges. Trading on NSE is permitted with effect from 1 April 2004.

THE COMPANIES (Disclosure of Particulars in the Report of the Board of Directors) RULES, 1988:

Conservation of energy

All efforts are being made to reduce energy consumption to the maximum extent possible.

Technology Absorption

Being Banking Company, the required technology absorption is made considering the nature of activities.

Foreign Exchange Earnings and Outgo

Being an authorized dealer in Foreign Exchange, the Bank is taking all possible steps to augment foreign exchange earnings, the details of which are furnished separately under the head 'Forex Business'.

Disclosure under Section 217 (2A) of the Companies Act, 1956

The requirement of disclosure under Section 217 (2A) of the Companies Act, 1956 does not apply to any of the Bank's employees.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that in the preparation of the annual accounts for the year ended 31 March 2004:

- the applicable accounting standards have been followed and there were no material or other departures from the applicable accounting standards;
- 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 for the year ended 31 March 2004;
- proper and sufficient care was taken for the maintenance of adequate accounting records in accordance with the provisions of applicable laws governing banks in India and
- the accounts have been prepared on a 'going concern' basis.

APPOINTMENT OF AUDITORS

The Statutory Audit of the Bank was jointly conducted by M/s.R.G.N.Price & Co., Cochin and M/s.Ford Rhodes Parks & Co., Mumbai. Both the firms are eligible for re-appointment.

CHANGES IN THE BOARD

Smt.Nandini Rangaswamy, who was appointed as Additional Director on 7 July 2003 was elected as Director at the Annual General Meeting held on 29 August 2003.

Shri. P.K.Ananthanarayanan and Shri.K.Govindan ceased to be Directors from 29 August 2003. Shri.V.J.Papoo, consequent to his resignation from 25 September 2003 ceased to be a Director. The Board places on record its appreciation for their services to the Bank during their tenure.

Shri.A.D.Navaneethan and Shri.D.Lakshminarayanan were elected Directors at the Annual General meeting on 29 August 2003. Shri.K.V.Krishnamurthy was appointed Director on 25 September 2003. The Board is happy to welcome the new Directors.

Shri.B.Muthuswamy, ceased to be Managing Director and Chief Executive Officer effective from 15 November 2003 consequent to his resignation. The Board places on record its appreciation for his services to the Bank during his tenure.

Shri. T. R. Madhavan assumed charge as Managing Director and Chief Executive Officer of the Bank on 23 February 2004.

Shri. A. P. Venkateswaran and Shri. S. Varadachary, Directors are liable to retire by rotation at the ensuing Annual General meeting.

None of the Directors are disqualified under sub-clause (A) and (B) of Section 274(1)(g) or any other provision of the Companies Act, 1956.

ACKNOWLEDGEMENTS

The Directors desire to place on record their sincere gratitude and appreciation to

- the customers, shareholders and well wishers for their valued patronage.
- the Government of India, Reserve Bank of India and other regulatory agencies for their whole-hearted support and guidance.
- the Officers and staff for their involvement and contribution to the Bank's business growth and profitability.

T.R.MADHAVAN (Sd/-)
Managing Director & CEO

Dr.P.RAJA MOHAN RAO (Sd/-)
Director

V.K.SHARMA (Sd/-)
Director

S.VARADACHARY (Sd/-)
Director

A.P.VENKATESWARAN (Sd/-)
Director

NANDINI RANGASWAMY (Sd/-)
Director

D.LAKSHMINARAYANAN (Sd/-)
Director

A.D.NAVANEETHAN (Sd/-)
Director

K.V.KRISHNAMURTHY (Sd/-)
Director

E.MADHAVAN (Sd/-)
Director

Cochin
14 May 2004

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

Industry Structure and Developments

The ongoing process of economic reforms continued to have its impact on the banking sector mainly in the form of increased competition within the industry. The financial markets remained stable during 2003 -04 aided by an encouraging growth of over 7% in GDP and strong macro economic fundamentals. This trend is expected to get further consolidated during 2004 -05.

The year 2003-04 witnessed a pronounced expansion in retail credit with particular emphasis on housing and consumer goods. The continuance of this process is sure to generate further demand for consumer durables besides services of different kinds leading to a higher level of productive economic activity.

Opportunities and threats

The continued efforts at globalization of the Indian economy is leading to the traditional financial boundaries getting increasingly blurred. Banks that have re-oriented their policies in tune with the reform process will be well-equipped to meet the emerging challenges with clarity and confidence.

The increased adoption of technology through the rapid implementation of Centralised Banking Solution by Banks has opened up the possibility of extending multiple delivery channels for customers. This process is sure to lead to higher profitability over a period arising from the anticipated reduction in the transaction cost.

The declining trend in yield on Treasury Bills of varying maturities will shrink the profit making opportunities of banks thereby obliging them to gradually shift their focus towards higher credit disbursals.

With the gradual decline in interest rates, there will be greater stress by banks on identifying and promoting fee based avenues of income through a process of cross selling of products.

Segment wise Performance

(Rs. in Crores)

Particulars	31 March 2004	31 March 2003	Growth(%)
Current Deposit	212.50	196.03	8.40
Savings Bank Deposit	323.64	252.44	28.20
Term Deposit	1619.63	1389.42	16.57
Deposit	2155.77	1837.88	17.30
Priority Sector Advances	309.53	270.62	14.38
Non-PrioritySector Advances	829.06	809.87	2.37
Advances	1138.59	1080.49	5.38
TOTAL BUSINESS	3294.36	2918.37	12.88

Outlook

Keeping in view the emerging opportunities and challenges in the banking arena, your Bank's emphasis on customer orientation in a highly competitive environment enables it to take a positive view of the anticipated changes and script a new growth chapter during 2004-05.

Risks and concerns

The Bank has been adequately responsive to the increasing emphasis in the industry on professional management of different kinds of risks. It has put in place a suitable risk management structure with the assistance of Investment and Credit Rating Agency (ICRA) to deal with the needs of effective monitoring in this area.