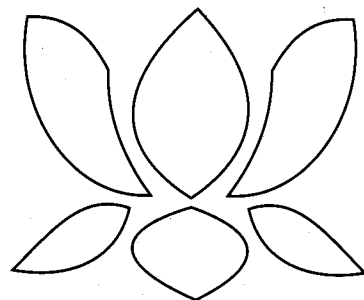




Relationships forever



*78th Annual Report
2004-2005*

CONTENTS

	Page No.
Board of Directors	1
Senior Executives	2
Report of the Board of Directors	3
Management Discussion and Analysis Report	9
Report on Corporate Governance	11
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**

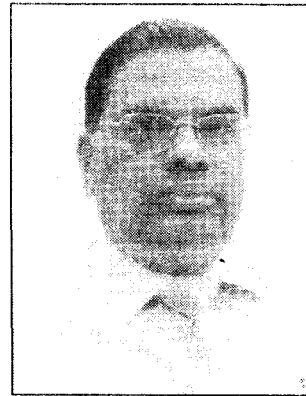
Registrars and Transfer Agent

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

BOARD OF DIRECTORS



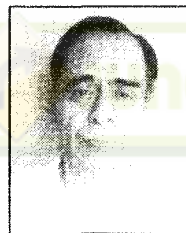
Shri. A.D. NAVANEETHAN
Chairman



Shri. T.R. MADHAVAN
Managing Director & CEO



Shri. V.K. Sharma



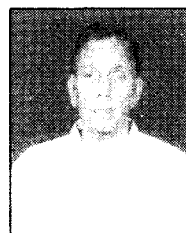
Shri. S. Varadachary



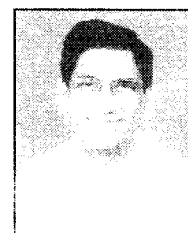
Shri. A.P. Venkateswaran



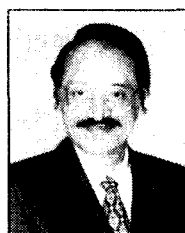
Smt. Nandini Rangaswamy



Shri. D. Lakshminarayanan



Shri. Vidyadhara Rao Chalasani

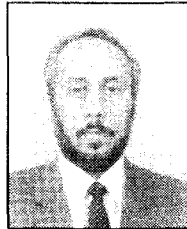


Shri. V. Jagannathan

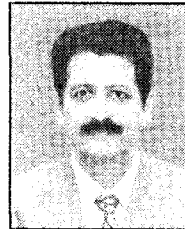


Smt. Parvathy Vairavasundaram

SENIOR EXECUTIVES



Shri. K.A. Menon
Executive Director



Shri. Nagesh S Belur
Executive Director

HEAD - NRI & RETAIL BANKING

Shri. M. Sreedharan Kutty

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DEPUTY GENERAL MANAGERS

Shri. P.G. Jayakumar

Shri. A.K. Ramakrishnan

Shri. D. Nanha Ram

ASSISTANT GENERAL MANAGERS

Shri. P.S. Revikumar

Shri. R. Krishnan

Shri. Ravindran K Warriar

Shri. R. Mallikarjunan

Shri. H. Rangarajan

Shri. N.R. Balakrishnan

Shri. B.C.M. Prasad

Shri. V. Gopinath

Shri. C.J. Jose

Shri. A. Pugalenthay

Shri. S. Suresh Kumar

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors present your Bank's seventy eighth Annual Report along with the audited Balance Sheet, Profit and Loss account and Cash Flow statement for the year ended 31 March 2005.

PERFORMANCE HIGHLIGHTS:

The salient features of the Bank's performance during 2004-05 are as under:

Rs. in crores

Particulars 1	31 st March 2005 2	31 st March 2004 3	Growth(%) 4
Deposits	2338.84	2155.77	8.49
Advances	1410.15	1138.59	23.85
Investments	707.99	894.86	(20.88)
Operating Profit	18.45	66.94	(72.44)
Net Profit	(21.60)	17.48	---
Business per employee (in lakhs)	292.70	248.63	17.73

(Figures in brackets indicate net loss in column 2 and negative growth in column 4)

- Deposits of the Bank increased moderately by 8.49% as against 17.30% in the previous year
- Credit outstandings recorded an encouraging growth of 23.85% as against 5.38% during 2003-04
- The Bank's growth of total business at 13.80% compared reasonably with that of the industry
- Investments declined from Rs.894.86 crores to Rs.707.99 crores during the year attributable to unfavourable market conditions
- Net NPA to Net Advances recorded a sharp and welcome decline from 6.68% to 3.92% during the period
- Business per employee rose from Rs.248.63 lakhs to Rs.292.70 lakhs

DIVIDEND

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

CAPITAL AND RESERVES

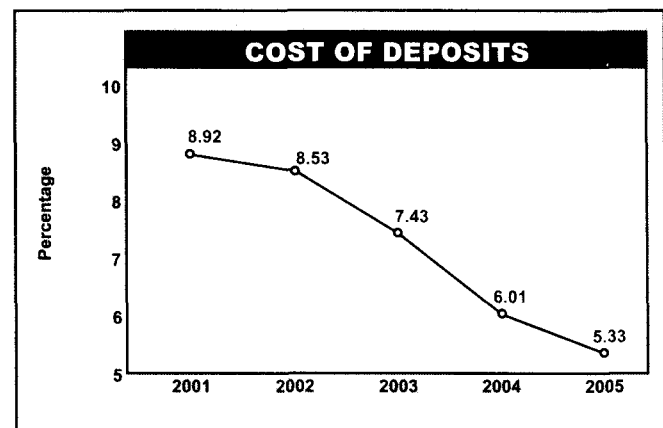
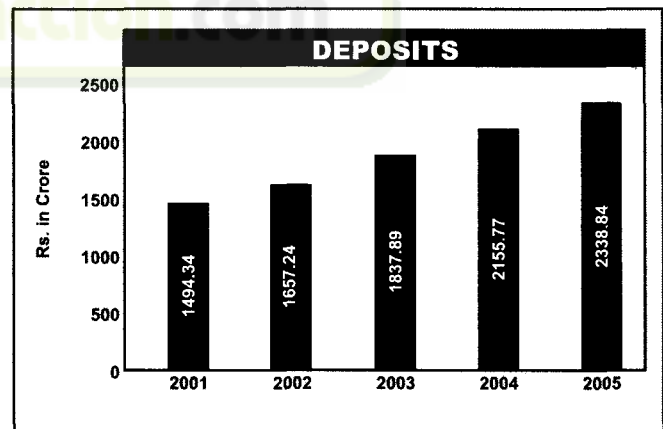
As part of overall efforts to strengthen the capital base and to sustain long term growth, the Bank raised its Tier II Capital by Rs.20 crores by private placement of Unsecured, Non-Convertible, and Redeemable Bonds. Pursuant to the above, the Capital Adequacy Ratio stood at 10.16% as on 31 March 2005 (13.56% as on 31st March 2004) as against the mandatory level of 9%.

BRANCH NETWORK

During the year, the Bank widened its network by opening 9 branches and three extension counters. As on 31.03.2005, the Bank operated through 175 Branches and 23 Extension Counters spread over 8 States. In addition, it also had 32 on-site ATMs. It already holds licence from Reserve Bank of India for opening 4 more branches including one through upgradation. Efforts are also on to open at least 15 new branches during 2005-06.

DEPOSITS

Deposits of the Bank increased from Rs.2155.77 crores to Rs.2338.84 crores during the year a growth of 8.49%. Low cost deposits encouragingly rose by 17.20%. Consequently, the cost of deposits steeply declined from 6.01% to 5.33% during 2004-05. As of 31 March 2005, the percentage of low cost deposits to total deposits stood at 26.87% as compared to 24.87% as at 31st March 2004 and efforts are on to improve this percentage.

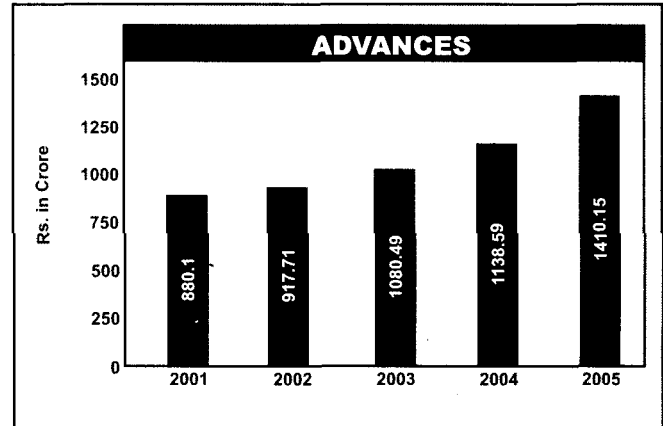


ADVANCES

Net Advances of the Bank rose from Rs.1138.59 crores to Rs.1410.15 crores during 2004-05 registering an encouraging growth of 23.85%. The yield on advances was 9.32% for the year as against 10.34% in the previous year reflecting the prevailing trends. Priority sector advances increased from Rs.309.53 crores as on 31 March 2004 to Rs.422.08 crores as on 31 March 2005 registering an increase of 36.36%. Special efforts were taken to provide fillip to agriculture and micro credit a national priority. While farm credit rose from Rs.118.81 crores to Rs.190.34 crores during the year at 60.21%, agricultural gold loans increased from Rs.45.23 crores to Rs.99.12 crores during the period at a rate of 119.15%.

The Bank introduced the following credit products / schemes during the year.

- 1) Dhanam IPO (Initial Public Offer) Subscription scheme
- 2) Dhanam Swarojgar Credit Card scheme
- 3) Scheme for Nursing Students and Job Immigrants
- 4) Gold Card scheme for Exporters
- 5) Scheme for financing farmers for purchase of land for agricultural purposes
- 6) Scheme for financing rural godowns
- 7) Scheme for rain water harvest through SHGs / NGOs
- 8) Scheme for financing tractor and accessories
- 9) Dhanam Ready Money Overdraft Scheme



MICRO CREDIT

Micro credit advances increased substantially from Rs.6.15 crores as on 31 March 2004 to Rs.28.95 crores as on 31 March 2005, an increase of 370.91%. The Bank has been a staunch advocate of micro finance intervention as an effective tool for poverty alleviation. During the year, it has further strengthened the Self Help Group (SHG) - Bank linkage, facilitating the disbursal of micro credit through 100 out of 175 branches. SHGs maintaining savings bank accounts in our various branches have significantly risen from 3642 to 9673 during the year. As on 31 March 2005, 2168 SHGs had availed credit facilities from the bank to the tune of Rs.930.72 lakhs.

The Bank has further strengthened its rapport with Kudumbashree and other agencies during the year for taking forward its micro credit initiatives.

Specialized field officers are being deputed on an ongoing basis to provide fillip to rural upliftment and to effectively disseminate the importance of social development through credit availment. Kissan Cards were issued to 1832 farmers for Rs.466.20 lakhs as on 31 March 2005.

PROFITABILITY

During the fiscal year 2004-05, many banks suffered a fall in profit attributable to the depreciation in the investment portfolio owing to hardening of interest rates. Incidentally, yields have risen by about 150 basis points on an average during the year 2004-05. Early November 2004, 10 year yield stood at 216 basis point over the level of 31 March 2004. Such an adverse position was faced by many banks and as a part of the system, your bank has also taken a hit in the Profit and Loss a/c. The Bank recorded a net loss of Rs.21.60 crores for the year ended 31 March 2005 as against a net profit of Rs.17.48 crores for the year ended 31 March 2004. The net loss resulted mainly from making provision for depreciation on investments in Government securities (Rs.32.14 crores) besides amortization of premium on securities held under held to maturity category (Rs.4.47 crores). As part of a prudent strategy to cut down on possible losses in future pursuant to adverse fluctuations of the bond market in the first quarter of 2004-05, the Bank consciously booked loss on sale of government securities to the extent of Rs.9.84 crores. Further, a provision of Rs.7.60 crores was also made during the year for paying arrears of wages to officers and staff. It is thus to be noted that the treasury losses during 2004-05 were an industry-wide phenomenon which could not be adequately foreseen. However, the Bank did generate a moderate surplus during the year through its core banking operations. It is conceivable that the Bank could recoup a part of the provision made on account of treasury operations in the event of market conditions turning favourable in the current year.

NON-PERFORMING ASSETS

Reduction in non-performing assets through accelerated recoveries received top priority in the Bank's scheme of things. A similar priority was accorded to prevent fresh NPAs. A multi-pronged strategy involving recovery camps, adalats, rigorous follow up of debt recovery tribunal and other court cases, judicious application of SARFAESI act and negotiated settlements were deployed to effect significant recoveries thereby substantially reducing the problem credits.

3.92%

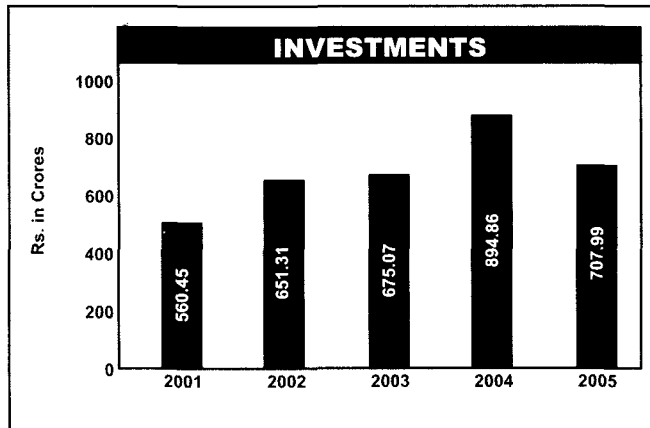
96.08%

Performing Assets

Non Performing Assets

During the financial year, 1701 accounts were closed resulting in reduction of NPA by Rs.38.96 crores. Out of this, cash recovery was to Rs.34.78 crores. The percentage of net NPAs to net advances was brought down significantly from 6.68% as on 31 March 2004 to 3.92% as on 31 March 2005.

One-time settlements were sanctioned for Rs.34.48 crores in 1075 accounts. Notices under SARFAESI Act were served in 531 accounts for Rs.80.17 crores.



INVESTMENTS

The total investments of the Bank declined from Rs.894.86 crores as on 31 March 2004 to Rs.707.99 crores as on 31 March 2005. The SLR investments were Rs.645.27 crores comprising 89.94% of total investments. The decline in investments was attributable to volatile market conditions during the year. The yield on investments was 7.60% as on 31 March 2005 as compared to 8.48% as on 31 March 2004.

FOREX BUSINESS

The forex business turnover rose to Rs.750.04 crores for the year 2004-05 (comprising export turnover of Rs.552.13 crores and import turnover of Rs.197.91 crores) from Rs.665.61 crores in the previous year. Aggregate income from forex operations was Rs.4.15 crores as at 31 March 2005 as compared to Rs.3.92 crores as at 31 March 2004.

RISK MANAGEMENT

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

The Bank has made an assessment of various risk management systems currently in operation with specific reference to the three major risks viz., Credit Risk, Market Risk and Operational Risk. The Bank has also drawn a road map for implementing the Basel II guidelines in terms of Reserve Bank of India guidelines.

ASSET LIABILITY MANAGEMENT (ALM)

An Asset Liability Management (ALM) system is effectively in place in the Bank. The Asset Liability Management Committee (ALCO) meets periodically and, inter alia, decides on product pricing besides initiating timely corrective action on mismatches and liquidity shortfalls.

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

Earning at Risk Model is also used in interest rate risk management for measuring the impact on earnings.

CREDIT RISK MANAGEMENT

Managing risk forms part of the Bank's credit policy. The Bank has put in place a Loan Review Mechanism to improve the quality of loan assets and to ensure adherence to policies, procedures and other statutory requirements. A Credit Risk Management Committee has also been formed by the Bank. The Bank is one of the "participating banks" in the exercise of developing a probability of default (PD) table for various risk grades undertaken by ICRA Advisory Services.

PROGRESS IN NEW LINES OF BUSINESS

a) INSURANCE

The bank is constantly scouting for new avenues of income generation in response to the continued decline in interest rates on advances. Canvassing insurance business is one of the areas where the bank has made good progress. The Bank has tied up with MetLife in the area of life business and with United India Insurance Company in the non life sector for strengthening its income base. As on 31 March 2005, the commission on life insurance business was Rs.54.22 lakhs as against Rs.20.91 lakhs as on March 03 2004 whereas the income from the corporate agency arrangement with United India was Rs.14.17 lakhs for 2004-05.

b) CASH MANAGEMENT SERVICES (CMS)

Cash Management Services, the mechanism by which speedy cheque collection facilities are provided to customers in 59 branches of our Bank, is another area where there was encouraging forward movement during the year. The income on account of CMS operations rose from Rs.132.15 lakhs as on 31 March 2004 to Rs.156.29 lakhs as on 31 March 2005. The business under CMS surpassed the Rs.1000 Crore mark touching Rs.1080.29 Crore as on 31 March 2005. The Bank is actively working on introduction of sophisticated software in this area which will enable providing customers a wider reach and cheaper and faster cheque collection facilities.

c) DEPOSITORY SERVICES

The Bank is a Depository Participant (DP) of National Securities Depository Limited (NSDL). Depository services are offered by the Bank at Thrissur, Kaloor (Ernakulam) and Mumbai Fort centres. An income of Rs.5.50 lakhs was generated through DP operations as on 31 March 2005 as compared to Rs.1.17 lakhs for the previous year.

INFORMATION TECHNOLOGY

The Bank has made significant strides in the area of technology deployment during the year as a means of improving the quality of customer service. Core Banking was deployed in 47 branches during the year covering nearly 50% of total business as on 31 March 2005. Further, 32 ATMs were deployed in strategic centres as a measure of improving customer convenience and for reducing the Bank's transaction cost. Our Bank was the first Kerala based bank to establish ATM connectivity with IDRBT's National Financial Switch enabling our customers to access more than 8000 ATMs across the country. Real Time Gross Settlement (RTGS)- a technology based payment system - was also introduced for inter bank transactions during the year. The plan for the current year on the IT front comprises of:

- Increasing the number of branches under Core Banking to 100 covering 90% of total business
- Increasing the number of ATMs deployed to 100 across the country through tie up with CASHNET which is a shared network of 8 banks with about 3800 ATMs
- Extending RTGS to customer transactions
- Launching internet banking on online mode
- Introducing the Cheque Truncation project
- Introducing additional services in Core Banking like Anywhere Banking, Multi City Cheques etc
- Intensifying the training on IT for different levels of employees with a view to ensure that Core Banking is turned into a powerful instrument for accelerating business growth and widening the customer base. As much as 77 officers and 90 clerks were provided training in this area during the year.
- Setting up the Disaster Recovery Site.
- Introducing Information System Audit at all Core Banking branches with a view to professionalise the networked set-up.

HUMAN RESOURCES DEVELOPMENT

The total staff strength of the Bank as on 31 March 2005 was 1313 comprising 458 Officers, 45 Junior officers, 3 executive trainees, 634 Clerks and 173 Subordinate staff. The Bank conducted the promotion exercise during the year for various cadres and elevated 130 personnel to the next higher cadre to motivate employees to contribute better and to address the Bank's growing business needs.

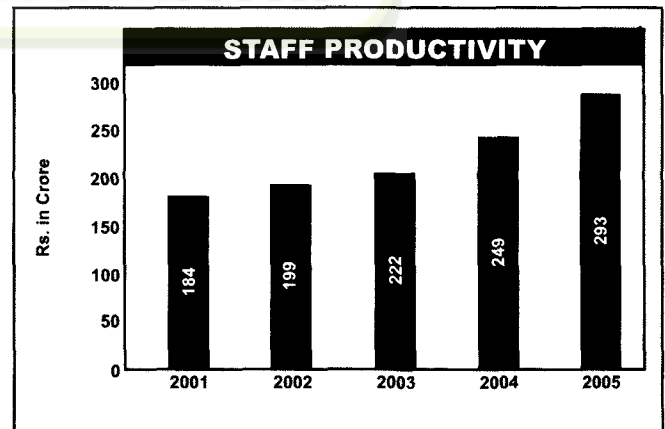
The Bank's Staff Training College continued to place the required emphasis on skill upgradation by imparting training to 329 employees through 22 in-house programs during the year. In addition to in-house training, 203 employees benefited through deputation to training programmes conducted by reputed external agencies.

The Bank undertook a comprehensive manpower assessment during the year pursuant to which it proposes to recruit 100 Probationary Officers and 100 Junior Officers and deploy them across the country for effectively servicing the growing business. This process is currently under way. The Bank has also initiated the promotion process for officers in different cadres. Further, external recruitment of officers in the Senior Management cadre with specific skill sets is also under way.

The business per employee rose from Rs.248.63 lakhs to Rs.292.70 lakhs during the year.

OTHER SIGNIFICANT DEVELOPMENTS DURING THE YEAR

- 1) The Bank announced an attractive cash incentive scheme for branches that reach targets under Deposits, Advances, NPA recovery and Non-interest Income as at the end of 31 March 2005. As many as 106 Branches became eligible for receiving the incentives for a total sum of nearly Rs.5 lakhs.
- 2) The Bank has joined VISA International as a principal member for introduction of an International Debit Card.
- 3) The Bank has tied up with Andhra Bank for introduction of an International Credit Card under the banner of VISA.
- 4) The Bank has put in place a Risk Based Internal Audit System thereby successfully shifting the focus in branch inspection from "transaction based audit" to "risk based audit".



- 5) The Bank's quarterly house magazine "Dhanam News" was revived as a channel of two-way communication.
- 6) A system of monthly communication from MD & CEO to all employees was introduced during the year facilitating regular flow of information on issues of importance from the Corporate Office to various units.

AUGMENTATION OF CAPITAL FUNDS

The Reserve Bank of India has recently advised that such of those banks in the private sector as are not having a net worth of Rs.300 crores should have a clear road map for reaching that level. As far as our bank is concerned, the net worth of the bank as on 31 March 2005 is Rs.110.06 crores and it has to be increased suitably to reach the above figure of Rs.300 crores. The sources open to the bank for augmenting the capital funds are to grow either organically or to go in for infusion of capital by Public Issues/Right Issues or through strategic investors. While it is possible to augment the capital funds to the stipulated bench mark level of Rs.300 crores by growing organically, other avenues open to us in this regard are being actively pursued.

LISTING ON STOCK EXCHANGES

The equity shares of the Bank are listed at National Stock Exchange of India Ltd, The Stock Exchange, Mumbai and Cochin Stock Exchanges Ltd. With the approval of members at the Annual General Meeting held on 7 July 2004, our shares were voluntarily de-listed from the Madras Stock Exchange Ltd. with effect from 7 September 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 a Banking Company, the required technology is absorbed keeping in view 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'.

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors confirm that in the preparation of the annual accounts for the year ended 31 March 2005:

- 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, 2005;
- 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. M/s.Ford Rhodes Parks & Co., Mumbai is eligible for re-appointment. M/s. R.G.N. Price & Co. Cochin have completed four years of continuous association with the Bank and are due for change as per RBI's policy on rotation and resting.

EXPLANATION ON THE QUALIFICATIONS MADE BY THE STATUTORY AUDITORS OF THE BANK IN THEIR REPORT

The outstanding unadjusted items in inter office, inter branch, drafts, drafts payable, clearing accounts and tallying of some accounts with subsidiary books in certain branches do not materially affect the final accounts. Reconciliation of the entries and elimination and adjustment have been done as per relevant RBI guidelines. The implementation of Core Banking in key branches is sure to substantially help speed up the reconciliation process in the current year.

CHANGES IN THE BOARD

1. Shri. A.D.Navaneethan assumed charge as Part-time Chairman on 30 March 05
2. Shri. A.P. Venkateswaran and Shri.S.Varadachary, Directors were re-elected at the Annual General meeting on 7 July 2004.
3. Shri. K. V. Krishnamurthy ceased to be Director with effect from 12 June 2004 consequent to his resignation.
4. Dr. P. Rajamohan Rao ceased to be Director with effect from 16 February 2005 consequent to his resignation.
5. Shri. Vidyadhara Rao Chalasani was appointed as a Director on 16 February 2005.
6. Shri. V Jagannathan was appointed as a Director on 07 March 2005.
7. Shri. E. Madhavan, RBI Nominee was replaced by Smt. Parvathy Vairavasundaram on 28 April 2005

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.

The Board of Directors places on record its high sense of appreciation of the valuable services and rich contribution made to the bank by Shri. K.V. Krishnamurthy and Dr. P. Rajamohan Rao during their tenure as Directors in the bank.

ACKNOWLEDGEMENTS

The Board expresses its sincere gratitude to the Reserve Bank of India, Government of India, State Governments, Securities and Exchange Board of India and other Regulatory Bodies for their support, guidance and counsel. Your Directors are also grateful to the shareholders, depositors, other clients and well wishers for their continued support, patronage and goodwill and look forward for the same in the years to come.

The Board places on record its appreciation for the valuable contribution made by members of staff at all levels for the growth of the bank.

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For and on behalf of the Board

A.D.NAVANEETHAN
Chairman

Chennai
25 June 2005



▲ Shri. A.D. Navaneethan, Chairman of the meeting addressing the shareholders at 77th Annual General Body Meeting.



▲ Shri. T.R. Madhavan - MD & CEO, The Dhanalakshmi Bank Ltd. & Mr. Loney Antony - MD of Euronet Services India Ltd. exchanging the agreement on launching ATM Network.