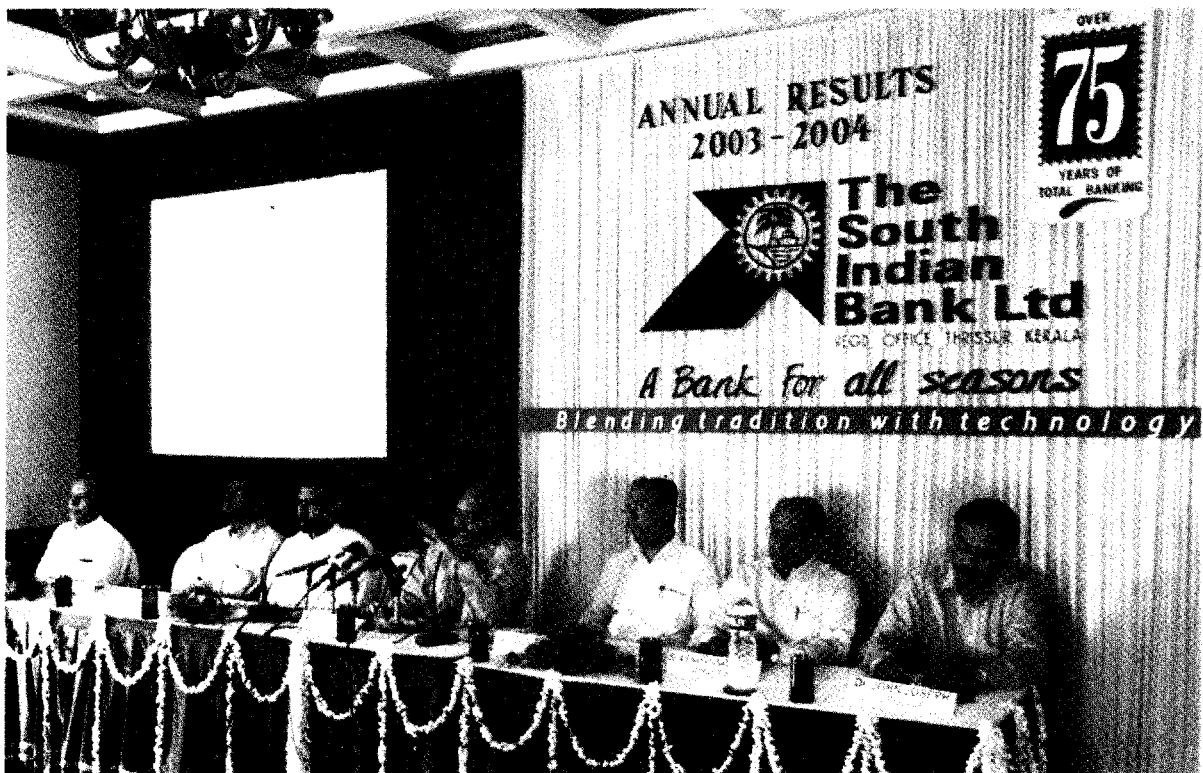


Annual Report 2003-04



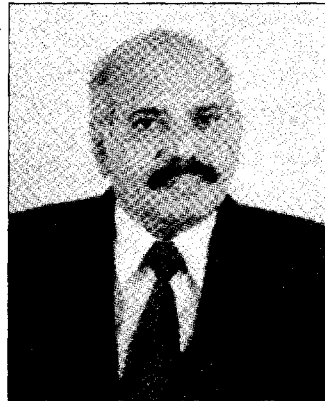


Chairman addressing the shareholders at the 75th Annual General Meeting

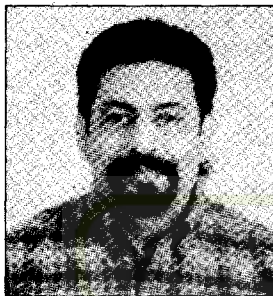


Press meet at Kochi announcing the Annual Results for 2003-04 on 12th May 2004

BOARD OF DIRECTORS



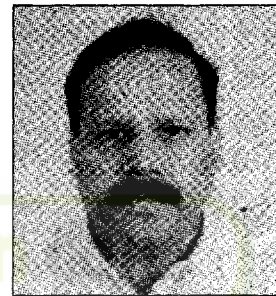
Mr. A. Sethumadhavan
(Chairman)



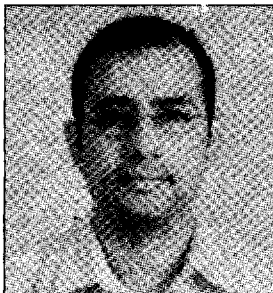
Dr. C. Mathew John



Mr. Paul Chalisery



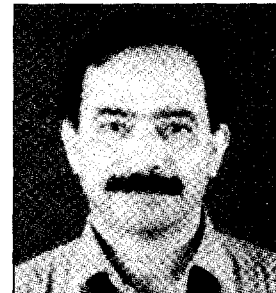
Mr. Babu Alapatt



Mr. Mohan Alapatt



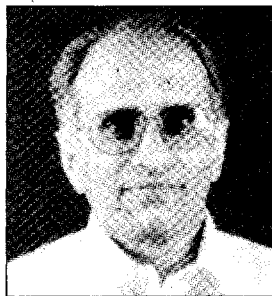
Mr. G.A. Shenai



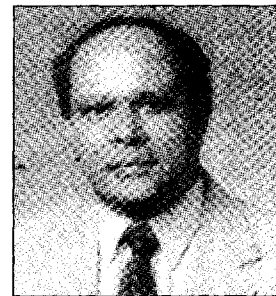
Dr. John Joseph



Mr. John P. Chakola



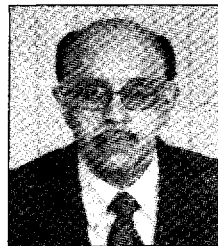
Mr. A.S. Narayanamoorthy



Mr. Davy K. Manavalan

EXECUTIVE DIRECTOR

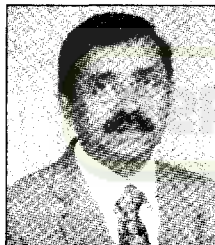
Dr. V. A. Joseph

CHIEF GENERAL MANAGER

Mr. M. Valsan

GENERAL MANAGER

Mr. V.P. Joseph

DEPUTY GENERAL MANAGERS

Mr. Cheryan Varkey



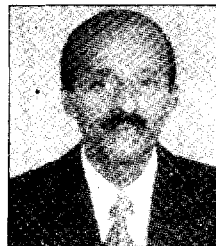
Mr. Alex Mathew



Mr. A.G. Varughese



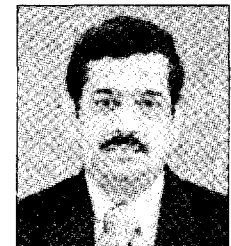
Mr. T.M. Sunny



Mr. George Davis Thottan



Mr. N.V. Ignatius



Mr. K.S. Krishnan

ASST. GENERAL MANAGERS

Mr. R. Ayyaswamy
Mr. T. D. Devassia
Mr. K. S. George
Mr. P. J. Johny
Mr. Anto C. Kalliath
Mr. Varghese John
Mr. P. J. Jacob

Mr. V. J. Thomas
Mr. Joseph George Kavalam
Mr. K. C. Francis
Mr. P. C. Jose
Mr. P. R. Radhakrishnan
Mr. C.J. Jose Mohan
Mr. P.E. Mathai

Mr. V.A. James
Mr. C.T. Devis
Mr. P.K. Kochanthony
Mr. Balbir Singh
Mr. K.L. Baby
Mr. Roy Alex. V.
Mr. V.A. Paul

SECRETARY

Mr. A. S. Narayanan

AUDITORS

M/s. Varma & Varma
Chartered Accountants,
Nettipadam Road,
Kochi - 682 016.

SHARE TRANSFER AGENTS

M/s. Tata Consultancy Services Ltd.,
Sonex Towers,
223, II Avenue, Anna Nagar,
Chennai - 600 040.



DIRECTORS' REPORT TO THE SHARE HOLDERS

The Board of Directors is pleased to place before you the Bank's 76th Annual Report along with the Audited Balance Sheet as on 31st March 2004 and the Profit & Loss Account statement for the year ended 31st March, 2004.

FINANCIAL PERFORMANCE

The highlights of the Bank's performance for the year ended on 31st March, 2004 are as follows:-

| Key Parameters | Rs. in crores | |
|-------------------------------|---------------|--------------|
| | 2003-04 | 2002-03 |
| Deposits | 8280 | 6861 |
| Advances | 4197 | 3613 |
| TOTAL BUSINESS | 12477 | 10474 |
| Gross Profit | 241.98 | 216.47 |
| Net profit | 84.33 | 72.33 |
| Net worth | 394.89 | 320.98 |
| Capital Adequacy (%) | 11.32 | 10.75 |
| EPS (in Rs.) | 23.58 | 20.23 |
| Book value per share (in Rs.) | 110.43 | 89.66 |
| Net NPA as % of Net Advances | 4.55 | 5.98 |

Your Bank has continued to grow significantly, both in terms of business volumes and the overall profitability of operations. It registered a growth of 16.59% in net profit, to achieve a level of Rs.84.33 crores, as against Rs.72.33 Crores recorded during the previous year. Similarly, Operating profit before provisions and contingencies grew by 11.78% from Rs.216.47 Crores to Rs.241.98 crores. While the total income increased from Rs. 837.73 crores to Rs. 915.43 crores, mainly due to the substantial increase from other income from Rs. 180.42 crores to Rs. 235.14 crores, the expenses increased from Rs. 621.26 crores to Rs. 673.45 crores. The productivity and profitability per employee has increased from Rs.264.94 Lakhs and Rs.2.04 Lakhs respectively to Rs.306.10 Lakhs and Rs.2.39 Lakhs. While the Earnings per share went up from Rs.20.23 to Rs.23.58, the Book value per share rose significantly from Rs.89.66 to Rs.110.43.

PROFIT AND APPROPRIATIONS

The Profit & Loss Account shows a Gross Profit of Rs. 252.25 Crores before depreciation, taxes and provisions and a Net Profit of Rs.84.33 Crores as per the details given below:

(Rs. in crores)

| | |
|--|---------------|
| Profit before depreciation, taxes & provisions | 252.25 |
| Less: Depreciation | 10.27 |
| Provision for NPA | 108.41 |
| Provision for depreciation on Investments | — |
| Provision for Income tax/Wealth Tax | 47.64 |
| Provision for standard assets | 1.60 |
| | 167.92 |
| Net Profit | 84.33 |
| Brought forward from last year | 0.31 |
| Total | 84.64 |

APPROPRIATIONS

| | (Rs. in Crores) |
|--|-----------------|
| Transfer to Statutory Reserve | 21.10 |
| Transfer to Investment Fluctuation Reserve | 50.00 |
| Transfer to Capital Reserve | 0.04 |
| Transfer to General Reserve | 3.40 |
| Interim Dividend (including dividend tax) | 6.05 |
| Proposed dividend (including dividend tax) | 4.03 |
| Carried over to Balance Sheet | 0.02 |
| Total | 84.64 |

EXPANSION

Your Bank continued to expand its multi-channel distribution capabilities along with its geographical reach so as to focus on the acquisition of low cost retail deposits and for major expansion of retail assets. During 2003-04, 15 new branches and 5 Extension Counters were added to the Bank's network. 8 existing Extension Counters were up-graded into full-fledged branches. As such, the branch network as on 31.3.2004 increased to 410 branches and 47 Extension Counters as compared to 391 branches and 50 Extension Counters at the end of the previous year. With the opening of these new offices, the geographical reach of your Bank now spreads over 15 States/Union Territories, covering 25 cities and 33 towns. The ATM network of your Bank increased to 100 at the end of the year, as compared to 39, a year earlier.

With a view to exercising better administrative control over the branches and also for effectively monitoring their operations, it was considered necessary to add two more Regional Offices to the present strength of 9 to take it to 11. A new Regional Office was set up at Bangalore, so as to control our 33 branches located in the states of Karnataka and Andhra Pradesh. The Thrissur R.O, which was somewhat unwieldy due to the large number of branches under its control, has been bifurcated into Thrissur (South) and Thrissur (North). In addition to 17 branches from the northern part of Thrissur district, the Thrissur (North) Region will cover 23 branches from the Palakkad district also.

DIVIDEND

The Board of Directors has recommended a final dividend of 10% (tax free in the hands of shareholders), for which necessary clearance from the Reserve Bank of India has already been obtained. The Board had earlier declared an interim dividend of 15% for the year 2003-04, which has already been distributed amongst the shareholders, making this year's total distribution of dividend at 25%.

FORFEITURE OF SHARES

In line with SEBI (Disclosure of Investor Protection) Guidelines, the Bank has, pursuant to the Board resolutions adopted on 26.11.2003, 16.12.2003 and 06.01.2004 respectively, forfeited 42020 equity shares (consisting of 19345 shares allotted in the Rights Issue in 1998 and 22675 shares allotted in the Public Issue in 1998) on which there were call money arrears. The process of forfeiture has been completed and the same has been accounted for in our books during the year under review.

DIRECTORS' REPORT

As a result of this, the number of fully paid up shares as on 31.3.04 (after forfeiture) stands at 3,57,58,440 shares of Rs.10/- each.

CAPITAL AND RESERVES

The business expansion plans of your Bank need to be backed by adequate capital. During the year, the Bank issued and allotted 260 unsecured sub-ordinated bonds for Rs. 65 crores qualifying for Tier II Capital. Owing to plough back of profits, the net worth of the Bank has increased to Rs.394.89 Crores as on 31.3.2004, as compared to Rs.320.98 Crores for the year ended on 31.3.2003.

The Bank's Capital Adequacy Ratio as on 31.3.2004 is 11.32% as against 10.75% for the previous year. The ratio is well above the minimum regulatory requirement of 9%. Of this, Tier-I CAR constituted 5.80%, while Tier - II CAR was at 5.52%. For augmenting its capital base further, the Bank has decided to offer Rights Shares to its existing members in the ratio of 1 right share for every 3 existing shares at a price of Rs.40/- per share including premium. The Bank expects to raise about Rs. 47.68 Crores through the proposed rights issue.

To guard against any fall in the value of investment in securities in future, your Bank has further strengthened the Investment Fluctuation Reserve (IFR) by transferring Rs.50 Crores as appropriation of profit. As on 31st March 2004, the balance in IFR stood at Rs. 82.06 Crores, which is equivalent to 2.38% of the Bank's Securities portfolio under the "Held for Trading" and "Available for Sale" Categories.

LISTING AGREEMENT WITH STOCK EXCHANGES

Bank's shares have been listed on the Cochin Stock Exchange Ltd., Stock Exchange Mumbai and at the National Stock Exchange of India Ltd. The Bank confirms that it has paid the annual listing fees to all the Stock Exchanges for the year 2004-05.

DEPOSITS

The total deposits of the Bank recorded a growth of 21% during the year reaching a level of Rs.8280 crores as on 31.3.2004 as against Rs.6861 crores as on 31.3.2003.

The Break-up of deposits as on 31.3.2004 is as under :

| | Amount (Rs.in crores) | % to total deposits |
|------------------|--------------------------|------------------------|
| Current Deposits | 398 | 4.81 |
| Savings Deposits | 1338 | 16.16 |
| Term Deposits | 6544 | 79.03 |
| Total | 8280 | 100.00 |

Of the above, NRI deposits amount to Rs.2834 crores constituting 34% of the total deposits.

ADVANCES

The total advances of the Bank rose to Rs.4197 Crores (as on 31.3.2004) from Rs.3613 crores (as on 31.3.2003). Priority Sector advances constituted 45.46% of the net bank credit as against the mandatory level of 40%. The share of various segments of priority sector is as follows :

| | (Rs.in crores) |
|------------------------------------|----------------|
| Agriculture & allied activities | 284 |
| S.S.I. | 397 |
| Other areas in the Priority Sector | 610 |
| Total | 1291 |

INVESTMENTS

The investment portfolio of the bank grew by over Rs.963 crores from Rs.2999 crores to Rs.3962 crores. While income by way of interest/dividend on investments rose from Rs.262 crores to Rs.309 crores, profit on sale of investments rose from Rs.133 crores to Rs.187 crores. The average yield on investments was lower at 8.61% as against 10% during the previous financial year on account of the overall declining interest rate scenario.

NPA MANAGEMENT

NPA Management has become a very important activity of banking in recent times. It has become one of the thrust areas considering its impact on the profits of the Bank. Recovery of NPAs is an integral part of NPA management and hence a professional approach is required, on the basis of well laid out policy measures. During the year under review, by taking effective steps, your Bank could make a total recovery of Rs.83.36 crores, of which cash recovery alone was to the extent of Rs.70.03 crores. For the current year, a higher recovery target has been fixed and with this in view, the Bank has planned a Recovery Campaign and a series of Recovery Camps in a big way. Quality circles will continue to address this issue effectively, with the active participation of staff members with a view to accelerating the recovery process.

With the participation of leading banks/financial institutions, your Bank has jointly promoted an Asset Reconstruction Company of India Ltd. (ARCIL). This Company has been formed under the provisions of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI) for securitisation and reconstruction of loss assets. ARCIL has already evinced interest in acquisition of some of the impaired financial assets of your Bank. With the assistance of ARCIL, your Bank is expected to recover some of the core NPAs during the current fiscal.

Under the powers vested with the Banks in terms of SARFAESI, your Bank issued notices in 273 cases and the response has been encouraging, which has helped the Bank in recovering its dues from a few NPA accounts to the extent of Rs.533.43 lakhs.

On account of the above vigorous recovery steps, and due to the additional provisions made during the year, the net NPAs at the end of 31st March 2004 have been brought down to Rs.190.33 crores from Rs.215.51 crores as on 31st March 2003. The ratio of the Net NPA to net advances has come down from 5.98% in 2002-03 to 4.55% in 2003-04.

RISK MANAGEMENT

In accordance with the Reserve Bank guidelines, the bank has formed a Risk Management Committee of the Board (RMCB) and Risk Management Committee (RMC) of Executives. A Credit Policy Committee (CPC) and Asset Liability Committee (ALCO) are in operation to address credit and market risks respectively.

The bank has documented an overall risk management policy, which addresses the operational risk management aspects also and forms the broad contours of the overall risk management process. The bank has documented a comprehensive Information Systems and Security Policy, which addresses all IT risks faced by the bank. Further in respect of market risks the bank has formulated a comprehensive Asset Liability Management (ALM)

DIRECTORS' REPORT

policy, which inter-alia includes limits for tolerance level for mismatches, Earnings at risk etc. and addresses liquidity and interest rate risks in a structured manner. The impact of price risk on central government securities is monitored on a weekly basis based on Duration Analysis. The Value at Risk (VaR) of Central Government securities is also assessed on a weekly basis and that of forex open positions on a daily basis. Further, Earnings at risk of Net Interest Income on account of changes in interest rate is analysed regularly. The bank uses the NSE model for Central Government securities and the FEDAI model for forex open positions. VaR based limits are in place both in respect of forex open position as well as central government securities apart from appropriate take profit and cut loss limits in respect of forex and government securities trading.

The bank has also formulated an overall methodology for Risk Based Internal Audit and is gearing itself towards Risk Based Supervision.

INTERNATIONAL BANKING

During the year ended 31st March 2004, the Bank's total forex business touched a landmark figure of Rs.15,948 crores with a merchant turnover of Rs.3559 crores.

Rupee draft drawing arrangements were established during the financial year with M/s. Al-Ahalja Money Exchange, UAE, Hadi Express Exchange, UAE, Thomas Cook Al Rostamani Exchange Co., UAE, Wall Street Exchange Centre, UAE, and National Exchange Co., Kuwait.

Such arrangements have also been concluded recently with the Gulf Exchange Co, Qatar, and Al Ansari Exchange Co., UAE. Although the lowering of interest rates has adversely affected the pace of growth of NRI deposits, the above mentioned new drawing arrangements are expected to facilitate and improve the inflow of NRI funds into the Bank.

Under SIB EXPRESS arrangement with M/s. Thomas Cook Al Rostamani Exchange Co., UAE, funds are transferred by electronic transmission and credits are made to beneficiary's account instantaneously. This facility is available in all the networked branches. We have also made arrangements with the Al Rajhi Banking and Investment Corporation, Saudi Arabia, in terms of which funds could be transferred by TT remittance, which will be credited within 24 hours in all the net worked branches.

THE NRI PORTFOLIO

The bank continues to occupy the premier position of having the maximum number of exclusive NRI branches in the state of Kerala. Our Tiruvalla branch got the prestigious ISO 9001-2000 certification during this year. NRI deposits constitute 34% of the total deposits of the bank. During the year the bank opened branches at centres like Taliparamba, Payyannur, Kottakkal and Guruvayur with a view to enlarging the coverage of the NRI clientele. We had deputed 15 Officers to the Middle East countries with a view to strengthening the customer relationship and also to familiarise the customers with some of our new products like Internet Banking, Anywhere Banking, Global ATM-cum-Debit Card and SIB mobile service. They had interaction with a wide cross section of NRIs in different places for building up the Bank's overall image in the region.

MARKETING

The efforts of the Marketing Department of the Bank during the year were mainly focused on designing new products and services and for sharpening the marketing skills by devising innovative tools and improving the delivery channels. A few officers have been designated as Marketing Officers at important centres so as to give a greater thrust towards the marketing of some of the bank's attractive products and services. Apart from acting as a support system for providing greater marketing thrust to our operating functionaries in the field, these officers are expected to function as an effective link between the customer and the Bank, for sensing the customer needs and requirements and translating them into bankable schemes and services.

NEW PRODUCTS

During the year, the following new products were launched:

- 1) SIB SURAKSHA - a life insurance product provided exclusively to our customers, which is a one year renewable term policy of ICICI Prudential Life Insurance Company. This is offered at a very low premium.
- 2) SIB STHREE SAKTHY - An exclusive loan product targeted at working women and house wives for purchase of gold/platinum/diamond ornaments, modernising the kitchen and for purchase of electric/electronic equipments.
- 3) SIB FORTUNE - a loan product to finance Initial Public Offers and Public Issues - targeted at employees of reputed Companies, professionals, businessmen or others with sufficient income to repay the loan.
- 4) SIB HELPLINE - a loan scheme for assisting the nurses proceeding for employment abroad, for enabling them to meet their one-way ticket charges, initial expenses with recruiting agency, initial expenses abroad till the first salary is drawn etc.
- 5) SIB LIFELINE - a loan product to finance expenses relating to treatment for certain physical disorders requiring medical intervention.

OTHER BUSINESS ACTIVITIES

1. Export Credit Guarantee Corporation of India (ECGC) has appointed your Bank as one of the Corporate Agents for distribution of their policy products.
2. The Global Debit Card launched by us in association with the MasterCard Inc., has been well received by the customers.

DEMAT CENTRE

The Bank is one of the Depository Participants of Central Depository Services (India) Ltd., Mumbai. The connectivity to the Depository is through VSAT. Although, initially the operations of demat centre were restricted to branches in Thrissur District, with the setting up of an automated on-line back office, the facility is now being extended at selected net worked branches all over the country.

CUSTOMER SERVICE

It has always been our endeavour to meet the ever changing needs of the customers by offering a vast range of products and services. The high level of technological capabilities acquired through the implementation of the core-banking solution *Sibertech* project has enabled the Bank to enter into hitherto unexplored areas of customer requirements and design various

DIRECTORS' REPORT

technology backed products and services and constantly update them on an on-going basis, in keeping with the emerging requirements in the market. At the same time, in tune with the Bank's motto of *blending tradition with technology*, the Bank continued to maintain a high level of personalised customer service.

PERSONNEL

As on 31.3.2004 the Bank had 3534 personnel on its rolls as against 3550 as on 31.3.2003. Cadre-wise break up is as under:

| | |
|-------------------|------|
| Officers | 1418 |
| Clerks | 1437 |
| Subordinate staff | 679 |
| | 3534 |

Besides, there are 305 part-time employees in subordinate cadre.

TRAINING

During the year 2003-04, 1223 staff members were trained at our Staff Training College, Thrissur, apart from training 201 officers at other Training Institutes of repute like the BTC Mumbai, NIBM Pune, SIBSTC Bangalore, FEDAI etc. During the year 2003-04, in line with the computerization efforts of the Bank, 216 staff members were trained on "Finacle" Software. Altogether 55 programmes were conducted by Staff Training College on various functional areas such as General Banking, Credit Management, Marketing, Foreign Exchange, Retail Banking, Information Technology etc. 201 officers were given training at various outside Training Institutes on subjects like Credit Management, Foreign Exchange, HRD, Corporate lending, Risk based supervision, Asset Liability Management etc. The percentage of staff trained, both at our Staff Training College and outside Training Institutes constitutes 40.29% of the total staff strength. An Organisation Building Event viz. "Meeting Ground" was conducted at Bangalore during the year.

INFORMATION TECHNOLOGY

The Bank had embarked upon a massive technology upgradation drive by introduction of a Centralized Core Banking solution. For this, a modern Data Centre has already been set up at Kochi, connecting more than 200 key branches with the Departments at Head Office, all Regional Offices, the Treasury Dept. at Mumbai and the Foreign Exchange Dept. at Kochi.

This robust network facilitates anywhere banking, networked ATMs, internet banking, mobile banking, Global debit cum-ATM card operations etc. The state of the art Data Centre of International standards at Kochi is the only one of its kind in the banking industry in Kerala.

The Bank has migrated more than 218 branches and 10 Extension counters to the core banking solution (CBS), covering 107 centres in 15 States/Union Territories, well ahead of schedule. This would mean on-line business coverage of around 83%. Leveraging on this CBS infrastructure, Bank has set up 100 online ATMs. Further, to strengthen the ATM reach and global acceptability, the Bank has introduced Maestro Global Debit-cum-ATM Card, in association with the MasterCard International which could be used at ATMs and merchant establishments all over the world. The Bank has also launched Internet Banking

facility, primarily focusing the NRI customers as well as corporate clients in the country. The Bank has also introduced Mobile banking, which could be used by the NRIs and domestic customers.

The aim of the Bank is to offer the latest technology-driven value added services to the customers without compromising on our motto - *Blending Tradition with Technology*.

COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988

The operations of the Bank are not energy intensive. However, the Bank has taken all possible measures to control and reduce consumption of energy. The Bank continues to undertake sufficient measures for innovation, adaptation and absorption of technology in banking business.

The Company, being a banking company and an authorised dealer in foreign exchange, has been taking all possible steps to encourage export credit.

PARTICULARS OF EMPLOYEES

There were no employees who were in receipt of remuneration for which particulars of employees have to be disclosed pursuant to Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 and hence they are not applicable.

SOCIAL CONCERNS

THE SIB STUDENTS' ECONOMIC FORUM

During the year, 12 issues of "SIB Students Economic Forum" were released. The topics covered include Kelkar Task Force Report on Direct & Indirect Taxes (Part II), Value Added Tax (VAT) Enterprise Resource Planning (ERP), Fiscal Responsibility Bill 2003, Sweat Equity, Electronic Data Interchange (EDI), Cancun Conference, Special Economic Zone, Basle Capital Accord, UCPDC, Interim Budget 2004, Nifty, which were widely accepted and well appreciated not only by the students but also by academics and people from all walks of life.

SIB ESSAY COMPETITION 2003

The subject this time was "Opening up of Higher Education Sector in Kerala - A critical evaluation". The contest conducted by us for High School/College students in Kerala and NRI School students on the above subject evoked enthusiastic response, as reflected in the large number of entries received from the student community as detailed below:

| | |
|-------------------------------|------|
| a) School students in Kerala | 792 |
| b) College students in Kerala | 232 |
| c) NRI School Students | 45 |
| Total | 1069 |

SIB GRAND MASTER QUIZ PROGRAMME

In connection with the Platinum Jubilee celebrations of the Bank, a quiz programme was organised for the bank employees of Kerala on the well known T.V Channel, ASIANET. The response to the programme from the resident viewers and also the NRIs from all parts of the globe has been overwhelming.

DIRECTORS' REPORT

DIRECTORS

Dr. C. Mathew John, who retired at the 75th Annual General Meeting, was re-appointed as a Director of the Bank. At the said Annual General Meeting, Shri. John P. Chakola and Shri. A.S. Narayanamoorthy, were appointed as Directors of your Bank liable to retire by rotation.

Shri. P.M. Udhuppu resigned from the Board w.e.f. 23rd August 2003. The Board places on record its appreciation of the services rendered by him during his tenure.

Shri. Davy K. Manavalan, IAS (Retd), was appointed as an Additional Director by the Board of Directors at its meeting held on 22nd March, 2004. Pursuant to the provisions of Sec. 260 of the Act, he vacates office at the ensuing Annual General Meeting. A member of the Bank has expressed his intention to propose Shri. Davy K. Manavalan as a candidate for the office of Director and has given a notice in writing along with a deposit of Rs. 500/- in terms of Sec. 257 of the Companies Act, 1956.

Shri. Babu Alapatt and Shri. Mohan Alapatt retire by rotation at the 76th Annual General Meeting and are eligible for re-appointment.

AUDITORS

The shareholders at its 75th Annual General Meeting held on 14th July 2003 appointed a new firm, M/s. Varma & Varma, Chartered Accountants, Kochi, as the Central Auditors for the audit of Bank's accounts for the year 2003-04.

M/s. Varma & Varma, Chartered Accountants, Kochi, vacate office at the end of the Annual General Meeting to be held this year but are eligible for re-appointment for the financial year 2004-05, subject to approval by Reserve Bank of India.

EXPLANATION FOR AUDITORS' COMMENTS IN THE REPORT

1. Elimination of the pending items in inter-branch accounts, sundries and non-tallying of schedules - The elimination takes place on an ongoing basis and the impact of the same in the Accounts is not material.
2. Non-provision of past liability towards pension fund - As per the accounting policy of the Bank, this is being provided over a period of 10 years since 1998.

CORPORATE GOVERNANCE

A separate report on the status of implementation of Corporate Governance as required under Clause 49 of the Listing Agreement with the Stock Exchanges, along with a certificate from M/s Varma & Varma, Statutory Auditors of the bank, is annexed to the Report.

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

This has been dealt with in a separate section in the Annual Report.

DIRECTORS' RESPONSIBILITY STATEMENT

Pursuant to the requirements of Sec.217 (2AA) of the Companies Act, 1956, the Board of Directors hereby declare that:

1. In the preparation of the annual accounts for the financial year ended 31st March, 2004, the applicable accounting

standards have been followed along with proper explanation relating to material departures as given below:

Non-provision of liabilities towards contribution to pension fund - Para 6(a) of schedule 17 in this regard is self-explanatory.

- 2) The Directors have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the company at the end of the financial year 2003-04 and of the profit of the company for that period.
- 3) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- 4) The Directors have prepared the annual accounts for the financial year ended on 31st March, 2004, on a going concern basis.

ACKNOWLEDGEMENTS

The Board of Directors places on record its gratitude to the Reserve Bank of India, other Government and Regulatory Authorities, financial institutions and correspondent banks for their strong support and guidance. The Board also places on record its gratitude to the Bank's shareholders and customers for their continued support, patronage and goodwill. Further, the Board expresses its appreciation for the dedicated service rendered by employees of the Bank at all levels.

Thrissur
22.07.2004

By Order of the Board,
Sd/-
(A. SETHUMADHAVAN)
CHAIRMAN

DIRECTORS' REPORT

MANAGEMENT DISCUSSION AND ANALYSIS REPORT

INDUSTRY STRUCTURE AND DEVELOPMENTS

The Indian economy became vibrant during the year 2003-04. Its foreign exchange reserves crossed the USD 110 billion mark at the end of the financial year, registering an impressive growth of USD 37.6 billion from the corresponding figures of the previous fiscal. The exports in U.S. Dollar terms increased by 17.1%, while imports surged by 25.3%, with the current account expected to register a surplus during 2003-04 for the third year in succession. The most distinct feature of the external sector during the year 2003-04 related to the substantial increase in capital inflows. The exchange rate of the rupee appreciated vis-a-vis US dollar but depreciated against the Euro, Pound Sterling and Japanese Yen during the year.

As per the advance estimate released by the CSO in February 2004, the GDP growth was placed much higher at 8.1%, as against 4% in the previous year reflecting, inter-alia, a rebound in agricultural production. There was a sustained pick up in non-food credit since September, with the total flow of resources to the commercial sector being higher than last year. During this period, further reduction in interest rates in money and government securities markets was observed.

The annual rate of inflation as measured by variation in the wholesale price index (WPI) on a point-to-point basis, declined to 4.5% by the end of March 2004 as against 6.5% in the same period last year, which trend was reversed substantially during the subsequent months, due to many reasons including the rise in petroleum prices. The continuous rise in inflation rate could put considerable pressure on the economy during the current fiscal. The money supply (M3) increased by 16.4% during 2003-04 as compared to 12.8% in the previous year.

Despite several uncertainties like volatility among major currencies, firmness in global oil prices and cyclical factors, it is to be noted that global economic recovery has broadened and strengthened faster than expected.

Owing to RBI's strengthening of regulatory and supervisory norms, adoption of international benchmarks as appropriate to Indian conditions, improvement in management practices and corporate governance, up-gradation of technology, the Indian Banking Sector is all set to meet global competition.

The growth in aggregate deposits of scheduled commercial banks (SCBs) at 17.3% (Rs.2,21,078 Crores) was higher than that of 13.4% (Rs.1,47,882 Crores) in the previous year, adjusted for mergers. Bank credit of SCBs recorded an increase of 14.6% (1,06,167 Crores) during 2003-04 compared to 10.1% (Rs.94,949 Crores) net of mergers in the previous years.

Assuming that there is a sustained growth in the industrial sector, normal monsoon and increased exports, the GDP growth for the year 2004-05 is expected to be in the range of 6.5% to 7%. In view of the current trends, the inflation rate in 2004-05, on a point-to-point basis, may be placed at around 5 to 6%.

The overall stance of monetary policy announced by Reserve Bank of India will be (i) Provision of adequate liquidity to meet credit growth and support investment and export demand, while keeping a very close watch on the movements in the price level (ii) consistent with the above, while continuing with the status

quo, RBI to pursue an interest rate environment that is conducive to maintaining the momentum of growth and macro economic and price stability.

OPPORTUNITIES AND THREATS

Deregulation, globalisation and a growing economy provide us with ample opportunities to continuously improve our performance. Financial sector reforms have enabled the banks to grow and improve their performance taking advantage of various incentives available. It has also helped the banking sector to strengthen the financial stability and show improvement in financial intermediation. This would lead to further consolidation, improvement in efficiency and foster competition in the banking sector. The softening of interest rates would require banks to reduce their lending costs by reducing transaction cost. Profitability will have to be further improved by managing the cost of funds efficiently and making up for the declining interest spreads by finding alternative avenues for deployment of funds. Nevertheless, the firming up of interest rates noticed in the government securities market recently has been a matter of serious concern to the banks, particularly from the point of view of declining profitability from the treasury operations during the current financial year.

The banking sector would experience increased pressure to improve the asset quality in view of the tightening of prudential norms and also in the implementation of the recommendations of Basle Committee on Capital Adequacy requirements. Risk Management practices will have to be fine-tuned for sustained growth. Conventional products and services will undergo tremendous changes and with the technological revolution sweeping across the globe, new delivery channels will have to be opened up for meeting the emerging requirements of the customers. Your Bank is geared to meet these emerging challenges through effective deployment of resources, technology up-gradation, reducing transaction cost, by managing the cost of funds and by the Bank's HRD policy.

BUSINESS REVIEW

The total deposits of the Bank reached a level of Rs. 8280 Crores, the details of which are as under:-

| | (Rs. in Crores) | | |
|------------------|-----------------|-------------|-------------|
| | 2003-04 | 2002-03 | % of growth |
| Current deposits | 398 | 328 | 21% |
| Savings deposits | 1338 | 988 | 35% |
| Term deposits | 6544 | 5545 | 18% |
| TOTAL | 8280 | 6861 | 21% |

The total advances stood at Rs. 4197 Crores as against Rs. 3613 Crores last year. Priority sector advances constituted 45.46% of the net bank credit. The share of various segments of priority sector is as follows:-

| | (Rs. in Crores) |
|---------------------------------------|-----------------|
| 1) Agriculture & allied activities | 284 |
| 2) S.S.I. | 397 |
| 3) Other areas in the priority sector | 610 |
| TOTAL | 1291 |