

**SPEECH OF CMD
AT
AGM OF
SHAREHOLDERS
ON
8TH JULY 2005**

Ladies & Gentlemen,

1.1 On behalf of the Board of Directors, I have great pleasure in welcoming you all to the Ninth Annual General Meeting of Dena Bank which incidentally is also my first after assuming my role as Chairman & Managing Director of the Bank on 10th June 2005.

1.2 The Annual Report containing the annual accounts for the year ended March 31, 2005, Auditor's report and Report of the Directors were already sent to you and has been with you for some time. Various disclosures made in the Annual Report highlight our endeavour to bring about greater transparency to our members from the point of view of good Corporate Governance practices. I am sure all of you have perused the report. With your permission, I shall consider them as read.

1.3 In order that you are able to appreciate the performance of the bank which was influenced by the macroeconomic environment, I would like to brief you on the macro- economic environment and the banking scenario during 2004-05.

▲ Economic Environment & Banking Scenario

2.1 During 2004-05, the real Gross Domestic Product (GDP) at factor cost and constant (1993-94) prices reflected a growth of 6.9% with the Industrial and services segment posting a growth of 8.3% and 8.6% respectively.

2.2 The annual rate of inflation in terms of Wholesale price Index on point-to-point basis stood at 5.0% for the week ended 31st Mar 2005 as against 4.6% in the same period previous year.

2.3 The financial markets remained generally stable during 2004-05, though interest rates showed some intra-year upward movement. Despite large excess

liquidity in the system, interest rates moved upwards reflecting uncertainties in oil prices, upward trend in global interest rates and increasing domestic demand for credit.

2.4 Non-food credit increased by 26.5 per cent during 2004-05 as compared with 18.4 per cent in the previous year. The incremental non-food credit-deposit ratio was as high as 100.7 per cent, net of conversion, as compared with 56.0 per cent in the previous year. While the impetus to credit growth has emanated from all sectors, it is clearly noticeable in housing, small transport operators and retail loans segments. Credit to agriculture and industry has also picked up.

2.5 The large capital inflows and rising foreign exchange reserves is a testimony to the confidence on the Indian economy. A thriving economy requires a vibrant financial sector and the banks will have to focus very sharply on operational efficiency in the backdrop of continuing de-

regulation, competition, technological changes and enhancing shareholder value.

2.6 I would now like to briefly recall the highlights of the performance of your Bank during 2004-05 and also share with you the prospects for the current fiscal.

▲ Performance Highlights

3.1 The total business of your Bank crossed the landmark figure of Rs.30000 crore and increased by 12.70% to Rs. 31961 crore as on 31st Mar 2005 from Rs.28360 cr on 31st Mar 2004. The deposits of the Bank also crossed the landmark figure of Rs.20000 cr and the Bank recorded a growth of 9.52% in deposits. The deposits stood at Rs.20096 cr as on 31st Mar 2005 as against Rs.18349 cr on 31st Mar 04.

3.2 Your bank's strategy in keeping the cost of deposits under control paid dividends and the share of demand deposits to total deposits as at

31st Mar 2005 increased by 217 basis points to 43.71%. I am happy to share with you that your Bank ranks 4th on this parameter amongst Public Sector Banks.

3.3 As a result of this increase in share of demand deposits, the cost of deposits recorded a steep fall by 93 bps to 4.85% in 2004-05 as compared to 5.78% in 2003-04.

3.4 The loan book of your bank posted a significant increase of 18.52% to Rs.11865 cr. and this pushed up the Credit Deposit Ratio to 59.04% in Mar-05 as against 54.56% in Mar-04. The retail loan book of the bank nearly doubled from Rs.758 crore to 1477 crore, with focus on housing loans.

3.5 The twin-effects of decline in funding costs and deployment of funds in better yielding assets, resulted in the increase in Net Interest Margin by 12 basis points to 3.08% in 2004-05 from 2.96% in the previous year.

3.6 Your Bank continued to focus on agriculture lending through its large network in rural and semi urban areas and this thrust on priority sector advances sustained the growth momentum in this segment and Priority sector advances constituted 42.46% of net bank credit.

3.7 I am also happy to share with you that the asset quality recorded a significant improvement with a steep fall in Gross NPA from 14.82% in Mar-04 to 9.67% in Mar-05 and Net NPA from 9.40% in Mar-04 to 5.23% in Mar-05. Fresh slippages during the year was lower by Rs.195 crore or about 42% and were contained at Rs. 264 crore during 2004-05 as against Rs.459 crore in the previous year.

3.8 Your bank's second public issue received overwhelming response and thanks to your support the issue was oversubscribed 12 times. As a result, the Capital Adequacy shored up to 11.91% as on 31st Mar-05 from 9.48% as on 31st Mar 2004.

The Bank's Net Worth increased by 47% and stood at Rs 727.10 crore as on 31st March 2005 in comparison to Rs. 496.35 crore as on 31st March 2004.

3.9 Reflecting on the unprecedented fluctuations and a steep rise in the yield on Government Securities that affected the bottomline of most of the banks in the industry, your Bank's trading profits on government securities recorded a steep fall of Rs.323 crore during 2004-05. After providing of Rs. 65 cr for wage arrears and provision of Rs 81 crore for depreciation in gilt portfolio, your Bank posted a Net Profit of Rs.61 cr.

3.10 As a matter of prudence, a sum of Rs.43 cr has been built up as Investment Fluctuation Reserve as a contingent measure for investment depreciation in future.

3.11 To sum up, the achievements by way of improvement in asset quality, shoring up Capital

Adequacy and reduction in cost of deposits contributed to the sustained turnaround performance of your Bank during 2004-05.

▲ Retail Network and Technology Penetration:

4.1 As at 31st March 2005, the Bank had 1123 branches including 85 satellite offices to cater to its customers and I am happy to inform that all the branches are computerised. All major branches have been connected with Corporate Office through Dena-Net, the Bank's own internal network.

4.2 For facilitating payment of taxes by the public, an On-Line Tax Payment System has been introduced at 166 branches.

4.3 As a step forward to facilitate straight through payment and settlement system for the customers, the Bank has adopted the Real Time Gross

Settlement (RTGS) for inter-bank settlements and going forward this would be extended to the customers on a pilot basis at select branches.

4.4 54 more ATMs were installed during 2004-05 increasing the number of ATMs to 155 and this number would move up to over 250 during the current fiscal. Technology enabled services like Information Kiosks, Mobile Banking, Dena Billpay, Internet Banking & Dena India Remit were introduced during last year and these initiatives would be further extended to more centres and in providing more value added services during the current financial year.

4.5 The Bank opened 40 FinMarts, a unique concept in Indian Banking, at various centers to provide all retail services to its customers under one roof. These “FinMarts” provide one-stop state-of-the-art customer experience in delivery of the array of Retail Banking products spanning a customer’s life cycle. These “FinMarts” which operate in

“Branch within Branch” concept have been exclusively designed to present a highly enriched customer ambience for state-of-the-art customer experience. All retail-banking products are available in this one-stop shop where dedicated and smart staff are deployed to deliver.

^ Risk Management

5.1 Your Bank is conscious of the importance of risk management in the face of increasing uncertainties and the complexities in the environment wherein profitable opportunities also carry diverse risks. Striking a right balance between the risk and reward is what is required through a successful Risk Management.

5.2 Risk Management has been absorbed as part of the Corporate Business strategy and prudential limits for industry, individual borrowers, corporate and non-corporate borrowers, benchmark financial ratios have been set. All large credit proposals are screened by a Credit Committee

before being placed to the competent authority for sanction.

5.3 The Credit Monitoring system has been strengthened by putting in place an “Early Warning Signal” mechanism through which the risk element is mitigated through close monitoring and initiation of timely remedial action. The system is firmly in place and together with improved credit appraisal system has considerably mitigated the credit risks.

5.4 Your Bank is fine tuning its integrated risk management architecture and is in the process of putting together various models for risk measurement and risk mitigation.

▲ Customer Service

6.1 Your Bank is committed to maintain high standards of service to its customers and all the new initiatives – technology or otherwise- have been minutely looked into to provide high levels of customer satisfaction.

- 6.2 Your Bank moved into its own Corporate Office at Bandra Kurla Complex, Mumbai, a state of the art “Intelligent structure” with all modern amenities and technology to facilitate speedier decision making. The grand inauguration ceremony on 29th October 2004 at the hands of Shri P. Chidambaram, Hon’ble Minister of Finance, Government of India improved the image of your Bank considerably.**
- 6.3 To empower the farming community to avail hassle-free credit facilities from your Bank, the Bank launched “Dena Kisan Gold Credit Card Scheme” on 29th Oct 2004 at the hands of Hon’ble Finance Minister.**
- 6.4 As a positive step in enhancing customer satisfaction, the bank has obtained ISO certification for 51 branches last year.**
- 6.5 Further, grievance redressal mechanism, induction of valued customers in the Committee on Procedures & Performance Audit of Customer Service and formation of Customer Service Committee at Board level have been carried out.**

^ Human Resource Development

7.1 The staff strength of your bank stood at 10210 and the productivity per employee increased to Rs. 3.13 crore as on 31st Mar 2005 as against Rs.2.74 crore on 31st Mar 2004.

7.2 The Bank has laid special emphasis in developing core skills as well in acquiring new skills. The talent gaps have been identified and these are being bridged through re-training and re-skilling and acquiring fresh talent.

8.1 Corporate Governance

Your Bank is committed to adopt and follow the tenets of good corporate governance. The Bank has constituted various committees to look into operational, business and risk management aspects for maximizing shareholder value through business excellence. As a sequel to better

transparency and disclosure measure to keep the members and stakeholders well informed of the events and happenings in your bank, the bank's website is posted of the information and events in addition to the Stock Exchanges being furnished the regulatory returns.

▲ Social Welfare

9.1 Your Bank continues to play an active role in the socio-economic development of the country. Besides, implementing the schemes for the needy and downtrodden, your Bank has taken lead and come to the rescue of the distress like the cyclone and earthquake affected.

9.2 The tsunami is a grim reminder of these disasters. As a responsible Corporate citizen, your bank contributed a sum of Rs. 1 crore to the Prime Minister's Relief Fund towards relief measures for those affected by tsunami.

9.3 As a part of its rural development activities, your Bank opened Rural Development & Self Employment Training Centre at Bhuj and Mehsana and the centre imparts vocational trainings to budding entrepreneurs to take up gainful activities in rural areas.

^ The Future

10.1 The Indian Economy is clearly on the upward path as evidenced by the impressive results posted by the Corporates. The resurgence of the industrial sector, rising domestic investment, rising business optimism and consumer confidence resulted in a robust credit growth in the banking industry last year and this tempo is likely to be sustained. The real GDP is projected at around 7.0% for the current year and the predictions of favorable monsoon, vibrant capital market and growing business and consumer confidence would drive this growth.

10.2 With growing competition with other savings instruments, especially mutual funds, there would be pressure on supply of funds for banks. Demand for funds, on the other hand, would be higher because of increased needs of the industrial sector. With closer integration into the world economy, with the process of globalization, the developments across the world reverberates in the Indian Economy which we need to monitor. Thus the future would continue to be vibrant, competitive and challenging to banks.

10.3 Your Bank is well poised to meet these challenges and an ambitious and realistic action plan has been drawn up. Growth areas, growth centres and key branches for growth have been identified and a strategy for focused attention is actively being pursued to surge ahead. We are confident that these strategies would enable us to take advantages of the emerging opportunities that the environment is likely to provide.

▲ Dividend

11.1 The growth opportunities for the banking industry are vast. After successful turnaround initiatives during the last two years, your Bank is now in its growth path. The growth opportunities can be fully exploited only if the Bank is strong in terms of financials and capital base. The Board of Directors of your bank have therefore decided against declaration of dividend for the financial year ended 31st Mar 2005 but to plough back the profits for strengthening the capital base.

▲ Acknowledgement

12.1 The trust and confidence reposed by the customers, shareholders, staff, regulatory authorities, correspondent banks and the service providers continues to be the sources of strength to your Bank. Their support and encouragement has added to the stature of the Bank. On behalf

of the Bank as well as on my personal behalf, I profusely thank all our customers, stakeholders, business associates and well wishers for their patronage.

12.2 I also place on record my sincere thanks to Dr.A.K. Khandelwal – the then Chairman & Managing Director of your Bank whose stewardship and dynamism was largely responsible for the robust results of your Bank during last year.

12.3 I look forward to your continued support to enable your Bank to scale greater heights in the banking horizon in the years to come

Thank You.