



ANNUAL REPORT 2000-2001



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BOARD OF DIRECTORS (AS ON 29th JUNE 2001)

Mr. D. Ahuja	<i>Chairman</i>
Mr. Teo Soon Hoe	<i>Director</i>
Mr. Benedict Kwek Gim Song	<i>Director</i>
Mr. S. Venkiteswaran	<i>Director</i>
Mr. Mahesh Vyas	<i>Director</i>
Mr. Frank Polman	<i>Nominee - Asian Development Bank, Manila</i>
Mr. Jayant Dang	<i>Alternate director to Mr. Frank Polman</i>
Mr. Roy Karaoglan	<i>Nominee-International Finance Corporation, Washington</i>
Mr. Eric Cruikshank	<i>Alternate director to Mr. Roy Karaoglan</i>
Mr. Satish Kaura	<i>Director</i>
Mrs. Kanta Ahuja	<i>Alternate director to Mr. Satish Kaura</i>
Mr. V. S. Srinivasan	<i>Director</i>

COMPANY SECRETARY

Sanjay Sawant

AUDITORS

M/s Chandabhoy & Jassoobhoy, *Chartered Accountants*
M/s Lakhani & Co., *Chartered Accountants*

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REGISTERED OFFICE

Durga Niwas, Mahatma Gandhi Road, Panaji 403 001, Goa

CORPORATE OFFICE

1201, Raheja Centre, Nariman Point, Mumbai 400 021

**SEVENTH ANNUAL GENERAL MEETING OF THE MEMBERS
OF CENTURION BANK LIMITED TO BE HELD ON
SATURDAY, 25th AUGUST 2001 AT HOTEL MANDОВI,
PANAJI 403 001, GOA AT 2.45 P.M.**

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NOTICE

NOTICE is hereby given that the Seventh Annual General Meeting of the Members of Centurion Bank Limited will be held on Saturday, 25th August, 2001 at Hotel Mandovi, Panaji 403 001 Goa, at 2.45 p. m. to transact the following business:

ORDINARY BUSINESS:

1. To consider and adopt the Audited Balance Sheet as on 31st March 2001 and the Profit and Loss Account for the year ended on that date and the Report of the Directors and the Auditors thereon.
2. To appoint Director in place of Mr. S. Venkiteswaran, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint Director in place of Mr. Mahesh Vyas, who retires by rotation and being eligible, offers himself for re-appointment.
4. To reappoint M/s. Chandabhoy & Jassoobhoy, Chartered Accountants and M/s. Lakhani & Co., Chartered Accountants as the Joint Statutory Auditors of the Bank to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting, on a remuneration to be decided by the Board of Directors based on the recommendation of the Audit Committee.

SPECIAL BUSINESS:

5. To consider and if thought fit, pass with or without modification(s), the following resolution as an Ordinary Resolution:

RESOLVED THAT on the recommendation of the Nomination Committee of the Board and pursuant to applicable provisions of the Companies Act, 1956 and the Banking Regulation Act, 1949 and subject to approval of

Reserve Bank of India, consent of shareholders be and is hereby accorded to the appointment of Mr. Siddharth Sitholey as Managing Director & Chief Executive Officer of the Bank for a period of three years from the date on which he will assume charge, on the following terms and conditions :

- a. Salary: Rs.2,00,000 p.m.
- b. Perquisites:
 - i. Housing: A rent-free furnished accommodation.
 - ii. Leave Travel Allowance: Rs. 2,00,000 p.a.
 - iii. Medical reimbursement: As per Bank's policy
 - iv. Provision of a Bank owned car and reimbursement of salary and perquisites of a driver, of a sum not exceeding Rs 6,000 per month.
 - v. Reimbursement of two home telephones and one mobile phone as per Bank's policy.
 - vi. Provident Fund, Superannuation Fund and Gratuity - As per Bank's rules.
 - vii. Membership of one club
 - viii. Participation in Group Medical and Personal Accident Insurance Schemes of the Bank.

RESOLVED FURTHER THAT if in any financial year during the currency of the tenure of Mr. Siddharth Sitholey, the Bank has no profits or its profits are inadequate, it may pay to Mr. Siddharth Sitholey, remuneration by way of salary, perquisites and other allowances not exceeding the limits specified under Schedule XIII to the Companies Act, 1956 and with the approval of

the Central Government, the Bank may pay to Mr. Siddharth Sitholey, the full remuneration as set out above.

RESOLVED FURTHER THAT the Board of Directors of the Bank be and are hereby authorised to vary, alter, increase or modify the terms and conditions of the remuneration, including perquisites, during the aforesaid period, within the maximum permissible statutory limit.

RESOLVED FURTHER THAT the Board of Directors of the Bank be and are hereby authorised to do all such acts, matters, deeds and things as may be required to give effect to the aforesaid resolutions and to settle all questions in regard to the payment of remuneration to Mr. Siddharth Sitholey and any other matter incidental thereto, as it may, in its absolute discretion, deem fit, without seeking further approval of the shareholders.

By order of the Board,
For Centurion Bank Ltd.,

Sanjay Sawant
Company Secretary

Place: Mumbai
Date : 29th June 2001

Registered Office
Durga Niwas,
M. G. Road,
Panaji 403 001, Goa.

NOTES

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote instead of himself and the proxy need not be a member. Proxies, in order to be effective, should be duly completed, stamped and signed and deposited at the Registered Office of the Bank

- not less than 48 hours before the commencement of the Meeting.
2. Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of item of Special Business is annexed.
 3. The Register of Members and Share Transfer Books relating to the equity shares of the Bank will remain closed for 9 days from 17th August 2001 to 25th August 2001, both days inclusive, for the purpose of the AGM.
 4. Queries relating to non-receipt of share certificates after transfer/transmission, rematerialisation, confirmation of demat, dividend/interest warrants etc. may be sent to the Bank's Share Department at 207, Centre Point, Dr. Ambedkar Road, Parel, Mumbai 400 012.
 5. Members are requested to notify change of address (a) to their respective Depository Participant, in respect of shares held in electronic form and (b) to the Bank's Share Department, in respect of shares held in physical form.
 6. Members intending to dematerialise their shareholding are requested to approach any Depository Participant (DP) for opening a Beneficiary Account.
 7. The Bank's shares are listed on:
 - a. Mangalore Stock Exchange, 4th floor, Ramabhavan Complex, Kodialbail, Mangalore 575 003,
 - b. The Stock Exchange, Mumbai P. J. Towers, Dalal Street, Mumbai 400 001 and
 - c. National Stock Exchange, Exchange Plaza, 5th floor, Plot No. C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai 400 051.

Annual Listing fees for the year 2001-2002 has been paid to all the above Stock Exchanges.

8. Members are advised to avail of Nomination facility in respect of their shareholding, for which nomination forms may be obtained from the Share Department at the address given above.
9. Members are requested to bring their copies of the Annual report at the meeting.

ANNEXURE TO THE NOTICE

Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956

Item no. 5

The Board of Directors of the Bank appointed Mr. Siddharth Sitholey as Managing Director & Chief Executive Officer on the terms and conditions set out in the resolution at Sr. no. 5 of the annexed Notice, for a period of three years with effect from the date he would assume charge. In terms of the provisions of the Banking Regulation Act, 1949, a person cannot be a director of more than one Banking Company. Mr. Siddharth Sitholey is presently the Managing Director & Chief Executive Officer of Development Credit Bank Ltd. He is expected to step down in the near future, after which he can assume charge as Managing Director & Chief Executive Officer of the Bank. Approval of the Reserve Bank of India to the appointment of Mr. Siddharth Sitholey is being sought.

Mr. Siddharth Sitholey holds a Masters degree in Science (First class first with a Gold Medal) and is a Certified Associate of the Indian Institute of Bankers. He has a rich and varied experience of a period spanning 35 years in the Banking Sector, commencing with State Bank of India (SBI) in 1966. During his association of 27 years with SBI in India as well as abroad, he held various positions

in Project & Corporate Finance, International Banking, Product Development & Marketing etc. He was on secondment to SBI, New York branch for a period exceeding 5 years. In 1993, he joined Development Credit Bank Ltd. (then Development Co-operative Bank Ltd.) as Managing Director & Chief Executive Officer. He was instrumental in transformation of the bank from a co-operative bank into a full-fledged private sector scheduled Bank in 1995. During his tenure, the Bank witnessed 10 times growth in business. He is primarily responsible for policy, strategic planning, operations and administration of the Bank.

The terms and conditions of the appointment of Mr. Siddharth Sitholey as set out in the resolution may be treated as an abstract in terms of Section 302 of the Companies Act, 1956.

None of the directors of the Bank are concerned or interested in these resolutions.

By order of the Board,
For Centurion Bank Ltd.,

Sanjay Sawant
Company Secretary

Place : Mumbai
Date : 29th June 2001

Registered Office
Durga Niwas,
M. G. Road,
Panaji 403 001, Goa.

THE FOLLOWING INFORMATION IS BEING FURNISHED IN TERMS OF CLAUSE 49 OF THE LISTING AGREEMENT IN RESPECT OF DIRECTORS RETIRING BY ROTATION AND PROPOSED TO BE REAPPOINTED.

1. Mr. S. Venkiteswaran

Mr. S. Venkiteswaran holds Bachelor's degrees in Science and Law. He specialises in International Trade Shipping and Aviation related commercial disputes. A Senior Advocate, he has appeared in most of the High Courts in India and also in the Supreme Court of India. Mr. S. Venkiteswaran was first appointed on the Board on 4th May 1999.

Other directorships	Committee memberships in other Companies
National Stock Exchange of India Ltd. National Securities Clearing Corporation Ltd. National Securities Depository Ltd. Adani Port Ltd. Dolphin Offshore Enterprises (India) Ltd. Pandi Correspondents Pvt. Ltd. Indian Register of Shipping.	National Stock Exchange of India Ltd. - Executive Committee (Capital Market) - Sub-committee to decide on names of Trading Members to be nominated on the Executive Committee - Sub-committee of the Executive Committee to hear trading members and constituents affected by any decision of the Executive Committee with respect to trading done in Maruti Organics Ltd. - Committee for Declaration of Default - Defaults Committee - Disciplinary Action Committee - Approval of Acquisition of Premises (CATT) - Compensation Sub-Committee National Securities Clearing Corporation Ltd. - Audit Committee National Securities Depository Ltd - Audit Committee

2. Mr. Mahesh Vyas

Mr. Mahesh Vyas holds a Bachelor's degree in Science and is the Executive Director of the Centre for Monitoring Indian Economy P. Ltd. He is responsible for overall growth and business development, economic monitoring and providing leadership to research programmes. Mr. Mahesh Vyas was first appointed on the Board on 4th May 1999.

Other directorships	Committee memberships in other Companies
Centre for Monitoring Indian Economy Pvt. Ltd. Zurich Asset Management Company (India) P. Ltd. Teauction.com Ltd. Soltrix India P. Ltd.	—

DIRECTORS' REPORT

**To the Shareholders,
Centurion Bank Ltd.,**

Your Directors present the 7th Annual Report together with the Balance Sheet as on 31st March 2001 and the Profit & Loss

Account for the financial year ended on that date.

FINANCIAL PERFORMANCE

The highlights of the financial performance are summarised below:

(Rs. in crores)

Particulars	For the year ended March 31, 2001	For the year ended March 31, 2000
Gross Income (Interest Income plus other Income)	645.39	531.59
Profit before provisions and contingencies	57.81	65.06
Provisions and contingencies	41.77	21.28
Provision for tax	9.02	9.45
Profit after tax	7.02	34.33

APPROPRIATIONS

We provide you below the summary of the appropriations made from the profit after tax.

(Rs. in crores)

Particulars	For the year ended March 31, 2001	For the year ended March 31, 2000
Profit after tax	7.02	34.33
Balance of profit brought forward	36.18	24.54
Amount available for appropriations	43.20	58.87
Transfer to		
● Statutory Reserve	1.76	6.87
● Investment Fluctuation Reserve	—	—
● Other Reserves	—	—
● Proposed dividend	—	14.25
● Tax on proposed dividend	—	1.57
Balance of profit carried forward	41.44	36.18

DIVIDEND

Your Directors have decided not to recommend any dividend for the financial year under review in view of the low levels of profits and the need to conserve the resources.

RIGHTS ISSUE

The Bank's Rights Issue of 10,67,29,134 equity shares of Rs.10 each at a premium of Rs. 2 per share was not subscribed to the minimum extent necessary for allotment, due to extremely adverse capital market conditions during March and April 2001. The Bank has since refunded the subscription moneys to the applicants.

CAPITAL ADEQUACY RATIO

As on 31st March 2001, the Capital Adequacy Ratio of the Bank, based on the norms prescribed by the Reserve Bank of India, stood at 9.61% as against the prescribed minimum requirement of 9%.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro-economic and Industry Developments

The year under review has been an extremely challenging one. The bank rate was reduced to 7% from 8% in April 2000 which was subsequently reversed in July 2000. This arose as a result of the volatility that prevailed in the foreign exchange markets. This period witnessed significant increase in interest rates in the call market. With the stabilization in the forex market through inflows from the India Millennium Deposits towards the end of the year the interest rates softened somewhat.

Coupled with the above, the agricultural performance was also not very satisfactory and growth in

industrial output slipped as compared to the previous year. This had its impact in terms of the credit offtake from the banking system. The banking sector witnessed an extremely competitive environment with a number of new products/ service launches with aggressive marketing for both credit and service products. This necessarily resulted in a wider choice to the borrowers at lower rates, putting pressure on the spreads.

The RBI had been hinting at a lower lending rate regime by way of reduction in CRR and other announcements. This had its impact on the lending rates, but the deposit rates continued to be sticky.

This period also witnessed significant volatility in the equity markets. The close of the financial year saw a major turmoil, with the market dropping precipitously due to the adverse development in the capital market. This affected the co-operative banking sector in the State of Gujarat which in turn had its impact on the banking system.

The above developments have created a tougher credit and investment environment for the banks, bringing to the fore once again the need for strong risk management policies.

Financial and operating performance

The year under review witnessed a significant drop in the after tax profits from a level of Rs. 34.33 crores to Rs. 7.02 crores. The decline in the profits is attributable to the substantial increase in provisions and contingencies from Rs. 21.30 crores to Rs. 41.77 crores, both towards provisions for non-performing assets and

provisions for diminution in the value of securities.

The gross income for the year increased by 21%. However, while the interest income went up by 24%, the other income only grew by 10%. The growth in other income was impacted by the adverse market conditions, both in debt and the equity segments.

The non-interest operating expenses rose by 30% as a result of significant expansion of the network of branches, extension counters, offsite and onsite ATMs as well as investments in the technology infrastructure.

The depreciation charges were higher by 47%, resulting from higher levels of capital expenditure, change in RBI policy in respect of depreciation on computers as well as the leased asset block. The above impacted the operating profit, which declined by about 11%.

While the deposit base has marginally increased by about 10%, the demand deposits have grown substantially from 11.5% of the total deposits to 17% of the total deposits. Advances registered a marginal growth of 10%. However, the retail component of the advances has registered a substantial growth of 49%.

During the year under review, the Bank had consciously focused on a policy of replacing high cost large value deposits with low cost retail deposits as well as increase in demand deposits. This is reflected in the increase in retail deposits and demand deposits (though overall the deposit growth has been at 10%). The number of savings and current accounts have shown more than 100% growth, thereby contributing to the increase in retail

and demand deposits. In respect of retail assets, the Bank has established its position as the number one financier in the two-wheeler segment of its portfolio with the total number of vehicles financed crossing 200,000. Similarly in the commercial vehicle and construction equipment segment also the Bank ranks as a major financier. In the channel-financing segment the Bank has established a number of relationships with manufacturers and dealers, enabling the Bank to aggressively market this product and build up the retail asset base.

The Bank, as a matter of conscious policy is selective in the corporate advances segment, given the pressure on spreads but with a focus on transaction processing products.

The Bank has significantly expanded its branch network from 35 to 49 and also the network of ATMs from 41 to 98 from March 2000 to March 2001. As on date, the number of branches and ATMs stand at 52 and 104 respectively. The Bank has set up 8 extension counters at strategic locations. The aforesaid expansion of network has significantly contributed to the increase in the retail customer accounts.

During the year, the Bank launched a debit card under the Master Card franchise, which also serves as an ATM card. This card is widely accepted at ATMs of all banks which are part of the Master Card network both in India and abroad, as well as in merchant establishments who are part of the debit card network. This resulted in the number of cards under issuance growing by about 215% during the year.

The above retail thrust is being maintained with the number of cards under issuance registering significant growth month on month. Further, the Bank is also planning to expand its branch network by adding another 8 branches for which licenses are already being held as well as offsite and onsite ATMs and extension counters.

During the year under review, the Bank was appointed as a clearing bank by both the Stock Exchange, Mumbai and National Stock Exchange for the cash and derivatives segments. The Bank was in a position to attract a number of broker accounts with the settlement accounts being maintained with the Bank which also contributed to an increase in deposits, both term and current. With a focus on the derivatives segment after the banning of the deferral products the Bank expects to see growth in volumes in the derivatives segment and benefit from such developments.

On the treasury front in both the forex and local currency markets, active presence was maintained. The Bank added on clients for Constituent Security General Ledger account services, which also contributed to the increase in float funds.

The Bank is committed to strengthening its technology base on a continuing basis. With the above objective, the Bank has installed a number of new and sophisticated hardware and software systems in Treasury - front office and back office, cash management, retail asset products, branch front offices, capital market division as well as in its shared network operations for the ATMs.

The above has enabled the Bank to offer on-line real time money transfer services, 24 hour availability of ATMs, launch of the debit card under the Master Card franchise and improvements in the quality of services offered to customers across the branches.

The Bank continues to focus on its technology with planned upgradation of its core banking systems, creation of data centre with data warehousing facilities and planned launch of internet banking and phone banking.

The Bank is also in the process of developing such technology based services for other banks in specific areas such as card management and core banking as an application service provider.

RISK MANAGEMENT

The Bank manages its risk exposure in its various segments of business based on a stated policy in terms of exposure limits across the various segments of businesses it is in.

The Bank has clearly laid down parameters for target market criteria, both in the wholesale and retail assets. The Bank has also set up a credit scoring software in the corporate banking segment. In the retail segment, the risk management is through a close tracking of the account performance with trigger events set for personal follow ups, legal notices, repossession and sale.

In the treasury, active risk management practices are being followed on an on-line basis with the installation of sophisticated software for tracking counter party exposures, currency exposures, dealing limits, stop loss limits, intra

day and overnight exposures, etc. The treasury actively manages the portfolio based on anticipated interest rate movements and market trends.

The Bank's exposure in the wholesale segment is well diversified with 28 industries. Of these, in respect of 22 industries, the individual advances are less than 3% of the total advances. In case of 3 industries, the individual advances are between 5% and 7% of the total advances and in case of the remaining industries, it is between 7% and 10%. On the retail side, the portfolio is extremely well diversified with the risk spread over 200,000 accounts.

As at 31st March 2001, the Bank's ratio of net non-performing assets to net advances was at a level of 2.96%, a marginal increase over the previous year figure of 2.70%. The Bank has been following a policy of aggressive provisioning for such non-performing assets while simultaneously continuing its efforts on recoveries.

The Bank has a Financial Support Arrangement with TCFC Finance Ltd. (TFL) under which the Bank has made a claim of Rs. 29.92 crores on TFL, which has been accepted by TFL. The claim is recoverable from TFL as per the procedure laid down in the Financial Support Agreement. The figure of net NPA ratio is after setting off value of this claim as set out separately in the Notes to Accounts.

In the capital market segment, the Bank has significantly reduced its exposure from a level of Rs. 532 crores by way of both overdraft and guarantees as on 31st December 2000 to a level of Rs. 394 crores

as of 31st March 2001. Further, as on the date of this report, it stands further reduced to a level of Rs. 280 crores. This exposure will be further reduced with the steps being taken by the Bank.

In respect of some capital market participants there has been a shortfall in securities to the extent of Rs. 29.72 crores as on 31st March 2001 resulting from the shortfall in the value of the securities pledged. The Bank is in discussions with the aforesaid borrowers for recoveries, failing which the Bank would initiate appropriate legal action. This matter has also been referred to in the Notes to Accounts. Your Directors refer to the comment by the Auditors in their report regarding their inability to express an opinion in this matter. The matter has been fully explained to the Auditors including the circumstances under which such shortfall arose and the steps that are being taken by the Bank. Your Directors view this as a factual statement by the Auditors.

The Directors considered that no provisioning need be made for the year ended 31st March 2001 in view of the fact that the Bank is engaged in discussions with the parties for recoveries and these accounts are not due for provisioning as per RBI norms based on tenor on the Balance Sheet date.

OUTLOOK

Your Directors would certainly have been happier if the Bank had been able to post a far better result than what has been reported here.

The Directors are actively in discussions to improve the performance of the Bank focusing on both the strategic side and the operations side. With the

aggressive provisioning that has been made by the Bank in respect of non-performing accounts, the Bank has put in place measures for controlling the non-performing accounts as well as measures for recoveries. The network of branches, extension counters and ATMs that have been put in place during last year as well as new ones which are added in the current year will contribute significantly to growth in retail assets and deposits. In fact the costs that have been incurred and are being incurred in the current year should see results both in the current year as well as in the future years.

The continuing thrust in the retail asset side with higher spreads coupled with reduction in average cost of funds should see improvement in profitability of the Bank in the coming years.

Your Directors are also addressing the issue of strengthening the capital base of the Bank through various means recognising the fact that the Rights Issue did not go through.

Apart from the above, the Bank has put in place state of the art technology systems and software and is also launching new products in the current year.

With the above in position and the steps that your Directors propose to take in the near future, the Directors are quite hopeful of improving the Bank's future.

INTERNAL CONTROL AND AUDIT

The Bank has a separate internal audit and compliance department which undertakes regular internal audit and inspection of all operations of the Bank. It also has a system of concurrent audit covering 65% of the Bank's

activities. The Bank also has in place a system of offsite monitoring and surveillance given the on-line access to all branch transactions. The Bank has built up a system of internal controls, audit trails, branch rating on business performance, operations, compliance and housekeeping which enables the Bank to identify the necessary remedial measures for improving branch performance. Independence of audit and compliance is ensured by Audit Committee of the Board that monitors the performance of this function.

HUMAN RESOURCES

The Bank has on its roll 821 personnel as on 31st March 2001 as compared to 712 of the previous year. It should be noted that despite the significant expansion in network of branches, extension counters and ATMs as well as new products and technology initiatives, the Bank has been able to maintain the growth in manpower requirements just at a level of 13%.

The Bank also focusses on providing active training to the staff through both in-house and external training programmes.

STATUTORY DISCLOSURES

1. Particulars of Employees u/s 217(2A) :

The information required under the provisions of Section 217(2A) of the Companies Act, 1956 and the rules made thereunder, is given in the Annexure appended hereto and forms part of this Report. However, in terms of Section 219(1)(b)(iv) of the Act, the Report and Accounts are being sent to the Members excluding the aforesaid Annexure.