



***Annual Report 2001 - 2002***

**Eighth Annual General Meeting of the Members of  
Centurion Bank Limited to be held on  
Monday, 11th November 2002 at  
Hotel Mandovi, Panaji 403 001, Goa at 3.00 p.m.**

### **BOARD OF DIRECTORS (AS ON 28<sup>TH</sup> SEPTEMBER 2002)**

<b>V. Janakiraman</b> .....	<i>Chairman &amp; Managing Director</i>
<b>Teo Soon Hoe</b> .....	<i>Director</i>
<b>Chee Jin Kiong</b> .....	<i>Director</i>
<b>S. Venkiteswaran</b> .....	<i>Director</i>
<b>Mahesh Vyas</b> .....	<i>Director</i>
<b>Jayant Dang</b> .....	<i>Nominee – Asian Development Bank</i>
<b>Kamlesh Vikamsey</b> .....	<i>Director</i>
<b>C. G. Somiah</b> .....	<i>Director</i>
<b>Shital Kumar Jain</b> .....	<i>Director</i>
<b>Davendra Mittal</b> .....	<i>Alternate Director to Mr. Jayant Dang</i>

#### **COMPANY SECRETARY**

Rupesh Saraiya

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#### **AUDITORS**

M/s. Chandabhoy & Jassoobhoy  
Chartered Accountants

M/s. Lakhani & Co.  
Chartered Accountants

#### **REGISTERED OFFICE**

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

#### **CORPORATE OFFICE**

1201, Raheja Centre,  
Nariman Point,  
Mumbai 400 021.

## NOTICE

**NOTICE** is hereby given that the Eighth Annual General Meeting of the Members of Centurion Bank Limited will be held on Monday, 11<sup>th</sup> November 2002 at Hotel Mandovi, Panaji 403 001, Goa, at 3.00 p. m. to transact the following business:

### ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet as at 31<sup>st</sup> March 2002 and the Profit & Loss Account for the year ended on that date together with the Directors' Report and Auditors' Report thereon.
2. To appoint a Director in place of Mr. Teo Soon Hoe, who retires by rotation and being eligible, offers himself for re-appointment.

### SPECIAL BUSINESS

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

RESOLVED THAT pursuant to the applicable provisions of the Banking Regulation Act, 1949 and the Companies Act, 1956, consent of shareholders be and is hereby accorded to the appointment of Mr. V. Janakiraman as Chairman & Managing Director of the Bank on the terms and conditions as set out hereunder :

- I. Period of appointment:** Initially for six months from the date of assumption of charge i.e. w.e.f. 4<sup>th</sup> January 2002 till 3<sup>rd</sup> July 2002 and re-appointment for a further period of six months effective from 4<sup>th</sup> July 2002 till 3<sup>rd</sup> January 2003.

#### II. Remuneration and perquisites:

1. Salary : Rs 2,00,000 p.m.
2. Entertainment Allowance : Membership of one club
3. Accommodation : Furnished Accommodation provided by the Bank
4. **Use of Bank's car**
  - i. for official purpose : Free use of Bank's car
  - ii. for private purposes, on compensating the Bank with suitable amount : Reimbursement of salary and perquisites of driver of sum not exceeding Rs 6,000 p.m.
5. Superannuation : 15% of the salary
6. Gratuity : 1/2 month's salary for every year of completed service
7. Provident Fund : 12 % of salary
8. Medical benefits : As per Bank's policy
9. Leave travel Allowance : Rs 2,00,000
10. Other benefits : Two telephones and one mobile

RESOLVED FURTHER THAT in the event of any change in the ownership structure of the Bank or any recapitalisation of the Bank, involving participation of new Institutional Investor(s), Mr. Janakiraman's appointment as Chairman & Managing Director may be terminated by a notice of two weeks. However, in such an event, Mr. Janakiraman would be entitled to the full Leave Travel Allowance of Rs 2,00,000 even though he would not have completed one full year of service with the Bank.

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 issues pertaining to the payment of remuneration to Mr. Janakiraman and any other matter incidental thereto, as it may, in its absolute discretion, deem fit, without seeking further approval of the shareholders.

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

RESOLVED THAT M/s. V. Sankar Aiyar & Co., Chartered Accountants, in respect of whom the Bank has received a Special Notice pursuant to Section 225 of the Companies Act, 1956, be and are hereby appointed as Auditors of the Bank to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting, on such remuneration as may be fixed by the Board of Directors for the purpose of audit of the Bank's accounts at its Head Office and all its Branch Offices.

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

RESOLVED THAT Mr. Kamlesh Vikamsey be and is hereby appointed as a Director of the Bank.

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

RESOLVED THAT Mr. C. G. Somiah be and is hereby appointed as a Director of the Bank.

7. **To consider and if thought fit, to pass with or without modifications(s), the following resolution as an Ordinary Resolution:**

RESOLVED THAT Mr. Shital Kumar Jain be and is hereby appointed as a Director of the Bank.

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

RESOLVED THAT Mr. Chee Jin Kiong be and is hereby appointed as a Director of the Bank.

By Order of the Board of Directors

**Rupesh Saraiya**  
Company Secretary

**Place :** Mumbai

**Date :** September 28, 2002

**Registered Office :**

Durga Niwas,  
Mahatma Gandhi 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 a Proxy need not be a Member. The Instrument appointing a Proxy should, however, be deposited at the Registered Office of the Bank not less than 48 hours before the commencement of the Meeting.
2. The Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956 in respect of items 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 from Monday, 4<sup>th</sup> November 2002 to Monday, 11<sup>th</sup> November 2002 (both days inclusive).
4. Queries relating to non-receipt of share certificates after transfer/transmission, rematerialisation, confirmation of demat, dividend/interest warrants etc. may be addressed to Bank's Share Department at 207, Centre Point, Dr. Ambedkar Road, Parel, Mumbai 400 012.
5. Members are requested to notify change of address, if any, (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. Members are requested to bring their copies of the Annual Report at the meeting.
8. Members are requested to bring the Attendance Slips duly filled in for attending the meeting.

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

**Item no. 3**

Mr. V. Janakiraman was initially appointed as Chairman & Managing Director by the Board of Directors of the Bank for a period of Six months w.e.f. 4<sup>th</sup> January 2002. The Board of Directors re-appointed Mr. Janakiraman as Chairman & Managing Director of the Bank for a further period of Six months w.e.f. 4<sup>th</sup> July 2002, subject to approval of the shareholders at their General Meeting.

Approval of shareholders is sought for appointment of Mr. Janakiraman as Chairman & Managing Director and payment of remuneration to him as set out in resolution at Item no. 3.

Your Directors recommend the resolution for approval of the members.

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

Mr. Janakiraman is interested in the resolution as it relates to his appointment. None of the other Directors of the Bank is, in any way, concerned or interested in the resolution.

**Item no. 4**

M/s. Chandabhoy & Jassoobhoy, Chartered Accountants and M/s. Lakhani & Co., Chartered Accountants have been the Joint Statutory Auditors of the Bank since 1998. As per the Regulations of the Reserve Bank of India (RBI), the same Auditors cannot be re-appointed for a period beyond four years. Accordingly, it is proposed to appoint M/s. V. Sankar Aiyar & Co., Chartered Accountants, as the new Statutory Auditors of the Bank. Necessary approval of the RBI under the Banking Regulation Act, 1949 has already been obtained in this regard.

Your Directors recommend the appointment of M/s. V. Sankar Aiyar & Co., Chartered Accountants, as the Bank's Statutory Auditors.

The remuneration payable to M/s. V. Sankar Aiyar & Co., Chartered Accountants, may be fixed by the Board of Directors, based on the recommendations of the Audit Committee.

None of the Directors of the Bank is, in any way, concerned or interested in the resolution.

**Item no. 5**

Mr. Kamlesh Vikamsey was appointed as an Additional Director by the Board of Directors of the Bank. In terms of the provisions of Section 260 of the Companies Act, 1956, Mr. Vikamsey shall hold office upto the date of the Annual General Meeting of the Bank. The Bank has received a valid notice and requisite deposit from a member of the Bank pursuant to section 257 of the Companies Act, 1956 proposing his candidature for the office of Director.

Your Directors recommend the resolution for approval of the members.

Mr. Vikamsey is interested in the resolution as it relates to his appointment. None of the other Directors of the Bank is, in any way, concerned or interested in the resolution.

#### Item no. 6

Mr. C. G. Somiah was appointed as an Additional Director by the Board of Directors of the Bank. In terms of the provisions of Section 260 of the Companies Act, 1956, Mr. Somiah shall hold office upto the date of the Annual General Meeting of the Bank. The Bank has received a valid notice and requisite deposit from a member of the Bank pursuant to section 257 of the Companies Act, 1956 proposing his candidature for the office of Director.

Your Directors recommend the resolution for approval of the members.

Mr. Somiah is interested in the resolution as it relates to his appointment. None of the other Directors of the Bank is, in any way, concerned or interested in the resolution.

#### Item no. 7

Mr. Shital Kumar Jain was appointed as an Additional Director by the Board of Directors of the Bank. In terms of the provisions of Section 260 of the Companies Act, 1956, Mr. Jain shall hold office upto the date of the Annual General Meeting of the Bank. The Bank has received valid notice and requisite deposit from a member of the Bank pursuant to section 257 of the Companies Act, 1956 proposing his candidature for the office of Director.

Your directors recommend the resolution for approval of the members.

Mr. Jain is interested in the resolution as it relates to his appointment. None of the other Directors of the Bank is, in any way, concerned or interested in the resolution.

#### Item no. 8

Mr. Chee Jin Kiong was appointed as a Director by the Board of Directors of the Bank. In terms of the provisions of Section 260 of the Companies Act, 1956, Mr. Chee Jin Kiong shall hold office upto the date of the Annual General Meeting of the Bank. The Bank has received a valid notice and requisite deposit from a member of the Bank pursuant to section 257 of the Companies Act, 1956 proposing his candidature for the office of Director.

Your Directors recommend the resolution for approval of the members.

Mr. Chee Jin Kiong is interested in the resolution as it relates to his appointment. None of the other Directors of the Bank is, in any way, concerned or interested in the resolution.

By Order of the Board of Directors

**Rupesh Saraiya**  
Company Secretary

**Place :** Mumbai  
**Date :** September 28, 2002

**Registered Office :**  
Durga Niwas,  
Mahatma Gandhi Road,  
Panaji 403 001, Goa.

### The following information is being furnished in terms of Clause 49 of the Listing Agreement in respect of proposed appointment/reappointment of Directors.

#### a. Mr. V. Janakiraman

Mr. V. Janakiraman holds a Master degree in Science and is a Fellow Member of the Indian Institute of Bankers. He has a rich and varied experience of over 38 years in the Banking sector, most of which is with the State Bank of India (SBI).

In 1998, Mr. Janakiraman led the core team of SBI for the issue of Resurgent India Bonds, which mobilised over US\$ 4.23 billion and was lauded in the financial circles in India and abroad. He was also a key member of the internal management group for SBI's equity and bonds issue in 1994, which was a pioneering effort in many respects.

Mr. Janakiraman was first appointed as the Chairman & Managing Director of Centurion Bank for an initial period of six months w.e.f. 4<sup>th</sup> January 2002 and was re-appointed for a further period of six months w.e.f. 4<sup>th</sup> July 2002.

In terms of Section 10B of the Banking Regulation Act, 1949, Mr. V. Janakiraman does not hold any Directorship in any other Company.

#### b. Mr. Kamlesh Vikamsey

Mr. Kamlesh Vikamsey is a Chartered Accountant and a senior partner of Khimji Kunverji & Co., Chartered Accountants, Mumbai. Mr. Vikamsey is a member of the Central Council of the Institute of Chartered Accountants of India (ICAI). Mr. Vikamsey has a rich and varied professional experience of 20 years in different areas including Statutory and Tax Audits of Nationalised Banks and Foreign Banks (Indian Operations), Branch Audits, Concurrent Audit etc.

Mr. Vikamsey has been appointed as an Additional Director on the Board of the Bank w.e.f. 28<sup>th</sup> March 2002.

The particulars in respect of Mr. Vikamsey's Directorships and Committee memberships in other Companies are as follows:

Directorships in other Companies*	Committee memberships in other Companies*
Navneet Publications (India) Ltd.	<b>Navneet Publications (India) Ltd.</b> - Audit Committee (Chairman) - Investors Grievance Committee

\* does not include foreign companies and private limited companies.

**c. Mr. C. G. Somiah**

Mr. Somiah, presently consultant to the World Bank, Washington, holds a Bachelor degree in Science and has a rich and varied experience of nearly 5 decades since his joining Indian Administrative Service. He has served in different senior capacities under the Central and State Governments. Mr. Somiah was associated with Planning Commission, Department of Company Affairs, Company Law Board administering Companies Act and MRTP Act. Mr. Somiah held senior positions like Central Vigilance Commissioner, Comptroller & Auditor General of India. Mr. Somiah is the first Indian appointed as Chairman of United Nations' Board of Auditors.

Mr. Somiah has been appointed as an Additional Director on the Board of the Bank w.e.f. 28<sup>th</sup> March 2002.

Mr. Somiah does not hold any Directorship in any other Company.

**d. Mr. Shital Kumar Jain**

Mr. Shital Kumar Jain holds a Master degree in Business Administration from Indiana University, U.S.A. Mr. Jain has more than 31 years of experience in varied Banking areas like Risk Management, Relationship Management, Retail Banking and Corporate Banking.

Mr. Jain has been appointed as an Additional Director on the Board of the Bank w.e.f. 24<sup>th</sup> May 2002.

The particulars in respect of Mr. Jain's Directorships and Committee memberships in other Companies are as follows:

Directorships in other Companies*	Committee memberships in other Companies*
R. S. Software India Ltd.	<b><u>R. S. Software India Ltd.</u></b> - Human Resource Committee

\* does not include foreign companies and private limited companies.

**e. Mr. Chee Jin Kiong**

Mr. Chee Jin Kiong holds a Bachelor degree in Accountancy and is a Certified Public Accountant. Initially, Mr. Chee Jin Kiong worked for over 7 years in different capacities in the area of Accountancy. Mr. Chee Jin Kiong has over two decades' rich and varied experience in Banking through his association with Keppel Group. Presently, he is General Manager (China Projects) of Keppel Corporation Ltd.

Mr. Chee Jin Kiong has been appointed on the Board of the Bank w.e.f. 27<sup>th</sup> September 2001 as a Nominee of the Keppel Group, Singapore.

Mr. Chee Jin Kiong does not hold any Directorship in any other Company in India.

**f. Mr. Jayant Dang**

Mr. Jayant Dang is an M.B.A. from Asian Institute of Management, Manila and B.Tech from I.I.T., Kanpur. Mr. Dang is associated with Asian Development Bank as Senior Restructuring Specialist. Mr. Dang has more than 20 years of experience in varied areas of Banking and Non Banking Finance. Mr. Dang was first appointed as an Alternate Director to Mr. Frank Polman, Nominee of Asian Development Bank.

On resignation of Mr. Frank Polman as a Nominee, Asian Development Bank has nominated Mr. Dang as their Nominee on the Board of the Bank w.e.f. 29<sup>th</sup> January 2002.

The particulars in respect of Mr. Dang's Directorships and Committee memberships in other Companies are as follows:

Directorships in other Companies*	Committee memberships in other Companies*
SBI Capital Markets Ltd.	Nil

\* does not include foreign companies and private limited companies.

**g. Mr. Davendra Mittal**

Mr. Davendra Mittal holds a Post Graduate Diploma in Management from IIM, Ahmedabad and a Bachelors degree in Electronics & Communication from Delhi Institute of Technology. Some of the assignments undertaken by Mr. Mittal are in the field of infrastructure/corporate advisory, project appraisal, credit syndication etc.

Mr. Mittal has been appointed on the Board of the Bank as an Alternate Director to Mr. Jayant Dang w.e.f. 29<sup>th</sup> January 2002.

The particulars in respect of Mr. Mittal's Directorships and Committee memberships in other Companies are as follows:

Directorships in other Companies*	Committee memberships in other Companies*
Andhra Petrochemicals Ltd.	Nil

\* does not include foreign companies and private limited companies

**h. Teo Soon Hoe**

Mr. Teo Soon Hoe graduated with a degree in Business Administration from the University of Singapore. Mr. Soon Hoe is associated with Keppel Group since 1975.

Mr. Soon Hoe is Group Finance Director of Keppel Corporation Ltd. He is also a Director of several companies within the Keppel Group.

Mr. Soon Hoe was first appointed on the Board of the Bank on 11<sup>th</sup> January 1995.

Mr. Soon Hoe does not hold any Directorship in any other Company in India.

## DIRECTORS' REPORT

To,  
The Shareholders,  
Centurion Bank Limited

Your Directors present herewith the Eighth Annual Report together with the Audited Balance Sheet as at 31<sup>st</sup> March 2002 and the Profit and Loss Account for the year ended on that day.

The highlights of the performance of the Bank are as under:  
(Rupees in Crores)

Particulars	For the Year Ended March 31 <sup>st</sup> , 2002	For the Year Ended March 31 <sup>st</sup> , 2001
Gross Income (Interest Income Plus Other income)	552.94	645.39
Gross Expenditure	538.53	587.58
Operating Profit	14.41	57.81
Provisions and Contingencies	176.25	50.79
Net Profit(loss) after Tax	(161.84)	7.02

The year under review was a difficult year for the Bank. Due to the adverse conditions in the equity markets, large provisions had to be made towards the potential losses on the Bank's exposure by way of loans to stock brokers as well as by way of investments made in the equity market during the previous years, apart from increased provisions made on corporate advances. Large extra-ordinary provisions relating to previous years [mainly relating to the assets taken over on amalgamation of 20<sup>th</sup> Century Finance Corporation Ltd. (TCFC) with the Bank] also had to be made during the year, the details of which have been provided in this report. It is, however, encouraging to note, that despite the various constraints faced by the Bank during the year, the Bank posted an operating profit for the year.

The Bank has undertaken a review of the structure and composition of its assets and liabilities. Efforts have been made to move over gradually from low yielding assets (corporate loan book) to higher yielding but low risk retail portfolio and a fair measure of success has been achieved in this endeavour. Similarly, on the liabilities front, the Bank has been consciously directing its endeavours towards attracting more and more of low cost and stable retail deposits. The Bank has also taken steps to shed some of its non-banking assets which at present are yielding a low return while entailing 100 percent capital adequacy. The Bank has, during the current year, identified and disposed of 34 windmills for a total consideration of Rs 25.01 crores. These windmills came into the possession of the Bank as a result of the merger of erstwhile TCFC with the Bank. The Bank has also identified certain other fixed assets /

immovable properties for disposal to release resources for more profitable deployment. The management have undertaken an exercise for rationalising the network with the twin objectives of enhancing customer convenience and cost reduction.

The Directors believe that the difficulties faced by the Bank during the year, would not recur in future and therefore, the performance of the Bank during the current year and in the years to come is expected to improve gradually. With its strong focus on the retail segment, its good distribution network, a large customer base of over 4.5 lakhs accounts, its advanced technology platform and its commitment to excellence in customer service and with infusion of new capital, the Bank is expected to post increasing profits in future.

Now that the Bank has recognised and provided for / written off in respect of the past problems, your Directors are sanguine about attracting fresh capital, alluded to in paragraph 5.1 of the Auditors' Report, with the support of the institutional stake holders such as Asian Development Bank, Manila; Kephinace Investment (Mauritius) Pte Ltd. (Keppel) and International Finance Corporation, Washington. The Bank can certainly progress at a faster rate with the infusion of additional capital.

### DIVIDEND

In view of the losses suffered, your Directors have decided not to recommend any dividend.

### MANAGEMENT DISCUSSION AND ANALYSIS

#### Economy

During the year 2001-02, a slow down in the economic activity was a feature of the global environment. Against this backdrop, the Indian economy recorded a real GDP growth of 5.4 percent which is a clear pointer to the resilience of the economy. The increase in the real GDP growth from 4.0 percent in 2000-01 to 5.4 percent during 2001-02 was largely helped by a strong growth in agriculture. The manufacturing sector, however, suffered deceleration. The services sector did better during the year recording a growth of 6.2 percent, up from 5 percent during the previous year.

The services sector continued to account for the major portion of the GDP, with a share of 54.2 percent. Agriculture & allied activities and industry contributed 24.3 percent and 21.5 percent to the GDP respectively.

The inflation was kept under control during the year with the increase in rate of inflation, measured by Wholesale Prices, being 1.6 percent as against 4.9 percent in the same period last year.

In the external sector there were positive developments. Despite the global slow down and the uncertainties created by the tragic incidents in the USA, the balance of payments (BOP) recorded a surplus for the sixth straight year. The

current account also recorded a surplus after a period of more than two decades. The capital inflows contributed to the increase in the foreign exchange reserves which grew to about US \$ 54 billion. The exchange rate of the Rupee remained generally stable.

### Financial Sector

Reforms in the financial sector continued during the year. Several measures to further strengthen the financial system were initiated. Liquidity continued to remain easy during the year. Reserve Bank of India (RBI) reduced the bank rate from 7 percent to 6.50 percent in October 2001. They also reduced the Cash Reserve Ratio (CRR) to be maintained by the banks by 200 basis points to 5.50 percent during the year. The CRR has been further reduced to 5 percent from 1.06.2002. These measures together with some other measures initiated by RBI ensured that, generally during the year, adequate liquidity was available to meet the credit growth and to support new investments. These policies have been continued during the current year also.

All scheduled commercial banks recorded a growth in aggregate deposits of 14.2 percent which was, however, lower than the growth of 15.3 percent (net of India Millennium Deposits) recorded during 2000-01. The growth in bank credit (Non-food credit) was lower at about 13.6 percent as compared to 14.9 percent during the previous year. The deceleration in the growth of bank credit (Non-food credit) reflected the sluggish conditions in the industrial sector of the economy. The growth in aggregate flow of funds from the banks, including investments in equity and debt and commercial paper to commercial sector, was also lower at about 12.4 percent as compared to the 16.3 percent recorded during the previous year. As a result of comfortable liquidity conditions, the interest rates on bank deposits recorded further decreases and, at the longer ends, such decreases were of the order of 1.50 percent. Correspondingly, the lending rates also declined and thanks to the liberalisations announced by RBI, banks began to lend more at sub PLR (Prime Lending Rate) rates. As a result of the easy money conditions, the yields on 10 year benchmark Government paper fell by about 300 basis points during the last 18 months.

The equity markets were sluggish in tune with the global slow down and the deceleration in the industrial activity in India. There were very few new public issues as corporates were able to tap resources in the private placement market. The External commercial borrowings were at a low key. The secondary markets remained depressed.

### Operating and Financial Performance

#### Gross Interest income :

The gross interest income of the Bank declined from Rs.547.30 crores in 2000-2001 to Rs. 482.18 crores in 2001-2002. This decline was mainly due to the fall in the interest income on investments from Rs.219.75 crores during the year 2000-2001 to Rs. 148.15 crores during the year

2001-2002 due to reduction in the investments from Rs.2156.87 crores as on 31.03.2001 to Rs.1227.22 crores as on 31.03.2002.

The gross interest income on advances decreased from Rs. 262.14 crores during 2000-2001 to Rs. 253.66 crores during 2001-2002 due to a gradual reduction in the loan portfolio during the year. The level of advances declined from Rs. 2028.40 crores as on 31.03.2001 to Rs. 1625.97 crores as on 31.03.2002. It may be seen that the fall in the gross interest income from advances has been far less in comparison with the fall in the level of advances. This is because the Bank consciously decided to shrink its corporate loan book, where the interest yields are lower and to shift to retail loans where the interest yields are higher.

#### Interest expended:

The total interest expenditure declined from Rs 445.15 crores in 2000-01 to Rs. 378.69 crores during 2001-02. The interest paid on deposits came down from Rs. 326.59 crores during the year 2000-2001 to Rs. 297.90 crores during the year ended 31.03.2002. While the decrease is due to the decrease in the total deposits of the Bank from Rs. 4257.43 crores as on 31.03.2001 to Rs. 3534.99 crores as on 31.03.2002, the reduction in the interest expenditure has not been proportional to the reduction in the deposits because of the lag effect in a reducing interest rate scenario on interest paid on deposits. The Bank was, however, able to bring down the borrowings from RBI/other banks/other institutions & agencies from Rs 1070.67 crores to Rs 91.91 crores, thereby effecting a reduction in interest paid on such borrowings from Rs 118.56 crores to Rs 80.79 crores.

#### Net Interest Income:

The net interest income of the Bank increased from Rs. 102.15 crores during the year ended 31.03.2001 to Rs. 103.49 crores during the year ended 2001-2002 despite the general decrease in the interest rates. This was made possible mainly by a change in the composition of advances - in favour of the higher yielding retail portfolio.

#### Other Income (Non interest) :

The other income decreased from Rs. 98.09 crores during 2000-2001 to Rs.70.76 crores during 2001-2002. This is mainly due to the decrease in profit on sale of investments, which was Rs. 51.44 crores during the year 2000-2001 as against Rs. 28.91 crores during the year under review. During the year ended 31.03.2001, the Bank made a profit of Rs.21.50 crores in the trading operations relating to its equity investments - whereas during 2001-02 the conditions in the secondary markets were unfavourable for trading operations and the Bank incurred a loss of Rs 3.28 crores while selling some of its equity investments.

Also, the income from foreign exchange transactions declined from Rs.10.71 crores during the year 2000-01 to Rs. 8.69 crores during the year 2001-02 due to the fall in the trading volume relating to customer transactions and lack of trading opportunities.



#### Operating Expenses:

The operating expenses increased from Rs. 79.63 crores during the year 2000-2001 to Rs.98.97 crores during the year under review. The major reasons are increase in staff costs from Rs. 15.33 crores in 2000-01 to Rs.19.83 crores in 2001-02 due to increase in manpower hired mainly for the new branches (8) and extension counters (8) opened during the year and the performance related annual increments to staff. Similarly, the infrastructure costs of Rent, rates and taxes also increased from Rs. 10.52 crores in 2000-01 to Rs. 13.02 crores in 2001-02 due to the expanded branch network, moving of the IT set up to a better and secure location and general increase in the contracted rental rates on existing properties. In relation to technology, the year saw expansion of network, implementation of several new initiatives like data mining and warehousing solutions, upgrade of softwares like retail lending module etc; which has resulted in increase in expenses. The other cost increases are in areas connected with expansion of Retail business.

#### Provisions and Contingencies:

The Bank has made adequate provisions towards non performing assets and diminution in value of investments as per regulatory norms. The Bank has also made additional provisions in certain cases based on its assessment of the extent of impairment of the asset. Referring to para 5.3 of the Auditors' Report, in the case of export credits, the Bank has reckoned the ECGC claims, which we believe are valid and which claims have not been rejected, as allowed under RBI guidelines.

The major items of provisions, the nature of which are normal in the industry, and made by the Bank in the accounts are :

- a) Towards non performing assets at Rs 76.65 crores (which includes an amount of Rs 32.00 crores being provisions on capital market related loans), and
- b) Provisions for the diminution in the value of investments of the Bank at Rs 9.46 crores.

#### Provisions and Contingencies and Write-offs - Extra Ordinary items:

- A) Provisioning and write-off on account of reconciliation differences relating to certain General Ledger accounts:

The Bank has on its books, the remaining part of the assets and liabilities which were taken over from 20<sup>th</sup> Century Finance Corporation Limited (TCFC), a non banking financial company acquired through an approved scheme of amalgamation and merger as on 1<sup>st</sup> January 1998, which was the appointed date for the merger, the effective date being 14<sup>th</sup> May 1999. The total book value of such assets and liabilities were Rs 770.43 crores on the appointed date of merger.

While reconciling the General Ledger balances relating to the undernoted accounts with the aggregates of individual outstandings relating to different customers (loan amounts due to the Bank and deposits placed with

the Bank), during the last quarter of the year, large differences were discovered.

1. Term Loans (grouped in the Balance Sheet as part of "advances -schedule 9").
2. Term deposits (grouped in the Balance Sheet as part of "deposits-others - schedule 3").
3. Security deposits accepted from lessees/hirers (grouped in the Balance Sheet as part of "other liabilities and provisions - schedule 5").

A detailed scrutiny undertaken by the management in the last quarter of the financial year revealed that such large differences existed in these accounts even at the time of merger i.e. as on 14.05.99. This also revealed that a complete reconciliation of the assets and liabilities taken over from the erstwhile TCFC by the Bank, had not been carried out. Further, periodical reconciliation of these accounts, which were maintained at the central office, was also not carried out. The matter came up for the first time before the Board only during the last quarter of the year 2001 - 2002.

Though vigorous efforts were made to reconcile the differences, a complete reconciliation of all differences was not possible due to the existence of these differences even in the earlier years stretching back to pre-merger period. In the circumstances write-offs / provisions have been effected / made as under in the accounts for the year :-

1. An amount of Rs 47.18 crores being the shortfall in the loan assets as compared to the General Ledger balance has been written off. We may add in this connection that these loans were sanctioned in the form of Hire Purchases to a large number of customers.
  2. An amount of Rs 17.01 crores being the shortfall in the General Ledger balance of Term Deposits as compared to the aggregate of live Term Deposits on the books of the Bank, has been provided for.
  3. An amount of Rs 2.39 crores being the shortfall in the General Ledger balance of Security Deposits as compared to the aggregate of live Security Deposits in the books of the Bank, has been provided for.
- B) Additional Depreciation on leased assets:

A provision of Rs 19.34 crores being additional depreciation on leased assets portfolio taken over from the erstwhile TCFC as part of the merger has been made. This was necessitated due to the fact that the policy adopted for providing depreciation on such assets till 31.3.2001 did not ensure that in all individual cases of lease, on expiry of the lease period, the book value got reduced to the residual value as envisaged in the lease agreements.

#### Operating Profits:

The Bank earned a lower operating profit of Rs. 14.41 crores during the year ended 31.03.2002 as compared to Rs. 57.81 crores during the year ended 31.03.2001. It is noteworthy

that, despite the reduction in assets and liabilities, functioning in a falling interest rate environment and incurring substantial expenditure on expansion of branch network, the Bank was still able to record operating profit. The expenditure incurred during the year on expansion of the network will yield results in the coming 2 to 3 years.

#### Assets:

The total tangible assets of the Bank decreased from Rs.5888.52 crores as on 31.03.2001 to Rs. 4025.85 crores as on 31.03.2002 due to reduction in the levels of advances and investments as already covered under discussion of 'Gross Interest Income'. The Bank has made a conscious decision to shift from relatively low yielding corporate advances to higher yielding retail assets which policy has continued during the year 2002-03 also. The ratio of corporate advances (including leases, industrial hire purchases and credit substitutes) to total advances has been steadily moving downwards. This ratio of 55 % as on 31.03.2001 has changed to 45 % as on 31.03.2002 and 40% as on 30.06.2002 with the expansion of the retail portfolio.

The Bank's position as a leading financier in the two-wheeler segment continues. The book size of this portfolio increased by 19% over the previous financial year. A strong asset quality and low delinquency rate are the special features of this business. In the area of financing commercial vehicles and construction equipments also, the Bank continues to be a strong player in the market with the book size of this portfolio registering an increase of 22% over the previous financial year.

#### Asset quality and the provisioning:

The Bank has laid emphasis on building quality assets. A comprehensive policy for controlling and managing non performing assets (NPAs) has been put in place.

The net NPAs increased from 2.96 percent as on 31.03.01 to 5.82 percent as on 31.03.02. The gross NPAs were at 6.00 percent and 11.84 percent as on 31.03.01 and 31.03.02 respectively. The increase has to be viewed in the context of the fact that the total advances (i.e. the denominator) have decreased as on 31.03.02 compared to the position as on 31.03.01. As already mentioned elsewhere, the Bank has had to make large provisions during the year on certain capital market broker loans. The provisioning cover works out to 56.13 percent of the gross NPAs.

In respect of retail portfolio, the Bank has built up good quality assets with low delinquency rate. The gross and net NPAs in the retail segment as on 31.03.02 were only 2.83 percent and 0.75 percent respectively.

As part of assets is a sum of Rs 4000 lacs receivable from TCFC Finance Limited (TFL) under the Financial Support Agreement executed by them (towards the provision on the specified assets of the erstwhile TCFC taken over by the Bank on merger). Against this item, TFL has pledged shares of the Bank of the aggregate face value of Rs 4000 lacs with a Power of Attorney to enable the Bank to sell the same to a strategic / new investor. Referring to paragraph 5.2 of the

Auditors' Report, the shares which represent a significant stake in the Bank, were being quoted well above Rs 10 and, therefore, reckoned at their face value.

The Bank has continued to maintain a standard asset provision at Rs. 6.28 crores as on 31.03.2002 even though the total advances have decreased.

#### Liabilities:

Bank's outside liabilities (i.e. excluding capital and reserves) decreased from Rs.5,671.26 crores as on 31.03.2001 to Rs. 3970.43 crores due to reduction in the deposits and reduction in borrowings as already discussed under 'Interest expended'.

In regard to deposits, considerable stress was laid on attracting low cost, stable retail deposits which resulted in achieving an impressive growth thereof from Rs.1,480.26 crores as on 31.03.2001 to Rs.2,035.68 crores as on 31.03.2002, with the increase during the last quarter of the year alone being Rs.194.97 crores. It is noteworthy that the share of retail deposits to total deposits increased from 34.76 percent as on 31.03.2001 to 57.58 percent as on 31.03.2002. The growth in savings bank deposits from Rs. 172.04 crores as on 31.03.2001 to Rs. 258.57 crores as on 31.03.2002 signified a growth of about 50% which by all measures was an excellent performance by our branches. In terms of the number of savings bank accounts, the increase was about 70 percent from 1.22 lacs as on 31.03.2001 to 2.08 lacs as on 31.03.2002.

#### Treasury Operations:

The Treasury continued to maintain its active presence in the domestic and forex markets. It has strengthened the operational capability through sophisticated front office and back office systems. The Treasury is well equipped to handle large business transactions in a risk controlled environment.

#### Major Initiatives and Achievements

As already mentioned, the Bank performed creditably in the field of financing two-wheelers. The number of vehicles financed since the inception of the scheme crossed 200,000 during the year. Similarly, thanks to the vigorous thrust in the area of retail liabilities and products, the number of savings bank accounts crossed the figure of 2.00 lacs while the number of Debit Cards issued exceeded the figure of 2.20 lacs as on 31.03.2002.

The Bank has been a pioneer in harnessing the benefits of technology to offer first class services to the customers. The Bank continues to enjoy good reputation and customer loyalty. Several initiatives have been launched to further enhance the competitive edge and ensure greater convenience to the customers. A mention may be made of the following services introduced during the current year:

- Internet banking services.
- Enabling Visa Card holders to access Bank's ATM network.
- E payment gateway

Introduction of services like 'mobile banking' are on the anvil.