



Annual Report 2002 - 2003



Centurion Bank

We value your time

**Ninth Annual General Meeting of the Members of
Centurion Bank Limited
at Hotel Mandovi, Panaji 403 001, Goa
on Monday, 8th September 2003 at 11.30 a.m.**

BOARD OF DIRECTORS (As on 25th July 2003)

V. Janakiraman -----	Chairman & Managing Director
Teo Soon Hoe -----	Director
Chee Jin Kiong -----	Director
S. Venkiteswaran -----	Director
Mahesh Vyas -----	Director
Jayant Dang -----	Nominee – Asian Development Bank
Kamlesh Vikamsey -----	Director
C. G. Somiah -----	Director
Shital Kumar Jain -----	Director
Rajiv Maliwal ----- (Appointed on 25th July 2003)	Director
Peter Nigel Kenny ----- (Appointed on 25th July 2003)	Director
Davendra Mittal -----	Alternate Director to Mr. Jayant Dang

COMPANY SECRETARY

Rupesh Saraiya

Auditors

M/s. V. Sankar Aiyar & Co.
Chartered Accountants

Registered Office

Durga Niwas
Mahatma Gandhi Road
Panaji 403 001, Goa

Corporate Office

1201, Raheja Centre
Nariman Point
Mumbai 400 021

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NOTICE

NOTICE is hereby given that the Ninth Annual General Meeting of the Members of Centurion Bank Limited will be held on Monday, the 8th day of September 2003 at Hotel Mandovi, Panaji 403 001, Goa at 11.30 a.m. to transact the following business:

ORDINARY BUSINESS

1. To consider and adopt the Audited Balance Sheet as at 31st March 2003 and the Profit and 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. S. Venkiteswaran, who retires by rotation and being eligible, offers himself for re-appointment.
3. To appoint a Director in place of Mr. Mahesh Vyas, who retires by rotation and being eligible, offers himself for re-appointment.
4. To re-appoint M/s. V. Sankar Aiyar & Co., Chartered Accountants, 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.

SPECIAL BUSINESS

5. 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 Companies Act, 1956, the Banking Regulation Act, 1949 and subject to approvals of Reserve Bank of India and such other statutory approvals as may be required, Mr. V. Janakiraman be and is hereby re-appointed as Chairman & Managing Director of the Bank on the terms and conditions as set out hereunder:

- I. **Period of Appointment :** Re-appointment for a period of six months from 4th January 2003 to 3rd July 2003 and again re-appointment for a period of six months from 4th July 2003 till 3rd January 2004.

- II. **Remuneration and perquisites :**

1. Salary	: Rs 2,00,000 p.m.
2. Entertainment Allowance	: Membership of one club
3. Accommodation	: Free 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 per annum
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 re-capitalisation of the Bank, involving participation of new Institutional Investor(s), Mr. V. Janakiraman's appointment as Chairman & Managing Director may be terminated by a notice of two weeks. However, in such an event, Mr. V. Janakiraman would be entitled to Leave Travel Allowance on a pro-rata basis for the period he would have worked for 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".

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

"RESOLVED THAT Mr. Rajiv Maliwal be and is hereby appointed as a Director of the Bank."

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

"RESOLVED THAT Mr. Peter Nigel Kenny 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 a Special Resolution:

"RESOLVED THAT pursuant to Section 163 of the Companies Act, 1956, the Bank hereby approves that the Register of members, indices, returns and copies of certificates and other statutory records, instead of being kept at the Registered Office of the Bank at Durga Niwas, M. G. Road, Panaji 403 001, Goa, be kept at the Bank's Corporate Office at 1201, Raheja Centre, Nariman Point, Mumbai 400 021."

By Order of the Board of Directors

Rupesh Saraiya
Company Secretary

Place : Mumbai

Date : July 25, 2003

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. 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 Friday, 5th September 2003 to Monday, 8th September 2003 (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 Shares 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. The Members may also mail their correspondence to the Bank at shares@centurionbank.com
7. Members intending to dematerialise their shareholding are requested to approach any of the Depository Participants (DPs) for opening a Demat Account.
8. The Bank has established direct connectivity with National Securities Depository Ltd. (NSDL) and Central Depository Services (India) Ltd. (CDSL) with effect from 1st April 2003 and has complied with the requirements of Circular No. D&CC/FITTC/CIR - 15/2002 dated 27th December 2002 issued by the Securities & Exchange Board of India (SEBI).
9. Members are requested to bring their copy of Annual Report at the Meeting.
10. Members are requested to bring the Attendance Slips duly filled in for attending the Meeting.

ANNEXURE TO THE NOTICE

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

Special Business

Item No. 5

The Shareholders at their meeting held on 11th November 2002, had approved the appointment and re-appointment of Mr. V. Janakiraman as Chairman & Managing Director of the Bank upto 3rd January 2003. Thereafter, Mr. Janakiraman's term has been extended for a period of six months effective from 4th January 2003 to 3rd July 2003 and again it has been extended for a further period of six months effective from 4th July 2003 to 3rd January 2004.

Approval of shareholders is sought for the re-appointment of Mr. Janakiraman as Chairman & Managing Director and payment of remuneration to him as set out in resolution at Item No. 5.

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. 6

Mr. Rajiv Maliwal 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. Maliwal 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. Maliwal 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. Peter Nigel Kenny 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. Kenny 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. Kenny 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

Your Directors are of the opinion that for better administrative convenience and control, the Statutory Records of the Bank should be kept at its Corporate Office instead of being kept at the Bank's Registered Office.

Your Directors recommend the Resolution for approval of the Members.

None of the 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 : July 25, 2003

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 proposed appointment / re-appointment of Directors.

1. 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 39 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 Chairman & Managing Director of Centurion Bank Ltd. on 4th January 2002 and was re-appointed for a further period of six months with effect from 4th July 2002. This appointment was approved by the shareholders at the last Annual General Meeting.

He was re-appointed for further periods of six months with effect from 4th January 2003 and 4th July 2003 till 3rd January 2004.

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

2. Mr. S. Venkiteswaran

Mr. S. Venkiteswaran holds Bachelor degrees in Science and Law. Mr. S. Venkiteswaran specialises in International Trade, Shipping and Aviation related commercial disputes. He is a Senior Advocate who appears regularly before the High Courts in India and the Supreme Court of India. Mr. S. Venkiteswaran was first appointed on the Board on 4th May 1999 and re-appointed on 25th August 2001.

Directorships in other Companies*	Committee memberships in other Companies*
National Stock Exchange of India Ltd. (NSE) National Securities Clearing Corpn. Ltd. National Securities Depository Ltd. (NSDL) The Clearing Corporation of India Ltd. Dolphin Offshore Enterprises (India) Ltd. Adani Ports Ltd. Gujarat Adani Port Ltd. Indian Register of Shipping (Section 25 Company)	National Stock Exchange of India Ltd. (NSE) - NSE Investor Protection Fund (Trustee) - Executive Committee [Capital Market] (Member) - Sub-committee to decide on names of Trading Members to be nominated on the Executive Committee (Member) - Committee for Declaration of Default (Member) - Defaults Committee (Member) - Disciplinary Action Committee (Member) - Approval of Acquisition of Premises [CAPP] (Member) - Compensation Committee (Member) - Sub-committee of the Executive Committee to suspend trading in the securities of issuer for non compliance of provision of Listing Agreement (Member) National Securities Clearing Corporation Ltd. - Audit Committee (Member) - Committee for Declaration of default (Member) National Securities Depository Ltd (NSDL) - Compensation Committee (Member) Clearing Corporation of India Ltd. - Audit Committee (Member) - Capital Expenditure Committee (Member) - Fitment of Deputationists Committee (Member) Dolphin Offshore Enterprises (India) Ltd. - Audit Committee (Member)

* does not include foreign companies and private limited companies.

3. Mr. Mahesh Vyas

Mr. Mahesh Vyas holds a Bachelor degree in Science and is the Managing and Chief Executive Officer of the Centre for Monitoring Indian Economy P. Ltd. (CMIE). 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 and re-appointed on 25th August 2001.

Directorships in other Companies*	Committee memberships in other Companies*
Nil	Nil

* does not include foreign companies and private limited companies.

4. Mr. Rajiv Maliwal

Mr. Rajiv Maliwal is an MBA (IIM Bangalore) and also BE (Hons) from BITS Pilani. He has served Citibank and ANZ Grindlays Bank for over 20 years both in India and abroad. He has extensive experience in managing the priority sector and agricultural portfolio gained during his service with the Banks. He is presently the Managing Director of Sabre Capital Worldwide, Inc.

Mr. Maliwal has been appointed as an Additional Director by the Board of Directors of the Bank with effect from 25th July 2003.

Mr. Maliwal does not hold any Directorship in any other Company in India.

5. Mr. Peter Nigel Kenny

Mr. Peter Nigel Kenny has qualified as a Chartered Accountant from England. He also holds a doctorate in Theoretical Physics. He has over 30 years of banking and professional experience. He was previously Group Finance Director of Standard Chartered Bank Plc. He is presently a Partner, Sabre Capital, Private Equity.

Mr. Kenny has been appointed as an Additional Director by the Board of Directors of the Bank with effect from 25th July 2003.

Mr. Kenny does not hold any Directorship in any other Company in India.

DIRECTORS' REPORT

To :

The Shareholders
Centurion Bank Limited

Your Directors present herewith the Ninth Annual report together with the Audited Balance sheet as at 31st March 2003 and the Profit and Loss Account for the year ended on that day.

The highlights of the performance are as under:

(Rs. in crores)

Particulars	For the year ended 31 st March 2003	For the year ended 31 st March 2002
Gross income (Interest income Plus other income)	451.22	552.94
Gross Expenditure	429.53	538.53
Operating Profit	21.69	14.41
Provisions & Contingencies	47.05	176.25
Net Profit / (loss) after tax	(25.36)	(161.84)

The year 2002-03 was a difficult period for the Bank, with the Bank declaring substantial losses for the financial year 2001-02 mainly on account of provisions towards extra ordinary items pertaining to prior years. The losses eroded the Bank's net worth, and consequently, it became difficult to sustain the levels of business and income generation. Despite these odds, the Bank met all its statutory obligations and also earned higher operating profit during the year, compared to the previous year.

DIVIDEND

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

MANAGEMENT DISCUSSION AND ANALYSIS

Operating and Financial Performance

Gross Interest Income

The Gross Interest Income of the Bank declined from Rs 482.18 crores in 2001-02 to Rs 371.34 crores in 2002-03. The decline was largely due to fall in the interest income on investments from Rs 187.53 crores in 2001-02 to Rs 123.32 crores in 2002-03 in tandem with the reduction in the level of investments from Rs 1227.22 crores to Rs 999.25 crores during the period. The gross interest income on advances decreased from Rs 253.66 crores in 2001-02 to Rs 212.10 crores in 2002-03 in line with the softening of interest rates and also the reduction in Corporate and Capital Market advances-in keeping with the strategy adopted by the Bank to reduce the exposure to these segments.

Interest Expended

The total interest expenditure declined from Rs 378.69 crores in 2001-02 to Rs 269.30 crores during 2002-03. The interest paid on deposits came down from Rs 297.90 crores in 2001-02 to Rs 223.37 crores during the year ended 31.3.2003. While the drop is due to decrease in the deposit level from Rs 3534.99 crores as on 31.3.2002 to Rs 2834.71 crores as on 31.3.2003, in percentage terms the reduction in interest cost at 25.17 % was more than the decrease in the level of deposits at 19.81 %, indicating a reduction in the cost of deposits. Also, the borrowings from RBI / other banks / other institutions and agencies was brought down from Rs 91.71 crores to Rs 55.73 crores during the year - resulting in a corresponding reduction in interest cost.

Net Interest Income

The net interest income during 2002-03 was Rs 102.04 crores as against Rs 103.49 crores during 2001-02. It is noteworthy that despite the falling interest rate scenario and reduction in advances, the net interest income during the year 2002-03 was almost at the same level as that of the previous year, in absolute terms. Besides, the net interest margin improved from 2.58% during 2001-02 to 3.64% during 2002-03. This was achieved through a judicious change in the composition of assets and liabilities.

Other Income (Non-interest)

The other income increased from Rs 70.76 crores during 2001-02 to Rs 79.88 crores during 2002-03. It may be noted that the other income of 2002-03 is after netting off the one time loss of Rs 14.10 crores on sale of windmills - which was a conscious decision to dispose of the non-banking assets. If this extra ordinary one time loss on sale of windmills is excluded, the other income for the year 2002-03 works out to Rs 93.98 crores. The higher profit from securities trading and growth in fee based income are the main reasons for this large increase of about 32.82 % (before netting of one time loss on sale of windmills) in the other income. While the income from foreign exchange transactions declined from Rs 8.69 crores in 2001-02 to Rs 7.03 crores in 2002-03, as a result of the fall in the trading volumes on customer transactions and lack of trading opportunities, the profit on sale of investments increased from Rs 28.91 crores to Rs 41.12 crores during the period. It is pertinent to mention here that the trading income of Rs 41.12 crores reported for the year 2002-03 is after netting off the loss of Rs 10.36 crores incurred on sale of a part of the equity investment portfolio, to bring down the exposure to this sensitive sector. Thus, notwithstanding the trading book portfolio being small, the Bank's Treasury has performed very well by leveraging the available opportunities to the best possible extent.

Further, though the income from non-fund based facilities was impacted due to reduction in the corporate loan portfolio, there was an increase in the fee based income from products like debit cards, cash management services and Anywhere Banking.

Operating Expenses

- (a) The Bank continued with its policy of laying stress on IT and harnessing the same to enhance the quality of Customer service and Information Management. New initiatives like data mining & warehousing and setting up a disaster recovery site, have been implemented during the year. Due to these initiatives, the Bank incurred a higher expenditure on IT related areas at Rs 13.30 crores during the year as compared to Rs. 10.73 crores during the previous year.
- (b) The Bank increased the number of its delivery channels (branches and extension counters) by 6 during the year. Due to this expansion of the Bank and the normal increase in the items of expenditure like rent, rates and taxes, there was an increase in the expenditure on these items by Rs.2.71 crores during the year.
- (c) The Bank continued with its policy of encouraging and motivating the staff members. Increments were granted to staff members on the basis of performance, besides incentives offered to them for enhancing their knowledge and skills. All this resulted in increase in expenses from Rs.19.83 crores during 2001-02 to Rs.24.82 crores during 2002 -03.
- (d) During the year, the Bank initiated certain measures on account of which reduction in expenses was achieved in several areas.

There was a total increase in operating expenses by Rs. 12.51 crores during the year.

Provisions and contingencies

The Bank has made adequate provisions for non performing assets and for diminution in investments, as per regulatory norms. Further, a higher provision has been made in some cases where, in the opinion of the management, it was considered appropriate to do so.

Referring to para 2 of the Auditor's 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 total provision for the year 2002-03 amounted to Rs 47.05 crores (after credit on account of deferred tax asset of Rs 9.90 crores) compared to Rs 108.42 crores for the year 2001-02. The major items of provision are as follows:

- Provision of Rs 44.61 crores for non performing assets (previous year Rs 76.65 crores)
- General provisions aggregating to Rs 5.80 crores (previous year Rs 2.98 crores). These include provision of Rs 2.53 crores towards leave encashment (previous year - nil).
- Provision of Rs 5 crores on account of marking to market the value of shares pledged to the Bank by TCFC Finance Ltd towards claim receivable under the Financial Support Agreement (previous year - nil).

Operating profit

For the year ended 31st March 2003 the Bank earned an operating profit of Rs 21.69 crores, which is higher by 50.52 % than the operating profit of Rs 14.41 crores recorded during 2001-02. It is noteworthy, that the Bank was able to generate a higher operating profit despite reduced business levels and functioning in a falling interest rate environment. The operating profit for the year 2002-03 would have been even higher, at Rs 35.79 crores, but for the one time loss of Rs 14.10 crores booked on sale of non banking assets (sale of windmills), which was done to shed a part of low yielding non-banking assets.

Assets

The total tangible assets of the Bank decreased from Rs 4045.37 crores as on 31.3.2002 to Rs 3229.81 crores as on 31.3.2003 due to reduction in the levels of advances and investments. The credit portfolio decreased from Rs 1634.09 crores as at 31.3.2002 to Rs 1313.72 crores as at 31.3.2003. In pursuance of the policy of shifting from the low yielding corporate loans to higher yielding retail assets, the Corporate loan book was gradually reduced. The share of retail assets in the total loan portfolio has been growing. The ratio of corporate loan assets (including leases, industrial hire purchase and credit substitutes) to the total loan assets has been steadily brought down from 55% as on 31.3.2001 to 45% as on 31.3.2002 and further to 32% as on 31.3.2003.

The Bank continues to be a leader in financing of two wheelers, commercial vehicles and construction equipment despite the entry of other major players and fierce competition in this field. During the year 2002-03, the Bank has registered a growth of 14.29 % and 12.52 % in the book size of loans for two wheelers and commercial vehicles/construction equipment, respectively. The number of two wheelers financed by the Bank has crossed the figure of 4.20 lacs. With the emphasis laid by the Central and State Governments on infrastructure, there is tremendous scope for the Bank - which has built an expertise in financing of construction equipment and commercial vehicles - to further expand and consolidate this business. These retail products have historically demonstrated healthy asset quality and low delinquency rates. With a view to further broad-base the retail portfolio, the Bank has now focussed on a "personal loan" product, after carefully assessing the customer demand and other aspects.

Asset quality and provisioning

The Bank continues to lay emphasis on building quality assets and has put in place a comprehensive policy for controlling and managing non-performing assets. The efforts for recovery of NPAs have also been stepped up.

While the Bank has shrunk its corporate loan book significantly by exiting from some stressed accounts, certain corporate accounts have turned non performing during the year due to various problems faced by these borrowers. In respect of NPAs in Capital Market segment i.e advances to stock brokers, the Bank has made part recoveries by realising the pledged securities and has written off / made full provision for the remaining amount.

The gross NPAs to gross advances as on 31.3.2003 were 15.13% as compared to 11.84% as on 31.3.2002. The net NPAs to net advances as on 31.3.2003 were 7.51 % as compared to 5.82 % as on 31.3.2002. The increase in NPA level has, however, to be viewed in the context of the considerable decrease in total advances (i.e. the denominator) over the last two years.

In retail asset portfolio, including trade advances, on which the Bank has been focussing during the last two years, the Bank's gross and net NPAs were only 2.42 % and 0.73 % respectively as on 31.3.2003, compared to 2.83 % and 0.75 % respectively as on 31.3.2002.

As on 31.3.2003, the provision towards the non-performing assets (excluding written off accounts) stood at Rs 124.34 crores, giving a healthy coverage of 54.43 % of the gross NPAs.

Referring to para 1.2 of the Auditor's report, in respect of the 400 lac shares of the Bank of the aggregate face value of Rs 40 crores (Rs 10/- each) pledged with the Bank by TCFC Finance Ltd (TFL) under the Financial Support Agreement (executed by TFL towards additional provisioning requirement in respect of certain specified assets which came to the bank's fold on merger of TCFC Ltd with the Bank), the Bank has made a provision of Rs 5 crores following the "marked to Market" accounting, on the basis of the price of the share ruling as on 31.3.2003, although the shares are presently quoted well above the face value.

The Bank continues to maintain a standard asset provision at Rs 6.28 crores as on 31.3.2003, even though the total advances have decreased.

Liabilities

Bank's outside liabilities (i.e. excluding capital and reserves) decreased from Rs 3989.95 crores as on 31.3.2002 to Rs 3209.65 crores as on 31.3.2003 due to reduction in the deposits and borrowings as discussed earlier. The Bank continues its thrust on mobilising low cost and relatively stable retail deposits, with a focus on attracting more of savings bank deposits. The savings bank deposits of the Bank grew by 17.43% during the year with the number of accounts increasing by about 27.40%. The retail deposits constituted 70.35% of the total deposits as on 31.3.2003.

Treasury Operations

The Treasury continues to actively participate in the money market. The Bank's Treasury department is equipped with the state of the art facilities/software, including the latest 'value at risk' module for conducting business in a risk controlled environment. As mentioned under the head "Other Income" the Treasury operations yielded handsome profits.

Major initiatives and achievements

The Bank continues to enjoy a good brand and customer loyalty. The Bank has been a pioneer in harnessing the benefits of

technology to offer first class service through various products such as debit cards, internet banking, e-payment gateway, etc. The number of debit cards issued by the Bank exceeds 2.80 lacs. The Bank has also launched SMS Alerts service through mobile phones across India.

Risk Management

The Bank has policies clearly enunciated for corporate and retail credit. Detailed norms for various types of lending have been laid down. The Bank monitors its exposure to various segments of industries. The corporate credit portfolio is well diversified to different industries. The retail loans portfolio is widely distributed over a number of accounts. In the treasury operations, prudent risk management practices for tracking various kinds of exposure, stop loss limits, etc. are followed on real time basis, with the help of sophisticated software.

The Bank has put in place the necessary organisational structure to implement the guidelines on risk management issued by RBI. The operating staff are continuously educated on various aspects of risk management. The Risk Management Committee (RMC) and the Board are monitoring periodically the compliance with regulatory guidelines in this regard. A loan review mechanism (credit audit) has been evolved and implemented on a pilot basis.

Internal control and audit

Regular internal audit and inspection of the operations of the Bank through its various branches / offices is undertaken by the separate Internal Audit Department of the Bank. The Bank has also set up a system of concurrent audit which covers about 64 % of the business of the Bank.

The Bank has built up a system of internal controls, audit trails and rating of branches for efficiency, based on different parameters such as business performance, operations, compliance, house keeping, etc. The performance of the Internal Audit department, as well as the position in regard to the disposal of the internal audit reports of branches/ offices is periodically reviewed by the Audit Committee of the Board of the Bank.

The Bank has an information security officer exclusively to monitor the information technology related security aspects as per regulatory and internal guidelines.

Branch Network

During the year the Bank added 3 new branches and 3 extension counters. As on 31-03-2003 there were 60 branches, 19 extension counters and 26 sales and marketing offices. The number of ATMs increased during the year from 133 to 139.

Human Resources

The Bank had on its role 945 employees as on 31.3.2003. The knowledge and skills of the employees are enhanced continuously through various training initiatives. A total of 1,311 training mandays were achieved by the Organisational Development Centre through 99 external and internal training programmes. The Bank has taken various steps to enhance employee participation through job rotation, performance based reward system, etc. These initiatives have resulted in improved employee retention.

Capital Infusion

Your Directors had, in their report for the year ended 31st March 2002, referred to infusion of new capital. The Board of Directors of the Bank, on 23rd April 2003, decided to accept the offer received from M/s Sabre Capital Worldwide Inc (Sabre) for restructuring the capital and effective management of the Bank, subject to and in line with the regulatory approvals in this regard.

The salient features of the programme for capital infusion and restructuring of capital have been detailed under Para 21 - Notes to Accounts - Schedule 18 to the balance sheet.

As directed by the Goa Bench of the Bombay High Court, an ordinary general meeting of the shareholders of the Bank was held at Panaji, Goa on 14th June 2003. At this meeting, the arrangement embodied in the scheme of arrangement amongst Bank Muscat (SAOG) and Centurion Bank Ltd., (the applicant company) and the shareholders of the Bank in the matter of Sections 391 to 394 read with Section 81 (IA) and Sections 100 to 103 of the Companies Act 1956, was approved with the requisite majority. At an Extra-ordinary General Meeting of the shareholders held on the same day at Panaji, Goa, special resolutions relating to the reduction in the paid up capital of the Bank and consequential amendments to the Memorandum and Articles of Association were approved by the requisite majority. Details in this regard were communicated to the shareholders vide the notices convening the meeting of the Equity Shareholders dated 10th May 2003. The High Court has since admitted the petition filed by the Bank in this regard and has fixed 22nd August 2003 as the date for hearing and final disposal of the petition. On receipt of the approvals from the Bombay High Court and the Karnataka High Court (On a petition filed in this regard by Bank Muscat) and other regulatory approvals, capital infusion of about Rs 219 crores is expected, which would enable the Bank to achieve a minimum capital adequacy ratio of 9% by 31.3.2004.