



Annual Report 2004-05

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BOARD OF DIRECTORS

Rana Talwar (Chairman)
 Shailendra Bhandari (Managing Director)
 Teo Soon Hoe (Director)
 S. Venkiteswaran (Director)
 Kamlesh Vikamsey (Director)
 S. K. Jain (Director)
 Rajiv Maliwal (Director)
 J. S. George (Director)
 K. K. Abdul Razak (Director)
 Y. K. Modi (Director)
 Ahmed Mohamed Al Abri (Alternate Director to Mr. J. S. George)
 Abdul Razak Ali Issa (Alternate Director to Mr. K. K. Abdul Razak)

COMPANY SECRETARY

N. E. Venkitakrishnan

AUDITORS

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

REGISTERED OFFICE

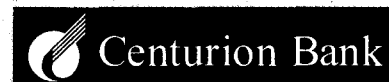
Durga Niwas
 Mahatma Gandhi Road
 Panaji 403 001, Goa

CORPORATE OFFICE

1201, Raheja Centre
 Free Press Journal Marg, Nariman Point
 Mumbai 400 021

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Notice

NOTICE is hereby given that the Eleventh Annual General Meeting of the Members of Centurion Bank Limited will be held on Wednesday, the 21st day of September, 2005 at Hotel Mandovi, Panaji 403 001, Goa at 11.45 A.M to transact the following business:

ORDINARY BUSINESS

- 1) To consider and adopt the Audited Balance Sheet as at 31st March 2005 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.Venkateswaran, who retires by rotation and being eligible, offers himself for re-appointment.
- 3) To appoint a Director in place of Mr. Rajiv Maliwal, who retires by rotation and being eligible, offers himself for re-appointment.
- 4) To appoint a Director in place of Mr. Teo Soon Hoe, who retires by rotation. The Bank has received a nomination of Mr. Chee Jin Kiong to be appointed as a Director to fill this vacancy.
- 5) 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 terms as may be fixed by the Board of Directors for the purpose of audit of the Bank's accounts.

SPECIAL BUSINESS

- 6) **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 and subject to the approval of the Reserve Bank of India and such other statutory approvals as may be required, the consent of the members be and is hereby accorded for the revision in the basic salary payable to Mr.Shailendra Bhandari, Managing Director from Rs.72,00,000 per annum to an amount not exceeding Rs.90,00,000 per annum effective 1st April, 2005 and that all other existing terms and conditions of his appointment be retained pursuant to the approvals granted by Reserve Bank of India and the shareholders of the Bank;

RESOLVED FURTHER THAT subject to the approval of the Reserve Bank of India and such other statutory approvals as may be required, the consent of the shareholders be and is hereby accorded for the payment of a variable incentive of an amount not exceeding Rs.28.80 lakhs to Mr.Shailendra Bhandari, Managing Director for the year ended 31st March 2005;

RESOLVED FURTHER THAT the Board of Directors be and is hereby authorised to do all such acts, matters, deeds and things as may be required to give effect to the aforesaid resolution and to settle issues pertaining to payment of remuneration to Mr.Shailendra Bhandari, Managing Director and any other matter incidental thereto, as it may, in its absolute discretion, deem fit, without seeking further approval of the shareholders."

- 7) **To consider and if thought fit, to pass with or without modification(s), the following resolution as a Special Resolution**

"RESOLVED THAT pursuant to the approvals granted by the members in terms of Section 81 (1A) of the Companies Act, 1956 to issue and allot stock options that are exercisable into equity shares constituting upto 10% of the equity share capital of the Bank under all Employees' Stock Option Plans of the Bank, including under a scheme titled "Key Employees' Stock Option Plan-2004" vide resolution passed by way of postal ballot in December 2004, consent of the members be and is hereby granted to create, issue and allot stock options under the said Key Employees' Stock Option Plan-2004 to Mr. Rana Talwar, non-executive Chairman, and / or Mr. Rajiv Maliwal, non-executive Director, in excess of 1% of the paid-up equity capital of the Bank in the financial year 2005-06 in accordance with the terms and conditions of the Key Employees' Stock Option Plan - 2004;

RESOLVED FURTHER THAT the Board of Directors of the Bank and/or the Compensation Committee of the Board be and are hereby authorised to do all such acts, deeds, matters and things necessary to give effect to the resolution including without limitation delegating such powers as deemed fit to the Managing Director and/or other executives of the Bank for this purpose."

- 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 the applicable provisions of the Companies Act, 1956 and the Listing Agreement(s) entered into with the Stock Exchanges, the approval of the members be and is hereby granted for payment of sitting fees to the Directors of the Bank for attending the meetings of the Board of Directors and Committees constituted by the Board of Directors from time to time (other than the Securities Transfer, Allotment & Grievance Redressal Committee) to the extent of Rs.10,000/- (Rupees Ten Thousand Only) per meeting;

RESOLVED FURTHER THAT the Board of Directors of the Bank be and is hereby authorised to determine/vary the amount of sitting fees payable to the Directors for attending the meetings of the Board of Directors and Committees thereof, within such maximum permissible limits as may be prescribed under the Companies Act, 1956, rules made and notifications issued thereunder."



- 9) **To consider and if thought fit to pass with or without modification the following resolution as a Special Resolution:**

"RESOLVED THAT upon the approval of the Reserve Bank of India for the Scheme of Amalgamation between Centurion Bank Limited and Bank of Punjab Limited in terms of Section 44 A of the Banking Regulation Act, 1949 and subject to such other approvals as may be necessary pursuant to Section 21 of the Companies Act, 1956 and other applicable provisions, the name of the Bank shall stand hereby changed from 'Centurion Bank Limited' to 'Centurion Bank of Punjab Limited';

RESOLVED FURTHER that the name of Centurion Bank Limited wherever it occurs in the Memorandum and Articles of Association of the Bank be substituted by the new name 'Centurion Bank of Punjab Limited'."

By Order of the Board of Directors

Place: Mumbai

Date : 19th August 2005

N.E.Venkitakrishnan

Company Secretary

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 15th September 2005 to 21st September 2005 (both days inclusive).
4. Queries relating to non-receipt of share certificates after transfer/transmission, rematerialisation, confirmation of dematerialisation, dividend/interest warrants etc. may be addressed to Karvy Computershare Private Limited, "Karvy House", 46, Avenue 4, Street No.1, Banjara Hills, Hyderabad-500 034, the Bank's Registrars & Share Transfer Agents.
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 Registrars & Share Transfer Agents in respect of shares held in physical form.
6. The Members may also mail their correspondence to the Bank at investors@centurionbank.com.
7. Members are requested to bring their copy of the Annual Report for the meeting.
8. Members are requested to bring their Attendance Slips duly filled in for the meeting.
9. All documents referred to in the accompanying notice are open for inspection at the Registered Office of the Bank on all working days between 11.00 A.M to 1.00 P.M prior to the date of the Annual General Meeting.



Annexure to the Notice

EXPLANATORY STATEMENT PURSUANT TO SECTION 173 (2) OF THE COMPANIES ACT, 1956

Item No.6

The terms and conditions of appointment of Mr. Shailendra Bhandari as the Managing Director of the Bank for a period of 5 years from February 1, 2004 were approved by the Reserve Bank of India as well as by the shareholders at the last Annual General Meeting.

Approval of the shareholders is sought for revision in the remuneration payable to the Managing Director and payment of a variable incentive for the financial year 2004-05 as set out in the resolution at Item No.6.

Mr. Shailendra Bhandari has provided outstanding leadership since his assuming office as the Managing Director of the Bank in February 2004. His achievements include setting up of an excellent management team, raising over Rs 500 crores by way of additional Tier I and Tier II capital and cleaning up the balance sheet to ensure that the Bank is well positioned to achieve sustainable growth and profitability.

Your Directors recommend the resolution for approval of the members.

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

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

Item No. 7

Pursuant to the Reserve Bank of India's in-principle approval dated 6th August 2003 to the proposal of the Board made vide resolution dated April 23, 2003, for restructuring and recapitalization of the Bank in terms of the proposal dated April 11, 2003 received from Sabre Capital Worldwide Inc. ("Sabre"), the Key Employees' Stock Option Plan-2004 ("Key ESOP-2004") was formulated in accordance with the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("ESOP Guidelines") to grant stock options to employees/non-executive directors of the Bank. The Key ESOP-2004 was approved by the members by a special resolution in terms of Section 81 (1A) of the Companies Act, 1956, passed through a postal ballot procedure. The resolution also authorised the Compensation Committee of the Board to issue and allot Equity Shares upon exercise of options from time to time under the Key ESOP-2004 and make such modifications, changes, variations, alterations or revisions in the said plan as it may deem fit in its sole and absolute discretion.

The Compensation Committee had in terms of the authority granted by the members extended the timeline for implementation of the Key ESOP-2004 from 31st March 2005 to 31st December 2005.

Approval of the members is required to be obtained in terms of the ESOP Guidelines for the issue of stock options to any individual in excess of 1% of the paid-up equity capital of the Bank during a financial year. Accordingly the approval of the members is being sought for issue of stock options in excess of 1% of the paid-up equity capital of the Bank to Mr. Rana Talwar and/or Mr. Rajiv Maliwal, non-executive directors, who have been nominated by Sabre in terms of the proposal for restructuring and recapitalization of the Bank as approved by the RBI vide its in-principle approval dated 6th August 2003.

Your Directors recommend the resolution for approval of the members.

Mr. Rana Talwar and Mr. Rajiv Maliwal are interested in the resolution as it relates to the issue of stock options to them. None of the other Directors is, in any way, concerned or interested in the resolution.

Item No.8

The payment of remuneration by way of sitting fees to the Directors for attending meetings of the Board and its Committees is made as determined by the Board of Directors as permitted by Article 98 of the Articles of Association of the Bank within the limits prescribed by the Companies Act, 1956, rules made and notifications issued thereunder from time to time.

Presently the Bank is paying a sitting fee of Rs.10,000/- to each Director other than the Managing Director for every meeting of the Board of Directors or its Committees (excluding Securities Transfer, Allotment & Grievance Redressal Committee). The sitting fees presently paid are within the limits prescribed by the Department of Company Affairs.

In terms of the proposed amendment to Clause 49 of the Listing Agreement with the Indian Stock Exchanges, fees/compensation payable by listed companies to its non-executive directors, including independent directors shall be fixed by the Board of Directors and shall be approved by the shareholders at a general meeting.

The approval of the members is accordingly being sought for payment of sitting fees as aforesaid and to authorize the Board of Directors to determine/ vary from time to time, the amount of sitting fees payable to the Directors within such maximum permissible limit as may be prescribed by the Department of Company Affairs or any other statutory/regulatory authority from time to time.

All the directors other than Mr. Shailendra Bhandari, Managing Director are concerned and interested in the said resolution at Item No.8 of the Notice.

Item No.9

The Scheme of Amalgamation (Scheme) between Centurion Bank Limited and Bank of Punjab Limited has been duly approved by the Boards of Directors and the shareholders of both the banks. An application has been submitted to the Reserve Bank of India for their sanction of the proposed Scheme in terms of Section 44 A of the Banking Regulation Act, 1949. It is proposed to change the name of the merged entity from Centurion Bank Limited to Centurion Bank of Punjab Limited on receiving the RBI sanction for the Scheme. The change in name will adequately identify and represent the synergies in terms of geographical presence, products, human resources and financial strength of the combined entity.

The approval of the members by a special resolution is required for effecting the change in the name of the Bank. Your Directors accordingly recommend the resolution for the approval of the members.

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

By Order of the Board of Directors

Place: Mumbai
Date : 19th August 2005

N.E.Venkitakrishnan
Company Secretary



THE FOLLOWING INFORMATION IS BEING FURNISHED IN TERMS OF CLAUSE 49 OF THE LISTING AGREEMENT ENTERED INTO WITH THE STOCK EXCHANGES IN RESPECT OF PROPOSED APPOINTMENT/RE-APPOINTMENT OF DIRECTORS:

Mr. S.Venkiteswaran

Mr. S.Venkiteswaran holds Bachelor's degrees in both Science and Law from Mumbai University. Mr.Venkiteswaran is a Senior Advocate who appears regularly before various High Courts in India and the Supreme Court of India and specializes in international trade, shipping and aviation related commercial disputes.

Mr.Venkiteswaran was first appointed to the Board in May 1999 and is a Director in the following companies:

Adani Port Limited

Dolphin Offshore Enterprises (India) Limited

Gujarat Adani Port Limited

National Stock Exchange of India Limited

National Securities Depository Limited

National Securities Clearing Corporation Limited

The Clearing Corporation of India Limited

Mr.Venkiteswaran is a member of the Audit Committee in Dolphin Offshore Enterprises (India) Limited, National Securities Clearing Corporation Limited, National Stock Exchange of India Limited and Chairman of the Audit Committee of The Clearing Corporation of India Limited. Mr.Venkiteswaran also holds the position as a member of the Compensation Committee in Dolphin Offshore Enterprises (India) Limited, National Securities Depository Limited and National Stock Exchange of India Limited.

Mr.Venkiteswaran is the Chairman of the Securities Transfer, Allotment & Grievance Redressal Committee and the Corporate Governance Committee of the Bank. He is also a member of the Executive Committee, Customer Service Committee and the

Nomination Committee of the Bank. Mr.Venkiteswaran holds 700 Equity Shares in the Bank as on 31st March 2005.

Mr. Rajiv Maliwal

Mr. Rajiv Maliwal holds an MBA from the Indian Institute of Management, Bangalore and is a Bachelor of Economics from Birla Institute of Technology and Science, Pilani. Mr. Maliwal has served Citibank and ANZ Grindlays Bank for over 20 years, both in India and abroad where he gained experience in managing the priority sector and agricultural portfolio. Mr. Maliwal is currently the Managing Director of, and one of the two Directors representing Sabre Capital Worldwide Inc., a principal shareholder of the Bank. Mr. Maliwal was first appointed to the Board in July 2003 and does not hold directorships in any other public limited company in India.

Mr. Maliwal is a member of the Audit Committee, the Securities Transfer, Allotment & Grievance Redressal Committee, Executive Committee, Risk Policy Committee and the Customer Service Committee of the Bank. Mr.Rajiv Maliwal does not hold any equity shares in the Bank as on 31st March 2005.

Mr. Chee Jin Kiong

Mr. Chee Jin Kiong is a Bachelor of Accountancy and a CPA from the University of Singapore. Mr Chee has a vast experience of over 30 years in various areas related to finance and accountancy. He is presently the Executive Director (Human Resources) of Keppel Offshore & Marine Ltd (a wholly-owned subsidiary of Keppel Corporation Limited), which is a world leader in construction of Jack-up rigs and conversion of Floating Production Storage & Offloading vessels, and holds the position as a Director in various companies of the Keppel Group and other companies in Singapore, Malaysia, and Philippines. Mr Chee does not hold Directorships in any public limited company in India and also does not hold any shares of the Bank as on 31st March 2005.

Chairman's Letter

12 August, 2005

Dear Shareholder,

The Indian economy has exhibited a steady upward trend with growth rates among the highest in the world. The Banking and financial sector has been buoyed by the optimism, confidence and growing purchasing power of the consumer and the emergence of millions of 'mass affluent' households in the country. We believe that the prevailing demographics and market trends provide a robust and sustainable growth opportunity in Indian Banking, especially in the retail and SME sectors.

Your Bank is professionally managed and prides itself on the competent management team that it has in place. A significant number of middle level managers have been added to the Bank this year, adding to the vibrancy of the organisation. Your Bank recognizes the fact that its strength and success lies in its employees and appreciates their undeviating effort and dedication in bringing your Bank this far.

Your Bank has witnessed a transformational change in the past year. The balance sheet has been strengthened and a significant amount of new capital has been infused. The Bank took significant strides in expanding its product portfolio with the addition of mortgages and personal loans and launched wealth management services including distribution of third party insurance and mutual fund products. During the year it also actively increased its distribution network by expanding its physical reach to the sixty cities in which it now operates and introduced non-branch channels such as universal banking officers and a tele-direct marketing team. The information given in the pages that follow, quantifies some of the above achievements.

The proposed Scheme of Amalgamation between Bank of Punjab and your Bank has been duly approved by the Boards of Directors and the shareholders of both the banks. The Scheme has since been submitted to the Reserve Bank of India (RBI) for their approval. On approval of the merger by the RBI, your Bank will emerge as one of the leading private sector banks in the country with a nationwide network. We will be very well positioned to achieve sustained growth and profitability in the retail, SME and agricultural sectors.

I would like to thank you for your constant encouragement and confidence in the Bank and look forward to your continuous support in the future.

With best wishes,

Yours truly,

Rana Talwar





Directors' Report

To:

The Shareholders
Centurion Bank Limited

Your Directors have pleasure in presenting the Eleventh Annual Report together with the Audited Balance Sheet as at 31st March 2005 and the Profit & Loss Account for the year ended on that day.

The summarised financial performance of the Bank was as under:

(Rs. in crores)

Particulars	For the year ended 31st March, 2005	For the year ended 31st March, 2004
Gross Income (Interest Income plus Other Income)	410.55	396.77
Gross Expenditure	387.39	384.64
Operating Profit	23.16	12.13
Provisions & Contingencies (reversal)	(1.95)	117.27
Net Profit / (Loss) after tax	25.11	(105.14)
Appropriations:		
Transfer to Statutory Reserve	6.28	-
Transfer to Investment Fluctuation Reserve	8.83	-
Profit / (Loss) carried forward	(131.39)	(155.66)
Adjusted from reduction of capital	-	137.22
Provision for impairment of assets adjusted	-	(7.81)
Balance carried over to Balance sheet	(121.39)	(131.39)
Deposits and borrowings as on March 31	3,574.13	3,072.76
Advances as on March 31	2,193.95	1,556.41

The year 2004-05 has been a year of considerable achievement, where your Bank strengthened its Balance Sheet and management team, grew its focus businesses, improved its profitability and put in place building blocks for productivity improvements. This followed the re-organisation of the Bank through a comprehensive Scheme of Arrangement (Scheme) pursuant to Sections 391 to 394 of the Companies Act, 1956 which included a reduction in the face value of the shares of the bank to Re 1/- per share and infusion of additional capital.

After the re-capitalisation, Centurion Bank does not have any promoter interests and is managed by an independent Board comprising major shareholders and strong professionals. After the initial capital infusion of Rs. 154 crores in February 2004, a further Rs. 519 crores of Tier I and Tier II capital was raised during the year through a Rights Issue in September 2004, a GDR Issue in March 2005 and two Subordinated Debt Issues in June and

December 2004, taking the Bank's Capital Adequacy Ratio to 23.1% (including the GDR greenshoe exercised on April 6, 2005).

The bank's senior management team was strengthened and several middle and junior managers were hired. Two Employee Stock Option Plans (ESOPs) were put in place to attract and retain talent. We believe our human resources will be a key differentiator for us in the industry.

We further developed our retain franchise, towards which we opened new branches, expanded our ATM network, tied up with ATM sharing networks, expanded our outbound sales teams, set up a tele-direct marketing hub and expanded our retail product offering to include mortgages, personal loans and wealth management.

We are in the process of centralising our back-office operations and upgrading our core banking system.

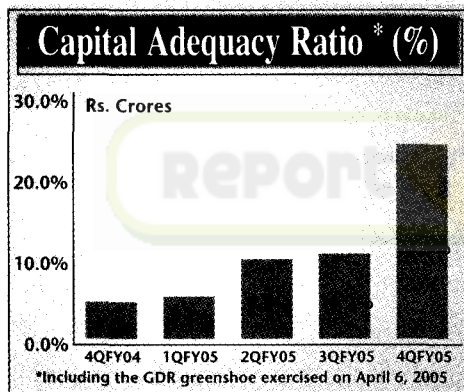
CAPITAL AND RESERVES

The shareholders at the Tenth Annual General Meeting held on 4th September, 2004 approved the cancellation of 150 crore equity shares of Re.1/- each of the Bank that were lying un-issued out of the Authorised Capital. After the effect of the aforesaid cancellation, the Authorised Capital of the Bank now stands reduced to Rs. 150 crores comprising of 150 crores equity shares of Re. 1/- each.

The Bank's Capital and Reserves as on 31st March, 2005 stood at Rs.468.56 crores. This is well above the minimum capital requirement of Rs.300 crores stipulated by the Reserve Bank of India in the guidelines on ownership of private sector banks issued in February 2005. After the exercise of the green shoe option on 6th April, 2005 by the lead managers to the GDR Issue, the Capital and Reserves as adjusted for the issue expenses stood at Rs.511.44 crores.

Subordinated Bonds of a value of Rs.100 crores outstanding as on 31st March, 2005 and carrying a coupon rate of 12.95% were redeemed in May, 2005 on the date of maturity.

In December 2004, the shareholders approved by means of Special Resolutions (through a postal ballot procedure), two separate Employee Stock Option Plans (ESOPs). The first scheme called the Key Employees Stock Option Plan-2004 (Key ESOP-2004) covers



key employees and non-executive directors of the bank while the second Scheme called the General Employees Stock Option Plan - 2004 (General ESOP-2004) covers all permanent employees of the bank including non-executive directors.

The statutory disclosures as required by the revised SEBI guidelines on ESOPs are given in the annexure to this report.

Post infusion of capital of Rs. 312.89 crores through the GDR issue (adjusted for the greenshoe option exercised by the lead manager to the GDR issue in April 2005 and net of issue expenses), the Capital Adequacy stood at 23.1% as on March 31, 2005 as compared to 4.4% as on March 31, 2004.

PROPOSED AMALGAMATION OF BANK OF PUNJAB LIMITED WITH CENTURION BANK LIMITED

After the year under report, on 29th June 2005 your Directors have, subject to the approval of the shareholders and the sanction of the Reserve Bank of India in terms of Section 44A of the Banking Regulation Act, 1949, approved a proposal for the amalgamation of Bank of Punjab Limited with your Bank. The synergies in terms of geographical presence, products, human resources and financial strength of both the banks will provide an opportunity to your Bank to consolidate its position amongst the leading private sector banks in the country. The multiplier effect on the growth and

profitability of the merged entity will add significant value to shareholders, customers and employees of your Bank.

Based on the audited financials of both the banks as on 31st March, 2005, some of the parameters of the combined entity would be as follows:

1.	Number of Banking Offices	235
		(Rs. in Crores)
2.	Total Assets	9,338.53
3.	Deposits	7,837.00
4.	Advances	4,610.94
5.	Total Business (3+4)	12,447.94
6.	Total Market Capitalization of both the banks as at 30th June 2005	1,815.38

DIVIDEND

Though the Bank declared a profit for the year ended March 31, 2005 thus heralding the beginning of a new phase, the Directors have decided not to recommend any dividend for the year in order to conserve capital resources and build for the future.

MANAGEMENT DISCUSSION AND ANALYSIS

Macro Economic environment

The Indian macro economic environment remains conducive for high growth and sustained buoyancy. Although interest rates have risen in the current financial year and signs of liquidity tightening appear to be on the horizon, foreign investments in the Indian Equity markets have been robust. The inflationary conditions have improved considerably as compared to last year and the high base effect will ensure benign inflation numbers in the first half of the current financial year.

The foreign exchange reserves position continues to be healthy. Although the Rupee appears to be overvalued on a REER basis, on an adjusted basis (adjusted for exports in software and services) it still remains competitive. Credit offtake has been robust with the rapidly increasing investment in infrastructure to support industrial growth. Higher demands in the housing and consumer durable sectors have helped to fuel the demand for retail credit.

In the aforementioned economic scenario, banks generally have a greater role to play thereby providing them with plenty of business opportunities and means to enhance value to their customers. Your bank with its predominantly retail focus and its established retail franchise is well positioned to increase its market share in the retail segment and also penetrate into newer areas with a view to increasing value for its various stakeholders.

OPERATING AND FINANCIAL PERFORMANCE

The strengthening of the management team and the improved productivity through setting up of well established systems and procedures during the year have yielded significant operational improvements which has helped the Bank in achieving a faster turn around. The operating profit for the Bank was Rs. 23.16 crores during the current year as compared to Rs. 12.13 crores earned in the previous year despite there being no treasury income in 2004-05 as compared to the income of Rs. 22.74 crores in 2003-04. The Bank has earned an after tax profit of Rs. 25.11 crores during the year as compared to a loss of Rs. 105.14 crores during the



previous year. The Provisions & Contingencies for the year resulted in a credit of Rs.1.95 crores as compared to Rs.117.27 crores accounted as a charge during the previous year. Improved recoveries out of previous years' non performing accounts and close monitoring of the NPAs have resulted in the net NPA ratio improving to 2.5% as on March 31, 2005 from 4.3% as on March 31, 2004. During the year the Bank has maintained the momentum on assets build-up and consequently the retail assets have grown 69.3% (pre-securitisation) and customer assets (post-securitisation) have registered an increase of 41%. The average deposit cost has declined to 5.1% from 6.3%. Due to the fact that the composition of the Bank's advances is predominantly retail, the bank has improved its net interest margins (5.8% over 4.6%).

The Bank has reached a settlement with the Sales Tax department by which the previous years' disputed tax liabilities have been paid off through an amnesty scheme.

We are actively following up with the tax authorities to expedite resolution of all outstanding income tax matters.

Gross Interest Income

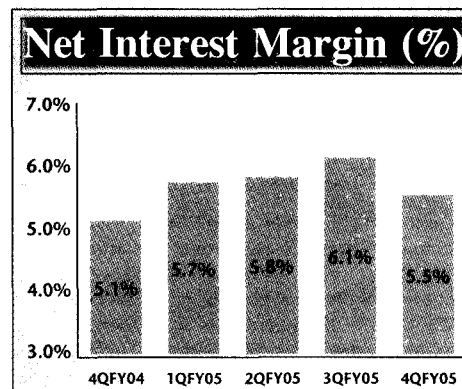
The Bank earned a total interest income for the year ended March 31, 2005 of Rs. 346.09 crores marginally higher than Rs. 333.79 crores earned for the previous financial year. Of this income, the interest income on advances for the year was higher at Rs. 268.15 crores as compared to Rs. 202.47 crores earned for the previous year representing an increase of 32.4%. The average advances for the year increased by 38.7% over the previous year, mainly due to growth in retail assets. At the same time, the average yield on advances dropped to 12.3% from 13.2% prevalent in the previous year. The interest income on investments was lower for the year ended March 31, 2005 at Rs. 54.12 crores as compared to Rs. 83.93 crores for the previous year representing reduction of 35%. Correspondingly, the average investments held had reduced to Rs. 1,186 crores for the year from Rs. 1,560 crores in the previous year. The average yield on investments declined during the year to 5.5% from 7.1% during the previous year in line with the market trend.

Interest Expended

Total interest expenses for the year ended March 31, 2005 decreased by 17.5% to Rs. 168.21 crores from Rs. 203.82 crores in the previous year. The interest cost on deposits for the year has reduced to Rs. 146.13 crores for the year from Rs. 180.79 crores for the previous year. The average deposits during the year has decreased marginally to Rs. 2,907 crores as against Rs. 2,960 crores in the previous year. The share of retail deposits (savings, current and term) on an average was 74.4% during the year (previous year 80.1%). The Bank's strategy to increase the retail share continues through several innovative measures. The average deposit cost for the year has dropped to 5.1% as compared to 6.3% in the previous year.

Net Interest Income

The Net Interest Income for the year ended March 31, 2005 witnessed an increase of 37% to Rs. 177.88 crores from Rs. 129.97 crores in the previous year. This increase is primarily due to sustained improvement in Net Interest Margins (nearly 80% of the Bank's loan book is retail which is higher yielding as compared to corporate loans), increased volumes achieved during the year, coupled with declining interest cost. Consequently the net interest margin has improved from previous year's 4.6% to 5.8% for the year.



Other Income (non interest)

Other income (non-interest) grew marginally to Rs. 64.46 crores for the year ended March 31, 2005 from Rs. 62.98 crores in the previous year. Income from Treasury Operations (trading profit/loss as adjusted for amortisation and revaluation losses and Forex profit) for the year resulted in net loss of Rs. 2.60 crores as compared to a net gain of Rs. 19.88 crores booked in the previous year. Due to rising interest rates during the year, opportunities in the market for booking large profits in trading of securities have considerably diminished. The retail loans service income grew robustly in the year to Rs. 23.60 crores from Rs. 8.84 crores in the previous year as a result of an increased volume of retail disbursements of Rs. 1,829 crores (previous year Rs. 1,020 crores) during the year. In FY 04-05 the Bank added new income streams such as insurance and mutual funds which have helped to generate an income of Rs. 4.76 crores. Concerted efforts in recoveries helped to post an amount of Rs. 6.40 crores as recoveries for the year, (previous year Rs. 2.35 crores). Fees, commissions and exchange incomes posted healthy increases over the previous year.

Operating Expenses

The Bank's operating (non-interest) expenses increased 31% to Rs.189.45 crores during the year ended March 31, 2005 from Rs.144.68 crores in the previous year. Staff costs increased to Rs.42.70 crores from Rs.31.29 crores in the previous year as the Bank's staff strength increased to 1374 from 1112 as on March 31, 2004. Expenses on advertisement and publicity have risen to Rs.7.72 crores (previous year Rs. 4.15 crores) in tandem with the high growth in retail loans disbursed during the year. Expenses incurred on infrastructure, establishment of additional distribution channels and expenses pertaining to marketing of retail loans have also contributed to the increase in operating expenses during the year.

Operating Profit

The Bank has earned an operating profit of Rs. 23.16 crores for the year ended March 31, 2005 as against Rs.12.13 crores profit earned during the previous year.

Provisions & Contingencies

The Bank has made adequate provisions for non-performing assets and for diminution in the value of investments as per regulatory norms. In respect of retail loans and certain other classes of loans the Bank follows an accelerated provisioning method whereby 100% of the value of the asset is provided by the time the account has remained delinquent for a period of nine months.