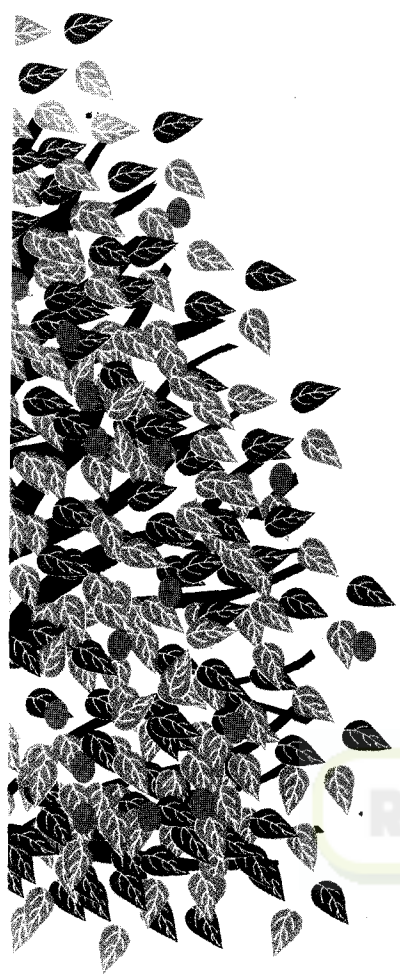


EXPONENTIAL GROWTH  
ANNUAL REPORT 2006 - 07



Report  Junction.com

## EXPONENTIAL GROWTH

At Centurion Bank of Punjab, it has been our endeavour to bring the world's best banking experience to our customers. Be it our customer centric service offerings or the renewed commitment to be India's most respected and admired financial services brand, we have always kept our clients at the center of all our activities. The prolific network expansion drive recently undertaken by us across the country reinforces our commitment to bring value offerings to the doorsteps of our esteemed clients. And what's more reassuring is the fact that our exponential growth has accorded us the distinction of being the fastest growing bank in the country.

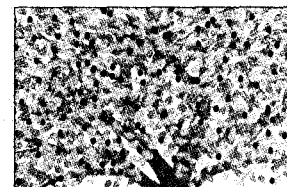


# Exponential Growth

## People Power



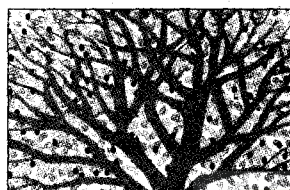
## Customer Thrill



## Rooted to the Ground



## Prolific Network Expansion



## A Picture of Strength



### BOARD OF DIRECTORS

Mr. Rana Talwar (Chairman)  
 Mr. S. Venkiteswaran (Director)  
 Mr. Kamlesh Vikamsey (Director)  
 Mr. S. K. Jain (Director)  
 Mr. Rajiv Maliwal (Director)  
 Mr. J. S. George (Director)  
 Mr. K. K. Abdul Razak (Director)  
 Mr. Y K. Modi (Director)  
 Mr. Chee Jin Kiong  
 Mr. S. K. Soni  
 Mr. Shailendra Bhandari (Managing Director & CEO)  
 Mr. Tejbir Singh (Executive Director)  
 Mr. Ahmed Mohamed Al Abri (Alternate Director to Mr. J. S. George)  
 Mr. Abdul Razak Ali Issa (Alternate Director to Mr. K. K. Abdul Razak)

### COMPANY SECRETARY

Mr. N. E. Venkitakrishnan

### AUDITORS

M/s. BSR & Co.  
 Chartered Accountants

### REGISTERED OFFICE

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

### CORPORATE OFFICE

Modern Centre, 'C' Wing, Ground Floor  
 Sane Guruji Marg, Mahalaxmi  
 Mumbai 400 011

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# Chairman's Letter

May 24, 2007



**Dear Shareholder,**

*During the past year we have witnessed a persistent trend of robust growth in the Indian economy, backed by strong performance across key sectors. The fundamentals of the economy remained strong and the long-term outlook continues to be positive. During the year, inflationary concerns prompted a correction in interest rates. The inflation rates however, have now softened, indicating that interest rates may have stabilized.*

*We continue to remain optimistic about the economic progress in India, especially in the vibrant SME and retail banking sectors and believe that your Bank is in an unique position to capitalize on these growth opportunities.*

*The financial year 2006-07 has been yet another year of substantial growth and consolidation for your Bank and it continues to maintain this pace of growth in all the business areas that it operates in. The robust financial performance in the past year is a reflection of the many strategic initiatives undertaken by the Bank. In the process, we are creating an energetic, agile and flexible organization to harness immense growth opportunities. While the growth in the Bank's retail advances reiterates its retail focus, the growth in the SME advances demonstrates the emergence of the SME segment as a rapidly scaling up second growth engine for the Bank.*

*Retail Banking continued to remain a strong growth engine for your Bank. This growth was achieved despite hardening interest rates and tighter market liquidity, particularly during the second half of the year. The SME segment has been one of the key focus areas for the management, the growth in the business has been in line with the initiatives taken at the Bank in this segment. As in the retail segment, your bank has now become a significant player in the SME segment.*

*Your Bank offers its customers a well-rounded suite of products, along key business areas spanning assets, wealth management, agricultural lending and the NRI business. Additionally with a view to enhance shareholder's value and de-risk its business model, your Bank has built a strong focus on fee-based services. During the year the Bank has invested significant time, energy and resources towards creating one of the best technology platforms and IT systems in the country. I believe that going forward this initiative would enable your Bank to further enhance efficiency, increase customer service levels and strengthen its customer offerings across various businesses.*

*In an endeavour to sustain its fast growth momentum, the Bank continues to pursue its strategy of growing organically and inorganically. After the unqualified success in all aspects of the amalgamation between Centurion Bank and Bank of Punjab in 2005-06, your Bank has applied to the Reserve Bank of India for its approval for the merger between your Bank and Lord Krishna Bank. This merger would strengthen the geographical reach of your bank in major towns and cities across the country and give the Bank dominance in the state of Kerala in addition to the existing dominance in the northern part of the country.*

*Your Bank is committed to ride on a fast growth trajectory, despite market pressures and economic challenges. These will continue to be met and overcome, with the spirit, commitment and dedication demonstrated by employees at all levels.*

*I would like to thank you for your continued support in pursuing the vision of Centurion Bank of Punjab emerging as India's most respected and admired Financial Services brand.*

*With best wishes,*

*Yours truly,*

**Rana Talwar**





## PEOPLE POWER

No two individuals are alike. Each has his own qualities, skills and strengths. Every individual has his own inherent identity. Each one of us is important and at Centurion Bank of Punjab we respect this and it shows. Here, every team member is encouraged and empowered to contribute, innovate and grow. And it is this empowerment that has fueled their passion to meet the demands of our discerning customers.



# Directors' Report

To,

The Shareholders  
Centurion Bank of Punjab Limited

Your Directors have pleasure in presenting the Thirteenth Annual Report together with the Audited Balance Sheet as at March 31, 2007 and the Profit & Loss Account for the year ended on that day. The year ended March 31, 2007 represents the second full year of operations of your Bank as the merged entity after the amalgamation of Bank of Punjab Limited with your Bank was consummated. The results for the last two years are therefore comparable.

The summarized financial performance of the Bank was as under:

(Rs. in crores)

Particulars	For the year ended 31st March 2007	For the year ended 31st March 2006*
Gross Income (Interest Income plus Other Income)	1,673.97	1,017.38
Gross Expenditure	1,404.77	907.25
Operating Profit	269.20	110.13
Amount realised under Financial Support Agreement	—	62.51
Provisions & Contingencies	147.82	84.84
Net Profit/ (Loss) after tax	121.38	87.80
Appropriations and Adjustments:		
Transfer to Statutory Reserve	30.35	21.95
Balance in Profit and Loss Account Brought forward from previous year	73.72	(121.39)
Adjustment of balance in Profit and Loss Account against Securities Premium Account	—	82.90
Transfer from Investment Fluctuation Reserve	—	45.36
Transfer from Debenture redemption Reserve	—	1.00
Balance carried over to Balance sheet	164.75	73.72
Deposits and borrowings as on March 31, 2007	15,794.61	9,451.21
Advances as on March 31, 2007	11,221.35	6,533.44

\* Previous year's figures re-grouped/re-classified, wherever necessary.

The Capital Adequacy Ratio (CAR) as at March 31, 2007 stood at 11.05% as compared to 12.52% as on March 31, 2006, which is well above the regulatory minimum of 9% stipulated by the Reserve Bank of India. Of this, Tier I CAR stood at 9.91% and Tier II CAR stood at 1.14% as at March 31, 2007.

The year 2006-07 has been another year of transformational growth for your Bank. Your Bank continues to grow rapidly in all the business areas that it operates in. The growth in the Bank's retail advances at 65% reiterates its retail focus. Additionally, the growth in the Corporate/SME advances at 89% demonstrates the emergence of the SME segment as a rapidly scaling up second growth engine for the Bank. Your Directors continue to remain optimistic about the economic progress in India, especially in the vibrant retail and SME sectors and believe that your Bank is in an unique position to capitalize on these growth opportunities.

During the year a Scheme of Amalgamation for consolidation of Lord Krishna Bank Limited with your Bank was approved by the respective Boards of Directors and the shareholders. The Scheme has been submitted to the Reserve Bank of India for their final approval pursuant to Section 44A of the Banking Regulation Act, 1949 and is awaited.

The Bank raised Rs.134.59 crores of Tier 1 capital through a preferential allotment of 6,99,20,000 equity shares of Re.1/- each for cash at a premium of Rs.18.25 per share in June 2006 and an additional Rs.184.05 crores in January 2007 through a preferential allotment of 7,50,00,000 equity shares of Re.1/- each for cash at a premium of Rs.23.54 to leading private equity investors. An amount of Rs.1.28 crores was realised on allotment of 32,00,000 equity shares against exercise of warrants convertible into equity shares of Re.1/- each (each warrant is convertible into one equity share) for cash at a premium of Rs.3/- per share. These warrants had been issued in February 2004 in terms of the Scheme of Arrangement for re-capitalisation and re-structuring of the Bank pursuant to Sections 391-394 of the Companies Act, 1956.

The Bank also realised a total amount of Rs.12.35 crores on allotment of 1,04,14,729 equity shares pursuant to the exercise of stock options under the Key Employee Stock Option Plan-2004 and the General Employee Stock Option Plan as detailed in the statutory disclosures regarding ESOPs annexed to this report.

## RATINGS

The Bank has its subordinated debt issue and deposit program rated by Fitch Ratings India Private Limited. The Bank's

subordinated debt issue is currently rated as 'A+(ind)' and its certificates of deposits program is rated as 'F1+(ind)' signifying the highest level of safety for such a deposit program.

#### OTHER AWARDS

The following awards were received by your Bank during the year:

- 1) Fastest Growing Bank in its segment – Awarded by Business Today, a leading business magazine.
- 2) Best Core Banking project for mid-sized banks – Asian Bankers IT Implementation Awards 2006.

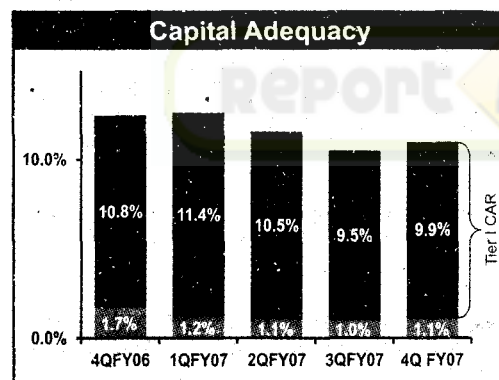
#### CAPITAL AND RESERVES

The Bank's Capital and Reserves as on March 31, 2007 stood at Rs.1,371.59 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.

Subordinated Bonds of a value of Rs.50 crores carrying a coupon rate of 12% were redeemed in April 2006 on the date of maturity.

During the year, the Bank granted 3,14,78,793 stock options to employees under the General Employees Stock Option Plan covering permanent employees of the bank.

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



#### DIVIDEND

The Bank has demonstrated a strong growth potential and has made rapid strides in achieving significant scale and size along with constantly improving profitability. The need to conserve capital resources for investment in growth opportunities continues to increase. The Board has therefore decided not to recommend any dividend for the year even though the profits for the year have increased considerably over those in the previous year.

#### MANAGEMENT DISCUSSION AND ANALYSIS

##### MACRO ECONOMIC ENVIRONMENT

India's economy continued to be amongst the strongest performing economies of the world, powered by a strong consumption led engine. Early in the year, as central banks around the world raised interest rates and removed monetary accommodation, there was a controlled re-assessment of the inflation outlook in global economies. This led to some re-pricing of risky assets and resulted in an equity market sell off in emerging markets, including India. However India's strong growth story

remained intact and FII and FDI inflows resumed by the third quarter of the year. The benchmark BSE rose from 11,571 to close the year at 13,070.

High prices of primary articles such as foodgrains, pulses, cereals and edible oils pushed up the wholesale price inflation from 3.69% at the beginning of the year to 6.46% by the end of the year and the consumer price inflation to around 10%. Higher inflation coupled with growth of bank credit especially to sectors considered sensitive to pricing bubbles led to a talk of overheating of the Indian economy. The RBI used several measures to restrict the amount of money banks could lend and the government also announced several measures to control inflation. These measures resulted in a sharp rise in domestic interest rates. Despite the inflationary pressures the overall GDP growth for 2006-07 was strong at 9%.

The Rupee witnessed two-way movements this year, falling to Rs.47/USD when equity outflows were taking place and then strengthening rapidly to end the year at Rs.43.37/USD. India's foreign exchange reserves soared to USD 201 billion.

#### OPERATING AND FINANCIAL PERFORMANCE

##### Summary

The operating profit of the Bank has increased by 144.44% to Rs.269.20 crores during the current year as compared to Rs.110.13 crores earned in the previous year. The Bank's profit after tax rose by 38.25% to Rs.121.38 crores during the current year as compared to Rs.87.80 crores (which included an amount of Rs.62.51 crores realised under a Financial Support Agreement) during the previous year. As of March 31, 2007, the Bank's ratio of gross non-performing assets (NPAs) to total customer assets was 2.78% as against 4.63% as on March 31, 2006. During the year, the Bank has assessed the delinquency level on its retail assets portfolio and changed its estimate of accelerated provisioning on Two Wheeler Loans, Personal Loans, Car Loans and Commercial Vehicle/ Equipments Loans. The Bank has on a prudential basis created provisions towards NPAs which are in specific and floating provisions. The Bank follows a provisioning policy which is in excess of the provisioning norms prescribed by the Reserve Bank of India. The Bank continues to carry a provision of Rs.51.36 crores (including floating provision of Rs.27.84 crores) in excess of the RBI prudential norms. The Bank has also created a standard provision of Rs.75.77 crores on the outstanding balance as at March 31, 2007 of personal loans, advances qualifying as capital market exposures, residential housing loans individually beyond Rs.20 lacs and commercial real estate loans which are required to be provided under the RBI guidelines in the financial year 2006-07. The net NPAs to customer assets ratio as at March 31, 2007 is 1.26% as against 1.13% as of March 31, 2006. The total assets of the Bank increased to Rs.18,482.78 crores as on March 31, 2007 from Rs.11,330.19 crores in the previous year. The Customer Assets constituted Rs.11,240.80 crores as on March 31, 2007 as against Rs.6,556.29 crores as of March 31, 2006. The total deposits have grown to Rs.14,863.72 crores as on March 31, 2007 as against Rs.9,399.64 crores at the end of the previous year.

##### Gross Interest Income

The Bank's total interest income has increased by 57.93%, gross interest being Rs.1,268.53 crores for the year ended on March 31, 2007 as against Rs.803.20 crores for the year ended March 31, 2006. Of this, the interest income on advances amounted to Rs.983.71 crores, an increase of 69.76%, compared to the income



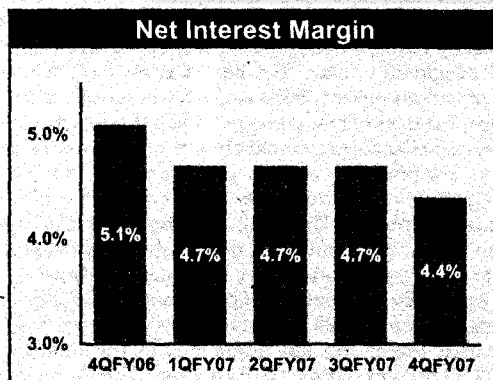
in the previous year of Rs.579.48 crores. The advances increased to Rs.11,221.35 crores as at March 31, 2007 from Rs.6,533.44 crores at March 31, 2006, a growth of 71.75%. The share of interest income on investments was Rs.243.57 crores during the year ended March 31, 2007, as against Rs.179.90 crores during the previous year, reflecting a growth of 35.39%. The investments increased to Rs.4,614.96 crores as on March 31, 2007 from Rs.2,922.83 crores as on March 31, 2006, registering a growth of 57.89%. Upon reduction in rate of interest on balance-maintained with the Reserve Bank of India, interest on balances with RBI and other banks was Rs.39.17 crores for the period ended March 31, 2007 as against Rs.39.54 crores for the previous year ended March 31, 2006.

#### Interest Expended

The Bank's total interest expenses have increased by 72.82% to Rs.698.95 crores for the year ended March 31, 2007 as compared to Rs.404.44 crores in the previous year. Of these, the interest cost on deposits rose by 73.88% to Rs.653.46 crores for the current year as compared to Rs.375.81 crores during the previous year. The average deposit cost for the year has increased to 5.62% as compared to 4.60% in the previous year.

#### Net Interest Income

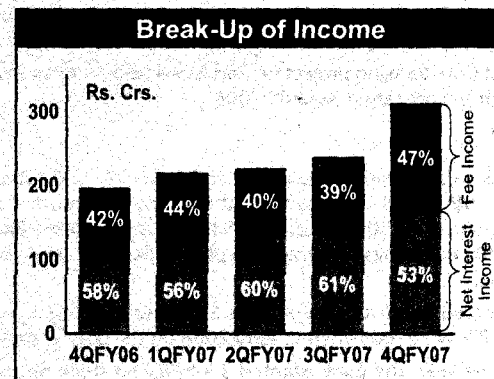
The Net Interest Income for the year ended March 31, 2007 witnessed an increase of 42.84% to Rs.569.58 crores from Rs.398.76 crores in the previous year. This increase was primarily due to the growth in the asset book. Retail Assets which constitute 69% of the total assets, yield a higher interest as compared to corporate loans. The net interest margin for the year ended March 31, 2007 was 4.6% as compared to 4.8% for the year ended March 31, 2006.



#### Other income

The Bank's Non Interest income witnessed a significant increase of 89.30% to Rs.405.44 crores during the year ended March 31, 2007 as compared to Rs.214.18 crores in the previous year. The retail loan service income grew robustly during the year to Rs.114.14 crores from Rs.50.03 crores in the previous year due to increase in disbursements to Rs.5,447 crores from Rs.3,561 crores in the previous year. An increase in third party product sales such as Bancassurance and Mutual Funds contributed significantly to the fee based income. The forex income was Rs.48.16 crores during the year ended March 31, 2007 as compared to Rs.31.30 crores during the previous year ended March 31, 2006, reflecting a growth of 53.87%.

As required by RBI circular No. DBOD.BP.BC 87/21.04.141/2006-07 dated April 20, 2007, the Bank has re-classified and adjusted from "Provisions & Contingencies" the amortisation of premium on the "Held to Maturity" portfolio for the year amounting to Rs.35.22 crores to "Other Income".

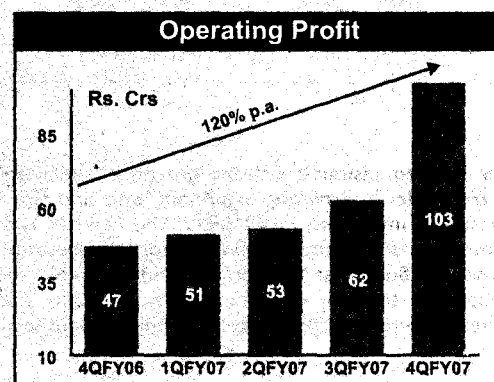


#### Operating Expenses

The Bank's operating expenses excluding interest expenses have increased by 40.38% to Rs.705.82 crores during the year ended March 31, 2007 from Rs.502.81 crores in the previous year. The staff strength has increased to 5,832 as on March 31, 2007 from 4,471 as on March 31, 2006. Accordingly, the staff costs have increased to Rs.221.31 crores from Rs.142.43 crores in the previous year. Expenses incurred on infrastructure, establishment of additional distribution channels and expenses pertaining to marketing of retail loans have contributed to the increase in operating expenses during the year.

#### Operating Profit

The Bank has earned an operating profit of Rs.269.20 crores for the year ended March 31, 2007 as against Rs.110.13 crores 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. In respect of retail loans (excluding mortgages) 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. A general provision @ 0.25% to 2.00% is made on various categories of



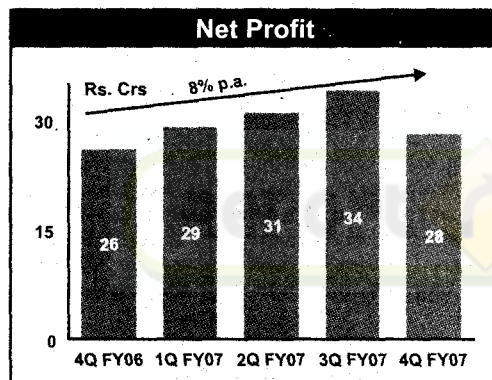
standard assets as prescribed by the RBI. Pursuant to the change in the provisioning requirement for certain categories of standard assets from 0.40% to 2.00% as notified by the RBI, the Bank made an additional provision of Rs.19.75 crores during the year ended March 31, 2007.

Details of provisions made for major items are as follows:

- Provision for NPAs at Rs.40.24 crores (previous year Rs.78.05 crores)
- Provision for standard assets at Rs.45.91 crores (previous year Rs.17.53 crores)
- Provisions for tax at Rs.62.31 crores (previous year reversal of Rs.0.69 crores)
- Provisions for depreciation on investments – Rs.0.83 crores (previous year reversal of Rs.8.87 crores)

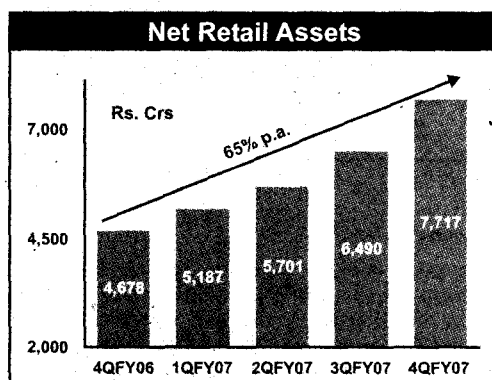
#### Net Profit

The Bank has declared a net profit of Rs.121.38 crores for the year ended March 31, 2007 as against a profit of Rs.87.80 crores in the previous year. The Bank has appropriated Rs.30.35 crores to the Statutory Reserve.



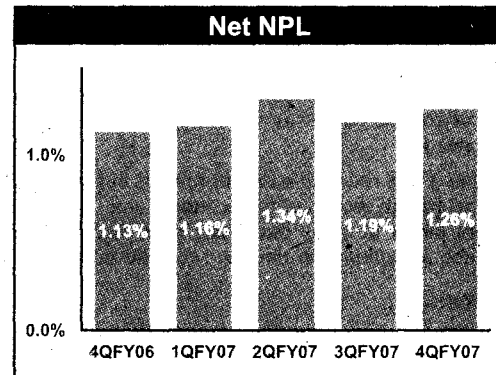
#### Assets

The total assets of the Bank increased to Rs.18,482.78 crores as on March 31, 2007 from Rs.11,330.19 crores in the previous year. The Customer Assets (loans, leases) amounted to Rs. 11,240.80 crores as on March 31, 2007 (previous year Rs.6,556.29 crores).



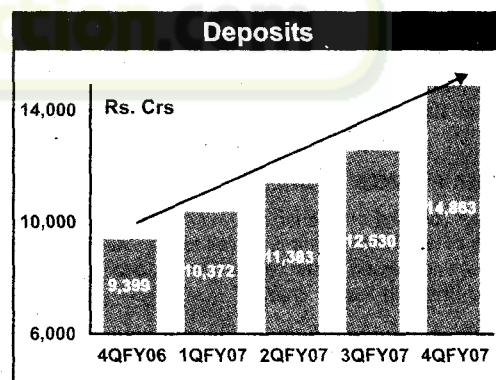
The gross NPAs, provisions and net NPAs as on March 31, 2007 were Rs.317.88 crores (previous year Rs.314.95 crores), Rs.176.38

crores (previous year Rs.241 crores) and Rs.141.50 crores (previous year Rs.73.95 crores) respectively. The Net NPAs increased to 1.26% of Net advances as on March 31, 2007 from 1.13% for the previous year.



#### Liabilities

Total deposits of the Bank grew to Rs.14,863.72 crores as on March 31, 2007 from Rs.9,399.64 crores in the previous year. Current Accounts and Savings Accounts (CASA) deposits constituted 30.62% of the total deposits for the year ended March 31, 2007 (previous year 38.73%).



#### TREASURY OPERATIONS

The Bank's Treasury had a profitable year and was also able to leverage corporate relationships developed by the Corporate and SME departments, to generate increased business volumes for the Bank. The Treasury undertook sales of new products to existing customers and was also instrumental in bringing new customers to the Bank. To manage the needs of customers better, the Treasury's geographical presence was expanded and Treasury Relationship Managers are now present in Mumbai, Delhi, Bangalore, Chennai and Ahmedabad.

The Bank was not very adversely affected by the rising interest rates in the short-term inter-bank (Call) market and borrowing costs remained within manageable limits.

#### RETAIL BANKING

The Retail Bank continued to remain the premier growth engine of the Bank. The retail business continued to grow at a robust



pace across both deposits and advances. This growth was achieved despite hardening of interest rates and tighter market liquidity, particularly during the second half of the year. The Retail business will continue to be a primary focus area for the Bank in the coming years. This is keeping in mind the robust rates of economic growth, tremendous headroom for increased consumer credit off-take, higher savings rates and raising income levels that offer an increasing scope for wealth management services.

The Bank follows a customer-centric strategy built on the financial life cycle of the consumer as well as existing and emerging consumer needs.

The Bank has a well rounded suite of products in keeping with its focus on the growth sectors of the economy and has emerged as a significant player in many businesses spanning assets, wealth management, agricultural lending and the NRI business.

### DISTRIBUTION

The Bank expanded its distribution significantly, which helped it to use different distribution channels to tap into both existing as well as emerging market segments.

### Branch Banking

Branch Banking was the driver for deposits and wealth management services for both existing and new Bank customers. The branches were also drivers of a few other products such as Credit Cards and certain Loan products.

### Direct Distribution

The Direct Distribution channel of the Bank was focused on Mortgages, Personal Loans and Credit Cards. This channel widened the Bank's reach across different customer segments. In addition the channel also delivered on deposit and wealth management products.

### CONSUMER FINANCE BUSINESS

This channel focused on the large mass-market segment and was a big driver of two-wheeler loans as well as the small ticket personal loans that are addressed to the two-wheeler customers as a strong, robust and branded feeder channel.

### INFRASTRUCTURE BUSINESS

Given the importance of the infrastructure segment and its linkage to the economic growth of the country, the Bank decided to create a special unit catering to the needs of the infrastructure segment by building on the existing business spanning construction equipment and commercial vehicle financing.

### BUSINESS SEGMENTS

#### ASSETS

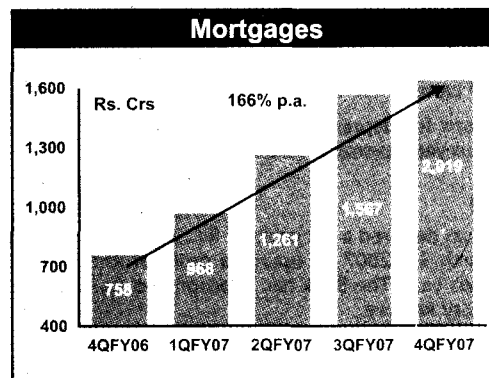
The Bank grew its assets business significantly and created a well-balanced asset portfolio keeping in mind both returns as well as risk.

#### Mortgages

Mortgages emerged as a key business driver on the assets side. The Bank became one of the fastest growing new generation private sector banks in this business clocking an impressive 166% growth in the mortgages book. Though a relatively new entrant,

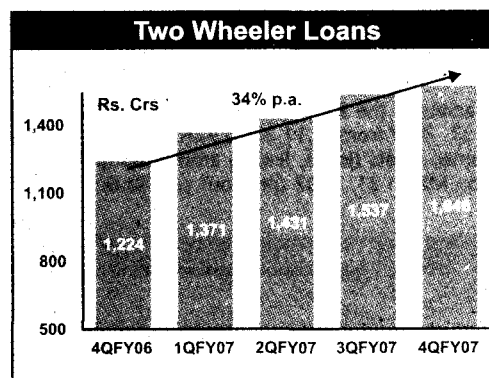
having entered the business just two years ago, the Bank today has a top ten position in the business in terms of new disbursements.

The Bank is tapping both the new home loan segment as well as high opportunity segments such as Loan Against Property, Commercial Property Loans as well as Lease Rental Discounting.



#### Two-wheeler Loans

The Bank maintained its strong position in two-wheeler financing, despite aggressive competition in the segment from both established and emerging players. This was achieved due to a strong sales and distribution network spanning over 700 locations, and well entrenched relationships with all leading Two Wheeler manufacturers. The Bank remained a strong top-3 financier in this market clocking 34% growth in the book size during the year 2006-07.



#### Personal Loans

The Bank tapped into one of the fastest growing segments in the country-personal loans. Using its growing Direct Distribution channel the Bank entered the top ten in personal loan disbursements. During the year 2006-07 the Bank's personal loan book size grew by an impressive 166% over the previous year. Personal Loans will continue to be an area of focus for the Bank in the coming years.