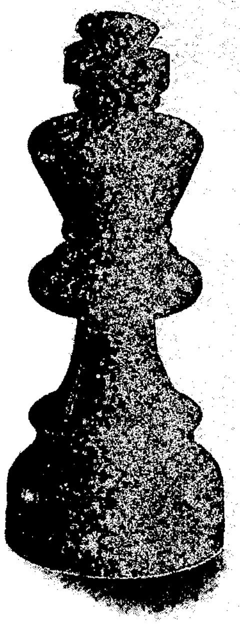
4TH ANNUAL REPORT 1996-1997

Focus Strength Leadership Dynamism Solidity

GLOBAL TRUST BANK LIMITED



Tapping the power of the mind, bringing to life its fullest potential of strategising, is the brainiest game of them all - Chess or "Chaturanga". The origins of which can be traced to Ancient India. This intellectual game has stretched man's capability against machine - Gary Kasparov and IBM's Computer (Deep Blue). Today as boundaries disappear, strategising is the key to success. Understanding this is Global Trust Bank. To emerge as a model and modern institution, the new generation bank has its strategies well etched out. By creating a market niche unique to its strength. By expanding retail reach. By harnessing technology. Binding all this together by a unique GTB culture. By positioning ahead of events like convertibility-by building Treasury to capture the explosive cross border business growth. And above all emphasising on relationships, not just deals. Global Trust - the bank for the future.

THINK BACK

'REASONABLY SATISFYING YEAR'.

"We used to say that we must raise resources from persons A to Z, now we are saying that we will focus on the real growth segment in India: the middle class who deserve world class banking"

Chairman Ramesh Gelli reviews the 1996-97 performance of Global Trust Bank

Q : Are you satisfied with the performance of GTB in 1996-97 ?

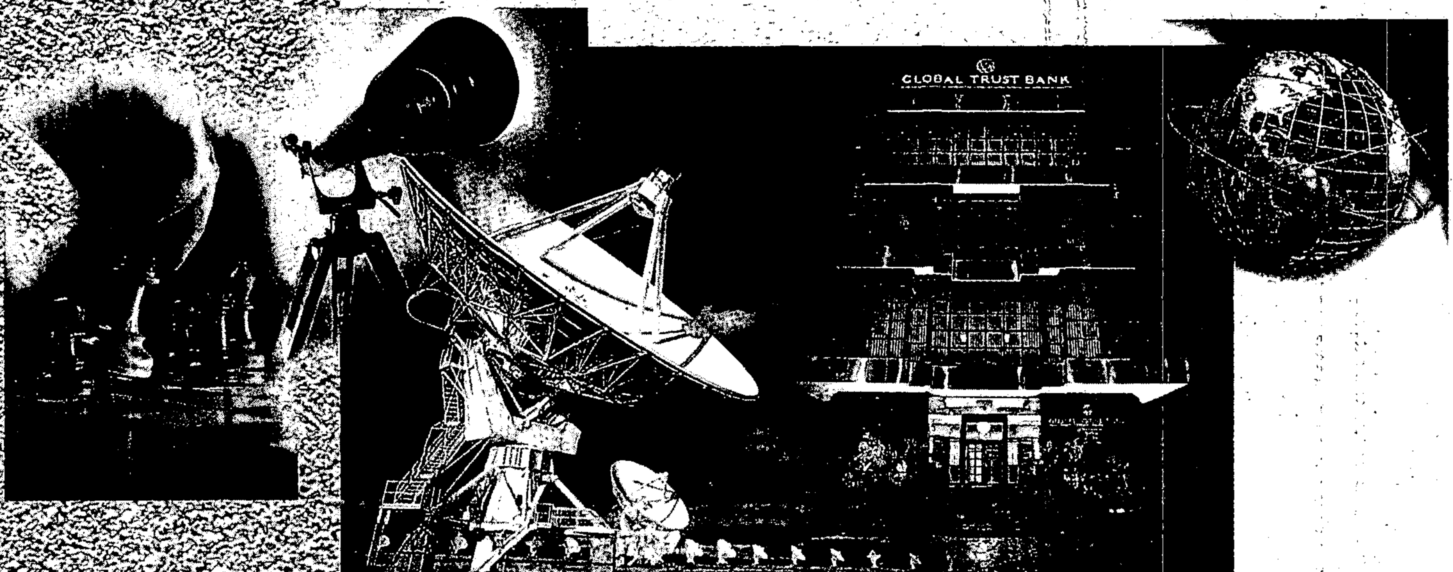
A : I am quite satisfied in a number of respects. We had made a long-term projection of our profits and deposit growth. At that time, one could not have imagined the problems that would cripple the Indian economy in 1996-97. And yet we managed to surpass each one of those projections that we had committed at the time of going public. For example, we had estimated a profit of Rs. 31.09 crores as at the end of the second year ended October 1996; we reached Rs. 57.40 crores by the year ended March 1997. We had estimated a deposit base of Rs. 1500 crores for the first 36 months; we touched a little over Rs. 2279 crores in just 29 months. That is, 52 percent ahead in deposits and a 85 percent growth in profits.

Q : So the tangible performance was absolutely on target.

A : We are ahead of target, but the numbers alone do not tell you the drama. When the RBI put the plug on export refinance during the early part of 1996-97, we were hit hard. However, we scaled the export lending exposure down gradually. Because we were flexible and responsive, we successfully reshuffled our advance portfolio.

Q : Where did the profits come from ?

A : The regular lending operations accounted for the big chunk. We also made



money in non-fund operations which are routine to a Bank like us. A small beginning was made via advisory services. But the big area of satisfaction was the performance of our treasury.

Q : In what way ?

A : The treasury's contribution to the overall profit of the Bank increased from Rs. 4 crores in 1995-96 to Rs. 17 crores in 1996-97. This was facilitated by the fact that our Merchant Forex turnover increased from Rs. 3,200 crores in 1995-96 to Rs. 4,200 crores in 1996-97.

Q : What was the other highlight of the last financial year ?

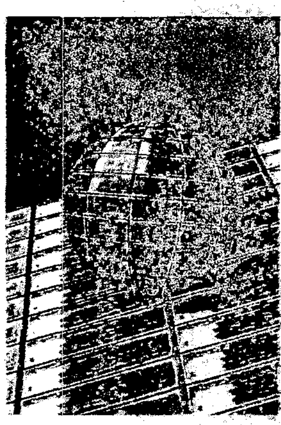
A : The fact that a definite business focus emerged during 1996-97. Our initial emphasis was on trying to grow as fast as possible and raise Rs. 2,000 crores in deposits. The focus was on 'getting there'. From now onwards we will start looking at 'how to get there'. Earlier, the goal was paramount, now it is the process. We used to say that we must raise resources from persons A to Z, now we are saying that we will focus on the real growth segment in India: the middle class who deserve world class banking.

Q : The provision of Rs. 46 crores needs elaboration.

A : As per RBI directives, if repayment or interest falls due for two or more quarters, the loan becomes an NPA. In such a case only 10 percent of the loan is to be provided in the first year. However, we have provided 100 percent for a good portion of our NPAs in 1996-97. The Bank has taken an ultra-conservative approach.

Q : What were you not happy about GTB's performance in 1996-97 ?

A : The fact that NPAs entered our books at all; the fact that our exit policy was outpaced by market changes (we could not extricate ourselves from some credit relationships at the first sign of trouble); that we were not able to recruit particular skills in certain divisions like industry evaluation. We will improve in each of these areas in 1997-98.



'We all throw our attention on the utterly idle question whether A has done as well as B, when the only question is whether A has done as well as he could'.

\- W. G. Summer,
American Sociologist

THINK HOW

'THE TRICK IS TO RAISE BUSINESS PER EMPLOYEE'.

"Banks will lead the economic growth over the coming years"

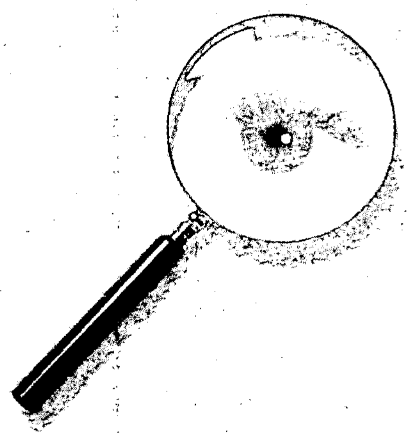
"Investors, on their part, will need to rate banks on their management strength, their past performance, the disclosure levels, efficiency costs and the sustainability of performance"

A microscope over the Bank

Raw Material Cost

Q : GTB's deposit base till now has been raised in a high interest era. Is this a disadvantage that you will inherit for a long time?

A : About 24 percent of the total deposits of the banking sector come from low cost savings accounts. However, only 1.5 percent of the deposits lying with the new private sector banks come from this source. So we have a disadvantage alright. But we are opening more branches to make it convenient for people to open savings accounts with us, which in due course reduce cost of funds.



Fighting Intermediation Costs

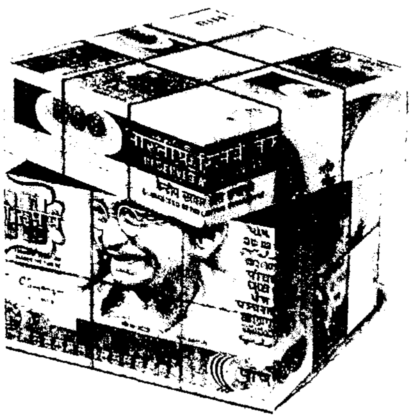
Q : How can you reduce overheads ?

A : The name of the game is to increase the business per employee and business per branch. The second trick is to be able to raise one's deposit base as high as possible and as fast as possible. For example, initially we did this by pricing our FDs one percent higher. This accelerated our deposit growth. We did this by passing on the benefits of our operational efficiencies to depositors. The principal area through which we can stay competitive is by reducing our overheads.

Credit Philosophy

Q : The Bank's credit-deposit ratio was 104 percent in 1995-96. Did you lend as aggressively in 1996-97 ?

A : We didn't - because export refinance dried up. We have accordingly, rolled back this



segment of lending. Our average fortnightly credit-deposit ratio was 78 percent for 1996-97, while it fell to 64 percent by the year end. We were far more conservative in expanding our credit.

The GTB Share Price

Q : What about the fact that the GTB stock has mostly moved down through 1996-97 and may be selling below its fair value ?

A : We admit that we are not correctly priced on the stock market. This is a cause of concern to the extent that our strengths have temporarily been overlooked. The cumulative profits in the last 29 months has been Rs. 111 crores on an equity of Rs. 104 crores. This means that the equity investor has got more than what he invested in less than two and a half years, which is an excellent business return. The return on average networth has improved : from 28 percent (Mar'95) to 32 percent (Mar'96) to 35.5 percent (Mar'97).

Perception of Banks

Q : Investors feel that banks are more complex to understand than other industries and this keeps them away.

A : This perception will have to change because banks will lead the economic growth over the coming years. More so, with the greater operational freedom given by the RBI in recent months. Investors, on their part, will need to rate banks on their management strength, their past performance, the disclosure levels, efficiency in costs, income streams and the sustainability of performance.

All these factors act as shock absorbers when business conditions worsen. I am not sure whether these factors are being taken into account when appraising banks today. But when it does begin to happen, banks like ours will be perceived more favourably in the market.

Conceived and Researched by TRISYS

'The greatest of faults is to be conscious of none'.

- Thomas Carlyle (1795-1881),
Scottish Author

THE INDIAN BANKING INDUSTRY, 1996-97

WHEN IDENTITIES BLURRED.

It was a year of conflict, between the saver and the borrower. And banks got squeezed.

It was a trial of nerves for the Indian Banking Industry.

The Indian economy went through a slowdown over most of 1996-97, which in turn sent pangs through the Banking Industry.

Although the aggregate bank deposits grew modestly by 16 percent, non-food (commercial) credit grew by only 6 percent. Business was slowing down, bringing in a spiral of liquidity and worsening credit quality. The ICD market, a good barometer of corporate health, dried up. Big corporates defaulted, accentuating the bad sentiment.

Regulators opened up the field

Banks who were tuned in, shut the taps on loan growth. Lending, it seemed would go out of fashion. They also had to re-align themselves with the new rules set by the RBI, which aimed to open up the play field and expose banks to market forces. If there was one heartening feature, it was the willingness of the RBI to free banks from the shackles of control.

- The CRR was brought down, from 14 percent to 10 percent over the year, freeing over Rs. 4,000 crores with every percentage drop.
- But export credit refinance was severely cut - from 100 percent to 20 percent in two strokes.
- Deposits over one year were freed of all rate controls - a bank could now offer depositors the rates they pleased. This put demands on the maturity of the bank's management.
- The one-year deposit rate was capped first at 10 percent and later in April'97 at 9 percent.
- Consortium participation was made easier.
- Credit delivery was further pushed towards 'loan' type (75 percent of the credit limit to a borrower would now be considered as a loan), rather than cash credit. This eased the burden of cash planning for the banks.
- Banks could trade in the secondary market, subject to the prevailing ceiling of 5 percent. This gave them more opportunity to trade in stocks.
- DFI's aggressively accessed market with deep discount bonds offering yield of over 16% p.a.

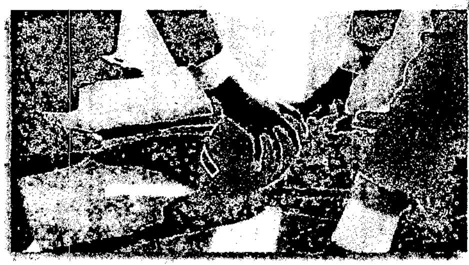
Consumers became choosy

That deposit growth remained more or less intact was indicative that household savings did not decelerate significantly over the year. But depositors became more demanding. The preference for short term deposits grew. Idle money in savings accounts was a thing of the past. Inflation perceptions drove depositors towards higher yields, but borrowers were clamouring for cheaper funds. Banks tried to push lower yields by compensating with better service for depositors.

It was a year of conflict, between the saver and the borrower. And banks got squeezed.

THE WORLD OUT THERE

STANDING OUT IN THE GLOBAL FOOTBALL FIELD.



Prof. Krishna Palepu, Harvard Business School Professor in Strategy and Finance, draws attention to an increasingly complex playing field and explains how GTB will thrive

It is a frighteningly complex world outside.

The Nikkei Index was around 39,000 a decade ago, Japanese stocks were priced at P/E multiples of 60-plus and if you wanted to secure the future of your children, you could do no better than buy a few square feet of real estate in Ginza. The world was Japan and its Mecca was Tokyo.

This is 1997. The investment banking houses in Japan are tired of predicting bull runs that will not happen. Optimists have been wiped out. Real estate prices have sunk. And the banks, which financed all those people who bought bathroom-equivalent space all over Japan, find that their borrowers will not pay. Loans that have gone down the chute total some 500 billion dollars.

Over the last decade as international markets have got increasingly integrated, borders have blurred. A political debate in the Italian cabinet affects forex rates in Chicago. A prediction on inflation in Germany shakes currency traders in Hong Kong. Cane rates being raised in Uttar Pradesh cause fund managers in Geneva to review their investments.

As the world shrinks to the size of a football field through improved communication, Indians will realise that it is no longer possible to stay cocooned. It's frightening. But there is an upside. The banking business will explode. There will be a lot more avenues to serve customers. If you want to buy a house today, you pay the money cash down and move in with wife and dog. The bank which finances the deal offers a choice : pay a slightly higher interest but take a covered rate which insures the borrower against fluctuations in the future or vice versa. There are more alternatives, as there is greater room to make money for the bank. This is precisely what is likely to happen in India. As boundaries virtually disappear, banks will introduce newer ways in which to trade, transact, hedge and live. The customer of the future will be aware that the other bank down the corner is offering 0.25 percent interest higher; he will be aware that the bank in the adjoining pin code offers to send an executive home to open the account. In such a scenario, the bank which is rightly positioned will make money for itself and its stakeholders.

What is 'rightly positioned' ? It means that a bank should look for a market niche which is unique to its strengths. A bank that will not work in segments which are overpopulated by 'me-too' banks. Which is why one is here at Global Trust Bank. To help it develop a strategy. To help guide its resources in a direction that will enable it to emerge as a Bank with an identity. In such a niche, the margins will be strong if the quality is right, and these accruals will help it grow faster without straining shareholder value.

I have been at Global Trust Bank over the last few months guiding it to its niche. The management is open to new ideas which I find surprising for an Indian company. When we thrashed out the business strategy for the medium-term, it required the Bank to *not* do a number of things. But the Global Trust Bank management was willing, and that's rare.

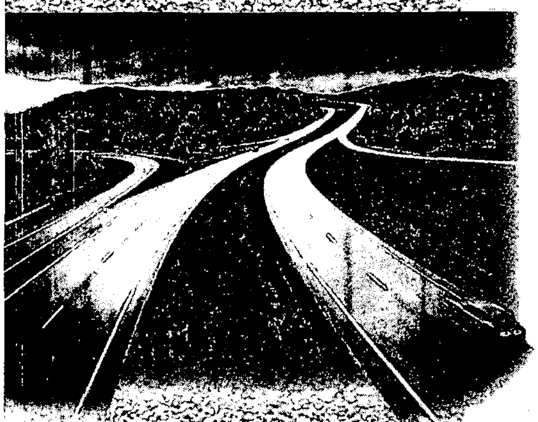
I was thoroughly impressed. I joined Global Trust Bank as a Director on the Board immediately after.

'A bank should look for a market niche which is unique to its strengths. A bank that will not work in segments which are overpopulated by 'me-too' banks'.

STRATEGIC CHOICES FACING THE BANK

THE FORK IN THE MIDDLE OF THE ROAD.

"India has the largest middle-class in the world and the largest number of mid-sized companies listed on the stock exchange. Too bad if we ignore the waiting potential staring at us in the face"



Global Trust knows which bend to take to reach its destination in the year 2000

Our vision is clear. To emerge as a model and modern Bank. That is what Global Trust Bank would want to be when you are reading the Annual Report for the year 2001.

Choosing our customers

The initial growth in fund base at Global Trust Bank was achieved with large ticket funds like Certificate of Deposit to achieve scale of operation. As technology stabilised and systems took roots, we are focussing on growing *core* deposit strength - meaning a well dispersed retail deposit base. This can come only if we achieve retail reach and friendliness. That's why we must have more offices in residential areas; why we need to provide extended banking hours tailored to local needs and convenience; why our teller must encash a cheque in under two minutes; or why the girl at the help desk must answer queries on the spot. We have decided who we want to attract to Global Trust. *We must give the customer some really good reasons to bank with us.*

Mid-market focus

"We sharpened our business focus during the course of 1996-97", says Mr. Gelli. "India has the largest middle-class in the world and the largest number of mid-sized companies listed on the stock exchange. Too bad if we ignore the waiting potential staring at us in the face". We have made a conscious decision to plug a drill into this mid-size market.

Easier said than done, Executive Director Mr. Sridhar Subasri admits this. "The challenge is how we can recruit better skills and fit them into our culture rather than create a multi-identity melting pot. Then the challenge is in how we can upgrade the skills. Then how we can retain them".

But the big thing about 1996-97, is that Global Trust Bank clearly saw the fork in the road. Like the one Alice came across in Wonderland. "Which fork do I take", she asked. "It depends on where you want to go", was the reply. "I don't know", said Alice. "Then it doesn't matter", said the voice.

Global Trust Bank knows which bend to take in its fork.

'A focus is the future'.

Al Ries.