EMERGING STRONGER

SIXTH ANNUAL REPORT 1998 - 99

GLOBAL TRUST BANK LIMITED

Contents

here was turbulence. It was stormy. Some of the clouds came from South East Asian region.
Some were made in India, in Pokhran and had the shadows of sanctions.

The cloud cover on the economy threatened many. Since the signals were read quickly at GTB,
the challenges were met. Twilight was used as sunrise and not as sunset.

Every cloud has a silver lining. The choice was clear. We, in GTB, had to respond to the fast changing externals.
We decided to hasten slowly. It was a time to actively work for containment.
Prudence meant that we built assets cautiously.

It was also a time to reinforce foundations. We branched new relationships in the retail segment.
We set out to re-look risk management parameters, enhanced systems, chiseled our craft, and focused on serving
customers even better. We realised that we need to be more organised, which we did.

Now that we have **emerged a stronger Bank,** we are moving to a period of vibrant growth.

Conservatism was the *mantra*

"In all, it was a year when we played safe and acted conservatively, and emerged a stronger Bank."

How would you like to remember 1998-99?

Positively. With the economy under pressure, it was a period of stress and we came out a better institution. It was a difficult year for banking industry, and we in GTB, had to respond to ensure that the negative impact was minimal.

Given the uncertainties, there was a need to stay liquid, particularly in the first half, not the ideal time for rapid growth. We decided to focus more on improving risk management and credit administration. However, we continued to grow retail relationship and added over a lakh of deposit accounts.

On the balance sheet side also, conservatism was the *mantra*. We started making provision for standard assets ahead of time, and created reserve for NPAs foreseeing tighter norms in the years ahead.

In all, it was a year when we played safe and acted conservatively, and emerged a stronger Bank.

Could the fall in profits have been avoided?

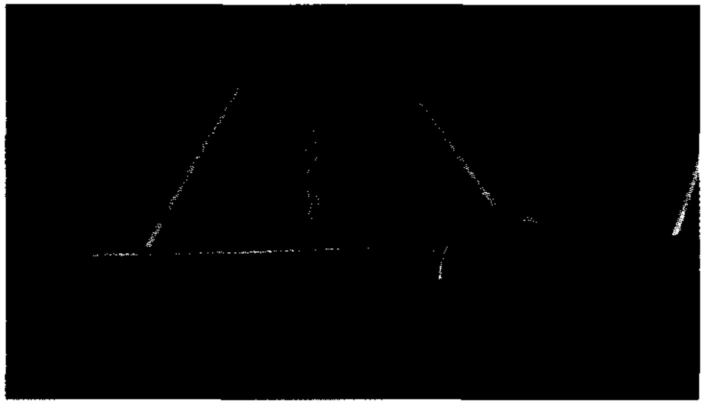
There are two ways of looking at this position. Yes, the actual profits were lower. Preferring liquidity meant investing in Government securities, and well rated short-term bonds, a conscious strategy with implications of lower yields.

We also made provisions on standard assets, which also reduced the bottomline. In a difficult economic situation, wisdom lay in chasing quality and safety, rather than profits. *When one sees a patch of bad road, one reduces the speed of the car.*

There is also another way of looking at profits. In the 53 months of the Bank, upto March 1999, on an equity base of Rs.104 crore, the cumulative profit after tax has been Rs. 263 crore, a CAGR of 36.2 per cent. GTB continues to be one of the most profitable banks. For 1998-99, the Return on Equity was 68 per cent and Return on Average Net Worth was 26.6 per cent. *We continue to drive the car, ahead of competition.*

What were the major initiatives of the year 1998-99?

The Bank was alive to new opportunities. One of the first to pursue the depository business, we saw a significant take-off



during the year. Our offer of demat service to retail customers became a strategic focus. This would yield in the years ahead an entirely new stream of non-fund based revenues.

We focused on all our costs. We reduced both cost of funds and cost of operations. Full benefits are expected to be visible from 1999-2000. This was complemented by the Bank becoming a clearing bank for BSE and NSE. Together, we captured a significant portion of the securities transaction chain.

It was an year for strengthening the systems. New divisions for Risk Management overseeing the whole bank, and Credit Administration, were carved out, which should stand the Bank in good stead.

Looking ahead, would you say there is lot more optimism?

The year has begun well. The economy is showing early signs of recovery. Quality credit seems to be picking up in select sectors.

Many initiatives taken in 1998-99 will prove good for GTB. Our strategies on ATM network and PhoneBanking should raise the level of customer service. Significant benefits in lowering cost of funds, and depository business, should accrue this year. As an organisation we continue to 'adapt and evolve'.

GTB can therefore look to emerging opportunities in the new millennium with greater optimism.

How does an investor in GTB stand to gain?

I think the GTB share owner is one of the well rewarded amongst comparable banks. On an investment of Rs.10 per share, the Bank has paid out five dividends (including that recommended for 1998-99) cumulating to Rs.7.50 per share. In the latest year despite drop in profits, the Bank has stepped up the dividend. Here again we are ahead of competition.

We opted for demat of GTB shares. Now the GTB scrip is on compulsory demat from 31st May 1999, making transactions hassle-free and convenient for share owners. We have paid the custodial fee to NSDL so that the share owner need not pay.

"We continue to drive the car, ahead of competition."

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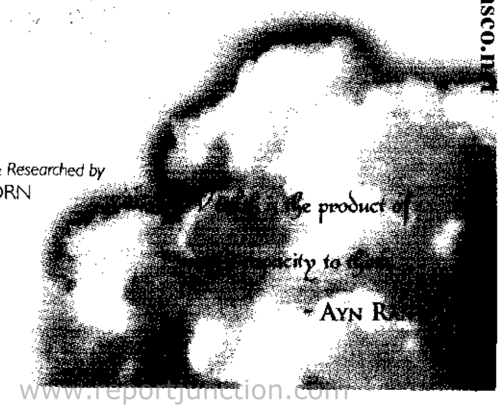
CAPRICORN



Pre-emptive Actions

Corporate Banking saw Quality changes

"We could focus and objectively monitor existing assets, and constantly validate the quality of risk."

The corporate world was different in 1998-99. The risk profile in the market had changed. Even the usually better performing companies appeared to be on the brink. Quality credit was scarce and carried a premium by way of low interest rates.

It was after Pokhran. There was also the fear that sanctions may hit industry. Interest rates could go up if flow of funds stopped in the economy. Similarly, if forex balances turned adverse, we could have the rupee under pressure. Sentiments were adverse especially in the first half.

We recognised no one wants excuses. At the same time, if one debt goes bad, it hurts the earnings made from many other loans. Obviously, we had to take pre-emptive actions so that shocks get minimised.

Translated, this meant, the Bank had to have far more responsive systems that will sound early warning signals. We have internally developed a credit grading system. This was revamped, and targeted average credit grade was moved up a notch, to balance against endemic economic slide.

We carved out a Credit Administration Department, which could focus and objectively monitor existing assets, and constantly validate the quality of risk. Mr. Prabhakar Udipi, General Manager-Credit Administration is categorical in saying, "Decision making became more deliberate and sharper."

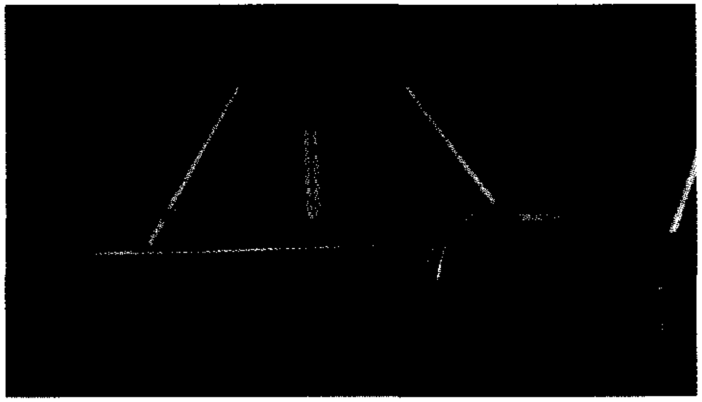
GTB also recognises that we are in the business of credit. We took the help of Crisil Research and Information Services (CRIS) to identify growth industry segments and target preferred relationship. Mr. M.V.S. Nageswara Rao, General Manager-Corporate Banking, described the efforts saying, "We did systematic credit marketing, and sought out good prospective customers. We reached out to mid-market corporates, and offered products that added value to customers. This has not only created new relationships, but has helped us to move up the credit chain."

Micro Credit

During the year 1998-99, a new initiative was our exposure to Micro Credit through specialised intermediaries. These organisations in turn lend forward. They out reach to Self Help Groups and weaker section beneficiaries, whose income generating activities help raise the living standards of the poor. We believe we have undertaken a pioneering role in rural credit.

As at end March 1999, our advances have increased from Rs.1,756 crore to Rs.2,118 crore. The major growth took place in the second half of the year. Average credit expansion was 9.45 per cent for the year.

Not only strike while the iron is hot, but make it hot by striking.
- Oliver Cromwell



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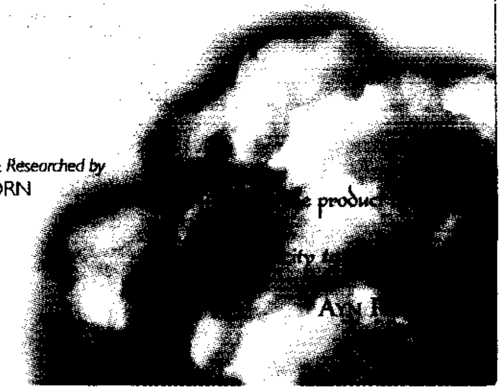

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- OLIVER CROMWE

World-class
Systems

Treasury Leads from the Front

"We helped our customers hedge better. Our advice helped them to hedge at the right time, as well as add/protect their bottomline."

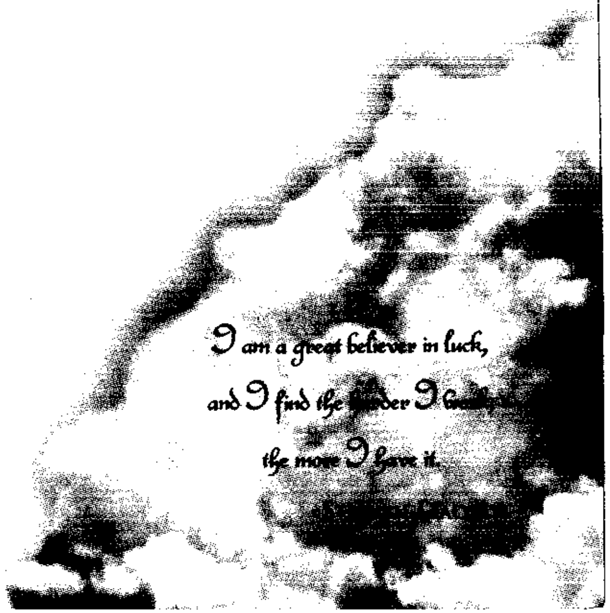
It was important to be liquid, safe, yet earning and on call. Our treasury was obviously on its toes. Due to the stressful conditions during the year, basic treasury functions were in the forefront.

GTB has always believed in a strong treasury. This comes out of our emphasis on disciplined management of risks. Discipline helped us to do well even in an uncertain year.

On our systems, we went the extra mile. We had conducted a study of our systems in the treasury, by the international firm of Coopers & Lybrand. They had benchmarked us against international best practices. While the report rated us well, during the year, we revamped and upgraded the treasury software, to become truly world-class.

Uncertainties and regulatory restrictions, bridled money market *and foreign exchange operations* particularly in the first half. It is only in the second half, we began to see profits from these segments.

The treasury desk did about Rs.12,500 crore of forex customer business during the year. Mr. Anand Anchan, Vice-President - Treasury, proudly says, "We helped our customers hedge better. Our advice helped them to hedge at the right time, as well as add/protect their bottomline. They also got to know the processes of risk management. We held their hand and helped them cross the road."



Growing Size

Banking on Relationships

"We are moving towards making the depositor as a customer of the Bank, more than the customer of the branch."

The overall deposit mix of the Bank underwent a big change. The component of Certificates of Deposits (CDs) was brought down and replaced by retail term deposits. Deposits from other banks continued to grow, as these have lower pre-emptions. All this helped lower the cost of funds.

We had evolved new approaches in defining customer relations. We saw our role as a facilitator, between the customer and his banking needs. This focus meant that we saw it all from the other side of the desk. If it helped the customer, we did it.

Naturally, customer relationship increased. During 1998-99, we opened 30,300 new Savings Bank accounts and added over one lakh new customer accounts, moving the customer base in excess of 2,40,000.

We helped them come closer, partly by our traditional Indian warmth that our branches effuse, and partly by reaching out to their doorstep. The number of branches increased from 45 to 63 in the financial year.

Extended hour business (8 am to 6 pm) gives more access time to the customer. In fact, customers availing convenience banking services like 2424 PhoneBanking and ATMs find that we are there Round-the-Clock. The use of these services increased dramatically due to the conscious efforts of the Bank through familiarization programmes.

The Bank is moving towards making the depositor a customer of the Bank, more than the customer of the branch. The emphasis is on Anywhere Anytime banking. "We have managed to find a fine blend of banking and relationship building," says Ms. Anjana Grewal, General Manager-Retail Banking, looking at the strong bonding.

"Most difficult part of customer service is consistency and the Bank is conscious of it."
Mr. P. C. Narayan, Executive Vice-President, asserts, "Consistency is fundamental to such relationships. We will go out and deliver consistently, the products and services that the customer expects."

Getting there isn't half the fun,
it is all the fun.

-Robert Townsend