

# Saraswat Bank

85th Annual Report  
2002-2003



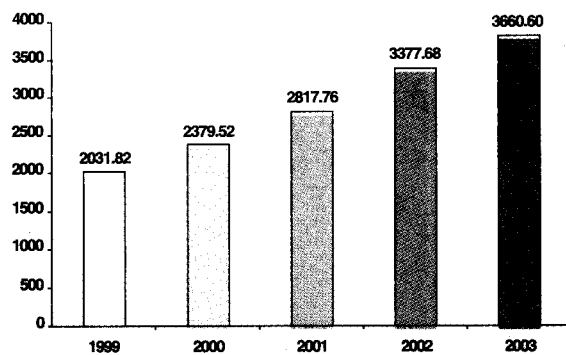
The seal of trust  
for generations...



दि सारस्वत को-ऑप. बैंक लि.  
**THE SARASWAT CO-OP. BANK LTD.**  
(Scheduled Bank)

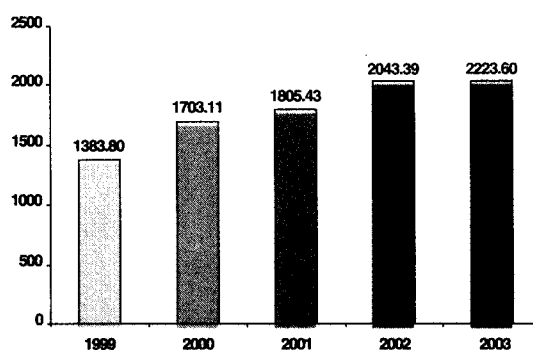
### Deposits

Rs in crores



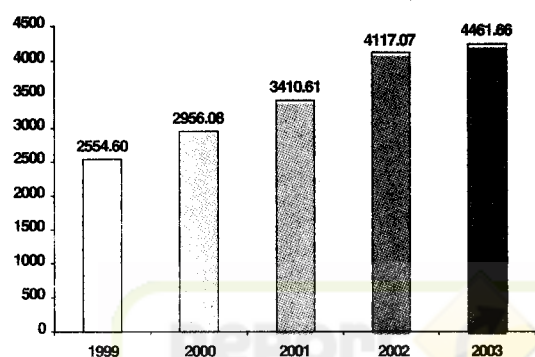
### Advances

Rs in crores



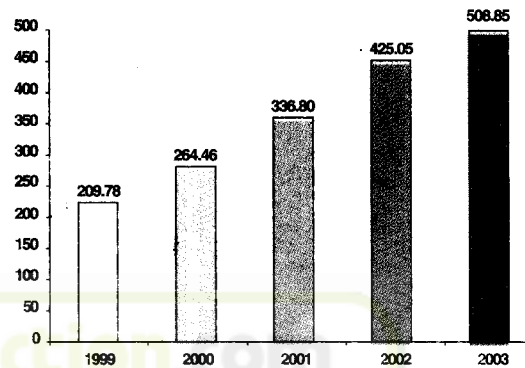
### Working Funds

Rs in crores



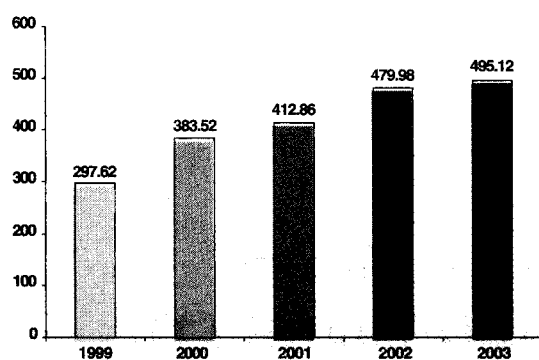
### Own Funds

Rs in crores



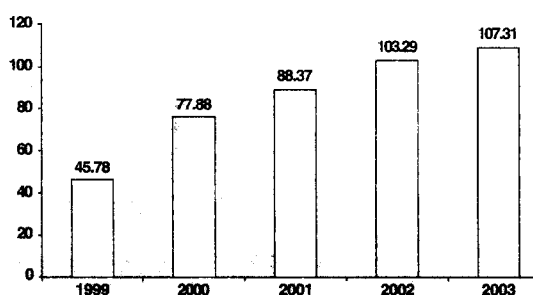
### Total Income

Rs. in crores



### Gross Profit

Rs. in crores



**THE SARASWAT CO-OPERATIVE BANK LIMITED**  
(SCHEDULED BANK)



<b>REGISTERED OFFICE</b>	: 'Madhukosh', S.V. Sovani Path, Girgaum, Mumbai - 400 004.
<b>CORPORATE OFFICE</b>	: Mittal Court, 'A' Wing, First Floor, Vidhan Sabha Marg, Nariman Point, Mumbai - 400 021. Website : www.saraswatbank.com E-mail : sarcocc@glasbm01.vsnl.net.in
<b>DATE OF REGISTRATION</b>	: September 14, 1918.
<b>NO. AND DATE OF R.B.I. LICENCE</b>	: ACD-MH-220-P-Dated-27.08.1980.
<b>AREA OF OPERATION</b>	: States of Maharashtra, Karnataka, Goa, Delhi, Territories of Daman and Diu, Municipal limits of Indore City in Madhya Pradesh, Municipal limits of Surat and Ahmedabad in Gujarat State.
<b>AUDIT CLASSIFICATION</b>	: 'A', Since 1933.

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**THE SARASWAT CO-OPERATIVE BANK LIMITED**

**BOARD OF DIRECTORS**

**Shri M.K. Alias Baba Parulekar, B.A.**  
Chairman

**Dr. N.J. Nayak, M.D., FICA (USA)**  
Vice-Chairman

**Directors**

**Dr. P.W. Rege, M.A., LL.M., Ph.D.(London)**

**Shri R.V. Kalghatgi**

**Shri M.P. Barde, B.E. (Civil), M.Tech., M.I.E.**

**Shri R.K. Patkar, B.A. (Hons.), B.Com.**

**Shri K.V. Rangnekar, M.A. (Sociology)**

**Dr. S.P. Adarkar, M.Sc., Ph.D.**

**Prof. V. M. Desai, B.Com., M.A., LL.M., F.C.A., C.I.A.**

**Shri N.R. Warerkar, B.Com., C.A.I.I.B.**

**Shri W. K. Mangaokar, B.Sc., LL.B., C.A.I.I.B.**

**Shri R. W. Gharse, B.Tech. (Chem.), M.M.S.**

**Shri E.K. Thakur, B.A. (Hons.), C.A.I.I.B.**  
Principal Advisor

**Shri S.K. Banerji, B.Sc.(Hons.), D.B.M., LL.M.**  
Managing Director

**SHARE DEPARTMENT :**

'Madhushree', 4th Floor,  
Plot No.85, Dist.Business Centre,  
Sector 17, Vashi,  
Navi Mumbai - 400 703.  
Tel. No. : 2789 2920 / 49 / 50

**AUDITORS :**

**Statutory Auditor:** M/s. Ganoo & Associates  
Chartered Accountants

**Internal Auditor :** M/s. Kulkarni and Khanolkar  
Assisted by a Team of Auditors

**LEGAL ADVISORS :**

Dr. B.R.Naik, LL.M., Ph.D.  
Shri A.V. Sabnis, LL.B.

**BANKERS :**

Maharashtra State Co-op. Bank Ltd.  
State Bank of India  
Bank of India

## THE SARASWAT CO-OPERATIVE BANK LIMITED

<b>PERFORMANCE HIGHLIGHTS</b> (Rs. in crores)			
<b>FOR THE YEAR</b>	<b>MARCH 31, 2003</b>	<b>MARCH 31, 2002</b>	<b>% CHANGE</b>
<b>Total Income</b>	<b>495.12</b>	<b>479.98</b>	<b>3.15</b>
<b>Total Expenditure</b>	<b>387.81</b>	<b>376.69</b>	<b>2.95</b>
<b>Gross Profit</b>	<b>107.31</b>	<b>103.29</b>	<b>3.89</b>
Less: Provisions/ Transfers	77.95	77.29	0.85
<b>Operating Profit</b>	<b>29.36</b>	<b>26.00</b>	<b>12.92</b>
Less: Deductions	-	-	-
<b>Net Profit</b>	<b>29.36</b>	<b>26.00</b>	<b>12.92</b>
<b>Foreign Exchange Business</b>	<b>15,289.00</b>	<b>15,778.00</b>	<b>(-) 3.10</b>
<b>AT YEAR END</b>			
<b>Own Funds</b>	<b>508.85</b>	<b>425.05</b>	<b>19.72</b>
Share Capital	30.44	27.09	12.37
Reserves	478.41	397.96	20.22
<b>Deposits</b>	<b>3,660.60</b>	<b>3,377.68</b>	<b>8.38</b>
Current	324.59	287.85	12.76
Savings	859.99	788.54	9.06
Term	2,476.02	2,301.29	7.59
<b>Advances</b>	<b>2,223.60</b>	<b>2,043.39</b>	<b>8.82</b>
Secured	2,151.83	2,009.02	7.11
Unsecured	71.77	34.37	108.82
<b>To Priority Sector</b>	<b>1,389.08</b>	<b>1,270.42</b>	<b>9.34</b>
Small Scale Industries	812.96	756.89	7.41
Small Businessmen and Traders	101.22	115.83	(-)12.61
Other Priority Sectors	474.90	397.70	19.41
<b>Working Capital</b>	<b>4,461.66</b>	<b>4,117.07</b>	<b>8.37</b>
<b>Investments</b>	<b>1,830.07</b>	<b>1,651.98</b>	<b>10.78</b>
<b>Borrowings and Refinance</b>	<b>32.62</b>	<b>74.93</b>	<b>(-) 56.47</b>
<b>Net NPAs (%)</b>	<b>3.99</b>	<b>6.31</b>	
<b>Capital Adequacy (%)</b>	<b>13.32</b>	<b>13.08</b>	
<b>Members : (No.)</b>			
Regular	89,117*	85,636*	
Nominal	2,74,700	2,51,277	
<b>Branches (No.)</b>	<b>76</b>	<b>75</b>	
<b>Employees (No.)</b>	<b>1,790</b>	<b>1,781</b>	
*Shareholders holding 50 shares and above.			

**THE SARASWAT CO-OPERATIVE BANK LIMITED****NOTICE**

The Eighty-Fifth Annual General Meeting of the Members of The Saraswat Co-operative Bank Ltd., will be held at 2.00 p.m. on Saturday, July 5, 2003 at Birla Matushri Sabhagar, 19, Marine Lines, Mumbai - 400 020 to transact the following business:

1. To consider the Annual Accounts, which consist of the Profit and Loss account, the Balance Sheet, the report of the Board of Directors and the reports of Internal and Statutory Auditors for the year ended March 31, 2003.
2. To appropriate net profit and declare dividend as recommended by the Board of Directors for the year ended March 31, 2003.
3. To appoint M/s.Kulkarni and Khanolkar as Chief Internal Auditors and to approve a panel of Auditors for the year 2003-04.
4. To appoint M/s Ganoo and Associates as Statutory Auditors for the year 2003-04 and to authorise the Board to fix their remuneration.
5. To transfer the unutilised amount of Rs.70.00 lakhs, appropriated towards "Gujarat Earthquake Relief Fund" in the year 2000-01, to the Development Fund.
6. To approve amendments to the Bye-laws.

By Order of the Board of Directors

**S.K.BANERJI**  
Managing Director

Mumbai : May 31, 2003.

**NOTE** : Copy of printed Annual Report consisting of Profit and Loss Account, Balance Sheet, the reports of Internal and Statutory Auditors for the year ended March 31, 2003 and proposed amendments to the Bye-laws are sent with this notice.

If there is no quorum at the appointed time, the meeting shall stand adjourned to 2.30 p.m. on the same day and the agenda of the Meeting shall be transacted at the said venue irrespective of the rule of quorum in terms of bye-law No.48.

Dividend, when declared, will be paid on or after July 7, 2003, to those shareholders whose shares are fully paid on March 31, 2003 and whose names are on the record of the Bank on May 31, 2003.

If any member desires to have information in connection with the accounts, he/she is requested to address a letter to the Managing Director, to reach the Secretarial Department of the Bank at Mittal Court, 'A' Wing, 1st Floor, Vidhan Sabha Marg, Nariman Point, Mumbai, 400 021, not later than June 30, 2003 so that the required information may be made available at the Annual General Meeting.

**TO SERVE YOU BETTER:**

1. Shareholders are hereby requested to kindly verify their names and addresses on the Annual Report sent to them. The change in address, if any, may kindly be intimated to the Share Department for updating Bank's records.
2. Shareholders are requested to avail nomination facility by submitting prescribed nomination form as required under Section 36 of the Multi-State Co-operative Societies Act, 2002, and our Bye-Law No.19.
3. Shareholders having Current / Savings Bank Account with the Bank and desirous of crediting their dividends to their accounts are once again requested to record their standing instructions in the enclosed format, with the Share Department.

**Unclaimed Dividends**

Notice is hereby given that dividend for the year ended March 31, 2000, (79<sup>th</sup> Dividend ) if not drawn on or before July 29, 2003, will be forfeited and credited to the Reserve Fund Account in terms of Bye-law No 68A.



## THE SARASWAT CO-OPERATIVE BANK LIMITED

**DIRECTORS' REPORT :**

Dear Member,

Your Directors are pleased to present the Eighty-Fifth Annual Report on the business and operations of the Bank together with the Audited Accounts for the year ended March 31, 2003.

**THE YEAR THAT WAS.....**

During the second half of the financial year under report, the Iraq crisis hovered over the world economy with its inevitable impact on oil prices and the resultant inflationary trend. During the current financial year, the focus of ongoing reforms in the Banking sector was on soft interest regime, increasing operational efficiency in the banks, strengthening regulatory mechanism and on technological upgradation.

Reduction in interest rates on PPF and National Savings in the Union Budget for 2003-04 signalled lower interest rate regime. Reserve Bank of India too maintained the same direction of Monetary Policy by reducing the repo rate and interest rate on savings deposits, which was further reinforced through the Monetary Policy announced in April 2003.

During the year under review, Rupee remained stronger vis-a-vis the Dollar. Continual flow of FII funds and favourable Balance of Payment position culminated in increasing the foreign exchange reserves to US \$ 75 billion. For the banking industry as a whole, deposits witnessed a growth of 16.10% over the previous year. The credit growth of scheduled commercial banks too showed substantial rise of 23.00 % during the period. Banks have been witnessing falling spreads and a declining trend in fee incomes.

In the Banking industry, a new giant emerged with the merger of ICICI into ICICI Bank. In a relative development, while Nedungadi Bank was merged with Punjab National Bank, Reserve Bank of India allowed Kotak Mahindra Finance Company to form a private bank. Government of India allowed FIIs to raise their share holding in Indian banks above 40.00%.

In the Co-operative Banking sector, the turmoil continued with the suspension of boards of a few Co-operative Banks and appointment of administrators with a view to rehabilitating those banks. In the competitive era, to enable Co-operative Banks to take up the challenges on the management of asset-liability front, as also for retaining and enhancing their share in the Banking Industry, Reserve Bank of India has launched a Technical Assistance Programme in association with National Institute of Bank Management for building a strong Management Information System (MIS) in Co-operative Banks. Training is being imparted for the purpose to the officials of various Co-operative Banks. While the issue of dual control about the monitoring of Co-operative Banks, is yet to be resolved, it appears that an additional Deputy Governor would be appointed in the Reserve Bank of India exclusively to look after the Co-operative Sector.

Reserve Bank of India has recently introduced a Lenders' Liability Code requiring the banks to :

1. disclose the reasons for rejecting a proposal,
2. specify detailed terms and conditions of sanction,
3. disclose the interest rates,
4. declare the maximum time that would be needed to process a proposal.

Though this Code is not made mandatory for the Co-operative Banks, your Bank has voluntarily accepted the Code and is preparing itself for adoption of the same.

Reserve Bank of India has scrapped the 'Weak' and 'Sick' tags for classifying financially unsound Urban Co-operative Banks and will now classify them into four grades I, II, III and IV depending on the CRAR percentage, Net NPA level and Profitability. With our strong financial parameters, we would naturally belong to Grade I.

## THE SARASWAT CO-OPERATIVE BANK LIMITED

The enactment of the "Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002" (Securitization Act) by Parliament is an important landmark in the reforms in the Financial Sector. This Act was made applicable to Co-operative Banks too in January 2003. This Act is expected to address the problem of recoveries of NPAs of the Banks. The Multi-State Co-operative Societies Act, 2002 which replaces the Multi-State Co-operative Societies Act, 1984, came into force with effect from August 19, 2002. The rules thereunder were made effective from December 2, 2002.

### WHAT WE ACHIEVED...

Your Bank had to strategise a policy of operations for itself against the backdrop of nearly successive three years of industrial recession and economic downturn. Economic downturn hits banks in several ways a) it affects credit off-take b) with recoveries lagging behind, it impairs asset-quality and c) resultantly forces the banks to tighten new credit norms and new credit release. Economic downturn thus dictates a conservative policy.

Accordingly, the Bank also chose to adopt conservative policy in view of the recessionary trends in the economy and the soft interest rate regime. In keeping with the market trend, deposit rates were reduced on two occasions. These steps helped the Bank reduce the average cost of deposits from 8.35% to 7.82%, but lowered the growth in deposits. This was, however, in consonance with the policy adopted by the Bank.

In respect of interest rates on advances, your Bank set its Prime Lending Rate (PLR) at 12.00% as a sequel to Reserve Bank of India abolishing the Minimum Lending Rate (MLR) concept earlier preset for the Co-operative Banks. While the slabs for commercial loans were immediately reviewed and revised downwards, your Bank set the trend for further lowering interest rates in the Housing segment by launching the Vastu Siddhi Home Loan Scheme with interest at only 10.50% p.a.

On the technology front, your Bank had to sever its ties with i-flex Solutions Ltd. because of their failure to fulfil obligations under the contract with the Bank. The Bank has selected a software developed by Infracore Technologies Ltd. This arrangement would be a step forward in moving towards the core banking solution, sought after by the banking industry which also remains a goal of your Bank and it is being pursued vigorously. The process of implementation has been initiated at some branches in Mumbai and the remaining branches would be rolled over by July 31, 2003. The new software will enable the Bank to offer facilities like Any Branch Banking, PC Banking and Tele-Banking in the interim period.

The Bank has already put the transactions in Government Securities on the 'Negotiated Dealing System' (NDS). The Interbank transactions in Foreign Exchange are routed through the platform provided by 'Clearing Corporation of India Ltd.' (CCIL). Your Bank was the first Bank ever to register a transaction on the 'Collateralised Borrowing and Lending Operation' platform (CBLO). Further, your Bank is preparing itself to participate in the 'Real Time Gross Settlement' system (RTGS) which will soon be introduced by the Reserve Bank of India. The RTGS in its first phase will provide instantaneous funds transfer amongst the banks and will slowly do away with the special clearing for high value transactions. When fully operational, it will obviate the need for cheques and demand drafts in the payment system.

With the pressing demands of competition and efficiency, it was essential to re-orient the organizational structure from the traditional 'function based approach' to the 'customer-focused approach'. With this view in mind, the Bank availed of the services of "Seven-S Banking Management Consultants Ltd", headed by Shri L.G. Kulkarni, ex-Deputy Managing Director- State Bank of India. The revised organizational structure is being implemented effective from November, 2002. Salient feature of the structure is that apart from being customer focused, it also ensures synergy in the overall working of the Bank. Through the structure, new avenues of business like Third Party Distribution of liability products, Insurance Products would receive pointed attention. Formation of Central Management Committee (CENMAC), comprising top executives of the Bank has not only accelerated the decision making process but has also facilitated cohesive decision making in the Bank. The CENMAC facilitates taking of informed and balanced administrative decisions as also rendering to the Board, its considered advice on all business-related issues. Professional Management as a tool for better Corporate Governance is thus being pursued in letter and spirit.



## THE SARASWAT CO-OPERATIVE BANK LIMITED

In the revised set-up, Retail Banking Division will address issues relating to retail deposits as well as retail advances. Many innovative schemes have been launched and existing schemes have been improved to come closer to the customers' expectations. Strategies to meet the competition in this segment have been planned to be implemented such as tie-ups with Corporates, Builders and Dealers, cross selling of products etc. A modest beginning has been made by entering into a tie-up with Direct Selling Agents for marketing the products of the Bank. ATM is being looked upon as an additional channel complimentary to branch banking. ATMs were installed at Dahanukar Colony and Aundh in Pune and at Pali Hill and Dombivali in Mumbai region during the year. Besides installing ATMs at the branches, on receiving permission from the Reserve Bank of India, the Bank also proposes to provide off-site ATMs.

The Securitization Act together with the Multi-State Co-operative Societies Act, 2002 have enabled the Bank to expedite the process of recovery in respect of recalled and Non-Performing Accounts. The NPA Management and Recovery Department constituted for this purpose has been further strengthened to benefit from these changes in the legislation. The Bank has already initiated the process under the Securitization Act.

The Bank has made available premises for conducting proceedings under section 84 of the The Multi-State Co-operative Societies Act, 2002 before the Arbitrator and under section 101 of the Maharashtra State Co-operative Societies Act, 1960 before the Assistant Registrar with a view to expediting the recovery proceedings.

In view of the overall prudent and conservative policy frame adopted this year, branch expansion was on a low profile with the Bank opening only a single new branch at Bibwewadi in Pune. Bank has plans to expand the number of branches to 80 during the year 2003-04. Following its decision to dispose of the premises at Sadashiv X Lane, Bank has merged the operations of that branch with the nearby Girgaum branch.

With a view to facilitating a more objective decision making, backed by studied recommendations, your Bank has constituted three Committees of the Board, viz. 1) Operations Committee, 2) Audit, Accounts and NPA Management Committee and 3) Human Resource Committee. These Committees meet at the predecided intervals to resolve the relevant issues and to make appropriate recommendations to the Board.

**FINANCIAL PERFORMANCE :**

The salient features of Financial Performance of the Bank during the year ended March 31, 2003 are summarized below:

(Rs. in crores)

Particulars	March 31, 2003	%ToWorking Funds	March 31, 2002	%ToWorking Funds	%Change
<b>Working Funds</b>	<b>4,461.66</b>		<b>4,117.07</b>		<b>8.37</b>
<b>Total Income</b>	<b>495.12</b>	<b>11.10</b>	<b>479.98</b>	<b>11.66</b>	<b>3.15</b>
Interest Income	406.40	9.11	384.17	9.33	5.79
Non Interest Income	88.72	1.99	95.81	2.33	(-)7.40
<b>Expenditure</b>	<b>387.81</b>	<b>8.69</b>	<b>376.69</b>	<b>9.15</b>	<b>2.95</b>
Interest on Deposits and Borrowings	275.28	6.17	266.44	6.47	3.32
Establishment Expenses	70.41	1.58	65.08	1.58	8.19
Administrative Expenses	42.12	0.94	45.17	1.10	(-)6.75
<b>Gross Profit before provisioning</b>	<b>107.31</b>	<b>2.41</b>	<b>103.29</b>	<b>2.51</b>	<b>3.89</b>
Less : Provisions / Transfers	77.95	1.75	77.29	1.88	0.85
<b>Operating Profit</b>	<b>29.36</b>	<b>0.66</b>	<b>26.00</b>	<b>0.63</b>	<b>12.92</b>
<b>Less : Deductions</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Profit</b>	<b>29.36</b>	<b>0.66</b>	<b>26.00</b>	<b>0.63</b>	<b>12.92</b>

**THE SARASWAT CO-OPERATIVE BANK LIMITED**

While interest income increased by 5.79% over the previous year, interest payment has shown a lower rise of 3.32%.

Whereas, the cost of deposits is on the decline in tandem with the market trend, yield on advances too is decelerating. Proactive efforts have been initiated for curbing reduction in income on account of rising NPAs through the NPA Management & Recovery Department.

Yield on investment has declined from 11.20% in the previous year to 9.78%. Despite the fact that yields on new investment is as low as 5.50%, the Bank's average yield is 9.78%. This is because of percipient and deft management of Treasury Operations and preservation of old securities with higher yields.

Non-interest income has declined from Rs.95.81 crores to Rs.88.72 crores. The decline is attributed to the lower trading profit. Trading profit is a function of market forces and hence is varying in nature.

Establishment expenses have increased by 8.19% over the previous year owing to the promotions, annual increments and implementation of new organisational structure. It must, however, be noted that with tight controls, your Bank has been able to limit the establishment expenses to 1.58% of working funds – that is at the same level as the last year. Further, the Bank has been successful in bringing down administrative expenses from 1.10% of working funds to 0.94% of working funds this year. The benefit of the new organisational structure with customer focus will definitely be reflected in the financial results for 2003-04.

**APPROPRIATIONS:**

According to section 63 of the Multi-State Co-operative Societies Act, 2002, following appropriations, out of net profit available for distribution, are recommended by your Board :

	(Rs. in lakhs)	
<b>Transfer to :</b>	<b>2002-03</b>	<b>2001-02</b>
Reserve Fund	733.97	650.11
Contingency Reserve as introduced u/s 63 of Multi State Act, 2002	293.59	—
Provision for payment of contribution to Education Fund of N.C.U.I.	29.36	26.01
Proposed Dividend @ 15% p.a (Last year 20% including Special Dividend of 5%)	408.03	492.05
Provision for Ex-gratia payment to the employees—10% (Last year 20%)	440.00	800.00
Building Fund	985.92	537.24
Members' Welfare Fund	20.00	20.00
Provision for Staff Welfare Fund	10.00	10.00
Provision for Public, Charitable & Co-op. purposes	15.00	65.00
Balance to be carried forward to the next year	0.02	0.04
<b>Total</b>	<b>2,935.89</b>	<b>2,600.45</b>

In the year 2000-01, your Bank had appropriated an amount of Rs.75.00 lakhs towards "Gujarat Earthquake Relief Fund" to extend help to the earthquake struck villages / towns in Gujarat. Out of these funds, an amount of Rs. 5.00 lakhs was donated for the purpose and Rs. 70.00 lakhs remained unutilized. The Bank intends to observe year 2003-04 as the 'Year of Consolidation' and therefore, it is proposed to transfer these unutilized funds to the Development Fund Account.