


UTI BANK

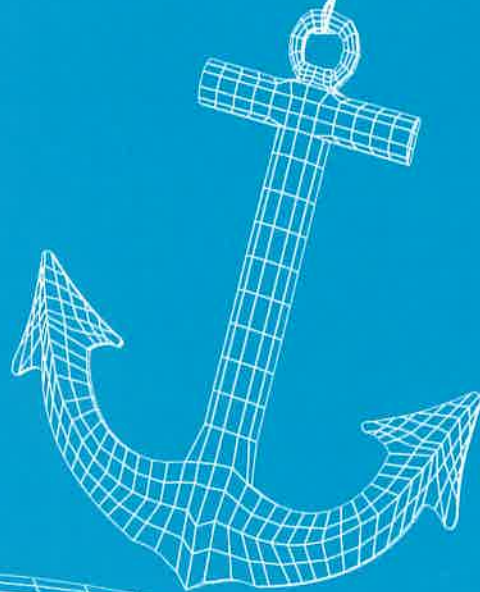
TENTH ANNUAL REPORT 2003-04



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anchor: solidity, strength, reliability
2.5 million customers





telescope: vision, foresight
Disaster Recovery Centre which will keep
the Bank functional in any emergency

BOARD OF DIRECTORS

P. J. Nayak	Chairman & Managing Director
K. Narasimha Murthy	Director
M. Raghavendra	Director
Surendra Singh	Director
R. N. Bhardwaj	Director
Donald Peck	Director
Daniel Paul Fletcher	Director
N. C. Singhal	Director
Yash Mahajan	Director
J. R. Varma	Director
A. T. Pannir Selvam	Director
Ajeet Prasad	Director

P. J. Oza Company Secretary

M/s. Bharat S. Raut & Co. Auditors
Chartered Accountants

M/s. Karvy Computershare Private Limited Registrar and Share Transfer Agent
(formerly Karvy Consultants Limited)

UNIT: UTI BANK LIMITED

"Karvy House", 46, Avenue 4, Street No. 1
Banjara Hills, Hyderabad 500 034.
Tel. No.: 040 - 2331 2454, 2332 0251/751/752
Fax No.: 040 - 2331 1968

Registered Office

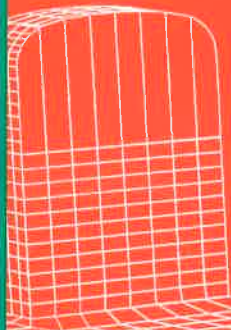
'Thrishul', 3rd floor, Opp. Samartheshwar Temple
Law Garden, Ellisbridge, Ahmedabad 380 006.
Tel. No.: 079-2640 9322
Fax No.: 079-2640 9321
Email: poza@utibank.co.in
Website: www. utibank.com

Central Office

Maker Towers 'F', 13th Floor, Cuffe Parade
Colaba, Mumbai 400 005.
Tel. No.: 022-2218 9106/7/8/9
Fax No.: 022-2218 6944/2218 1429

HIGHLIGHTS

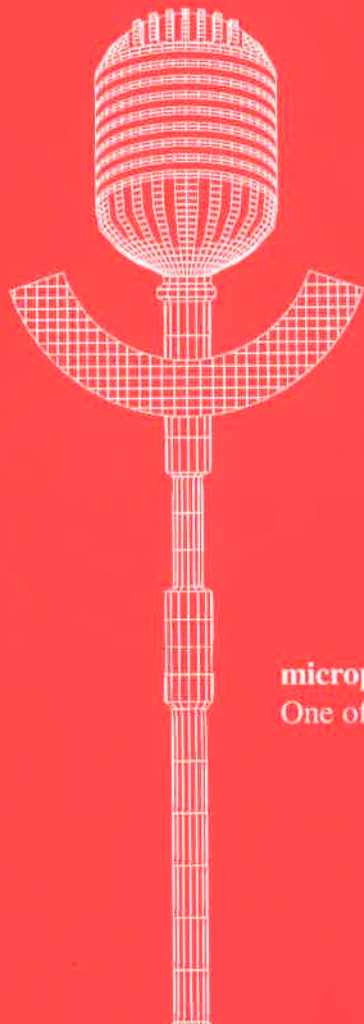
- Profit after tax up 44.82% to Rs. 278.31 crores
- Net Interest Income up 75.33% to Rs. 565.26 crores
- Net Interest Margin increased from 2.09% to 3.05%
- Fee Income up 26.88% to Rs. 182.41 crores
- Return on Average Assets up from 1.17% to 1.42%
- Deposits up 23.51% to Rs. 20,953.90 crores
- Demand Deposits up 104.11% to Rs. 7,978.24 crores
- Share of Demand Deposits up from 23.04% to 38.08%
- Advances up 30.40% to Rs. 9,362.94 crores
- Retail Assets up 86.54% to Rs. 2,051.79 crores
- Network of branches and extension counters increased from 192 to 252
- Total number of ATMs went up from 822 to 1244
- Number of accounts up 52% to 25 lacs
- Net NPA Ratio as percentage of customer assets down to 1.03% from 1.92%
- Earning Per Share (Basic) increased from Rs. 10.00 to Rs. 12.06
- Dividend up from 22% to 25%
- Capital Adequacy Ratio increased from 10.90% to 11.21%



milestone: landmarks, achievements

First Indian bank to offer the International Travel Currency Card





microphone: announcement, declaration
One of the fastest growing banks in the private sector

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CHAIRMAN'S LETTER TO SHAREHOLDERS



Your Bank has just completed its first decade of business, and as we look back over these last ten years there are unmistakable signs everywhere of the radical transformation wrought within Indian banking. In the early 1990s you would almost certainly have visited a bank branch to withdraw money, while today there are over 12,000 ATMs amidst us, and in your Bank over 93% of retail cash dispensation occurs through ATMs. A decade back remittances across the country were anchored on demand drafts and telegraphic transfers, now rendered increasingly obsolete with 'at par' cheques, debit card payments and withdrawals, and cash management services to corporates. Your Bank has been at the forefront of this transformation, providing banking convenience – both speed and accuracy – to its customers.

This remodelling of banking services has been largely process driven, and underpinned by technology. Centralised customer data bases and transactions processing have provided the impetus for superior and uniform standards of customer service, and facilitated anywhere, anytime banking. Your Bank has set up powerful back offices which lessen the human effort within business branches in putting through transactions, and release the time of branch personnel for handling customer needs. This process-transformation has enabled branches to handle large customer volumes and helped expand the business of your Bank.

As we enter the second decade of your Bank's business, it is likely that the gains from this process-transformation will see diminishing marginal returns. Instead, we believe that the ability of banks to differentiate between the product needs of disparate customer segments, position differentiated products to these segments, and thereby become more customer-centric, will guide profit growth. Even that most basic and commoditised of banking products, the savings bank account, has differentiated features in your Bank depending on whether it is offered to the senior citizen, the salary account holder, the priority banking customer, the NGO and the Trust, or the walk-in customer into a branch, precisely because their requirements out of this product differ. In your Bank we are increasingly sensitive to this differentiation, and believe that such customer-centric segmentation will guide future profitability.

In the year ended March 2004, the network of your Bank expanded to 252 branches and extension counters and 1244 ATMs, straddling 117 cities and towns. Many of our financial ratios look better than they ever have. Net NPAs are at 1.03% of Net Customer Assets, Capital Adequacy has risen to 11.21% and your Bank maintains an Investment Fluctuation Reserve of 3% to guard against market risk on its investment portfolio. The capital market has rewarded shareholders well in the last year.

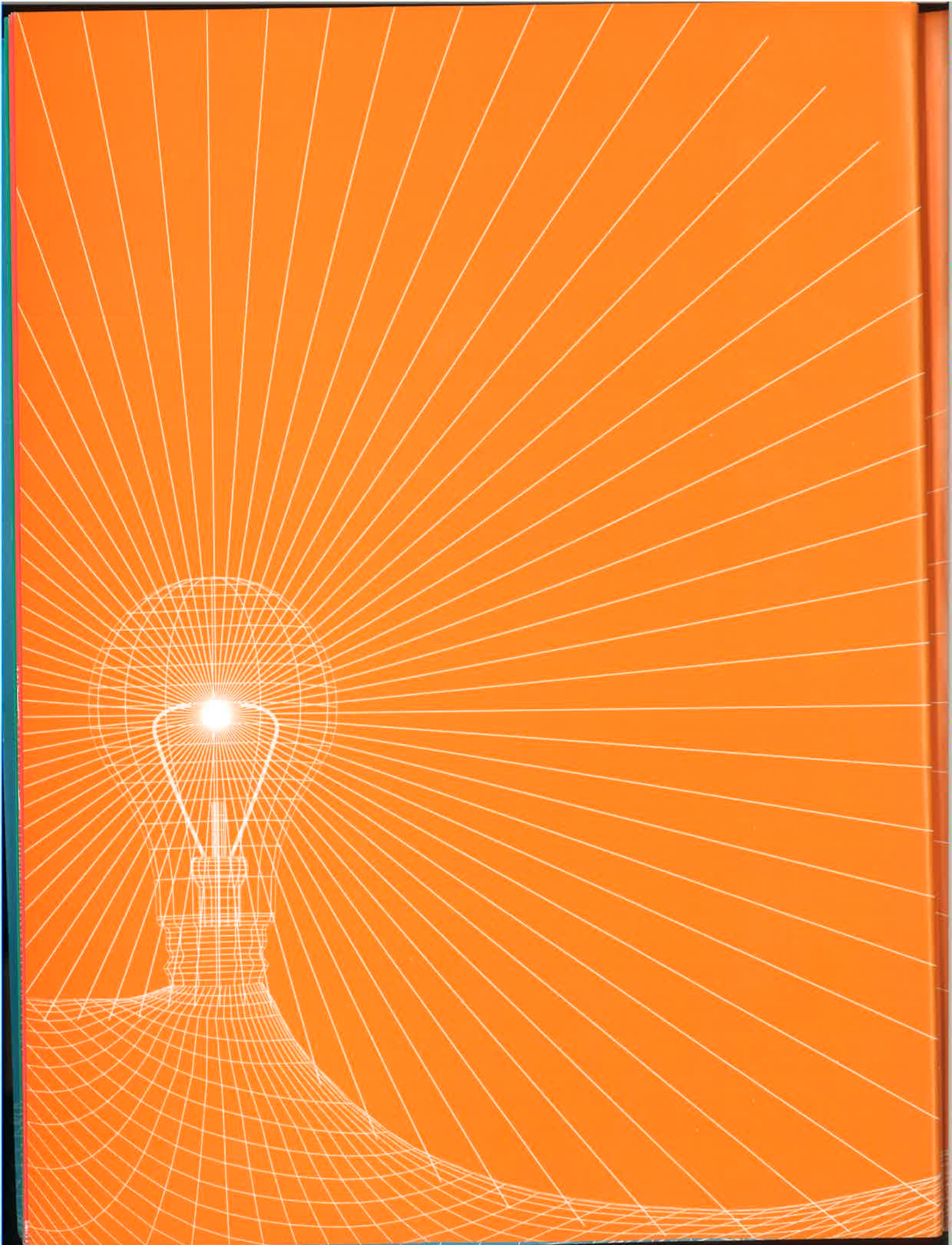
This has, above all, been possible because of the strategising skills, tireless energy and commitment of your Bank's employees. We strongly empower our personnel, and therefore continue to attract talented people into the Bank.


It has been a privilege being a part of the team.

P. J. Nayak

Chairman & Managing Director

29 April, 2004





bulb: light, energy, innovation, revolution
First Indian bank to offer the At Par Cheque Facility
to all its Savings Account holders

Your Directors have pleasure in presenting the Tenth Annual Report of your Bank together with the Audited Statement of Accounts and the Auditors' Report for the Financial Year ended 31st March 2004. The Financial Highlights for the year under review are given below:

(Rs. in crores)

PARTICULARS	2003-04	2002-03	Growth
Deposits	20,953.90	16,964.72	23.51%
Out of which			
Savings Bank Deposits	2,584.51	1,423.25	81.59%
Current Account Deposits	5,393.73	2,485.53	117.01%
Advances	9,362.94	7,179.92	30.40%
Out of which			
Retail Assets	2,051.79	1,099.94	86.54%
Total Assets/Liabilities	24,150.17	19,613.18	23.13%
Net Interest Income	565.26	322.40	75.33%
Other Income	540.15	410.47	31.59%
Operating Expenses excl. depreciation	357.32	273.94	30.44%
Profit before depreciation, provisions and tax	748.09	458.93	63.01%
Depreciation	61.89	48.91	26.54%
Provision for Tax	151.10	109.02	38.60%
Other Provisions & Write offs	256.79	108.82	135.98%
Net Profit	278.31	192.18	44.82%
Appropriations :			
Transfer to Statutory Reserve	69.58	48.05	44.81%
Transfer to Capital Reserve	13.79	0.60	2198.33%
Transfer to Investment Fluctuation Reserve	70.00	52.00	34.62%
Proposed Dividend (Includes tax on dividend)(Subject to RBI approval)	65.31	47.71	36.89%
Surplus carried over to Balance Sheet	59.63	43.82	36.08%

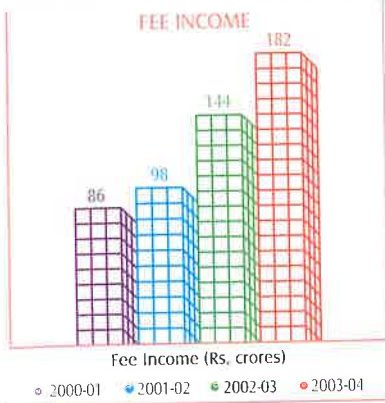
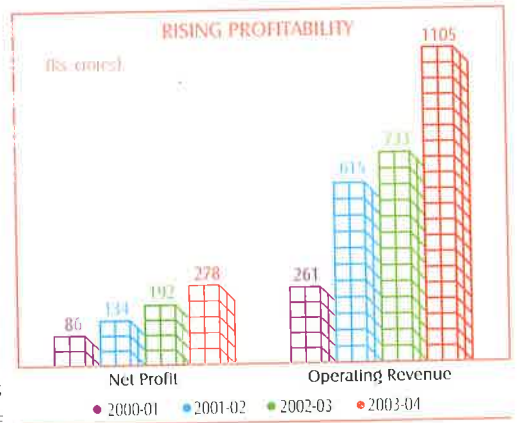
KEY PERFORMANCE INDICATORS

	2003-04	2002-03
Interest Income as a percentage of working funds*	8.08%	8.92%
Non-Interest Income as a percentage of working funds	2.75%	2.50%
Net Interest Margin	3.05%	2.09%
Return on Average Net Worth	27.09%	26.97%
Operating Profit as a percentage of working funds	3.49%	2.50%
Return on Average Assets	1.42%	1.17%
Profit per employee	Rs. 8.07 lacs	Rs. 8.22 lacs
Business (Deposits less inter bank deposits + Advances) per employee	Rs. 8.08 crores	Rs. 9.26 crores
Net Non-performing assets as a percentage of customer assets **	1.03%	1.92%

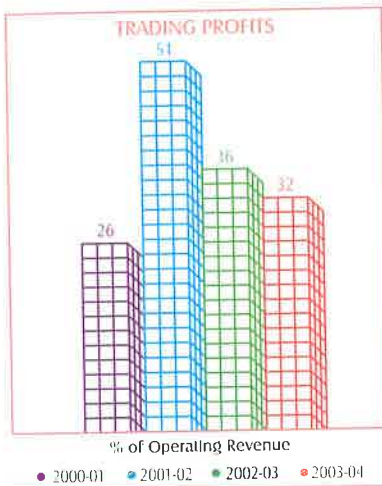
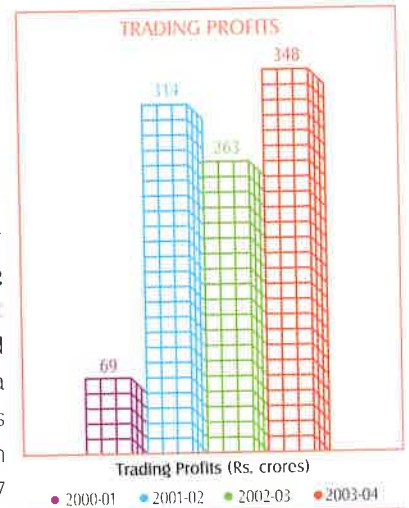
* Working funds represent average total assets

** Customer Assets include advances, credit substitutes and unamortised cost of assets leased out. Previous year figures have been regrouped wherever necessary.

Your Bank completed a decade of successful operations on 2nd April, 2004. 25 lacs customers repose trust and retain credibility in your Bank, which has created competencies in products and processes, and has innovated to create significant customer and shareholder value. In pursuing a strategy of profitable growth through stronger corporate relationships and multi-channel driven retail customer expansion, your Bank has developed a nationwide distribution network comprising branches and extension counters as also self-service channels encompassing ATMs, internet banking, telebanking, mobile banking and online payment facilities. Several years back your Bank used technology to design a distribution network which enables the delivery of banking products and services with a uniform standard of service and speed across branches. The consequential high and identical level of distributional efficiency across locations constitutes a process innovation which has facilitated the sale of retail products, provided scalability in allowing the customer base to grow rapidly without a dilution of service standards, and nurtured within your Bank a service culture and discipline which is strongly customer-centric. Your Bank continues to be successful in growing its business volumes and profits, and during 2003-04 has achieved a growth of 44.82% in net profit at Rs. 278.31 crores, as compared to Rs. 192.18 crores in 2002-03.



During 2003-04, the net interest income of your Bank rose to Rs. 565.26 crores, as compared to Rs. 322.40 crores a year earlier, a growth of 75.33% which makes it an outlier within the Indian banking system. This exceptional increase in net interest income was driven by a sharp fall in the cost of funds, and anchored on a strong growth in demand deposits. Consequently, the average net interest margin rose to 3.05% during the year, from 2.09% in the previous year. The trading profit from the sale of government securities, corporate bonds and other trading was Rs. 348.42 crores, as compared to Rs. 262.81 crores during the preceding year. Despite this growth of 32.57%, the trading profit during the year was 31.52% of the operating revenue, as compared to 35.86% of operating revenue in the previous year, as a consequence of which your Bank's dependence on trading profits has reduced, providing greater stability to its earnings. Income from fees earned rose to Rs. 182.41 crores, up 26.88% from Rs. 143.77 crores in the previous year, and is now a significant revenue earner.



As your Bank has grown its network and brought greater depth to its more specialised and value added services, it has rapidly expanded its employee strength, which has risen through the year by 47% from 2338 to 3447. The key business variables of your Bank have shown robust growth during the year. While the total balance sheet size grew by 23.13% to Rs. 24,150 crores, as compared to Rs. 19,613 crores in the previous year, total deposits grew by 23.51% to Rs. 20,954 crores. The total advances (exclusive of provisions, write-offs and inter-bank participation) grew by 30.40% to Rs. 9,363 crores at the end of the year. The share of demand deposits to total deposits rose to 38.08%, from 23.04%, a year earlier. This explosive growth must, however, be qualified as institutional current account deposits of Rs. 1,468 crores were received at the very year end, and were of a one-time and exceptional nature. The adjusted demand deposits (after deducting these institutional deposits) would then constitute 33.41% of total adjusted deposits.



Your Bank has driven with determination the consolidation of its retail banking franchise, as a result of which retail deposits went up during the year by 27.42% to Rs. 6,296 crores, and retail assets increased by 86.54% to reach Rs. 2,052 crores (exclusive of provisions and write offs).

Your Bank has continued to expand its distribution network and thereby augment its geographical reach so as to focus on the acquisition of low cost retail deposits and a major expansion of retail assets. During 2003-04,

48 new branches and 12 extension counters were added to the Bank's network, which thereby constituted 188 branches and 64 extension counters, as compared to 140 branches and 52 extension counters at the beginning of the year. With the opening of new offices, the geographic reach of your Bank now extends out to over 23 States and 2 Union Territories, covering 117 different cities and towns. The ATM network of your Bank increased from 822 to 1,244 during the year, and is the third largest ATM network across banks in the country.

CAPITAL & RESERVES

The business expansion plans of your Bank need to be backed by adequate capital. The Capital Adequacy Ratio of the Bank at the end of the year of 11.21% indicates substantial comfort despite the rapid growth of the Bank, and there was no necessity to raise additional Tier-I capital, with the exception of the allotment of equity shares to employees under the Employee Stock Option Plan aggregating to 13,94,991 shares. The Paid Up Capital of your Bank as on 31st March, 2004 thereby rose to Rs. 231.58 crores, as compared to Rs. 230.19 crores as on 31st March, 2003. The shareholding pattern of your Bank as on 31st March, 2004 was as under:

Sr. No.	Name of Shareholders	% of Paid Up Capital
i.	Administrator of the Specified Undertaking of the Unit Trust of India (UTI - I)	33.35%
ii.	Life Insurance Corporation of India	13.46%
iii.	General Insurance Corporation and four PSU Insurance Companies	7.06%
iv.	Overseas Investors/OCBs/NRIs	27.10%
v.	Other Indian Financial Institutions/ Mutual Funds/Banks	4.65%
vi.	Others	14.38%
Total		100.00%

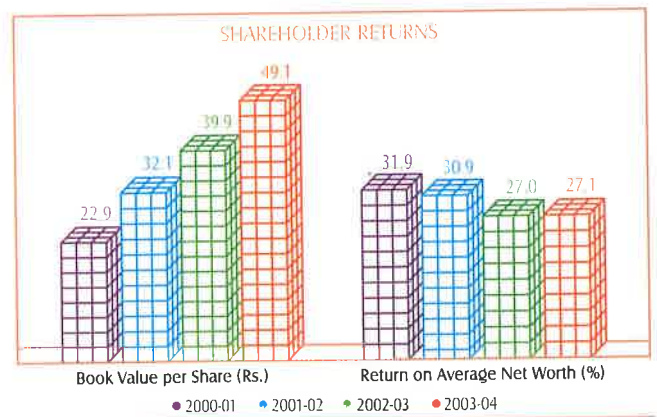
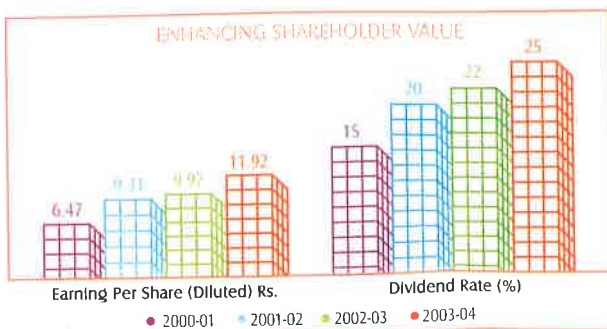
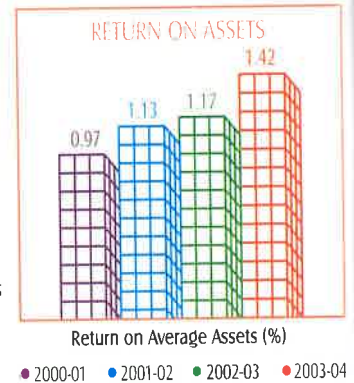
Your Bank's shares are listed on the NSE, the BSE, the Ahmedabad Stock Exchange and the OTCEI, and are deliverable only in the dematerialised form with effect from 21st March, 2000. The listing fee for the current year 2004-05 has been paid. With effect from 26th March, 2001, the shares of your Bank have been included and traded in the BSE Group 'A'.

Your Bank has also raised Rs. 150 crores by way of subordinated bonds (unsecured redeemable non-convertible debentures) of which Rs. 108.84 crores has qualified as Tier-II capital at end-March 2004. The Capital Adequacy Ratio (CAR) of your Bank was 11.21%, as compared to 10.90% at end of the preceding year, and as against the minimum regulatory requirement of 9%. Of this, Tier-I CAR constituted 6.44%, while Tier-II CAR amounted to 4.77%.

To guard against a possible fall in the value of investment securities in future, your Bank has further strengthened the Investment Fluctuation Reserve (IFR) by transferring to it Rs. 70 crores as part of the appropriation of profit. As on 31st March, 2004, the balance in the IFR stood at Rs. 192.81 crores, which is equivalent to 3% of the Bank's securities portfolio under the 'Held for Trading' and 'Available for Sale' categories.

DIVIDEND

Your Bank's diluted Earning Per Share (EPS) during 2003-04 has risen to Rs. 11.92 from Rs. 9.97 during 2002-03. In view of the enhanced profitability, and the positive outlook for the future of the Bank, the Board of Directors has recommended a higher dividend of 25% on equity shares, as compared to the 22% dividend declared for the previous financial year.



BOARD OF DIRECTORS

During the year, some changes in your Bank's Board of Directors have taken place. Shri A.T. Pannir Selvam and Shri Jayanth R. Varma were appointed as Additional Directors on 25th June, 2003. Shri Pannir Selvam joined the Board as a nominee of the Specified Undertaking of the Unit Trust of India while Shri Jayanth R. Varma joined as an independent Director. Shri Ajeet Prasad resigned as a nominee Director of the Specified Undertaking of the Administrator of the Unit Trust of India on 13th May, 2003 but was re-nominated and appointed as an additional Director with effect from 20th January, 2004. Shri B. S. Pandit resigned on 12th November, 2004. Shri J.M.Trivedi, Director, CDC Advisors Pvt. Ltd., was appointed as an alternate Director to Shri Daniel Paul Fletcher from 6th May, 2003 to 21st July, 2003, and again as an alternate Director to Shri Donald Peck from 22nd July, 2003 to 19th August, 2003. Your Directors place on record their appreciation and gratitude to Shri B. S. Pandit for the valuable services rendered by him during his tenure as a member of the Board of Directors.

In accordance with the provisions of the Companies Act, 1956 and the Articles of Association of the Bank, Shri M Raghavendra, Shri Daniel Paul Fletcher and Shri Donald Peck, present Directors, retire by rotation at the Tenth Annual General Meeting and, being eligible, offer themselves for re-appointment. Further, Shri A.T. Pannir Selvam, Shri Jayanth R. Varma and Shri Ajeet Prasad are Additional Directors.

EMPLOYEE STOCK OPTION PLAN (ESOP)

With a view to aligning the incentives of your Bank's employees with those of shareholders, your Bank introduced an Employee Stock Option Plan during the year 2000-01, in accordance with SEBI guidelines on Employee Stock Options. Pursuant to the approval given by the shareholders in February, 2001 for granting an aggregate of 1,30,00,000 stock options to employees in one or more tranches, three tranches of options of 11,18,925; 17,79,700 and 27,74,450 options were granted to the employees during 2000-01, 2001-02 and 2003-04 respectively. The options vest in a graded manner over three years, with 30%, 30% and 40% of the grants vesting in each year commencing after one year from the date of grant.

Other statutory disclosures as required by the revised SEBI guidelines on ESOP are given in the Annexure to this report.

CORPORATE GOVERNANCE

Your Bank is committed to achieving a high standard of corporate governance and it aspires to benchmark itself with international best practices. The corporate governance practices followed by your Bank are given in the Annexure to this Report.

DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors hereby declare and confirm that:

- i. The applicable accounting standards have been followed in the preparation of the annual accounts and proper explanations have been furnished, relating to material departures.
- ii. Accounting policies have been selected, and applied consistently and reasonably, and prudent judgements and estimates have been made so as to give a true and fair view of the state of affairs of the Bank and of the Profit & Loss of the Bank for the financial year ended 31st March, 2004.
- iii. Proper and sufficient care has been taken for the maintenance of adequate accounting records, in accordance with the provisions of the Companies (Amendment) Act, 2000, for safeguarding the assets of the Bank and for preventing and detecting fraud and other irregularities.
- iv. The annual accounts have been prepared on a going concern basis.

STATUTORY DISCLOSURE

Considering the nature of activities of the Bank, the provisions of Section 217(1)(e) of the Companies Act, 1956 relating to conservation of energy and technology absorption do not apply to your Bank. The Bank has, however, used information technology extensively in its operations.

The statement containing particulars of employees as required under Section 217(2A) of the Companies Act, 1956 and the rules made thereunder, is given in an Annexure to this Report. In terms of Section 219(1) (iv) of the Act, the Report and Accounts are being sent to the shareholders excluding the aforesaid Annexure. Any shareholder interested in obtaining a copy of the said Annexure may write to the Company Secretary at the Registered Office of your Bank.

ACKNOWLEDGEMENTS

The Board of Directors places on record its gratitude to the Reserve Bank of India, other government and regulatory authorities, financial institutions and correspondent banks for their strong support and guidance. The Board also places on record its gratitude to the Bank's shareholders and customers for their continued support, patronage and goodwill. The Board also expresses its deep sense of appreciation to the employees, who have continued to display outstanding professionalism and commitment in your Bank's quest for sustained growth and profitability.

For and on behalf of the Board of Directors

Place : Mumbai
Date : 29 April, 2004

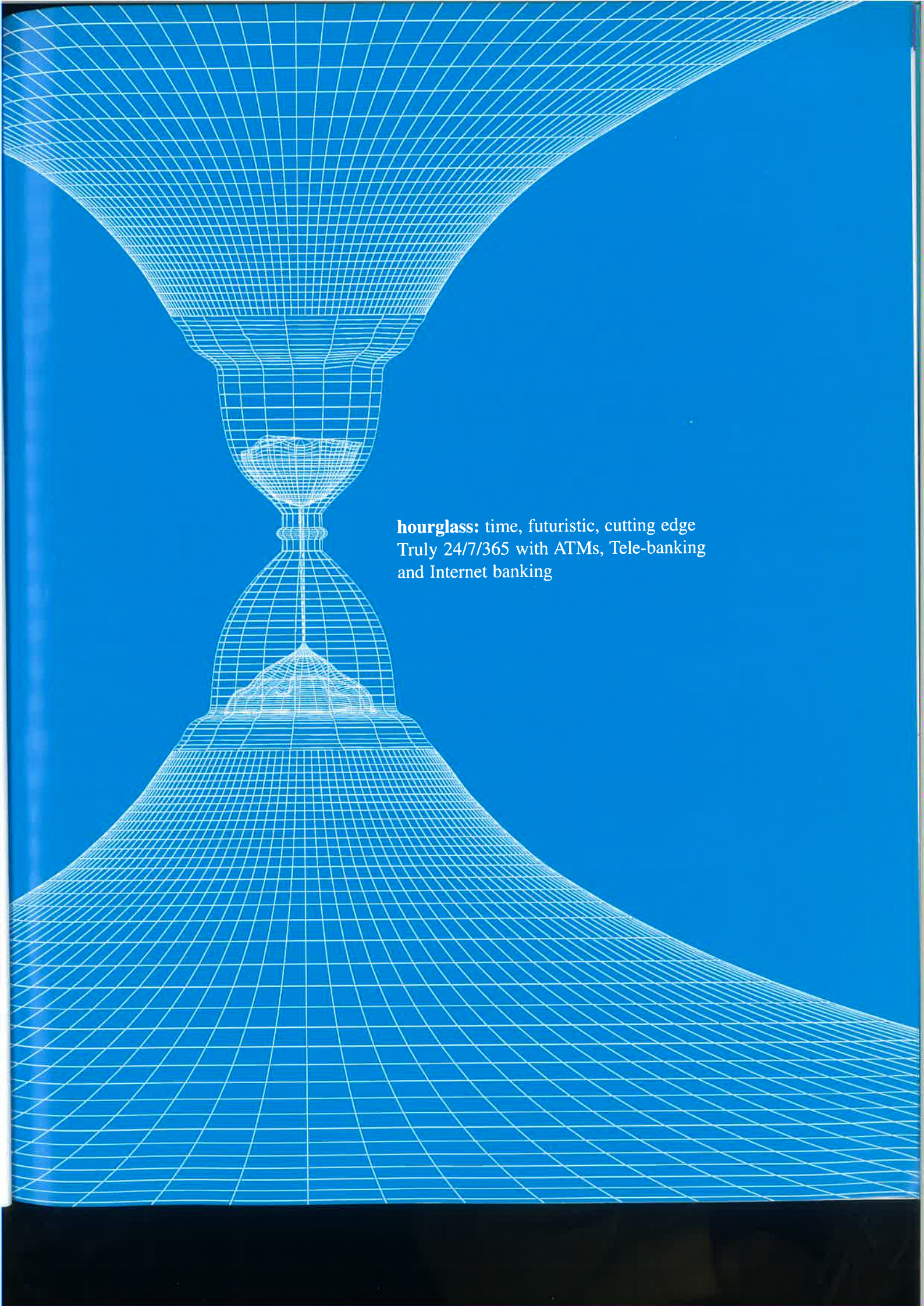
P.J.Nayak
Chairman & Managing Director

STATUTORY DISCLOSURES REGARDING ESOP:

	ESOP 2000-01	Grant 24 Feb, 2001	Grant 28 Feb, 2002	Grant 6 May, 2003
Options Granted	56,73,075	11,18,925	17,79,700	27,74,450
Pricing Formula	Fixed Price i.e. the average daily high-low price of the shares of the Bank traded during the 52 weeks preceding the date of grant at that stock exchange which has had the maximum trading volume of the Bank's shares during that period.	Rs. 38.63	Rs. 29.68	Rs. 39.77
Options Vested	6,64,409	3,27,777	3,36,632	0
Options Exercised	14,04,866	7,11,713	6,93,153	0
Total number of shares arising as a result of exercise of options	14,04,866			
Options lapsed/cancelled	2,75,530	79,435	87,495	1,08,600
Variation in terms of ESOP	N.A.			
Money realised by exercise of options (Rs. in lakhs)	480.66			
Total number of options in force	39,92,679	3,27,777	9,99,052	26,65,850
Additional details to be disclosed:				
Employee-wise details of grants to:				
- Senior managerial personnel i.e. Chairman and Managing Director	1,09,100	22,500	36,600	50,000
- Employees who were granted, during any one year, options amounting to 5% or more of the options granted during the year	N.A.			
- Identified employees who were granted option, during any one year, equal or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the Bank under the grant	N.A.			
- Diluted Earnings Per Share pursuant to issue of shares on exercise of options calculated in accordance with International Accounting Standards IAS 33 - Rs. 11.92				
Weighted average exercise price of Options whose:				
- Exercise price equals market price on the date of grant	N.A.			
- Exercise price is greater than market price on the date of grant	Rs. 38.63			
- Exercise price is less than market price on the date of grant	Rs. 35.83			

Fair Value Related Disclosure

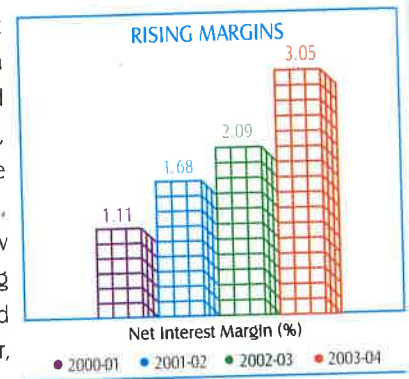
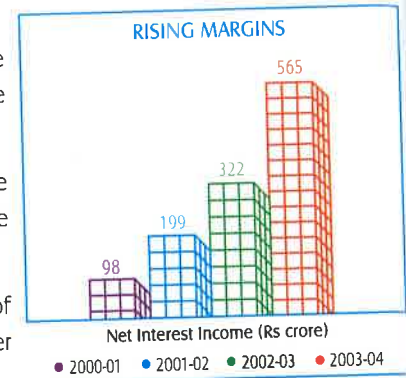
Fair value method of accounting is applicable only for grants made on or after 30th June, 2003. Since no grants have been made by the Company on or after June 30, 2003, the fair value method of accounting is not applicable. Hence, no disclosures have been made regarding the same.

A wireframe hourglass graphic is centered on a solid blue background. The hourglass is composed of a grid of white lines that form a three-dimensional structure, tapering at the top and bottom and meeting at a narrow central neck. The lines are spaced evenly, creating a mesh-like appearance. The overall effect is futuristic and technical.

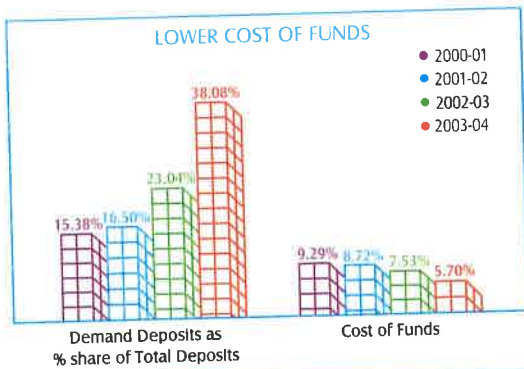
hourglass: time, futuristic, cutting edge
Truly 24/7/365 with ATMs, Tele-banking
and Internet banking

As your Bank completes its first decade of operations, it will need to move to the very edge of competitiveness within Indian banking if it is to continue to grow its business and profitability as it has in recent years. The management of your Bank believes that translating this vision into successful performance is feasible and will entail:

- Continual strategising in order to comprehend where future sources of profitability will arise from, as the structure of the Indian economy transforms to become more open and competitive, in a situation where growth in industry will be driven as much by technological change as by the accumulation of capital.
- Periodic reconfiguration of business processes within the Bank in order to create efficiencies in the distribution of products, services and customer information, and to enable sales strategies to become more customer-centric.
- Operational smoothness in handling existing customers, with an increasingly larger proportion of transactions migrating to real time and self-service channels of the Bank, thereby facilitating customer convenience.



Your Bank has developed an increasingly credible franchise in respect of corporate, retail and merchant banking, and it is very much the intent to continue to develop all three segments of this franchise. In corporate banking, the last year has seen your Bank more confidently poised in providing value-added business to corporates, including channel financing, structured credit products, derivative products, and collection and payment solutions. Your Bank expects to add depth to these businesses in the current year and thereby enhance profitability. In retail banking, your Bank has seen very strong growth, as much in demand deposits as in asset acquisition, and this has enabled net interest margins to grow rapidly in recent years while maintaining a good quality asset portfolio. Finally, the merchant banking franchise has also grown aggressively. Your Bank is among the top syndicators of corporate debt and has, over the last year, moved into project advisory services, particularly within the infrastructure sector, and is implementing an increasing number of advisory mandates.



The periodic reshaping of business processes has also led to a clearer separation between relationship management and transactions processing, with an increasing proportion of the latter moving out of business branches into the Central Processing Unit and service branches, and relationship management with existing customers becoming the focal activity of business branches. Organisational restructuring to facilitate this dichotomy between relationship management and transactions processing has hitherto kept pace with the requirements of business, and will continue to redefine the roles of employees in your Bank.

All of this has led to greater operational smoothness in the manner your Bank conducts its business, proved a powerful instrumentality for customer acquisition, and raised business volumes and profitability. It has made the business model of the branches more scalable, enabling them to handle a very high growth in customers without any diminution in service

standards. Finally, it has enabled your Bank to understand where the wellsprings of profitability arise from, at the business segment level, the product level and the customer segment level. This understanding helps drive business strategy within your Bank, and has placed it more competitively within the banking system.

A snapshot of this enhanced competitiveness is provided below, and indicates the manner in which key variables have gained in strength over the last four years.

	2000-01	2001-02	2002-03	2003-04
% of Demand Deposits	15.38	16.50	23.04	38.08
Net Interest Income (Rs. crores)	98.26	198.53	322.40	565.26
Net Interest Margin (%)	1.11	1.68	2.09	3.05

CAPITAL MANAGEMENT

Your Bank believes in the continual enhancement of shareholder value and its capital management framework helps to optimise the use of capital by ensuring :

- (i) the optimum composition of capital in relation to business growth; and
- (ii) the efficient use of capital through an optimal mix of products and services.

During the year, your Bank continued to attract Investor Interest from domestic as well as foreign institutional Investors, leading to a very visible increase in trading volumes and price.

Your Bank focused on developing an asset structure which was sensitive to the importance of enlarging the proportion of low risk weighted assets, in order that capital is more efficiently deployed. In addition, your Bank also placed subordinated bonds of Rs. 150 crores in the market in order to raise the level of Tier II capital. Consequently, as on 31st March, 2004, your Bank's Capital Adequacy Ratio rose to 11.21% from 10.90%, a year earlier. The trend of risk-capital ratios during the last three years has been as follows:

	(Rs. in crores)		
	As on 31st March, 2004	As on 31st March, 2003	As on 31st March, 2002
Tier I Capital – Shareholders' Funds	912.03	789.37	544.02
Tier II Capital	675.17	546.14	357.98
Out of which			
- Bonds qualifying as Tier II capital	456.02	394.69	272.01
- Investment Fluctuation Reserve	192.81	122.81	70.81
- Other Provisions eligible for Tier II Capital	26.34	28.64	15.16
Total Capital qualifying for computation of Capital Adequacy Ratio	1,587.20	1,335.51	902.00
Total Risk Weighted Assets	14,164.50	12,251.91	8,469.85
Total Capital Adequacy Ratio (CAR)	11.21%	10.90%	10.65%
Out of above			
- Tier I Capital	6.44%	6.44%	6.42%
- Tier II Capital	4.77%	4.46%	4.23%

RETAIL BANKING

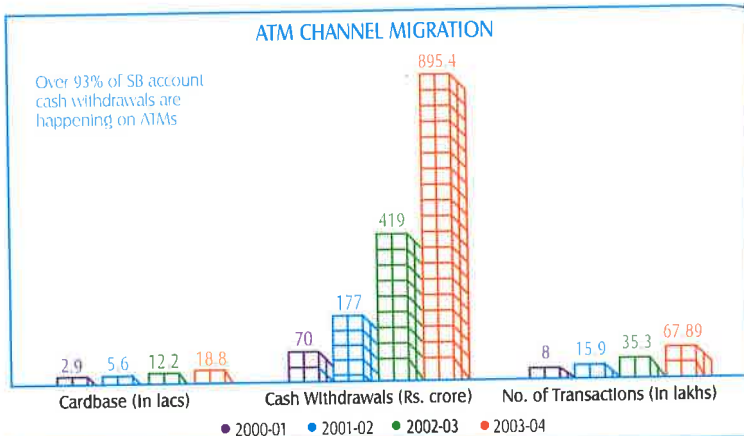
The retail business is developing as the key driver of your Bank's growth strategy underpinned by products, channels and processes with a complete suite of both asset and liability products. The Retail business of the Bank in terms of liabilities, assets and fees, showed significant growth in the year 2003-04. Strategies followed for growth centred around customer segmentation, product innovation, increasing sales effectiveness, service excellence and the expansion of channels. During the year, Savings Bank deposits grew by Rs. 1,162 crores to Rs. 2,585 crores, registering a growth of 81.59%. The Bank opened 7,92,818 Savings Bank accounts, with the total number of Savings Bank relationships crossing 1.60 million during the year.

Some of the major segments that your Bank continues to focus on are the Payroll accounts of corporates and Government, and high networth Individuals including NRIs. Your Bank has recently launched product variants aimed at Defence personnel (labelled as Power Salute), Retirees as well as the NGOs and Trusts. Your Bank has been the pioneer among domestic banks for products such as the AT PAR cheque facility and the Travel Currency Card. More such products are on the anvil to cater to specific customer needs. The Priority Banking Services targeted at high networth Individuals, witnessed a strong acceptance with 21,497 customers providing Rs. 1,025 crores of deposits as on 31st March, 2004, as against 4,771 customers, worth Rs. 247 crores of deposits as on 31st March, 2003. Your Bank had also mobilised Rs. 1,869 crores across various mutual fund schemes through its Investment Advisors across the country.

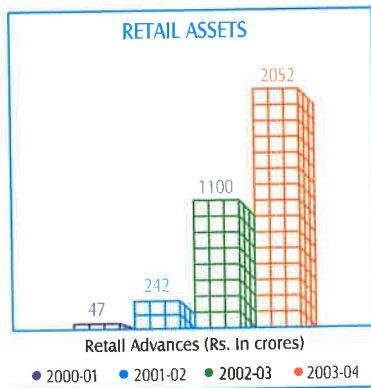
Your Bank continues to provide good quality customer service at its branches and to track customer satisfaction levels continuously. "Mystery Shopper" surveys & Customer Service audits are carried out through professional Market Research agencies. The findings of the survey provide inputs into the training needs of employees as also upgradation of product features.



Your Bank continued with its aggressive ATM Channel expansion, with 1,244 ATMs as on 31st March, 2004, as compared to 822 ATMs on 31st March, 2003. Your Bank also continued its pioneering efforts in ATM sharing and today offers the largest available access to 7,000 ATMs in the country to its customers, with tie ups with five banks and two multi-shared payment networks. Your Bank successfully launched Mobile Airtime Recharge Facility at its ATMs and SMS for Airtel, Hutch and Idea Cellular service providers. LIC Insurance Premla Payment through ATMs was launched in March 2004 and is currently being offered to common customers of your Bank and LIC. Your Bank had a



debit card base of 16.1 lacs as on 31st March, 2004, an increase of 104% over the base in 2002-03.



Your Bank became the first Indian bank to launch a pre-paid Dollar denominated travel card product targeted at the outbound travellers, which has shown potential for stronger growth in the niche market of the pre-paid card segment. As part of the marketing strategy, your Bank has tied-up with 14 major full-fledged moneychangers to market the cards to travellers. Your Bank also proposes to launch the Euro and Pound Sterling variants of the travel card shortly.

Your Bank has entered the Merchant Acquiring Business in December 2003, whereby POS (Point of Sales) terminals (swipe machines used for accepting Debit and Credit card payments) are offered to merchant establishments,

resulting in the acquisition of a substantial number of Current Accounts.

iConnect™, the internet banking service of the Bank, saw a growth in its user base to 3.4 lacs as on 31st March, 2004, providing access to over 4.5 lacs accounts.

During the year 2003-04, the retail asset portfolio registered a growth of Rs. 951.85 crores to reach a level of Rs. 2,051.79 crores, an increase of 86.54%. Retail assets form 21.91% of the total advances (excluding provisions and write-offs), up from 15% as on 31st March, 2003.

Your Bank opened 7 Retail Asset Centres (RACs) at Mumbai, New Delhi, Kolkata, Chennai, Hyderabad, Bangalore and Ahmedabad during 2003-04. These RACs are specialized retail lending units, supported by specific strategic partners, who help the RACs in areas of marketing retail assets as also in technical and legal verification and back-office functions.

In order to increase the share of retail loans generated through the Bank's own distribution channels in Tier II cities, where your Bank has a significant presence, 7 satellite RACs (SRACs) were operationalised during 2003-04 and 9 more SRACs will be opened shortly at other cities.

The Credit and Operational Risks associated with retail loans were contained by evolving tight and streamlined eligibility criteria, a robust credit-scoring model based on socio-economic parameters and monitored on a continual basis.

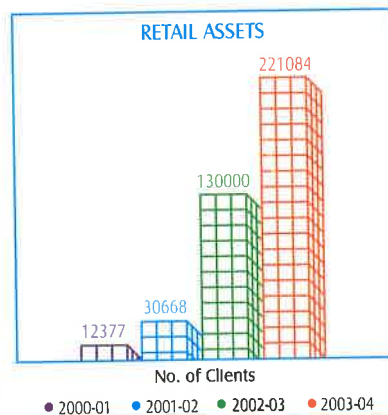
NRI BANKING

Your Bank took powerful initiatives in growing the NRI business during the year. The NRE Savings Bank balances grew by 162% over the previous year to Rs.172.82 crores, and the overall NRI portfolio grew by 21% over the previous year. Your Bank also widened the NRI customer base by 50% during the year.

Your Bank has set up an alliance with National Bank of Ras Al Khaimah in the UAE, for mutual development of business, and is in the process of finalising alliances with other leading financial institutions in the Gulf countries.

Your Bank conducted successful marketing campaigns in the NRI-intensive regions of the country, designed in accordance with the needs and ethos of the regions, and thus improved the brand visibility and customer acquisition rate.

Your Bank, equipped with a multi-channel delivery architecture, aims to be of service to retail customers anytime, anywhere in all the utility dimensions of anywhere banking.



CORPORATE BANKING

Your Bank offers a wide spectrum of financial services to the corporate sector. The focus during 2003-04 was on expanding the range and depth of corporate relationships, acquiring new clients and cross selling our products and services to the existing client base. In a year characterised by sluggish credit growth in the economy and continuing trend of disintermediation, your Bank's corporate advances showed a healthy growth of 20% and were placed at Rs. 7,311 crores as on 31st March, 2004. Your Bank continues to focus on corporates with a global competitive advantage, good corporate governance and effective management practices.

The healthy growth in corporate advances was accompanied by significant improvement in the quality of the credit portfolio. This is reflected in improvement in net NPAs to 1.03% of customer assets as on 31st March, 2004 as against 1.92% as on 31st March, 2003. This was achieved in spite of shifting to the 90 day norm for NPA recognition during the year, and has benefited from the stringent credit appraisal processes and strong risk management and credit monitoring systems put in place.

To maintain the high rate of growth and to further improve the spreads, your Bank is placing increased focus on providing credit facilities to Small and Medium Enterprises (SMEs), vendors and dealers of large corporates (channel financing) and traders. Your Bank has identified the Infrastructure sector as one of the thrust areas for its corporate banking activities in view of the high growth prospects of this sector. Your Bank already has a substantial exposure to this sector, especially to the telecom industry.

TREASURY OPERATIONS

The role of the Treasury came into sharper focus during the year 2003-04 as greater emphasis was put into building customer relationships, apart from proprietary trading in debt and foreign exchange, liquidity management and non-retail resource mobilisation in both domestic and foreign currency. The focus of trading operations was active participation in key markets.

Your Bank continues to be a major participant in the wholesale debt market with 6% market share of the turnover in government securities which touched Rs. 47,972 crores during 2003-04, up from Rs. 20,862 crores in the previous year.

Notwithstanding stiff competition and consequent pressure on margins, your Bank was also able to increase its turnover in customer foreign exchange business by 128% and profits by 105% over the previous year. The Treasury was also active in providing market solutions to valued constituents in the area of derivatives.

The efficacy of funds management was reflected in the improvement in the Net Interest Income (NII) at Rs. 565.26 crores in 2003-04, up from Rs. 322.40 crores in the previous year. Correspondingly, Net Interest Margin (NIM) improved to 3.05%, from 2.09% in the previous year.

INSTITUTIONAL BUSINESS

The institutional business initiatives undertaken during 2003-04 continued to focus on offering the best in transactional banking services by leveraging your Bank's strengths in terms of network and technology. New current account products such as Business Privilege, Business Global and SWEEPS were launched during the year resulting in the acquisition of a substantial number of fresh current accounts.

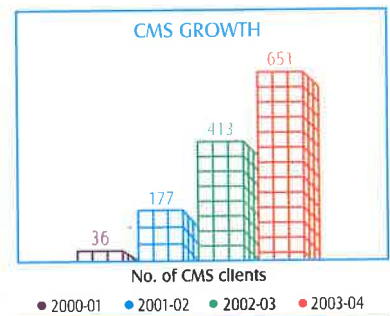
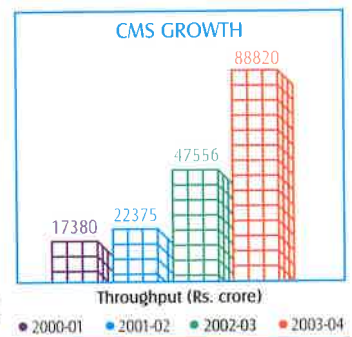
The current account deposits rose to Rs. 5,394 crores at the end of March, 2004, as compared to Rs. 2,486 crores at the end of the previous year.

In the area of Cash Management Services, your Bank has emerged as a strong player, aided by its reach to 117 centres as well as strong correspondent bank tie ups. The total CMS throughput increased to Rs. 88,820 crores during the year from Rs. 47,556 crores in the previous year and the number of CMS clients increased from 413 to 651 during the year.

Your Bank was authorised to handle government transactions from October, 2003 for collection of Central Government taxes on behalf of Central Board of Direct Taxes and Central Board of Excise and Customs and also handle the expenditure related payments of Central Government Ministries & Departments, and pension payments on behalf of Civil and Non-Civil Ministries such as Defence, Posts, Telecom and Railways.

Your Bank was the first Private Sector Bank to be authorised for collection of Commercial Taxes in the twin cities of Hyderabad & Secunderabad in July 2001. Your Bank has now been empanelled by the Government of Gujarat for collection of Sales Tax/Profession Tax in the State of Gujarat.

Your Bank handled Government Business in excess of Rs. 6,988 crores during the year under review.



MERCHANT BANKING

Your Bank's Merchant Banking Business encompasses investing and trading in corporate debt and equity, and provides a broad range of other fee based products such as consultancy, placement & syndication, trusteeship services, capital restructuring, management of public and rights issue, depository related services and capital market related services. Your Bank is also acting as a Global Advisor to State Governments/ Central Government for divestment of their stake in some public sector undertakings. Investment and trading in corporate debt and equity shares have been highly profitable for your Bank.

The total syndication of debt arranged by your Bank for the year aggregated to Rs. 19,800 crores as compared to Rs. 8,176 crores in the previous year. Your Bank has been ranked as No. 1 amongst the country's merchant bankers by Prime Database and Credence Database in respect of raising debt on private placement basis. Your Bank also acts as Trustees to Debenture Holders for 170 corporates involving assets aggregating Rs. 63,585 crores as on 31st March, 2004.

Your Bank has established itself in consulting and financial advisory services to the corporates including State as well as Central Government agencies and undertakings. This business is expected to deepen further in the coming years.

RISK MANAGEMENT

Your Bank is exposed to specific risks such as credit risk, market risk and operational risk that are an integral part of banking. Delivery of superior shareholder value depends on achieving an appropriate trade off between risks and returns. Risk management strategy is, therefore, based on a clear understanding of various risks, disciplined risk assessment, and continuous monitoring. During the year, risk management practices in your Bank were further strengthened.

For management of credit risk, the risk assessment procedures were made more rigorous by introducing uniformity in assessment standards. This, coupled with objectivity in rating brought about an enhancement in the share of assets with higher rating in the overall credit portfolio. Sector specific studies were conducted to gain more insight into the behaviour of industry segments, apart from conducting cluster studies at four locations to evaluate potential and associated risks in financing units in those clusters.

Advanced statistical measurement techniques were also introduced to assess and contain market risks emanating from changes in various contributors such as interest rate, liquidity, volatility in foreign exchange market, change in valuation of the derivative portfolio and movement in equity share prices. The portfolio behaviour was monitored within various risk based parameters at pre-determined frequency to maintain integrity and reduce or eliminate shocks. Your Bank also attempts to mitigate operational risk by maintaining a comprehensive system of internal controls, establishing systems and procedures to monitor transactions, maintaining back up procedures and contingency planning.

INFORMATION TECHNOLOGY

Your Bank continues to leverage Information Technology as a strategic tool for business development and operations. The core IT infrastructure comprising the network, data base, application servers and storage devices was upgraded during the year to cope with the increase in the number of offices and transaction volumes as also to ensure its availability with acceptable response time. By providing adequate back up arrangements, the network availability was maintained at above 99 %.

Another major IT initiative undertaken during the year was implementation of transfer pricing and profitability modules of Oracle Financial Software Application (OFSA) for analysis of profitability of products and strategic business units of the Bank.

For achieving greater operational efficiency and to add flexibility in product design, version upgrades were carried out in the core banking application software. Cost reduction in the activities pertaining to account opening and mailing process was made possible by customisation of work flow in the core banking application software.

OPERATIONS

Your Bank formulated risk free and operationally feasible procedures for delivery of new products launched during 2003-04, apart from implementing the Clean Note Policy of RBI across all branches as well as 'Know Your Customer' (KYC) guidelines and Anti Money Laundering guidelines in line with internationally prevalent best practices.

Your Bank continued to pursue the policy of Business Process Re-engineering in order to maximize the time available for business development at service outlets by centralizing all possible off-line transactions, setting up regional processing centres for activities which cannot be removed to one single back office location and outsourcing various activities from reliable external processing agencies which meet our risk standards. This resulted in enlargement of the work handled by the Central Processing Unit and creation of regional units such as ATM Nodal Cells to service all the ATMs located in a city. Service quality was kept in constant focus across all service outlets.

Central Processing Unit (CPU) is an integral part of your Bank's initiative to leverage technology, redefine business processes and deliver better quality products to our customers in a cost-effective and efficient manner by harnessing various available technologies. It is a technology workshop and the

backbone of the Bank, serving its branches and customers in a trend-setting manner in the banking industry. The activities of CPU encompass opening of liability accounts for the branches as also a host of activities such as production and mailing of welcome kits to customers, personalised and non-personalised cheque books, statement of accounts, TDS certificates, photo debit cards, etc. to help branches serve their customers better, and to enable frontline staff to have more time for marketing and cross selling various products. During the year 2003-04, the CPU opened 8.87 lac accounts and issued 9.99 lac photo debit cards. Care has been taken in laying down control systems as also processes and monitoring the turn-around time of various activities in the CPU for making its functioning defect free and efficient. The print shop at the CPU wherein two heavy duty MICR printers with a rated capacity to print 360 pages a minute are installed, print on various types of stationery so that the deliverables for different segments of clients can be varied and customized. The print shop printed 87 lac statements of accounts, 53 lac dividend and interest warrants for corporate clients and 14 lac cheque books during 2003-04. The complete requirement of Security Stationery of your Bank is now printed by CPU. CPU is managing a 24-hour debit card help line at Mumbai and New Delhi and this service will be extended to other major cities during the next financial year.

INSPECTION AND AUDIT

The Inspection and Audit Department of your Bank undertakes the internal inspection and audit of branches through in-house auditors as well as through reputed Chartered Accountant firms. During the year, Risk Based Internal Audit (RBIA) and Information System Audit were introduced successfully and 46% of the branches where inspection & audit was conducted were covered under RBIA model.

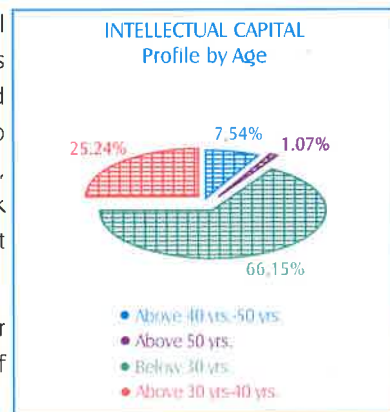
Apart from 22 large branches, centralised operations in respect of Foreign Exchange, Investment, Money Market and Merchant Banking were covered by concurrent audit. These activities evaluate the adequacy of internal controls, adherence to operating guidelines, and regulatory and legal requirements, as also proactively recommend improvements in operational processes and service quality.

HUMAN RESOURCES

Your Bank attaches the highest priority to the quality of intellectual capital at its disposal and believes that the knowledge and skill levels of its employees are the key to achievement of its corporate mission. For this, your Bank relies upon a sound recruitment policy and a comprehensive training system.

The recruitment policy aims to access people who combine in them the experience of a banker and the skill sets of a marketing professional. Your Bank does not lose sight of this dual objective even as recruitment keeps pace with the rapid expansion in the branch network. During the year, the staff strength rose by 1109 and stood at 3447 as on 31st March, 2004. Apart from the manpower for branch operations, your Bank has also been active in taking in personnel for specialised activities such as Treasury Operations, Corporate Banking, Retail Banking and Merchant Banking, which have contributed significantly to the bottomline, as also for Risk Management, Information Technology and Human Resources which are some of the important support functions.

In order to harness bright young managerial talent in the country, your Bank continues to recruit manpower from the elite business schools. With the right mix of the young and the experienced, the average age of employees continues to be 31 years.



The training philosophy of your Bank aims at enriching the knowledge levels of its employees in all grades. In keeping with the increase in the number of employees, the changing regulatory requirements, the diverse range of activities in your Bank and the inputs required for new recruits, the focus is to ensure that the employees are equipped at all times to render quality customer service. The depth and breadth of training were improved and fine-tuned during the year by introducing new programmes as well as adding new inputs to existing programmes.

Apart from the regular programmes, your Bank has been conducting in-house programmes on domain skills in the areas of Corporate Credit, Agricultural Financing, Priority Sector Lending and Retail Assets. To supplement in-house training facilities, your Bank has also been regularly deputing its officers to participate in programmes / workshops / seminars on various specialized financial areas conducted by leading organisations.

Career progression in your Bank is based purely on merit, judged on well-defined performance parameters. Besides, the deserving are rewarded with performance-linked variable pay and stock options under the Employee Stock Option Plan in addition to a market related compensation structure. The focus on human resources management as a key organisational activity has resulted in the creation of an exceptional pool of talent, as also a performance oriented organisational culture and has enabled your Bank to capitalise on opportunities and deliver value to the stakeholders.

